

Annual report

2006-07

We support our customers in **developing** their businesses on a global level with **innovative** travel and transportation **solutions**. In each of our businesses we are pursuing a strategy of **profitable growth**, founded on respect for our employees, shareholders and the environment.

Our position as **world leader in air transport** gives us

responsibilities and encourages us to set ever-higher standards of customer service, financial **performance** and social and environmental **commitment**.



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Additional information on the Air France-KLM group can be found in the 2006-07 reference document on the website, [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com), or on request.

# At a glance

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## Global leader

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240 destinations in 105 countries

3 businesses 73.5 million passengers carried

1.4 million tons of cargo transported

900 aircraft maintained

## Profitable growth

23.1 billion euros of revenues

1.2 billion euros of operating income

103,000 employees

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Dear Shareholder,

This financial year draws to a close the first phase of the merger between Air France and KLM which has resulted in significant value creation for the Group and for our shareholders. Within a context characterized by a high oil price, our profitable growth strategy has enabled us, in three years, to multiply our operating income by a factor of 3.4. This first phase has been applauded by the media, appreciated by analysts and valued by the markets. Furthermore, Air France-KLM's recent entry into the Paris CAC 40 index marks the recognition of the significant economic role played by the air transport sector and the achievement of the Group as a whole.

Air France-KLM is currently amongst the best performing companies world-wide in terms of profitability.

This success was supported by an excellent global economic environment but also by making the right strategic choices. The remarkable spirit of cooperation established between the two companies, the mutual respect which inspired the trust and support of our employees all contributed to the creation of the global leader in air transport.

This position comes with a number of responsibilities, which we must now assume. For our customers, we must provide effective, innovative solutions worthy of their continued confidence in and, for many, loyalty to our services. The new terminals that will come into operation over the next two years at CDG will help us achieve our objective of making our services the benchmark standards in our sector.

# Chairman's message

The commitments and actions undertaken by the Group over the past few years in social, societal and environmental matters enable us to figure amongst the so-called "socially responsible investment" stocks.

By operating new, more energy-efficient aircraft with lower greenhouse gas emissions, we want to set an example in terms of respect for the environment. This is why, as industry leader, we chose to support the European Commission's draft directive aimed at including air transportation in the European Emissions Trading Scheme. This proposal appears the most promising in terms of reducing the impact of our activity on the environment, without compromising growth in air transportation.

Our sector represents a key driver of global growth, facilitating exchanges and providing rapid and effective solutions for the development of businesses in Europe and world-wide.

Finally, within a sector undergoing consolidation, Air France-KLM intends to continue to play a leading role in becoming a global player, retaining its European roots and gradually extending its economic interests in other regions of the world. However, the precondition of our future involvement in any operation will be its value creation potential for the Group and its shareholders.

Today marks the beginning of a new phase for the Group which will see deeper integration with, notably, the establishment of the Air France-KLM Executive Committee. This structure, comprising eleven directors from Air France and KLM who will each assume additional responsibility at Group level, will speed up the decision-making process and allow us to achieve our ambition of increased profitability with a target return on capital employed of 8.5% by 2009-10.

There are numerous challenges facing the Group and the aviation industry as a whole. The "open skies" agreement concluded this year between the European Union and the United States represents real progress. In recognizing the principle of a European airline, it justifies our merger strategy.

I would very much like to thank Leo van Wijk, who has decided to assume new responsibilities within the Air France-KLM group and within SkyTeam. Together we implemented an innovative and courageous project. The trust established between us during these years contributed to the success of the Group, of which we both are proud, as I know are all of you who supported us.

I take this opportunity to thank you for your unwavering loyalty.

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

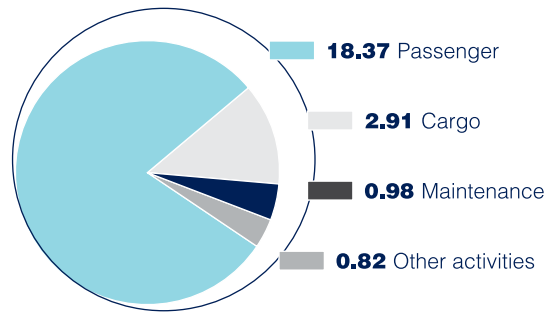
# A sustainable growth strategy

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**Revenues**  
(in €bn)

Revenues increased by 1.63 billion euros (+7.6%), reflecting the very strong level of activity throughout the year.



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



**Operating income**  
(in €bn)

Operating income showed an increase of 32.5% to 1.24 billion euros, despite an 18.7% increase in the fuel bill.

**Consolidated figures**

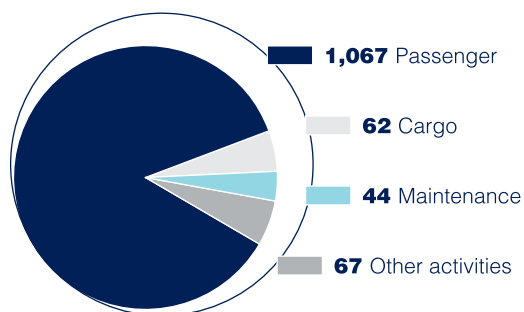
Full Year to March 31 (in € millions)

|   | 2007   | 2006                 | Change |
|---|--------|----------------------|--------|
| Revenues  | 23,073 | 21,448               | +7.6%  |
| Operating income                                    | 1,240  | 936                  | +32.5% |
| Pretax income of fully integrated companies         | 1,119  | 1,200 <sup>(1)</sup> | -6.8%  |
| Net income, Group share                             | 891    | 913 <sup>(2)</sup>   | -2.4%  |
| Net income, Group share, excl. Amadeus capital gain | 891    | 494                  | +80.4% |
| Net earnings per share (in euros)                   | 3.35   | 3.47                 | -3.5%  |
| Net diluted earnings per share (in euros)           | 3.05   | 3.25                 | -6.1%  |

(1) including pretax capital gain on Amadeus of 504 million euros

(2) including net capital gain on Amadeus of 419 million euros

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**Breakdown of operating income by activity**

(in €m)

**Net income, Group share**

(in €m)

Net earnings per share amounted to 3.35 euros at March 31, 2007. The dividend was increased by 60% to 48 euro cents per share.

\*Excluding Amadeus

**Financing of investments**

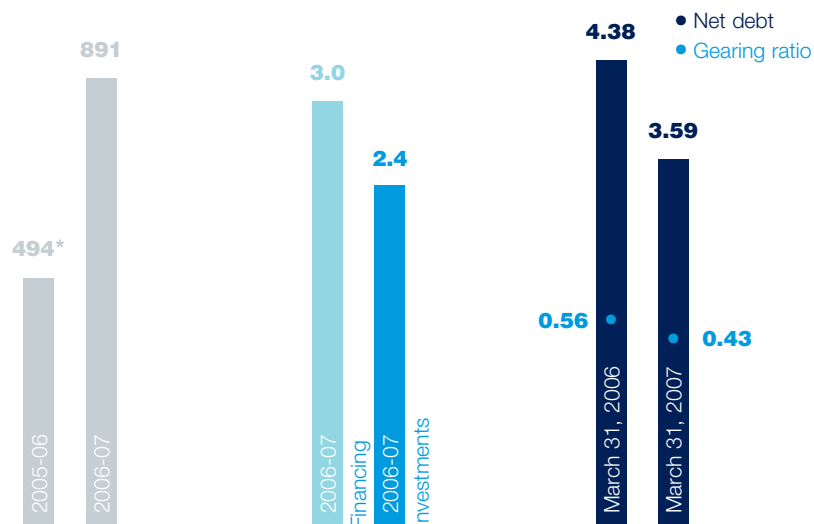
(in €bn)

Investments amounted to 2.38 billion euros. They were financed from operating cash flow of 2.85 billion euros. At March 31, 2007, free cash flow amounted to 632 million euros.

**Financial structure**

(in €bn)

The balance sheet structure improved with net debt of 3.59 billion euros, down by 789 million euros and shareholders' equity of 8.41 billion euros. The gearing ratio was thus reduced to 0.43 at March 31, 2007.



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# Supporting world economic expansion is our job

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# Air transportation, a significant contributor to the economy

- 8 With more than 2 billion passengers carried and 28 million flights in 2006, the air transport sector creates value for the economy in furthering business development and tourism. The globalization of trade is supporting its growth and driving the development of airlines with international reach.

Air transportation demand  
between 2005 and 2015

+ 5%

per year

Source: Europa.eu.int

## Tourism, the leading global industry

**Air transportation is closely linked with tourism, the leading global industry, in which France is a major player with 78 million foreign tourists in 2006. In 2005, international tourism brought in more than 2 billion US dollars per day. This industry is growing fast with, in 2005, the number of tourists crossing the 800 million mark (+5.5%).**

Source: WTO

## One of the fastest-growing sectors in the global economy

For the past twenty years, air transportation has grown at twice the rate of the global economy, driven by the growth in OECD countries, for which air transportation has, in turn, been a key development factor. By 2010, the sector could carry more than 2.7 million passengers, its growth being underpinned by the momentum in the Chinese, Indian and Latin American economies.

## A key contributor to business development

All businesses, whether large or small, use air transportation, due to their increasing internationalization, new network-based organizational structures or the global diversification of their customers, suppliers and sub-contractors. The sector has supported their growth in providing flexibility whether in terms of passenger or cargo transportation, enabling them to meet consumer expectation and open up new markets.

Furthermore, the growth in French and Dutch company exports is mostly driven by markets outside Europe. For example, in France, more than one in every two passengers travels for professional reasons, thus creating sound economic links with other countries.

Ease of access to a country thanks to air transportation enables businesses to establish leadership positions in many areas and makes the country attractive for tourism and conventions. For example, the extensive network operated by KLM out of Schiphol has contributed to linking the Netherlands with Europe and the rest of the world, strengthening the country's economic role. This is also true for the zone around Paris-Charles de Gaulle, where more than 700 businesses are based.

## 29 million jobs created world-wide

In Europe, each million passengers or 100,000 tons of cargo carried generates between 3,000 and 4,000 jobs. More than 280,000 direct and indirect jobs are linked to the activity of Roissy-CDG, which is also the leading job creation zone in France. Ten billion euros are injected into the local economy every year, in the salaries, procurement and investment of companies in the airport catchment area. In the Netherlands, Schiphol airport creates more than 120,000 direct and indirect jobs.

## Ending regional isolation

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Air transportation contributes to reducing regional isolation. In combining flows of medium-haul and long-haul traffic, the hub model deployed by Air France at Roissy-Charles de Gaulle and by KLM at Amsterdam-Schiphol links small countries and medium-sized cities with a large number of world-wide destinations and contributes to the growth in their economies.

Without this link, the economies of these regions would not benefit from the globalization of trade.

## A social need for mobility

Previously restricted to an elite, air transportation is now accessible to a large number of people for which it meets a genuine social need for mobility. Whether for leisure or family reasons, they represent nearly half of airline passengers.

Furthermore, the freedom to travel the world is, to a certain extent, conditional on air transportation. One of the first indicators of a country's economic recovery is the pick-up in air transportation. It also provides key support in getting humanitarian aid to the farthest flung regions or those struck by disaster.



# Interview with Jean-Cyril Spinetta and Leo van Wijk

**This year the merger between Air France and KLM celebrates its three-year anniversary. What is your view of the results of this first phase?**

**Jean-Cyril Spinetta :** This first phase demonstrates the success of our merger and the benefits of our profitable growth strategy. Since 2003-04, our revenues have been multiplied by a factor of 1.3 and our operating income by 3.4 despite a significantly higher fuel bill. We have thus created value both for the Group and for our shareholders, the share price having increased by a factor of 2.5 and the dividend having more than trebled. These excellent results place us at the head of the airline sector. They are helped by the strong economic situation but are also due to the fact that we have won market share from our main competitors thanks to the strength of our combined networks and their ability to attract new customers. Finally, both Air France and KLM launched extremely effective cost cutting programs, producing a significant improvement in our productivity. We have thus built very sound foundations for continued progress.

**Leo van Wijk :** We have also improved our customer service, particularly in terms of punctuality and competitiveness and have succeeded in maintaining a high degree of employee confidence, which constitutes an excellent starting point for the next phase.

**At the end of this three-year period you decided to replace the Strategic Management Committee with an Executive Committee. What are the reasons for this?**

**Jean-Cyril Spinetta :** At the time the Group was created, we opted to establish a pragmatic organizational structure regrouping four directors of Air France and four from KLM within a Strategic Management Committee. These three years of work in common gradually created a team which felt responsible for the interests of the Group as a whole and not only those of each of the companies individually.

With the establishment of an Executive Committee, we would like to extend this sense of belonging to one group to a wider circle. The eleven Executive Committee members will exercise responsibilities at the level of Air France-KLM while retaining their functions within either Air France or KLM.

This new management structure, which will speed up the decision-making process, will allow us to realize our synergy potential of more than one billion euros by the end of 2011 and, through sustained cost control efforts, to continue to improve our financial performance and our return on capital employed. We are determined to achieve this, and our target is to increase this ratio to 8.5% by 2009-10.

**This year the European Union and the United States signed an “open skies” agreement. Does this represent an opportunity for the Group?**

**Jean-Cyril Spinetta :** The “open skies” agreement between Europe and the United States is an important step for our industry since, for the first time, the concept of a European airline is recognized and nationality is no longer the exclusive criterion for the allocation of traffic rights. This development further strengthens our strategic aim of creating, with Air France and KLM, the leading European air transport group.

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**Leo van Wijk :** We already have bilateral “open skies” agreements, which give us very full access to the United States out of our respective markets in France and the Netherlands. However, this new agreement gives our SkyTeam alliance new potential for growth. Our partners will be able to open new routes departing from any European city on which we can use our codes. Transatlantic flights departing from London-Heathrow look promising in this regard.

