



Sustainability report 2004/05

Report profile

About this report

Committed as we are to clear and transparent reporting, both KLM and Air France have published annual environmental or sustainability reports for several years. This first joint report marks the beginning of our mutual efforts towards a sustainable Air France – KLM group. It is meant to further improve the flow of information on economic performance, social values and environmental quality as we understand them and put them into practice.

The report covers the major areas of our sustainability policies. It shows where we have made progress and where improvements are expected. In the framework of the combination, numerous joint programmes and initiatives have been adapted or launched from scratch.

We hope the document will help stimulate constructive dialogue with all our stakeholders, from customers, employees, shareholders and business relations, to public authorities, residents near the airports we operate from, environmental organizations and the general reader.

Since the report is necessarily confined to the main points of our sustainability policy, the Internet plays an important role in our communication. Further details are accordingly available at www.klm.com/sustainability, www.airfrance.com and www.airfranceklm-finance.com. Where necessary, other Internet sources are mentioned in the body of the text.

Reporting Scope and methodology

The information in this report relates to the first full Air France-KLM fiscal year ending 31 March 2005. It covers activities of the Air France-KLM group, including those of Air France S.A. and KLM N.V.

Considering the events and decisions that influenced the sustainability of our airlines during the year, the achievements of our wholly owned subsidiaries are explicitly presented where relevant.

Global Reporting Initiative (GRI)

The Global Reporting Initiative's guidelines and recommendations were taken into account in drafting this report.

GRI section	Air France-KLM report section	See pp.
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@ A detailed consideration of KLM's position on the GRI indicators can be found at www.klm.com/sustainability.

The United Nations Global Compact

Air France signed up to the United Nations Global Compact in April 2003 and KLM's management has committed to join the initiative in 2005. Further information about these commitments is given on page 6. To implement the ten principle within its influence sphere, Air France adopted in 2004 a sustainability charter for its suppliers.

Global Compact principle	See p.	Additional information
Human rights (1 & 2)	6; 16; 17	Air France has issued an Ethical and Social Rights Charter and a Charter for the Prevention of Harassment at work
Labour Standards (3, 4, 5 & 6)	17; 18-21	
Environment (7, 8 & 9)	26-35	
Anti-corruption (10)	7	The Air France-KLM ethics code is available on www.airfranceklm-finance.com

@ A detailed description of the actions taken to enforce the Global Compact's Ten Principles is available on the Air France website at www.airfrance.com/corporate.
For more information on the Global Compact: www.unglobalcompact.org.

Contacts

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Group profile

Fleet composition

The combined Air France-KLM Group fleet in service as of March 31, 2005 comprises 551 aircraft, 370 in the Air France fleet, including 121 operated by regional subsidiaries Brit Air, CityJet and Regional, and 181 in the KLM fleet, including 79 operated by KLM cityhopper and transavia.com. The average age of the combined Air France-KLM Group fleet is 9.4 years (including subsidiaries).

Fleet renewal in 2004/05

When acquiring new aircraft, Air France and KLM have decided to choose the same long-haul aircraft where possible, selecting the Boeing 777-200, the Airbus 330-200 and the Boeing 747-400ERF. KLM finalized the first phase of fleet renewal introducing ten B777-200ER. For a second phase, KLM purchased six A330-200 aircraft. Other aircraft types such as the B777-300ER, A318 and A319 were also introduced in the Air France fleet to replace ageing B747-200s, B737-300s, B737-500s. In 2004/05, Air France brought into revenue service a total of 22 more efficient, latest-generation aircraft, while 13 older aircraft were retired.

Air France & KLM	Number of aircraft			Number of Movements	Average Block Time*	Average Covered Distance in km	Average Speed in km/h*	Average Number of seats
	Total	AF	KLM					
B737-300/400/500	42	15	27	84,739	1h43mn	933	543	130
B737-800/ 900	18	0	18	28,155	2h14mn	1,488	663	173
B747-200/200F/300	13	13	0	10,084	6h59mn	5,829	833	489
B747-400/400ERF	45	20	25	25,710	9h11mn	7,882	858	363
B767-300	12	0	12	9,805	5h54mn	4,599	779	220
B777-200ER/300ER	44	34	10	21,187	8h52mn	7,356	828	288
A318/A319/A320/A321	132	132	0	228,344	1h36mn	1,030	639	156
A330-200	13	13	0	8,291	6h47mn	5,386	794	219
A340-300	22	22	0	12,981	8h17mn	6,701	808	327
MD11	10	0	10	6,582	7h12mn	6,046	840	282
Subsidiaries	Total	AF	KLM	Number of Movements	Average Block Time*	Average Covered Distance in km	Average Speed in km/h*	Average Number of seats
Brit Air, CityJet and Regional	121	121	-	202,831	1h31mn	659	503	63
transavia.com B737-700/800	26	-	26	36,968	2h41mn	1,829	671	168
KLM cityhopper F 50/70/100	53	-	53	85,689	1h27mn	635	430	78

* Taxiing included



Air France-KLM, A new air transport leader

One Group, Two Airlines

The new Group was created in 2004 and combines a holding company – Air France-KLM – and two airlines, each of which retains their identity, brand, and three businesses: passenger transportation, cargo transportation and engineering and maintenance. This simple, clear-cut structure guarantees the efficient management of each of the two airlines. Each company is responsible for its own operations, while the holding company ensures the coordination of overall strategy.

Named Air France-KLM, the holding company is governed by French law. Its shares are listed on stock exchanges in Paris, Amsterdam and New York.

On March 31st, 2005 the Holding Company held 100% of the capital and voting rights of Air France and 97.3% of the economic rights and 49% of the voting rights of KLM. KLM's other voting rights were held by Dutch Foundations (34.8%), the Dutch state (14.1%) and other shareholders who held 2.1% of the voting rights and 2.7% of the economic rights. Since April 5, 2005, the voting rights of Dutch Foundations increased to 43% and those of the Dutch state decreased to 5.9%.

Three businesses

Passengers

By combining their networks and capacity, the two airlines are now able to propose an even wider choice of destinations and schedules to their customers, with more seats at the best available prices and seamless service throughout the new, enlarged network.

Air France-KLM's long-haul network is organized around two of the four leading European hubs, namely Paris-Charles de Gaulle and Amsterdam-Schiphol. It offers 228 destinations worldwide, with 98 destinations served exclusively by Air France, 45 by KLM, and 85 joint destinations.

As a result of the combination, the SkyTeam alliance became the N°2 global alliance, serving over 600 destinations in 137 countries with 14,320 flights daily.

Cargo

With a consolidated turnover of 2.49 billion euros, Air France-KLM is the world's second-largest cargo operator, excluding integrators. Since the combination took effect, the two airlines have made significant progress in achieving synergies in areas such as network management, capacity swaps and coordinated freighter schedules.

The creation of the new "European Cargo House", which should be operational by the end of 2005, should further enhance synergies by combining network management, marketing and sales activities.

Maintenance

The merger of Air France Industries and KLM Engineering & Maintenance has given rise to one of the world's leading supplier of maintenance services.

The group recorded third party revenues of 777 million euros, an increase of 4%.

Offering a broad range of integrated products and services forms the basis of a shared vision to the MRO market (Maintenance, Repair & Overhaul) for both companies.

Air France Industries with its Customized Fleet Services and KLM Engineering & Maintenance with its Total Aircraft Care concept are complementary to each other. As overlaps in the respective portfolio's are limited, this offers a widened combined product and services range to the market. The cooperation is also advantageous because it offers the chance to optimize existing production capacities without automatically having to curtail certain activities or move them from one organisation to the other.

The Group's maintenance activity is based on the Six Sigma methodology, an innovative and competitive industrial tool. In 2004/05, both Air France and KLM have invested in new facilities such as EOLE (new component management and repair plant) near Orly airport, and a new engine shop near Schiphol, for a total investment of 154 million euros.

Air France-KLM Group key facts & figures, 31 March 2005

- World's largest airline group by turnover (€ 19.078 billion)
- Europe's leading airline in terms of the number of passengers carried (64.1 million passengers per year)
- 2nd worldwide cargo operator in terms of revenue tonne-km (excluding integrators)
- One of the leading aircraft maintenance provider
- 551 aircraft in operation serving 228 destinations in 119 countries
- 108,000 employees

@Fore more information on the Group profile, see the Air France-KLM financial website www.airfranceklm-finance.com

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Air transport key challenges

Airlines carry over 1.6 billion passengers a year worldwide. Rapid and safe transport of goods is crucial for many businesses, with some 40% of world trade by value being currently transported by air cargo.

Aviation is a vital tool in a globalizing society where the demand for mobility is growing. By boosting accessibility to markets and suppliers, air transport also supports regional development and social integration.

Addressing economic challenges to achieve sustainable growth

Airlines are at the end of the value chain in a partially-liberalized market. Their profitability is highly dependent on the efficiency of the aviation industry as a whole and determined by the combined efforts of aircraft manufacturers, airports and air traffic management. On that basis, high fuel prices, rising taxes and charges, security and insurance costs have affected airline profitability, making the airline business a low margin activity.

A sound business climate is the first condition for building a sustainable air transport industry. Airlines have to ensure reasonable profitability to pursue sustainable growth through investment in new technologies and maintain their social and economic contribution at local and global levels.

This requires a level playing field not just for airlines but for all transport modes, worldwide.

Both the international civil aviation organization (ICAO), the European Union and national authorities have a major role to play in achieving this.

Sustainable air traffic also requires efficient air traffic infrastructure and services.

Inadequate infrastructure causes delays, unreliability for passengers, extra costs for airlines and a waste of energy and materials. At this time, the ability of European airlines to use infrastructure is largely determined by EU and national regulations. This is most apparent as regards air traffic management in Europe, which is fragmented along national borders and suffers from inefficiencies due to a lack of harmonization. Air traffic management delays in Europe cost around 5.7 billion euros per year, and, according to Eurocontrol, increase kerosene consumption by about 6%. Implementing a Single European Sky and improving infrastructure capacity should be priorities.

See p. 10-17 for additional information on Air France-KLM's economic performance.

Disconnecting economic growth and environmental impact

Air transport has achieved significant progress in environmental protection over the past 40 years with respect to disconnecting traffic growth and environmental impact. This has involved, for instance, reducing aircraft energy consumption per passenger-kilometer by 70%. Airlines can make the biggest steps in improving environmental performance by investing in new, environmentally-efficient aircraft. For some issues such as climate change, however, no conclusive technologies are as yet available to offset all growth of this sector. Airlines must therefore find, in cooperation with suppliers, public authorities and other aviation industry players, the most cost-efficient and environmentally-effective solutions, including market-based mechanisms. An emissions trading scheme might be an attractive instrument to contribute to a sustainable future for air transport.

See p. 26-35 for additional information on Air France-KLM's environmental performance.

Investing in people

Worldwide, the air transport sector employs around four million people, offering valuable personal development and career opportunities. When it comes to passenger, cargo or engineering & maintenance services, customer satisfaction depends in the first place on employees. Professionalism and employee empowerment are crucial to an airline's success and continuity. This requires an ongoing investment in employee satisfaction, training and career development programmes, social dialogue and health and safety conditions. The challenge is to combine the continuous efforts invested in social values with the need to control costs and increase productivity.

See p. 18-25 for additional information on Air France-KLM's social performance.

Foreword



The successful merger between Air France and KLM has created Europe's leading air transport group and the world's largest group in terms of revenue. Global leadership brings moral obligations to be a good corporate citizen and to conduct all aspects of business in an ethical and socially responsible manner. From the beginning of the merger process the Group's sustainability policy was high on the agenda. This first joint sustainability report gives us the opportunity to share the results and our approach on sustainable development.

Both KLM and Air France have rooted their history and corporate culture in strong social and environmental commitments, and will continue to work for a sustainable future by balancing economic growth with the promotion of social values and environmental quality.

Sustainability is a priority issue for which Air France-KLM's Strategic Management Committee decided to develop a joint policy. The merger of Air France and KLM gave us the opportunity to combine our best practices in that field. This report provides many examples of how we are constantly refining our own processes and co-operating with suppliers and other stakeholders to improve our sustainability performance. In 2004/05, we further invested in optimizing and renewing the Air France and KLM fleets, limiting the environmental impact of our growing activities. We have reduced the Group's global noise energy by 18% over the past four years and significantly improved our fuel efficiency, thus limiting the increase of CO₂ and local emissions despite significant growth in both passenger and cargo traffic.

Sustainability can only be built on a sound economic base. Our Group has taken the lead in strengthening its economic position by creating Europe's leading airline group, focused on growth and opportunities. Obviously, increasing margins is the Group's prime responsibility and it is therefore implementing a powerful strategy of profitable growth and achieving further synergy gains. Airline margins are also determined by international aviation policies. A level playing field is a crucial condition for Air France-KLM, if it is to transform product and process innovations into sustainability.

In the coming years we will pursue our efforts with the aim of ranking among the aviation industry leaders in sustainable development. We believe that this is a prerequisite if we are to retain broad support for our growth strategy from society at large. By combining economic growth with the creation of well-being, social value and environmental quality, we want to acquire a 'License to Grow' at our Paris-Charles de Gaulle and Amsterdam-Schiphol hubs. We cannot tackle all issues on our own. Addressing the key challenges of air transport depends largely on successful co-operation with a range of stakeholders, including international and regional authorities, airports, air traffic management operators and aircraft manufacturers. We seek constructive dialogue with all players in the aviation industry which can contribute to our common goal of a sustainable future.

Obviously, the Group's success depends on Air France-KLM employees, and we thank all 108,000 employees for their enthusiasm and their contribution to satisfying customer demand and to generating the Group's successful results this past year. The professionalism and commitment of our employees is crucial for the ongoing service to our customers and for achieving our future ambitions. Investing in people will remain one of our key priorities as we strive to create an optimal balance between people, profit and planet. Good communication is essential to explaining this balance and we invite you to give us your opinion on the way in which Air France and KLM manage the balance.

We hope you enjoy reading this first joint Sustainability Report.

