

AIR FRANCE KLM

First Half Results 2008-09

20th November 2008



KLM

Agenda



Introduction

Jean-Cyril Spinetta

Activity

Pierre-Henri Gourgeon

Results

Philippe Calavia

Strategy and outlook

Jean-Cyril Spinetta & Peter Hartman

Activity holds up well in a more difficult context

Operating environment

- + Deepening of the financial sector crisis and first signs of global economic slowdown
- + Oil price hits historic highs
- + Strengthening of the euro relative to other currencies

Air France-KLM

- + Resilient activity in a tough context
- + Rise in revenues in spite of unfavorable currency impact
- + Operating income comfortably in profit despite the significant rise in the fuel bill between April and September 2008

Good results despite deteriorating operating environment

	Q2 2008-09	H1 2008-09
+ Revenues:	€6.7bn (+3%)	€13.0bn (+4%)
+ Operating income:	€405m (-44%)	€639m (-44%)
+ Adjusted operating margin:	6.8% (-5.2 pts)	5.7% (-4.3 pts)
+ Net income:	€28m (-96%)	€196m (-83%)
+ Net economic income*:	€244m (-49%)	€385m (-48%)

* Net income restated for non-recurrent (Amadeus & Alpha gains in 2007-08) and non-cash items relating to the mark-to-market of hedging instruments

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Growth in activity

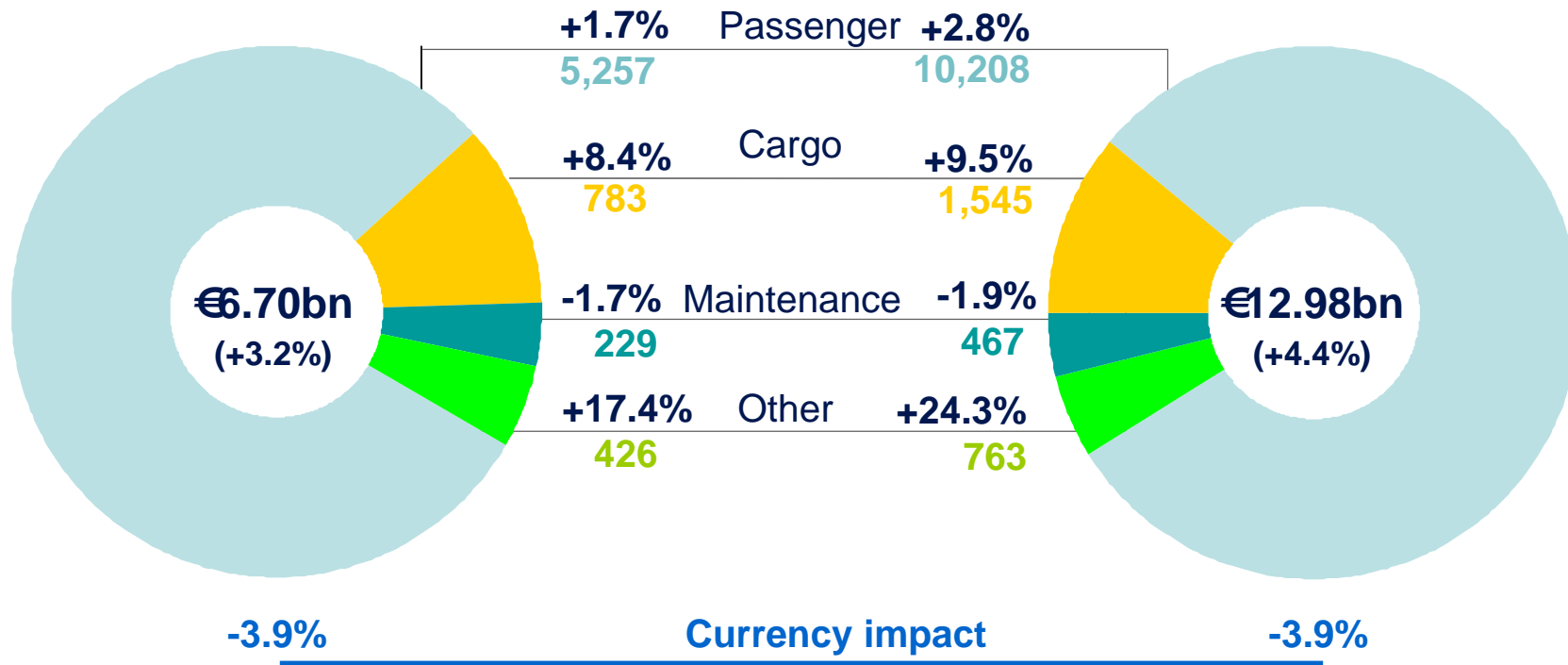
Pierre-Henri Gourgeon



Revenue growth hampered by strength of the Euro

Q2 2008-09

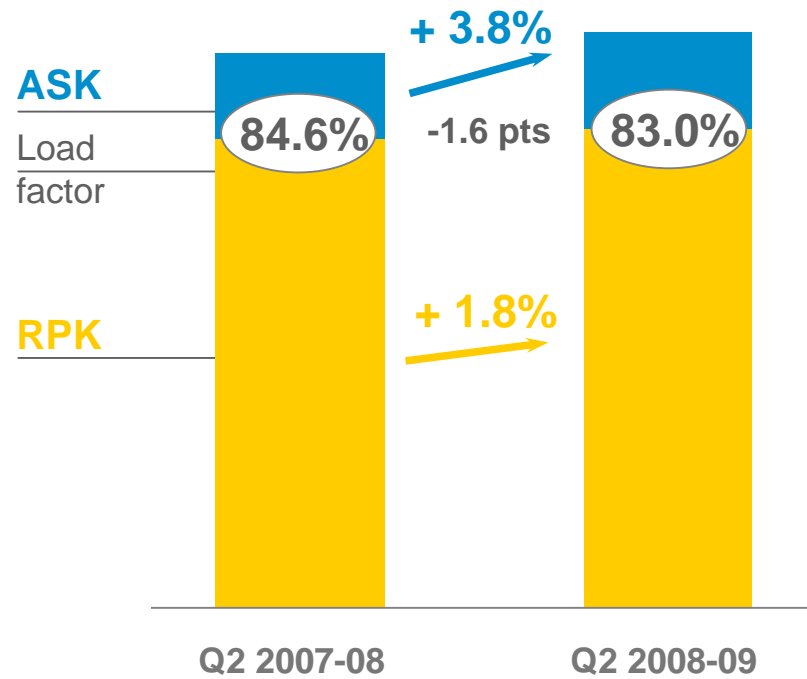
H1 2008-09



Passenger business: activity holds up well...

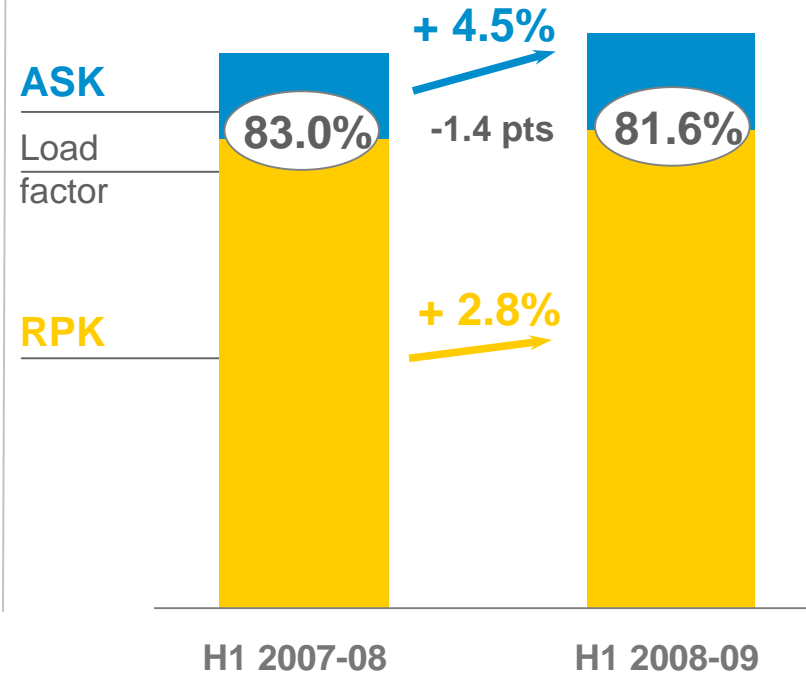
Second Quarter
incl. VLM

20.6 million passengers (+0.5%)



First Half
incl. VLM

40.5 million passengers (+1.8%)

