

**AIR FRANCE KLM**

# First Half Results 2007-08

22<sup>nd</sup> November 2007



# Agenda



Introduction

Jean-Cyril Spinetta

Activity

Peter Hartman

Results

Philippe Calavia

Strategy & Outlook

Jean-Cyril Spinetta

# Highlights of the First Half

## Market

- + Strong levels of global economic growth
- + Extreme oil price volatility
- + 'Open Skies' agreement signed April 30<sup>th</sup>, 2007
- + Further appreciation of the euro versus the dollar and the yen
- + Financial markets buffeted by 'subprime' crisis

## Air France-KLM

- + Dynamic passenger activity
- + Hedging policies kicking in strongly again
- + Strengthened position on the North Atlantic
- + Air France-KLM enters the CAC 40
- + H1 operating profit exceeds €1bn and adjusted operating margin at highest ever level

## Excellent Second Quarter results...

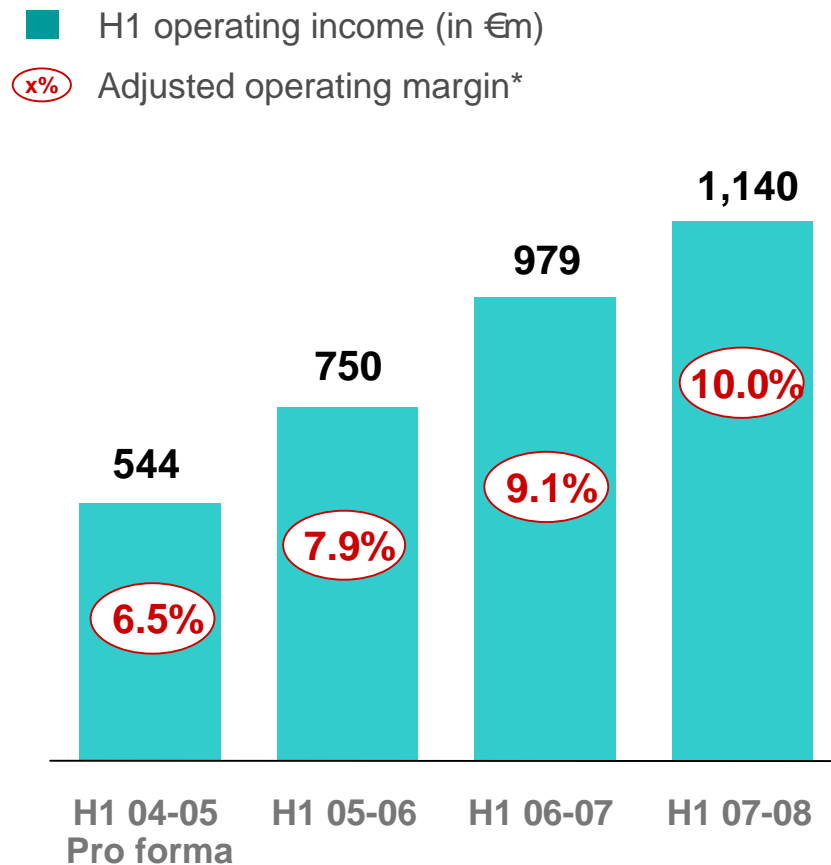
- ✦ Revenues: €6.5bn (+6%)
- ✦ Operating income: €725m (+28%)
- ✦ Adjusted operating margin: 12.0% (+1.9 pts)
- ✦ Net income: €736m (+97%)

# ...contributing to a strong First Half performance

First Half 2007-08

Double-digit operating margin

- + Revenues
  - ▶ **€12.43bn** (+4%)
- + Operating income
  - ▶ **€1,140m** (+16%)
- + Adjusted operating margin
  - ▶ **10.0%** (+0.9 pts)
- + Net income
  - ▶ **€1,151m** (+86%)



\* Operating income adjusted by the portion of financial costs of operating leases (34%)

**AIR FRANCE KLM**

# Dynamic activity

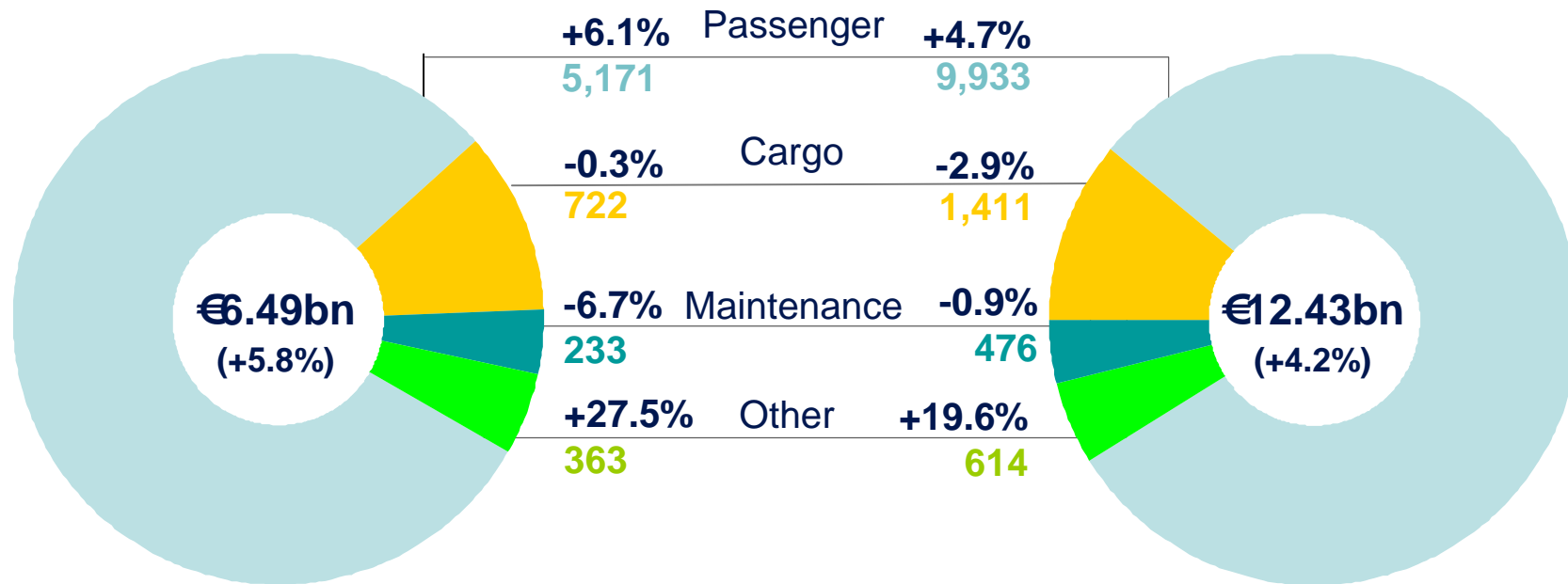
Peter Hartman



# Revenues driven by passenger activity

Second Quarter 2007-08

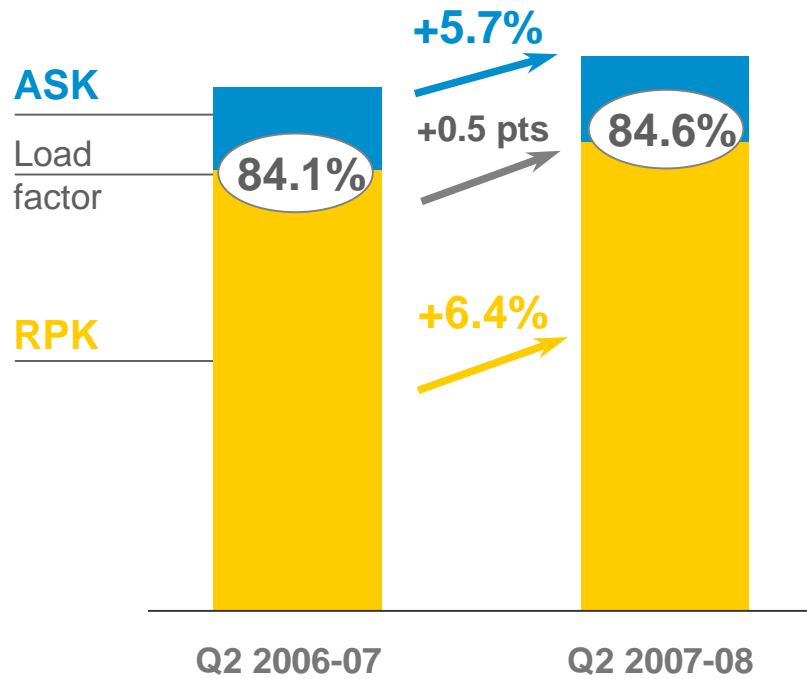
First Half 2007-08



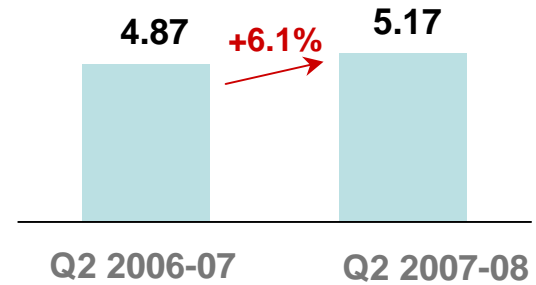
# Passenger: Further rise in profitability

## Second Quarter

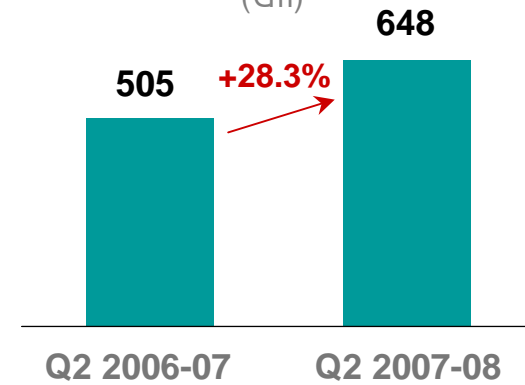
20.5 million passengers (+4.4%)



Total passenger revenues (€bn)



Passenger operating income (€m)

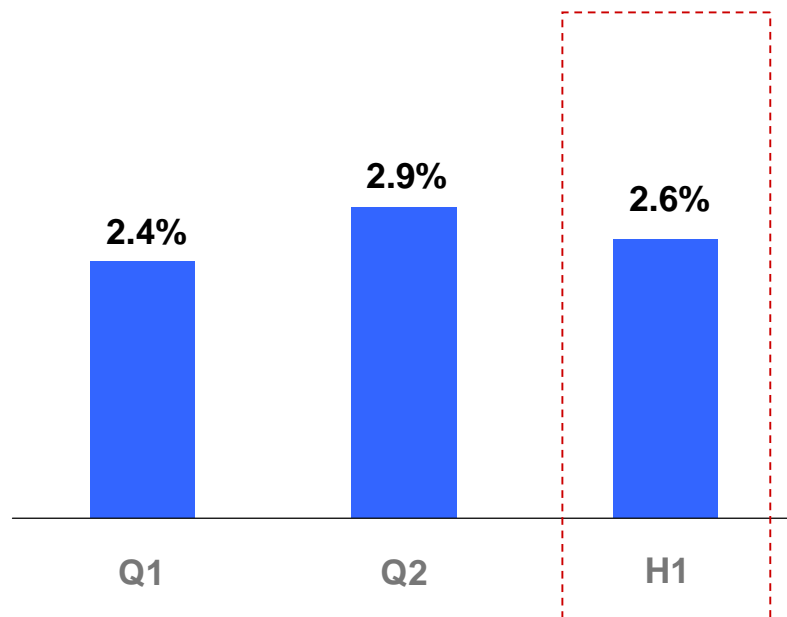




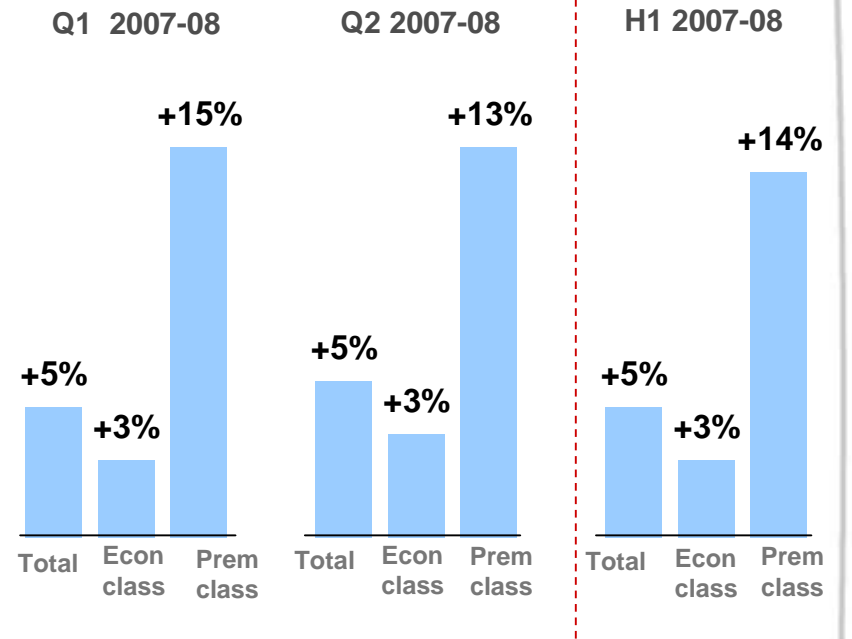
# Rise in unit revenues in all classes

First Half 2007-08

RASK: 7.23 € cts



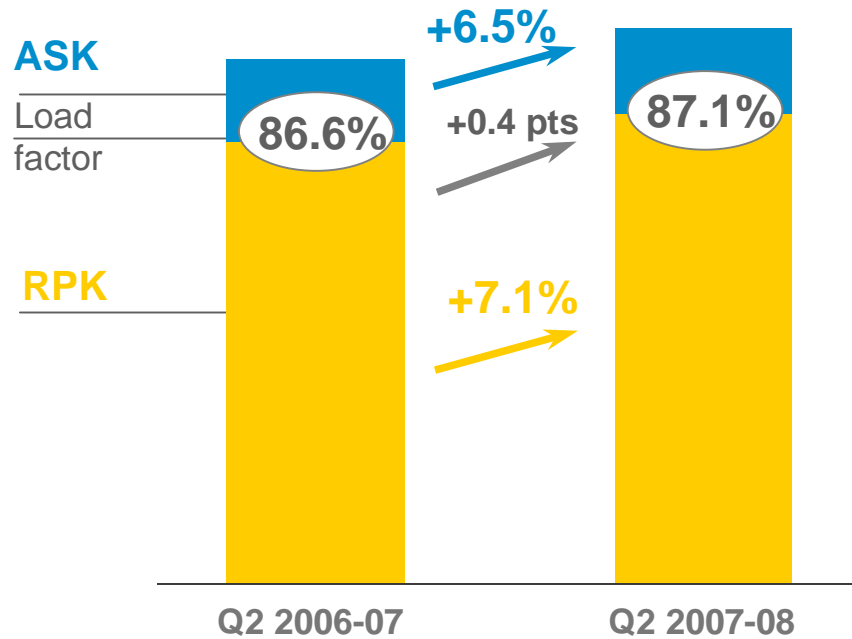
■ RASK ex currency impact (total network)



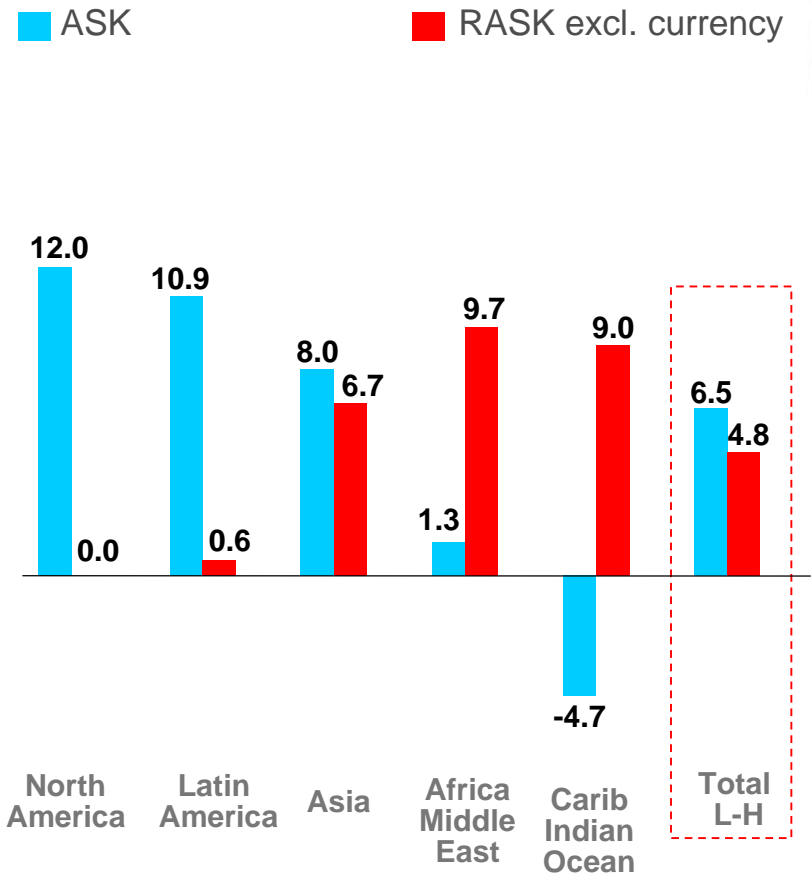
■ RASK ex currency impact (long-haul network)