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

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

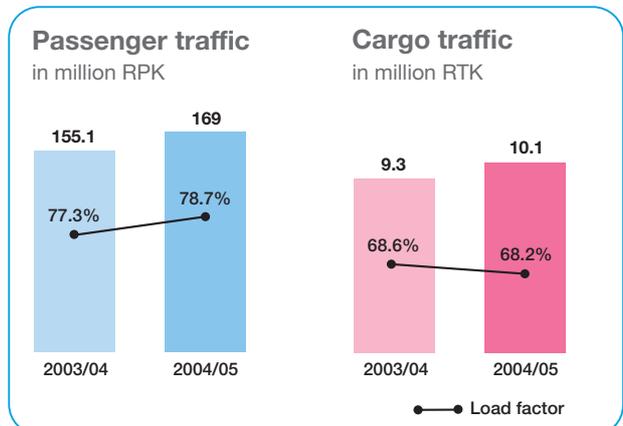
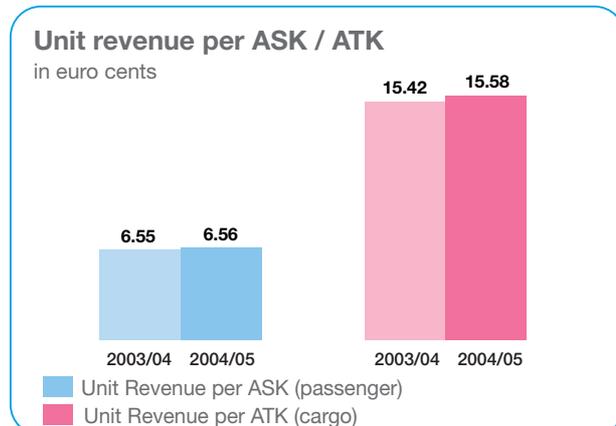
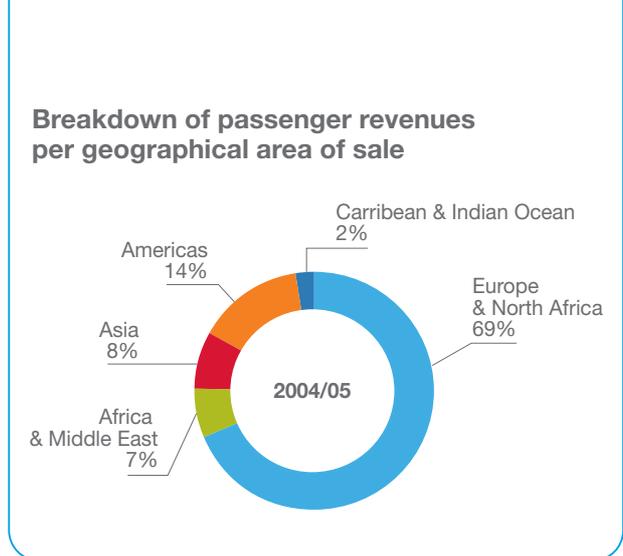
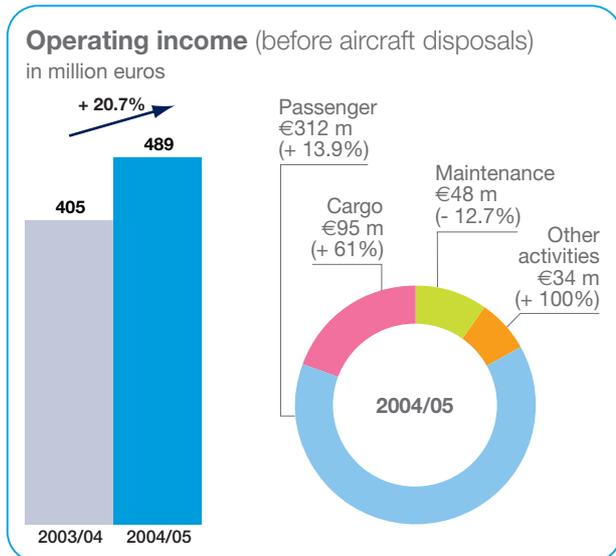
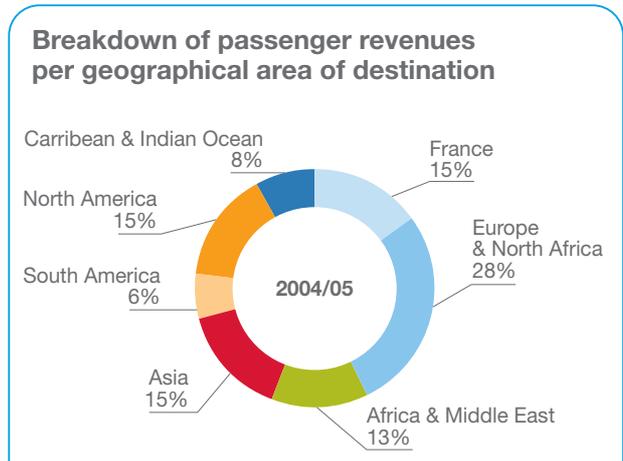
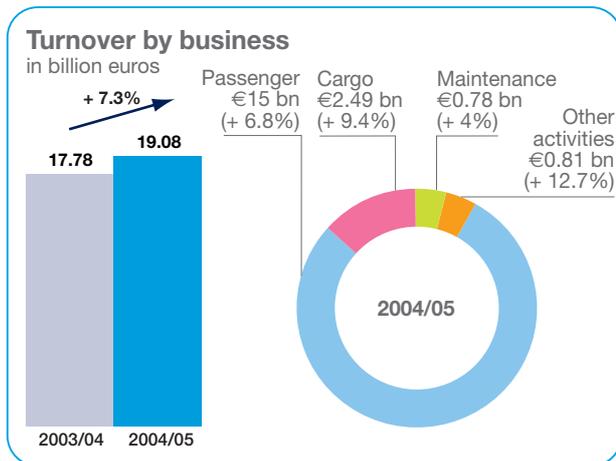
A handwritten signature in black ink, appearing to read 'Leo van Wijk'.

Leo van Wijk
Chairman of the Management Board of KLM
Vice-Chairman of the Board of Directors of Air France-KLM

Panorama of Air France-KLM Group

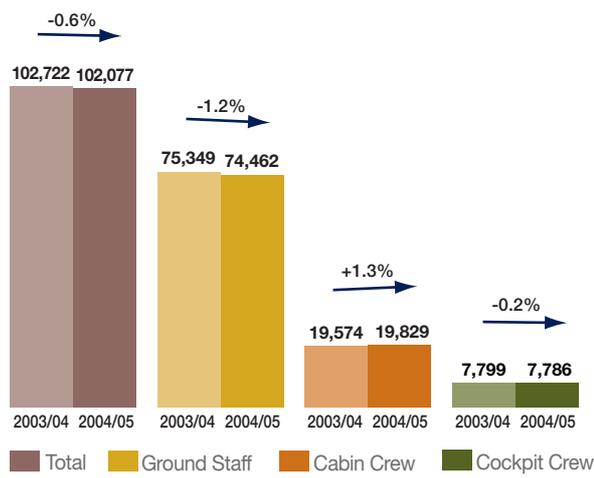
Key economic figures

Year to march 31. Air France Group consolidated over 12 months (April-March) and the KLM Group over 11 months (May-March)
 Other activities 2005: Servair consolidated over 15 months (January 2004 – March 2005)



Key social figures

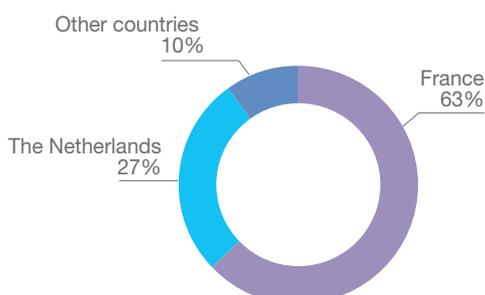
Average number of full time equivalents



Headcount at 31 Dec 2004 (long term contracts)

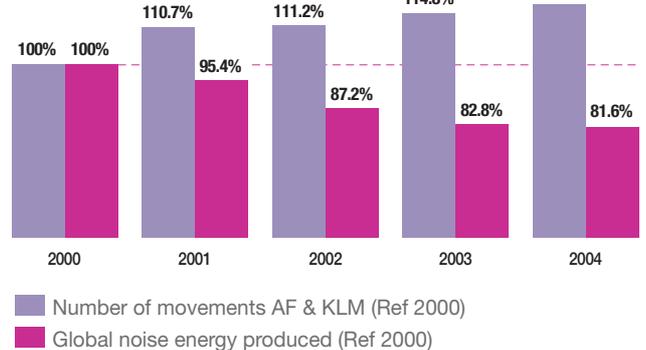
	Ground Staff	Cabin Crew	Cockpit Crew	Total
Air France-KLM Group	76,942	22,820	8,289	108,051
Air France airline	45,387	13,582	4,187	63,156
KLM airline	18,377	7,458	2,270	28,105
Air France's subsidiaries	8,665	671	913	10,249
KLM's subsidiaries	4,513	1,109	919	6,541

Geographical distribution of employees of Air France and KLM airlines at 31 Dec 2004

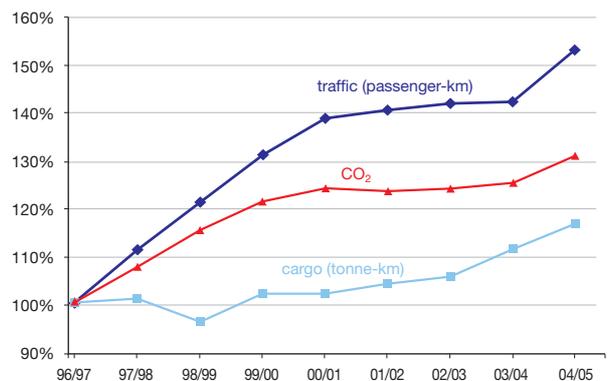


Key environmental figures

Global noise energy versus traffic



Evolution of CO₂ production and traffic since 1996



Aircraft emissions

in thousand of tonnes

	2004/05	2003/04	change like-for-like	
Global aircraft emissions ⁽¹⁾	CO ₂	24,147	23,081	4.6%
	NO _x	120	115	4.3%
	CO	13	14	-7.3%
	HC	3.4	3.8	-11.1%
Of which low altitude emissions "LTO cycle" ⁽²⁾	CO ₂	1,592	1,560	2.1%
	NO _x	6,7	6,4	4.1%
	CO	5,8	5,9	-2.2%
	HC	1,1	1,1	-0.5%

(1) excluding subsidiaries, except KLM cityhopper
 (2) including all subsidiaries, except transavia.com

Corporate responsibility

A shared vision based on common values

Air France and KLM share the same vision of their responsibilities and aim to achieve their commercial objectives whilst allowing future generations to meet their needs, notably in terms of mobility, working conditions, personal development and environmental quality.

A common past of environmental and social commitments

Air France and KLM share a long commitment to environmental and social responsibility. The chart below gives some examples over the last ten years.

Defining Group sustainability strategy

As a result of their combination, Air France and KLM have started pooling sustainable development best practices to find a balance among three bottom lines: realizing sustainable profit, creating social values and caring for the environment. A joint sustainability policy is currently under development.

Economic performance

As a prerequisite to Air France-KLM's sustainable development, the Group's economic performance is built on a strategy of profitable growth, based on each airline's assets, and supported by their potential synergies and the impetus of the expanded SkyTeam alliance.

Social responsibility

Good labor relations are essential to the sustainable development of both companies, which place human values at the heart of the company's strategy.

As part and parcel of their respective national operations, Air France and KLM intend to share the benefits of a growing airline industry with stakeholders such as local communities.

Environmental responsibility

Sharing the same commitment to environmental protection, both airlines aim to be at the forefront in separating growth from environmental impact. Fleet renewal is the most significant measure towards this goal and both Air France and KLM have made significant investment in a modern fleet. The Group also works continuously on a range of operational measures, good housekeeping measures, and improvements in the supply chain.

Enforcing the ten principles of the Global Compact

The Global Compact is an international initiative launched by the United Nations in July 2000 to support and promote sustainable development via ten major principles covering human rights, labor standards, environmental protection and anti-corruption. Air France signed up to the Global Compact in April 2003. KLM will join the initiative in 2005.

@ For more information on the Global Compact: www.unglobalcompact.org.

Air France-KLM – a common history of environmental and social commitment

KLM

- KLM's 2nd waste and wastewater treatment facility
1990
- Environmental position paper, launch of KLM's environmental management team
1993
- Industry Award E&M for environmental leadership
• 1st environmental report
1996
- ISO 14001 certificate for all operations in the Netherlands
• Corporate environmental management center
• Launch of the AirCares program
1999
- EMAS certification
• 1st verification of the sustainability report
2000
- ACC Awards for the best environmental report (2000 and 2001)
• KLM quoted N°1 airline by SRI
2002
- Implementation of Environmental Good Practices at 4 outstations
2003

Air France

- Purchase of 200 LPG vehicles
1986
- Participation in Mozaic research program
• Creation of Air France Foundation
1992
- 1st environmental report
1996
- ISO 14001 certification for CRMA (maintenance subsidiary)
1999
- ISO 14001 certification for Air France Industries Department in Orly
• Launch of the Saphir service (assistance to passengers with reduced mobility)
2001
- Ethics and Social Rights Charter
• Quotation in ASPI ethical index
2002
- Signature of UN Global Compact
• Charter for the Prevention of Harassment at Work
• ISO 14001 certification at Le Bourget maintenance site
2003
- Sustainability Charter for Suppliers
2004

Air France-KLM Group 2005

- Quotation in FTSE4Good ethical index
- Sustainability Policy to be defined
- KLM to sign UN Global Compact

Corporate governance

The Air France-KLM Group, in addition to its legal control structures, is managed by the holding company's Strategic Management Committee (SMC). Each subsidiary of Air France-KLM remains responsible for its own commercial and operational management on a daily basis and ensures that recommendations issued by the SMC are implemented.

@ For additional information regarding Air France-KLM governance structure, see the Group's financial website www.airfranceklm-finance.com

The Air France-KLM professional ethics code

On 25 March 2004, the Company's Board of Directors adopted a professional ethics code. The purpose of this code, which is applicable to the entire Group, is to inform members of the Board of Directors, members of the Executive Committees, and few employees about the conditions under which they can execute securities transactions, about their obligations to protect confidential information in their possession, and to avoid conflicts of interest.

@ The Air France-KLM ethics code is available on www.airfranceklm-finance.com

Structure	Role	Composition at 31 March 2005	Meetings in 2004/05
Board of Directors	Directs and controls the management of the Group. Works with management to ensure that the Group meets its targets and relies on the opinions and recommendations of the specialized committees.	16 members of whom 7 are independent: – 11 directors representing shareholders other than the French state and employee shareholders – 3 directors representing the French state, in proportion to its share in the Group's capital – 2 directors representing employee shareholders. Directors are appointed for a six-year term.	10 meetings
Audit Committee	Reviews the consolidated financial statements, the principal financial risks, the results of the internal audit, the work schedule and the conclusions and recommendations of the Auditors. Monitors the quality of the procedures that ensure compliance with stock market regulations.	5 directors of whom 3 are independent	4 meetings
Strategy Committee	Explores strategic options concerning the Group's activities and new developments in terms of fleets, subsidiaries, the acquisition or disposal of airline assets, aviation subcontracting and the SkyTeam alliance.	7 members of whom 3 are independent, plus 2 Board members representing employee shareholders	2 meetings
Compensation Committee	Formulates proposals on the amount of and changes to the compensation paid to the Chairman and Chief Executive Officer. It may also be asked to give an opinion on compensation for top executives and on stock options policy.	3 independent directors	2 meetings
Nominating Committee	Proposes candidates to serve as members of the Board of Directors, which approves these recommendations and submits them for election to the annual Shareholders' Meeting. Names SMC members.	3 independent directors	1 meeting
Strategic Management Committee (SMC)	Defines the Group strategy: network and hub coordination, budget and medium-term planning, fleet and investment strategy, alliances and partnership strategy, and the implementation of synergies.	8 members: – 4 Air France representatives – 4 KLM representatives The Air France Chairman holds the casting vote	Meets every two weeks, alternately in Paris and Amsterdam.

Engaging dialogue with our stakeholders

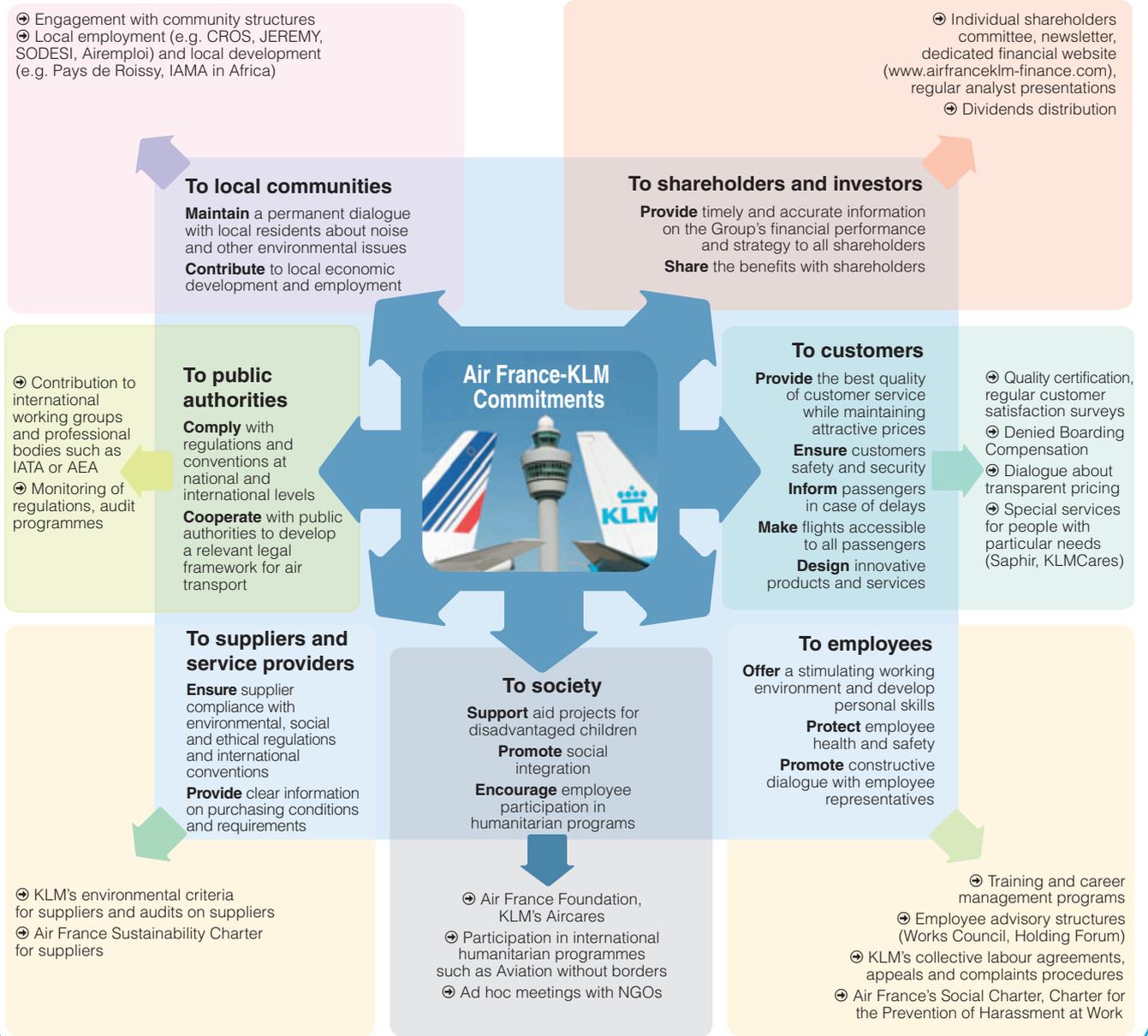
Listening to our stakeholders' concerns is a key pillar of our sustainable development strategy. Both Air France and KLM have long been engaged in consultation processes with their most important stakeholders. The publication of our annual sustainability reports also illustrates our will to provide stakeholders with accurate information on environmental, social and economic issues.