But the most important thing is that this agreement sets a precedent for the liberalization of other markets, to which we don't yet have free and complete access.

**Within this context of liberalization of the air transport industry, how do you see the sector developing?**

**Jean-Cyril Spinetta :** The agreement between Europe and the United States will serve as a model for other regions and will certainly open the way for the emergence of airlines with greater global reach.

We are convinced that the major companies, of which Air France and KLM are two, will retain their national roots and continue to engage in their core activity which is to link their country and continent with the rest of the world. In parallel, they will gradually develop strategies enabling them to become global players through various types of partnerships such as joint ventures or jointly-owned companies.

Air France-KLM's vocation must be to become a global player, while retaining its European roots, and gradually extend its economic interests to the rest of the world.

**Leo van Wijk :** In coming years, in increasingly liberalized markets, market share gains will be achieved by airlines which are in good economic shape and which retain their competitive advantages.

The consolidation process will continue through acquisitions, mergers and the disappearance of carriers who cannot keep pace in this environment. This clearly represents an opportunity for us. But, size is not an end in itself. Our future involvement in any consolidation operation is conditional on its compatibility with our profitable growth objective.

For the moment, we are going to pursue and extend our partnerships. Air France and Delta will shortly launch a joint venture based on the proven KLM/Northwest model. However, our objective, when we are authorized to do so by the US competition authorities, continues to be to work together with Delta, Northwest, Air France and KLM within a common joint venture on the North Atlantic. We are, moreover, glad to see Northwest and Delta emerge from Chapter 11. With an improved cost structure and restored competitiveness, our two partners are showing their ability to return to profit.

We think that both SkyTeam and Air France-KLM have the opportunity to increase their presence in the leading global market represented by the transatlantic routes.

The Asian market also offers significant opportunities. We envisage establishing a cargo joint venture with a Chinese airline shortly.

**Air France-KLM is currently the global air transport leader. Does this create a number of obligations?**

**Leo van Wijk :** Our leadership position means we need to be even more pro-active. Three years after our merger, we must consolidate our position and maintain our lead not only in terms of size but also in terms of social responsibility, product quality and employee satisfaction.



**Jean-Cyril Spinetta :** Being a leader creates, in my opinion, more obligations than rights with regard to our employees, customers and shareholders. We are careful to remind all those who work for Air France-KLM that this leadership position comes with significant responsibilities. This is one more reason for us to continue to work on improving our performance.

One example is the new terminals that Aéroports de Paris will bring into service between 2007 and 2008 at our Roissy-Charles de Gaulle transfer platform; as a result, our customer service will improve markedly, making our hub an airport reference standard world-wide, as is already the case with Schiphol.

**As the only air transport group to be included in three sustainable development indices, Air France-KLM is the leader here too. What role does the Group intend to play?**

**Leo van Wijk :** We have long been active in sustainable development and the numerous initiatives undertaken by both Air France and KLM are now being recognized. For example, we are continuing to invest in the renewal of the fleet to increase our energy efficiency and thus reduce our CO<sub>2</sub> emissions. This represents a real challenge for our industry. While the air transport sector represents only 2% to 3% of total emissions, we know that our overall contribution is going to increase given the growth in the sector and the reduction in emissions from other industries with alternative sources of energy at their disposal.

We also assume our leadership responsibilities in supporting the European Commission proposal to include air transportation in the emissions trading scheme. Our view is that this represents the right response even if some companies think otherwise.

We also consider that airport infrastructure and European air traffic control need improving to avoid unnecessary emissions, which could be reduced by 6% to 12%.

**A first stage has just concluded. What is planned for the future?**

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**Leo van Wijk :** These first three years have proved a great success for the Group, and we are now ready to move on to a new stage in the organization of Air France-KLM. Within this context, after ten years as President and CEO of KLM, the moment has come to hand over to Peter Hartman. I shall take on new responsibilities, focusing on a number of the Group's strategic priorities such as information systems and the development of alliances. But the strategy remains the same: value creation for the Group and for its shareholders. We are now embarking on a new phase involving greater integration, an ambitious cost saving plan common to the two airlines and a confirmed target of one billion euros of synergies in 2011.

**Jean-Cyril Spinetta :** I would like to thank Leo for all the work he has done and recognize his contribution to the Air France-KLM merger. Together we have built the confidence of staff within both our companies. Our profitability is not only due to a particularly favorable economic environment but is also based on the efforts of the Group, the buy-in of our employees and their commitment to our chosen approach and to a high level of trust. Today, everything has come together so that, in a business which has been characterized by significant volatility in performance and results, we have been able to establish stability in the financial performance of the Air France-KLM group. Finally, our entry into the CAC 40 index is not only a recognition of the significant contribution our sector makes to the French and global economies but also a reflection of the trust we have built with the market.

We intend to build on these foundations during the years to come.

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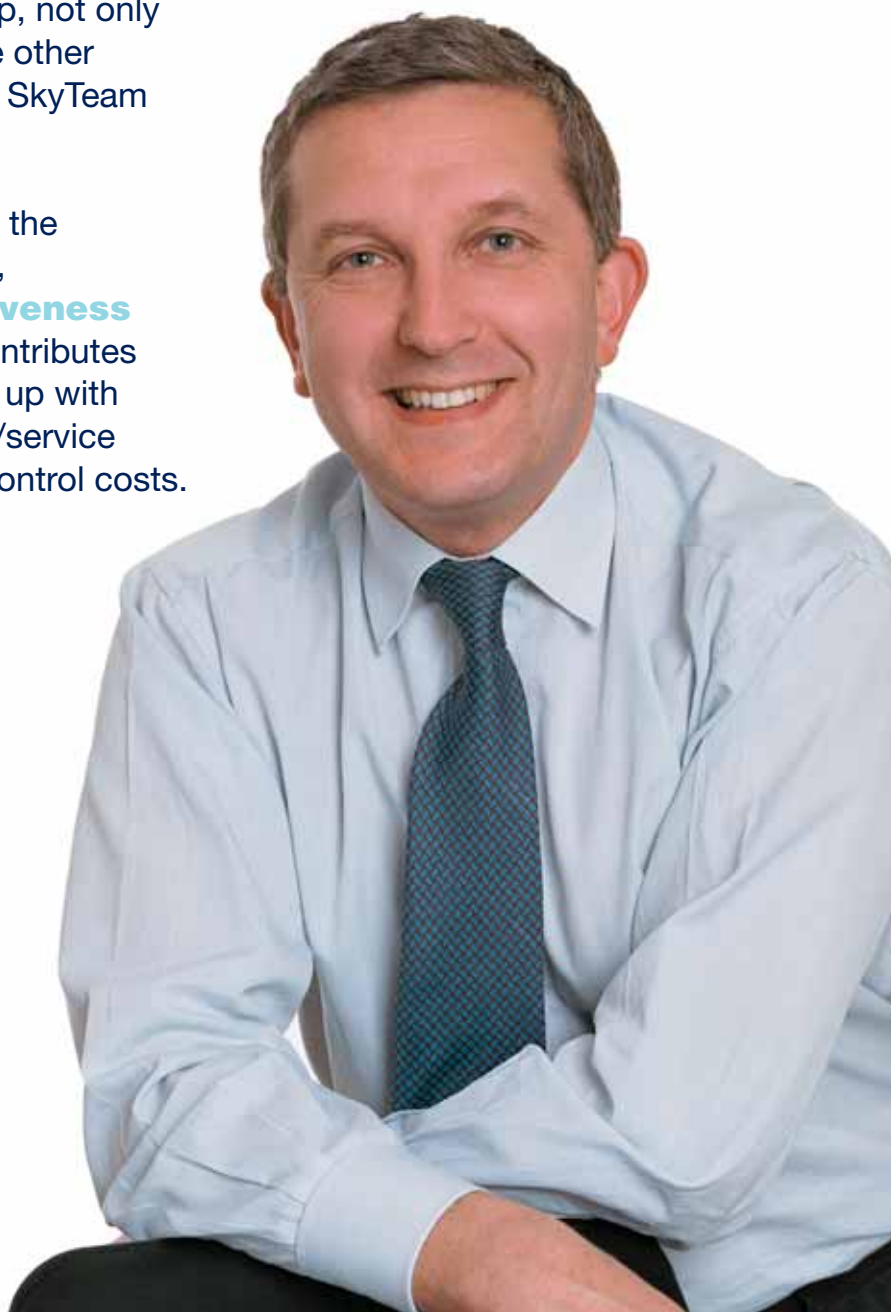
# Passenger activity

With travel amounting to 250 million kilometers a year, the aircraft is by far **our main means of transportation**. Currently, Air France-KLM is the leading carrier for the BNP Paribas group, not only in Europe, our main base, but also in the other continents, either directly or through the SkyTeam alliance.

Thanks to the density of its network and the frequencies offered on numerous routes, **Air France-KLM** offers the **responsiveness and flexibility** we require and thus contributes to our growth world-wide. It also comes up with **global solutions** optimizing the price/service balance, meeting our ongoing need to control costs.

**Stanislas Chevalet**  
Operational Efficiency Manager  
BNP Paribas

Based in Paris, BNP Paribas is one of the largest international banking networks. With operations in more than 80 countries, it generated net banking income of 27.9 billion euros in 2006.



# European leader in passenger transportation

**16** Within a favorable economic context driving strong demand for air transportation, Air France-KLM carried 73.5 million passengers in 2006-07, generating passenger revenues of 18.37 billion euros. With a market share of 27.1% in 2006, the Group is the European market leader.

## The leading global network

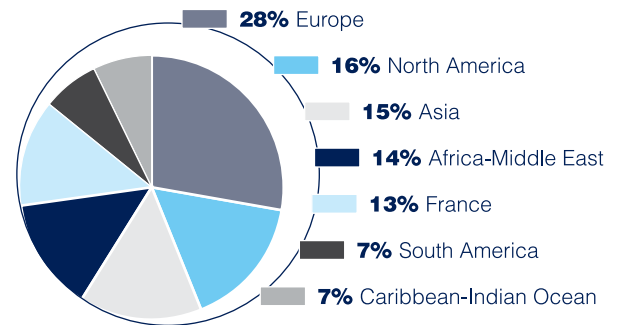
Air France-KLM has the largest network linking Europe to the rest of the world. Organized around two intercontinental hubs, Paris-Charles de Gaulle and Amsterdam-Schiphol, it offers 240 destinations in 105 countries, of which 118 are long-haul and 122 medium-haul destinations.

The network is evenly distributed over the five zones it covers (Europe, Africa-Middle East, North and South America, Caribbean-Indian Ocean and Asia), effectively limiting the impact of economic and geopolitical risks. Finally, the Group is also European leader in all these markets.

Of the 178 long-haul destinations operated by Association of European Airlines (AEA) members, Air France-KLM operates 111 destinations, or 62% of the total, offering two in every three passenger journey solutions.

**73.5** million passengers carried

### A balanced presence in all the major markets



Breakdown of passenger revenues by destination

2,500  
daily flights

### Two powerful, coordinated hubs

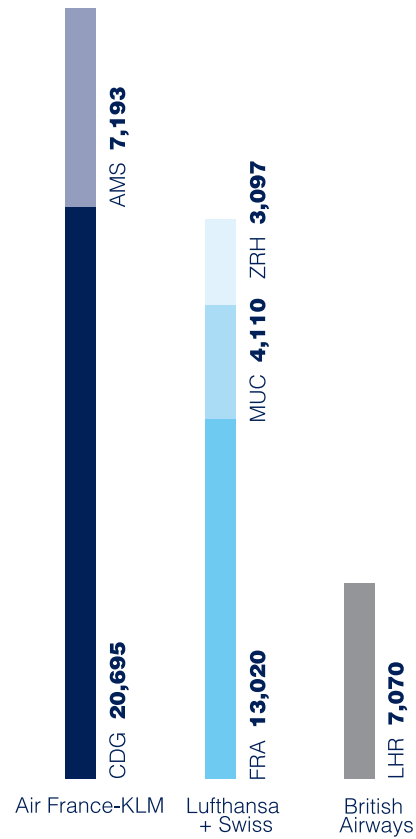
The Air France and KLM hubs are organized around a series of transfer waves, six at Paris-Charles de Gaulle and seven at Amsterdam-Schiphol. Flows of arriving and departing flights are thus concentrated inside periods of under two hours in order to enable the maximum number of transfer possibilities.

With more than 28,000 connections a week in under two hours (summer 2007), Air France-KLM has the best offer in Europe. Today, 52% of passengers at Paris-Charles de Gaulle and 65% at Amsterdam-Schiphol are connecting with a long-haul flight.

The Group's hubs, two of the four largest in Europe, are linked by fifteen daily return flights, known as the hubway, enabling Air France and KLM passengers to combine the global networks of the two airlines on both the outbound and inbound journeys. This offer is unparalleled in Europe and attracts significant levels of premium transfer traffic.

### The best offer in Europe

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Number of long-haul/medium-haul transfer possibilities in under two hours

Source: OAG tape summer 2007 – Air France and KLM flights

## 18 The future of the Paris-Charles de Gaulle hub, 43.5 million customers

The Air France hub at Paris-Charles de Gaulle has significant growth potential. Some major developments are going to take place with the completion of satellite S3, known as the *Galerie Parisienne*, in June 2007, the reopening of the terminal 2E embarkation pier in summer 2008, the inauguration of terminal 2G dedicated to regional flights in September 2008 and the implementation of an integrated baggage handling system.

This new infrastructure will integrate a full range of e-services and the latest technological innovation associated with them, enhancing service quality and enabling Air France and its SkyTeam partners to handle 43.5 million passengers a year as of the winter of 2008.

