

30 July 2012

# First Half 2012 results

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## Overview

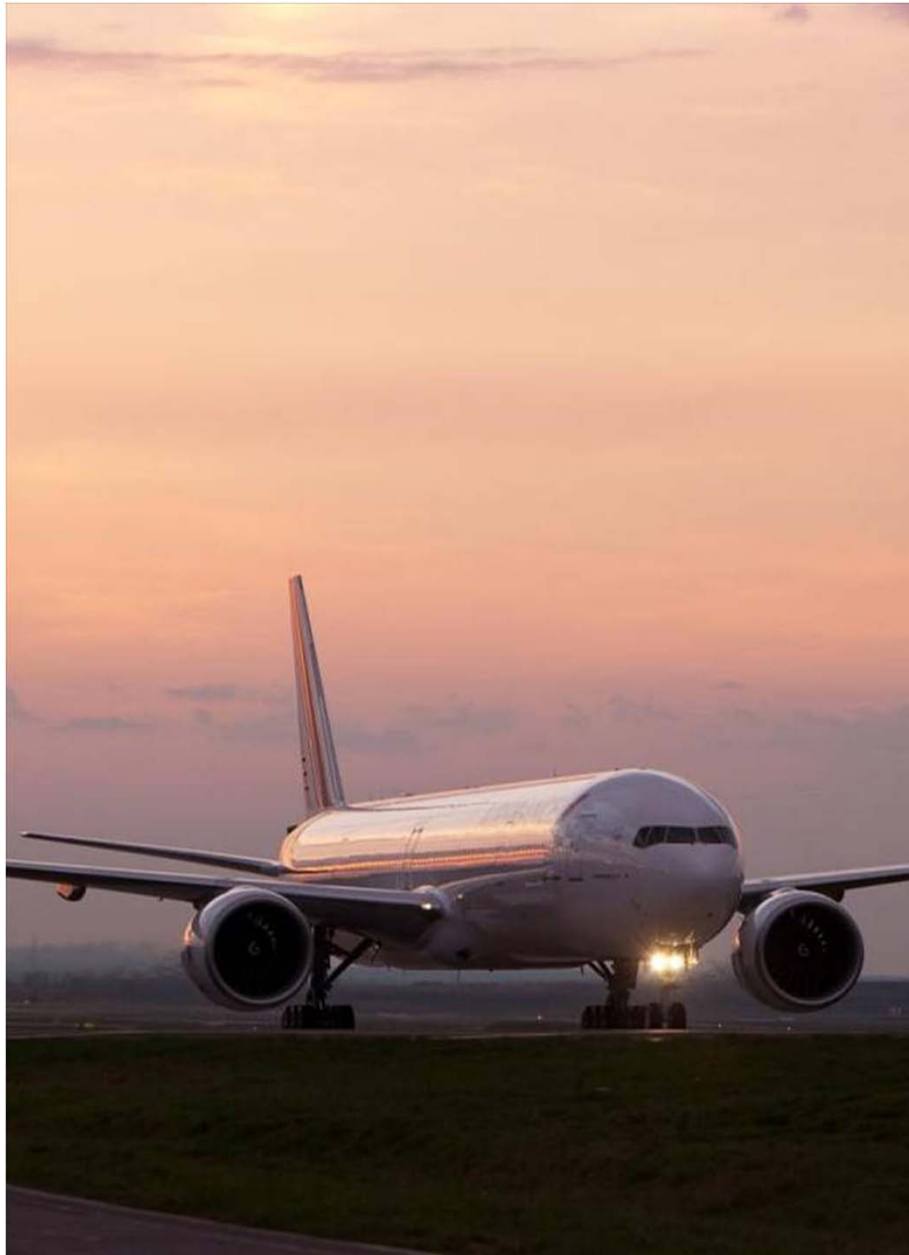
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- ✦ Persistent economic weakness in Europe
- ✦ Dynamic passenger revenues, but weak cargo
- ✦ Volatile oil price and currencies
- ✦ Q2 operating result improved, but still negative
- ✦ Transform 2015 plan on schedule

## Key data

(€ millions)	Q2 2012	H1 2012
+ Revenues	6,500 ↗	12,145 ↗
+ EBITDAR	607 ↗	644 ↘
+ Operating result	-66 ↗	-663 ↘
+ Net result, group share*	-895 ↘	-1,263 ↘
+ Net debt at end of period		6,239 ↘

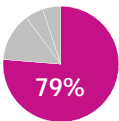

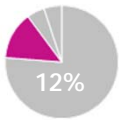



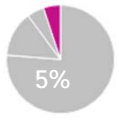


\* O/w €368m restructuring charge in Q2



# Activity

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## Second quarter: key data by activity

		Revenues		Operating result		
		€bn	% ch.	€m	Q2 2011	
	Passenger	 	5.13	+6.8%	-47	-140
	Cargo	 	0.76	-4.4%	-62	-14
	Maintenance	 	0.27	+1.1%	40	23
	Other	 	0.34	-4.5%	3	-14
<b>Total</b>		<b>6.50</b>		<b>+4.5%</b>	<b>-66</b>	<b>-145</b>

## Passenger activity

	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Capacity (bn ASK)</b>	<b>67.5</b>	<b>66.5</b>	<b>+1.4%</b>	<b>130.9</b>	<b>128.0</b>	<b>+2.2%</b>
<i>at constant perimeter*</i>	67.5	67.3	+0.3%	130.9	129.7	+0.9%
Traffic (bn RPK)	55.8	53.9	+3.5%	107.6	102.2	+5.3%
Load factor	82.8%	81.1%	+1.7 pt	82.2%	79.8%	+2.4 pt
€m						
<b>Revenue</b>	<b>5,130</b>	<b>4,802</b>	<b>+6.8%</b>	<b>9,560</b>	<b>8,874</b>	<b>+7.7%</b>
EBITDA	253	147	+72.1%	25	44	-43.2%
Operating income	-47	-140		-551	-507	
<b>Adjusted operating income**</b>	<b>17</b>	<b>-85</b>		<b>-428</b>	<b>-396</b>	
<i>Adjusted operating margin</i>	0.3%	-1.8%	+2.1 pt	-4.5%	-4.5%	0.0 pt

\* Including in 2011 Martinair passenger activity

\*\* Adjusted for the share of financial costs in operating leases (34%)

# Passenger unit revenue analysis

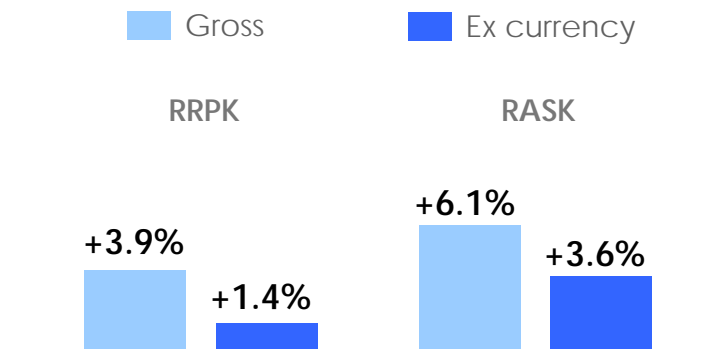
## + Second quarter

- ▶ Strict capacity control
- ▶ Recovery of regions affected by crises last year
- ▶ RASK increase driven by long-haul sectors (+6.4% ex currency):
  - ▶ Premium: +9.5%
  - ▶ Economy: +6.0%