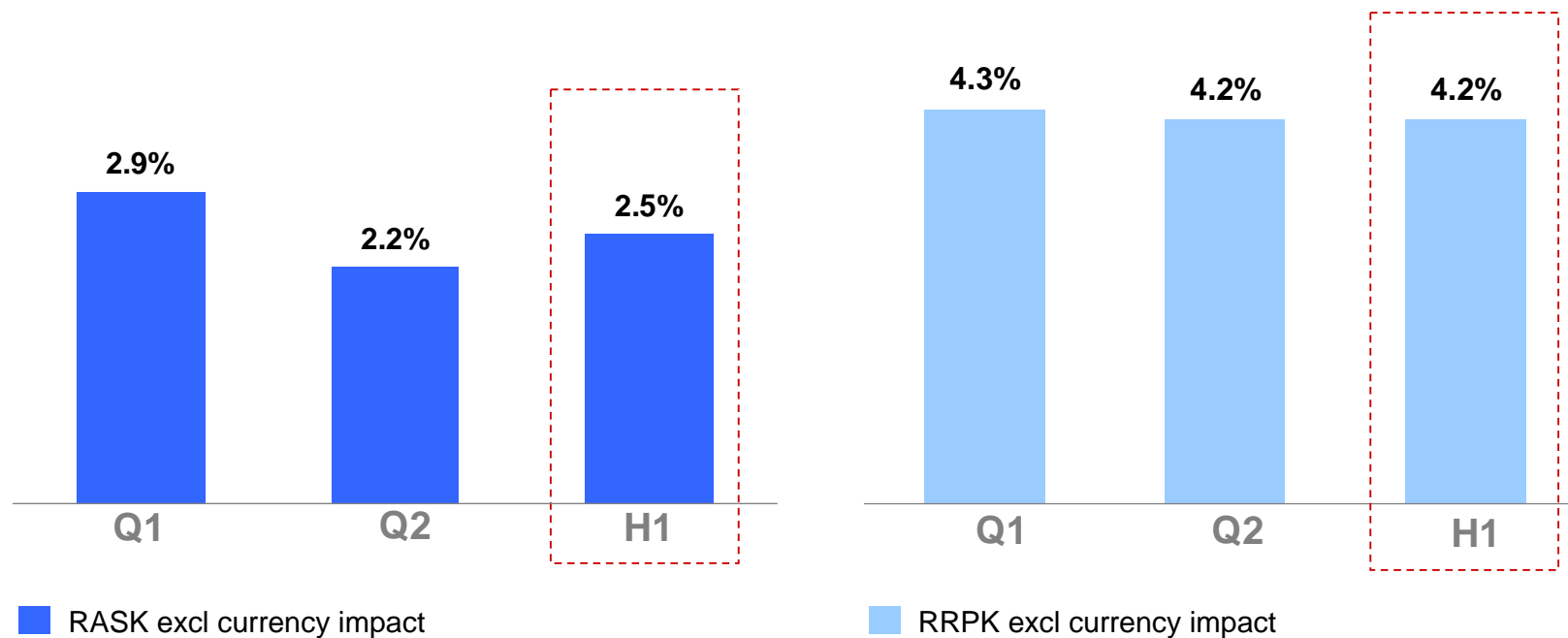


...with resilient unit revenues excluding currency impact

First Half 2008-09

RASK: 7.12 € cts

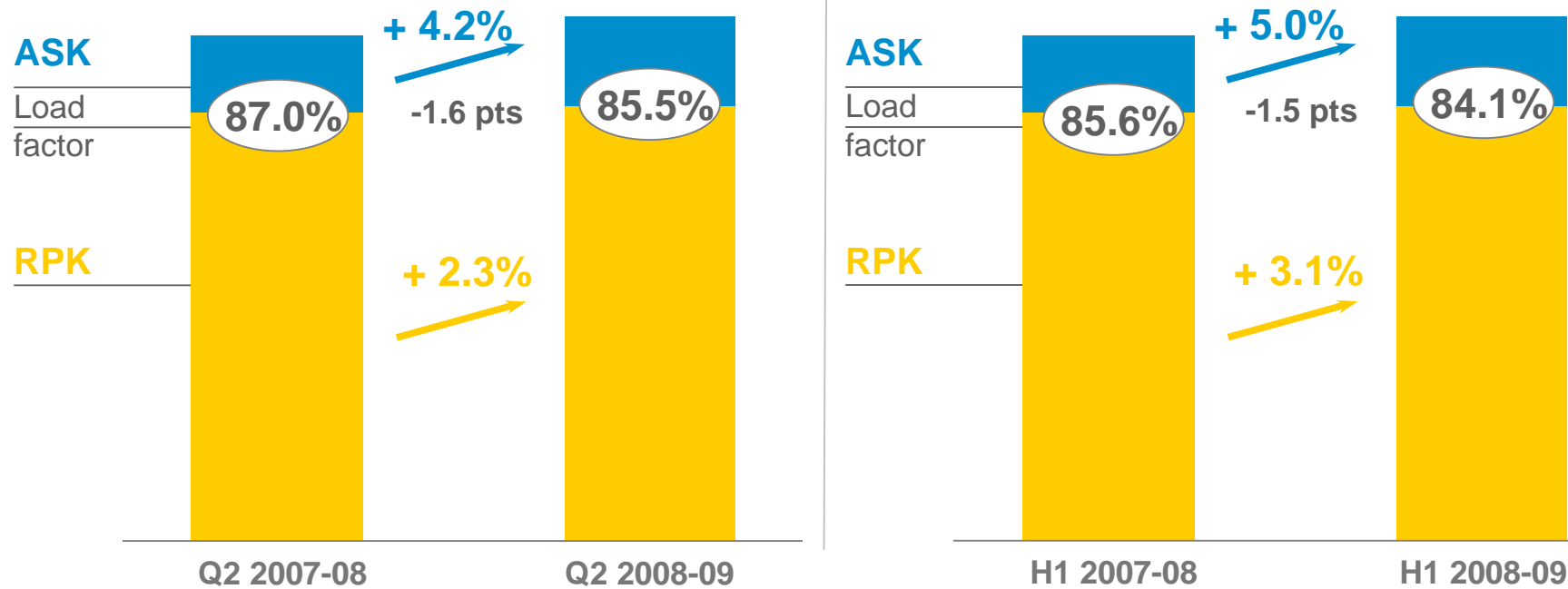
RRPK: 8.72 € cts



Long-haul traffic remains strong...

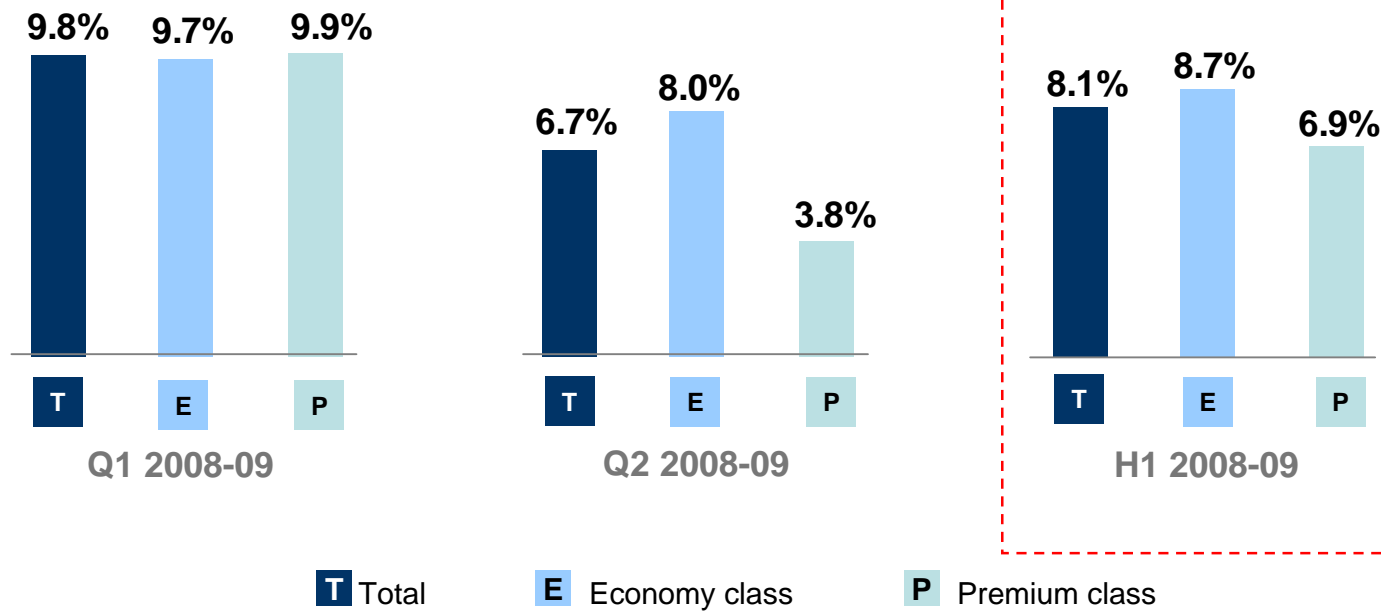
Second Quarter

First Half



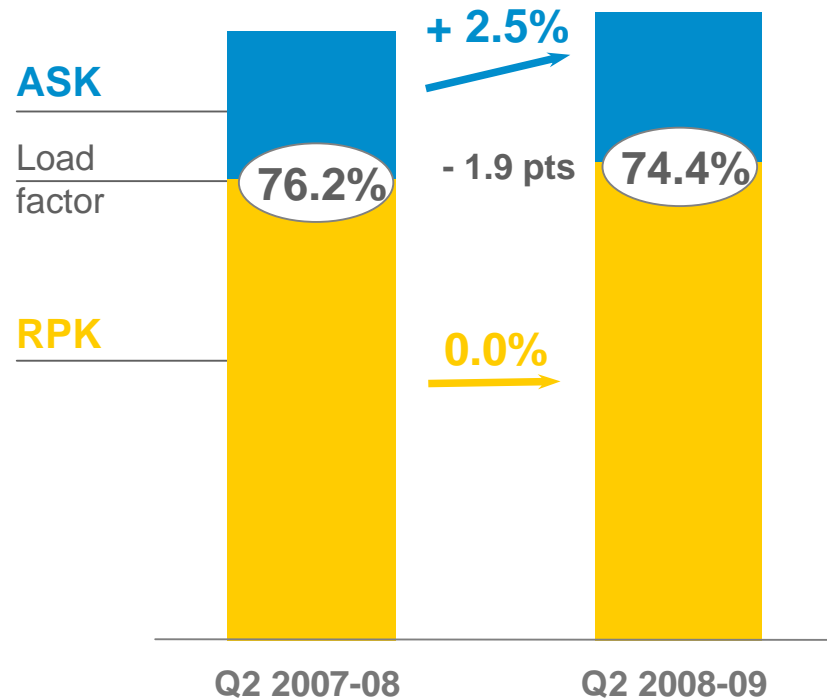
...with increased revenues in all classes