### What are the advantages of the hub?

#### The hub enables a network to be built and developed to the benefit of the passenger

- the combination of transfer and point-to-point traffic flows enables the introduction of new destinations and the frequencies on a given destination to be more rapidly increased, offering passengers greater flexibility in terms of schedules,
- a large number of flights on the same platform allows the concentration of flows which would not in themselves justify the opening of air routes. This gives conurbations such as medium-sized cities access to an extensive number of world-wide destinations,
- the introduction of more attractive fares,
- the practice of large scale “pooled transportation” is economically efficient and limits noise and gas emissions.

#### The hub constitutes an efficient model for reducing costs

- the increase in traffic flows on a single platform allows for the operation of higher-capacity aircraft, generating a reduction in cost per seat,
- optimizing load factors leads to an improvement in the energy efficiency of aircraft,
- the increase in the number of frequencies enables the better use of resources in outstations.

#### The hub is an economically profitable model

- thanks to its two hubs, Air France-KLM attracts a significant level of premium transfer traffic, a testimony to the quality of the two hubs in that this type of customer is very demanding in terms of flexibility and service.



We are present in **100 countries** and we travel the globe in order to visit our factories, meet our customers or develop our activity. We thus require not only direct flights out of Amsterdam or Paris but also links between European regional airports and the rest of the world.

The reach of its network, **the flight times and frequencies** as well as competitive fares are all factors which convinced us to build a global relationship with Air France-KLM. We also appreciate the new **e-services** which streamline the travel experience. Finally, we are also sensitive to what the Group is doing on the environment.

**Bill Doull**

Europe Non Production Items Supply Manager  
Unilever plc

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## A leadership strategy focused on the customer

The trading environment is evolving, with competition increasing, new responsibilities for air transport companies and, finally, customers, whether individuals or businesses, becoming more demanding and requiring a more customized service. As European leader, Air France-KLM's response has been to develop its e-services to make travel easier, to enrich its product offer with new routes and to use innovation to enhance in-flight comfort.

### Offering a simpler, speedier and more autonomous experience

E-services bring together a range of automated and computerized services whose aim is to make travel an easier, faster and more transparent experience, whether in terms of booking, checking in or boarding. The development of e-services is a priority for the Group and represents a significant source of cost savings.

### Booking and purchasing a ticket at home

On the websites of the two companies, passengers can purchase a ticket or consult the times of all the flights. Passengers holding electronic tickets also have full autonomy in terms of managing their booking.

Electronic tickets are increasingly used and currently concern close to 80% of the tickets issued by Air France and more than 90% of KLM tickets. Introduced in 1998, the electronic ticket will progressively replace the paper version which will totally disappear by the end of 2007.

## Checking in using the websites

Since April 2006, Air France and KLM customers have been able to check in over the internet for virtually all destinations 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 select a seat, whether travelling with or without hold baggage, then go straight to the boarding lounge at the airport.

### Saving time with self-service check-in kiosks

Air France and KLM also put more than 500 self-service check-in kiosks located in 63 airports world-wide at the disposal of their customers. Every day, more than 20,000 customers use them, gaining precious time at check in.

Travellers who do not use the internet can also benefit from pre-check-in by telephone when departing from an outstation equipped with self-service kiosks. All they need then do is withdraw their boarding card from one of the self-service kiosks available at the airport.

The kiosks are regularly updated and will continue to be developed in order to offer passengers more functionalities during the coming months. In December 2006, KLM was the first European airline to provide its transfer passengers with self-service kiosks making it simpler and faster to print a new boarding card if they had missed their connexion. Air France is going to develop this offer as of summer 2007. The two airlines aim to have 100 of these kiosks at Schiphol and 70 at Paris-Charles de Gaulle in 2008.

The first departure hall in Europe offering only self-service check-in kiosks was inaugurated in June 2006 at Schiphol airport.

The airport's new hall 2 has 60 self-service kiosks as well as 56 baggage drop-off points, increasing the check-in capacity of KLM and its SkyTeam alliance partners by 66%.

## Real time information

Everywhere in the world, all round the clock, Air France and KLM services are accessible from cell phones with internet access. Customers can consult the latest flight news and Air France and KLM flight schedules, find the telephone numbers for contacting the two airlines and check their Flying Blue air miles balances. Some of these services can also be downloaded to a Personal Digital Assistant (PDA).

## Support for our customers

The customer relationship is still very much the focus of Air France-KLM's business and this increased customer autonomy needs to be supported. Thus, the possibilities offered by internet-enabled cell phones allow, whatever the time and place, the provision of real-time customized information. SMS messages can be sent to inform customers of delays and offer them alternative solutions. This use of new information technologies allows customer recognition and response both before and after the flight.

## The leading European frequent flyer program

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*Flying Blue* is the leading frequent flyer program in Europe, with 12.6 million members. They benefit from the Group's combined network, earning air miles which may be used on some 16,600 daily flights operated by SkyTeam alliance members, as well as with 130 airline and commercial partners.

Born of the merger of Air France's *Fréquence Plus* and KLM's *Flying Dutchman*, this program has four levels: Ivory, Silver, Gold and Platinum. At [www.airfrance.fr](http://www.airfrance.fr) and [www.klm.com](http://www.klm.com), *Flying Blue* members can consult their air miles account, spend their air miles, request that miles be credited and access Web@awards, special price offers which are available only online.

*Flying Blue* members are very responsive to technological innovation: 90% of reward tickets are issued in electronic form, 1.3 million new members signed up using the Air France or KLM websites and 70% of members have provided their email addresses.

*Flying Blue* has won five awards recognizing it as the leading frequent flyer program in Europe.



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## New products in high-growth markets

The Group is increasing its offer of destinations in order to respond to developments in the different markets on which it operates.

Thus, on its long-haul network, Air France has operated, since summer 2007, a new route to Seattle and KLM has been increasing its frequencies to the US west coast.

### CityJet linking Europe to the heart of London

With CityJet for Air France, Air France has developed a new service from the heart of London. Since March 26, 2007, CityJet, Air France's regional airline, has linked London City Airport with Geneva, Madrid, Milan Linate, Nice and Zurich and, in cooperation with ScotAirways, Belfast, Dundee and Edinburgh with nearly 70 daily flights. This is an exclusive product principally destined for business customers with a check-in limit reduced to ten minutes and all the facilities offered by e-services. These new routes enable the Group to position itself in a high-growth market in offering a new service which does not transit through one of its hubs with all the benefits and services Air France has to offer. These destinations are in addition to the daily flights to Paris-Orly and Dublin already operated by the company with its regional aircraft.

## Launch of transavia.com in France

Since May 2007, transavia.com has been offering charter and low-cost medium-haul scheduled flights departing from Paris-Orly to ten destinations in the Mediterranean: Porto, Palermo, Gerona, Oujda, Agadir, Catane, Djerba, Heraklion and Monastir.

The new company, a jointly-owned subsidiary of Air France (60%) and transavia.com (40%) operates in a high-growth market and tailors, to the French market, a business model developed over the past 40 years in the Netherlands by transavia.com. Its flights are aimed at leisure customers and operate a fleet of recent Boeing B737-800s. They are sold in travel agencies as well as directly over the transavia.com website or via a call center. Air France-KLM is thus responding to tour operator and leisure passenger demand for scheduled flights to destinations not currently served by Air France.

## New ground services for passengers in Air France's *Espace Première*

Since April 2007, Air France has offered its *Espace Première* customers departing from Paris-Charles de Gaulle, a customized and exclusive ground service from the moment they arrive at the airport. Whatever their destination, the *Espace Première* passenger benefits from a personalized welcome from Air France staff and is looked after in a dedicated check-in area in terminal 2E. He or she is then accompanied to the *Espace Première* lounge. Around one hundred Air France staff have been specially trained to provide this exceptional level of service and to ensure that customers experience a moment of sheer well-being.



Air transport is an inherent part of our business as a supplier and a customer. We make about **4,000 trips a week** world-wide to visit our customers, production sites and suppliers and partners. We chose Air France-KLM and the SkyTeam alliance because of its **competitive offer**, not only on the North Atlantic but also to Asia and the Middle East through Paris and Amsterdam. Our short-haul European travellers like the **new e-services** such as the option of printing out boarding cards in the office. Key especially at this point in time is also to have a partner that helps us to **best manage our travel cost.**

**Matthias Mette**

Vice-president Programme Management General Procurement  
Airbus

A leading aircraft manufacturer with a modern and comprehensive product line on the market, Airbus is a global company with design and manufacturing facilities in France, Germany, the U.K., and Spain as well as subsidiaries in the U.S., China, Japan, Russia and the Middle East. Headquartered in Toulouse, France, Airbus is an EADS company.



## Innovation

E-services are being developed on an ongoing basis with new applications currently being tested and shortly to be deployed in many of the Group's outstations.

### Use of biometrics

Since 2005, in Paris-Charles de Gaulle's terminal 2F, Air France and KLM have been experimenting with a biometrics system enabling faster cross-border transit. This program, baptized PEGASE, uses a fingerprint identification application.

### Intelligent baggage tags

Since the summer of 2006, Air France and KLM have been printing and reading tags integrating RFID chips (Radio Frequency Identification) on the baggage of passengers on flights between Paris-Charles de Gaulle and Amsterdam-Schiphol. Sensors in the airport enable the airline to track the real-time location of the baggage and to provide passengers with better information as to the delivery of their baggage, its exact location and security. This new system is also used on flights between Paris and Tokyo and will be gradually extended to all the destinations served by the two airlines, replacing the current bar code system.

### E-boarding

As of October 2006, experimental e-boarding or automatic boarding has been taking place at Paris-Charles de Gaulle's terminal 2F on flights jointly operated by Air France and KLM between the two Paris and Amsterdam hubs. An automatic boarding gate system equipped with a boarding card reader enables passengers holding an electronic ticket with a bar code to board directly. Identity control now takes place at the entrance to the aircraft.

## The most modern fleet in Europe

For the Group, investing in new aircraft is a continuous process and it currently operates one of the most modern fleets in the sector. This enables Air France and KLM to offer an optimum level of passenger comfort in aircraft with greater energy efficiency.

### Investing in comfort

Over the next two years, KLM is going to invest more than 100 million euros in replacing and renovating its long-haul and medium-haul fleets as well as the regional fleet of KLM Cityhopper.

New seats will be installed in World Business Class (WBC) on board the Boeing B747-400s and the MD-11s. The cabin interiors will be completely renovated, with new colors, new lighting and new more comfortable seats in the Boeing B737s.

Air France flights departing from Paris-Orly and bound for Fort-de-France, Pointe-à-Pitre, Saint-Denis de la Réunion and French Guiana are now aboard new Boeing B777-300ERs, the latest aircraft from the Boeing family which has replaced the Boeing B747-400s. All the cabin classes in these new aircraft are equipped to offer passengers the latest technological innovations as well as an improved level of service. The introduction of these new aircraft represented an investment of more than one billion euros.

Furthermore, since November 2006, Air France's long-haul Business Class customers have benefited from a new seat, extending to two meters in the sleeping position, one of the most spacious on the market.

## Best for in-flight entertainment

Since April 2007, it has been possible to learn foreign languages when traveling on Air France Boeing B777-300s. Beginner courses are available for twenty-three languages, including English, French, Dutch, Italian, Japanese and Mandarin. Pronunciation exercises, tests and games enable users to put the theory into practice.

Air France will also be the first airline to enable its passengers to use their cell phones in flight. This will initially be limited to data before being extended to sound. A first test phase will be carried out with passengers traveling on board an Airbus A318 serving Europe and North Africa.

## New, higher-performance aircraft

**25**

The Air France-KLM fleet management policy aims to meet the Group's requirements in terms of the renewal and expansion of the fleet.

In 2006-07, all the KLM Boeing B767-300ERs were replaced with Airbus A330-200s. Air France continued to rationalize its medium-haul fleet in withdrawing from service the remaining Boeing B737s, its medium-haul fleet now exclusively comprised of aircraft from the Airbus A320 family.

Air France subsidiary Régional took delivery, in January 2007, of its first twin jet engine Embraer 190, with a capacity of more than 100 seats. Régional is thus planning to reduce the average age of its fleet with quieter, more energy-efficient aircraft while increasing its seat capacity.

569 aircraft  
in operation

# SkyTeam, voted best airline alliance

**26** The SkyTeam alliance focuses on the customer so that he or she may benefit from the highest level of service, irrespective of carrier. This winning strategy was recognized for the second consecutive year when the readers of US Global Traveler Magazine voted SkyTeam “Best Airline Alliance”.

**10** airline members

Aeroflot, Aeromexico, Air France, Alitalia, Continental, CSA Czech Airlines, Delta, KLM, Korean Air, Northwest Airlines.

**728** destinations

**149** countries

**16,615**  
daily flights

After seven years in existence, SkyTeam is the number two alliance world-wide in terms of market share, and brings together ten European, American and Asian airlines.

Air France and KLM play a lead role in SkyTeam whose network covers the five continents and the main commercial routes. It is structured around a number of different hubs:

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

## An alliance developing fast

SkyTeam is growing steadily and, having welcomed Aeroflot in 2006, will soon include the Chinese company, China Southern, the largest airline in China, carrying more than 44 million passengers a year. Air Europa (Spain), Copa Airlines (Panama) and Kenya Airways (Kenya) signed an agreement in February 2007 indicating their intention to start the integration process for membership as an “associate airline”. Each of them must meet a certain number of qualifying conditions, specifically in the areas of operations, technologies and products.



This “associate airline” program will enable them to benefit from the alliance advantages without, however, needing to meet a number of the strategic criteria required of airline members. The alliance can, thus, expand its network and services to new regions of the world.

### Making travel easier

SkyTeam offers products enabling the passenger to use, simply and easily, one or several member airlines networks during the same journey. Whatever the airline, the customer can earn and spend air miles on all the flights as well as benefit from access to the 400 airport lounges of all the member airlines. The ten airline members also share the same quality standards.