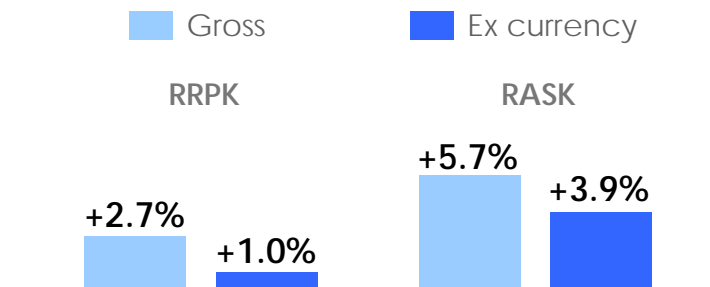
## + First Half

- ▶ Long-haul RASK up
  - ▶ Premium: +8.7%
  - ▶ Economy: +5.9%

Unit revenue Q2 2012



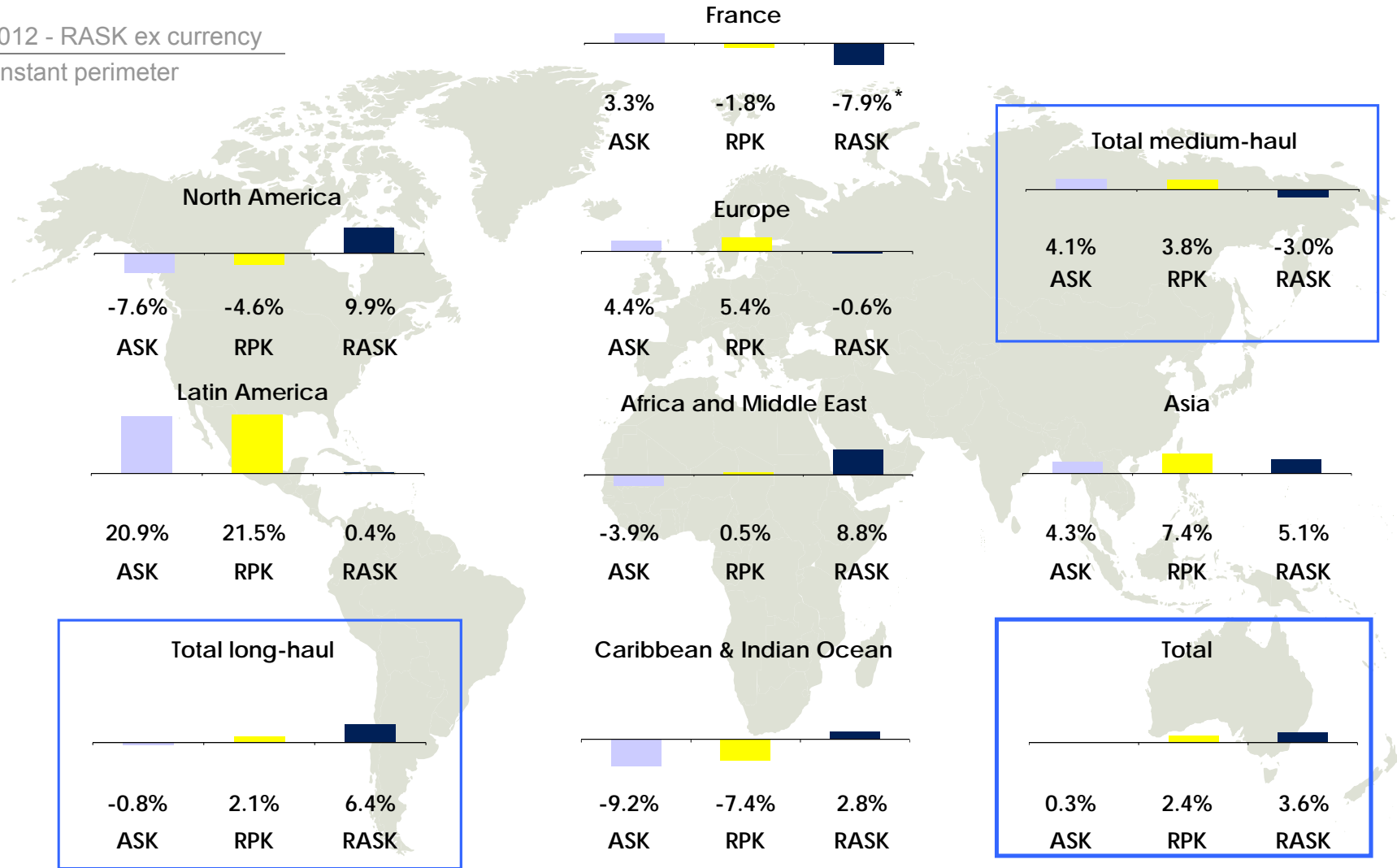
Unit revenue H1 2012



# Passenger unit revenue per network

Q2 2012 - RASK ex currency

At constant perimeter



\* Significant network mix effect – ex currency RASK at Orly/CDG alone: -2.2%



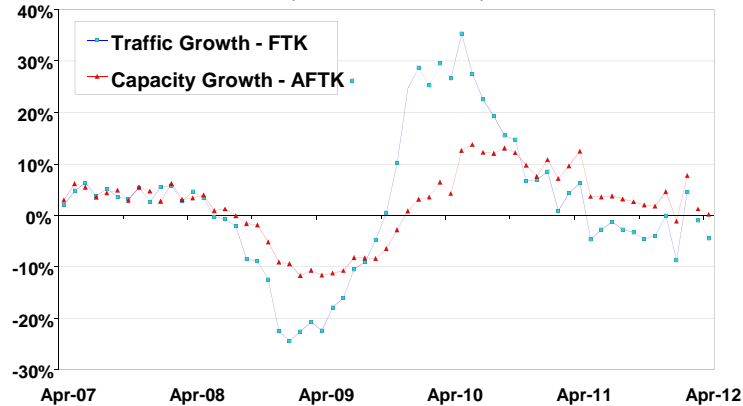
## Cargo activity

	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Capacity (bn ATK)</b>	<b>4.2</b>	<b>4.3</b>	<b>-2.9%</b>	<b>8.2</b>	<b>8.4</b>	<b>-2.4%</b>
Traffic (bn RTK)	2.7	2.9	-6.6%	5.3	5.6	-6.4%
<i>Load factor</i>	<i>64.1%</i>	<i>66.7%</i>	<i>-2.6 pt</i>	<i>64.5%</i>	<i>67.2%</i>	<i>-2.7 pt</i>
<b>€m</b>						
<b>Revenue</b>	<b>764</b>	<b>799</b>	<b>-4.4%</b>	<b>1,508</b>	<b>1,568</b>	<b>-3.8%</b>
EBITDA	-46	5		-90	15	
Operating income	-62	-14		-130	-23	
<b>Adjusted operating income*</b>	<b>-49</b>	<b>-2</b>		<b>-103</b>	<b>0</b>	
<i>Adjusted operating margin</i>	<i>-6.4%</i>	<i>-0.3%</i>	<i>-6.2 pt</i>	<i>-6.8%</i>	<i>0.0%</i>	<i>-6.8 pt</i>

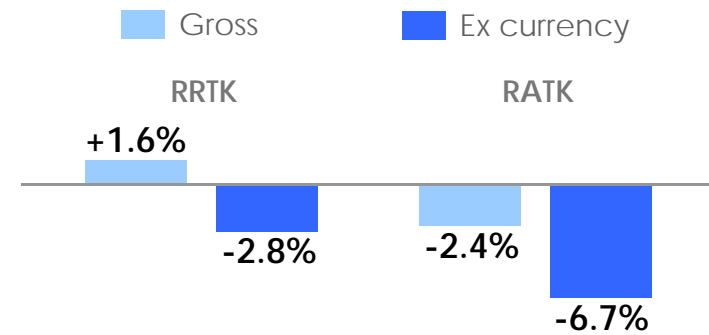
\* Adjusted for the share of financial costs in operating leases (34%)

# Cargo market conditions and unit revenue analysis

Global traffic and capacity  
(Source: IATA)



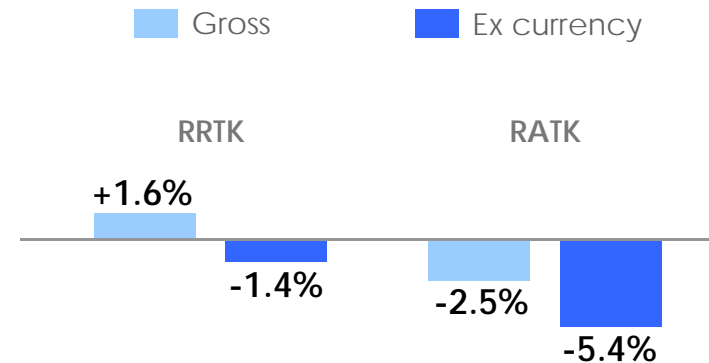
Air France-KLM unit revenue Q2 2012



Global traffic and leading PMI  
(Sources: IATA, JP Morgan)



Air France-KLM unit revenue H1 2012



# Maintenance

€m	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Third party revenue</b>	<b>265</b>	<b>262</b>	<b>+1%</b>	<b>523</b>	<b>495</b>	<b>+6%</b>
<i>Ex currency</i>			-9%			-1%
Total revenue	801	785	+2%	1,573	1,537	+2%
EBITDA	119	105	+13%	208	196	+6%
<b>Operating income</b>	<b>40</b>	<b>23</b>	<b>+74%</b>	<b>56</b>	<b>49</b>	<b>+14%</b>
<i>Operating margin</i>	<i>5.0%</i>	<i>2.9%</i>	<i>+2.1 pt</i>	<i>3.6%</i>	<i>3.2%</i>	<i>+0.4 pt</i>

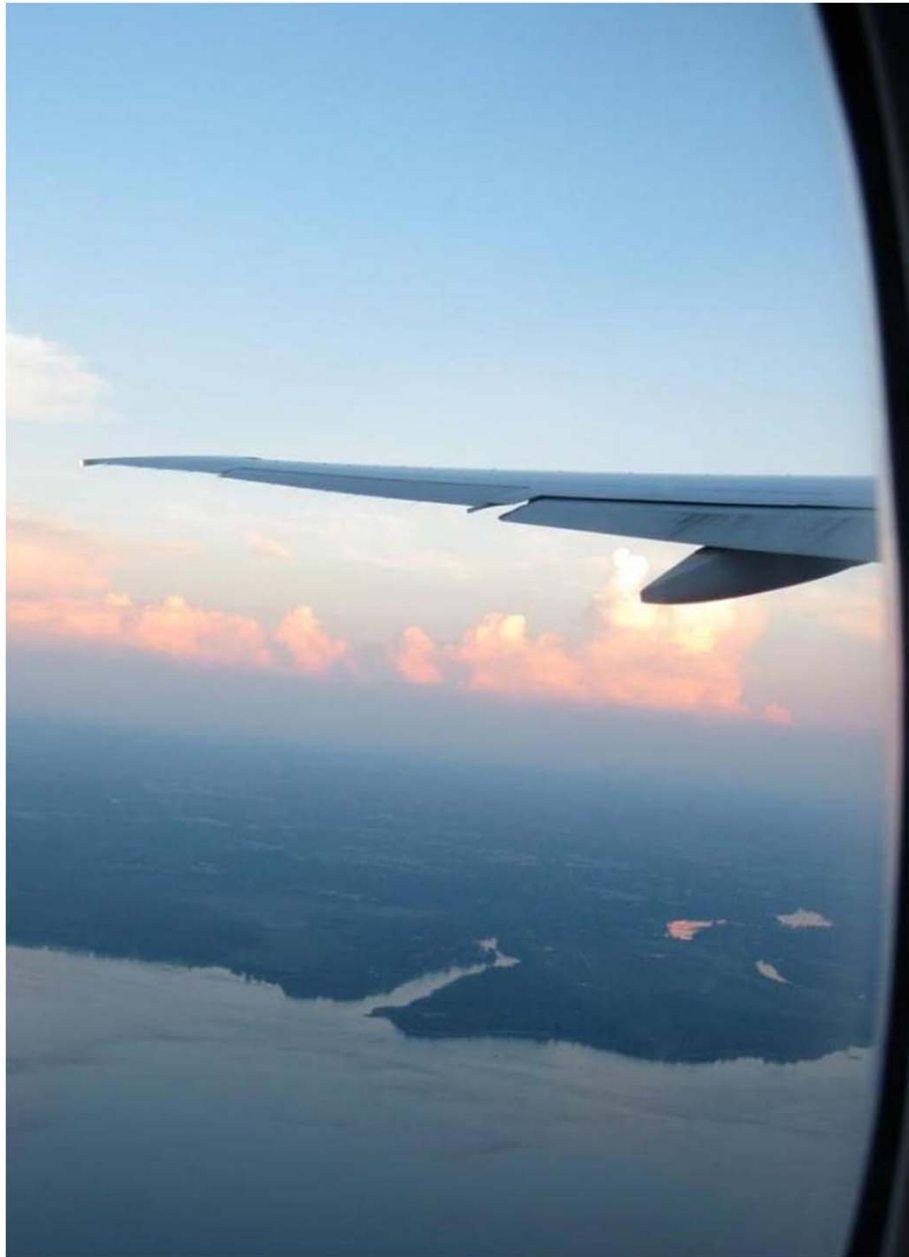
- ✦ Significant exchange rate impact
- ✦ Operating result up in spite of temporary slowdown in engine activity in Q2