# Long-haul activity remains dynamic

## Long-haul network

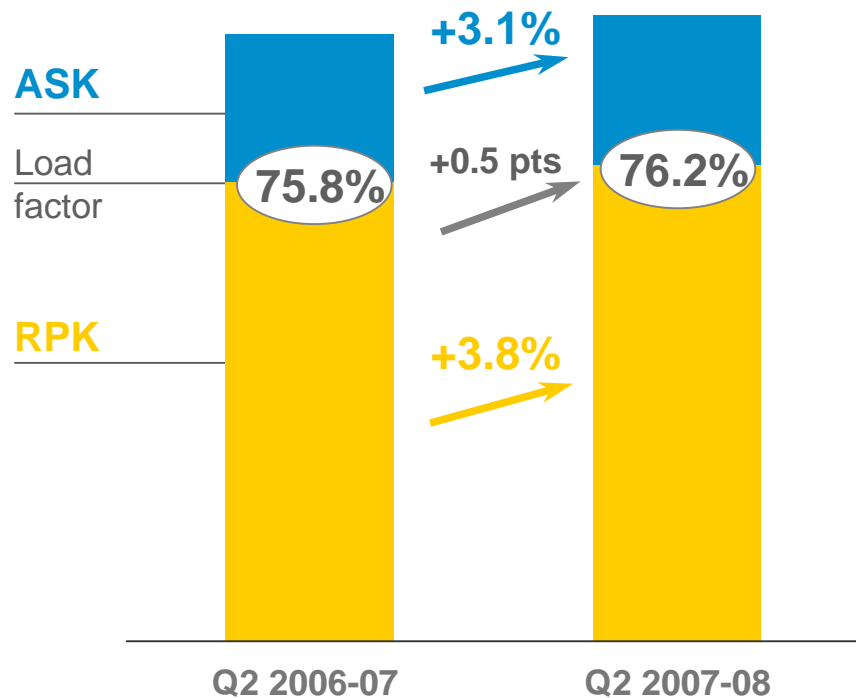


Second Quarter 2007-08  
in %

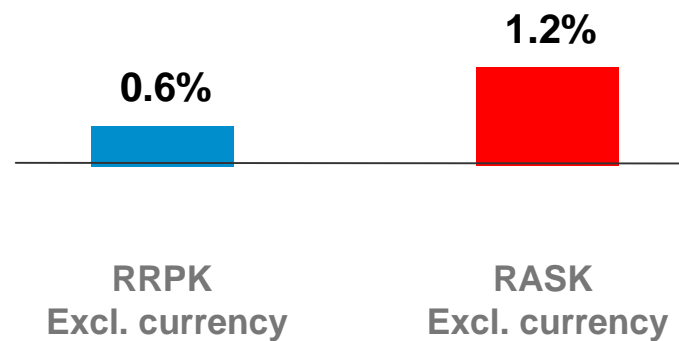


# Resilient medium-haul traffic

Medium-haul network  
(incl. France)



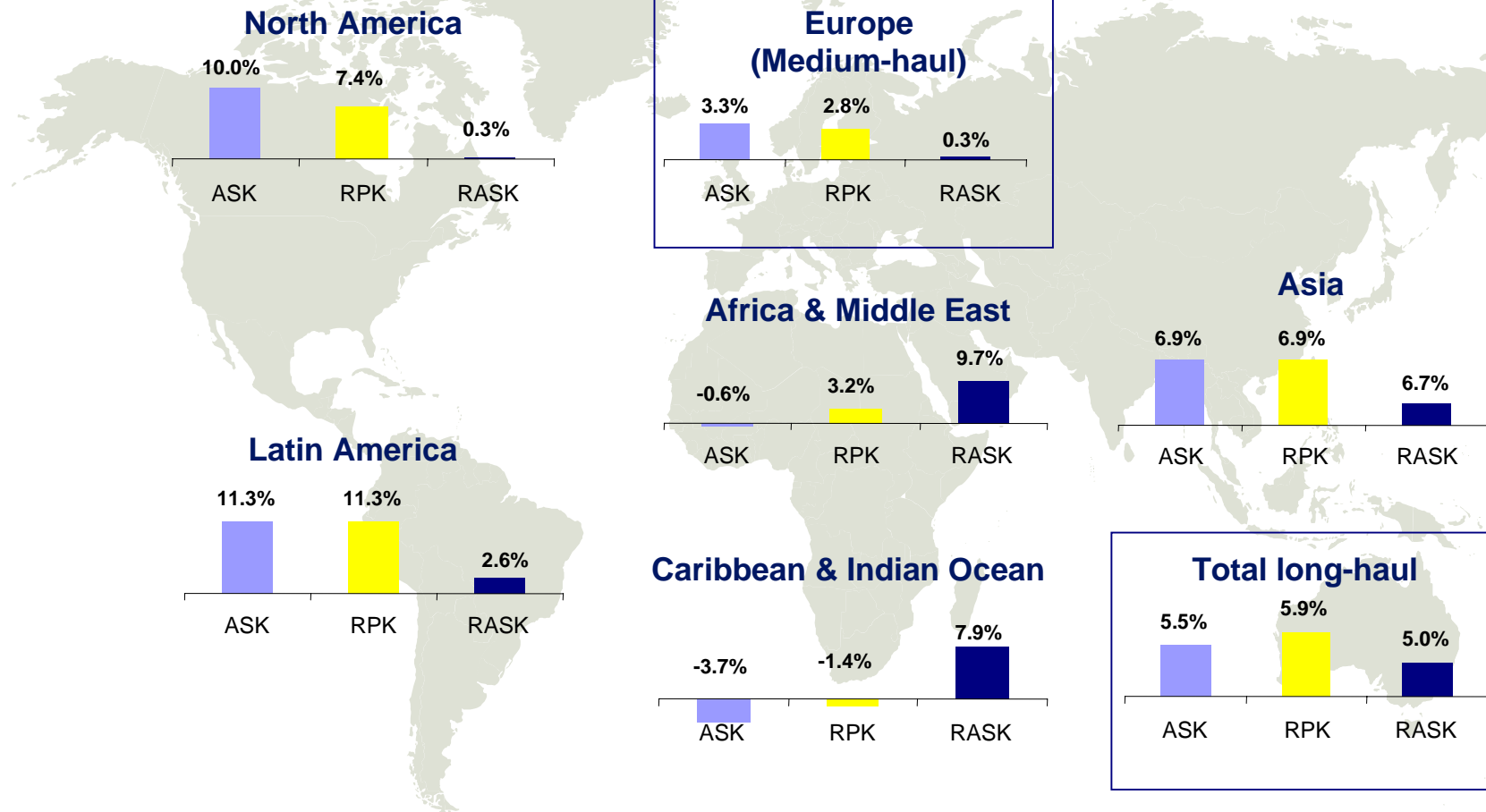
Unit revenues  
(Second Quarter 2007-08)



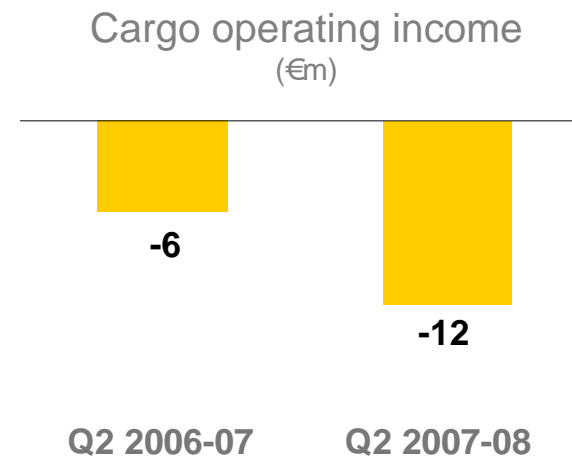
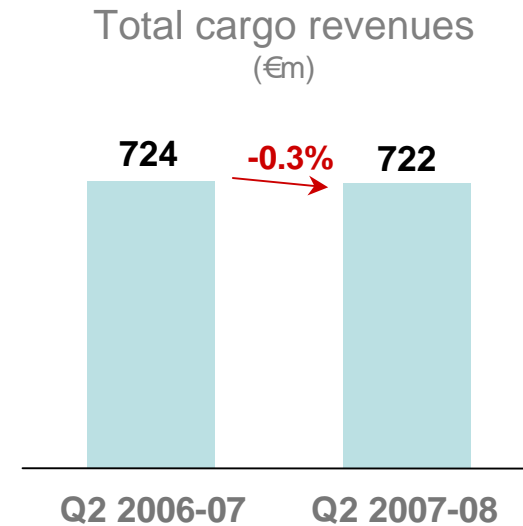
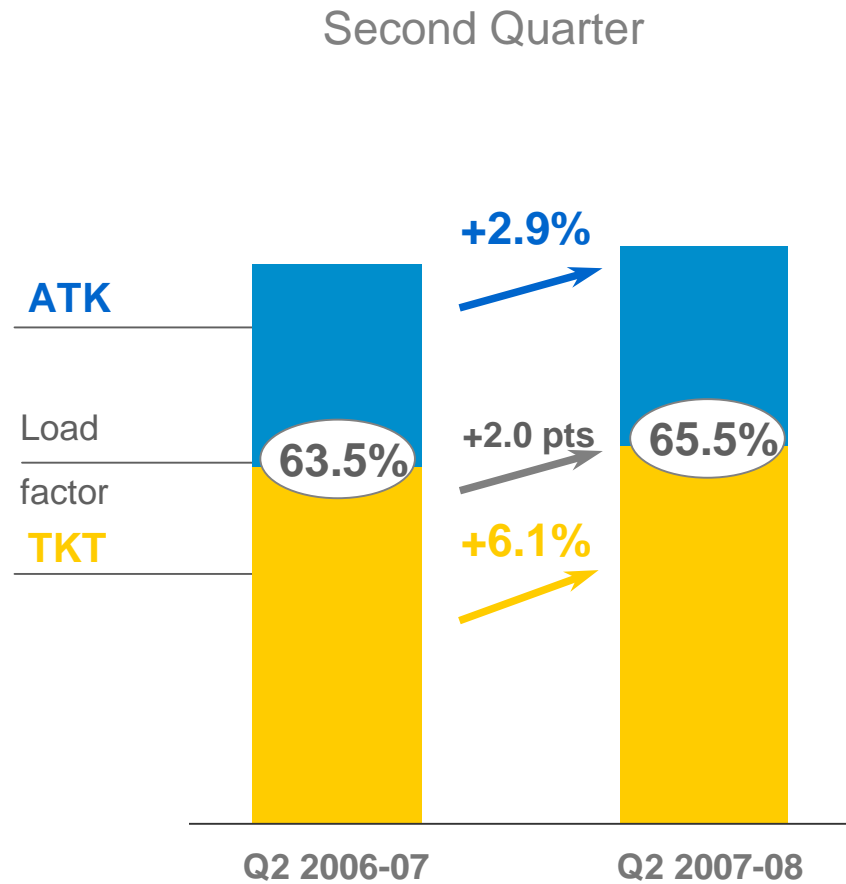
# Growth in all geographic zones in H1

First Half 07-08

RASK excl. currency effect

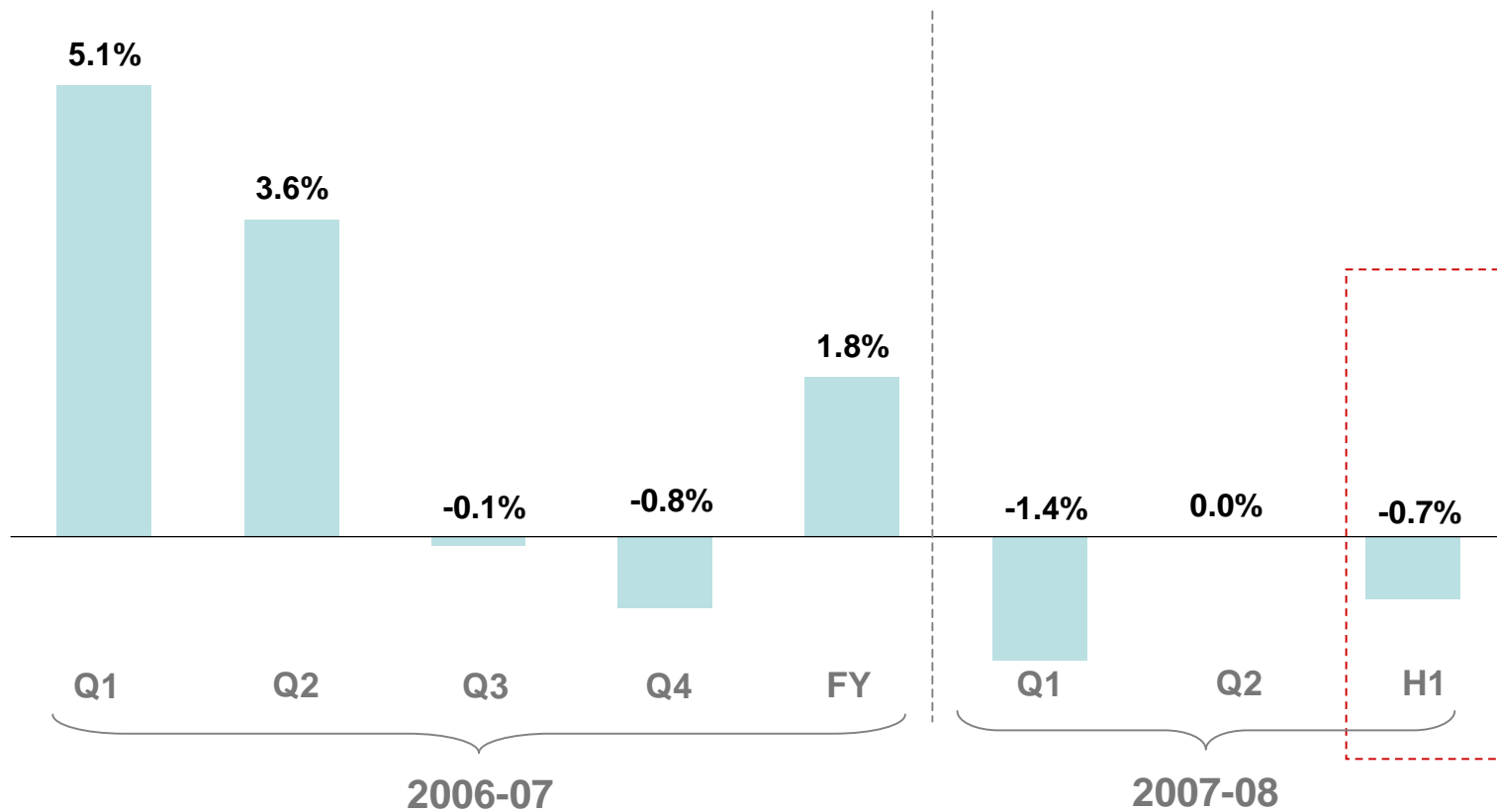


# Cargo: Confirmation of improvement in traffic...



# ...but unit revenues remain under pressure

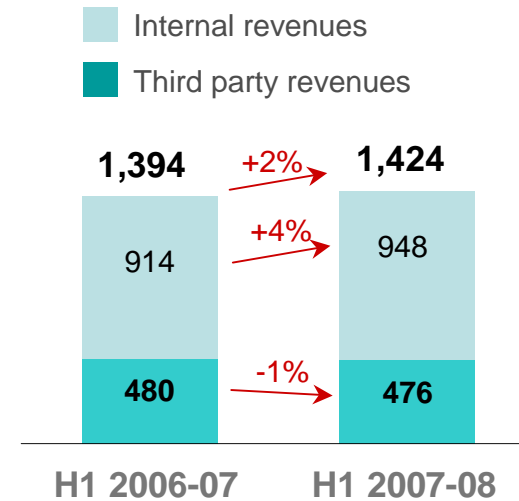
Unit revenue per ATK excl. currency impact