Long-haul revenues
excl. currency impact

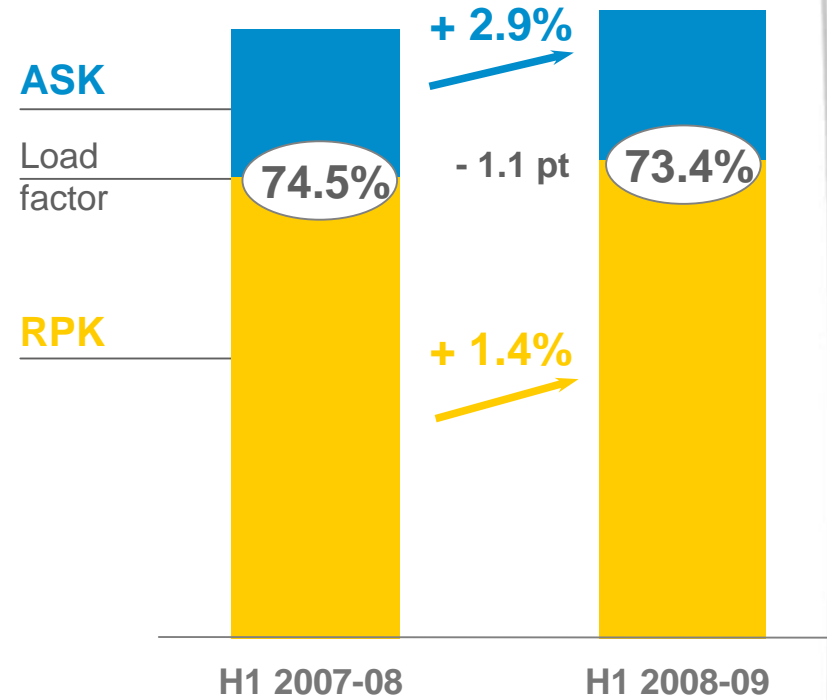


Medium-haul reflects weaker domestic market

Second Quarter
incl. VLM

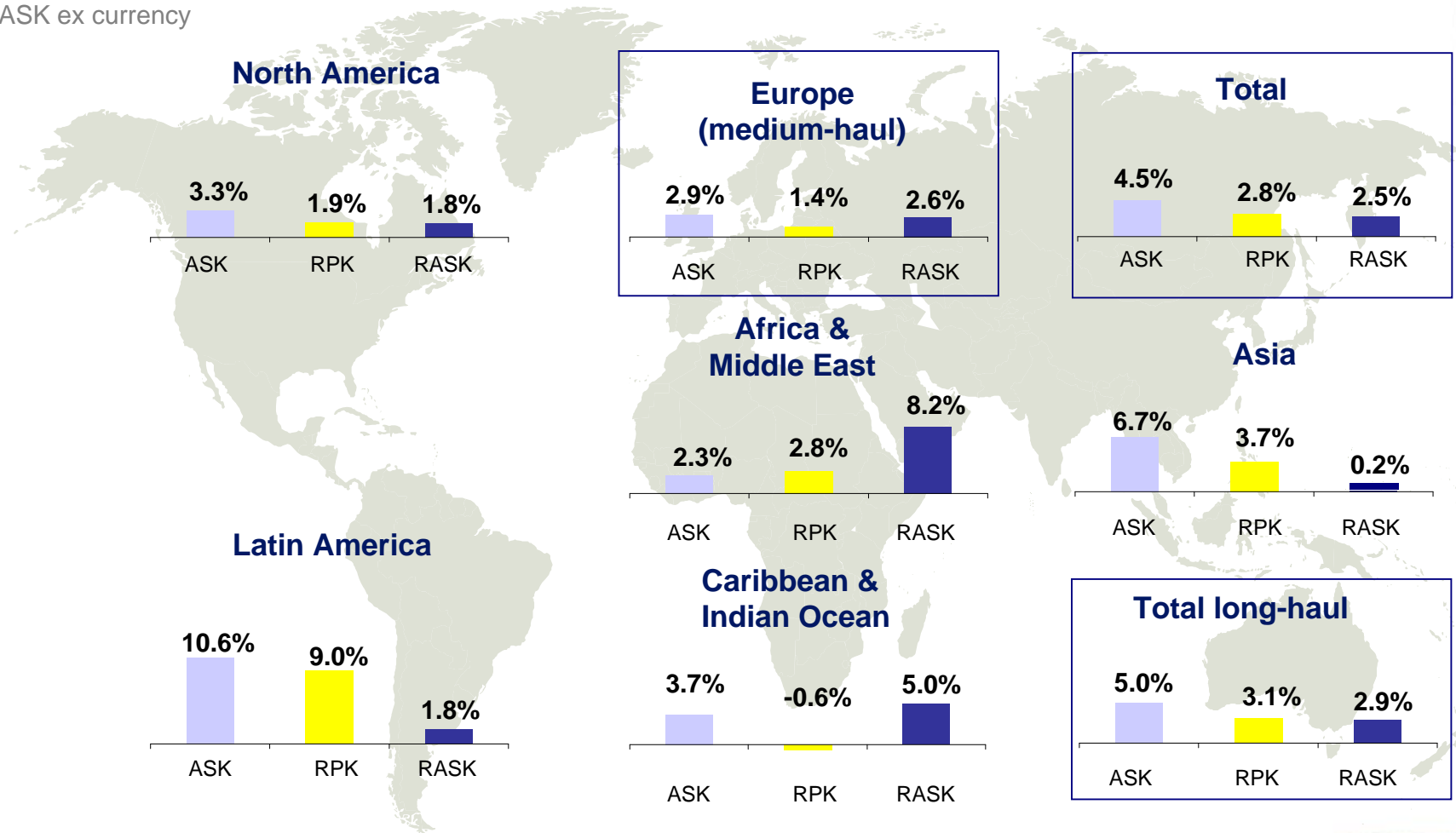


First Half
incl. VLM



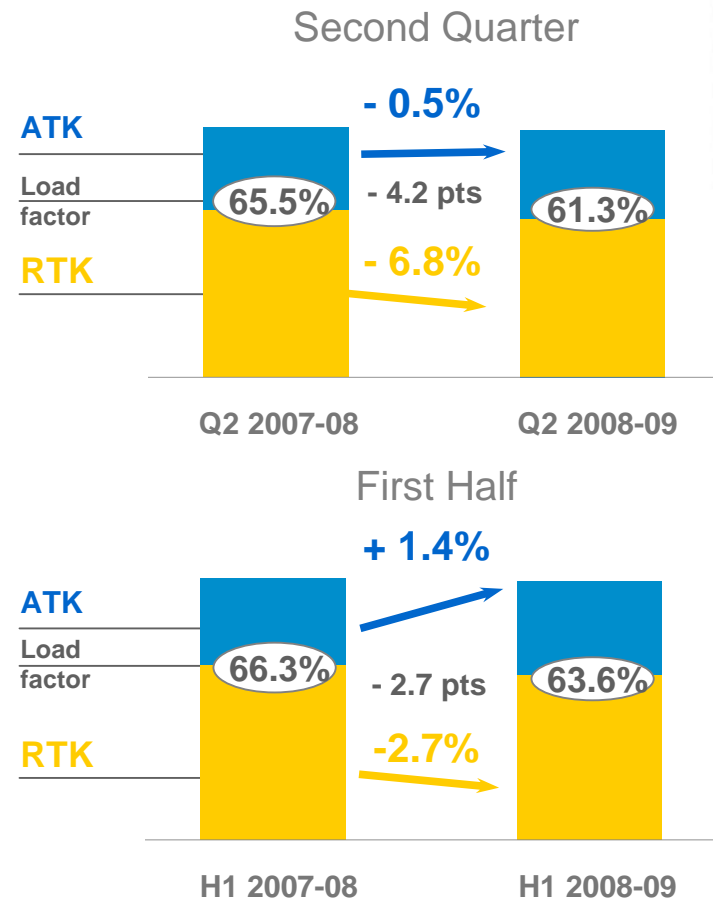
All networks contribute to resilience of unit revenues

H1 2008-09
RASK ex currency



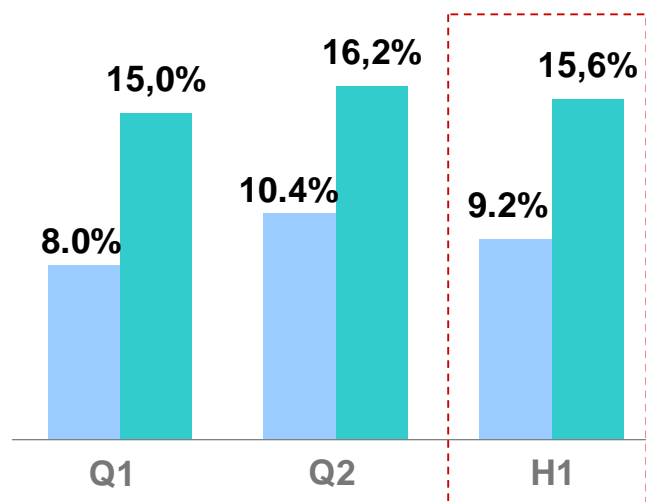
Cargo feels the effects of the economic slowdown

- + Contrasted first half
 - ▶ Good first quarter
 - ▶ Slowdown since the summer, offset by rise in unit revenue
- + Slowdown confirmed, with
 - ▶ Further weakening in demand
 - ▶ Overcapacity in both air transport and shipping



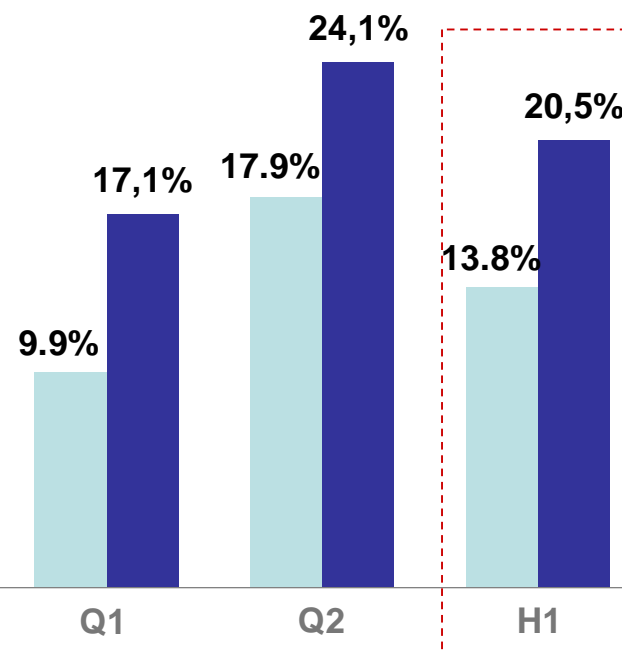
Rise in unit revenues offsets weaker traffic

Unit revenues per ATK



■ ATK
■ ATK excl. currency impact

Unit revenues per RTK



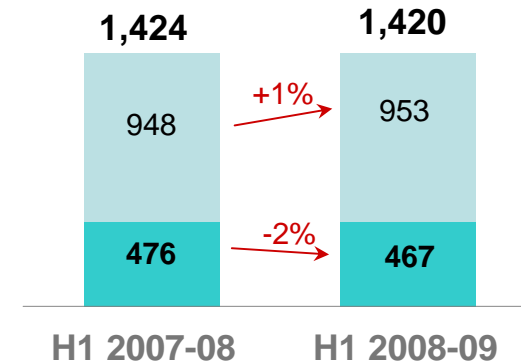
■ RTK
■ RTK excl. currency impact

Maintenance business grows excluding dollar impact

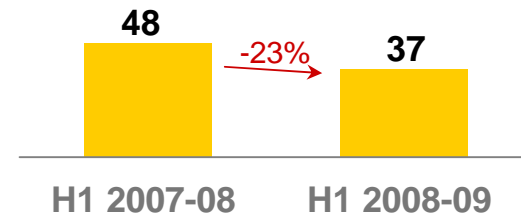
- + Activity impacted by dollar weakness
 - ▶ Third party revenues up 6.7% excluding currency effect
 - ▶ Operating income up 12.5% excluding currency effect

Maintenance revenues
First Half (€ millions)

Internal revenues
External revenues



Maintenance operating income
First Half (€ millions)



Progression of other activities in the First Half

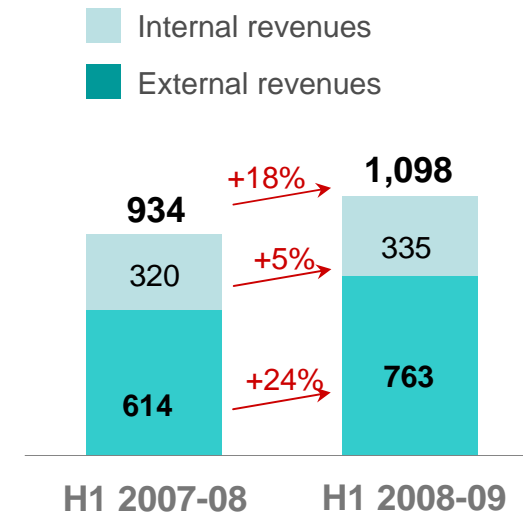
+ Catering

- ▶ Dynamic activity
- ▶ Consolidation effect

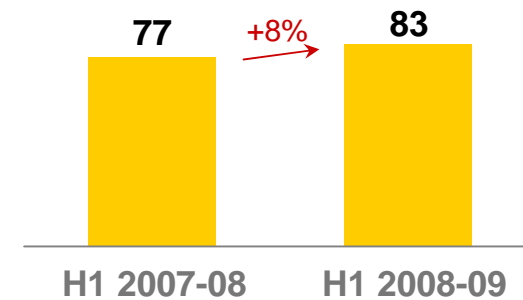
+ Leisure

- ▶ Breakeven of transavia.com France
- ▶ transavia.com Netherlands holds up well

Other activities revenues
First Half (€m)



Other activities operating income
First Half (€m)



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Resilient results

Philippe Calavia



Resilient results

€ millions	Q2 2008-09	% ch	H1 2008-09	% ch
Revenues	6,695	+3.2	12,983	+4.4
Operating costs	(6,290)	+9.2	(12,344)	+9.3
Operating income	405	(44.1)	639	(43.9)
<i>Operating margin</i>	6.0%	(5.2pts)	4.9%	(4.3pts)
<i>Adjusted operating margin*</i>	6.8%	(5.2pts)	5.7%	(4.3pts)
Other income and costs	6	nm	23	nm
Income from operating activities	411	(56.2)	662	(55.1)
Net interest charge	(10)	(37.5)	(21)	(55.3)
Other financial income and costs	(438)	nm	(427)	nm
Income tax	56	nm	(19)	nm
Other	9	nm	1	nm
Net income	28	(96.2)	196	(83.0)

* Adjusted for the portion of financial costs within operating leases (34%)

Net income restated for non-recurrent and non-cash items

€ millions	Q2 08-09	Q2 07-08	% ch	H1 08-09	H1 07-08	% ch
Net income	28	736	(96.2)	196	1,151	(83.0)
Income tax neutralization	(56)	172	(133.6)	19	346	(94.5)
Net income before tax	(28)	908	(103.1)	215	1,497	(85.6)
Non-recurrent items	(6) ¹	(213) ²	(97.2)	(23) ¹	(336) ²	(93.2)
Non-cash items (time value of derivatives) ³	373	(11)	nm	361	(105)	nm
Economic result before tax	339	684	(50.4)	553	1,056	(47.6)
Income tax	(95)	(205)	(53.7)	(168)	(318)	(47.2)
Net economic result	244	479	(49.1)	385	738	(47.8)