## Other activities

€m	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Third party revenue</b>	<b>341</b>	<b>357</b>	<b>-4%</b>	<b>554</b>	<b>609</b>	<b>-9%</b>
<i>o/w leisure</i>	247	254	-3%	364	396	-8%
<i>at constant perimeter*</i>	247	230	+7%	364	337	+8%
<i>o/w other</i>	94	103	-9%	190	213	-11%
EBITDA	42	35	+20%	37	36	+3%
<b>Operating income</b>	<b>3</b>	<b>-14</b>		<b>-38</b>	<b>-67</b>	

- + Leisure: revenue up excluding Martinair passenger activity closure
- + Catering: increased competitive pressure

\* Transavia standalone



# Results

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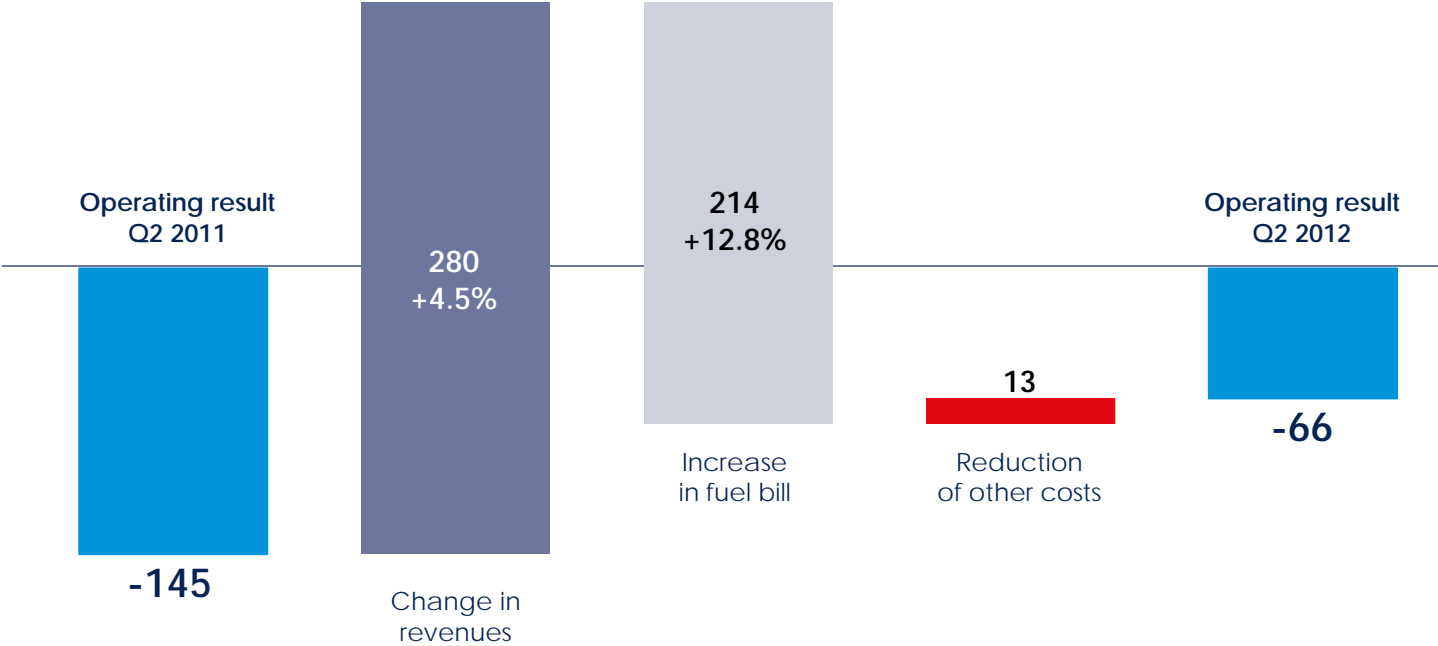
## Group results

€m	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Revenues</b>	<b>6,500</b>	<b>6,220</b>	<b>+5%</b>	<b>12,145</b>	<b>11,546</b>	<b>+5%</b>
EBITDAR	607	503	21%	644	708	-9%
EBITDA	368	292	26%	180	290	-38%
<b>Income from current operations</b>	<b>-66</b>	<b>-145</b>		<b>-663</b>	<b>-548</b>	
Adjusted operating income*	15	-73		-505	-406	
<i>Adjusted operating margin</i>	<i>0.2%</i>	<i>-1.2%</i>	<i>+1.4 pt</i>	<i>-4.2%</i>	<i>-3.5%</i>	<i>-0.6 pt</i>
Net income, group	-895	-197		-1,263	-564	
Net capex	209	436	-52%	600	691	-13%
<b>Free cash flow</b>	<b>310</b>	<b>-91</b>		<b>-139</b>	<b>30</b>	
Net debt at end of period	-	-	-	6,239		

\* Adjusted for the share of financial costs in operating leases (34%)