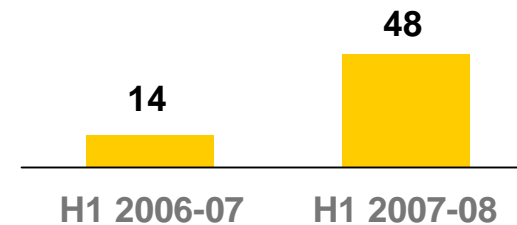
# Maintenance activity in the First Half

- + Market conditions
  - ▶ Strong competition including from aircraft manufacturers
  - ▶ Ongoing consolidation
- + Air France-KLM
  - ▶ Revenues penalised by dollar weakness
  - ▶ Growth of 5.25% excl. currency effect
  - ▶ Development of third-party motor and equipment support activity

Maintenance revenues  
First Half (€m)



Maintenance operating income  
First Half (€m)



# Other Activities in the First Half

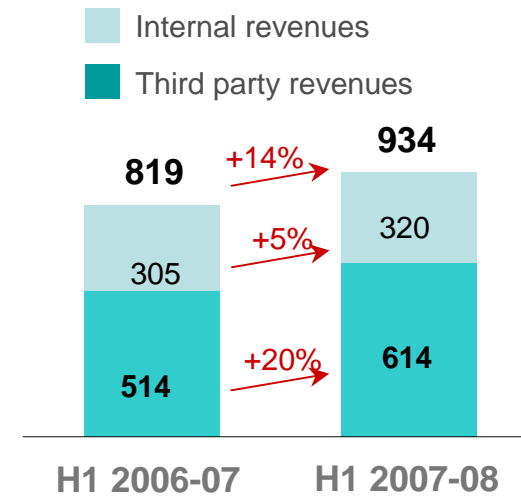
## + Catering

- ▶ Strong growth helped by disappearance of a competitor at CDG
- ▶ Full consolidation of Air Chef in Q2

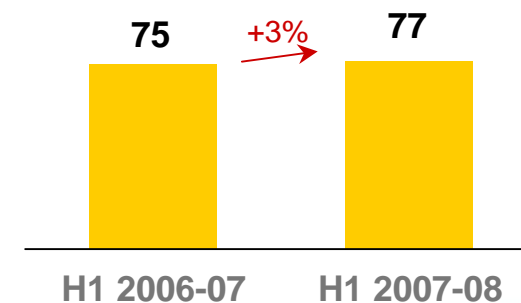
## + Leisure

- ▶ Successful launch of transavia.com France
- ▶ Activity in line with business plan
- ▶ Good levels of activity at transavia.com Netherlands

Other Activities Revenues  
First Half (€m)



Other Activities operating income  
First Half (€m)





**AIR FRANCE KLM**

**Strong rise in results**

**Philippe Calavia**



# Excellent Second Quarter results

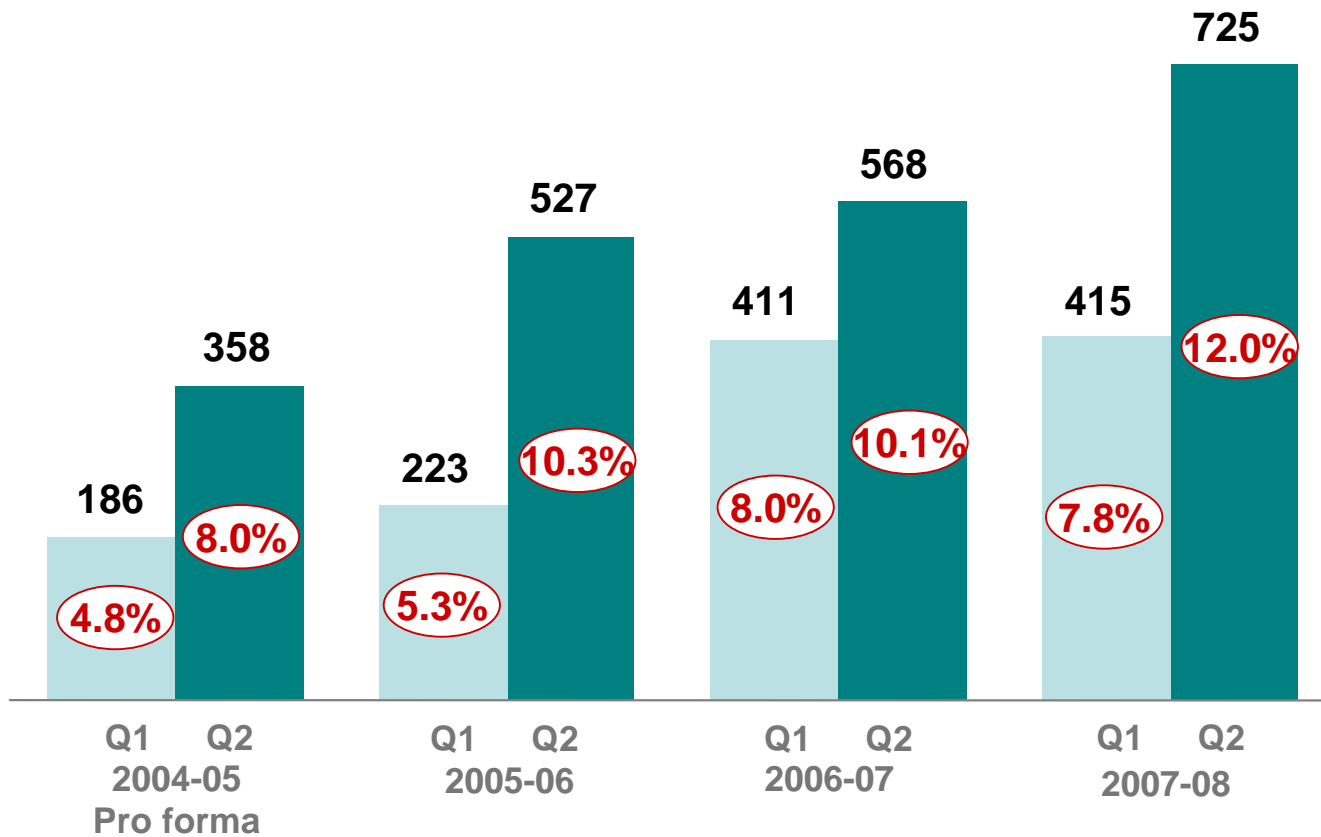
In € millions	30 <sup>th</sup> Sep 2007	30 <sup>th</sup> Sep 2006	Change
<b>Revenues</b>	<b>6,489</b>	<b>6,131</b>	<b>+5.8%</b>
Current operating charges	(5,764)	(5,563)	+3.6%
<b>Operating income</b>	<b>725</b>	<b>568</b>	<b>+27.6%</b>
<i>Operating margin</i>	11.2%	9.2%	+2.0 pts
<i>Adjusted operating margin*</i>	12.0%	10.1%	+1.9 pts
Other non-current income and charges	214	(2)	nm
<b>Income from operating activities</b>	<b>939</b>	<b>566</b>	<b>+65.9%</b>
Net interest charge	(16)	(39)	-59.0%
Other	(15)	(2)	nm
Income tax	(172)	(151)	13.9%
<b>Net income, group share</b>	<b>736</b>	<b>374</b>	<b>+96.8%</b>

\* Operating income adjusted by the portion of financial costs of operating leases (34%)

# Four point rise in adjusted margin in three years

Operating income (€m)

**x%** Adjusted operating margin\*



\* Operating income adjusted by the portion of financial costs of operating leases (34%)

# Strong First Half performance

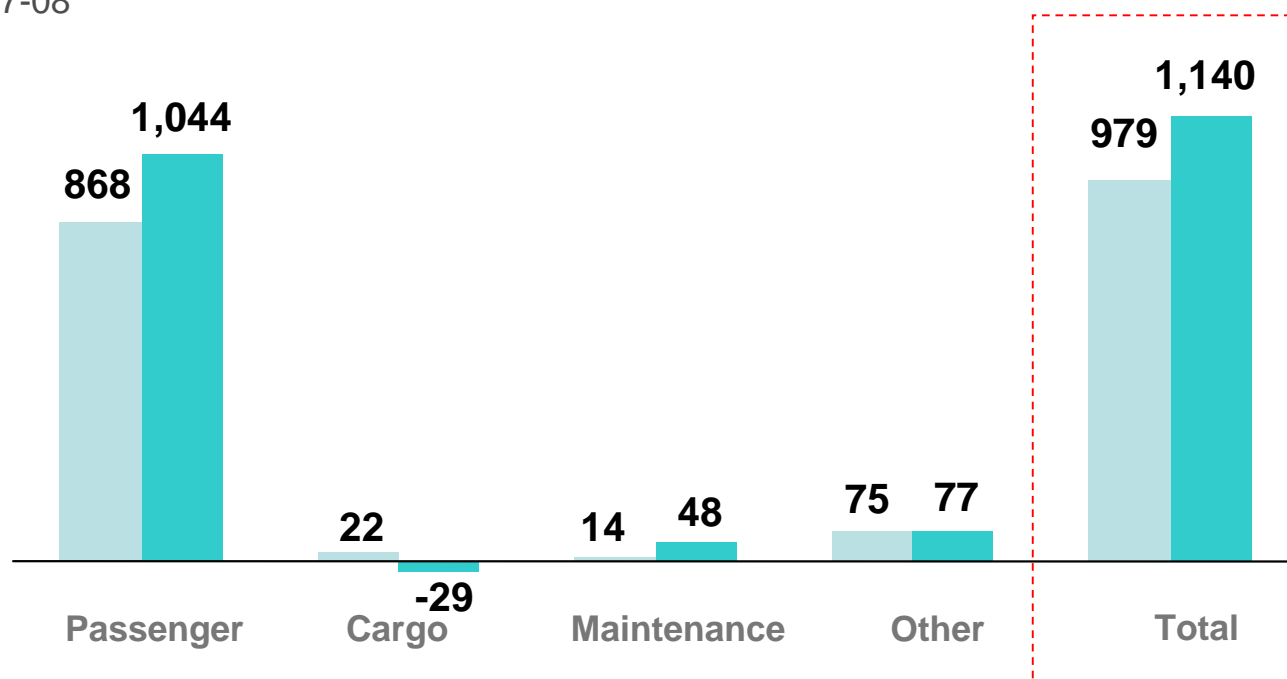
In € millions	30 <sup>th</sup> Sep 2007	30 <sup>th</sup> Sep 2006	Change
<b>Revenues</b>	<b>12,434</b>	<b>11,933</b>	<b>+4.2%</b>
Current operating charges	(11,294)	(10,954)	+3.1%
<b>Operating income</b>	<b>1,140</b>	<b>979</b>	<b>+16.4%</b>
<i>Operating margin</i>	9.2%	8.2%	+1.0 pt
<i>Adjusted operating margin*</i>	10.0%	9.1%	+0.9 pts
Other non-current income and charges	336	(25)	nm
<b>Income from operating activities</b>	<b>1,476</b>	<b>954</b>	<b>+54.7%</b>
Net interest charge	(47)	(85)	(44.7%)
Other	68	(13)	nm
Income tax	(346)	(238)	45.4%
<b>Net income, group share</b>	<b>1,151</b>	<b>618</b>	<b>86.2%</b>

\* Operating income adjusted by the portion of financial costs of operating leases (34%)