In attracting passengers whose travel itinerary requires the use of several air carriers, SkyTeam also represents a significant source of revenues for its members. Special products such as Skyteam Asia Pass, SkyTeam Europe Pass, SkyTeam America Pass and SkyTeam Round the World Pass are offered to facilitate travel to and within a specific region.

In order to ensure their customers have the most rapid transfer times and an improved level of ground service, SkyTeam members regroup their airport facilities, whether agencies, counters or shared lounges, enabling better service and economies of scale.

### An alliance tailored to corporate needs

**27**

The alliance has developed customized products for businesses such as global contracts facilitating the implementation of travel plans, from the call to tender to managing the bookings on the ten alliance airlines.

As of 2006, the SkyTeam Global Meetings product has enabled event organizers to have just one contact point within the alliance and to benefit from attractive fares and a special incentive program. Around forty events worldwide have already used this new alliance product including the 3GSM World Congress in Barcelona, the Belgrade International Fair or the WPA congress (World Psychiatric Association) in Nairobi, Kenya.





# Cargo activity

As the number two airfreight global forwarder and a strong player in the major trade lanes, we need partners who are able to fulfill our global needs.

**Air France Cargo** and **KLM Cargo** offer a **global network** of **scheduled flights** with priority access to capacity in the peak season.

We manage to find a balance between **competitive pricing** in each of the service segments and **superior quality management**.

**Thomas Lieb**

Member of the Management Board  
Schenker AG

Schenker is one of the leading international providers of integrated logistics services, with 13.2 billion euros of turnover in 2006.



# An integrated approach in cargo transportation

**30** With 1.4 million tons carried, Air France-KLM Cargo is the European and global leader for air freight transportation (excluding integrators). With 16 aircraft, Air France-KLM Cargo has one of the largest dedicated cargo fleets in the world.

Air France-KLM Cargo generated revenues of 2.91 billion euros in 2006-07, with an AEA (Association of European Airlines) market share of 29.6% in 2006 and 7% at global level.

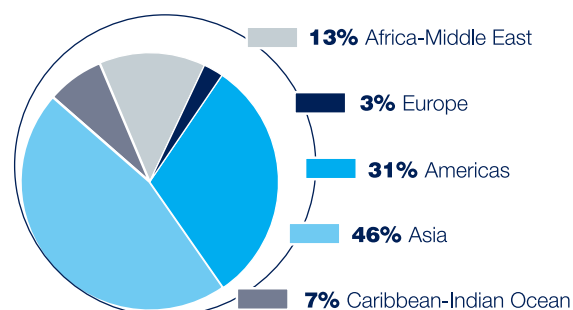
Air France-KLM Cargo plans to consolidate its leadership position in providing its customers with the best-performing logistics services offered by an integrated air freight carrier. Since October 2005, the sales, distribution, marketing and networks, strategy and development of the Group's cargo activity have been regrouped under a sole management entity, the Joint Cargo Management Committee. Each of the two companies retains operational responsibility at the two hubs, Paris-Charles de Gaulle and Amsterdam-Schiphol. Air France-KLM thus offers its major customers increased commercial power and efficiency.

**1.4** million  
tons carried

The Air France-KLM Cargo integrated product offering takes the form of:

- one contact point and one sole contract for the customer,
- a single product offering the choice of two operational systems, via Paris-Charles de Gaulle or Amsterdam-Schiphol, or a combination of the two hubs,
- one of the largest cargo fleets in the world, offering significant flexibility in response to customer demand,
- easy access to logistics and IT systems, as well as innovative products and services available at the website,
- operational excellence underpinned by significant investment in the safety, traceability, and reliability of operations.

**Breakdown of revenues by destination**





## An offer tailored to customer needs

Air France-KLM Cargo has an offering organized around four product families: Dimension, Cohesion, Variation and Equation. This is also offered by SkyTeam Cargo members.

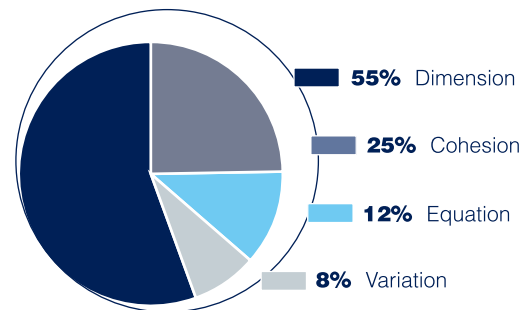
**Dimension** offers standard airport-to-airport shipping for cargo that does not require special handling. This generic product mainly concerns groupings and all shipments in general.

**Cohesion** is a custom product for regular import/export and “just in time” shipments integrated within a logistics chain. This product is formalized by a mutual contractual commitment between a shipper, a cargo agent and the carriers.

**Variation** offers solutions for the transportation of one-off merchandise such as over-sized packages, hazardous products and valuable goods.

**Equation** offers express shipment and guarantees priority handling, within shorter time frames, of shipments that are loaded without prior reservation on the first available departing flight.

Breakdown of revenues by product



## SkyTeam Cargo

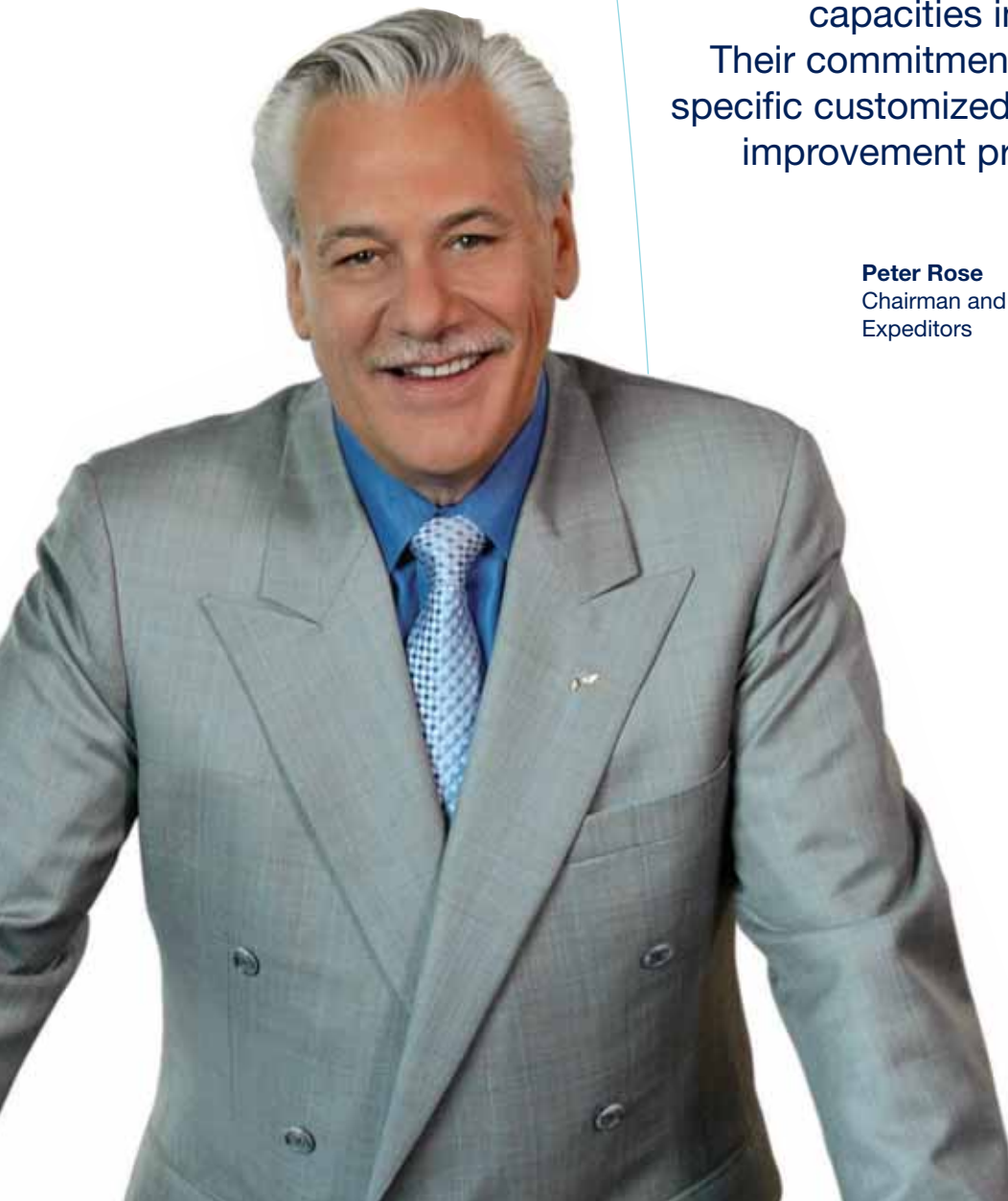


Launched on September 28, 2000, SkyTeam Cargo is the world's largest air cargo alliance, bringing together eight European, American and Asian airlines: Aeromexico Cargo, Air France Cargo, Alitalia Cargo, CSA Cargo, Delta Air Logistics, KLM Cargo, Korean Air Cargo and Northwest Airlines Cargo.

The alliance covers the principal strategic commercial routes over 545 destinations in 127 countries. SkyTeam Cargo members share a global network and a common offering based on four products, Variation, Equation, Cohesion and Dimension, for which the service specifications are identical.

SkyTeam Cargo also offers harmonized handling procedures across the entire network and single points of sale where several alliance members combine their services. This means that SkyTeam Cargo customers are guaranteed seamless logistical coordination, from freight reception to final delivery.

32



As a non-asset based company, we need to offer our clients several options for freight **management**. Air France-KLM offers global **airfreight coverage** and significant capacities in the world's key markets. Their commitment to **quality in service**, specific customized solutions and a continual improvement process led us to give them our **fullest trust**.

**Peter Rose**  
Chairman and CEO  
Expeditors

Expeditors is a global logistics company based in Seattle which offers its customers air and sea transportation purser and forwarding services. The company generated sales of 4.6 billion dollars in 2006.

## Increased responsiveness

The integration of the cargo activities enables the two companies to react rapidly to changes in the economic environment.

Thus, within a highly-competitive context, Air France-KLM Cargo has adapted its fleet by reassigning one Boeing B747-400 FR in the KLM Cargo development plan to Air France Cargo for the period between February 2007 and October 2008. This operation, decided in just a few weeks, enabled Air France Cargo to bring forward the withdrawal from its fleet of a Boeing B747-200 FR, which was very high in fuel consumption, and to replace it with a higher-performance aircraft. It also enabled KLM Cargo to adjust its capacity to current demand.

Air France Cargo has also decided to accelerate the replacement of its fleet of five Boeing B747-400 FR aircraft with Boeing B777 FRs. These new, more energy-efficient aircraft, will reduce gas emissions including CO<sub>2</sub>.

## The outlook for cargo transportation

**33**

For the past two years, growth in air freight has lagged that of world trade due to competition from sea transportation, the concentration of the integrators and exchange imbalances between Asia and Europe. However, the growth of developing countries and increasing globalization means that the outlook for this activity is promising.

Global traffic should increase by 5.2% annually through to 2011 to reach 111.9 million tons, driven by the globalization of world trade and “just-in-time” business practice. Asia, and particularly China, remain the most dynamic markets.

To anticipate these trends, Air France-KLM Cargo started discussions with Chinese company China Southern in early 2007, with a view to setting up a cargo joint venture. These negotiations are aimed at creating a new company under Chinese law which will operate its own fleet and will have the exclusive right to market the holds of China Southern’s passenger aircraft.

This potential joint cargo activity will support the Group’s growth on the Europe-Asia routes but also within the Asian and trans-Pacific regions.