(1) Mainly negative goodwill write-back

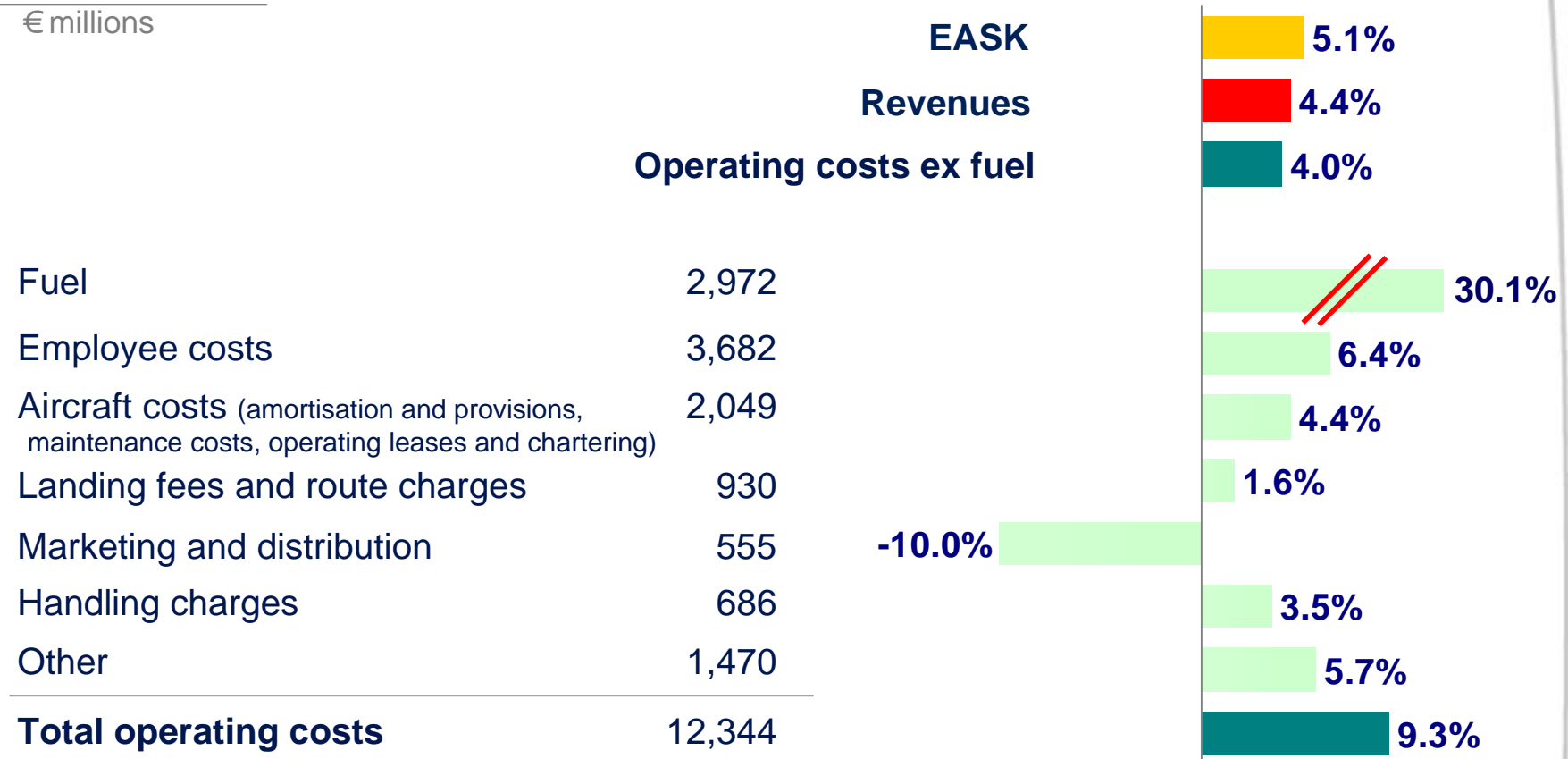
(2) Mainly Amadeus capital gain and Alpha disposal

(3) Mark-to-market of derivative instruments (so-called 'inefficient' part)