# Operating income by business

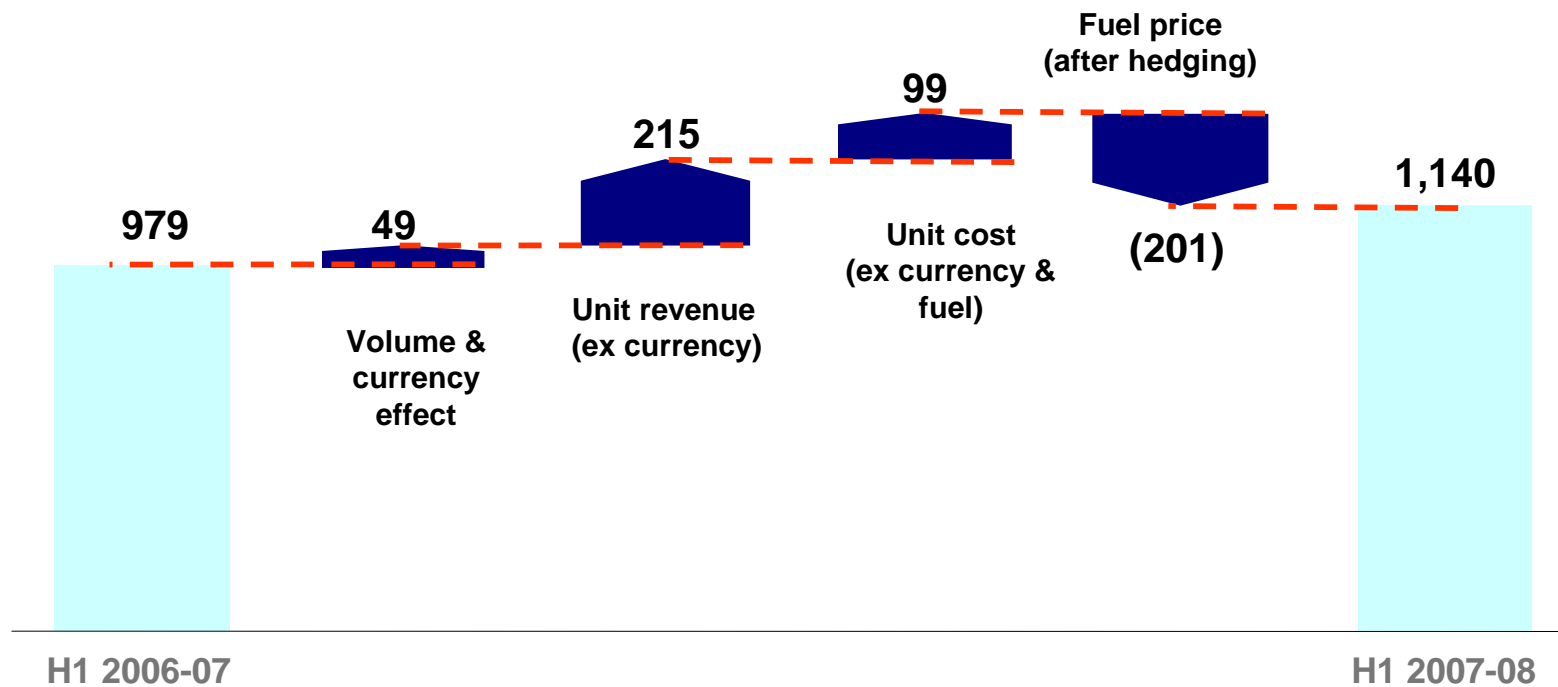
Operating income  
in € millions

- *First Half 2006-07*
- *First half 2007-08*



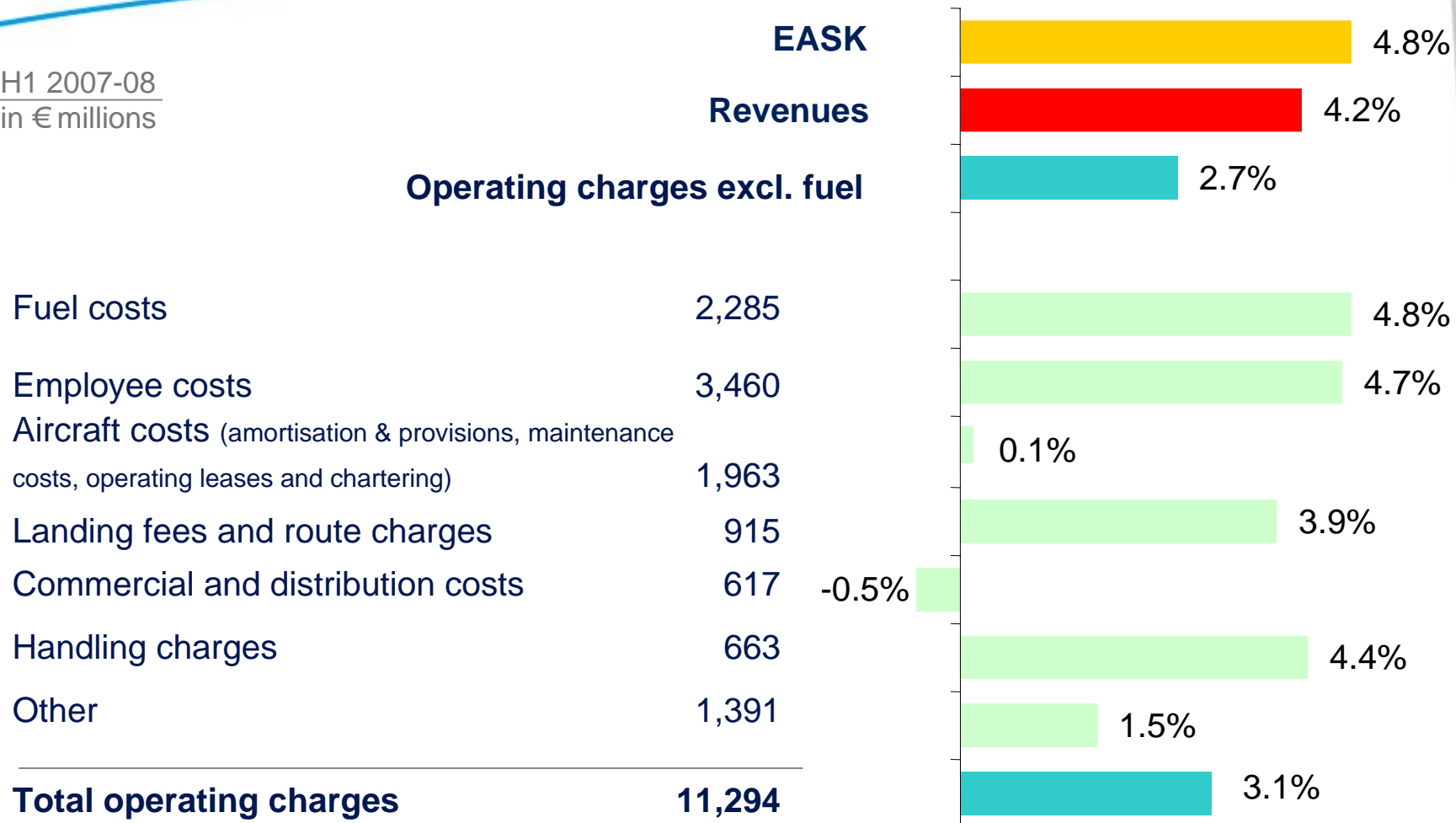
# Analysis of operating income

First Half operating income  
in € millions



# Operating charges under control

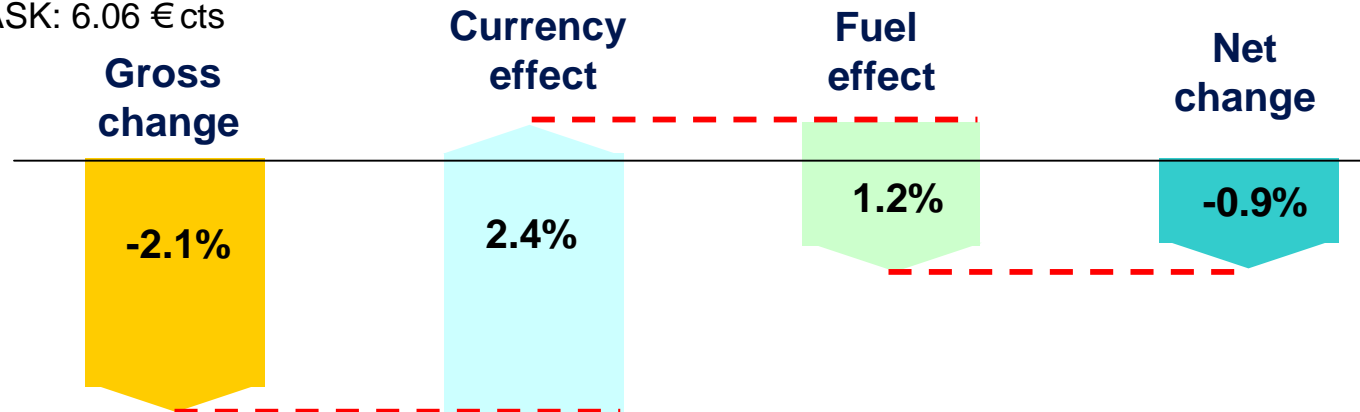
H1 2007-08  
in € millions



# Unit costs reduced in line with 'Challenge 10' objectives

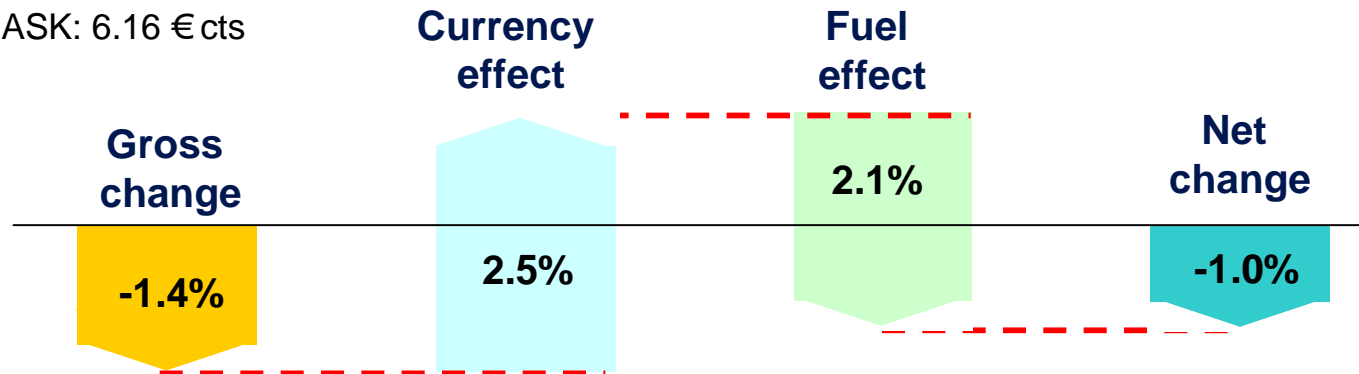
## Q2 2007-08

Unit cost per EASK: 6.06 € cts



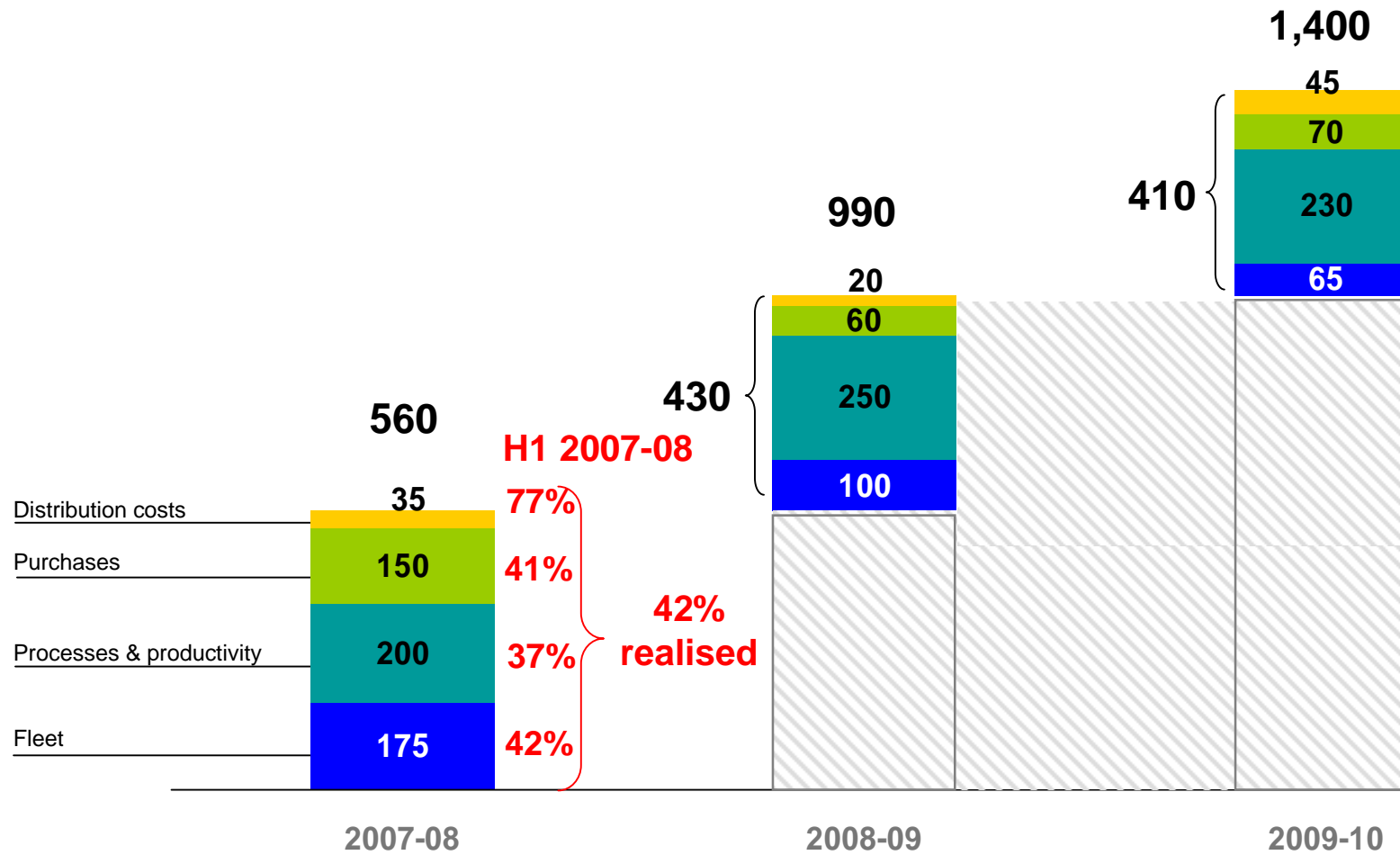
## H1 2007-08

Unit cost per EASK: 6.16 € cts





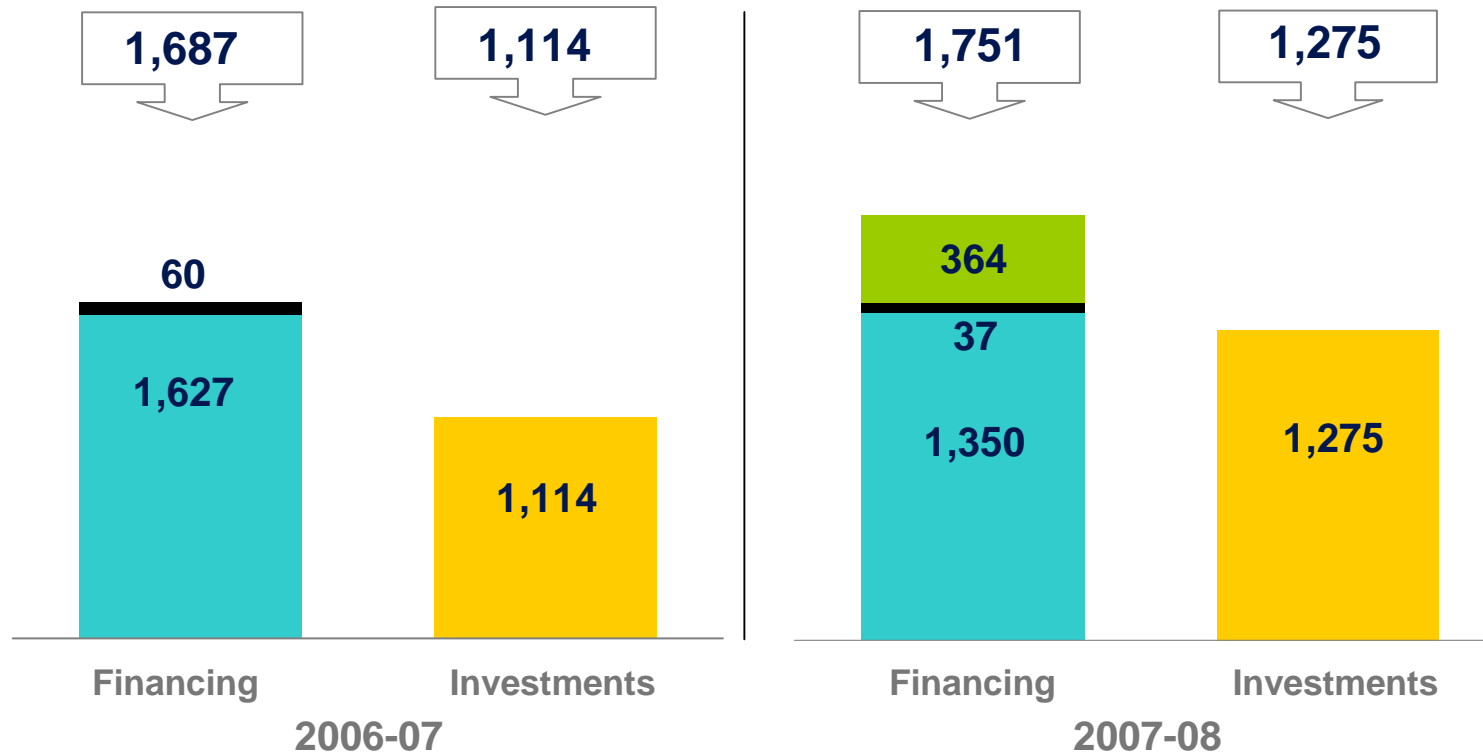
# Update on 'Challenge 10' progress



# Free cash flow of some €500m

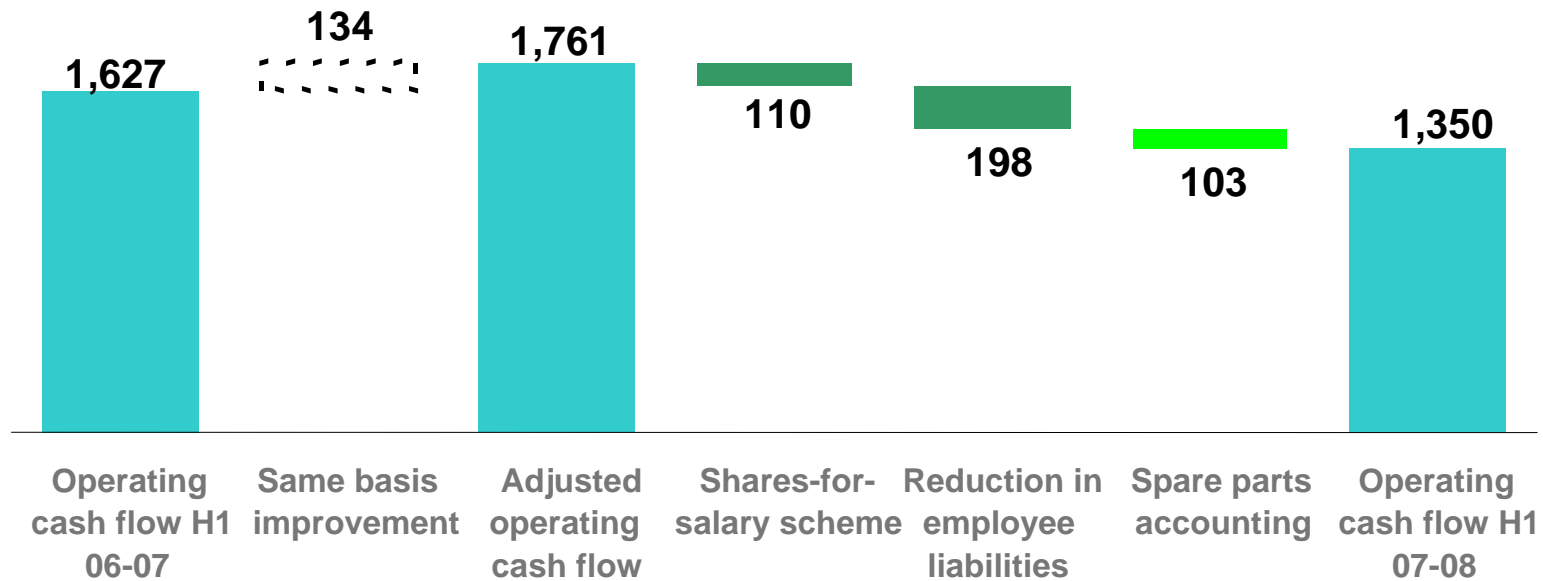
First Half  
in € millions

- Aircraft disposals
- Cash from financial operations
- Operating cash flow
- Tangible and intangible investments