# Change in Q2 operating result

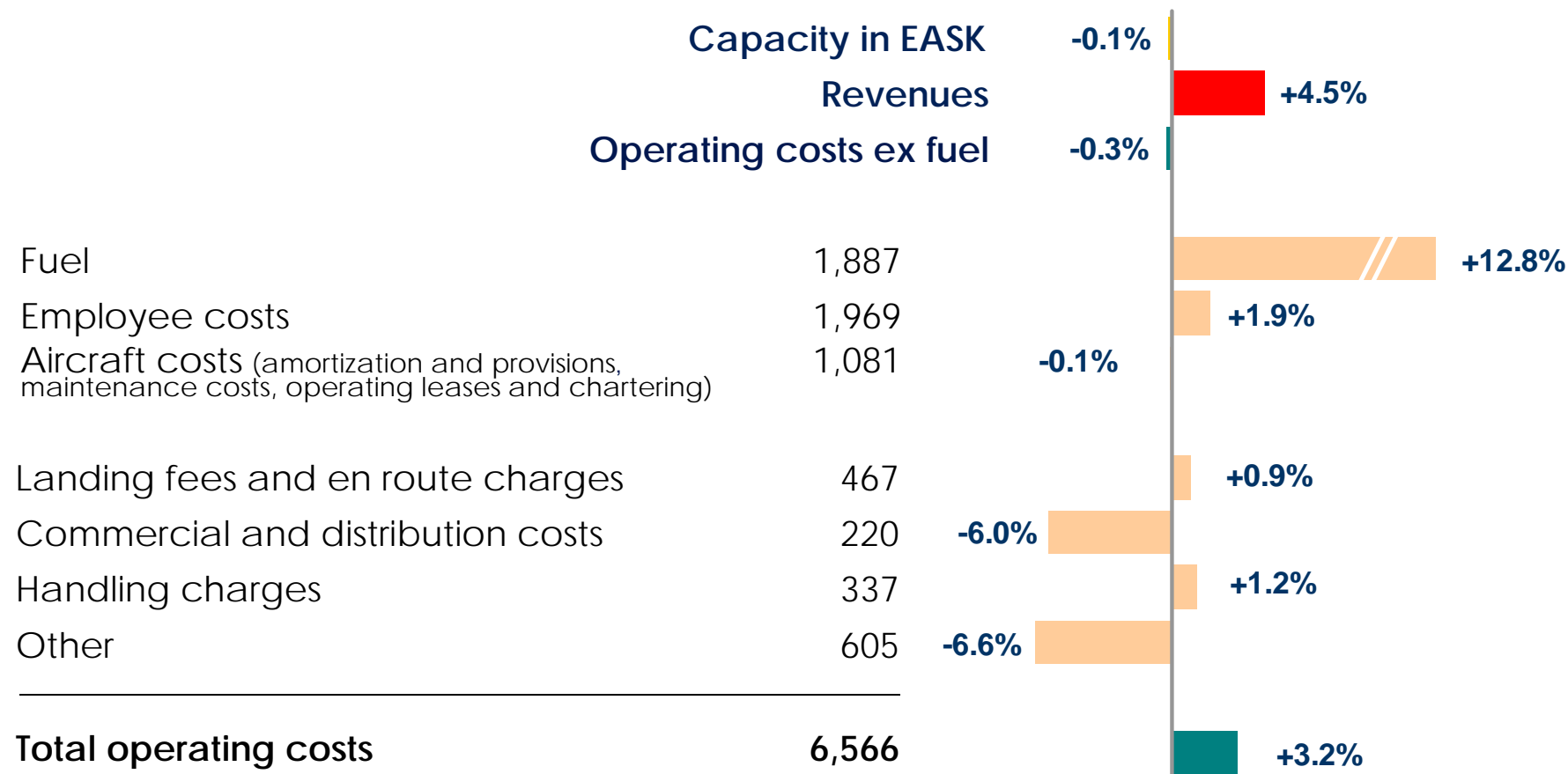
€ millions



# Change in operating costs

April-June 2012

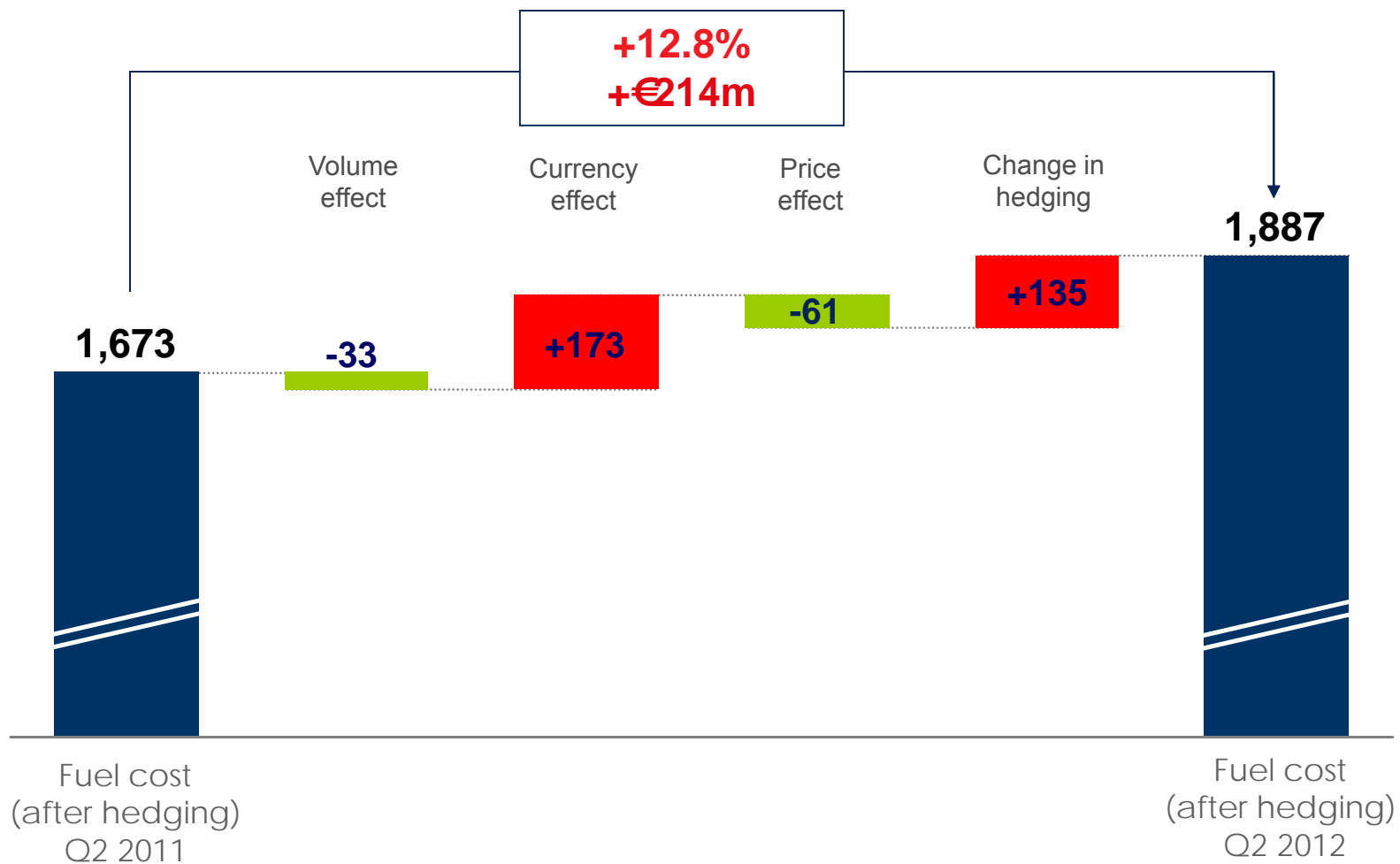
€ millions





# Fuel cost over second quarter

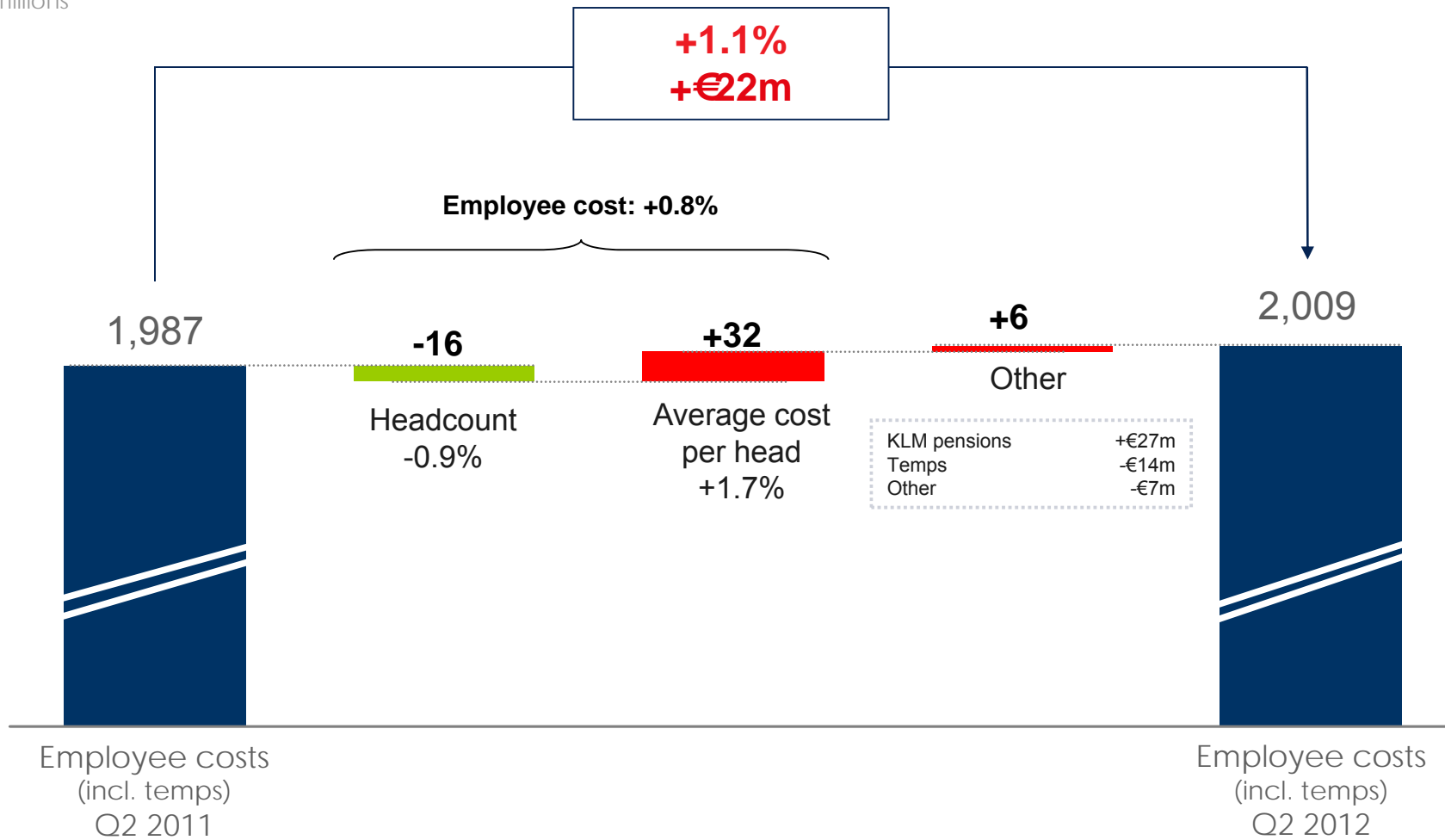
€ millions



# Employee costs including temporary staff over second quarter

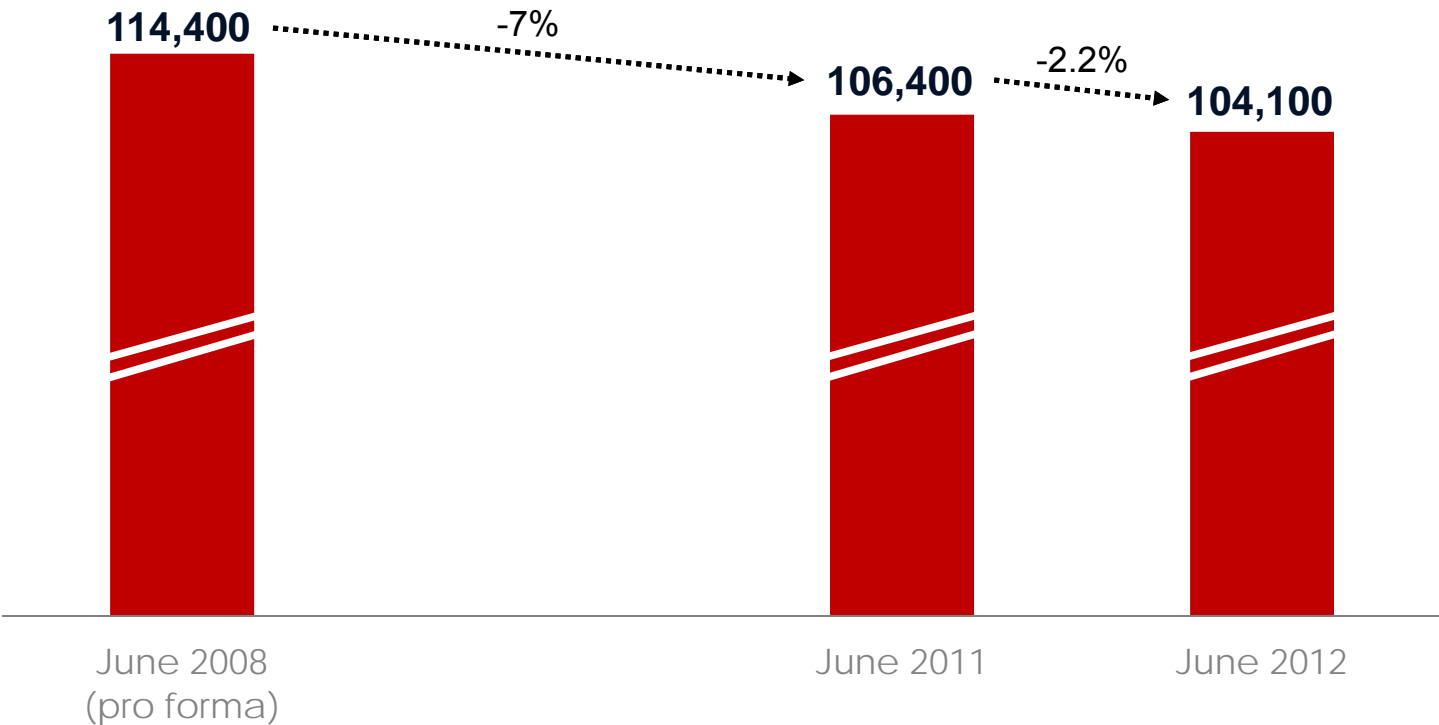
Employee cost  
incl. temporary staff

€ millions



# Change in headcount including temporary staff

Headcount  
incl. temporary staff  
Full Time Equivalent

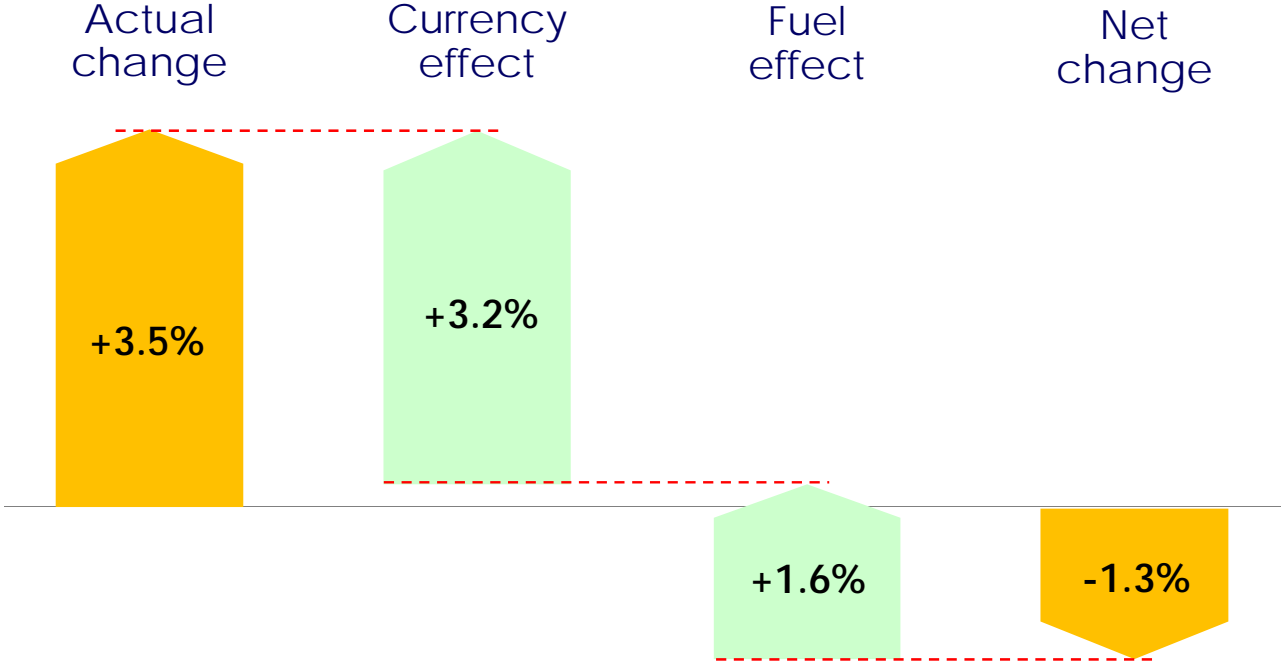


# Unit cost analysis

Q2 2012

Unit cost per EASK: €7.11 cts

Capacity in EASK: -0.1%

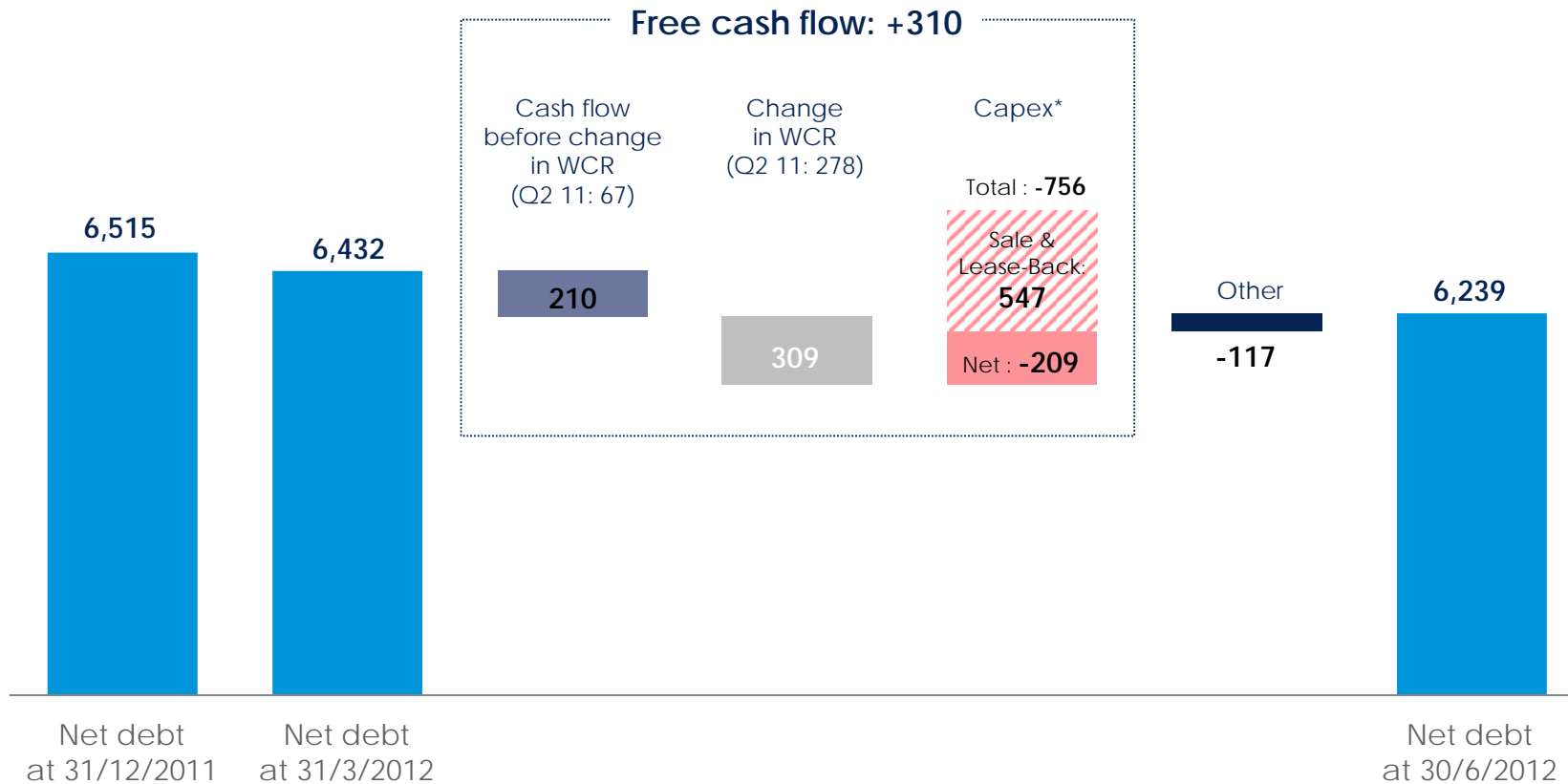


## Net result

€m	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Income from current operations</b>	<b>-66</b>	<b>-145</b>	<b>-54%</b>	<b>-663</b>	<b>-548</b>	<b>+21%</b>
Non current income and expenses	-377	2		-282	-101	
<i>o/w Amadeus operation</i>	0	0		97	0	
<i>o/w restructuring</i>	-368	0		-372	0	
<b>Income from operating activities</b>	<b>-443</b>	<b>-143</b>		<b>-945</b>	<b>-649</b>	
Net cost of financial debt	-88	-87		-170	-178	