\*Source: Roland Berger ACT Worldwide and Regional forecast 2005-2010



34



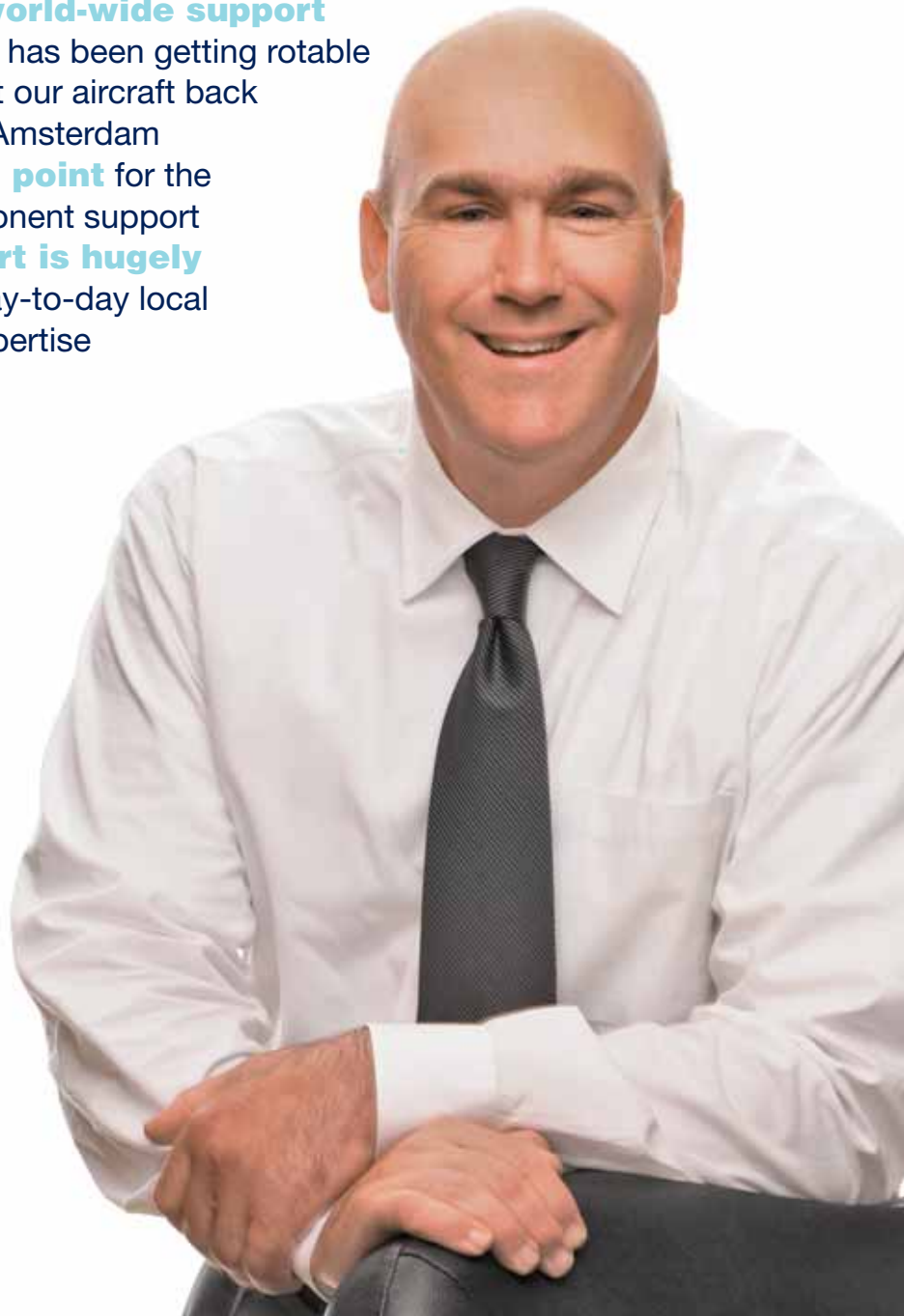
# Maintenance activity

On board our Boeing B747 Freighters, we carry fruit and flowers as well as high-priority products such as Formula one cars. For the past twelve years, the KLM **world-wide support network**, and now Air France-KLM, has been getting rotatable parts to us quickly so that we can get our aircraft back in the air, whether they are in Dubai, Amsterdam or New York. We have **one contact point** for the maintenance, engineering and component support for our aircraft. **World-wide support is hugely important for us**, together with day-to-day local support at our various sites. Their expertise and reliability enables us to meet our just-in-time imperatives.

**Bill Kelley**

Acting Vice President Technical Operations  
Atlas Air

Atlas Air Worldwide Holdings is a provider of global air cargo services and the world's leading operator of Boeing B747 Freighters. Based in Purchase, New York State, the company generated revenues over 1.4 billion dollars in 2006.



# A global MRO leader in multi-product aircraft maintenance

**36** In its maintenance activity, the Air France-KLM group has two entities, Air France Industries and KLM Engineering & Maintenance. They provide competitively-priced operational support for the Group's companies and aim to play a leading role on the global Maintenance Repair and Overhaul (MRO) market.

Air France-KLM is the global number two in multi-product aircraft maintenance with revenues totaling 2.86 billion euros in 2006-07.

The maintenance of the Air France and KLM fleets represents two-thirds of the activity of Air France Industries and KLM E&M. The two companies also ensure the fleet management of more than 150 airline customers.

Air France Industries and KLM E&M offer integrated, multi-product services covering all areas of aeronautics maintenance.

Within a context of the deregulation of global markets and growth in traffic, it is vital for sector players to develop tools and methods adapted to market requirements, which enable optimum aeronautics maintenance with aircraft grounded for the shortest possible period of time.

By combining the complementarities between Air France Industries and KLM E&M in terms of aircraft types and production capacity, the two entities are well placed to improve their performance significantly and strengthen their position in this market where the proportion of sub-contracted maintenance is growing steadily.

# 900

aircraft maintained

Air France Industries and KLM Engineering & Maintenance were jointly selected for the European MRO Airline of the Year award by *Overhaul & Maintenance*, a magazine published by the US group Aviation Week. The award recognizes the success of their merger and the quality of the extensive services offered to third-party airline customers and those within the Group.

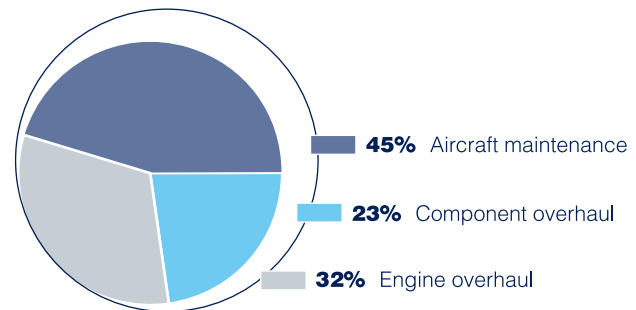
## A common operational model

Air France Industries and KLM E&M have deployed an operational model based on a joint growth and investment strategy, a merger of their engineering services sales forces and close cooperation in procurement and supplier policies.

This operational model aims to streamline operations but also to lay rational foundations for an aircraft maintenance network with global ambitions. Based on targeted, profitable growth, this network will leverage the Group's strengths in engine and component support products, leading to a competitive position in the field of heavy aerostructure maintenance.

Providing a single interface with the market, this business model is being supplemented by the phase-in of shared technical responsibilities for fundamental engineering for the Group's aircraft (Central Engineering Agency - CEA) as well as shared technical and economic responsibility for product management (Product Leadership Agency - PLA) applying to engines and components. This organization, which was applied as of 2005 for selected aircraft and engine types, was expanded in 2006 and will be developed still further.

### A multi-product services provider



The Group has maintenance operations based at Roissy, Orly, Toulouse, Schiphol and Norwich as well as in more than

**150** airports  
world-wide

## 38 Growth fuelled by component and engine overhaul

In 2006-07, Air France Industries and KLM E&M saw strong growth in their engine and component support services for third-party customers as well as a high level of airframe maintenance activity on the Group's aircraft.

For the component support activity, the two companies engaged in partnerships with OEMs such as Boeing and Honeywell in order to strengthen their commercial positioning and achieve economies of scale. Thus, the number of Boeing B777s supported via the partnership with Boeing grew by 30% to reach 115 aircraft. Similarly KLM E&M, through its EPCOR subsidiary, is positioned in the APU overhaul market for the new generation Boeing B737 NG, Airbus A330 and A340 and Boeing B777 aircraft, in cooperation with APU manufacturer Honeywell.

To support growth in its engine activity, the company also established a strategic partnership with General Electric with a view to developing overhaul capacity on the GE90 engine, for which Air France Industries is one of the first companies to undertake overhaul.

Integrated services, strategic availability of parts inventories and the scale effects on flagship products are also significant drivers of growth in services.

Component support activities saw strong growth in full support contracts for the Boeing B777, Airbus A320, A330 and A340 fleets. This market offers significant growth potential due to the renewal and expansion of customer aircraft fleets.

### Renewed confidence in the Group's knowhow

**In 2006-07, major A340 support contracts were renewed for Air France Industries with Virgin Atlantic and on Air Mauritius' Airbus A340s and A319s. KLM strengthened its position in the Boeing B747-400F support market via large contracts signed with Martinair and TNT.**



## A world-wide logistics network

In order to ensure a local presence for customers, the Group has established its logistics network in different regions of the world, boosting local component repair capabilities.

In North America, Aero Maintenance Group (AMG), in which the Group acquired a 40% stake in 2005, is specialized in equipment support and gives the Group a presence in the American market. In 2006-07, the company expanded its business with an acquisition in Dallas giving it a position in the regional aircraft market and with the establishment of a logistics center in Miami. It also won two contracts with Lan Chile and Delta.

In China, Hangxin group, a component repair company for new generation aircraft, enables the Group to benefit from the strong growth rate in this market. Since the Group took control in May 2002, Hangxin group has seen annual growth of 20%. In 2006, the company continued to develop the capacity of a new technical workshop in Shanghai within the framework of a 3.5 million euro investment program and the bringing on line of new maintenance and avionics repair capacity.

This strategy of deploying integrated support services in regions far from its home base has been well-received by a number of low-cost Asian airlines.

In Bangkok, the new logistics center will handle the airframe maintenance, engine and component support on low-cost carrier Nok Air's fleet of Boeing B737-400s, which should grow to 14 aircraft by late 2008.

In India, InterGlobe Aviation Limited, "IndiGo", a recently-created Indian low-cost domestic airline based in Delhi, signed a seven-year component support contract with Air France Industries. The contract covers defined access to the spare parts pool including repairs, a stock of parts located in Delhi, as well as an integrated door-to-door logistics service offering. At present nine aircraft are in revenue service and Air France Industries will be providing support for the entire fleet of 100 Airbus A320s as new aircraft enter service.

KLM E&M has started Boeing B737NG support on behalf of Spicejet, an Indian low-cost airline based in Delhi, whose fleet will soon exceed 20 aircraft.

In Singapore, a new logistics center has been set up, enabling the Group to meet demand in the high-growth South-East Asian market.

# Being a responsible economic player is our duty

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# Corporate governance

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## The Board of Directors



**Jean-Cyril Spinetta**  
Chairman and Chief Executive Officer of Air France-KLM  
Chairman of the strategy committee



**Leo M. van Wijk**  
Vice-Chairman of the Board of Directors  
Member of the strategy committee



**Patricia Barbizet**  
Chief Executive Officer and Director of Artémis  
Member of the strategy and appointments committees



**Cornelis J.A. van Lede**  
Chairman of the Board of Directors of INSEAD (Institute of Business Administration)  
Member of the remuneration committee



**Floris A. Maljers**  
Chairman of the Board of Directors of the Rotterdam School of Management  
Member of the audit committee



**Pierre Richard**  
Chairman of the Board of Directors of Dexia  
Chairman of the audit committee and member of the remuneration committee



**Bruno Bézard**  
Director of the French Treasury State Holdings Agency  
Member of the audit committee





**Frits Bolkestein**  
Company Directorships



**Jean-François Dehecq**  
Chairman of the Board of Directors of Sanofi-Aventis  
Member of the audit and appointments committees



**Jean-Marc Espalioux**  
Chairman and Chief Executive Officer of Financière Agache Investissement  
Chairman of the remuneration and appointments committees



**Pierre-Henri Gourgeon**  
Deputy Chief Executive Officer of Air France-KLM



**Claude Gressier**  
President of the Department of Economic Affairs, Counsel General for Public Works  
Member of the strategy committee



**Philippe Josse**  
Director of Budget, French Ministry of Economy, Finance and Industry  
Member of the strategy committee



**Didier Le Chaton**  
Flight Captain  
Flight deck crew representative  
Member of the audit and strategy committees



**Christian Magne**  
Finance executive  
Ground staff and cabin crew representative  
Member of the audit and strategy committees

## 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 Chairman is appointed by the Board of Directors. He 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, 2007, the 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 also 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

Chairman and Chief Executive Officer of Air France-KLM

- Chairman and Chief Executive Officer of Air France
- Director of Saint-Gobain, Alcatel-Lucent and Unilever

#### Leo M. van Wijk

Vice-Chairman of the Board of Directors

- President and Chief Executive Officer of KLM (*until March 31, 2007*)
- Director of Northwest Airlines
- Member of the Supervisory Board of Martinair, of Aegon N.V., of Randstad Holding N.V. and of Kennemer Gasthuis

#### Patricia Barbizet

Chief Executive Officer and Director of Artémis

- Vice-Chairman of the Board of Directors of Pinault-Printemps-Redoute
- Member of the Supervisory Board and Chief Executive Officer of Financière Pinault, Gucci and Yves Saint-Laurent
- Director of FNAC, Bouygues and TF1



**Frits Bolkestein**

Member of the Supervisory Board of De Nederlandsche Bank

- Advisor to PricewaterhouseCoopers

**Jean-François Dehecq**

Chairman of the Board of Directors of Sanofi-Aventis

- Director of Veolia Environnement
- Director of the French National Research Agency

**Jean-Marc Espalioux**

Chairman and Chief Executive Officer of Financière Agache Investissement

- Non-voting director on the Supervisory Board of the Caisse Nationale des Caisses d'Épargne
- Director of Veolia Environnement
- Member of the Supervisory Board of Groupe Flo

**Pierre-Henri Gourgeon**

Deputy Chief Executive Officer of Air France-KLM

- Chief Operating Officer of Air France and Permanent representative of Air France-KLM on the Board of Directors of Air France
- Vice-Chairman of the Board of Directors of Amadeus GTD
- Director of Steria

**Cornelis J.A. van Lede**

Chairman of the Board of Directors of INSEAD (Institute of Business Administration)

- Director of Reed Elsevier, of Sara Lee Corp and of Air Liquide
- Chairman of the Supervisory Board of Heineken
- Member of the Supervisory Board of Philips Electronics and of Stork

**Floris A. Maljers**

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

- Chairman of Roompot and Recreatie Group
- Director of Rand Europe

**Pierre Richard**

Chairman of the Board of Directors of Dexia

- Chairman of the Board of Directors of Dexia Crédit Local
- Vice-Chairman of the Board of Directors of Dexia Banque Belgique and of Dexia Banque Internationale in Luxembourg
- Director of Generali France Holding and of EDF Energies Nouvelles