# Operating cash flow impacted by exceptional items

First Half 2007-08  
in € millions



Adjusted operating cash flow

Operating cash flow

Non recurrent items

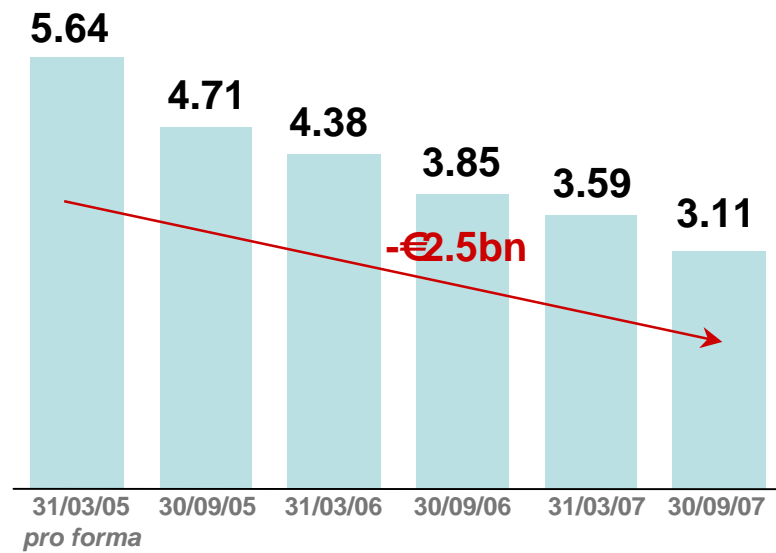
Change in accounting method

Same basis improvement

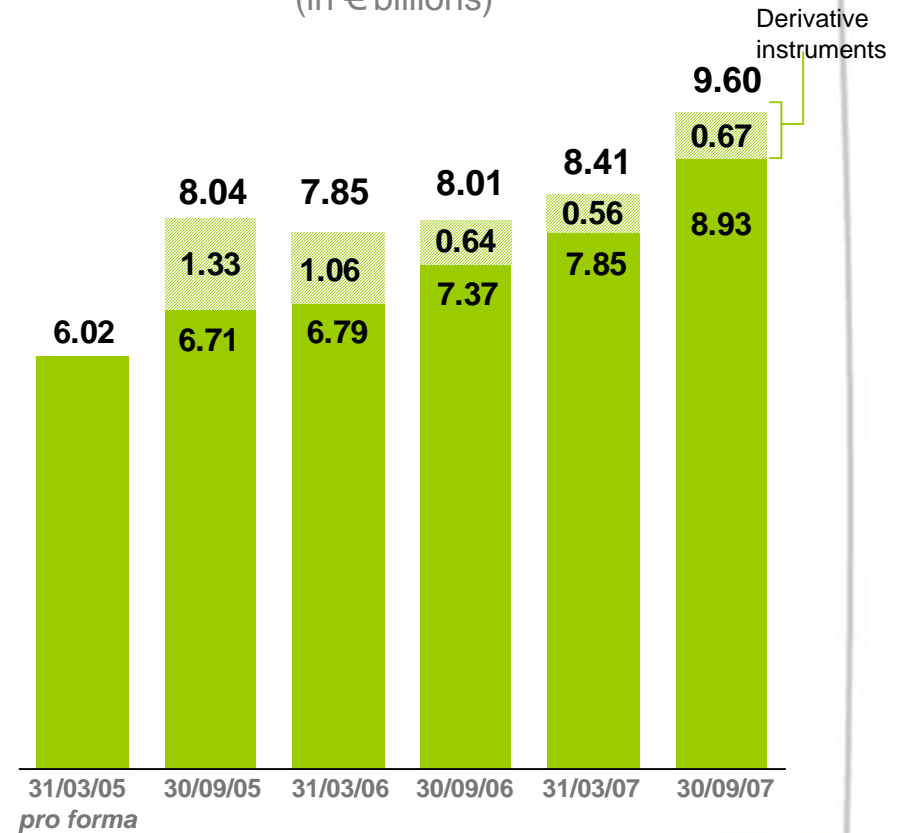
# Further reduction in net debt...

Gearing ratio at 30<sup>th</sup> September: **0.32**  
 (At 31<sup>st</sup> March 2007: 0.43)

Net financial debt  
 (in € billions)

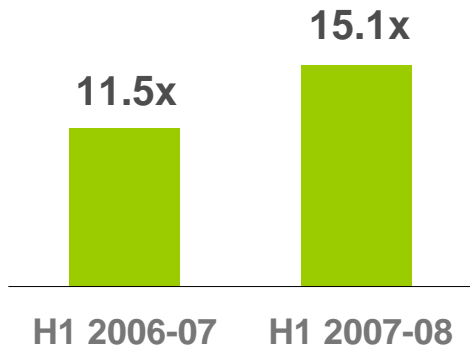


Shareholders' funds  
 (in € billions)

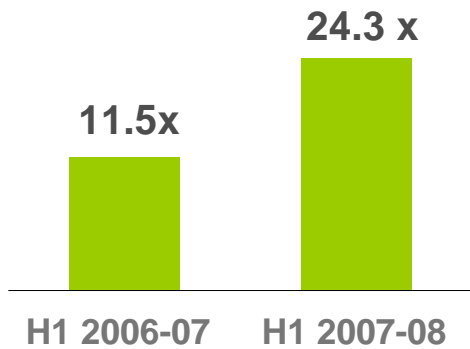


# ...and improved financial position

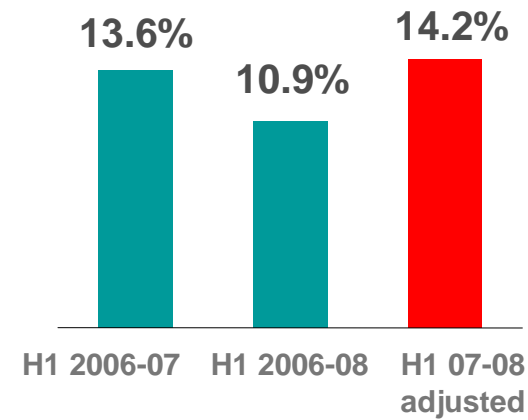
**EBITDAR / Net adjusted interest charge\***



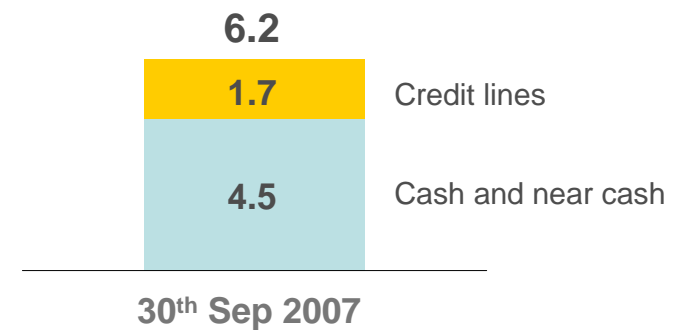
**EBIT / Net interest charge**



**Operating cash flow margin**



**Disposable cash (in €bn)**



\* Adjusted by the the portion of financial costs of operating leases (34%)

# Air France-KLM share capital

- ✦ Capital increase through exercise of warrants
  - ▶ May 2004 issue of **45,093,299 warrants** at exchange of KLM shares
    - ▶ 3 warrants + 40 euros = 2.066 shares
    - ▶ Exercise period: November 2005 – 6<sup>th</sup> November 2007
  - ▶ Successful conversion with a level of **99.3%**
  - ▶ Creation of **30,835,235 shares** for a total of **€597m**, of which 19,586,387 on 6<sup>th</sup> November
  - ▶ Number of shares in issue: **300,219,278**
  
- ✦ Air France-KLM plans to de-list from the NYSE
  - ▶ Estimated annual saving of **€3.5m**

**AIR FRANCE KLM**

# Strategy and outlook

Jean-Cyril Spinetta



# Agenda



- + Update on current trading
- + Longer term developments
- + Objectives



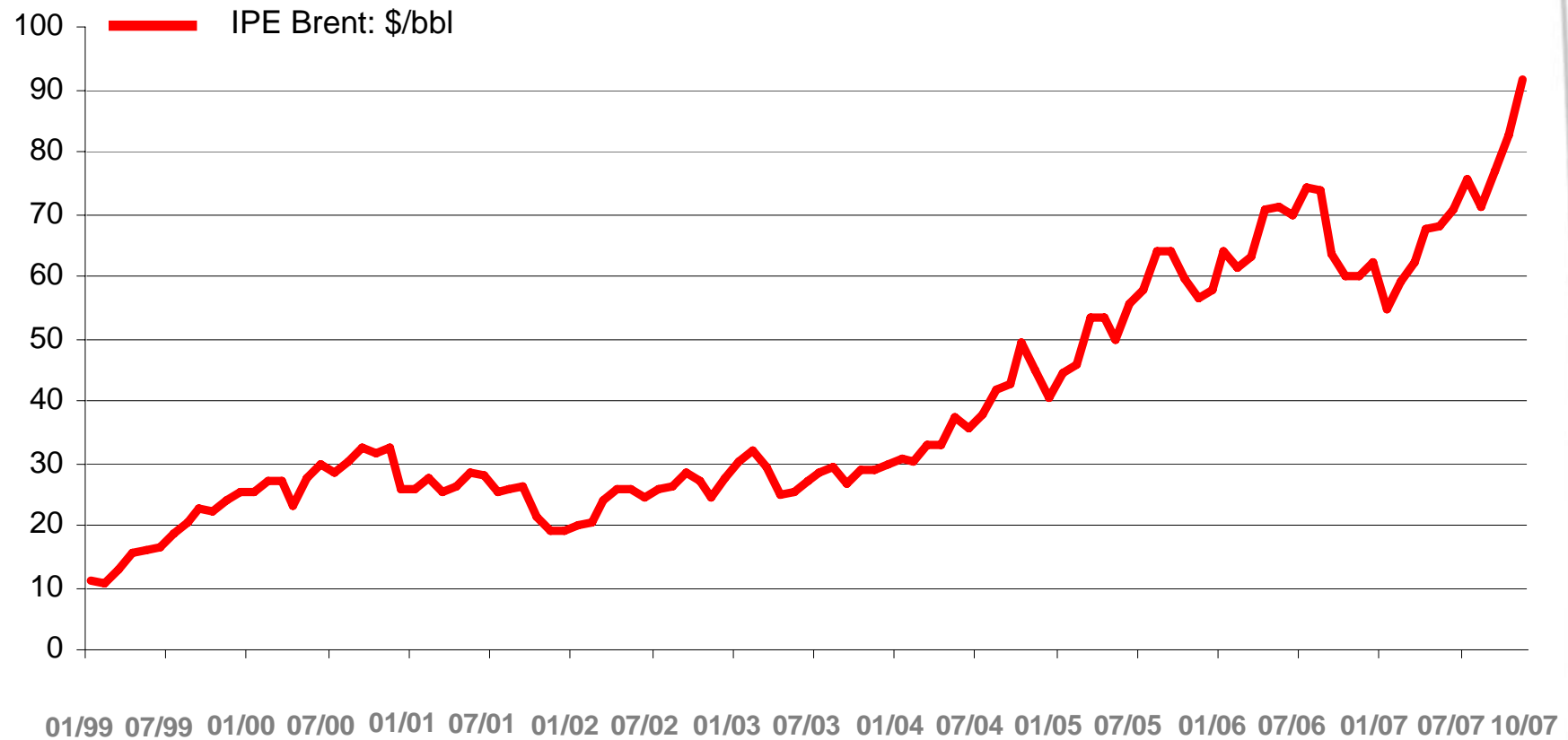
# Passenger activity: Positive trend in forward bookings, especially high yield customers on long-haul flights

High yield offer and forward bookings  
for the next three months\*

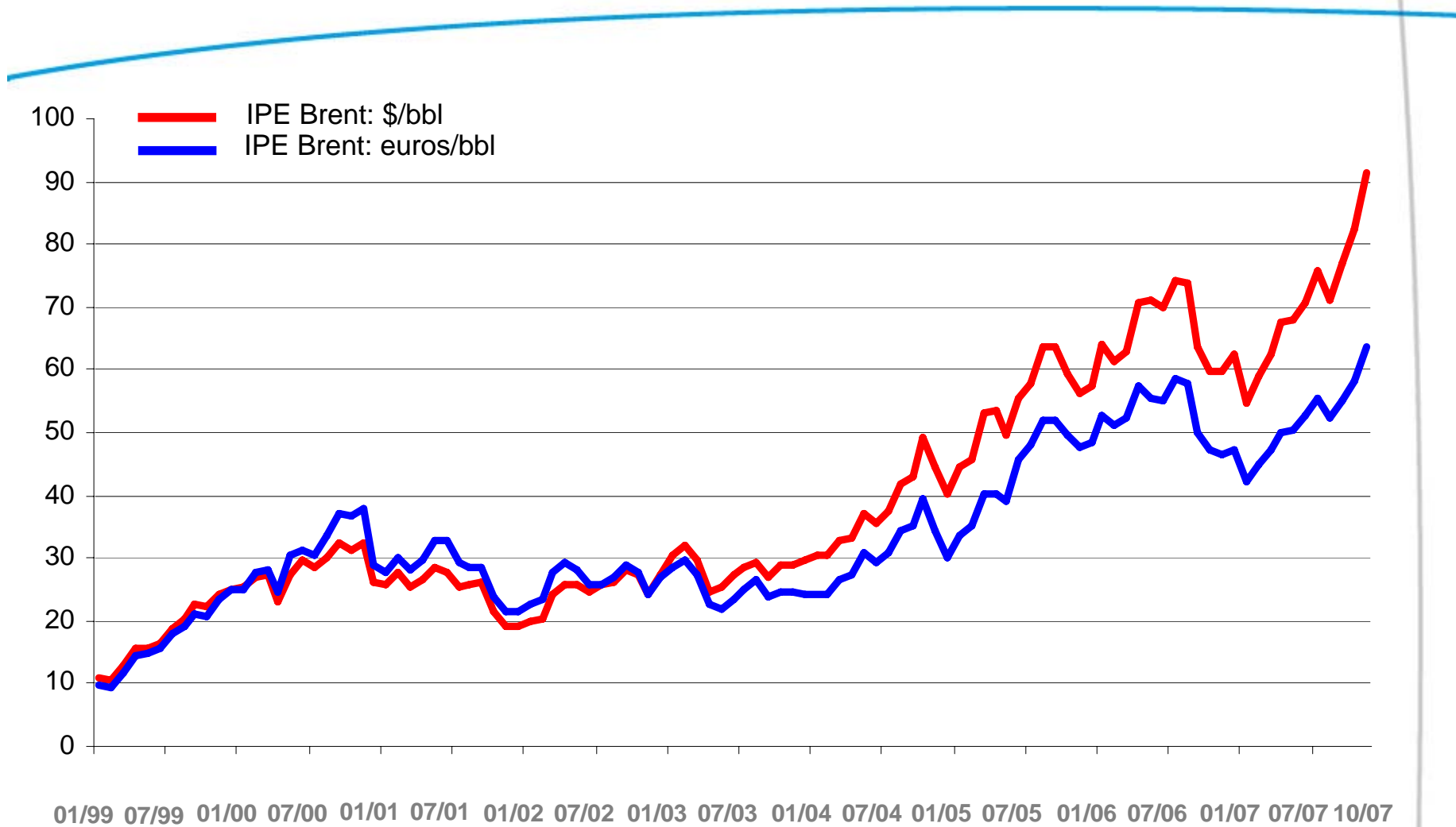
	Air France	KLM
High yield offer long-haul	+ 2%	+4%
High yield bookings long-haul	+12%	+10%

\* Period from November 12<sup>th</sup> 2007 to February 17<sup>th</sup> 2008 versus same period last year