Rise in H1 operating costs ex-fuel contained to 4%

First half 2008-09

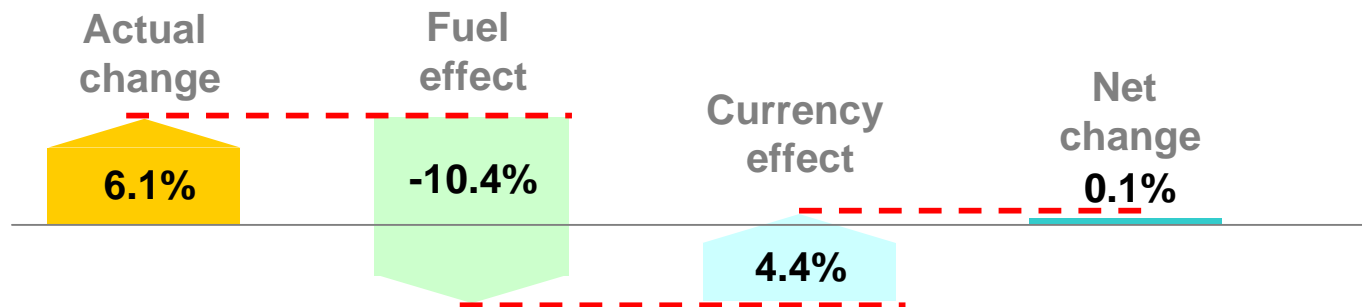
€ millions



Analysis of change in unit costs

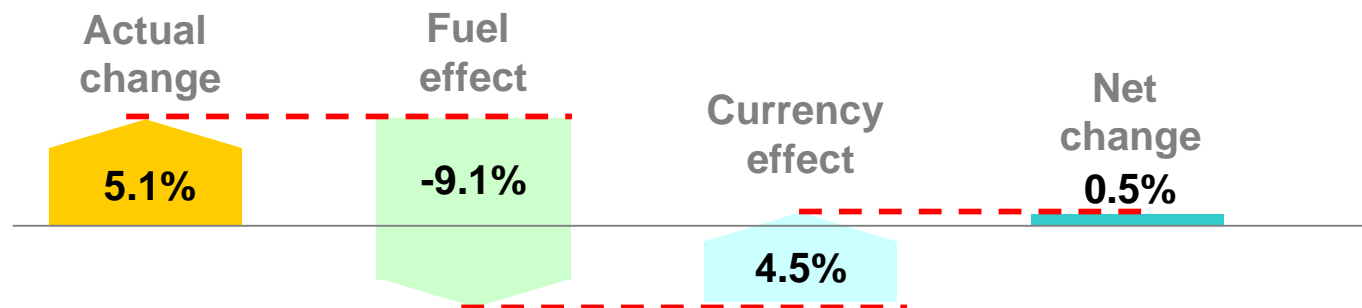
Q2 2008-09

Unit cost per EASK: 6.44 € cts



H1 2008-09

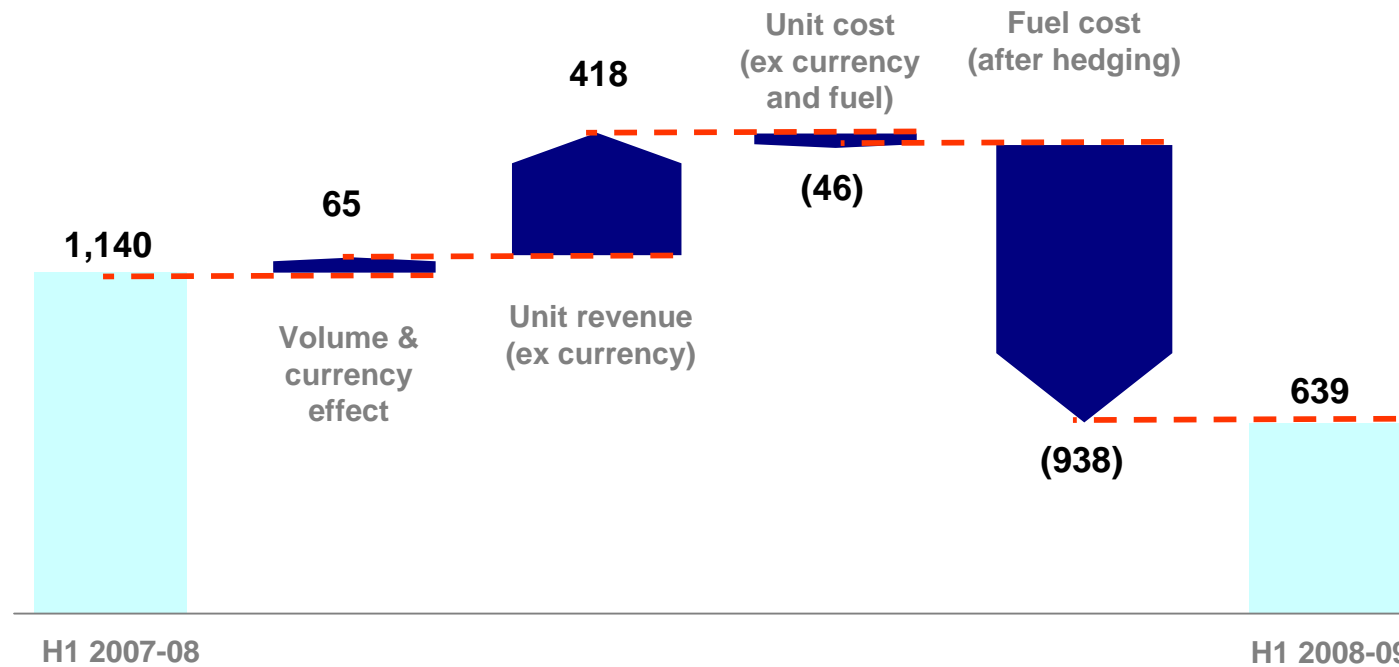
Unit cost per EASK: 6.47 € cts



Fuel bill weighs heavily on operating income

First Half 2008-09

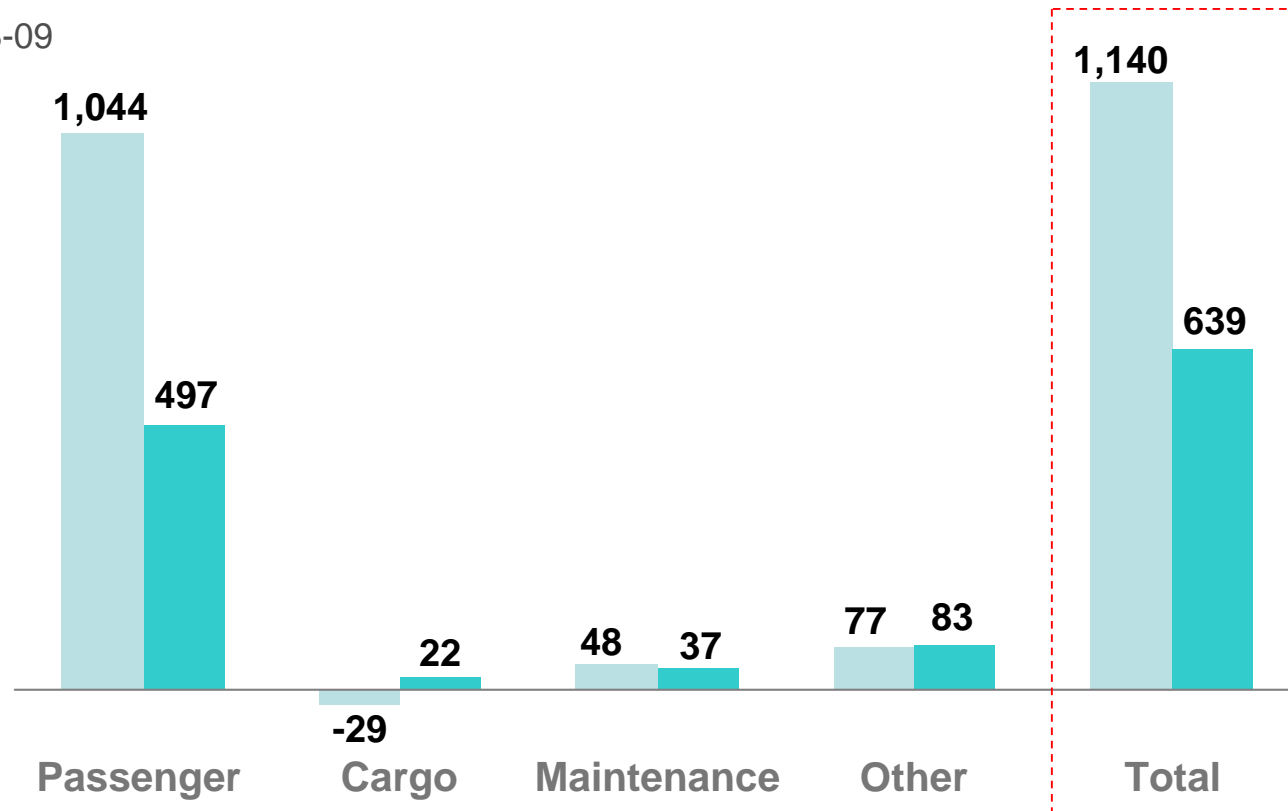
€ millions



Positive contribution to H1 operating income from all businesses

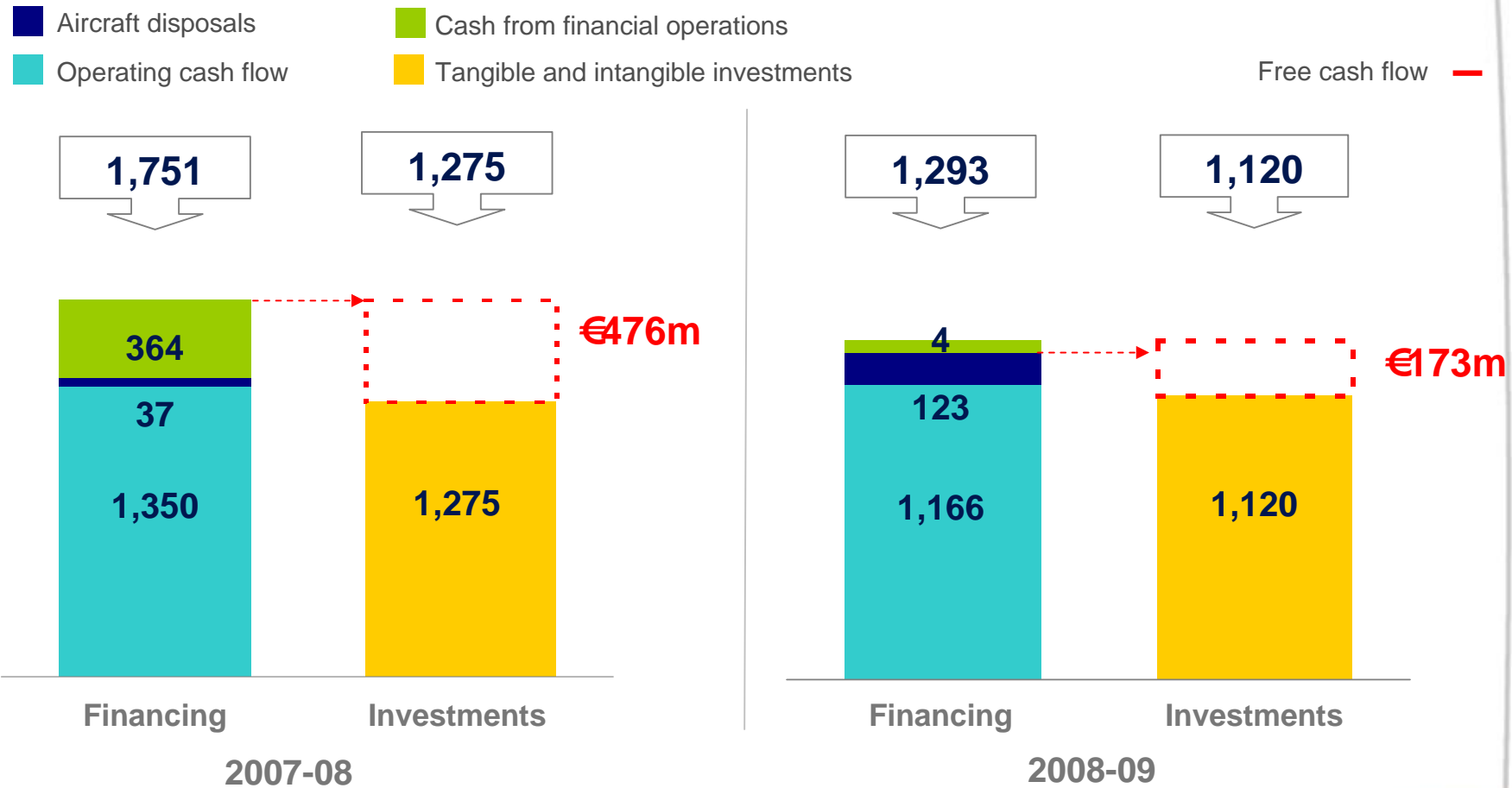
Operating income
€ millions

■ First Half 2007-08
■ First Half 2008-09



Free cash flow of €173m

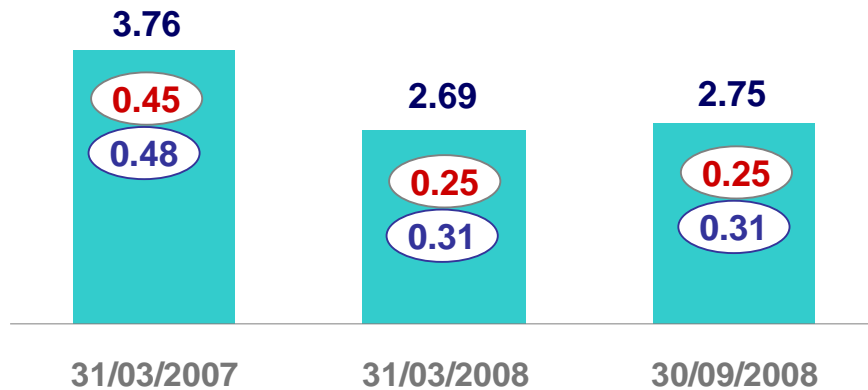
H1 2008-09
€ millions



Strong balance sheet...

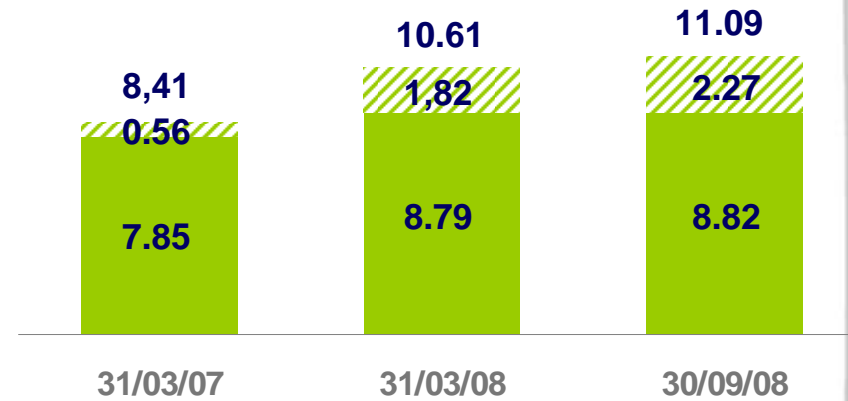
Net financial debt
(€ billions)

- Net debt
- ⓧ Gearing ratio
- ⓧ Gearing ratio ex derivatives



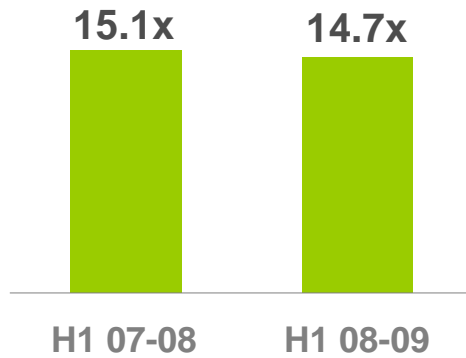
Shareholders' equity
(€ billions)

- Shareholders' equity
- ▨ Derivative instruments

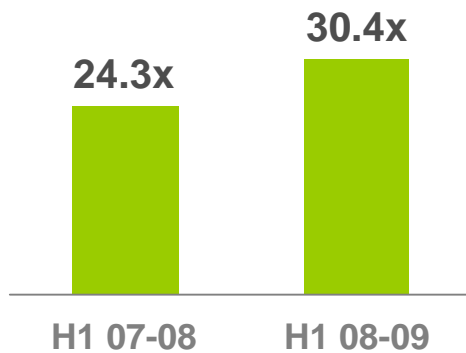


...and reinforced financial position

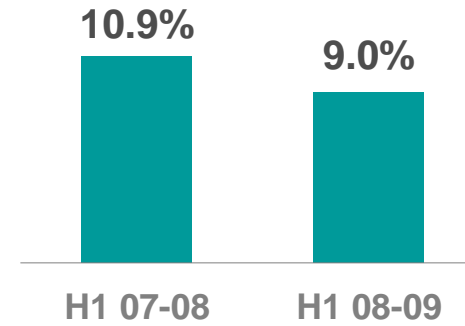
EBITDAR / net adjusted interest costs*



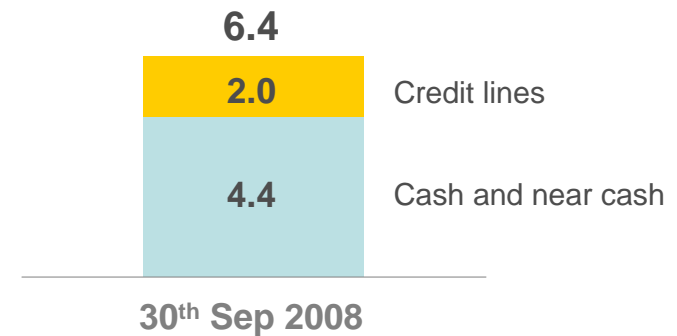
EBIT / net interest costs



Operating cash flow margin



Available cash (€ billions)



* Adjusted for the portion of financial costs within operating leases (34%)