**Directors representing the French State****45****Bruno Bézard**

Director of the French Treasury State Holdings Agency

- Director of EDF, La Poste, Areva, France Telecom, and Thalès

**Claude Gressier**

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

- Director of Autoroutes de France and of the SNCF

**Philippe Josse**

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

- Director of EDF and the SNCF

**Directors representing employee shareholders****Didier Le Chaton**

Flight Captain

- Representative of flight deck crew

**Christian Magne**

Finance executive

- Representative of the ground staff and cabin crews

## Experience of members of the Board of Directors

| Director                     | Board of Directors experience |                         |                              | Professional experience  |                          |  |
|------------------------------|-------------------------------|-------------------------|------------------------------|--|--------------------------|--|
|                              | Age at March 31, 2007         | Date appointed to Board | Experience at March 31, 2007 | Sector   | Experience in the sector | Current position   |
| <b>Jean-Cyril Spinetta</b>   | 63 years                      | September 23, 1997      | 10 years                     | Public Service<br>Air Transport<br>(Air Inter and Air France)            | 14 years                 | Chairman and CEO of Air France-KLM and of Air France                                       |
| <b>Leo van Wijk</b>          | 60 years                      | June 24, 2004           | 3 years                      | Air Transport<br>(KLM)   | 36 years                 | President and CEO of KLM<br>(until March 31, 2007)   |
| <b>Patricia Barbizet</b>     | 52 years                      | January 3, 2003         | 4 years                      | Industrial (Renault, Pinault group)                                      | 30 years                 | CEO and Director of Artémis  |
| <b>Bruno Bézard</b>          | 44 years                      | March 14, 2007          | 0.5 month                    | Public Service   | 19 years                 | Director of the French Treasury State Holdings Agency                                      |
| <b>Frits Bolkestein</b>      | 73 years                      | November 22, 2005       | 1.5 year                     | Industrial (Shell) and Public (Dutch Parliament and European Commission) | 16 years<br>26 years     | Company directorships  |
| <b>Jean-François Dehecq</b>  | 67 years                      | January 25, 1995        | 12 years                     | Industrial<br>(SNPA and Sanofi)  | 42 years                 | Chairman of the Board of Directors of Sanofi-Aventis                                       |
| <b>Jean-Marc Espalioux</b>   | 55 years                      | September 14, 2001      | 6.5 years                    | Services<br>(CGE, Accor)   | 20 years                 | Chairman and CEO of Financière Agache Investissement                                       |
| <b>Pierre-Henri Gourgeon</b> | 60 years                      | January 20, 2005        | 2 years                      | Aeronautics and Air Transport  | 36 years                 | Deputy Chief Executive Officer of Air France-KLM and Chief Operating Officer of Air France |

| Director                 | Board of Directors experience |                         |                              | Professional experience  |                          |   |
|--------------------------|-------------------------------|-------------------------|------------------------------|--|--------------------------|---|
|                          | Age at March 31, 2007         | Date appointed to Board | Experience at March 31, 2007 | Sector   | Experience in the sector | Current position  |
| <b>Philippe Josse</b>    | 46 years                      | May 16, 2006            | 11 months                    | Public Service   | 11 years                 | Director of Budget  |
| <b>Cornelis van Lede</b> | 65 years                      | June 24, 2004           | 3 years                      | Industrial (Shell, Akzo, Dutch Industry Federation) Consultancy (McKinsey & Company) | 36 years                 | Chairman of the Board of Directors of INSEAD                                      |
| <b>Floris Maljers</b>    | 73 years                      | June 24, 2004           | 3 years                      | Industrial (Unilever)  | 35 years                 | Chairman of the Board of Directors of the Rotterdam School of Management          |
| <b>Pierre Richard</b>    | 66 years                      | October 20, 1997        | 10 years                     | Banking (CDC, Crédit Local de France)  | 24 years                 | Chairman of the Dexia Board of Directors  |
| <b>Claude Gressier</b>   | 64 years                      | June 24, 2004           | 3 years                      | Public Service   | 39 years                 | President of the Department of Economic Affairs, Counsel General for Public Works |
| <b>Didier Le Chaton</b>  | 56 years                      | January 26, 2006        | 15 months                    | Air Transport (Air France)   | 31 years                 | Flight Captain  |
| <b>Christian Magne</b>   | 54 years                      | September 14, 2001      | 6 years                      | Air Transport (Air France)   | 33 years                 | Finance executive   |

## 48 Functioning of the Board of Directors

The Board of Directors has adopted an internal regulation, inspired by the Bouton and Viénot reports. This regulation specifies the terms for the organization and functioning of the Board and sets the prerogatives and duties of the directors in terms of the rules on reporting, disclosure, confidentiality and conflict of interest.

### Compliance and ethics

The Board of Directors has also adopted a Compliance Charter and a Code of Ethics.

The Compliance Charter prohibits corporate officers and directors 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.

### Independence of directors

The Board has not been required to debate the independence of directors in the light of the criteria set by the Bouton report given the procedure for appointing a proportion of the directors, which is governed by both special legal provisions, notably for the representatives of the French State, and by the agreements with KLM and, until the resignation of its representative, with Alitalia.

## The Board of Directors Committees

The Board of Directors has four specialized committees. With the exception of the strategy committee, no other committee has corporate officers amongst its members.

### Audit committee

The audit committee is comprised of six members of the Board of Directors. The principal executives responsible for accounting, legal affairs, financial control, internal control and internal audit of Air France-KLM and the subsidiaries Air France and KLM attend its meetings.

The audit committee reviews 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 also evaluates the consistency and effectiveness of the internal control procedures and examines the significant risks in order to guarantee the quality of the financial information provided by the company.

The committee also monitors the quality of procedures to ensure compliance with stock market regulations.

The audit committee met five times during the 2006-07 financial year.

### Strategy committee

The strategy committee comprises seven directors whose 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. It met once in 2006-07.

### Remuneration committee

The remuneration committee comprises three directors and is primarily responsible for submitting recommendations for the level of and changes to the remuneration of corporate officers. It may also be asked to give an opinion on the compensation of senior executives, as well as on the policy for stock option plans for new and existing shares. It met once during 2006-07.

### Appointments committee

The appointments committee comprises three directors and is responsible for proposing candidates to serve as members of the Board of Directors as well as to replace corporate officers, particularly in the event of unforeseen vacancies. The committee did not meet during the 2006-07 financial year.

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## Strategic Management Committee (SMC)


Since May 2004, the Air France-KLM group has been managed by a Strategic Management Committee, comprised of four directors from Air France and four from KLM, who meet every two weeks, alternating between Amsterdam and Paris.

Within the framework of the strategy established by the Board of Directors, the SMC takes the decisions necessary to the effective functioning of the Group's activities, particularly with respect to network and hub coordination, budgets and medium-term planning, fleet plans and investments as well as alliances and partnerships.

The SMC will be replaced in the second half of 2007 by a Group Executive Committee, comprised of 11 members, who fulfil responsibilities at the level of the Air France-KLM group while retaining their functions within each entity.



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Clearly all the Committee members see Air France-KLM as a company where ethical management, socially responsible investment and financial performance go hand in hand. The combination of these factors made us want **to participate in the Group's communication** with its individual shareholders. We hope to provide an additional dimension through our ideas and **the diversity** which characterizes **the Committee's composition**. The very fact that such a Committee exists makes us want to dedicate our time to it.

**Fabrice Knoll**

Member of the Consultative Committee  
for Individual Shareholders (CCRAI)

# Being a shareholder of Air France-KLM

For Air France-KLM, respect for its shareholders, keeping them informed and creating value for them are all priorities.

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## Communicating with our shareholders

Air France-KLM conducts a regular dialogue with its shareholders, whether through the Consultative Committee, information meetings or site visits. This enables information to be conveyed in a clear and transparent manner while responding to shareholder issues and expectations.

400,000  
individual shareholders

### A regular dialogue with individual shareholders and investors

#### **The Consultative Committee, improving communication with individual shareholders**

The Consultative Committee for Individual Shareholders (CCRAI), established in 2000, is a forum for discussion and for submitting ideas on Air France-KLM relations with individual shareholders. Its members meet every quarter to discuss issues arising and make suggestions and requests. These are then followed by recommendations and special studies into particular areas conducted on behalf of Air France-KLM.

Sub-groups also meet in addition to the plenary meetings to address specific issues. This annual report was, thus, the subject of a Committee meeting during which, through their work and views, several of its members contributed to its realization.

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Committee members aim to be the link between individual shareholders and the Group. They regularly accompany the investor relations teams to meetings with individual shareholders, to information meetings or to the annual Shareholders' Meeting. Renewed in 2006, the Committee comprises 16 members representative of the Group's shareholders and welcomed a Dutch member this year.

The list of Committee members can be found in the shareholder section of the website [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com).

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).

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

The Group's management organizes regular roadshows in order to meet institutional investors and financial analysts in Europe, the United States and Asia. In 2006-07, they dedicated more than 50 days to meeting with fund managers and analysts in Europe (Paris, London, Frankfurt, Zurich, Geneva, Edinburgh and Amsterdam) and in North America (New York, Boston, Montreal, Los Angeles and San Francisco). As every year, an Investor Day was organized at Roissy which was attended by more than 60 analysts and investors, who were thus able to meet the Group's operational management.

## Clear and transparent information provision

### **A dedicated interactive shareholder section on the Group's website**

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

- all the documentation relating to the Shareholders' Meeting,
- interactive versions of publications: the e-mag, the shareholder's guide and the annual report,
- the financial calendar,
- the interactive share price,
- Shareholders' Club events,
- the shareholder newsletter,
- special offers for Club members,
- the Consultative Committee space.

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

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

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

**The Air France-KLM investor relations team this year won the award for the best SBF 120 annual report, third prize in the Boursoscan awards and the "Outstanding investor relations site award" in the United States. These awards all cited the transparency, clarity and quality of information made available by Air France-KLM to its shareholders.**



## A new investor relations concept: the e-mag

Since March 2007, the website has offered shareholders an online electronic magazine containing economic and financial information called the e-mag. The e-mag makes it easy to browse the different subjects in the magazine – all it takes is a few clicks.

### A newsletter dedicated to individual shareholders

Every three months, Air France-KLM publishes *Connecting*, the newsletter for individual shareholders available in French, English and Dutch.

Its eight pages cover financial news and all the main information concerning the Group as well as features on different aspects of the airline sector, the dates of different shareholder events and the dates of forthcoming results announcements.

The newsletter is reviewed by the members of the Consultative Committee for Individual Shareholders and then sent to members of the Shareholders' Club in the language of their choice. Club members can also choose whether to receive it by mail or email. It is also available in the shareholder section of the website.

### A guide for individual shareholders

Air France-KLM publishes an individual shareholder's guide containing all the practical information relating to the stock and the different forms of ownership in France, the Netherlands and in the United States. Put together with the help of the Consultative Committee for Individual Shareholders, this guide aims to answer potential questions from individual shareholders and outlines the

different channels established by the Group for communicating with them.

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This document is published in French, English and Dutch and an interactive version is available at [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com). Additional copies are available on request.

### A toll free number

Monday through Friday, between 10:30 and 12:30 and between 14:30 and 17:30, you can put any questions you may have to a member of the investor relations team on the toll free number 0800 320 310.

Outside these periods, an electronic message reports the opening and closing Air France-KLM share prices. Shareholders not resident in mainland France should call +33 1 41 56 88 85.

You can also send us a question by email at: [mail.actionnaires.afklm@airfrance.fr](mailto:mail.actionnaires.afklm@airfrance.fr).

### Special shareholder events to further understanding of the business

Air France-KLM organizes and regularly participates, in partnership with the business press, in information meetings reserved for individual shareholders. These are an opportunity for the Group to update them on its strategy, results and issues in the airline sector. The dates and times of these information meetings are announced in the *Connecting* newsletter, on the website as well as by the media partners.

## 54 A Shareholders' Club

In order to establish a regular dialogue with shareholders, Air France-KLM created a Shareholders' Club in 2000. It now has over 7,000 members. Every Air France-KLM shareholder, holding at least 50 shares whether in bearer or registered form, can become a member of the Club.

As a Club member, each shareholder is sent:

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

They 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 or maintenance activities. Dates and times are announced in the *Connecting* newsletter as well as on the website. Club members receive personal invitations by mail to information meetings organized in their region with a business press partner,

- special offers.

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

## Join the 7,000 members of the Shareholders' Club

To join the Club, all you need do is send a shareholder statement proving that you hold 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, call the toll free number 0800 320 310 (free from a fixed line in France) or +33 (0)1 41 56 88 85 from outside France, or by email: [mail.actionnaires.afklm@airfrance.fr](mailto:mail.actionnaires.afklm@airfrance.fr)



## Special initiatives for employee shareholders

In 1999, Air France-KLM started to publish an in-house newsletter called, "Actions", circulated every three months to employee shareholders. It takes a very pedagogical approach in explaining the financial and stock market issues facing companies and their shareholders and aims to teach Group employees more about the mechanics of finance. In this respect it supplements the information on the company carried in in-house publications. A toll free number 0800 04 2000 and a dedicated website, which complete the arrangements for keeping employee shareholders in touch, won the 2006 Grand Prix for employee shareholders, awarded by the French Federation of Employee and Former Employee Shareholder Associations.



## A practical guide for the individual shareholder

### 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 free custodial fees, the cost being borne by the Group,
- are listed by name in the company's share register, enabling them to receive the convening notice directly by mail at least fifteen days before the date of the Shareholders' Meeting,
- can consult their securities account and be informed of transactions made on it 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 over the website: [www.nominet.socgen.com](http://www.nominet.socgen.com).

#### How do I transfer my 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 Émetteurs and then returning it to his or her financial intermediary.

Shareholders can also make their initial purchase in registered form. To pass this order, simply write to Société Générale – Division de la clientèle Émetteurs and, on reception of your letter, Société Générale will send out an application pack to be returned to it.

### Administered registered shares

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Every shareholder can also transfer his or her shares into administered registered form. The treatment of these shares remains assimilated to that of "bearer" shares and 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: 0825 820 000**  
**(+33 2 51 85 67 89 from outside France)**

**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 Shareholder Services**  
**250 Royall Street**  
**Canton, MA 02021**  
**Tel: +1 – 877 – CITI-ADR**  
**(1-877-248 4237)**  
**Email:**  
**[citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)**

## Shareholder reference information

### The Air France-KLM stock

Air France-KLM is listed for trading on Euronext Paris and Amsterdam and, in ADS form, on the New York Stock Exchange. It is eligible for deferred settlement and for French tax-efficient individual savings accounts (PEA).