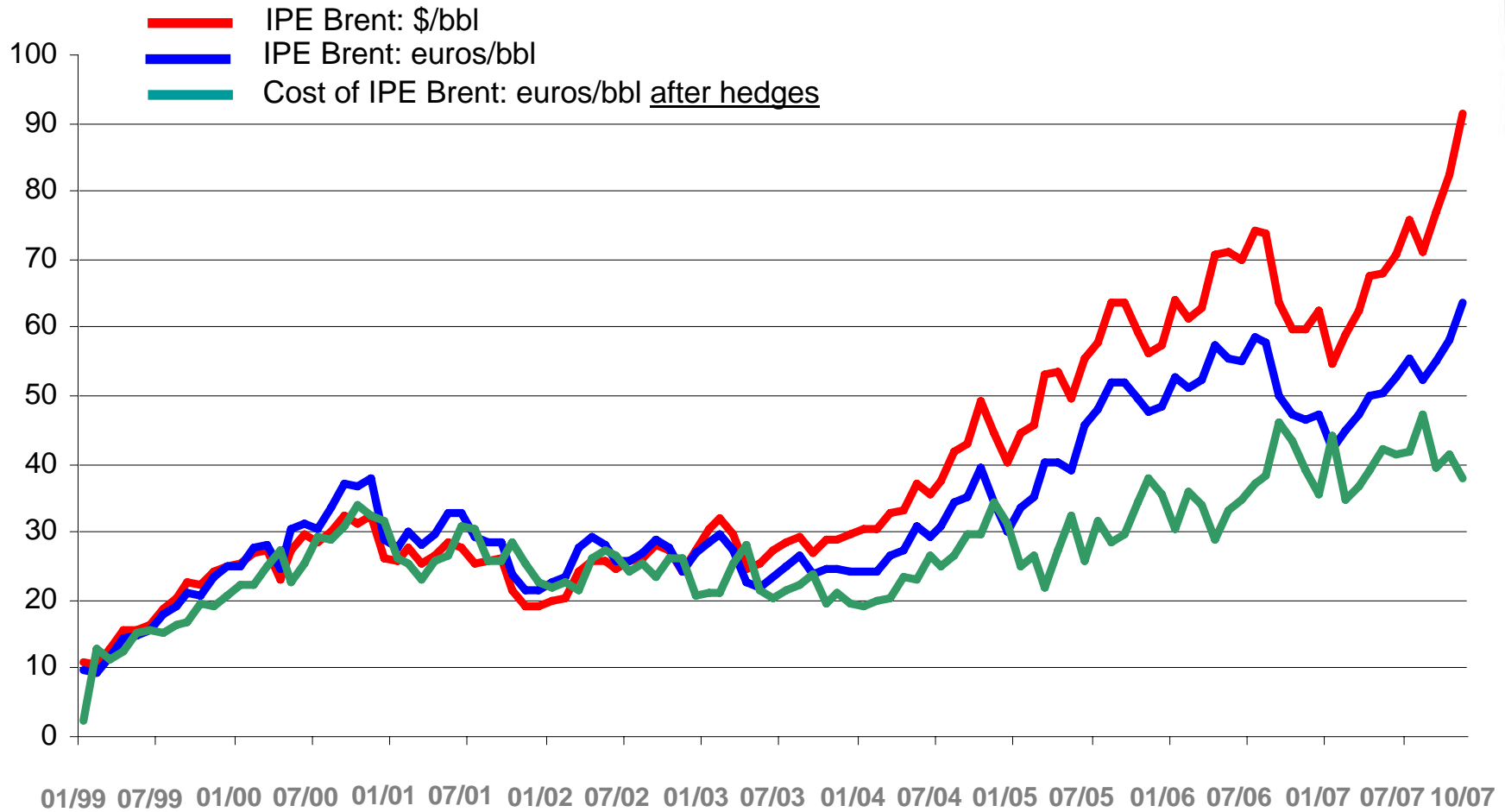
# Oil price continues to rise...



...but dollar weakness...



## ...and efficient hedging limit the impact on our fuel bill

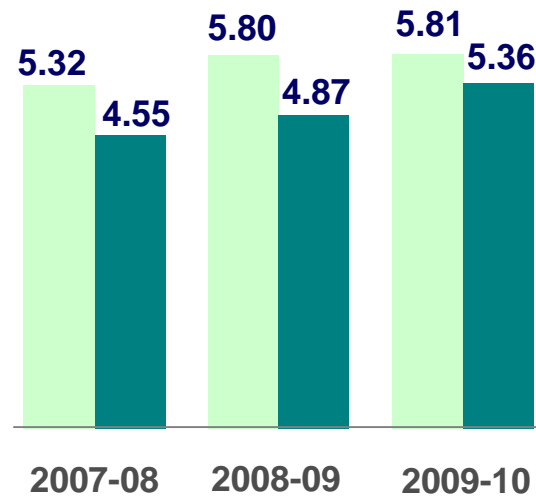


# Fuel hedging update

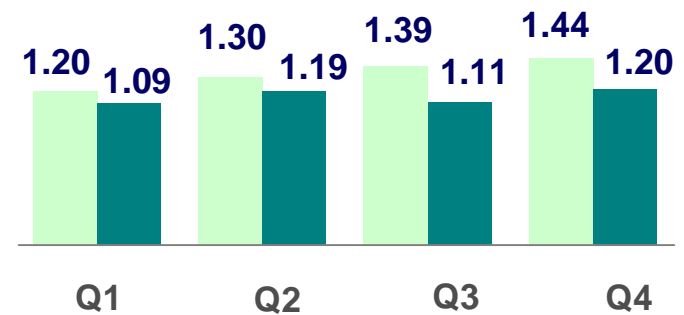
■ Fuel bill before hedging (€billions)

■ Fuel bill after hedging (€billions)

Annual fuel bill



Quarterly change 2007-08



Market price (\$/bbl)*	81	87	83
<b>Hedged level</b>	<b>78%</b>	<b>67%</b>	<b>51%</b>
Average hedged price (\$/bbl)	61	60	67
Exchange rate €/€	1.41	1.45	1.45

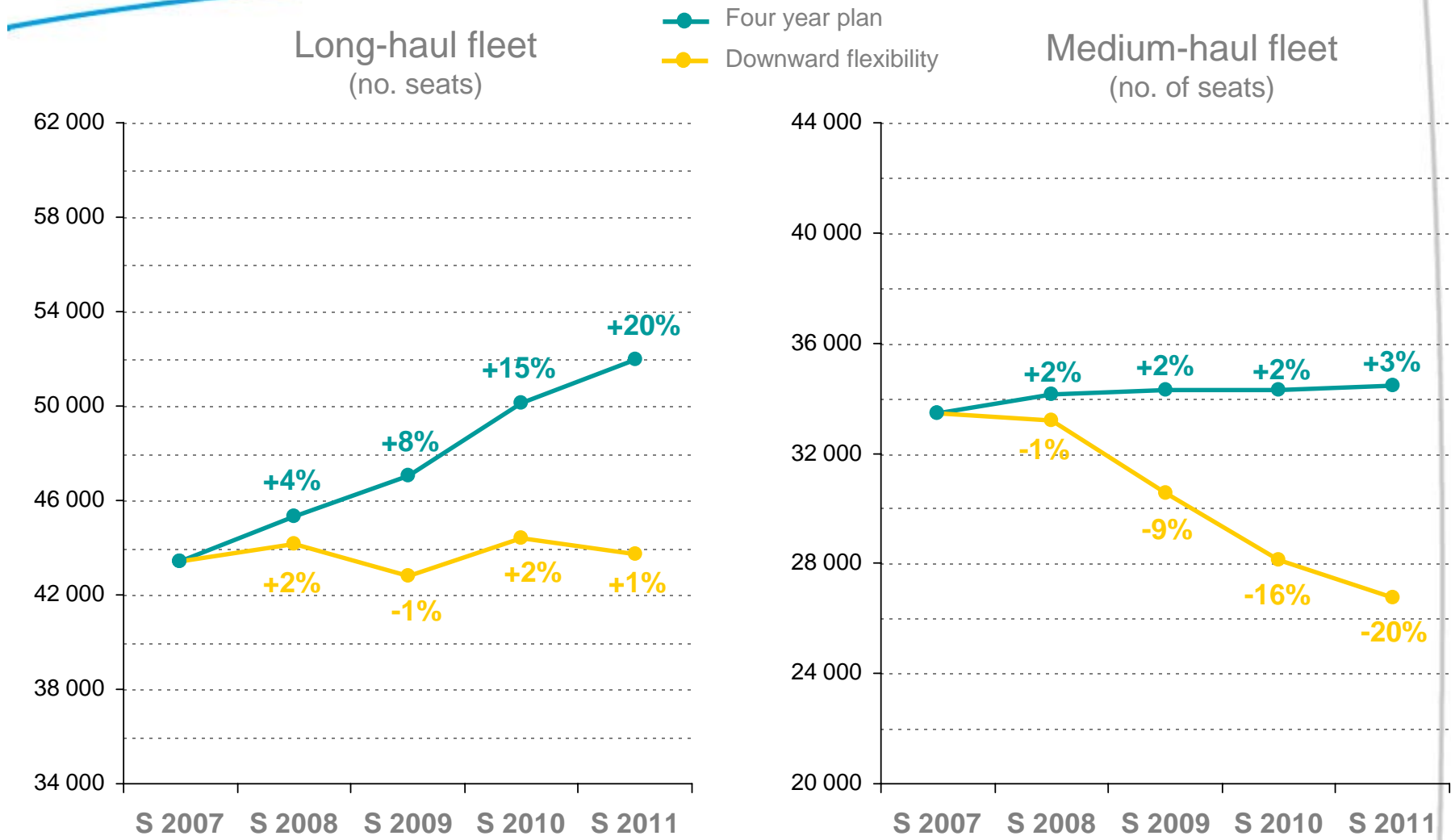
	69	75	88	90
	<b>81%</b>	<b>75%</b>	<b>79%</b>	<b>75%</b>
	59	61	60	64
	1.35	1.40	1.42	1.45

\* Spot price at 16<sup>th</sup> November 2007

# Air France-KLM: Fleet plan at 30<sup>th</sup> September 2007

At 30 <sup>th</sup> September	2008	2009	2010	2011	2012	Total
A320-21	9	7	10	4	-	<b>30</b>
A330	1					<b>1</b>
A380	-	3	3	4	2	<b>12</b>
B737	9	3	2	1	1	<b>16</b>
B747		1				<b>1</b>
B777	5	6	5	2	1	<b>19</b>
B777 F	-	4	1	-	-	<b>5</b>
Regional aircraft	1	14	9	4	-	<b>28</b>
<b>Total (Including op. leases)</b>	<b>25</b>	<b>38</b>	<b>30</b>	<b>15</b>	<b>4</b>	<b>112</b>

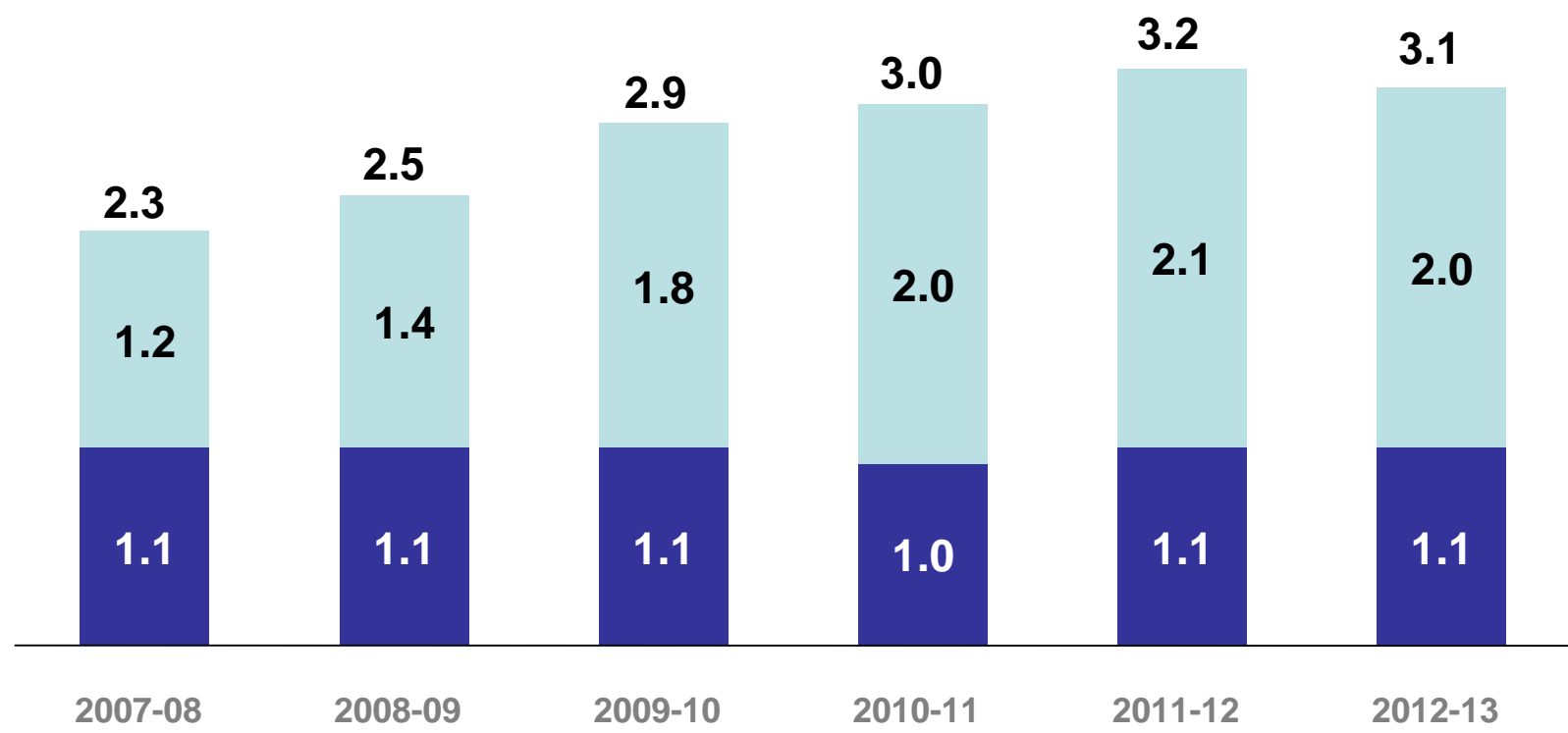
# Fleet flexibility increases our responsiveness



# Substantial investments while maintaining strong free cash flow...

In € billions

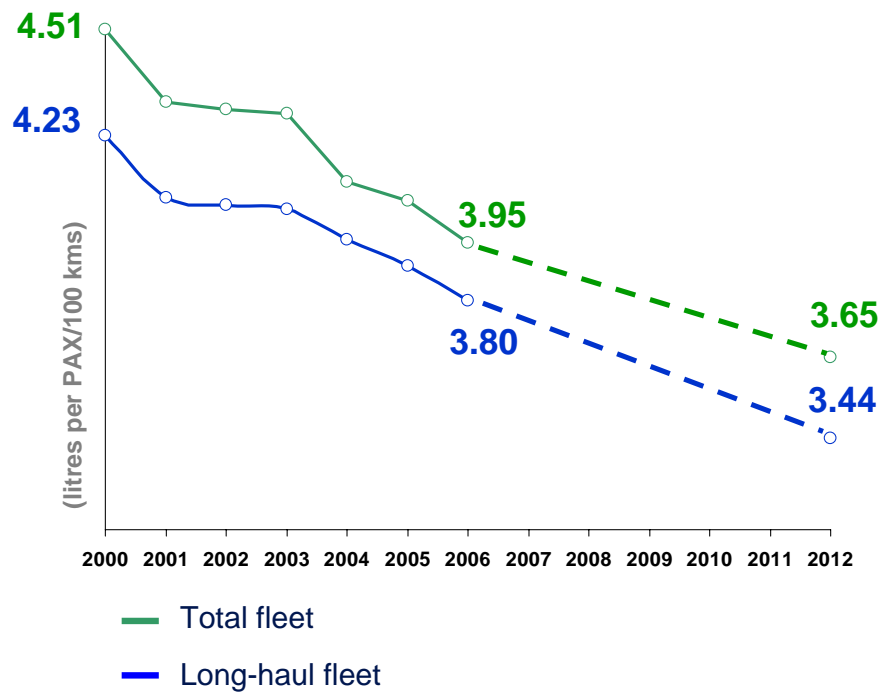
Investment in the fleet ■  
Other investments  
(capitalisation of maintenance costs,  
spare parts and ground investments) ■





# ...and respecting our environmental commitment

Air France: Fuel consumption



# Environment: Latest developments

## + Recent developments

- ▶ France: « Grenelle de l'environnement »: Confirmation of air transport inclusion in emissions trading scheme in 2011, in line with Air France-KLM supported position
- ▶ Netherlands: Discussions still underway over passenger 'eco-tax'