Net foreign exchange	-86	-33		-32	37	
Change in fair value of financial assets and liabilities	-372	5		-152	3	
Income taxes	111	81	+37%	89	251	-65%
Share of profit (losses) of associates, minority interest	-22	-18		-60	-25	
<b>Net income, group</b>	<b>-895</b>	<b>-197</b>		<b>-1,263</b>	<b>-564</b>	

# Change in net debt over second quarter

€ millions



\* Including €175m in asset acquisitions not qualified as capex under IFRS standards

# Financial position

Net financial debt  
(€ billion)

- Net debt
- X Gearing ratio
- X Gearing ratio ex hedging instruments



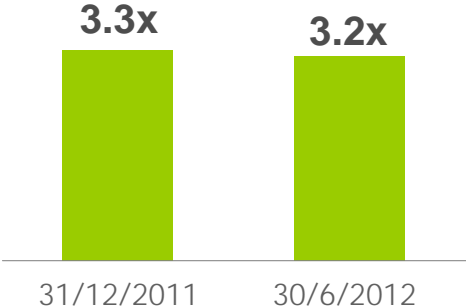
Shareholders' Funds  
(€ billion)

- Shareholders' funds
- Hedging instruments

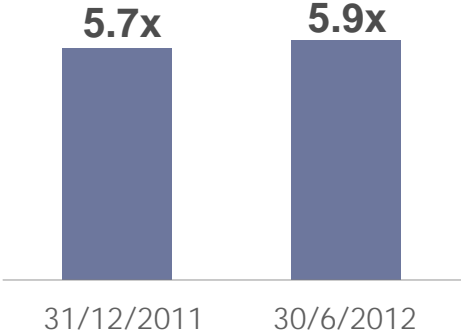


# Financial ratios at 30 June 2012, last twelve months

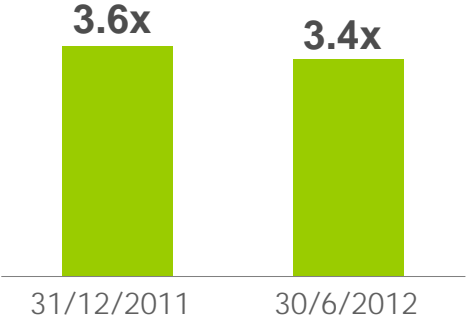
EBITDAR / net adjusted financial costs\*



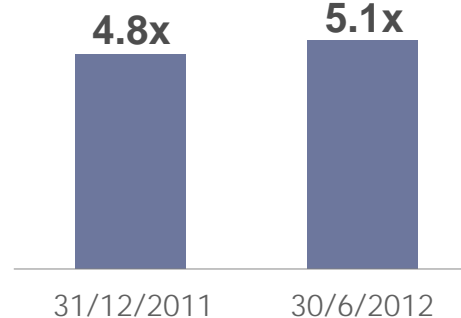
Adjusted net debt\*\* / EBITDAR



EBITDA / net financial costs



Net debt / EBITDA



\* Adjusted for the portion of financial charges in operating leases (34%)

\*\* Adjusted for capitalized operating leases (7x yearly charge)