Update on pension liability



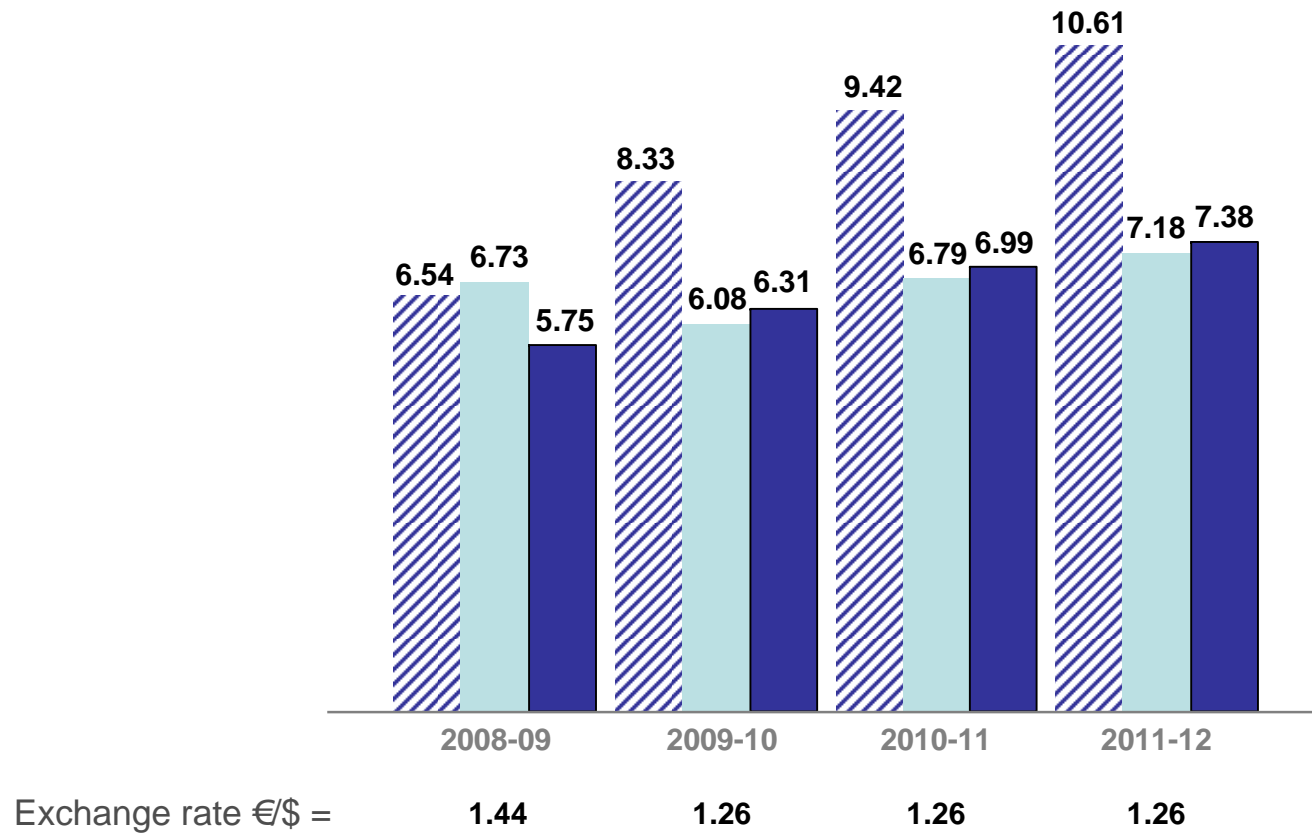
At October 31st 2008

- ✦ KLM pension fund solvency ratio above the legal thresholds
- ✦ In consequence, no additional cash calls anticipated

Update on the fuel bill

- ▨ Fuel bill **after hedging** at 14/07/08
- Fuel bill **before hedging** at 14/11/08
- Fuel bill **after hedging** at 14/11/08

in €bn



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Strategy and outlook

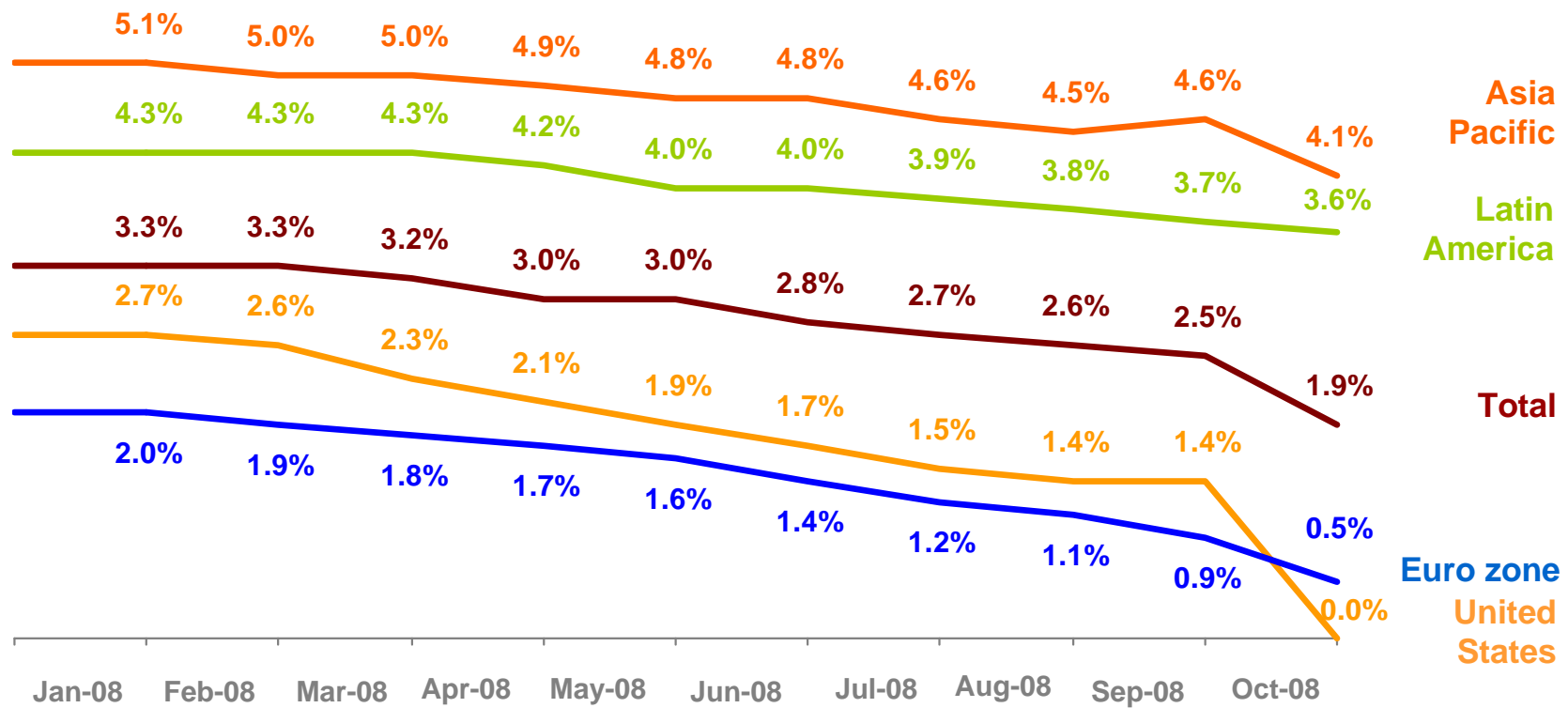
Jean-Cyril Spinetta
& Peter Hartman



KLM

World growth forecasts revised down

2009 GDP growth forecast revisions



Source: Consensus Forecasts

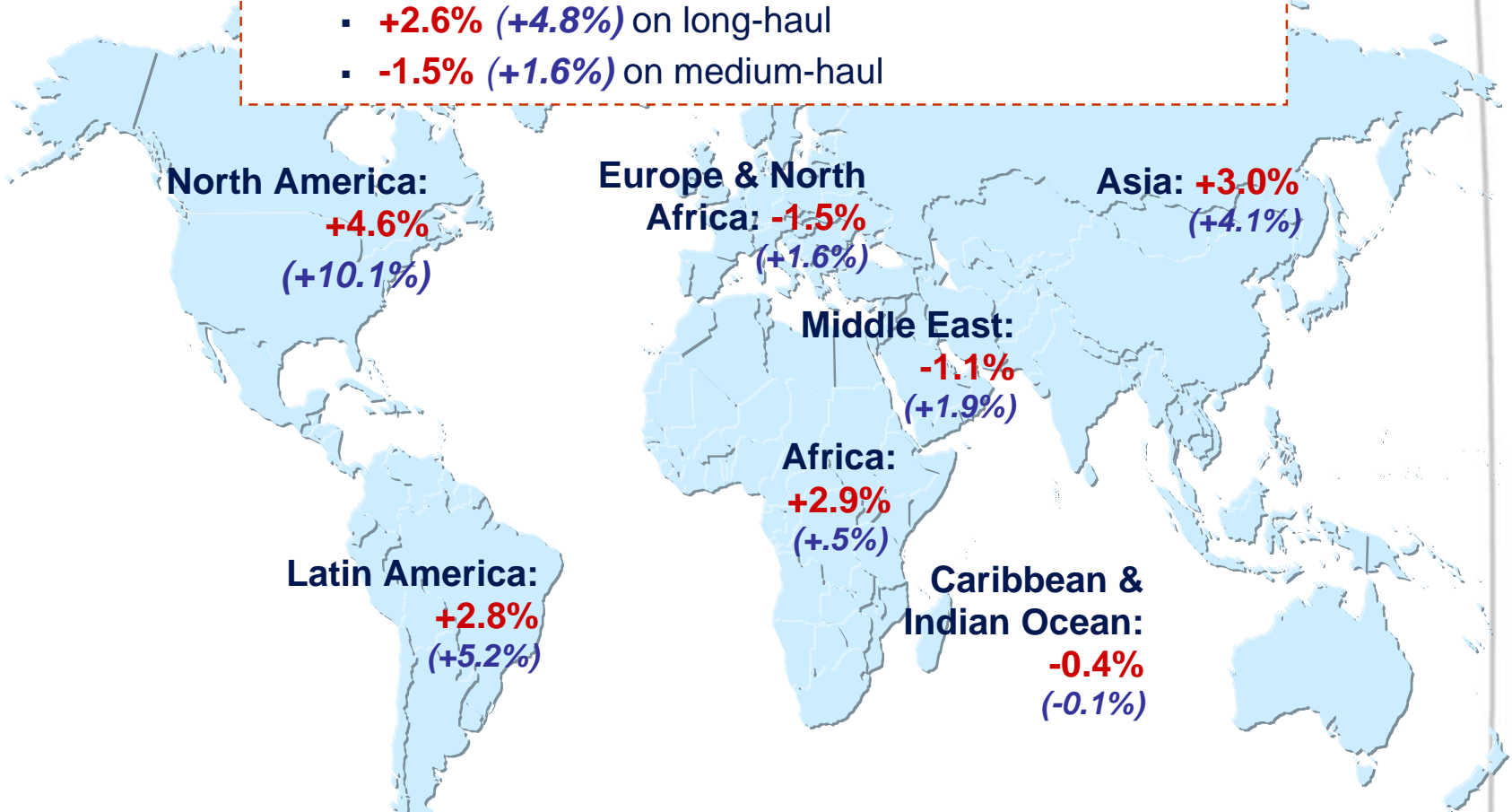
Air France-KLM: measures to counter difficult trading conditions

- ✦ Adjust capacity to demand
- ✦ Adapt unit costs to the reduction in capacity
- ✦ Review our investment program to protect our cash
- ✦ Play our competitive advantages, notably the new North Atlantic joint-venture
- ✦ Seize consolidation opportunities arising from the crisis

Air France-KLM: adjusting capacity downwards...