Air France-KLM admitted to FTSE4GOOD Index

Air France-KLM was admitted to the FTSE4Good index on 18 March 2005. The non-financial FTSE4Good stock market index tracks the performance of over 800 companies that meet clearly identified social and environmental criteria.

@ For more information on FTSE4Good index: www.ftse4good.com

AIR FRANCE-KLM COMMITMENTS TO THEIR STAKEHOLDERS AND SAMPLE MEASURES



Flight safety and security, a core commitment

The safety and the security of our customers and staff is the priority commitment of the Air France-KLM Group.

Safety concerns are inherent in any activity. In the air transport sector they concern technical risks during the flight process. Security concerns external threats such as terrorism.

Flight safety

Flight safety is mainly determined by the airworthiness of the aircraft, the processes on the ground and how the flight is conducted.

Proactive measures to improve flight safety include constantly monitoring of safety risks, ensuring regular maintenance in compliance with the very strict rules issued by Aviation authorities, and training staff to develop safety awareness.

Reactive measures consist in reporting and analyzing all incidents and taking measures to deal with them. The Group has implemented a robust blame-free policy to encourage feedback about minor events which could have an effect on operational safety.

In addition to regulatory compliance, Air France-KLM has set up a systematic operational risk management process to ensure that safety and risk management is an integral part of business activity. An annual flight safety prevention program ensures the implementation of a systematic, continuous approach. Both airlines record the notifications of operational incidents on all their daily flights in dedicated air safety databases. The analysis of recorded flight data are also provided to third-party airlines.

Security

Mandatory and voluntary measures have been implemented to keep pace with the increasing need for security. Most of these actions are more stringent than the standards defined by the Authorities.

Air France-KLM security measures include among others, regular aircraft checks and searches, random checks on staff, 100% baggage screening and reconciliation, and the presence of specially-trained security agents on certain flights. The entire Air France-KLM fleet is equipped with ICAO-compliant armored cockpit security doors .

KLM and Air France have both introduced an automatic baggage reconciliation system. It allows staff to quickly search for and systematically remove the baggage of any passenger who did not board the aircraft. KLM has also implemented a program "100% Hold Baggage Screening" in conjunction with Schiphol airport.

Cargo security measures have also been tightened up, with checks being made of the cargo supplier's integrity and the contents of the shipment. Air France Cargo and KLM Cargo have also dispensed Security Awareness Courses to their staff.

These actions lengthen operating times because of stricter searches and lead to extra costs.

Crisis management

Both airlines have implemented proactive Emergency Response Plans and run full-scale crisis management exercises several times a year. The exchange of best practices with other airlines, especially with SkyTeam partners and IATA, contributes to the continuous improvement of crisis management programs.

Air France has set up a crisis management program involving 2,800 volunteer ground staff. Specific training has so far been provided to 1,600 employees.

KLM's Emergency Response organization is fully integrated with that of Northwest Airlines, its US alliance partner. Together, they provide Emergency Response Planning at every destination of their combined networks and train and maintain the ASSIST organization. More than 1,700 trained KLM ASSIST volunteers are available in the Netherlands plus another 3,000 within the combined networks.

In Paris, Amsterdam and Minneapolis, a telephone enquiry centre can be staffed within an hour. Go-Teams can be activated out of Paris, Amsterdam, Minneapolis and Tokyo to provide assistance to victims and their family members and to manage the operations during a crisis.



The economic dimension

A key contribution to local and global economy

In the global economy, strong air transport sustains economic growth

As the European Commission said in its White Paper on European Transport Policy¹, it is difficult to think of vigorous economic growth that create jobs and wealth without an efficient transport system allowing agents to take full advantage of the internal market and global trade.

According to IATA, air transport's direct economic contribution amounts to 320 billion euros². When adding the indirect and catalytic impacts of tourism and freight business, **air transport's total contribution can be estimated at 1,100 billion euros³.**

Increasing corporate competitiveness

Access to international markets and efficient transport links are key criteria in business location decisions. Air transport enhances a company's export ability, efficiency and productivity by providing easy access to customers and suppliers and the rapid transport of goods required by businesses in a growing global economy.

Contributing to national economic growth

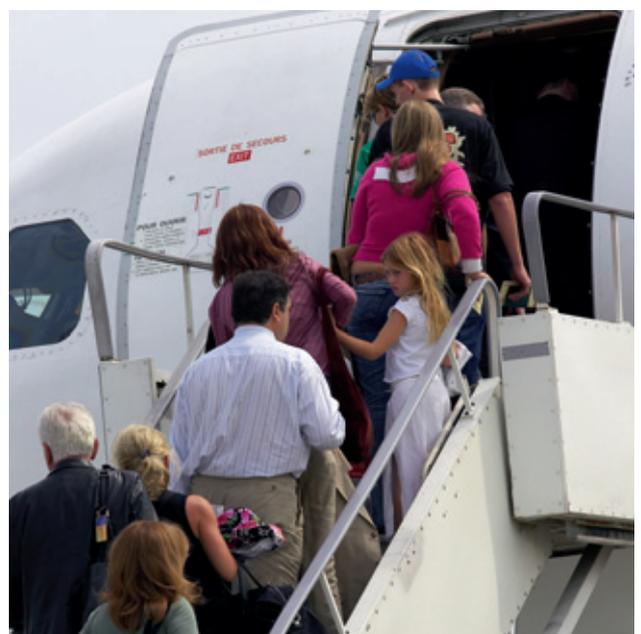
Air transport's major role as a national economic motor has been evidenced by several recent studies, such as the BIPE's study in France (see *case study*).

Estimates of European airports' contribution to economic growth range from **1.4% to 2.5% of GDP**, excluding tourism.

In addition, air transport is a key driver of growth in tourism. In the European Union, tourism accounts for 5% of total GDP and employment, and as much as 30% of the total external trade in services⁴.

Supporting local development and social inclusion

By boosting accessibility to markets and suppliers, air transport networks play a major role in regional planning and development. This is evidenced by the local economic development around major airports such as the Schiphol and Paris-Charles de Gaulle hubs, which have developed business parks to capitalize on the attractiveness of air service connectivity to international trade. In France, Paris-Charles de Gaulle



¹ "European Transport Policy for 2010: time to decide" - <http://europa.eu.int/comm/energy-transport/en/lb-en.html>

² US\$ 400 billion (source IATA / Environment Summit 2005) / average conversion rate for 2004: 1 US\$ = 0.803921 €

³ US\$ 1, 400 billion (source IATA / Environment Summit 2005) / average conversion rate for 2004: 1 US\$ = 0.803921 €

⁴ Source: Airports Council International (www.aci-europe.org) - The social and economic impacts of airports in Europe, January 2004



and Paris-Orly airports make the French capital a pole of attraction for businesses: 53% of Europe's leading corporations have locations in the Greater Paris region.

By linking people, countries and cultures, improving access to remote regions and island communities, air transport also promotes social inclusion. As a key vector of European integration, the economic and social importance of air transport in the European Union is likely to grow in the context of its recent enlargement.

Sustaining a wide range of suppliers

Air transport supports employment directly on airport sites and in the surrounding areas, but also indirectly in the supply chain. In France, in 2001, the goods and services purchased by the air transport branch totalled 7 billion euros, the equivalent of 0.5 points of GDP (Gross Domestic Product)⁵.

Fostering employment

Worldwide, air transport is estimated to create **28 million direct, indirect and induced jobs⁶**. By 2010, this figure is forecast to rise to **31 million jobs**.

According to the ACI Europe study⁷, European airports currently support around **950 on-site jobs per million passengers and per year**. When adding indirect and induced jobs, it is estimated that European air transport supports over **4,000 jobs per million passengers**.

A recent study of Schiphol's economic impact by the Amsterdam Chamber of Commerce and Amsterdam's municipal Economic Department shows that employment at Schiphol airport (around 57,000 people in 2003) has grown faster during the last ten years than overall employment in the Netherlands.

The contribution of air transport to the French Economy

In 2004, the *Club de Prospective du Transport Aérien*⁸ commissioned the economic forecasting firm BIPE to analyze the direct and indirect contributions of the air transport industry to the French economy. The study highlights the increasingly closer ties between the airline industry and its economic, social and geopolitical environment:

Today, **more than 25% of French citizens travel by air at least once a year**, compared with 17% fifteen years ago. One-sixth of total French foreign trade by value is carried by air. The value of annual business and household consumption of air transport amounts to over 10 billion euros.

Over the 1992-2001 period, the air transport branch was **the fourth most dynamic branch of the French economy**, with an average annual growth rate in its added value of 7.6%, compared with the overall economy's 2.2% increase.

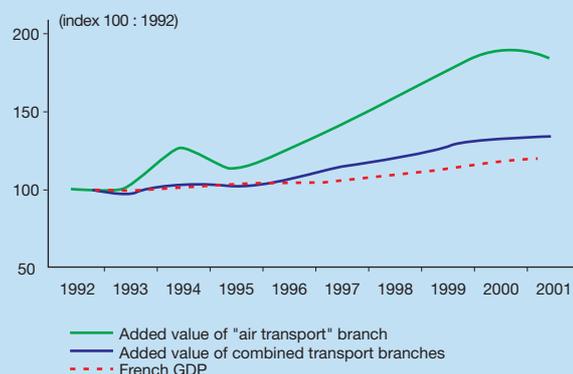
The sector directly employs a workforce of **over 115,000 people**, mostly highly-qualified, including 80,000 in airlines and 35,000 at airports, DGAC civil aviation authority departments and airport handling services. Jobs within airlines are **more skilled** than in other transport modes (20% of managerial positions compared with 9% for the combined transport sector). They are also **more productive** than the average of national employment. In the air transport sector, each job generates added value of 80,000 euros a year, compared with a national average of 50,000.

In addition, each job directly linked to air transport at an airport corresponds to one indirect job (e.g. in aircraft manufacture) and two induced jobs (e.g. in the steel industry supplying aircraft manufacturers).

French airports finance their own infrastructure development, funding some 38% out of operating cash flow, 50% through borrowing and only 12% from subsidies, compared to 92% for rail transport.

@ For more information, the complete report "How air transport contributes to economic growth: the Case of France" is available on the BIPE website www.BIPE.fr.

Comparison of added value in the air transport branch, with added value of overall transport branches and of overall French added value (GDP)



Combined transport branches = sea, rail, air, road and inland waterways
INSEE Data - National Account

⁵ Source: INSEE

⁶ Source: ICAO's latest survey on civil aviation's economic contribution (1998), IATA 2005

⁷ See note 4 above

⁸ This club brings together France's major air transport players: Aéroports de Paris, Air France, the Direction Générale de l'Aviation Civile (French civil aviation authority), SNECMA (aircraft engine manufacturer) and Vinci Airports.

The economic dimension

Financial performance

A profitable growth strategy

The combination of Air France and KLM has allowed the Group to become a global air transport leader. The development synergies gives us the resources to achieve our ambition of profitable growth through increased cost savings, improved organization, increased market share and the development of new products.

Combining fares has allowed Air France and KLM to efficiently implement network complementarities. The Group's profitable growth strategy is based on:

- enhancement of customer loyalty through innovative products and services,
- a strict cost control policy,
- capitalization on the Group's key assets: the complementary nature of the two hubs, a balanced network, the benefit of the SkyTeam alliance, a flexible, rationalized fleet,
- further expansion on emerging and fast-growing markets (Asia, Latin America, the Middle East, Eastern Europe),
- the coordinated development of Paris-CDG and Amsterdam-Schiphol hubs,
- the consolidation of profitability on key markets.
- the development of synergies between the two airlines.

In 2004/05, the implementation of existing synergies had a positive impact on the Group's consolidated operating profit estimated at 115 million euros.

Case study

On 27 January 2005, the American magazine, *Air Transport World* named Air France-KLM "Airline of the Year 2005". This award honours the merger between these two airlines which has propelled them to the position of Europe's leading airline group, while at the same time generating substantial profits. According to the magazine, this first merger of two strong national airlines marks the start of a rationalization of capacity within air transport.

Key financial results

Complete success for the first year of the merger between Air France and KLM

The Air France-KLM group posted a satisfactory performance during the 2004-05 fiscal year. Turnover increased by 7.3% to 19.08 billion euros. Operating income before aircraft disposals totaled 489 million euros (405 million at March 31, 2004), an increase of 20.7%.

All the activities contributed positively to this rise, with a particularly strong performance in the cargo business.

Operating expenses excluding fuel rose 3.6%, compared with a 7.3% increase in equivalent available seat kilometers (EASK), reflecting the effective management of costs. The fuel bill came to 2.65 billion euros, up from 1.99 billion euros in the previous year, representing an increase of 33.3%. The hedging policy adopted by the Group enabled it to save 372 million euros, representing 14% of the fuel bill.

In total, operating expenses were up 7%. Unit costs, measured in equivalent available seat kilometers (EASK), remained stable implying a 2.8% decrease at constant currency and fuel prices.

For the year to March 31, 2005, the operating margin (operating income before aircraft disposals over revenues) saw a slight improvement, rising by 0.3 points to 2.6%.

Passenger activity

Revenues from the passenger business totaled 15 billion euros (+6.8%), including more than 14 billion euros from scheduled passenger services, a rise of 7.1% which was in line with the increase in capacity (+6.9%). With traffic up 8.9%, the load factor gained 1.5 points to 78.7%.

Overall, passenger activity generated 312 million euros in operating income at March 31, 2005, up 13.9%.

Cargo activity

Total revenues from the cargo business amounted to 2.49 billion euros (+9.4%). Traffic was up 8.8% while capacity rose by 9.4%, implying a 0.4-point drop in the cargo load factor to 68.2%.

Cargo revenues increased by 10.4%, reflecting a strong improvement in unit revenue.

Cargo operating income came to 95 million euros at March 31, 2005, up 61.0% on the previous year.

Maintenance

The maintenance business posted 777 million euros in third-party revenues, representing an increase of 4.0%. Operating income totaled 48 million euros compared with 55 million euros at March 31, 2004.

Key financial results:

	2003/04 pro forma	2004/05	Change (%)
Turnover	17,782	19,078	+7.3%
Operating income excluding aircraft sales	405	489	+20.7%
Net income (group share)	292	351	+20.2%

Creating value for our stakeholders

The Air France-KLM Group's economic results benefit not only our shareholders but also other stakeholders such as our employees, suppliers, public authorities and local communities.