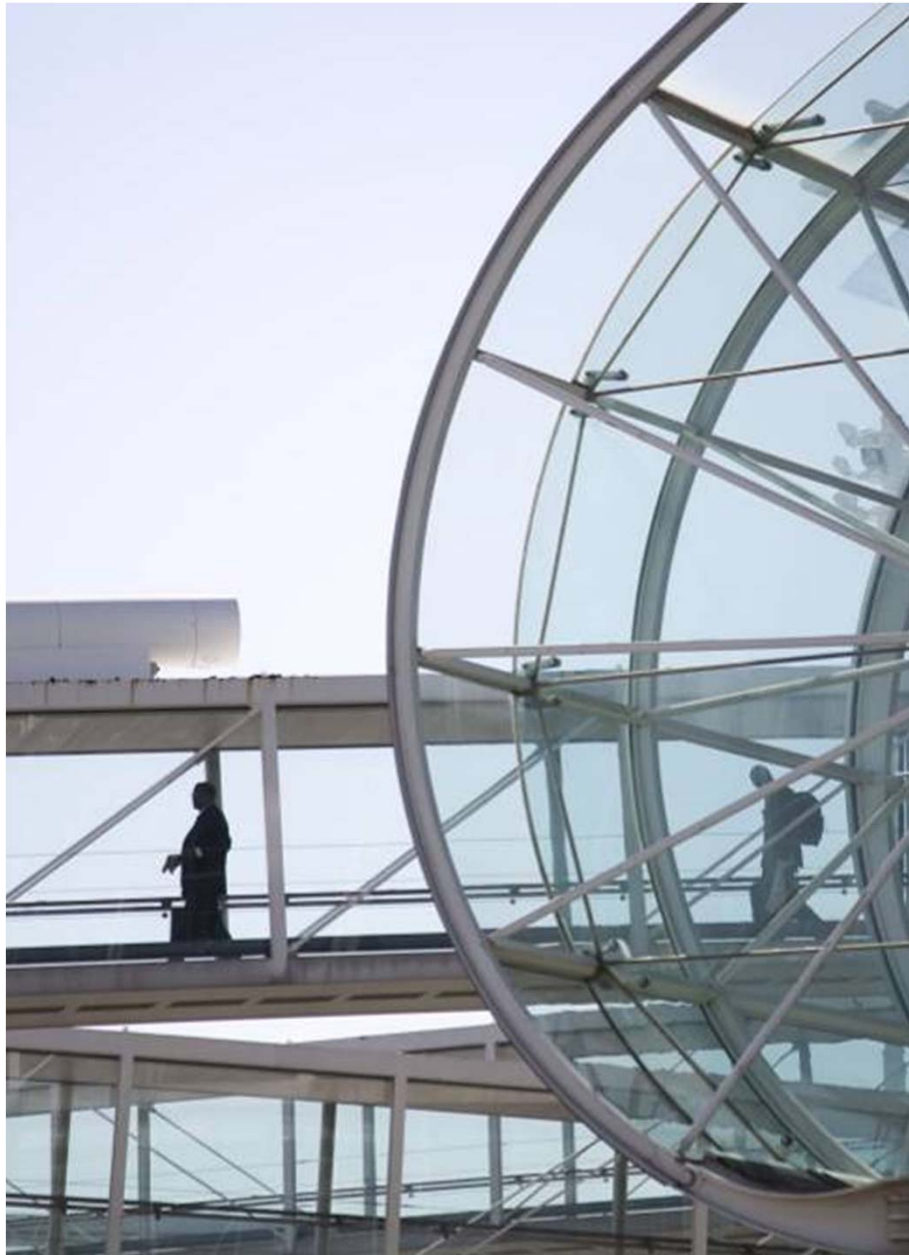


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## High level of liquidity

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- + Cash of €3.3bn at 30 June 2012
  - ▶ After €400m pledged for convertible bond swap operation
  
- + Undrawn credit lines of €1.85bn
  - ▶ Air France: €1.06bn until 2016
  - ▶ KLM: €540m until 2016
  - ▶ Air France-KLM: €250m until 2017
  - ▶ Covenants respected



# Strategy



Transform 2015

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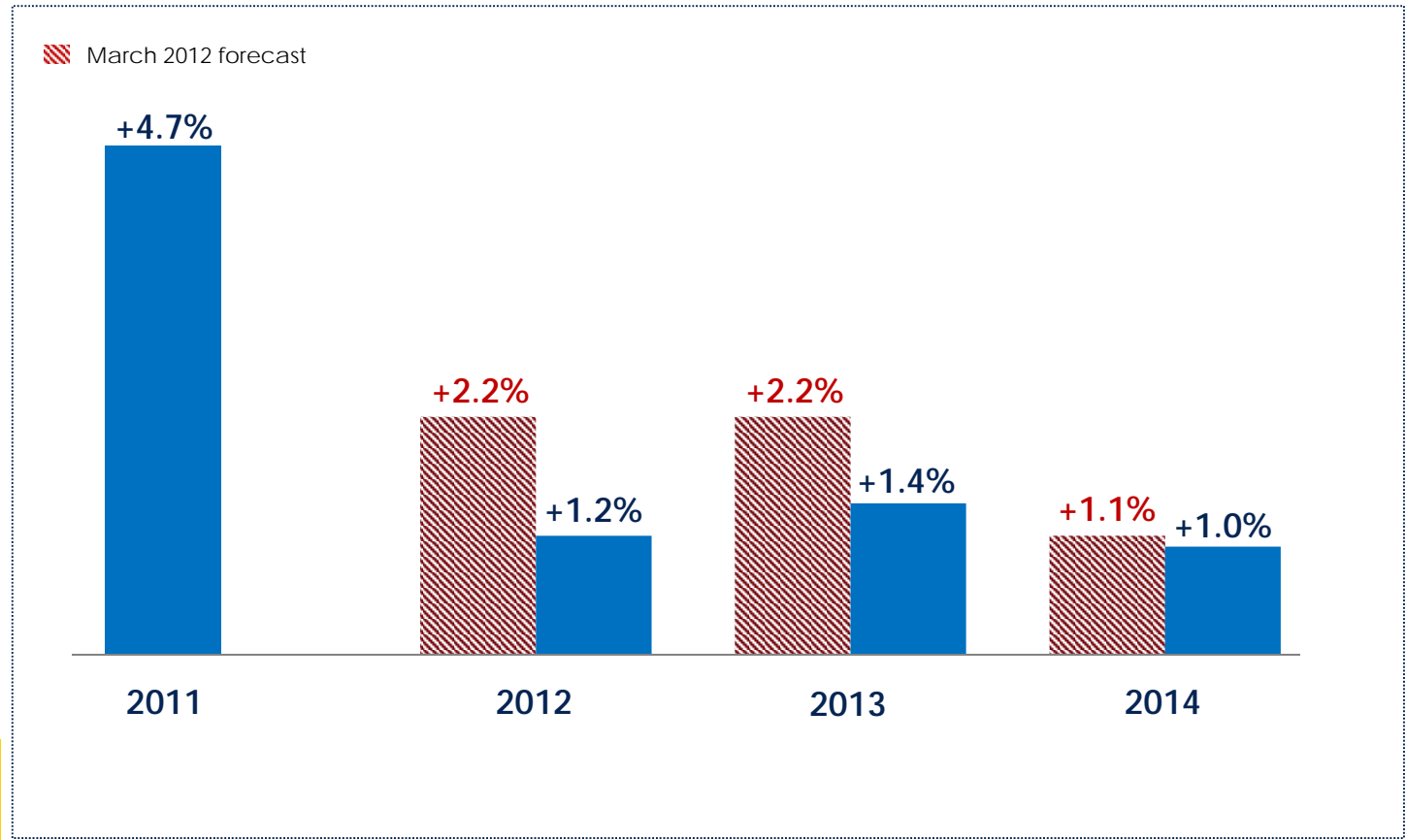
## Progress on Transform 2015

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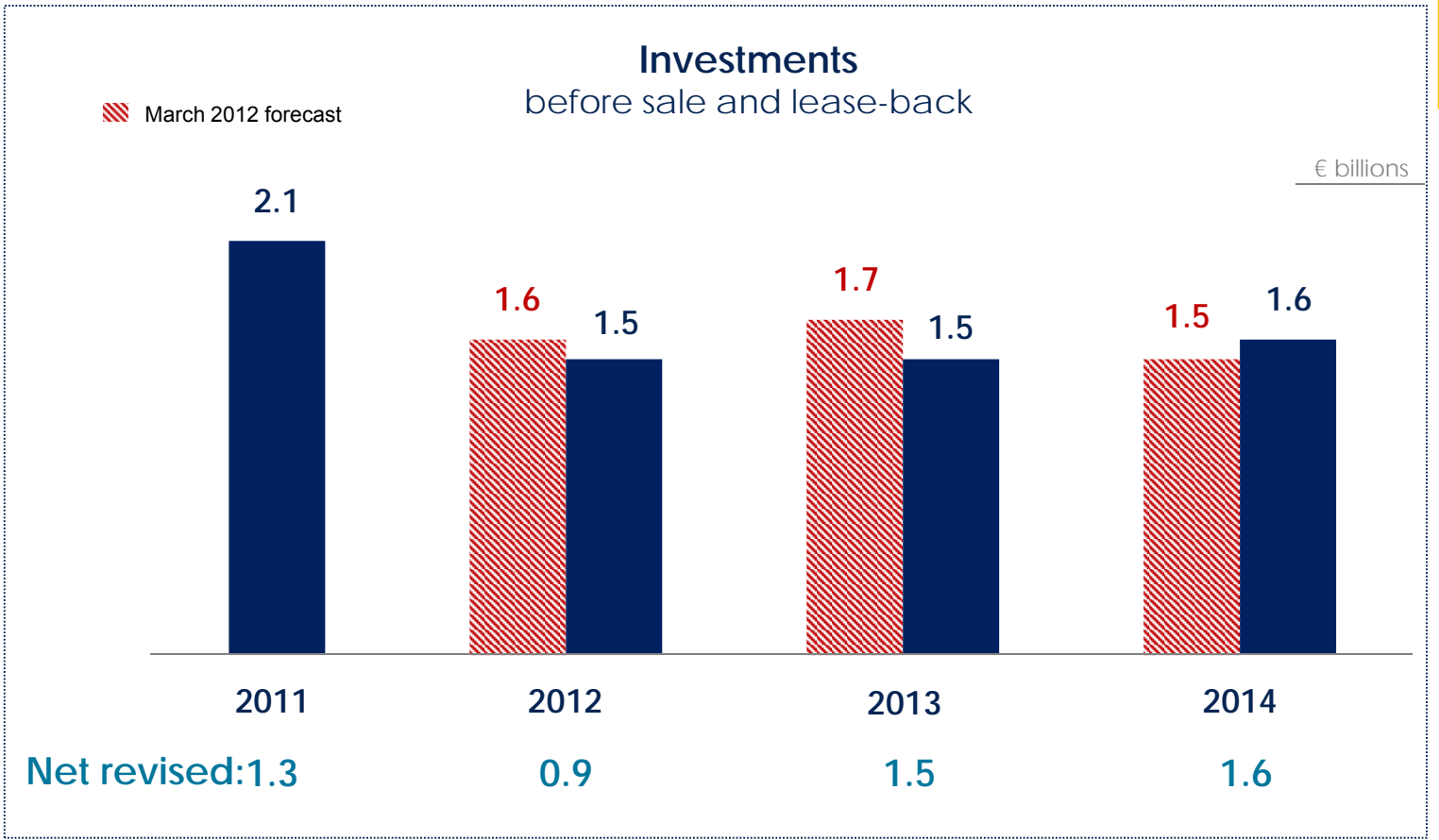
- + Roll out in line with our initial calendar
- + Ongoing capacity and investment discipline
- + Renegotiation of collective agreements
- + Air France-KLM industrial plan underway

# Ongoing capacity discipline

Capacity in ASK



# Investment plan revised down



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## Update on collective agreement renegotiations

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- + Air France company
  - ▶ Agreement with ground staff signed and applicable 1<sup>st</sup> January 2013
  - ▶ Project agreement for cockpit crew submitted to ballot
  - ▶ Project agreement rejected by cabin crew
  