Total Group capacity growth Winter 08-09: **1.7%** *(+4.1%)**

- **+2.6%** *(+4.8%)* on long-haul
- **-1.5%** *(+1.6%)* on medium-haul

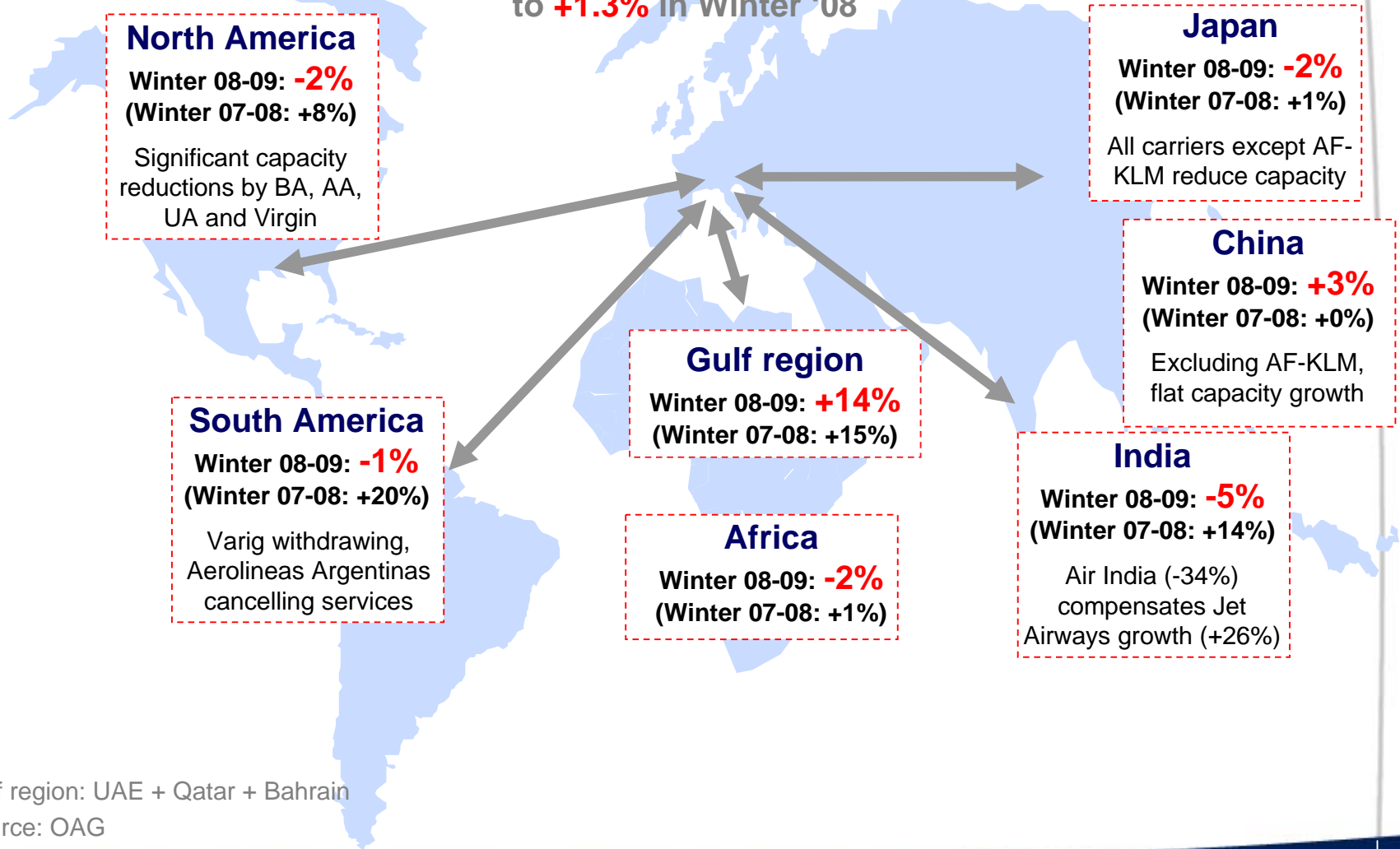


Total Group capacity growth Summer 09: **1 to 2%**

* *Blue italics = previous plan*

...in a context of greater capacity discipline by most major players...

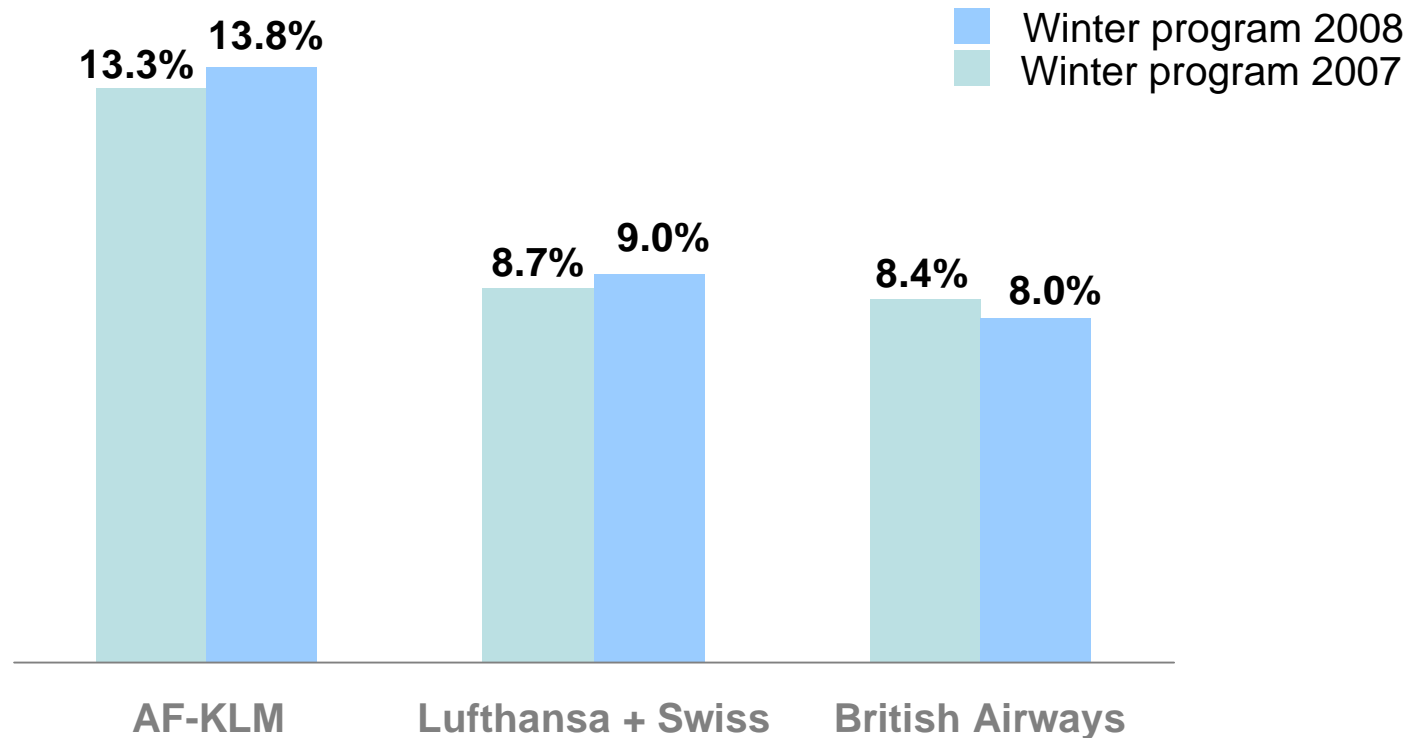
Winter capacity growth reduced from **+5%** in Winter '07 to **+1.3%** in Winter '08



Gulf region: UAE + Qatar + Bahrain
Source: OAG

...while remaining the clear leader on Europe/RoW routes

Long-haul market shares (in ASK)



Source: OAG band at 4/11/08, typical week 49 from 1 to 7/12/08
OAG band at 9/10/07, typical week 48 from 26/11 to 2/12/07

Adapting our cost base to lower capacity growth



- + Additional cost-savings in 2008-09
- + Reinforcement and extension of the current cost-savings program with 'Challenge 12'