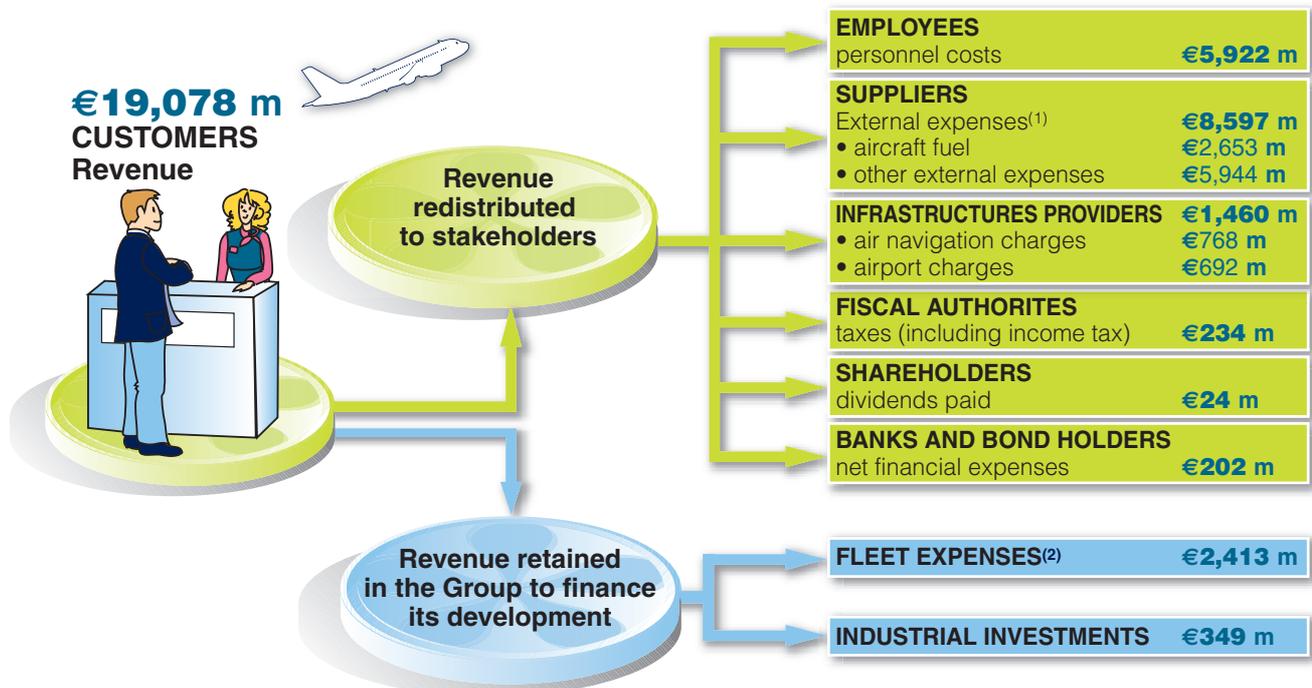
The chart below gives a schematic view of the Group's revenue distribution to different stakeholders. The Group also supports national and local organizations

involved in humanitarian aid and development projects through donations in value or in kind (e.g. air Miles donations – see pages 24-25).

In addition to the price of the ticket, customers pay a number of taxes which airlines collect on behalf of the State. These taxes range around €1.5 billion for Air France-KLM Group, which, in France, are notably used to finance the Civil Aviation Administration, airport security, safety (firefighters), bird flu, etc.

AIR FRANCE – KLM FINANCIAL FLOWS TO OUR STAKEHOLDERS IN 2004/05

As the public exchange offer closed on May 3, 2004, the consolidated data for fiscal year 2004-05 are presented in millions of euros on the basis of a 12 month consolidation of the Air France Group (Apr 04 - Mar 05) and on 11 month consolidation of the KLM Group (May 04 - March 05).



(1) Excluding aircraft operating leases, air traffic control charges and airport charges.

(2) The sum combines the balance paid on delivery of new aircraft and the cost of leasing for aircraft in the fleet during the fiscal year, as well as advance payments on future deliveries.

Aviation taxes – a significant contribution to national and local development

A very common opinion is that airlines do not pay enough taxes, especially as there is no tax on kerosene. However, the airline industry faces many types of taxes and charges on its operations to cover for instance security costs and to pay directly for its infrastructure. Moreover, air transport is the only transport mode that directly finances soundproofing measures for residents living near airports. According to a recent IATA study on the level of taxation of various modes of transport, in France the government makes a net profit of €67 for every 1,000 passenger-km travelled by air, while it pays €78 for the same 1,000 passenger-km travelled by train. In Germany, for the same traffic level, the state earns €11 when travel is provided by airlines but pays €51 if provided by train. Both KLM and Air France contribute to soundproofing programs through specific noise taxes or charges. In 2004/05, they paid €31 million for soundproofing in France and in The Netherlands. Moreover, Air France and its subsidiaries paid around €85 million in tax to french local authorities, including €74 million for local economic development ("taxe professionnelle").

The economic dimension

Customer satisfaction

Air France and KLM are currently defining common methods regarding the measurement of customer satisfaction.

Meeting passenger expectations

Satisfaction surveys

Both airlines regularly monitor passenger satisfaction through a range of questionnaires. To date, KLM and Air France are still using different formats of surveys to measure customer satisfaction. However, plans are afoot to use common tools, and the first full-scale testing will be on the Paris CDG - Amsterdam route.

At KLM, the results of inflight questionnaires are discussed at the highest management level and published monthly on the intranet. Every KLM passenger can take part in a virtual customer panel, and many avail themselves for this opportunity. KLM frequent-flyer questionnaires are regularly completed by 10,000 travelers. In 2004, KLM received a Customer Relationship Management (CRM) Award for best business plan and results, as well as the Elite Award for Marketing Automation from the American CRM Magazine.

Air France collects more than 30,000 inflight questionnaires each month to analyze the profile and satisfaction of its customers. All the relevant indicators are given to the top management and to departments in close contact with customers. Moreover, "mystery customers" from an external organization, carry out 1,200 measurements of quality performance each year, covering all Air France's sites and the entire customer relationship chain, focusing on criteria such as service and product compliance and the reliance and consistency of information related to flights.

Quality Certification

Air France-KLM aims at becoming a global benchmark for Quality of Service.

More than 60 Air France units are ISO 9001 certified. In 2004/05, ten new units won certification.

In January 2005, Air France was the first airline to obtain service certification from SGS-Qualicert for its 38 service commitments, defined in conjunction with consumer associations, and which go far beyond the AEA's 14 requirements. The Qualicert certificate covers 142 destinations certified progressively between 2002 and 2004. In-house, 40,000 agents from all Air France's businesses and functions have been involved in the project, contributing greatly to its success.

Punctuality

Punctuality performance is the result of everyone's efforts. The overall goal is to save time and make the connections essential for efficient hub organization. Both Air France and KLM show good average performance on punctuality (see AEA website: www.aea.be). Following the collapse of the boarding pier at Paris-CDG Terminal 2E in May 2004, the on-time performance of long-haul flights has been affected due to the saturation of the airport's infrastructure; however, the joint efforts of all teams involved have helped to steadily improve punctuality on short- and medium-haul flights. Moreover, a joint action plan has been launched on the Paris CDG - Amsterdam route.

Baggage performance

To limit the number of mishandled baggage incidents and manage them efficiently when they occur, the Air France-KLM Group has implemented a "world tracer" system which locates an item of baggage within 24 hours.

Considering baggage performance, Air France is one of the best among major European airlines.

In contrast to the previous year, baggage punctuality for KLM decreased and 2.1% of baggage did not arrive at the same time as the passenger. In nearly all cases, the baggage was delivered to the passenger's address within 24 hours. KLM and Schiphol Airport are taking targeted measures to improve baggage punctuality. In a related development, KLM is testing a system that uses a computer chip to improve baggage handling and tracing.



Enhancing e-services

E-services offer customers time-savings, financial benefits, additional convenience and a sense of control, while contributing to the Group's cost reduction programs. Among other services, Air France and KLM are developing solutions such as e-ticketing, e-check-in, e-booking and self-service terminals. On eligible destinations, 54% of KLM passengers and 47% of Air France passengers already use e-tickets.

KLM was the first European airline to introduce a complete e-business chain, from online booking and e-tickets to electronic check-in and passengers printing their own boarding passes.

Joint Customer Relationship Management programs

In 2005, Air France-KLM launched a common frequent-flyer programme named "Flying Blue". It is the first ever example of two major European airlines combining their loyalty programs.

To make sure that passenger claims are handled according to the same standards and procedures, Air France and KLM are developing a joint Customer Care Manual covering all aspects of claims handling. In addition, passengers who wish to complain can forward their claim to any of the SkyTeam partners, regardless of the SkyTeam carrier they traveled with.

The Group has also implemented preventive and curative measures to mitigate the impact of delays and cancellations. For instance, Air France's ROC (Customer Operational Recall) service contacts passengers whose flights are going to be delayed or cancelled to arrange alternative travel. Personal calls are given to premium customers in the event of incidents or delays.

Strengthening passenger rights

In July 2004, the Montreal Convention increased airline liability with respect to physical injury or material damage. Air France and KLM had already implemented most of these rules.

In mid-February 2005, the European Union's Passenger Rights Regulation entered into force. This compensation scheme regulates passenger rights in the event of denied boarding, cancellation, downgrading and delay. Air France and KLM co-ordinated the implementation of the new regulations and Air France-KLM passengers receive a brochure explaining the new regulations on compensation and assistance.

Customer Care departments are regularly informed about the implications of the new regulation to make sure that passengers who contact them receive full and correct information. Information on the EU regulation and passenger rights is also available on Air France and KLM websites.

Caring about passenger health & safety

Air France-KLM keeps its passengers informed of the risks of infectious diseases such as SARS and tropical diseases. Vaccinations are available at KLM Travel Clinics and at Air France's international vaccination centre.

In the past years, 40,000 customers have been vaccinated against tropical diseases at one of KLM's four Travel Clinics in the Netherlands and each year, 60,000 passengers are vaccinated by Air France. Air France and KLM also give online advice on preventing deep-vein thrombosis (DVT). On long-haul flights, video films are shown or information distributed via in-flight magazines showing appropriate gymnastic movements to stimulate the blood circulation. Each airplane has a paramedic's kit and a semi-automatic defibrillator and all Air France and KLM crew are qualified to give first aid and undergo regular training to cope with passenger health problems.

Making flights accessible to all passengers

Air France and KLM have set up services dedicated to the traveling arrangements of passengers with reduced mobility or particular inflight medical requirements. Named Saphir and KLMCares, they provide people with specific assistance during boarding, transfers and disembarking, transportation of wheelchairs, walkers and guide dog. It appears that the use of this service by passengers with reduced mobility increased by 10% a year in the last 3 years.

In 2005, KLM's agreement with the Dutch Council for the Disabled, signed in 2001, was renewed for a period of two years. Through such co-operation, KLM is more aware of the specific needs of passengers with disabilities and passengers are also more aware of the facilities offered by KLM.

@ A brochure on Saphir services is available on the Air France website. Additional information can be asked at Saphir@airfrance.fr or by phone (08 20 04 24 24). KLMCares provides a toll-free number (0800 556 22 737) and a dedicated e-mail address: KLMCARES@klm.nl.

The economic dimension

Increasing cargo customer satisfaction

Harmonization and coordination of the network has enabled the Air France-KLM Group to offer cargo customers more destinations and scheduled flights. The setting up of the new "Cargo European House" will create a single commercial offer for optimum customer benefits.

Air France and KLM Cargo pursue a quality policy with a twofold objective: to attain the best position in terms of reliability and safety, and to improve quality of service and performance. An annual customer satisfaction survey has been carried out since 1999, covering 800 customers on the principal markets.

Air France Cargo and KLM Cargo are both ISO 9001 certified and are members of Cargo 2000, an industry initiative to meet customer wishes for supply-chain transparency.

In mid-September 2004, KLM Cargo joined SkyTeam Cargo. Alliance products are regularly improved to increase customer satisfaction. For example, the "Variation-Fresh" specialization now offers three distinct levels of conditioning care for perishable goods. A new product "Variation Pharma" is to be launched soon (*for more information, see www.skyteamcargo.com*).

Meeting the specific needs of maintenance customers

Thanks to the complementary approaches of KLM Engineering & Maintenance and Air France Industries, maintenance customers can benefit from a comprehensive service driven by a quality-oriented approach aimed at optimizing processes and customer satisfaction. The modern industrial base, which features, for example, the new component shop EOLE near Orly and the new engine shop in Schiphol, offers customers enhanced benefits such as reduced costs and improved fleet utilization.

Since 1994, Air France Industries, certified ISO 9001, has embarked on a policy of management by quality, given priority to creativity and responsibility among its staff, through programs like the Quality Innovation Program (PIQ). With more than 48,000 suggestions received since it was launched in 1994, the PIQ gives any agent the chance to submit a viable solution to problems encountered so as to enhance quality and customer satisfaction, safe working conditions and environmental protection.

KLM Engineering & Maintenance has conducted satisfaction surveys since 1995, to be able to better serve its customers and improve processes where

necessary. In the last two months of 2004, 54 customers, accounting for 95% of KLM Engineering & Maintenance turnover, responded to the web-based customer satisfaction survey.

Air France Industries and KLM Engineering & Maintenance have both implemented the Six Sigma quality program, Air France Industries since 2000 and KLM Engineering & Maintenance since 2003. This method seeks to deliver the products and services most suited to customer expectations, develop hands-on management by rationalizing problem-solving processes, and continuously improve processes by generating a minimum of defects. Air France Industries has 250 completed and 50 ongoing projects. KLM Engineering & Maintenance has 30 completed and 103 ongoing projects. One of the results within KLM Engineering & Maintenance is that the turnaround time (TAT) for all Avionics & Accessories components has been reduced to a very competitive figure, resulting in a €3.8 million improvement. As for Air France, it has drastically reduced transportation time variability for components with a significant €5 million reduction in stocks.

Raising customer awareness

Air France and KLM are committed to sharing their vision on sustainability issues with their customers.

To gain some insight into the opinions and expectations of customers concerning sustainability, KLM contacted the Frequent Flyer panel. The results show that a small percentage of Frequent Flyers consider sustainability a relevant issue in their choice of an airline. The panel takes the view that airlines should contribute to limit the pace of climate change, reduce local air and noise pollution and the amount of packaging waste, and help to prevent the negative impacts of tourism. Approximately one third of the panel answered that in their view, KLM is actively implementing a sustainability policy.

KLM also provides its customers with an online tool that calculates greenhouse gas emissions, according to the route and the type of aircraft.

Every two months Air France provides information about sustainability and its deployment within the Company in its inflight magazine.

Since 1999, Air France has been contributing to the ECPAT network of associations (www.ecpat.net) to combat the sexual exploitation of children. A video designed to raise awareness among passengers is shown aboard Air France flights and in the buses connecting Paris with Orly and CDG airports.

Supply chain management

Raising suppliers awareness

Procurement and subcontracting policies involve important responsibilities in terms of social and environmental impacts. Suppliers and subcontractors are thus strategic partners in promoting Air France-KLM's sustainable development policy.

In accordance with its environmental policy, KLM takes environmental standards into account in its procurement policy. KLM's policy is to find out what environmental consequences a product or service will have before it is procured. In particular, the expected emissions, energy consumption and its conformity with applicable environmental and health and safety requirements must be known. A policy framework has been developed to translate environmental standards into practical guidelines. It also serves as a basis for measurement and audit activities, including both reactive and proactive testing of suppliers' environmental performances.

Through its product specifications, KLM tries to influence its suppliers' production processes and the materials that are used. A list of prohibited and restricted substances as well as a sample of a supplier environmental checklist is available from KLM's departments involved in the purchasing process. The evaluation of proposals takes into account environmental aspects in the decision-making process. For example, procurement procedures give preference to companies that have their own environmental management systems.

In addition to the Social and Ethical Code signed in 2001, Air France's Purchasing Department adopted a Procurement Charter for Sustainable Development in September 2004, mainly based on the 10 principles of the United Nations Global Compact. This Charter illustrates Air France's will to promote sustainable development principles to its suppliers. When entering a contract with Air France, suppliers are encouraged to comply with the Global Compact, and sign Air France's Sustainable Development Charter on a voluntary basis. Suppliers that do not will to sign the Charter are asked to fill out a questionnaire, allowing the identification of main risk areas and improving knowledge of suppliers' practices.