- + Air France subsidiaries (Régional, Britair, Servair)
  - ▶ Negotiations due to start in September
  
- + KLM
  - ▶ Negotiations ongoing, in line with initial calendar
  - ▶ Results due in fourth quarter

## Air France company: summary of project agreements\*

Ground staff	Cockpit crew	Cabin crew
<ul style="list-style-type: none"> <li>+ Agreement signed for application on 1<sup>st</sup> January 2013</li> <li>+ 0.6% reduction in seniority creep</li> <li>+ Simplification and re-definition of job classifications</li> <li>+ 5.5% increase in average time worked</li> <li>+ Enhanced efficiency of time worked</li> </ul>	<ul style="list-style-type: none"> <li>+ Project agreement under ballot, with positive view from main union</li> <li>+ Application on 1<sup>st</sup> January 2013</li> <li>+ 0.6% reduction in seniority creep</li> <li>+ Increase in flying hours               <ul style="list-style-type: none"> <li>▶ Medium haul: 700 hrs (up by 65 hours)</li> <li>▶ Long-haul: 740 hrs (up by 30 hours)</li> </ul> </li> <li>+ Reduction in stop-over costs</li> </ul>	<ul style="list-style-type: none"> <li>+ Project agreement rejected by unions</li> <li>+ End of main collective agreement on 31<sup>st</sup> March 2013, and remaining two agreements revoked</li> <li>+ Application on 1<sup>st</sup> April 2013 with less favorable text relating to remuneration and working conditions than initial project agreement</li> </ul>

\* See appendices for detail of measures



## Air France company: estimated overstaffing at end 2013

- + Ground staff
  - ▶ Works council informed on 26 July
  - ▶ Details of the Voluntary Departure Plan: consultations with staff representatives
  - ▶ Opening of the plan in Q4
  
- + Cockpit crews
  - ▶ Voluntary headcount reduction measures
    - eg: mobility incentives for pilots volunteering to transfer to Transavia with attendant working conditions and pay
  
- + Cabin crews
  - ▶ No VDP given failure to approve project agreement
  - ▶ Counterparties in terms of working conditions and remuneration not guaranteed

Estimated reduction in needs:  
5 261 people by end 2013

	Ground	Cockpit	Cabin
Overstaffing	3,029	550	1,681
Voluntary Departure Plan	2,767	Agreement not yet signed	No agreement

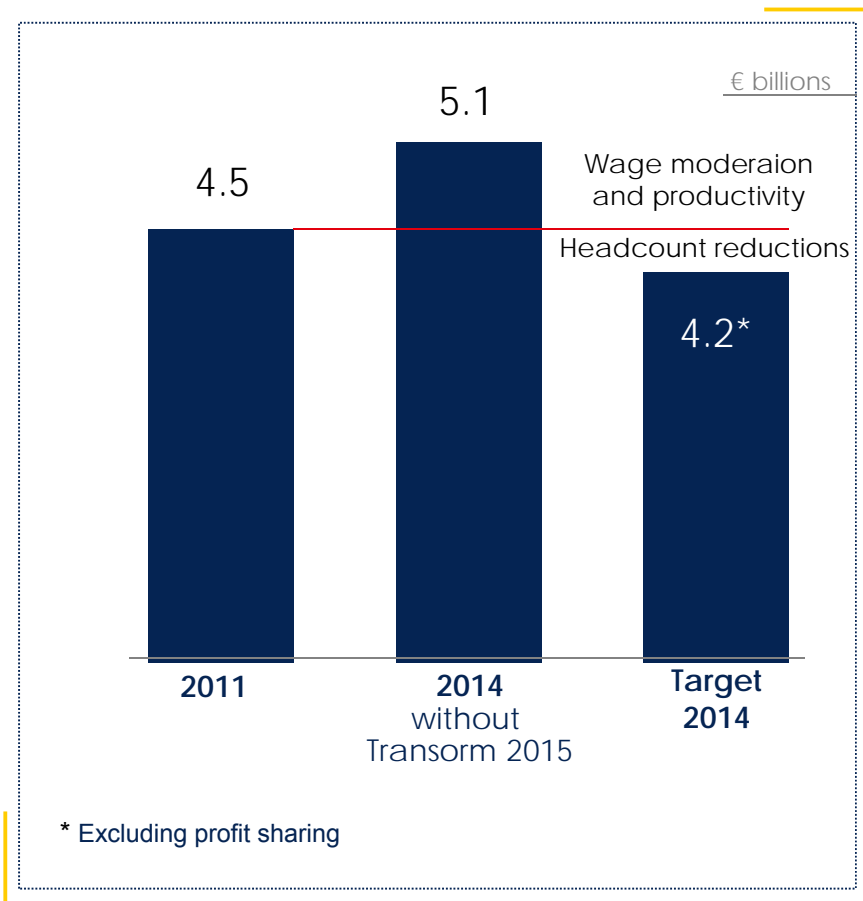
**Provision of €348m  
at 30 June 2012**

**Evaluation in H2 2013  
of potential additional measures**

# Air France company: objective of 20% improvement in economic efficiency in 2014

- + Wage moderation
  - ▶ Freeze in general pay increases in 2012 and 2013
  - ▶ Reduction in seniority creep
- + Productivity
  - ▶ Hiring freeze
  - ▶ Increase in amount of time worked
  - ▶ Improved efficiency of time worked
- + Headcount reduction
  - ▶ Voluntary departure plan
  - ▶ Non replacement of leavers

Evolution of payroll cost  
Air France company



## KLM: Summary of labor agreement proposals\*

### Outside the collective labor agreements

- + Strict headcount management
  - ▶ 10% reduction in indirect staff
  - ▶ Recruitment freeze
  - ▶ Reduction of flexible layer
  - ▶ Stimulation of temporary leave, part-time work and mobility
- + Increase in hours worked

### Within the framework of collective labor agreement renewals

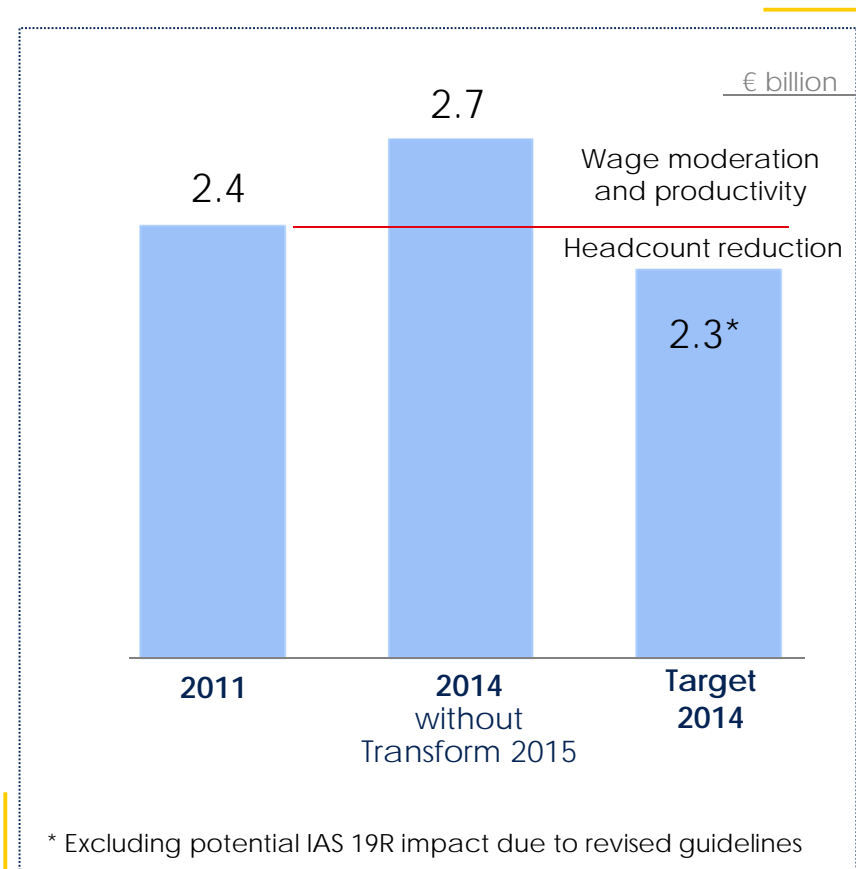
- + Fixed term agreements
  - ▶ To be renewed for three years (2014)
- + General measures
  - ▶ Freeze in general pay increases in 2013 and 2014
  - ▶ Restructuring pension agreements
- + Ground staff
  - ▶ Reduction of leave days
  - ▶ Promotion of mobility
  - ▶ Simplification of leave arrangements
- + Cockpit crew
  - ▶ Improvement in medium-haul productivity
  - ▶ Raise of time threshold for 3 cockpit crew operations
  - ▶ Reduction of travel leave
- + Cabin crew
  - ▶ Reduction of travel leave
  - ▶ Application of the minimum required crew level at KLC

\* See detail in the appendices

## KLM objective: 15% improvement in economic efficiency in 2014

- + Objective of 350 million euros of labor cost saving measures
- + Wage moderation
  - ▶ Freeze in general salary increases in 2013 and 2014
- + Productivity
  - ▶ Adaptations in work & rest time regulations
  - ▶ Reduction of leave days
  - ▶ Various process improvements
- + Headcount reduction
  - ▶ Reduction of flexible layer
  - ▶ 10 % reduction indirect staff
  - ▶ Recruitment freeze

Evolution of payroll cost  
KLM group



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## Air France-KLM industrial projects

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- + Restructure medium-haul
  
- + Long-haul: improve profitability
  - ▶ Improve productivity
  - ▶ Reduce schedule seasonality
  - ▶ Retire MD11s from KLM fleet
  
- + Cargo: turnaround
  - ▶ Rightsizing and organization of the full-freighter fleet
  - ▶ Simplify product portfolio
  - ▶ New commercial policy
  - ▶ Reduce costs
  
- + Maintenance: improve profitability
  - ▶ Focus on high value-added businesses: engines and components
  - ▶ Restructure heavy maintenance business