#### Codes and tickers

##### Euronext Paris and Amsterdam

Market: Eurolist Section A  
 ISIN : FR0000031122  
 Reuters code: AIRF.PA and AIRF.AS  
 Bloomberg code: AF FP

##### New York Stock Exchange

AKH

#### Included in the following indices

**Indices:** CAC 40 (since June 18, 2007) and Euronext 100

**Sustainable development indices:** ASPI Eurozone, FTSE4Good, DJSI World 2006 and the DJSI Stoxx 2006.

**Other indices:** Euronext FAS IAS

#### Characteristics

**Number of shares:** 279,365,707 at March 31, 2007 after the creation of 9.9 million shares, delivered in April 2007, linked to the exercise of 14.5 million warrants.

**Nominal value:** 8.50 euros

**Capital stock:** 2,374,608,509.50 euros

#### Securities conferring entitlement to shares

##### Warrants

At the time of the exchange offer for KLM shares into Air France shares in May 2004, 45,093,300 subscription warrants for new or existing shares (BASA) were issued under the ISIN code: FR0010068965. These warrants are listed for trading on Euronext Paris and Amsterdam.

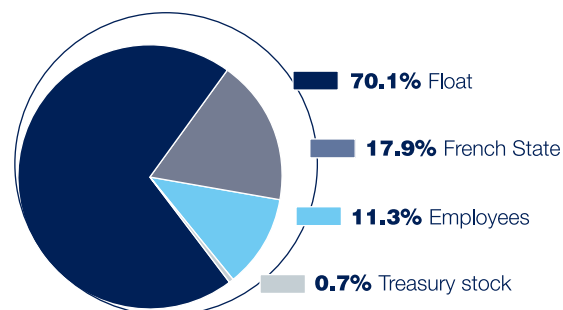
Air France-KLM American Depositary Warrants (ADW) are also listed for trading on the New York Stock Exchange under the ticker AKH WS.

Each holder of three Air France-KLM BASA/ADW has the right to acquire or subscribe to 2.066 Air France-KLM shares at a price of 40 euros until November 6, 2007.

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

Since April 2005, Air France-KLM OCEANES have been listed for trading on the Eurolist market of Euronext Paris under the ISIN code: FR0010185975. They are convertible and/or exchangeable at any time into Air France-KLM new and/or existing shares on the basis of 1.03 shares per bond.

#### Breakdown of shareholders



% of capital at March 31, 2007

## Stock Market

### Share price performance

|   | 2006-07     | 2005-06     | 2004-05     | 57 |
|---|-------------|-------------|-------------|----|
| Share price high (in euros)             | 36.30       | 20.50       | 15.33       |    |
| Share price low (in euros)              | 15.93       | 11.78       | 11.28       |    |
| Share price on March 31 (in euros)      | 34.15       | 19.43       | 13.87       |    |
| Number of shares in circulation         | 269,398,500 | 269,383,518 | 269,383,518 |    |
| Market capitalization (in euro billion) | 9.2         | 5.2         | 3.7         |    |

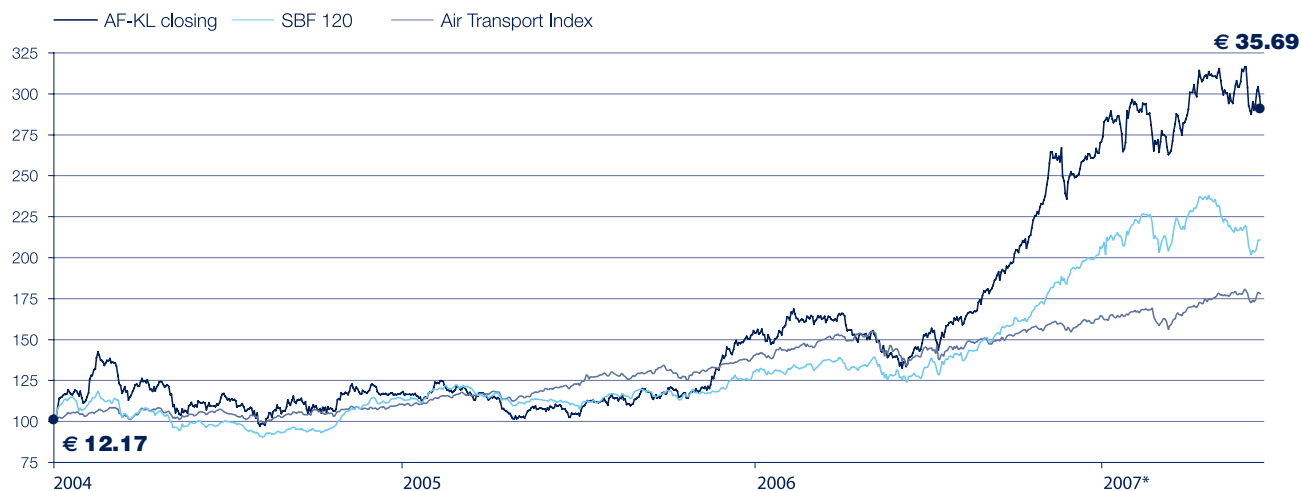
Source : Euronext

Share price  
**+72%**  
 in 2006-07

A dividend of 0.48 euro cents  
**+60%**  
 in 2006-07

### Share price since 2004

Base 100 at January 1, 2004



\* Data at June 11, 2007

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The new challenge for air transportation is climate change. The inclusion of airlines in the European Emissions Trading Scheme in 2011 is intended to encourage them to reduce their emissions. Air France-KLM is one of **the best in its sector** with significant investment in fleet renewal aimed at both **reducing CO<sub>2</sub> emissions** and containing noise disturbance. On the social level, Air France-KLM's efforts to maintain a high level of employee dialogue, promote **gender equality** and integrate the disabled into the work place are all worth highlighting, together with the establishment of an employee shareholder scheme. In our view, all of these elements make Air France-KLM eligible for SRI funds.

**Marie Luchet**

Analyst specialized in Socially Responsible Investment at CM-CIC Securities

CM-CIC Securities, which has included socially responsible investment in its overall approach since 2002, is the investment business of the Crédit Mutuel Center East Europe group, a member of the multi-local European Securities Network.



# A responsible company

Air France-KLM strives to achieve growth through financial, social and environmental excellence. Within this framework, the Group abides by a series of commitments in order to ensure that its profitable growth goes hand in hand with the promotion of social values and respect for the environment.

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Air France-KLM selected for the second consecutive year for the DJSI sustainable development index

For the second consecutive year, Air France-KLM is amongst the companies figuring in the two Dow Jones sustainable development indices, DJSI World and DJSI Stoxx. The Group leads the aviation sector, having obtained the highest overall score of the airlines included in the World index and is thus the only aviation company to figure in the 2006-07 version of the DJSI Stoxx.

Innovest, a research firm specialized in non-financial analysis and advisory, also ranked Air France-KLM amongst the 100 companies with the best sustainable development credentials.

## Promoting integration through employment

Air France and KLM are committed to respecting the ten principles of the United Nations Global Compact, relating to human rights, labor standards, environmental protection and anti-corruption. This commitment is also strengthened by the Air France-KLM group's declaration on Corporate Social Responsibility.

Within this framework, Air France and KLM each pursue their own socially responsible human resource policies while encouraging the teams to work together through joint training and employee dialogue initiatives. Furthermore, both companies are committed to a policy of workforce integration of the disabled.

The two airlines also undertake various initiatives to promote integration through employment, equal opportunity and the respect of diversity.

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Air France has established a number of partnership initiatives with the Ile de France region, the French Education Ministry, apprentice training centers (CFA) and territorial institutions and associations. Within the framework of the Internship Charter, the company has trained more than 10,000 young people over a ten year period, of which 90% were recruited at the end of their internship contract. Through a network of associations established by Air France, the company has, for several years, been creating a regional momentum with regard to access to employment. *AirEmploi* provides information on air transport professions while *Jérémy*, the association of French airport companies, promotes the hiring of young local job seekers for airport professions. A team responsible for liaising with the *Fondation de la deuxième chance* was created to support projects giving individuals in great personal difficulty a second chance.

Air France and KLM are also leading players in the development of the regions in which they operate. Thus, at Roissy, Air France created and supports the *Pays de Roissy-CDG* association which, in bringing together companies, local elected representatives and residents, enables projects concerning economic development, housing, transportation, cultural events, training and research to come to fruition. KLM gets involved with initiatives in cooperation with Schiphol airport to combat youth unemployment and provide training opportunities for disadvantaged young people.

### Awards for promoting diversity and equality

**Air France was awarded the prize for professional equality at the International Symposium on Diversity. This award recognizes the company's outstanding achievement in terms of equal opportunities for men and women.**

**For the second consecutive year, KLM was voted "favorite employer" by students from ethnic minorities on the basis of a poll carried out by Intermediar and Ebbinge.**



## Humanitarian initiatives

Through the Air France Foundation and KLM AirCares, the Group supports and funds a number of world-wide projects to help sick and disabled children as well as populations in distress.

Every year since 1999, KLM AirCares has selected four different bodies and organized innovative and imaginative events to help them with fund raising. They are given access, for example, to the company's communication resources, enabling them to reach a vast audience.

In 2006, KLM AirCares and the Amsterdam university medical center signed a partnership agreement to improve the medical treatment of children in Kenya by enabling specialists employed by the medical center to train Kenyan pediatricians. KLM has also helped establish a center for disabled children in Medan, Indonesia.

Since 1992, the Air France Foundation has been helping sick, disabled and street children, as well as disadvantaged young people in difficulty in France or the countries in which Air France is present. Air France employees contribute to this initiative and have created a network of 1,500 volunteers, known as the *Friends of the Foundation*.

The Foundation works in partnership with associations and NGOs in the area of education and training for children and young people, providing them with financial and technical support. It also supports projects suggested by Air France employees when the latter are already involved in associations which assist children.

In 2006, the Air France Foundation funded more than 50 educational and training projects, notably in France, Romania and China.

### *Aviation sans Frontières* (ASF) mobilizes for the Lebanon

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**Air France also supports *Aviation sans Frontières*, an association of volunteers which helps deliver assistance and supplies to disaster-stricken countries in aircraft flown and maintained by its members. Thanks to ASF, six tons of medical supplies and humanitarian aid were shipped to Beirut in August 2006.**

### Supporting these associations

**Everyone can support the work of the Air France Foundation and KLM AirCares by donating *Flying Blue* air miles. The miles collected in this way are converted into Air France or KLM tickets and given to various deserving causes.**

**To suggest a project or for more information please visit the KLM AirCares and the Air France foundation websites:  
[www.aircares.nl](http://www.aircares.nl)  
<http://fondation.airfrance.com>.**

## A company which respects its environment

Air France-KLM is aware of the environmental impact of its activity, particularly in terms of noise and gas emissions, and seeks to reduce this. Beyond ongoing investment to renew the fleet with more energy-efficient aircraft, the environment is a collective commitment for Air France and KLM involving all the employees of the companies and their subsidiaries. Within this framework, Air France-KLM has chosen to support the European Union draft directive to include aviation in the European Union Emissions Trading Scheme.

The principal challenges faced by the Group are

- limiting the contribution to global warming and noise while meeting the growing demand for air transportation,
- containing the Group's impact on air quality in airport zones by reducing low-altitude emissions,
- reducing the impact of ground activities and ensuring regulatory compliance, reducing water and energy consumption and optimizing waste management.

Air France-KLM seeks to increase its energy efficiency in the following four main ways:

- the renewal of its fleet to introduce aircraft which are ever quieter and increasingly energy efficient,
- the implementation of operating procedures to reduce noise and fuel consumption and improve the quality of the air around airports,
- the articulation of the network around its two hubs, an efficient system which, in improving aircraft load factors, reduces the activity's impact on the environment,
- the quality of the environmental management systems of the two airlines which adopt environmental policies tailored to the context.

### Ongoing investment in fleet renewal

Air France and KLM have decided to accelerate the rationalization of their fleets in replacing aircraft whose energy efficiency no longer meets the Group's environmental standards.

Air France has replaced the Boeing B747-300s on its Caribbean and Indian Ocean network with Boeing B777-300ERs, reducing its CO<sub>2</sub> emissions on each aircraft by 21% in 2006 and by 28% in 2007 in this fleet.

In May 2007, Air France took the decision to renew its Boeing B747-400s and part of its medium-haul fleet. Consequently, 18 B747-400s, comprising 13 passenger and 5 cargo aircraft, will be replaced by 18 B777s for staged delivery between 2007 and 2013. This investment will improve the long-haul fleet's energy efficiency, reducing consumption from 4.23 liters per passenger over 100 kilometers to 3.44 liters, a saving of nearly 19%. The replacement of the B747-400s will reduce the CO<sub>2</sub> emissions of this fleet by between 23% and 28% on 2006 levels by 2012.

For the medium-haul fleet, the company decided to order 30 new generation Airbus A320/21s, including 19 Airbus A320s to replace the oldest aircraft.

In 2005-06, KLM took the decision to renew its Boeing B767-300ERs with Airbus A330s and Boeing B777-200s.

Air France-KLM also wishes to play its full role in the implementation of innovative solutions for air traffic control. The Group endorses the European projects which would enable a reduction in in-flight delays because of holding patterns, shorten air routes and simplify landing or take-off procedures, thus reducing flight times and the associated emissions. The Group also supports American and European initiatives to improve the environmental performance of trans-Atlantic flights.

More generally, Air France-KLM assists the research undertaken by its suppliers in the field of new aeronautical design technologies.