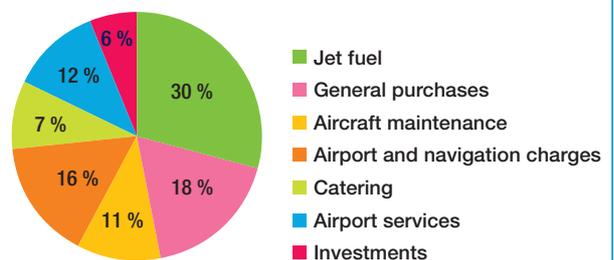
Air France has started sending this Procurement Charter for Sustainable Development to its main suppliers for a one-year trial period. The project team will then analyze suppliers' answers and define the relevant sustainability criteria to be added to suppliers' quality audits. This will further encourage suppliers to raise their environmental and social standards.

Auditing suppliers' environmental performance

In 2005 KLM performed an environmental audit on two external suppliers (a transport company and a waste processing operator) for the treatment of de-icing-effluents. The audit program concerned verification of legislation and data trail of the transported and processed waste. Both suppliers are ISO 14001 certified. The verification also included the verification of the waste processing. In almost all situations biologic cleaning agents are used. No deficiencies were noted during the audit based on contractual regulations and legislation.



Breakdown of external expenses of Air France - KLM in 2004/05^(*)



^{*} excluding joint operations, chartering costs, insurance, sales costs, aircraft operating leases, fleet investments...

The social dimension

Running an airline is a people business

Separate HR strategies under a common umbrella

Because of the differences between Dutch and French social legislation, and under the terms of the combination, each company will pursue its own separate human resources management policy while facilitating cooperation through a limited number of initiatives.

In the current difficult economic conditions for the airline industry, reducing costs and improving profitability are vital if the Group is to retain its strong position in this industry.

KLM focuses on maintaining its efforts for profitability because this is an important condition to ensure employability in the short and long term. Efforts in this direction break down into a few major areas, namely: increased productivity through employee and contract flexibility; mobility within the company and in and out of the Group; simplification of human resources procedures and services; strengthened preventive health measures and employee participation and open-minded diversity management.



At Air France, human resources are taking an active part in change management by facilitating the adaptation of resources in terms of manpower planning, professional and geographical mobility, and appropriate training initiatives. It is also making efforts to modernize social dialogue and HR processes while complying with its fundamental commitments, i.e. its contract-driven policy, social cohesion based on integration through employment and management of diversity.

Major initiatives are already under way, designed to share the Group project with employees and make sure the new organization brings them motivating opportunities to develop their employability within the Group.

Bridging cultures

In 2004, specific intercultural training seminars were set up to facilitate effective cooperation, communication and teamwork within the combination.

- "*Optimizing our teamwork*" the joint Air France-KLM seminars aim at optimizing the synergy working groups. Air France-KLM managers involved in these working groups are to attend these seminars over the next two years.

- "*Working together*" joint Air France-KLM seminars help other managers of both airlines to improve mutual understanding and cooperation.

- "*Premiers contacts avec KLM*" will help Air France employees to monitor their first work contacts with their counterparts at KLM.

- Over 4,000 Air France employees and 950 KLM employees already attend English and French courses. A Corporate Management Institute is also being set up to provide common customized information and training sessions for Air France-KLM managers.

Manager Exchange program

In 2004, Air France and KLM set up an exchange program for talented young managers. During a two-year program, they gain experience in one or two different positions in all core activities at both airlines.

Monitoring employee perceptions of the combination

Because the success of the combination will depend on the ability of staff at both airlines to work well together and have a general positive feeling about it, it was decided to launch an Internal Perception Monitor. A total of 2,090 Air France-KLM people answered the questionnaire during the last quarter of 2004. They perceive the combination as positive for both the airlines and their customers but express their need to enhance their skills to work together with different corporate cultures and languages. There also is a desire to know more about what the combination will mean for their own department and for them individually, as well as concerns about the common decision process being fair. Staff, however, appear highly motivated when it comes to making the combination work.

In addition to the Internal Perception Monitor, the Group asked the universities of Tillburg and Lyon to study how the two independent airlines join forces and implement synergies. Measuring staff perceptions over a three-year period will provide an external perspective on the combination.



Tailoring and empowering the workforce

The 2003/04 “structural measures” plan that KLM had to implement to restore its financial position was still being applied in 2004/05. It led to changes in working practices and the loss of 4,500 jobs over a period of three years. Some of the staff left of their own accord, some positions were not filled when vacant and fixed-term contracts were not renewed. For the limited number of staff made redundant, a plan was negotiated with the unions and KLM set up the “Work to Work Center” to help people find alternative employment. The Center mediated on behalf of 548 people in 2003 and 2004. More than two-thirds of them have been relocated and another 150 people are currently taking part in the process.

The combination was designed to launch a dynamic development strategy based on operational synergies and empowerment. At the same time, both airlines made a mutual commitment to profitability and cost control to ensure fair, balanced, profitable growth within the Group as a whole. In this framework, Air France and KLM will strive for change management projects and people adaptation to optimize operations.

In 2004, Air France proceeded with its workforce control and stabilization policy by giving priority to internal resources and professional mobility.

Regarding outstations, for example, around 40 destinations are served by both airlines. In some cases, one of the airlines discontinued services for the benefit of the other. The transfer of operations at Manila and Caracas has now been completed.

Training policies are essential tools to continuously improve work organization and the service delivered. The first priority for the aviation sector is safety. Technical and regulatory training (45% of the training programs in Air France) guarantee that employees maintain the expertise required to perform their jobs under the best safety conditions, for themselves and for our customers. As an example, Air France’s 2004/05 training programme amounted to €200 million and covered all career milestones.

Building through dialogue

At KLM and Air France there is a strong tradition of social dialogue. Communication has played a fundamental role during the combination process and the numerous agreements signed since 2003 or currently under negotiation reflect the airlines’ determination to foster unflinching social dialogue and cohesion.

In 2003 and 2004, KLM dealt with major negotiations on structural measures (see previous paragraph), production planning and career planning (cabin crews). The Dutch Government has also amended legislation such as Social Security Laws, Pension Laws and regulations encouraging diversity as from 2006. These changes will also affect the dialogue between KLM and its employees in the coming months.

In 2004, in addition to ongoing multi-year agreements, Air France finalized nine agreements with flight crews (notably the amendment to the Cabin Crew and the Pilot’s agreement), two with the ground staff and two that apply to all personnel, including the one relative to the right to trade union activity in 2004–2007.

In addition, based on that common dynamic, the Air France-KLM management wished to set up a Group-wide dialogue structure with the Works Council representative bodies. An ad-hoc “Holding Forum” took place in 2004 as a framework for exchanges until the special negotiating body completes the creation of the European Works Council in 2006. The members of the Forum are representatives of the current employee representation bodies at KLM and Air France. The Forum has already met twice to discuss general issues and the Strategic Plan. In addition to the European Works Council, Air France and KLM will retain their national social dialogue structures at each airline.

Promoting diversity and fair opportunities

Fostering professional equity and customized career development

It takes a lot of different skills and backgrounds to run an international airline – pilots and flight attendants, ground staff, maintenance, commercial and cargo specialists and corporate staff from various cultures. Such diversity of profiles and origins contributes to the Group's overall effectiveness and creativity.

Equal opportunity is a major commitment at Air France-KLM. As an example, Air France issued its Ethics and Social Charter back in 2001.

Social dialogue and labour agreements, together with staff information and empowerment, are the means to harmoniously and respectfully manage diversity from recruitment to the shaping of individual career paths.

As at 31 March 2005, the percentage of women in the combined Group's total workforce had risen to 44%, a 1% increase over the previous year.

Air France further worked on the recruitment process to ensure equitable female representation during

information sessions for potential candidates (balanced composition of selection juries, fair definition of selection criteria, etc.).

Both airlines have also implemented specific measures to help employees reconcile their work-life balance and their career development (parental leave, part-time working).

Moreover, 150 Air France employees have benefited from skills assessments.

In this area, Air France pays particular attention to "second" career management for seniors. In 2004/05, the company broadened the training tools and career assessment interviews in the framework of its Agreement to Progress Together (*Accord Pour Progresser Ensemble*).

In 2004, Air France also enforced its Charter for the Prevention of Workplace Harassment and ran a large-scale communications campaign on it.

Open employment to all

In the Netherlands, the Employment of Minorities (Promotion) Act defined firms' obligations regarding equal opportunity policies. The law no longer exists but its policy objectives are still applicable. French law, however, forbids any reference to the candidate's origins or culture in the recruitment process. Both KLM and Air France implement and respect their national law and both stand for professional integration of all.

Air France launched a major initiative for the employment of disabled people in 1991 and is one of the few French companies to reach the legal target of 6% disabled employees in the workforce. Air France even exceeds the French legal obligation with a rate of 6.2% in 2004. However, the recent amendment of the law modifies the counting methods to include flight crews, and abolishes differences between types of disability. Air France will further develop its efforts in this area. The fifth 3-year agreement covering the years 2003-2005 steps up Company initiatives and for the first time opens up the recruitment process to the disabled spouses and children of employees.

Air France-KLM also promotes social integration through professional training and employment (see p. 23).

@ For more information, visit KLM's website (www.klm.com) and see Air France's 2005 "Diversité et cohésion sociale" brochure (available on www.airfrance.com or on www.equallite.com).



Continuously improve health and safety

Ensure safe working conditions

Attention to employee health and safety in the workplace is a prime concern for both airlines.

A few years ago, KLM's top management issued its Health and Safety (H&S) policy statement that sets out the company's structured approach to ensuring a safe working environment. Similarly, Air France issued a "Health & Safety in the Workplace" handbook in line with Quality Assurance methodology, and implemented a H&S policy.

Both processes aim to continuously improve employee safety in all activities, reduce costs caused by deteriorated H&S conditions, raise awareness of labor policies and develop improvement initiatives within the Group.

All occupational incidents are registered and reported within both airlines. At KLM, for example, all serious occupational incidents have been reported to the Safety and Quality Board since mid-2004. This top management board evaluates serious incidents four times a year and launches any required action plans. The recording of all incidents makes it easier to share experience and ensures that the actions taken are more relevant.

In 2004/05, there were no fatal injuries involving KLM employees or contractors and the average absenteeism due to incidents fell during the year. At Air France, a stewardess died in February 2005 after she accidentally fell from the jetway of an aircraft. Several enquiries are under way. In addition to reminding all staff of the compulsory security procedures, Air France has set up a working group to step up safety conditions.



In compliance with European guidelines, both Air France and KLM keep detailed records of natural cosmic radiation and inform crews in France and the Netherlands about their individual exposure. As an example, all KLM 2004 records – approximately 9,500 – were below two-thirds of the European maximum allowed annual dose.

Further Health and Safety improvements can be achieved through the continuation of all types of actions such as experience sharing, information, training, employee empowerment, and work process optimization. Below are some examples of the efforts made in these areas.

- Since 2003, an ergonomist has been helping to step up preventive health initiatives among Air France employees to combat lumbar disorders. These include the PRADOS programme developed by Air France Cargo, and the "Back Academy" for ground staff suffering from lumbago and chronic back pain. Over 800 people have benefited from these programmes so far. In parallel, in July 2004 KLM launched a pilot scheme to test a new treatment method preventing chronic disability caused by low back problems. The pilot scheme showed that "graded activity", which includes graded quotas for exercises for tasks that were painful (for example lifting suitcases) and advice about the work environment (ergonomics), is successfully applicable in daily practice.
- Specific training is provided to bolster the Health & Safety mindset. In 2004/05, Air France provided around 132,000 hours of H&S training to 21,350 staff. 963 employees have attended specialized training courses designed to prevent road accidents since 2002.

Serious health problems may sometimes prevent employees from returning to their usual position. Air France-KLM takes great care to deal with such situations and keep the people in the workforce. The success of the structured approach to long-term absenteeism was confirmed at KLM in 2004/05. A suitable reintegration proposal is made after six weeks' absence. The number of applications for invalidity benefits fell from 243 in 2003 to 141 in 2004. The Human Resources department and social and medical teams follow up each case to offer individualized opportunities.

@ For more information (facts and figures) regarding occupational safety, please refer to our Reference Document, available at www.airfranceklm-finance.com

The social dimension

Contributing to communities

Promoting dialogue with local communities

Air France-KLM's airlines are major economic players in their fields. They naturally take part in the consultative structures made up of local stakeholders and residents, so as to share their views on strategic development issues and ensure mutual understanding in addressing the impact of air transport. The main concerns are urban management, perceived noise abatement and regional economic development opportunities offered by the air transport industry.

KLM plays an active, structural role in the Schiphol Regional Review Board (CROS). CROS is a consultative body for provincial and municipal authorities, representatives of local residents and of the aviation industry, including KLM. Its main task is to stimulate dialogue to optimize airport utilization according to the interests of the different players. In 2004-05, CROS met 6 times in plenary sessions and took decisions regarding departure routes and extensions to the noise monitoring system. The five project and working groups discussed issues such as the analysis of the complaints database or improvements to information about runways.

@ For more information about CROS activities, visit www.crosinfo.nl

Air France and its subsidiaries take an active part in the Consultative Committees on the Environment of the ten main French airports where they operate. The Department Prefect chairs these Committees. They bring local authorities, local residents, environmental protection associations and airline professionals together to work on local air transport activity side-effects and pollution. They draft tailor-made environmental quality charters and follow up their implementation.

In 2004/05, these Committees dealt with the enforcement of new French noise exposure planning. This has resulted in new housing controls in the extended of noise protection zones due to a reduction in the indices used. New rules for soundproofing programs for residents are now managed by airport authorities using noise tax revenue from airlines.

Air France-KLM cooperates in the provision of information when local residents complain about noise. At Schiphol, CROS investigates the causes of noise pollution after registering more than 10 complaints about a flight. If the complaints have no obvious cause (a different routing order from the air traffic controller, for example) the airline investigates the incident internally. During the year, CROS did not have to ask KLM for any information on their flights.

Assuming responsibility for local development

Improving employment and economic development in the surrounding communities

Being major players in their industry, both airlines underpin local economic activities around airport complexes by using and challenging local providers and by fostering local employment.

Air France and KLM are the leading employers in the areas around Paris-Charles de Gaulle, Paris-Orly and Amsterdam-Schiphol.

KLM directly employs more than 30,000 people at its home base of Amsterdam-Schiphol. These figures should be compared to the Netherlands' total labor force of 8.4 million to gain some idea of the company footprint.

According to a recent survey carried out by Schiphol airport, Schiphol-related employment rose to 57,573 people in October 2004, a 0.8% increase since October 2003, compared with an overall 1.1% decrease in the Netherlands.

As regards its local environment, Air France set itself the objective of improving access to employment for residents in the immediate vicinity of Paris-Charles de Gaulle and Orly airports. Some 82% of the 1,176 people hired in France in 2004-05 work in that region, 33% of the candidates admitted to job selection processes were local residents.

The Company perpetuates its action by setting up dedicated land management partner structures or playing an active role in existing ones. Among these, the *Pays de Roissy - CDG* association (www.paysderoissy-cdg.asso.fr) was created in 2003. It now comprises around 200 local councillors, firms and residents. Its objective is to develop and promote fruitful land management via improvements in five areas, namely economic development, transport, housing, training and culture. This year, the association notably built a partnership between players from the financial and construction communities and other sponsors to create an offer of quality housing near Roissy-CDG.

@ To learn more about other territorial structures – GIP Emploi Roissy CDG, Sodesi, Papa Charlie- and partnerships with state organizations – ANPE, local communities, see the *Air France 2005 "Diversité et cohésion sociale" brochure* available on www.airfrance.com/corporate

Making training and information a force

Air France and KLM both have a strong focus on sharing the knowledge and competencies of their employees with young professionals through internship

opportunities (KLM offered over 300 such opportunities in 2004) and guidance programs, amounting to over 18,000 man-hours of training at Air France since 1996, for example.

Air France has made a special commitment by making integration through professional empowerment the cornerstone of its local development initiatives. In association with partner businesses or groups, the Company has set up structures to facilitate information, apprenticeship and integration into working life for young people from the neighbouring communities via several non-profit bodies.