## + Responding to passenger preoccupations

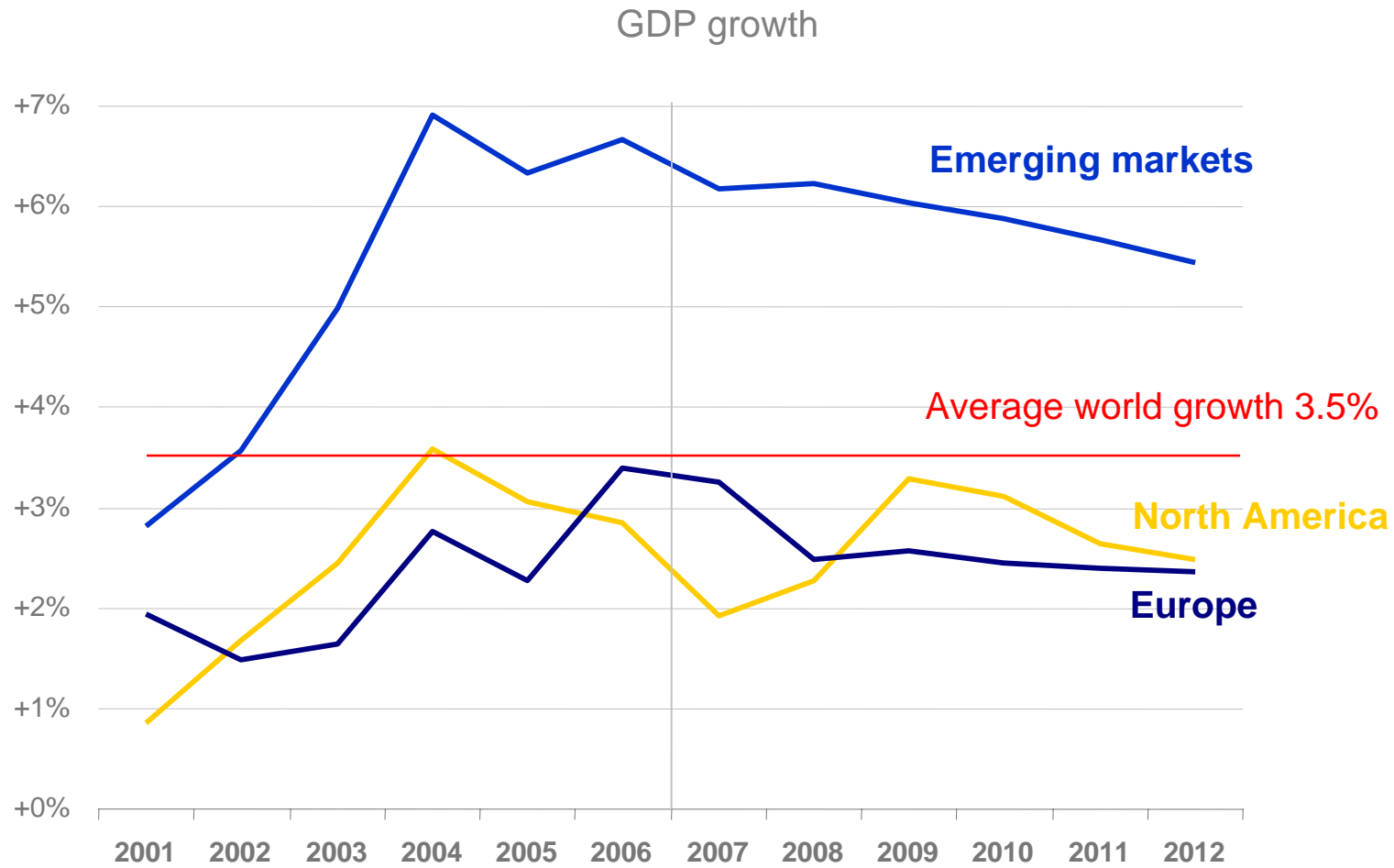
- ▶ Air France: Launch of an 'eco-comparator' allowing voluntary compensation in the context of partnership with GoodPlanet.com
- ▶ KLM: Compensation of additional CO<sub>2</sub> emissions in next four years through Gold Standard / WWF projects

# Agenda



- + Update on current trading
- + Longer term developments
- + Objectives

# Trends in our major markets



Sources: Global Insight, April 2007, IMF, Consensus Forecast

# Air France-KLM: Strategy adapted to each major market

## Our future sources of value creation



**Asia**  
Through growth

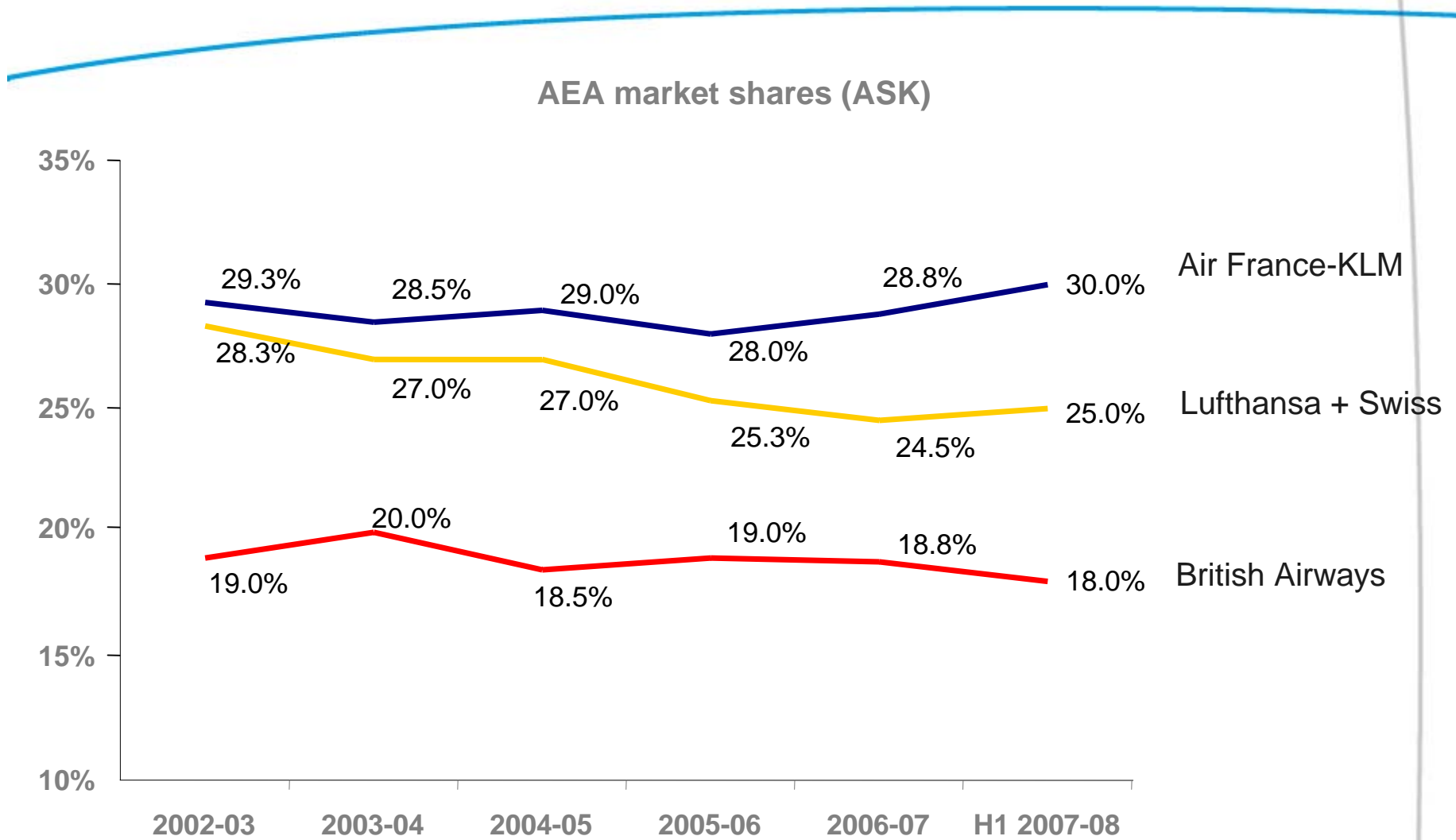


**North Atlantic**  
By strengthening  
our position



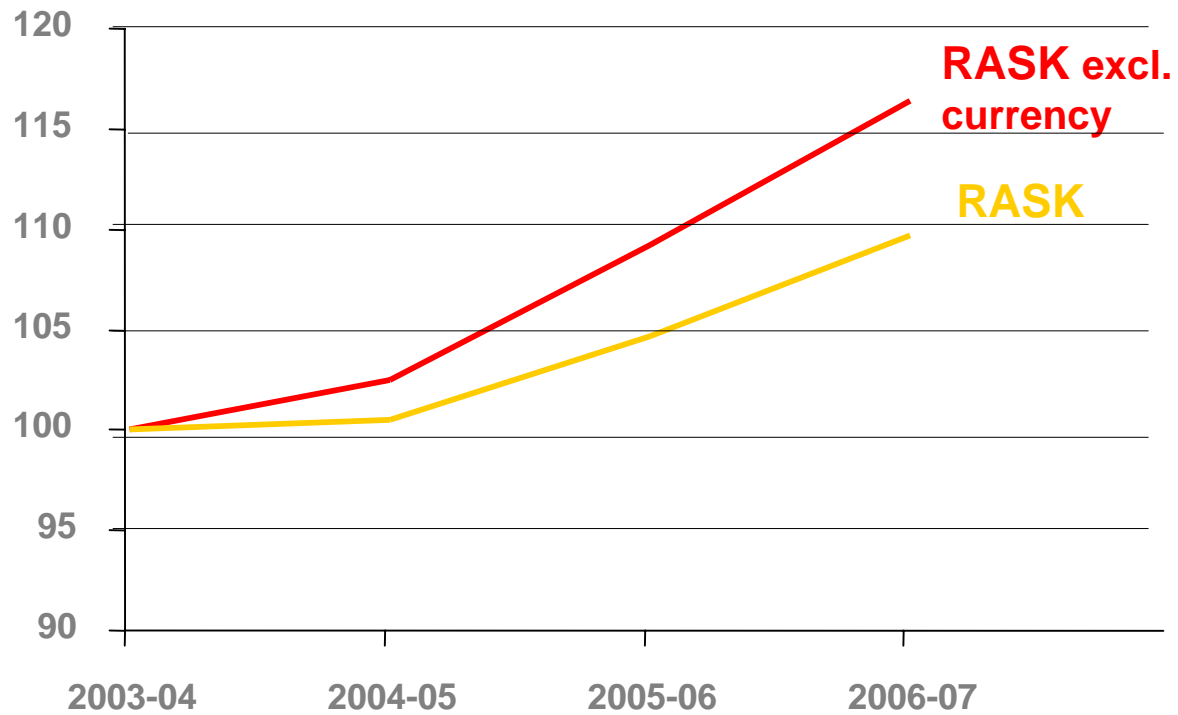
**Europe**  
Through consolidation

# Air France-KLM: The number one European carrier in Asia...



...with increasing profitability

Rebased to 100 in 2003-04



# Strengthen our position in Asia

- ✦ Capacity growth of 8% pa in the next three years
  - ▶ Increased frequencies to offer daily flights
  - ▶ Densification of frequencies with two daily flights
  - ▶ Use of larger capacity aircraft
  
- ✦ China Southern joins SkyTeam
  - ▶ Number one in the domestic market, operating out of Guangzhou and Beijing
  - ▶ Enlargement of our offer with 93 domestic destinations and 36 in Asia
  - ▶ Co-operation to be extended to cargo via creation of a joint company

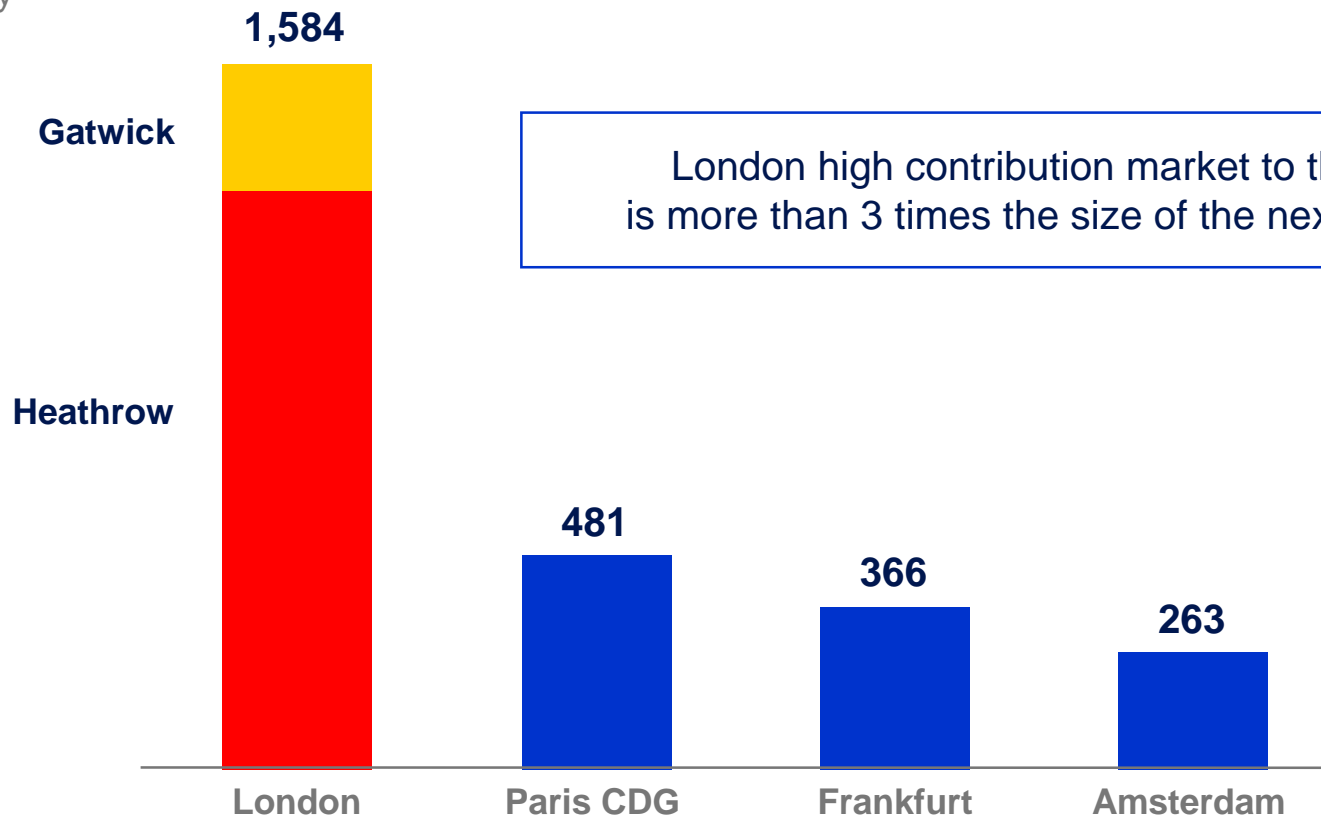


## North Atlantic: Reinforcing our position

- ✦ KLM/Northwest: A successful and profitable joint-venture
- ✦ 2008: An important milestone
  - ▶ Reinforce our position at Heathrow
  - ▶ Launch of the Air France/Delta joint-venture
- ✦ 2010 objective: Launch of four-way joint-venture Air France/KLM/Delta/Northwest

# Potential of the Heathrow / US high contribution market

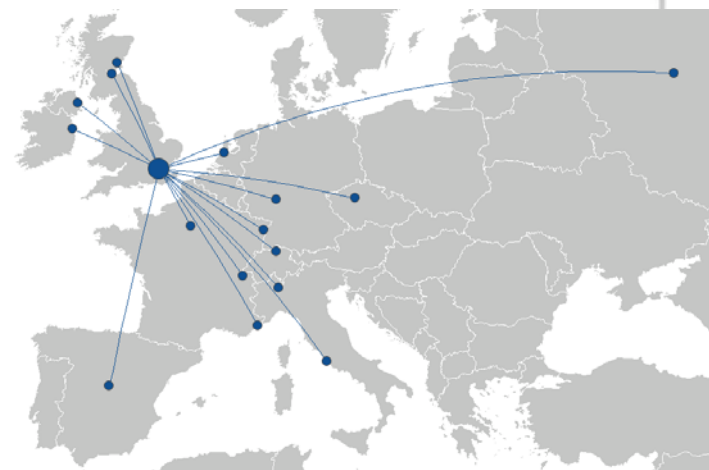
Passenger per day  
each way



USA high contribution O&D traffic

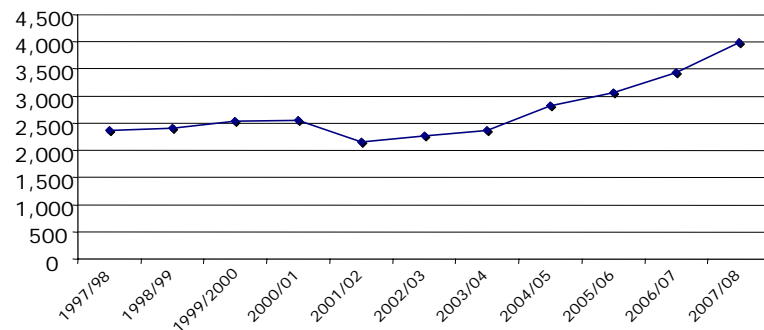
# SkyTeam position in London - Summer 2008