## Air France-KLM supports the European draft directive on aviation greenhouse gas emissions

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**On December 20, 2006, the European Commission issued a draft directive proposing to include aviation in the European Union Emissions Trading Scheme. This legislation will come into force as of 2011 for flights within the EU.**

**Although aviation produces only around 3% of the world's carbon dioxide emissions, a relatively low percentage compared with other sources, Air France-KLM considers that the sector must assume its environmental responsibilities and continue to contribute to combating global warming. This is why the Group issued a statement welcoming the European Commission draft directive and took the opportunity to reiterate its opposition to any taxation system which would unfairly penalize airlines and not constitute a proper solution to the problem.**

## Publication of the corporate social responsibility report

**Since 2005, Air France-KLM has published a corporate social responsibility report covering all the activities as well as the Group's commitments in this area. It can be consulted on the website [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com).**



# Consolidated financial statements

## Consolidated income statements

In € millions

| <b>Period from April 1 to March 31</b>       | <b>2007</b>   | <b>2006</b>   | <b>2005</b>   | <b>65</b> |
|--|---------------|---------------|---------------|-----------|
| <b>Sales</b>                                 | <b>23,073</b> | <b>21,448</b> | <b>18,978</b> |           |
| Other revenues                               | 4             | 4             | 5             |           |
| <b>Revenues</b>                              | <b>23,077</b> | <b>21,452</b> | <b>18,983</b> |           |
| External expenses                            | (13,100)      | (12,127)      | (10,629)      |           |
| Salaries and related costs                   | (6,689)       | (6,357)       | (5,994)       |           |
| Taxes other than income taxes                | (263)         | (228)         | (225)         |           |
| Amortization and depreciation                | (1,782)       | (1,656)       | (1,561)       |           |
| Provisions                                   | (8)           | (72)          | (28)          |           |
| Other income and expenses                    | 5             | (76)          | 4             |           |
| <b>Income from current operations</b>        | <b>1,240</b>  | <b>936</b>    | <b>550</b>    |           |
| Sales of aircraft equipment                  | 13            | 2             | 19            |           |
| Negative goodwill                            | -             | 5             | 1,354         |           |
| Other non-current income and expenses        | (20)          | 512           | 4             |           |
| <b>Income from operating activities</b>      | <b>1,233</b>  | <b>1,455</b>  | <b>1,927</b>  |           |
| Cost of financial debt                       | (407)         | (392)         | (347)         |           |
| Income from cash and cash equivalents        | 267           | 168           | 125           |           |
| <i>Net cost of financial debt</i>            | <i>(140)</i>  | <i>(224)</i>  | <i>(222)</i>  |           |
| Other financial income and expenses          | 25            | (31)          | (8)           |           |
| <b>Income before tax</b>                     | <b>1,118</b>  | <b>1,200</b>  | <b>1,697</b>  |           |
| Income taxes                                 | (248)         | (256)         | (133)         |           |
| <b>Net income of consolidated companies</b>  | <b>870</b>    | <b>944</b>    | <b>1,564</b>  |           |
| Share of profits (losses) of associates      | 17            | (23)          | 73            |           |
| <b>Net income from continuing operations</b> | <b>887</b>    | <b>921</b>    | <b>1,637</b>  |           |
| Net income from discontinued operations      | -             | -             | 59            |           |
| <b>Net income for the period</b>             | <b>887</b>    | <b>921</b>    | <b>1,696</b>  |           |
| - Group                                      | 891           | 913           | 1,710         |           |
| - Minority interest                          | (4)           | 8             | (14)          |           |

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## Consolidated balance sheet

In € millions

| <b>Assets</b>                       | <b>March 31, 2007</b> | <b>March 31, 2006</b> | <b>March 31, 2005</b> |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| Goodwill                            | 204                   | 208                   | 205                   |
| Intangible assets                   | 424                   | 428                   | 437                   |
| Flight equipment                    | 11,551                | 11,017                | 10,394                |
| Other property, plant and equipment | 2,007                 | 1,955                 | 1,895                 |
| Investments in equity associates    | 228                   | 204                   | 577                   |
| Pension assets                      | 2,097                 | 1,903                 | 1,767                 |
| Other financial assets              | 1,095                 | 1,182                 | 1,113                 |
| Deferred tax assets                 | 26                    | 7                     | 140                   |
| Other non-current assets            | 604                   | 1,082                 | 336                   |
| <b>Total non current assets</b>     | <b>18,236</b>         | <b>17,986</b>         | <b>16,864</b>         |
| Other short term financial assets   | 689                   | 932                   | 654                   |
| Inventories                         | 360                   | 340                   | 382                   |
| Trade accounts receivable           | 2,610                 | 2,518                 | 2,272                 |
| Income tax receivables              | 7                     | 1                     | 6                     |
| Other current assets                | 1,271                 | 1,756                 | 969                   |
| Cash and cash equivalents           | 3,497                 | 2,946                 | 2,047                 |
| <b>Total current assets</b>         | <b>8,434</b>          | <b>8,493</b>          | <b>6,330</b>          |
| <b>Total assets</b>                 | <b>26,670</b>         | <b>26,479</b>         | <b>23,194</b>         |



## Consolidated balance sheet (continued)

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In € millions

| <b>Liabilities and equity</b>                                  | <b>March 31, 2007</b> | <b>March 31, 2006</b> | <b>March 31, 2005</b> |
|--|-----------------------|-----------------------|-----------------------|
| Issued capital   | 2,375                 | 2,290                 | 2,290                 |
| Additional paid-in capital                                     | 539                   | 430                   | 384                   |
| Treasury shares  | (30)                  | (58)                  | (19)                  |
| Reserves and retained earnings                                 | 5,415                 | 5,072                 | 3,254                 |
| <b>Equity attributable to equity holders of Air France-KLM</b> | <b>8,299</b>          | <b>7,734</b>          | <b>5,909</b>          |
| Minority interest  | 113                   | 119                   | 111                   |
| <b>Total Equity</b>  | <b>8,412</b>          | <b>7,853</b>          | <b>6,020</b>          |
| Provisions and retirement benefits                             | 1,387                 | 1,453                 | 1,516                 |
| Long-term debt   | 7,419                 | 7,826                 | 7,889                 |
| Deferred tax   | 891                   | 839                   | 313                   |
| Other non-current liabilities                                  | 401                   | 417                   | 481                   |
| <b>Total non-current liabilities</b>                           | <b>10,098</b>         | <b>10,535</b>         | <b>10,199</b>         |
| Provisions   | 225                   | 192                   | 124                   |
| Current portion of long-term debt                              | 1,098                 | 1,260                 | 1,044                 |
| Trade accounts payable   | 2,131                 | 2,039                 | 1,901                 |
| Deferred revenue on ticket sales                               | 2,217                 | 2,062                 | 1,656                 |
| Current tax liabilities  | 21                    | 167                   | 8                     |
| Other current liabilities                                      | 2,335                 | 2,269                 | 1,980                 |
| Bank overdrafts  | 133                   | 102                   | 262                   |
| <b>Total current liabilities</b>                               | <b>8,160</b>          | <b>8,091</b>          | <b>6,975</b>          |
| <b>Total liabilities and equity</b>                            | <b>26,670</b>         | <b>26,479</b>         | <b>23,194</b>         |

# Consolidated statements of cash flows

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In € millions

| <b>Period from April 1 to March 31</b>   | <b>2007</b>    | <b>2006</b>    | <b>2005</b>    |
|--|----------------|----------------|----------------|
| Net income for the period – Group  | 891            | 913            | 1,710          |
| Minority interests   | (4)            | 8              | (14)           |
| Amortization, depreciation and operating provisions                              | 1,790          | 1,728          | 1,589          |
| Financial provisions   | 10             | 24             | 6              |
| Gain on disposals of tangible and intangible assets                              | (44)           | (46)           | (19)           |
| Loss / (gain) on disposals of subsidiaries and associates                        | (1)            | (2)            | (66)           |
| Gain on Amadeus GTD transaction  | (16)           | (504)          | -              |
| Derivatives – non monetary result  | (43)           | (6)            | -              |
| Unrealized foreign exchange gains and losses, net                                | (5)            | 8              | 4              |
| Negative goodwill  | -              | (5)            | (1,354)        |
| Share of (profits) losses of associates  | (17)           | 23             | (73)           |
| Deferred taxes   | 244            | 98             | 139            |
| Other non-monetary items   | (112)          | (182)          | (143)          |
| <b>Subtotal</b>  | <b>2,693</b>   | <b>2,057</b>   | <b>1,779</b>   |
| (Increase) / decrease in inventories   | (20)           | (18)           | (16)           |
| (Increase) / decrease in trade receivables                                       | (184)          | (215)          | 42             |
| Increase / (decrease) in trade payables  | 228            | 96             | 313            |
| Change in other receivables and payables   | 133            | 736            | (127)          |
| <b>Net cash flow from operating activities</b>                                   | <b>2,850</b>   | <b>2,656</b>   | <b>1,991</b>   |
| Acquisitions of subsidiaries and investments in associates, net of cash acquired | (25)           | (58)           | 506            |
| Purchase of property, plant and equipment and intangible assets                  | (2,378)        | (2,544)        | (2,131)        |
| Proceeds on disposal of subsidiaries and investments in associates               | 43             | 35             | 109            |
| Proceeds on Amadeus GTD transaction  | -              | 817            | -              |
| Proceeds on disposal of property, plant and equipment and intangible assets      | 160            | 227            | 157            |
| Dividends received   | 6              | 10             | 25             |
| Decrease (increase) in investments, net between 3 months and 1 year              | 331            | (294)          | 116            |
| <b>Net cash used in investing activities</b>                                     | <b>(1,863)</b> | <b>(1,807)</b> | <b>(1,218)</b> |
| Issuance of long-term debt   | 1,240          | 1,410          | 858            |
| Repayments on long-term debt   | (714)          | (523)          | (288)          |
| Payment of debt resulting from finance lease liabilities                         | (866)          | (580)          | (381)          |
| Proceeds from new loans  | (89)           | (155)          | (101)          |
| Repayments on loans  | 52             | 97             | 22             |
| Dividends paid   | (88)           | (41)           | (24)           |
| Decrease in equity   | -              | -              | (33)           |
| <b>Net cash flow from financing activities</b>                                   | <b>(465)</b>   | <b>208</b>     | <b>53</b>      |
| <b>Effect of exchange rate on cash and cash equivalents</b>                      | <b>(2)</b>     | <b>2</b>       | <b>(5)</b>     |
| <b>Change in cash and cash equivalents and bank overdrafts</b>                   | <b>520</b>     | <b>1,059</b>   | <b>821</b>     |
| Cash and cash equivalents and bank overdrafts at beginning of period             | 2,844          | 1,785          | 964            |
| Cash and cash equivalents and bank overdrafts at end of period                   | 3,364          | 2,844          | 1,785          |
| Income tax paid (flow included in operating activities)                          | (309)          | (4)            | 22             |
| Interest paid (flow included in operating activities)                            | (451)          | (364)          | (312)          |
| Interest received (flow included in operating activities)                        | 299            | 154            | 123            |

# Glossary

## ADR – American Depositary Receipt

Air France-KLM is listed on the New York Stock Exchange under ADR. The ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars.

## AEA

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

## Biometry

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

## Code sharing

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

## E-services

Range of ground services for Air France and KLM passengers, based on new information technology. E-services notably allow passengers to check in using self-service kiosks or via the companies' internet sites as well as the use of electronic tickets.

## Equity warrant

A warrant gives the right to purchase or sell a share at a fixed exercise price within a pre-determined time period. Warrants are created by financial institutions who ensure their distribution and trading.

## Electronic ticketing

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

## Hub

Term used for a connecting platform where departures and arrivals are scheduled to minimize transfer times. Air France-KLM has two of the four major European hubs: 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 options for connections available to the customers.

## IATA

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

## IATA year

Financial year for many airlines, including Air France-KLM, which runs from April 1<sup>st</sup> to March 31<sup>st</sup> 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 held 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.

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**Multi-hub**

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the offer of destinations.

**Net income**

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.

**OCÉANE**

Bonds convertible into new or existing shares.

**Occupancy rate or passenger load factor**

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK).

**Operating income**

Operating income is the amount remaining after operating expenses (external expenses, payroll, 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 taking a connecting flight.

**Revenues**

Revenues corresponds to the total revenues generated by the Air France-KLM group in its three core activities (passenger, cargo, maintenance) and its ancilliary activities.

**Self-service check-in kiosk**

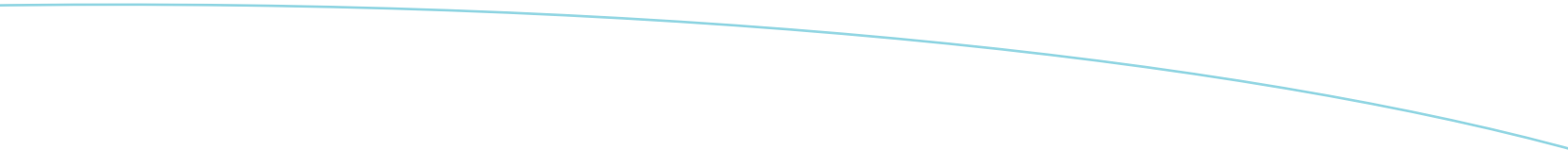
Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

**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 revenues for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenues for one ton transported over one kilometer.



Having welcomed the successful merger of our two companies two years ago, then paid tribute to our teams and the values they share last year, we felt that it was logical to dedicate this 2006-07 annual report to what our stakeholders had to say.

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This is because, for us, the success of Air France-KLM is inextricably linked with the growth and success of all those who have chosen the Group and have confidence in it.

Our heartfelt thanks go to those who gave up several hours of their precious time to give us their testimony. The sincerity of the satisfaction reflected in their words is, for us, the best possible reward.

Document edited by Air France-KLM's Financial Communication department  
Creation and realization: HARRISON • WOLF  
Editorial committee: Air France-KLM Financial Communication  
Photographic credits: Grégoire Korganow and Philippe Touitou/Rapho – Eyedea Press  
N. Rigg and J. Cantor Studio/Getty Images  
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