- The “AirEmploi” information centre (www.airemploi.asso.fr) provides schoolchildren, students and jobseekers with information about career opportunities in the airline industry. In 2004, it conducted 1,300 individual interviews, while 10,000 students have attended the “Land and Sky” conferences since 2001.
- The JEREMY association (Jeremy.assoc@wanadoo.fr) is dedicated to the professional integration of young residents. Since 1998 it has helped approximately 1,500 people to prepare for their professional life and trained them for airport jobs.
- The “CFA des métiers de l’aérien” (air transport industry apprentice training centre -

www.cfadelaerien.fr - created by the AFMAé association) enables young people to obtain a national diploma related to air transport. As a partner, Air France has provided training for approximately 400 young apprentices per year since 1996. Over 80% are hired at the end of the training period.

Air France also provides technical and financial backing for the development of the Air Transport Professions African Institute (IAMA) in Bamako, Mali, set up to train air transport professionals to international operational standard procedures.

Case study

In 2004, KLM Ground Services joined an initiative of the city of Amsterdam to provide Dutch language courses for “oudkomers” (Dutch citizens of 18 years and older who were born abroad and moved to the Netherlands before 1998, i.e. “settled immigrants”). Within Ground Services, a majority of oudkomers work in physical operational jobs. Improving general oral fluency will help to improve communication and safety in the workplace and enrich career opportunities. Such training has already been shown to increase employee satisfaction and self-confidence.



A lasting commitment to solidarity

As a global airline group serving over 200 destinations, Air France-KLM regards itself as a citizen of the world. Sharing the same desire to assist the disadvantaged, KLM and Air France have been involved in humanitarian aid for several years through corporate contributions, surplus donations and passenger awareness raising campaigns.

Supporting actions in favour of the disadvantaged

Both Air France and KLM have developed humanitarian aid programs that focus on children in difficulty all over the world. These are carried out by KLM's AirCares voluntary body and the Air France Corporate Foundation, set up in 1992.

As part of its AirCares programme, KLM signed an agreement with *Close the Gap*, a humanitarian organization that collects computers when they are replaced and gives them to young people in the framework of educational programmes in developing countries. In March 2004, approximately 4,000 former KLM personal computers were given to *Close the Gap* and the company forecasts that it will be donating another 6,000 in 2005. KLM also bears part of the transport cost to developing countries.

In 1992, Air France created the Air France Corporate Foundation, which aims to help and educate children who are victims of disease, disability and poverty wherever the Group is well established. In thirteen years, the Foundation has come to the assistance of over 125,000 children through 140 programs. 34 new projects were approved in 2004, focusing on sick and disabled children (12 projects), street children (7 projects) and children and teenagers in difficulty. Among others, these projects include the construction of a school for child war victims in Luanda (Angola), financial support for a workshop for a street girls centre catering to over 360 young girls (Peru), and the renovation of a health centre and school for handicapped children (Romania).

In France, Air France Corporate Foundation donations have helped - among others - to equip classrooms for autistic children, to finance educational programs for destitute youngsters. About 40% of the Foundation's budget is dedicated to local solidarity projects in France. Employees working together in selection committees choose the projects to be financed by the Air France Foundation in their area.

In 2004, the Foundation created the *Friends of the Foundation network*. Around 1,500 employees have already joined the network, illustrating the strong spirit of solidarity within the Group.

Air France-KLM also supports employee initiatives with Aviation Without Borders (ASF), an independent association that provides air transport logistics for medicines and sick children. More than 1 000 children needing urgent medical treatment were transported in 2004/05 through this association.

After the tsunami disaster, KLM and Air France cooperated with NGOs, and especially with ASF, to airlift humanitarian freight to the disaster-stricken areas. Both airlines also took several other initiatives such as:

- immediate assistance to victims to organize their flight back and support them during their journey,
- carrying humanitarian freight from Europe at very low rates or even free of charge (for example, KLM carried 20 tons of freight free of charge to Medan in North Sumatra),
- free excess baggage for members of charitable associations,
- handling of employee cash donations,
- matching frequent flyer Miles donations.

Since the disaster, the Air France Corporate Foundation has collected €185,000 directly from Air France employees. This amount has been topped up by €350,000 from the Foundation. The total will help finance reconstruction projects in favour of children and young people in countries affected by the tsunami disaster.

Air France-KLM encourages its passengers to participate in its charitable projects through financial donations or donations of frequent flyer Miles. Both airlines allow frequent flyers to donate their miles to charitable organizations.

Miles offered by passengers are then converted to free airline tickets for relief workers.

Until 31 May 2005, donations to the French Red Cross for the victims of the tsunami will be matched by Air France and used by the rescue teams in place.

Other examples of support initiatives are KLM's *Wings of support*, an independent association of pilots and ground staff which sets up projects in favour of disadvantaged children, and Air France's involvement in *Groupe Développement*, an NGO that conducts urban development programs and sets up micro-credit projects on several continents. Among other actions, this association has implemented a program called *ECPAT (End Child Prostitution and Trafficking)* to raise passenger awareness of sex tourism issues involving children. Air France shows videos on its long-haul flights and its coaches to raise passenger awareness of this issue and of current legislation in both the country where the offence was committed and the country of origin.



Aid for children suffering from rare diseases

Air France also provides logistic aid to medical association. For example, since 1999, Air France has worked with INSERM, the French National Institute of Medical Research, on humanitarian initiatives in favour of children suffering from rare diseases. Air France provides free travel to specialized centres for consultation or treatment, which are often far from people's homes. INSERM provides its expertise in rare diseases to analyse the medical data provided by sufferers. Since May 1999, 237 requests have been accepted (80% of applications), mostly concerning people under 20 years old, which corresponds to the intentions of both partners.

Building for children

Many children are still suffering from the consequences of the devastating tsunami that struck South Asia on 26 December 2004. Employees involved in *AirCares*, *Wings of Support* and *Pilots Without Borders* are accordingly deploying their expertise and resources to build an orphanage for disabled children in Medan, North Sumatra. Flight crew personnel belonging to the *Wings of Support* non-profit body will regularly visit the centre and give advice on the construction. Staff of *Pilots Without Borders* will use their logistics expertise to deliver essential medical supplies and fittings to the centre. KLM *AirCares* has mobilized all its powerful communication resources to raise additional funds. The centre, which will be finished in 2006, will provide care, medical attention and a loving environment for over 100 disabled children. Total construction costs are estimated at €70,000, exclusive of fittings and medical supplies.

@ More information on *AirCares*, *Air France the Air France Corporate Foundation* and *Wings of Support* can be found at www.aircares.nl; www.airfrance.com/corporate; www.wingsofsupport.org; <http://fondation.airfrance.com>.

The environmental dimension

Key environmental challenges

Air transport environmental issues have long been high on Air France's and KLM's agendas. The Group is committed to continuously improving its

environmental performance in order to reconcile the growing demand for air transport with the need to protect our planet's future.

Main issues	Air France – KLM priorities	See further development on
Climate change	<p>Defining the most effective solutions to limit the impact on climate change.</p> <p>Air France and KLM are convinced that airlines have a major role to play to reduce their impact on climate change. Continuous measures have been taken over many years to increase fuel efficiency by investing in new aircraft, developing efficient flight networks, optimizing flight operations and improving maintenance procedures. In addition, the Group takes an active part in the study of policy options to further mitigate the air transport industry's contribution to the greenhouse effect.</p>	<i>p. 28-29</i>
Noise	<p>Meeting the growing demand for air transport while remaining within airport noise standards.</p> <p>The Air France-KLM Group supports ICAO's vision of the need for a balanced approach to noise reduction. Priority measures include reducing noise at source, notably through fleet renewal, ensuring the use of the best operational procedures, and contributing to soundproofing programs. The success of these measures depends on the fourth component of the balanced approach, i.e. appropriate land management around airports by the authorities.</p> <p>The Group promotes dialogue with neighbouring municipalities and local residents, providing accurate information on noise levels aimed at increasing mutual understanding.</p>	<i>p. 30-31</i>
Local air quality	<p>Limiting NO_x, CO and HC low altitude emissions.</p> <p>Aircraft landing and take-off cycles as well as ground operations generate NO_x, CO and HC emissions around airports. Although air traffic contribution to local air pollution is small compared to road traffic and other sources, the Air France-KLM Group is committed to reducing local emissions whenever reasonably achievable through fleet renewal, investment in cleaner ground services equipment and vehicles, and improving operating procedures.</p>	<i>p. 32-33</i>
Other impacts of ground activities	<p>Optimizing waste management and reducing water and energy consumption.</p> <p>The main impacts of ground activities involve energy and water consumption, waste and waste-water production, de-icing fluids, and VOC emissions mainly from paints or solvents.</p> <p>Air France and KLM sites implement a continuous improvement approach to integrating environmental care in site management practices. The environmental impacts of suppliers are addressed through proper supply chain management.</p>	<i>p. 34-35</i>



Our main levers: fleet renewal and environmental management

Operating state-of-the-art aircraft

The use of new technologies is the biggest step airlines can make to reduce noise and emissions. Air transport has already realized major environmental achievements over the past 40 years by reducing aircraft specific CO₂ production per passenger or tonne-kilometer and cutting aircraft noise energy considerably.

The pace of change, however, depends on the availability of improved technological solutions at reasonable cost.

Air France and KLM continuously invest in new aircraft. The average age of the Air France-KLM fleet (excluding subsidiaries) is 8.8 years, which is relatively young in comparison with the world average of 11.7 years¹.

For more details, please see the fleet composition table on the cover page.

Environmental management a cornerstone of sustainability policy

Besides fleet renewal, airlines address key environmental challenges by integrating environmental care in their daily flight operations, network optimization and ground operations.

In February 2005, Air France and KLM decided to define a common sustainability policy. Powerful, long-term environmental management processes underpin this commitment. The Air France-KLM goal is to grow while limiting or, where possible, reducing environmental impacts. The following pages give several examples of recent achievements. In some cases, however, the technology that would allow Air-France-KLM to reach all targets does not yet exist, and trade-offs must be found between related environmental aspects, between NO_x and CO₂ emissions and noise efficiency for example (see local air quality, p. 33).

Both airlines have included environmental criteria in their purchasing policy (see p. 17).

The Air France-KLM Group's ambition is to rank among the world's top airlines for the quality of its environmental management. This is reflected in the KLM Environmental Policy Declaration approved by the Board of Directors in 1999.

Environmental responsibilities have been defined at each level of the organization so as to ensure individual empowerment and overall coordination. This translates into a yearly environmental program covering objectives and resources. Achievements and difficulties are reported in the dedicated section of KLM's website.

KLM's environmental management system received both ISO 14001 certification in 1999 and EMAS certification in 2000. Both certifications have been renewed since then.

In 2003 Air France also defined an Environmental Policy and set up a decentralized environmental organization to maintain the decision at the appropriate level, to involve all staff and subcontractors. The structure oversees implementation of the Environmental Action Plan by all departments in compliance with the Group's environmental policy. The Plan extends the scope of action launched much earlier in the framework of Air France's Quality Security and Environment process.

In a related development, Air France Industries is actively targeting ISO 14001 certification for 70% of its sites by 2006.

Extending environmental management to outstations

In 1999 KLM embarked on environmental management at outstations by inventorying environmental aspects and legal criteria there. In 2000 and 2001 more than 80% of the outstations provided feedback and the first edition of KLM's Good Environmental Practices (GEP) was introduced in Vienna. From 2003 on, GEP will be implemented at all KLM outstations, with a strong focus on compliance with local legislation and on the prevention of environmental risks.

Air France has also begun implementing similar measure to improve environmental management at its French outstations. In 2004-05, a set of environmental principles was officially integrated into the commitments of outstation managers. In early 2005, outstations organized Quality, Security and Environment forums. This initiative resulted in 690 hours of sensitization to environmental issues and is likely to be further developed in the coming years.

¹ Source : IATA 2004

The environmental dimension

Limiting our impact on Climate Change

A real but moderate impact on global emissions

Aircraft engines emit gases such as CO₂, water vapour, NO_x, and particles that have an impact on the composition of the atmosphere. A United Nations IPCC report¹ calculated that the aviation industry's contribution to the greenhouse effect, taking all effects and components into account, could rise from 3.5% in 1992 to 5% in 2050. Although this contribution is relatively small compared with other transport sectors, Air France-KLM committed themselves to a proactive climate change policy.

The scientific community has a fair understanding of the extent to which CO₂ emissions contribute to the greenhouse effect. The aviation industry was responsible for about 2% of worldwide man-made CO₂ emissions in 1992 according to the IPCC. However, for other relevant emissions (NO_x, water vapour and soot), the scientific understanding is still uncertain.

For several years, Air France has supported research programs that analyze the mechanisms in the upper atmosphere inclusive of the impacts of high-altitude aircraft emissions. As part of the MOZAIC program and since 1994, one of its A340 aircraft is carrying 130kg of instruments used to monitor concentrations of ozone, water vapour, CO and NO_x in the upper atmosphere.

In 2004/05, among other results, MOZAIC detected evidence of large-scale air pollution above the Siberia/China/Japan region at an altitude between 9 and 12 km, with high concentrations of CO.

Our actions: continuous measures to improve fuel efficiency

Airline CO₂ emissions result mainly from aircraft fuel consumption. The extent and efficiency of air transport are decisive factors for fuel consumption. Since fuel is one of their major items of expenditure, airlines continually strive to reduce aircraft fuel consumption.

Fleet renewal is an essential means of improving aircraft energy efficiency. The optimization of the hubs and now-combined networks has also helped to boost the seat-load factor by 8.6 points since 1993, especially on long-haul flights. Maintenance, flight procedures, pilot training and the development of flight simulators help to decrease direct fuel consumption further. The Group has also introduced measures to reduce the mass of on board equipments, thus reducing the power required. As a result of all these measures, while Air France-KLM passenger traffic has grown by 53% in PKT (passenger-kilometer transported) and cargo traffic by 17% in TKT (tonne-kilometer transported) since 1996/97, the aircraft fuel consumption has only increased by 31%. Therefore, Air France-KLM's energy efficiency improved by approximately 10%.

Air France-KLM energy efficiency

The energy efficiency at Air France-KLM is given in liters of fuel burn per 100 kilograms (mass of the passengers with their baggage and catering supplies) per 100 kilometers (great circle distance). Based on the actual load factors and distances averaged over the year 2004-2005, this energy efficiency for Air France-KLM is 3.2 liters/100kg/100km.

This is an average value as the actual mass of an individual passenger varies. Furthermore, the cabin lay-out of airplanes differs. The cabin arrangement of business class differs from that of a charter airplane and additional mass for comfort should be accounted for.

Moreover, like other modes of transport, airplanes don't travel on great circle paths i.e. as the crow flies (see illustration below). Mainly because of Air Traffic Management constraints, the actual distance traveled is on an average basis 15% (medium haul flight) or 4% (long haul flight) longer than the great circle distance.

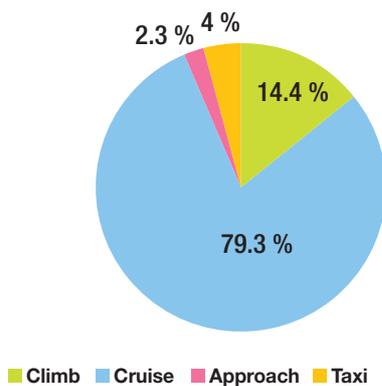
Therefore the energy efficiency expressed in liters per 100 kilograms (mass of the passengers with their baggage plus the mass of cabin equipment and fittings required to provide the service) per 100 kilometers (actual distance traveled) is for Air France 2.1 liters/100kg/100km.



On this route above, an airplane would fly 680 km on the green direct path. Actually, the distance flown (orange path) is 910 km.

¹ IPCC (Intergovernmental Panel on Climate Change), Aviation and the Global Atmosphere, 1999

Air France-KLM CO₂ emissions per flight segment



Looking at future options

Air France and KLM are limiting greenhouse gas emissions thanks to fleet renewal, rationalized networks and efficient maintenance and flight operations. However, the remaining potential gain in efficiency is limited. Moreover, demand for air transport capacity in the coming years is likely to continue to grow.