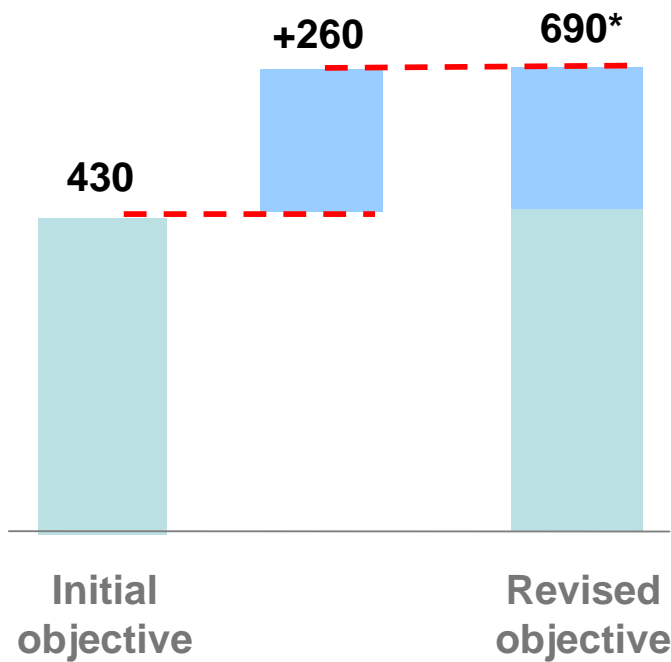


Our objective: maintain
stable unit costs

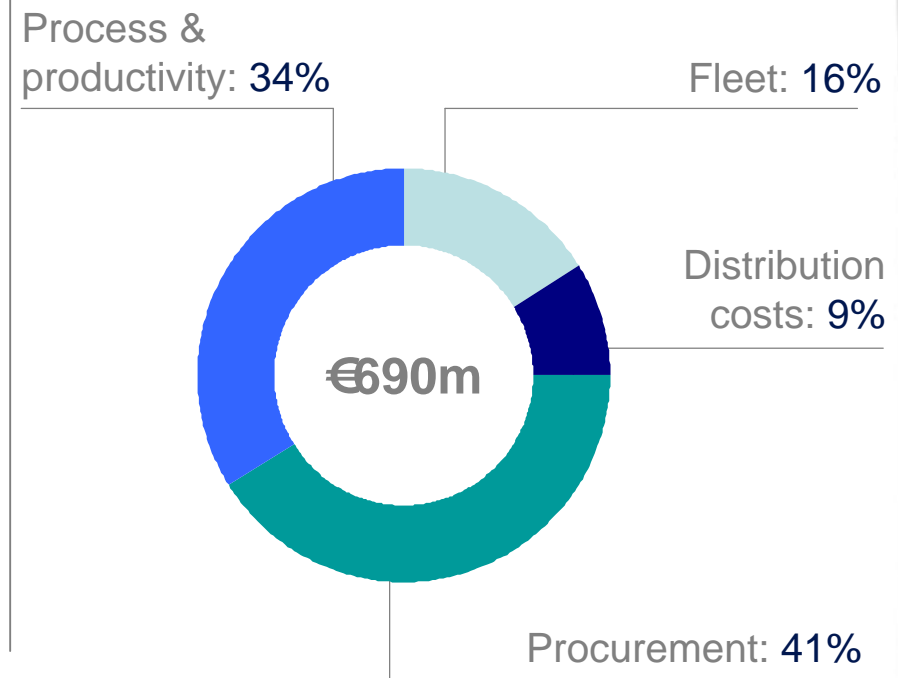
2008-09 cost-savings target increased

€ millions

New 2008-09 cost-savings target: €690m

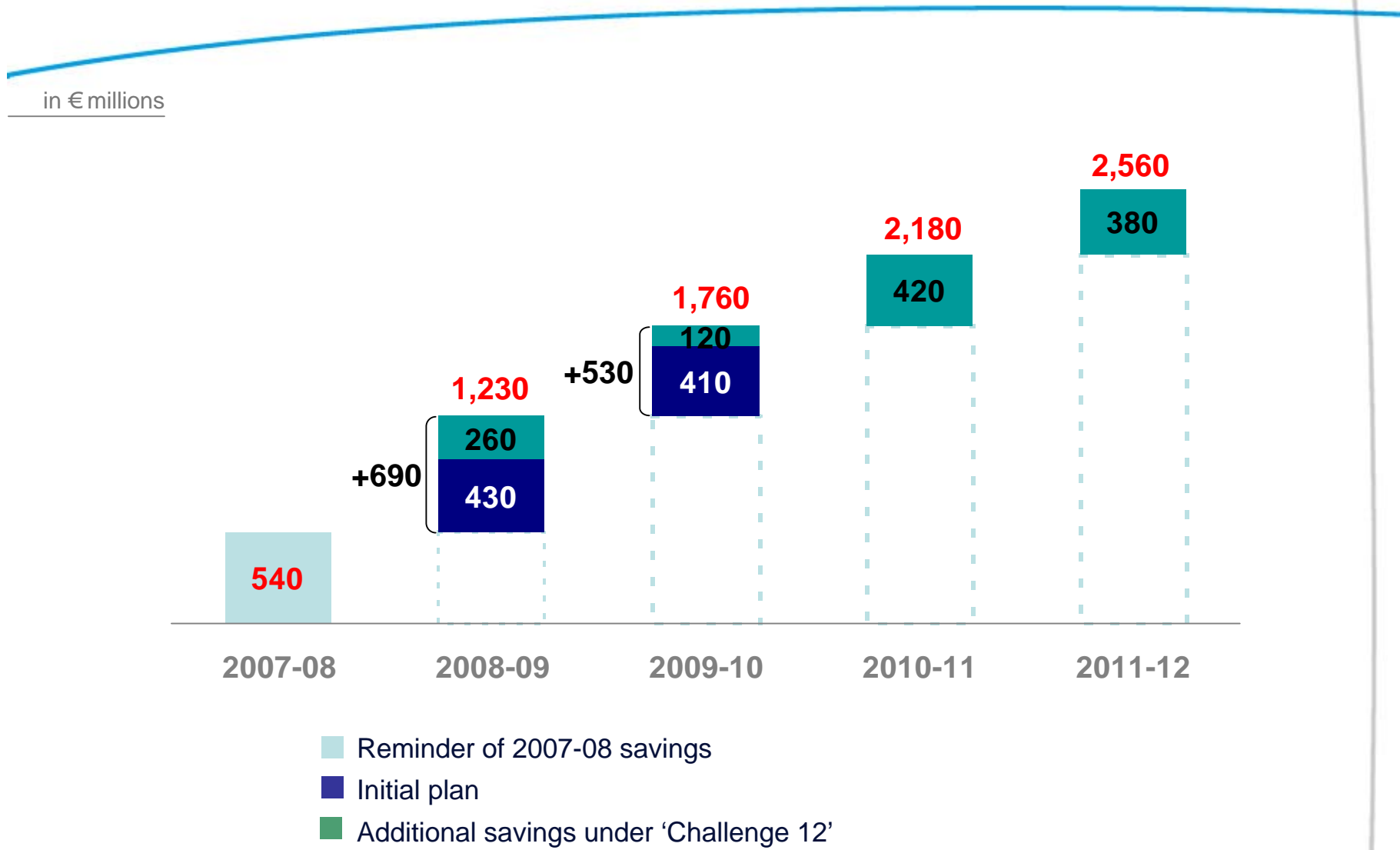


Breakdown of 2008-09 savings



* Of which €277m (40%) realized in H1

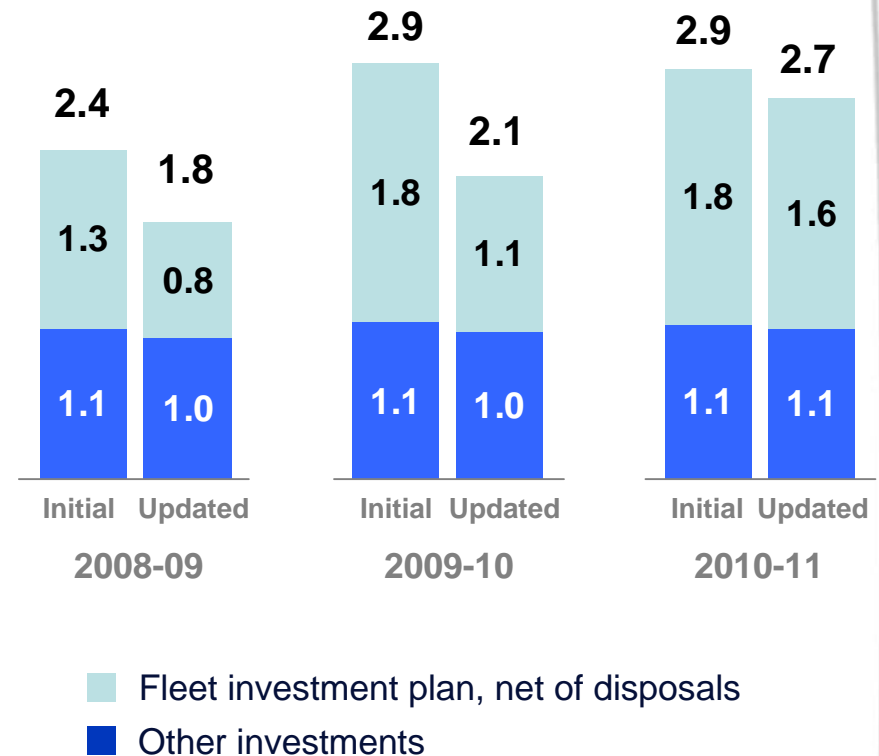
Cost-savings program extended to 2012



Investment program revised

in € billions

- ★ Revised investments relate mainly to the fleet
 - ▶ Non exercise of options
 - ▶ Aircraft deliveries postponed
 - ▶ Deposits renegotiated
 - ▶ Sale & leaseback operations



The North Atlantic joint-venture: a unique asset

- ✦ A ground-breaking organisation around two JVs in 2008...
 - ▶ Between KLM and Northwest
 - ▶ Between Air France and Delta

- ✦ ...merged into a global joint-venture in April 2009, a year ahead of schedule

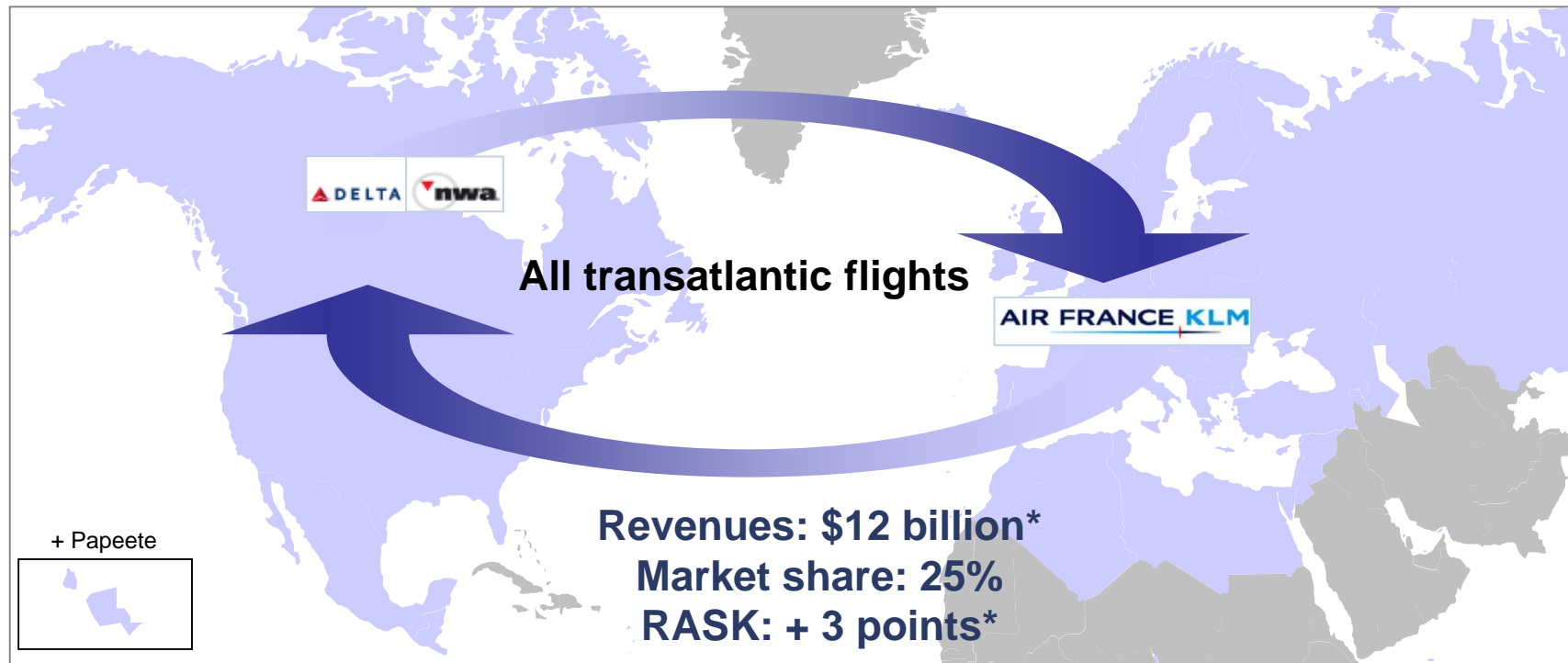
- ✦ A joint-venture between the European and the US leaders
 - ▶ Highly integrated
 - ▶ Significant headway on our competitors
 - ▶ A difficult model to replicate

- ✦ A vastly extended customer offer

- ✦ The KLM / Northwest experience shows it leads to:
 - ▶ Higher margins
 - ▶ Market share gains
 - ▶ More optimal use of assets
 - ▶ Reduced commercial costs

A joint-venture between the respective leaders in each market

Scope of the joint-venture as of April 2009



Geographic scope Summer 2009 *estimate

Consolidation of the European airline industry



- + In 2003-04, the combined market share of the four main European flag carriers in terms of traffic amounted to 56%
- + In 2007-08, the combined market share of these companies had grown by 11 points to 67%

Air France-KLM: well positioned to emerge stronger from the crisis

- ✦ Competitive advantages which have already proven their worth in previous downturns (large and balanced international network, ground-breaking JV on the North Atlantic, powerful hubs, fuel-efficient and flexible fleet, strong balance sheet)
- ✦ Flexibility to adapt to the new environment
- ✦ Further scope to reduce costs and generate additional synergies



Our objective: remain profitable through the cycle

Objective for Full Year 2008-09



- ✦ Market conditions continue to deteriorate with a high level of volatility in terms of the oil price and the euro/dollar exchange rate
- ✦ Assuming no further significant deterioration in the operating environment, our objective is of operating income clearly in profit for Financial Year 2008-09

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Appendices



Calculation of net debt

<u>€ millions</u>	<u>30th Sep 08</u>	<u>31st Mar 08</u>
Current and non current financial debt	7,911	7,819
- Interest not yet due	94	71
- Deposits on leased aircraft	812	816
+ Debt currency hedging instruments	115	151
= Gross financial debt	7,120	7,083
Cash and cash equivalents	4,103	4,381
+ Investments over 3 months	482	185
- Bank current accounts	210	172
= Net cash	4,375	4,394
Net debt	2,745	2,689
Consolidated shareholders' funds	11,086	10,614
Net debt / Shareholders' funds	0.25	0.25
<i>Net debt / Shareholders' funds excl derivatives</i>	<i>0.31</i>	<i>0.31</i>

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First Half Results 2008-09

20th November 2008



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