- + 9 non-stop US destinations from London
- + Other SkyTeam long-haul destination:
  - Seoul
- + Rest of the world via our hubs
- + 13 AF-KL European destinations:
  - From Heathrow: CDG and AMS
  - From London City: Paris, Amsterdam, Edinburgh, Dublin, Dundee, Belfast, Frankfurt, Geneva, Zurich, Madrid, Milan, Strasbourg, Nice
- + 3 other SkyTeam European destinations:
  - Moscow, Rome, Prague
- + SkyTeam partners regrouped at Heathrow T4 (Spring 2009)

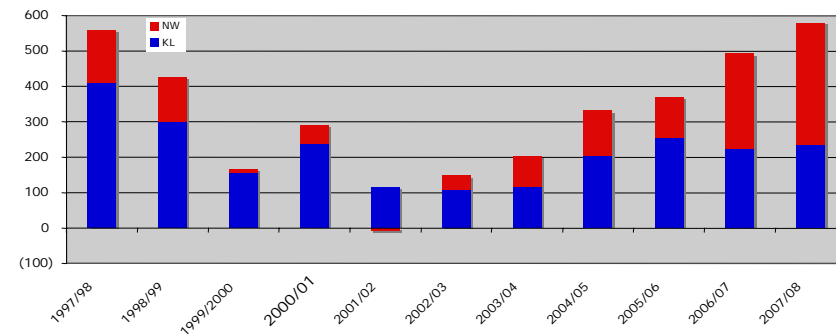


# KLM/Northwest joint-venture: an important growth driver

JV revenues (in \$ billions)

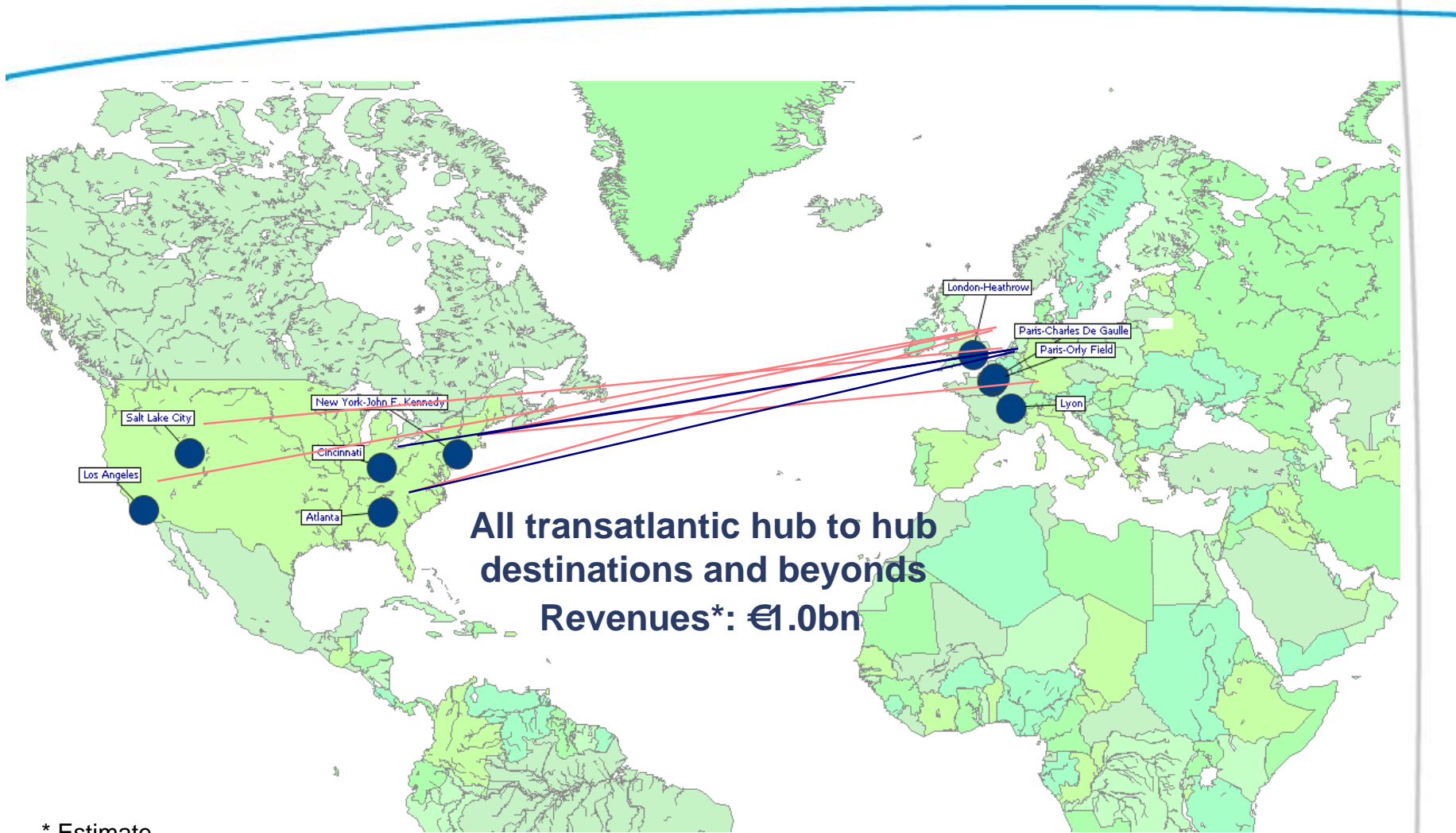


JV contribution from each partner



- ✦ Joint-venture revenue growth of 5.5% y-o-y since launch in 1998
- ✦ Significant rise in NW contribution, especially after restructuring
- ✦ Targeting a margin of 15% in 2007-08

# Scope of the joint-venture at 1<sup>st</sup> April 2008

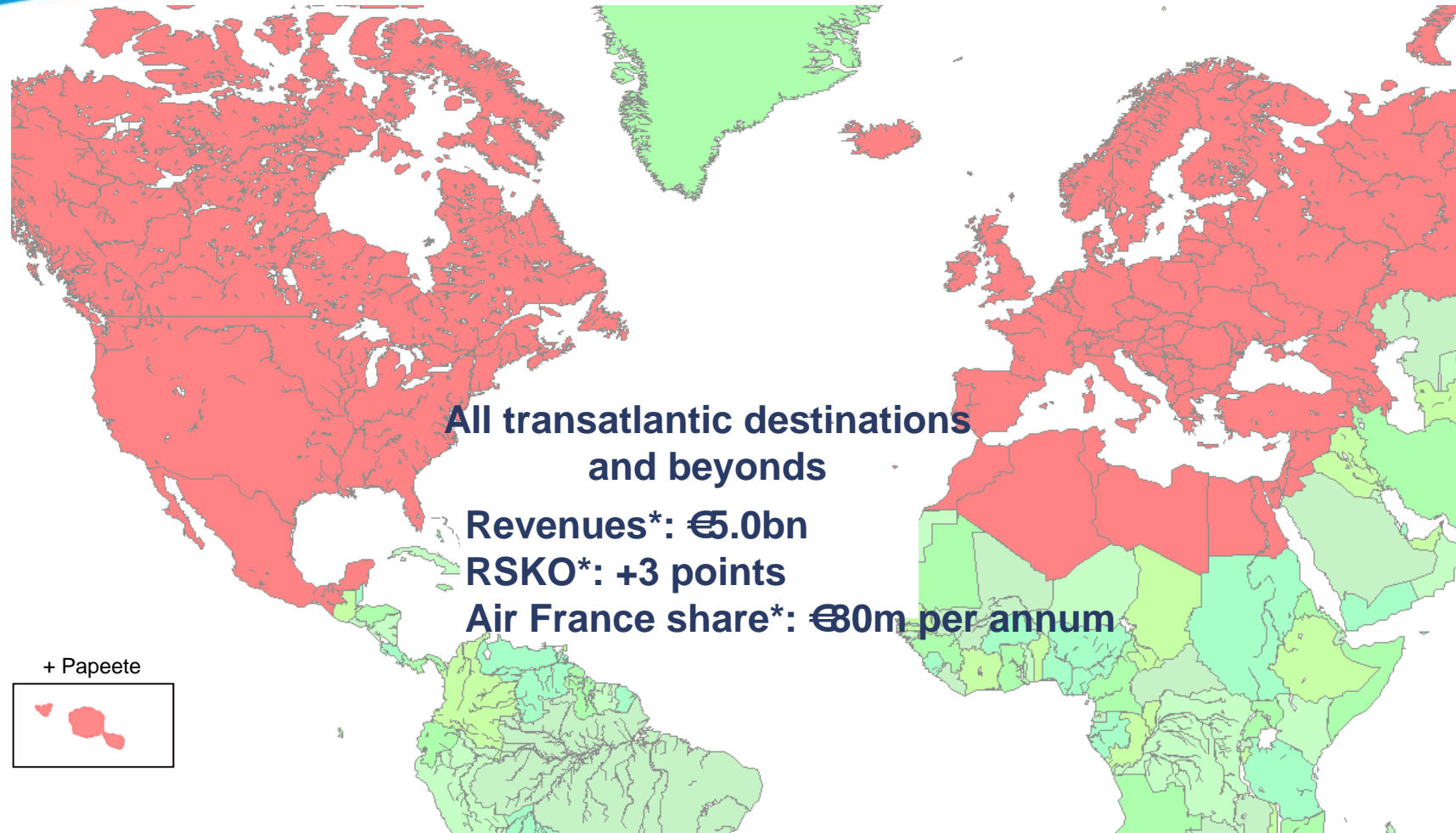


\* Estimate

Existing routes Summer 2007

New routes Summer 2008

# Scope of the joint-venture at 1<sup>st</sup> April 2010



# Principles of the Air France/Delta joint-venture

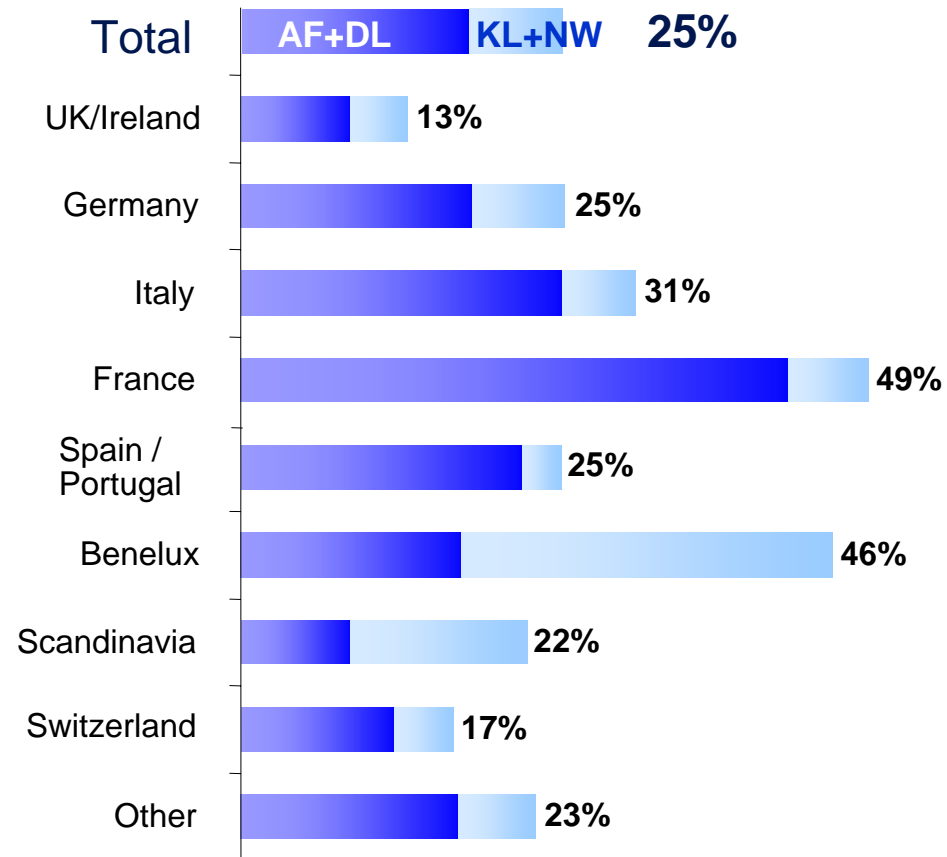
## ✦ Mechanics of the joint-venture

- ▶ Each partner continues to book its respective revenues and costs on the North Atlantic
- ▶ Joint-venture income shared between the partners based on:
  - ▶ Respective weight of each partner in the income generated in the reference year of the joint-venture
  - ▶ On a 50/50 basis for additional value created

## ✦ Principles of governance

- ▶ Partners share growth on joint-venture routes as of April 2010 on a 50/50 basis
- ▶ Decisions concerning the development of the network taken jointly
- ▶ Commercial and revenue management decisions co-ordinated for all joint-venture routes

# Two joint-ventures represent 25% of flows between Europe and the US



Source: 2006 MIDT basis



## Our ambition: To remain at the top table

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- ✦ Airline sector moving towards complete liberalisation
- ✦ Increasing globalisation will lead to rebalancing between traditional carriers and new entrants
  - ▶ Asia: Emergence of powerful players, commensurate with the size of their local markets
  - ▶ US: Sector consolidation will lead to fewer, larger players
  - ▶ Gulf carriers: still growing aggressively
- ✦ Europe: Consolidation favours the emergence of players able to compete with new entrants

## Objectives maintained



- ✦ Financial Year 2007-08:

- ▶ Taking account of dynamic market conditions, and the impact of the Air France cabin crew strike, estimated at 60 million euros, we confirm our objectives of a further rise in operating income and return on capital employed of 7% after tax

- ✦ Financial Year 2009-10:

- ▶ Objective of ROCE of 8.5% after tax

# Forward-looking statements

The information herein contains forward-looking statements about Air France-KLM and its business. These forward-looking statements, which include, but are not limited to, statements concerning the financial condition, results of operations and business of Air France-KLM are based on management's current expectations and estimates. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of Air France KLM's control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including, among others: the expected synergies and cost savings between Air France and KLM may not be achieved; unanticipated expenditures; changing relationships with customers, suppliers and strategic partners; increases in aircraft fuel prices; and other economic, business, competitive and/or regulatory factors affecting the businesses of Air France and KLM generally. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained in Air France-KLM's Securities and Exchange Commission filings, including its Annual Reports on Form 20-F for the year ended March 31, 2007. Air France-KLM undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

THIS FORM 6-K REPORT IS HEREBY INCORPORATED BY REFERENCE INTO THE PROSPECTUS CONTAINED IN AIR FRANCE-KLM'S REGISTRATION STATEMENT ON FORM F-3 (REGISTRATION STATEMENT NO. 333-114188), AND SHALL BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

**AIR FRANCE KLM**

# Appendices



# Calculation of net debt

<u>in €m</u>	<b>30<sup>th</sup> Sep 07</b>	<b>31<sup>st</sup> March 07</b>
Current and non-current financial debt	8,352	8,517
- Accrued interest not yet due	119	96
- Deposits on leased aircraft	856	933
+ Currency hedging instruments	192	0
<b>= Gross financial debt</b>	<b>7,560</b>	<b>7,488</b>
Cash and cash equivalents	4,089	3,497
+ Liquid assets over three months	657	533
- Bank current accounts	288	133
<b>= Net cash</b>	<b>4,458</b>	<b>3,897</b>
<b>Net financial debt</b>	<b>3,111</b>	<b>3,591</b>
<b>Consolidated shareholders' funds</b>	<b>9,597</b>	<b>8,412</b>
<b>Net debt / equity</b>	<b>0.32</b>	<b>0.43</b>

# Second Quarter operating charges

Q2 2007-08  
in € millions