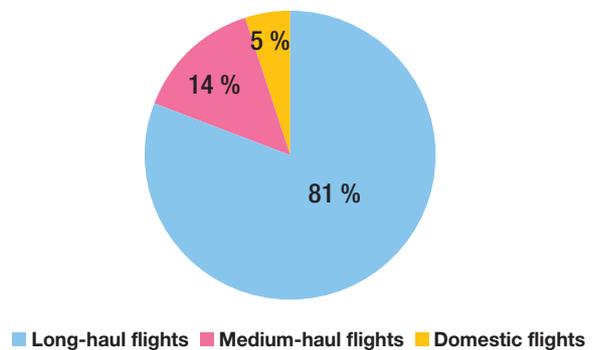
For its part, the Air France-KLM Group actively contributes to the international debate on climate change in order to identify the most environmentally efficient and cost-effective solutions.

ICAO considers an **Emission Trading Scheme (ETS)** for aircraft emissions as the most efficient solution in environmental and economic terms. An ETS on CO₂ emitted by fixed sources started on 1 January 2005 within the European Union, and mobile sources like aircraft could be included in the coming years. Although Air France-KLM favours an international solution, a European ETS can be a transitional instrument if its design is fair. However, a lot of technical and competitive issues need to be resolved, including target setting, distribution of emission rights and geographical coverage. An important condition for Air France-KLM is that airlines with lower emissions due to investments in fuel efficiency should not be penalized by receiving fewer emissions rights. Other conditions for the Group on a European ETS concern the competitive position compared with non-European airlines. Initial quota allowances should be free and allocation ought to take the lack of alternative aircraft energy sources and the expected growth of each sector into account. Lastly, the permit market should be

as large as possible in order to avoid a shortage of permits, while other transport modes should also be required to implement climate change policies.

Other options which are opposed by airlines include taxing or charging jet-fuel consumption. According to ICAO studies, taxes or charges would hardly bring any environmental benefit whereas they would result in negative social and economic impacts. Such measures would even limit the airlines ability to invest in fleet renewal.

Air France-KLM CO₂ emissions per type of flights



Nor does transfer from air to rail seem to be a relevant solution to the climate change issue. 81% of Air France-KLM's CO₂ emissions are generated on intercontinental flights which cannot be replaced by rail or road. This is also true for certain medium or short-haul flights such as those necessary for regional economic development and which cannot be replaced by rail due to low demand. Consequently, only a small proportion of CO₂ emissions could be reduced if people shifted to other transport modes.

A reform of air traffic management would help to shorten routes and terminal paths, thus reducing flight times and emissions. The potential for lower CO₂ emissions due to the improved design of flight paths is estimated at 6.2 % in Europe².

² Eurocontrol - Performance Review Report - An assessment of Air Traffic Management in Europe during the Calendar Year 2004.

The environmental dimension

Limiting noise emission

The need for a balanced approach

Inconvenience caused by aircraft noise continues to be perceived as the most important environmental issue around airports.

The main environmental noise impacts at airports include aircraft landings, take-offs, and, in some cases, engine testing.

The Air France-KLM Group has reduced global noise energy by 18.4% over the past four years, while the number of flights of the Group worldwide has increased by 17.6%.

However, the very significant investment of Air France-KLM in a quieter fleet may be cancelled out by urban development around airports. Although the actual noise level decreases, the number of complaints about noise tends to increase because local residents are more numerous and have lower noise tolerance levels.

Efficient action to limit the number of people exposed to aircraft noise at reasonable cost and to improve public acceptance therefore requires using all the combined tools

at hand. Air France-KLM subscribes to the Balanced Approach concept endorsed by ICAO in 2001 to address the local noise problem, using the four elements: planned noise reduction at source, land-use planning and management, noise abatement procedures and aircraft operating restrictions. In addition, both airlines contribute to sound-proofing programs in the vicinity of airports.

Fleet renewal strategy serving noise reduction at source

Modern aircraft are 20dB quieter on arrival and departure than aircraft 40 years ago. However, noise is still one of the major drivers for aircraft design. Reduction of noise at source through technological progress and fleet renewal is the most powerful lever for achieving even quieter aircraft operation.

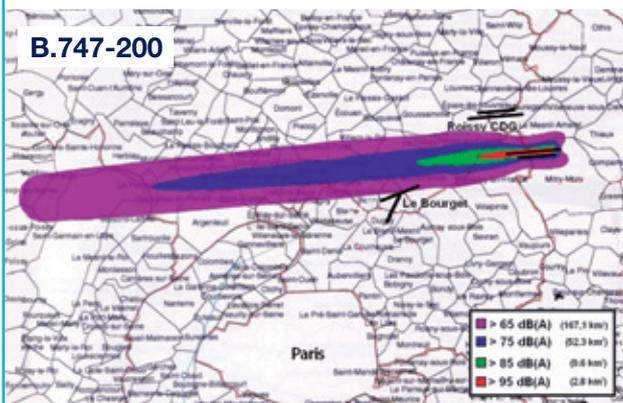
Every jet aircraft built and run today must meet the noise certification standards defined by ICAO Annex 16. A new more stringent Chapter 4 standard adopted in 2001 is applicable to future aircraft for which a type certificate will be requested as from 1 January 2006.

In 2004-05, Air France and KLM continued to optimize and renew their fleets, which limits the noise impact of their expanding activities. All their aircraft meet the current Chapter 3 requirements and 86% could be certified according to those of Chapter 4.

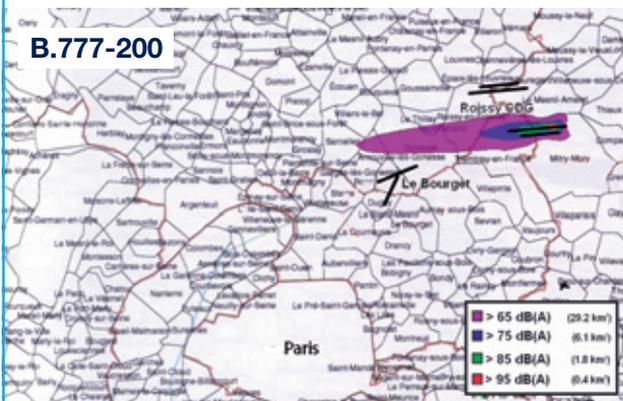
In 2004/05, KLM brought ten new Boeing 777-200s into service and Air France retired thirteen of its B737-300s, B737-500s and B747-200s from service, replacing them with quieter aircraft such as the B777-300 or the A318.

Noise footprint comparison

B.747-200



B.777-200



LAmax index (differences due to aircraft improved performance and greater climb rate during the climb phase)

KLM cityhopper and Regional rewarded by Amsterdam Schiphol airport

In 2004, Amsterdam Schiphol Airport awarded KLM Cityhopper (KLC) the prize for the airline with the quietest aircraft on European routes. KLC has a fleet of Fokker 50s and Fokker 70s that all comply with current ICAO Chapter 4 requirements.

Amsterdam Schiphol airport also rewarded Regional, the Air France subsidiary in March 2005 for the best Noise Abatement performances.

Promoting operational noise abatement procedures

In addition to investment in new aircraft, noise pollution can be reduced by changes in flight procedures including preferential runways, displaced thresholds, noise preferential routes, noise abatement take-off and approach procedures, and minimum reverse thrust on landing.

For take-off, the ICAO Noise Abatement Departure Procedure Variant 1 is Air France-KLM standards. Under this, pilots apply flexible thrust to reach a significant altitude (3,000ft) as quickly as possible so as to minimize the noise impact on the ground. During the approach, the noise abatement procedure consists in keeping the aircraft as quiet as possible by delaying the lowering of flaps and landing gear and capturing the glide slope beam at the highest altitude possible (4,000ft when authorized by ATC). All Air France-KLM pilots are trained to apply these procedures.

The Continuous Descent Approach and the Delayed and Reduced Flap Approach now stand as regular instructions in the KLM pilots' manuals. More than 70% of KLM flights use reduced or delayed flap approaches where possible.

Managing adequate operating restrictions

Airport capacity is already being constrained by noise at many of the large airports in Europe. Partial operating restrictions such as night time limitation measures may sometimes be added to the gradual phase-out process imposed by local regulations.

Currently, Paris CDG is the first and only European airport to enforce European Directive 2002/30/EC, which recommends a reduction in the number of movements of "marginally compliant Chapter 3 aircraft" (i.e. those that meet Chapter 3 standards by 5dB or less) at an annual rate of 20%. KLM has no marginally compliant Chapter 3 aircraft in operation. Air France complies with the obligation thanks to fleet renewal planning and appropriate operating management. In addition, since the end of March 2004, Air France has voluntarily removed from its schedule all flights to and from Paris CDG between midnight and 5 am, with the one exception of the incoming flight from Nouméa via Tokyo.

In 2004, 14% of the 731 infringement reports established at Paris-CDG airport by the national committee for the prevention of noise pollution (CNPN) concerned Air France flights, whereas the Company generates more than 50% of airport traffic (526,000 movements).

Land use planning and management

Where airlines have in the past managed to reduce their noise impact, this has often led to an increase in urban density closer to airports rather than to a reduction in the overall noise exposure of residents. The success of present and future efforts therefore relies on how far the authorities and local agents can restrain urban development around airport complexes.

This calls for suitable local dialogue structures and

information tools. Air France and KLM actively participate in dedicated local committees, e.g. the Consultative Environmental Committees in France and the Schiphol Regional Review Board (CROS) in the Netherlands (see p. 22). At the same time, airports have to communicate clearly about noise levels and the measures to reduce noise pollution.

Soundproofing programmes

In addition to other measures, both KLM and Air France contribute to soundproofing programs in the vicinity of airports through specific taxes.

At Schiphol, airlines finance the "Schiphol Noise Insulation Project" through a noise levy. KLM is a major contributor given the high proportion of its flights in the total. In the first phase of the noise insulation project, 4,320 houses around Schiphol were soundproofed. The second phase, to be finalized in 2005, covers the soundproofing of another 7,000 houses. The third soundproofing phase is due to start shortly thereafter. The total cost from the beginning of the program years ago to date amounts to 523 million euros, which makes it the most expensive soundproofing project in Europe.

In France, soundproofing for local residents is 100% financed by airlines through a "noise levy". This tax amounted to 30 million euros in 2004. Its steady increase over recent years should help extend protected zones and increase the number of local residents benefiting from it.



The environmental dimension

Controlling our impact on local air quality

The LTO cycle: the model for local NO_x, CO and HC emissions

In the immediate vicinity of airports, air transport has an impact on local air quality by generating emissions of nitrogen oxides (NO_x), carbon monoxide (CO), unburned hydrocarbons (HC) and particulate matter (PM). All of these substances are thought to adversely affect health.

Sources of airline emissions are linked to aircraft and ground activities, but most local emissions are generated during the aircraft landing and take-off (LTO) cycle. According to available estimates, LTO cycles generate two-thirds of Air France-KLM's local NO_x emissions. Road services, allowing passengers and staff to drive to the terminals, are the second contributors. For CO and HC emissions, the contribution of aircraft is less than half of the total.

A minor contributor compared to road traffic

Air transport is a small contributor to local air pollution compared to regional road traffic, partly because the development of airports leads to a parallel development of multimodal transport hubs and, more importantly,

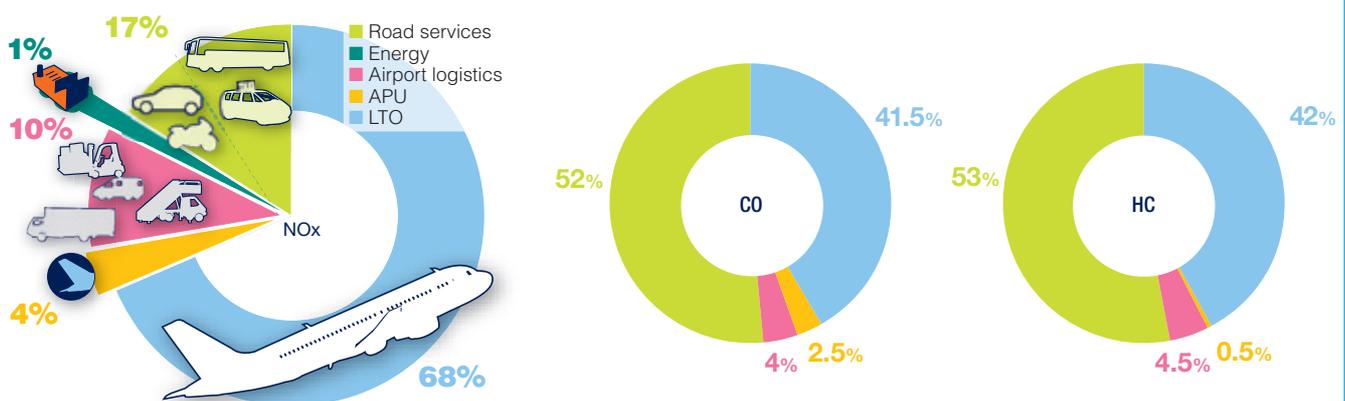
road networks. A study by Airparif¹, a French non-profit body tasked with monitoring air quality in the Paris area, estimated that only 4% of NO_x emissions in the Paris area could be attributed to air traffic at Paris-CDG.

The remaining emissions thus come mainly from road transport, and also from urban heating and industry.

Developing air-rail synergies

Developing air-rail synergies can contribute to reducing congestion and improving local air quality. Wherever possible and when environmentally effective, KLM and Air France partner railway operators to encourage an efficient, convenient interface between air and rail transport systems. As an example, KLM and the Netherlands Rail operator, NS, agreed to give KLM employees a discount for their daily journeys to Schiphol in order to reduce road transport. In other respects, Air France develops partnerships with rail transport, with the aim of better connecting French mid-sized cities to the country's main airports. KLM is also part of a consortium with NS for the complementary operation of a high-speed line that will connect Amsterdam and Rotterdam with Antwerpen, Brussels and Paris from 2007.

Contribution of different activities to Air France emissions at Paris CDG



Local air quality around Schiphol Airport

The University of Wageningen performed a toxicology research project in 2004 on the potential effect of Amsterdam-Schiphol airport's emissions on local sheep. Based on analyses of air samples and samples from the sheep's wool, and comparing the results with the situation at a location in a natural area, the research found that there is a very limited risk of the sheep being negatively affected by airport activity at Schiphol. The findings bore out another research study performed in 2001 by the Netherlands Organisation for Applied Scientific Research TNO on the air quality at Schiphol and the contribution from several sources.

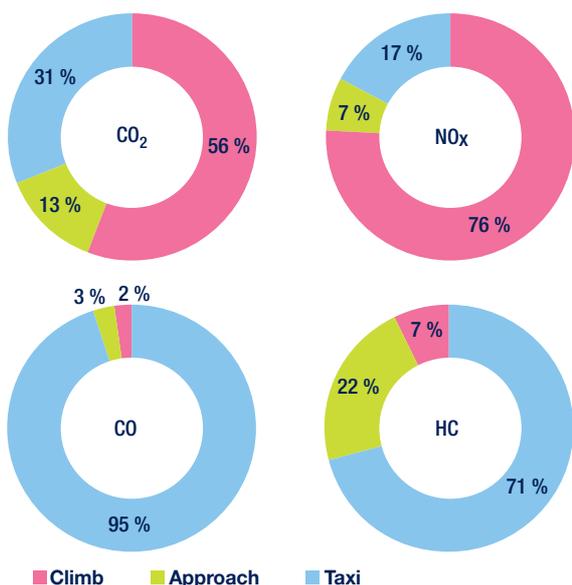
¹ www.airparif.asso.fr

The benefits of fleet renewal

Over the past 40 years, local CO and HC emissions have decreased by 50% and 90% respectively². These advances were obtained thanks to the gradual incorporation of best available technologies in the fleet, resulting from close partnerships with the aviation industry and public research. But an environmental trade-off between NO_x and other emissions has to be found. At present, noise and CO₂ emissions can be reduced by improving engine combustion rates. On the other hand, the high temperature and pressure conditions required to increase the combustion rate tend to increase output of NO_x and particulate matter. Manufacturers are thus forced to find a balance between these constraints.



Breakdown of low altitude aircraft emissions according to LTO flight segment



Optimizing procedures to mitigate emissions

Working in partnership with airports and local authorities, Air France-KLM has implemented a variety of measures to limit local emissions whenever practically achievable, not

only to comply with regulations but also to improve the overall situation at and around airports.

First, Air France-KLM has introduced measures to ensure aircraft take off with minimum mass, thus reducing the power required for the flight. In order to reduce CO and HC emissions, the Group is reducing engine use on the ground. Twin-engined aircraft now taxi with one engine shut down, while four-engined aircraft taxi with two engines shut down whenever possible. The development of a continuous descent approach will also contribute to reducing low altitude emissions. Additional efforts are being made to reduce emissions by supplying aircraft with electrical power while on the ground, rather than using jetfuel-powered auxiliary power units (APUs) or ground power units (GPUs). APUs are still required at almost all airports, however, to provide air conditioning in aircraft cabins before passengers board. At Schiphol, KLM is investigating the use of equipment such as pre-conditioned air (PCA) systems to further reduce the use of APUs.

Supporting the AERONET research project on local air quality

Along with other airlines and airport administrators, KLM and Air France have taken part in Aeronet (Aerosol RObotic NETwork), a program launched by ONERA - the French Organization for Aeronautic Research - on local air quality around airports. The last meeting in 2004-2005 took place at the Air France headquarters and focused on APUs, GPUs and ground service vehicles.

Introducing cleaner vehicles

Air France-KLM ensures cleaner and more efficient ground service equipment through enhanced maintenance, optimized logistics, reduced car journeys and fleet renewal.

At Air France, the purchase of 90 new vehicles in 2004-05 raised the proportion of light vehicles equipped with catalytic converters to 90%, and lowered the average age of the fleet to six years. This renewal plan also extends to buses and trucks equipped with Euro-3 compliant engines. KLM has invested in 37 trucks with Euro-3 engines for aqua, de-icing and re-fuelling services. Now, 46% of KLM ground service equipment is Euro-3 compliant. When relevant and technically feasible, the Group also promotes "clean" energy equipment. For instance, 40 electrically-powered baggage conveyors have been deployed at French outstations, replacing the former thermal conveyors. Eight electrically-powered TPX 100E aircraft pushback tractors (designed with the help of Air France) were purchased in 2004 for one million Euros, and a further six are likely to be added in 2005.

² Source: IATA2004

The environmental dimension

Managing environmental impact on operational sites

Air France-KLM ground activities have specific environmental impacts, mainly in terms of resource consumption (water, energy, paper), emissions and waste.

KLM's ground activities are all located around Schiphol airport. Air France's principal operational sites are located mainly around Orly, Paris-CDG and Toulouse.

Ground activities indicators

Indicator	2004	2003	Change like-for-like
Total water consumption (000 m ³)	1,057	1,169	-9.6%
Electricity consumption (MWh)	367,841	354,399	3.8%
Total energy consumption (MWh)	421,448*	374,052	0.3%
CO ₂ emissions from heating plants linked to energy consumption (tonnes)	31,680	33,130	-4.4%
Total quantity of industrial waste (tonnes)	48,960	49,144	-0.4%
Total quantity of hazardous waste (tonnes)	4,452	4,371	1.9%
Re-use of hazardous waste	41%	35%	18.5%

Indicator	IATA 2004/2005	IATA 2003/2004	Change like-for-like
Aircraft Maintenance: Volatile organic compounds contained in products used (tonnes)	252	276	-8.5%

* Includes SERVAIR's energy consumption that was not provided last year.

Reducing energy consumption

The Group's energy consumption for ground activities amounted to 51,276 tonnes petrol equivalent in 2004/05, which is equivalent to the consumption of a city of 33,000 households.

In the Netherlands, KLM has concluded the second Multiyear Energy Agreement on the energy efficiency of its buildings and industrial processes with the Dutch government and local authorities. All technical saving measures with a pay-back period shorter than five years are compulsory. The inventory of energy-saving measures was finalized in December 2004, and execution of compulsory measures will be incorporated into the business plans of 2005-2007, mostly for Engineering & Maintenance, Cargo and Facility Services. Since 1989, KLM has improved the energy efficiency of building and ground processes by 45%.

Promoting selective sorting and waste treatment

Air France-KLM's sites in France and the Netherlands produced 48,960 tonnes of waste in 2004-05, similar to that produced by a city with approximately 33,000 households.

In 2004-05, KLM achieved its target of raising its industrial waste separation rate to 37%.

Several initiatives have been taken to promote the recycling of waste produced by maintenance and cargo activities. Specific efforts have been made to increase the collection of plastic packaging materials wherever possible. The new Air France drop-off centre on the G1XL cargo site near Paris CDG Airport can handle 180 tonnes of used plastic foil a year. Air France-KLM will intensify the collection of plastic foil in the coming months and analyze the feasibility of developing similar processes for recycling wood waste.

Since 2005 KLM Cargo has only used re-usable pallets, avoiding the need to purchase 34,000 wooden pallets. The supplier is involved in this process to ensure that 100% of the wood waste (broken pallets) is recycled.

KLM Cargo also strives to find the best balance between thickness and effectiveness to ensure that plastic foil used as packaging material for freight pallets is as light as possible. Its waste foil (polyethylene) at Schiphol is collected separately, pressed into bales and sold to a specialized company for re-use. In 2004, 224 tonnes of plastic foil were recycled in this way.

Moreover, KLM is involved in discussions with its main suppliers to agree on common measures for reducing plastic packaging for aircraft components.



Eole, new Air France Industries component maintenance and repair facility

Reducing water consumption and limiting effluent

Air France and KLM have made huge advances in reducing water consumption thanks to process controls, staff empowerment and the eco-design of tools and workplaces. Water reduction measures include the installation of water meters on a large scale, the re-use of rinsing water, optimizing rinsing methods, the replacement of ground-water cooling systems by closed cooling systems or alternative cooling systems.

Water consumption at the Blagnac Air France facility, for example, is half that of the former Montaudran site, for the same activity and production levels. In the Netherlands, KLM's consumption fell to approximately 100,000m³ in 2002 compared with 700,000m³ thirty years ago.

In 2004 and 2005, Air France and KLM took further measures to limit wastewater. As an example, the water treatment system of KLM's new engine shop and surface treatment center is expected to bring significant savings in water and chemical consumption.

To compensate for water losses due to evaporation and regeneration, reverse osmosis is applied instead of ion exchangers. Almost no chemicals are used, resulting in less salt discharge in wastewater.

Managing hazardous substances

Both Air France and KLM regularly update the inventories of all hazardous substances stocked on their sites. KLM has set up procedures to check new chemicals according to environmental health and safety (EHS) criteria before any use in the company. Material safety data sheets are available to inform employees about the chemicals' properties and EHS aspects.

In addition KLM aims to reduce VOC (Volatile Organic Compound) emissions by 30% between 2000 and 2010. To realise this goal, KLM improved all steps in the paint process. Paint strippers containing VOC were replaced by biodegradable strippers, hazardous primers containing chromium were eliminated and the amount of paint layers reduced in combination with the use of high solid paints. The airframe painting system KLM introduced reduces overspray and improves adherence. As a result, paint consumption is significantly lower, fewer VOCs are emitted and working conditions have been much improved.

Air France Industries has been using low VOC paints for several years, and promotes the use of small, preimpregnated cloths that contain less VOCs.

Protecting soil and landscapes

Air France-KLM systematically rehabilitates its former industrial sites. Where necessary, the soil and groundwater are treated. The second rehabilitation phase of the Air France site at Montaudran, concerning the northern section, was launched in 2004 at an estimated cost of €2.5 million. A detailed study of health risks was carried out and established that the measured pollution levels do not involve major health risks. Excavation and rehabilitation work is to be launched soon.

A new engine shop at Schiphol

In 2004, KLM built a new engine overhaul centre at Schiphol. Underground heat/cold storage units reduce energy consumption. Depending on the season, heat or cold is stored underground and used for cooling in the summer and heating in the winter. Booths where there is dust (e.g. from surface polishing) now have an extremely efficient filtering system, air recirculation system and safety features. Ultimately, the system saves energy and considerably improves working conditions. Modified processes have also been implemented. In the part cleaning shop almost every process tank is followed by a static rinse tank before final rinsing. This reduces both the amount of contaminated water and the required amount of rinsing water. Replenishment of the final rinse tank is controlled by conductivity, reducing water consumption to an absolute minimum.

Discharge of contaminants into the atmosphere is decreased through the use of gas washers and dust filters. Air quality is controlled with HEPA filters and 50% to 90 % of the cleaned air is re-used in the process.

Addressing de-icing / anti-icing impacts

In the winter season, products containing different types of glycols are used for aircraft anti-icing or de-icing. This is essential for flight safety in sub-zero and snowy weather. It is a polluting operation for surface water in the event of strong concentrations.

To find a balance between operating punctuality and environmental protection, Air France and KLM have made considerable efforts over a number of years in three areas, namely staff training, equipment optimization, and the selection of less polluting products. In addition, many airports are now equipped with de-icing fluid recuperation systems.

The Group takes an active part in the AEA's de-icing/anti-icing Working Group which cooperates closely with its American counterpart, SAE G-12 Aircraft Ground Deicing Committee, especially as regards product improvements in environmental terms.

Terms and abbreviations

AEA: Association of European Airlines.

APU/ GPU: Auxiliary Power Unit / Ground Power Unit.

ASK: Available Seat Kilometer.

ATC: Air Traffic Control.

ATK: Available Tonne Kilometer.

Balanced approach: Process defined by ICAO in 2004 to use for limiting - and if possible reducing - the number of people exposed to aircraft noise by simultaneously addressing ("balancing") four elements of possible progress : planning for reduction of noise at source, land use management around airports, operational noise abatement procedures and local operating restrictions.

CCE: Consultative Environment Committees, in all main french airports.

CDA: Continuous Descent Approach / Delayed or Reduced Flap Approach: Landing noise abatement procedures used to decrease aircraft noise in the approach phase by capturing the glide slope in a decelerating configuration under certain air traffic control conditions.

CDG: Paris-Charles de Gaulle airport.

Climate change: All alterations occurring as a result of the emission into the atmosphere of greenhouse gases produced both by natural processes and anthropogenic sources.

CO: Carbon monoxide.

CO₂: Carbon dioxide.

CROS: Schipol Regional Review Board.

dB: Decibel, a unit to express the intensity of an acoustic signal.

DGAC: Direction Générale de l'Aviation Civile, French civil aviation authority.

DRFA : Delayed or Reduced Flap Approach.

Emissions at low altitude – LTO cycle: To certify the efficiency of aircraft engines, the ICAO has defined a standard cycle known as the Landing and Take-Off (LTO) cycle. The current LTO cycle was evaluated by experts from EU's AEROCERT research programme in April 2002 and is considered representative of low-altitude aircraft emission below the so-called limit layer of the lower troposphere (i.e. approx. 1,000 meters).

Emissions Trading Scheme: System involving the trading of greenhouse gas emission allowances. In a Cap and Trade System, a regulatory authority establishes the cap which is usually lower than the historic level of emissions. Trading occurs when an entity has excess allowances, either through actions taken or improvements made, and sells them to an entity requiring allowances because of growth in emissions and inability to make cost-effective reductions. An Open Trading Scheme is one that comprises all industry sectors.

FN₀₀: Take off thrust.

FTE: Full time equivalent. A measure of the number of staff as defined by the hours worked by a full-time employee.

Greenhouse gases: Components of the atmosphere from both natural and anthropogenic origin that absorb and re-emit infrared radiation. The main greenhouse gas generated by aircraft is carbon dioxide CO₂.

GRI: Global Reporting Initiative. (www.globalreporting.org)

HC: Unburned hydrocarbons.

Hub: Central airport ("hub") serving a network of direct and indirect destinations. By concentrating traffic at a single airport, a hub cuts the number of point-to-point flights required and improves load factor, while at the same time increasing both the opportunities for non-stop flights and the frequency of connecting flights.

IATA: International Air Transport Association. (www.iata.org)

ICAO: International Civil Aviation Organization. (www.icao.int)

Intermodality: Successive use of several complementary transport modes, rail, air and road.

IPCC: Intergovernmental Panel on Climate Change.

Load factor : Ratio of RTK or RPK and ATK or ASK.

Noise energy: For a given sound intensity "I" expressed in decibels, noise energy is the quantity $10^{I/10}$ expressed in Joules. The noise energy aggregated from several different sound events is the sum of noise energy generated by each event.

NO_x: Nitrogen oxides, gases that are not greenhouse gas but may contribute to the greenhouse effect at high altitude and to local pollution at low altitude.

PKT: Passenger Kilometer Transported, the number of passengers carried multiplied by the great circle distance traveled in kilometers.

RPK: Revenue Passenger Kilometer.

RTK: Revenue Tonne Kilometer.

Skyteam: A global alliance of the airlines Aeromexico, Air France, Alitalia, Continental Airlines, CSA Czech Airlines, Delta Airlines, KLM, Korean Air and NorthWest Airlines (www.skyteam.com).

TKT: Tonne Kilometer Transported, the payload actually transported multiplied by the great circle distance.

VOC: Volatile Organic Compounds, organic compounds that easily vaporize at ambient temperatures, mainly deriving from hydrocarbons and the solvents used in painting and stripping of aircrafts and parts. They contribute to the ozone layer destruction mechanisms in the stratosphere and to the formation of ozone in the troposphere when it behaves as a greenhouse gas.

Main indicators reporting scope

Economic figures

<ul style="list-style-type: none"> • Turnover by business (p. 4, 12) • Operating income before aircraft disposal (p. 4, 12) • Unit revenue per ASK/ ATK (p.4) • Breakdown of passenger revenues per geographical area of destination (p. 4) • Breakdown of passenger revenues per geographical area of sale (p.4) • Passenger traffic (p.4) • Cargo traffic (p.4) • Net income (p.12) 	<p>Air France Group and KLM Group, including subsidiaries, in all countries of operation.</p> <p><i>N.B.:</i> Air France Group consolidated over 12 months (Apr 04 - Mar 05) and KLM Group consolidated over 11 months (May 04 - Mar 05) ; Servair consolidated over 15 months (Jan 04 - Mar 05).</p>
<ul style="list-style-type: none"> • Breakdown of external expenses (p.17) 	<p>Air France and KLM airlines, in 2004/05</p>

Social figures

<ul style="list-style-type: none"> • Average number of FTE (p.5) 	<p>Air France Group and KLM Group, including subsidiaries, in all countries of operation, in 2004/05 (Apr 04 - Mar 05)</p>
<ul style="list-style-type: none"> • Headcount (long term contracts) (p.5) 	<p>Air France Group and KLM Group, including subsidiaries, in all countries of operation, in 2004/05 (Apr 04 - Mar 05)</p>
<ul style="list-style-type: none"> • Geographical distribution of employees (p.5) 	<p>Air France and KLM airlines, at 31 Dec 2004</p>

Environmental figures

Aircraft noise	<ul style="list-style-type: none"> • Global noise energy versus traffic (p.5) 	<p>All Air France flights , KLM and KLM cityhopper flights ; calendar year (Air France) / IATA year (KLM) worldwide</p>
Aircraft emissions	<ul style="list-style-type: none"> • CO₂ emissions and traffic (p.5) • Global emissions : CO₂, NO_x, CO, HC (p.5, 29) • Low altitude emissions "LTO cycle" (p.5, 33) 	<p>Air France aircraft (excluding regional subsidiaries) ; KLM and KLM cityhopper aircraft ; calendar year (Air France) / IATA year (KLM) worldwide</p> <p>Air France Group aircraft (including all regional subsidiaries) ; KLM and KLM cityhopper aircraft ; calendar year (Air France) / IATA year (KLM) worldwide</p>
Ground activities	<ul style="list-style-type: none"> • Water consumption (p.32) • Electricity consumption (p.32) • Energy consumption (p.32) • CO₂ emissions from heating (p.32) • Ordinary industrial waste (p.32) • Hazardous waste (p.32) • Re-use of hazardous waste (p.32) • Aircraft maintenance: VOC compounds (p.32) 	<p>Air France and its subsidiaries: all locations in France ; KLM, KLM cityhopper, KLM catering services: all locations in The Netherlands, calendar year</p> <p>All Air France Industries sites in France and all KLM Engineering & Maintenance sites in The Netherlands, in IATA year</p>



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