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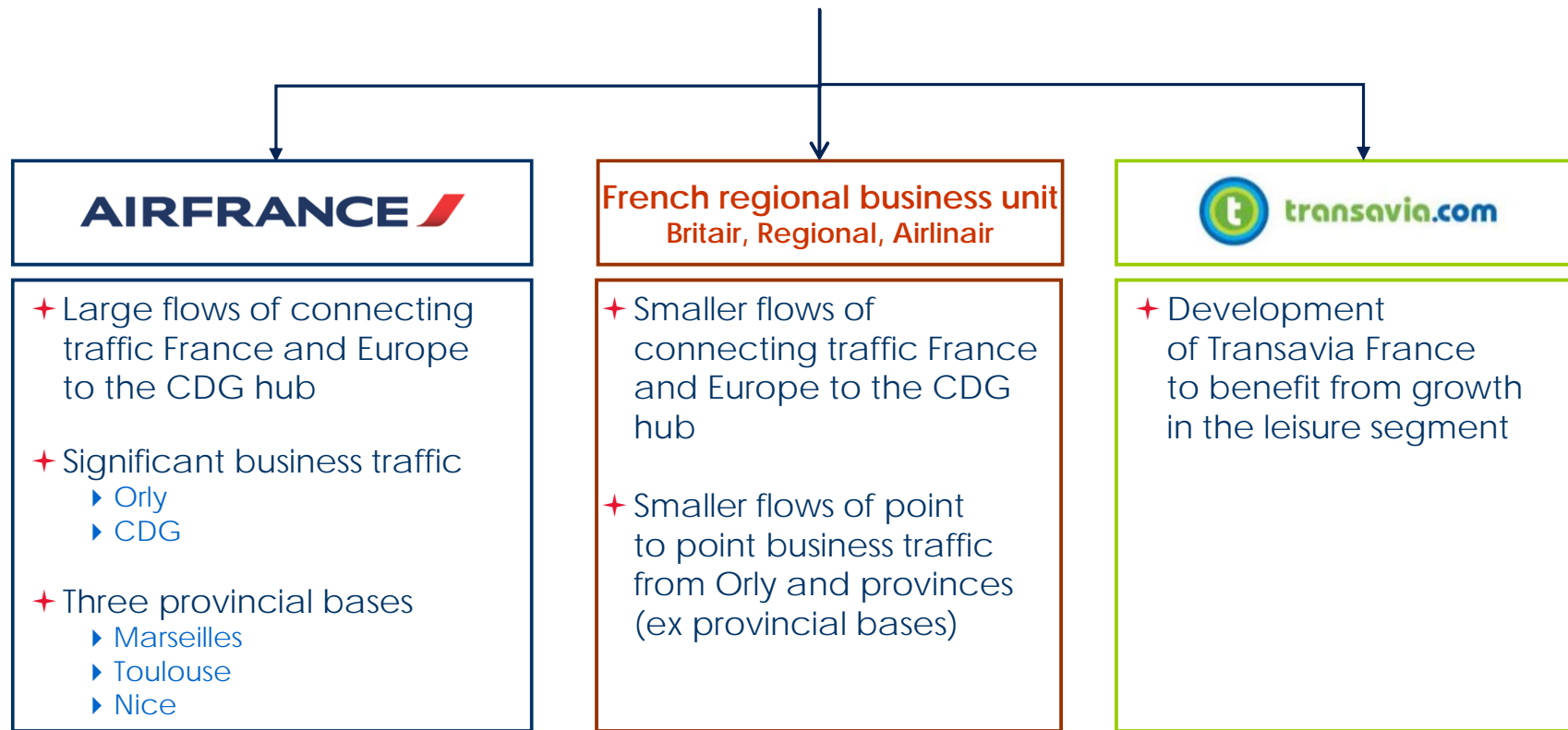
## Short- and medium-haul industrial project

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- + Air France
  - ▶ Reduction in capacity
  - ▶ Reduction of the fleet by 13 aircraft versus 2011 and 19 versus 2012 (provincial bases effect)
- + Regional business unit
  - ▶ Reduction of the fleet by 21 aircraft
  - ▶ 15% reduction in controllable unit cost
  - ▶ A single brand
  - ▶ Chartering for Air France and own business
- + Transavia France
  - ▶ Additional frequencies and new leisure destinations
  - ▶ Fleet increased by 14 aircraft
  - ▶ 10% reduction in ex-fuel unit cost
- + KLM
  - ▶ Densification of B737s
  - ▶ Code share between KLM and Transavia Netherlands

# Air France medium-haul: organised around three business units

Three complementary business units



Return to break-even in 2014

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## The customer at the heart of our projects

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### + Medium-haul

- ▶ Simplify Air France offer: Business/Premium Eco/Economy
- ▶ Reposition upscale the Business in-flight product
- ▶ Introduce 'Economy Comfort' at KLM
- ▶ Make available less costly offer with more options in Economy class

### + Long-haul

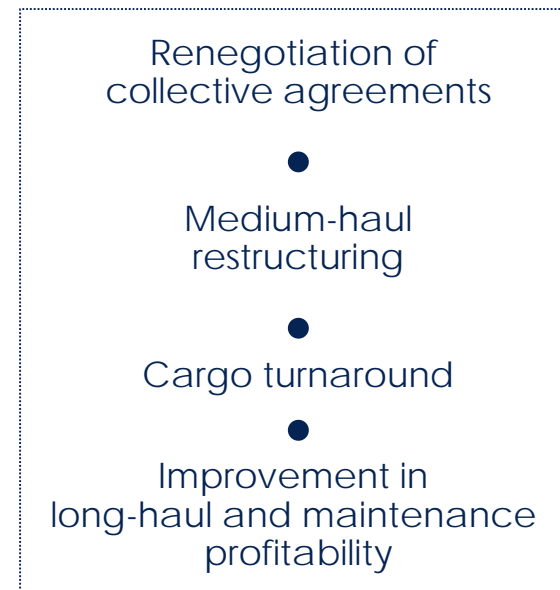
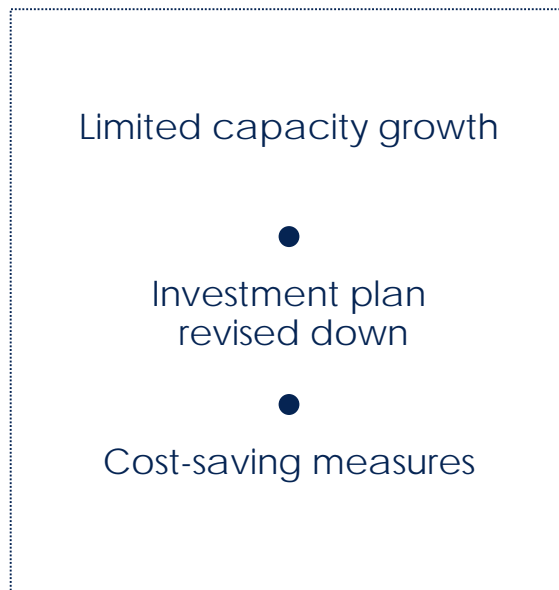
- ▶ Facilitate all stages of the customer experience
- ▶ Position the 'La Première' and 'Business' products at highest industry standards, focusing on all components of the offer
- ▶ Introduce new World Business Class seat at KLM
- ▶ Extend these improvements to Economy class



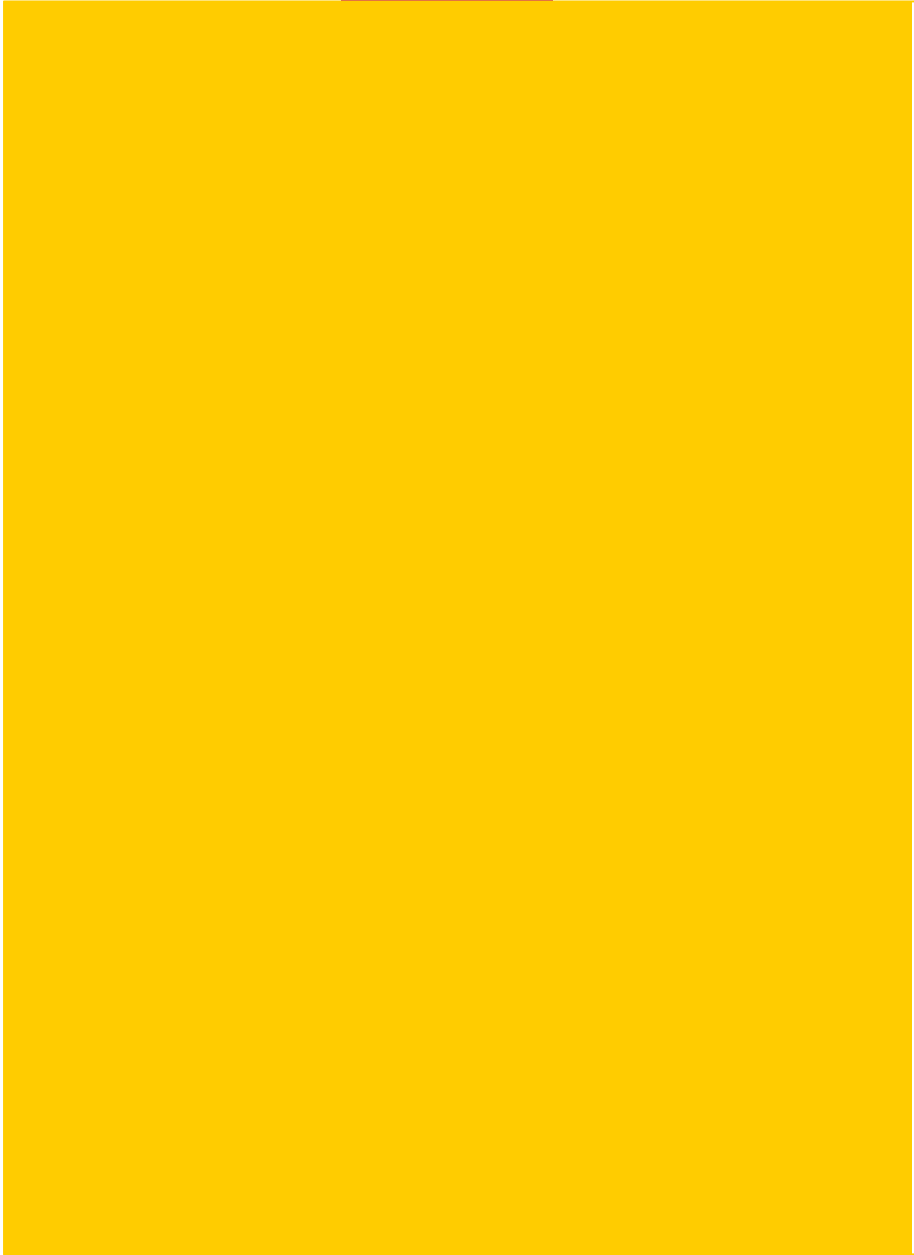
## 'Transform 2015' plan: end 2014 objectives

Reduction in net debt: **€2bn**

Reduction in unit costs\*: **10%**



\* Unit cost per EASK ex fuel



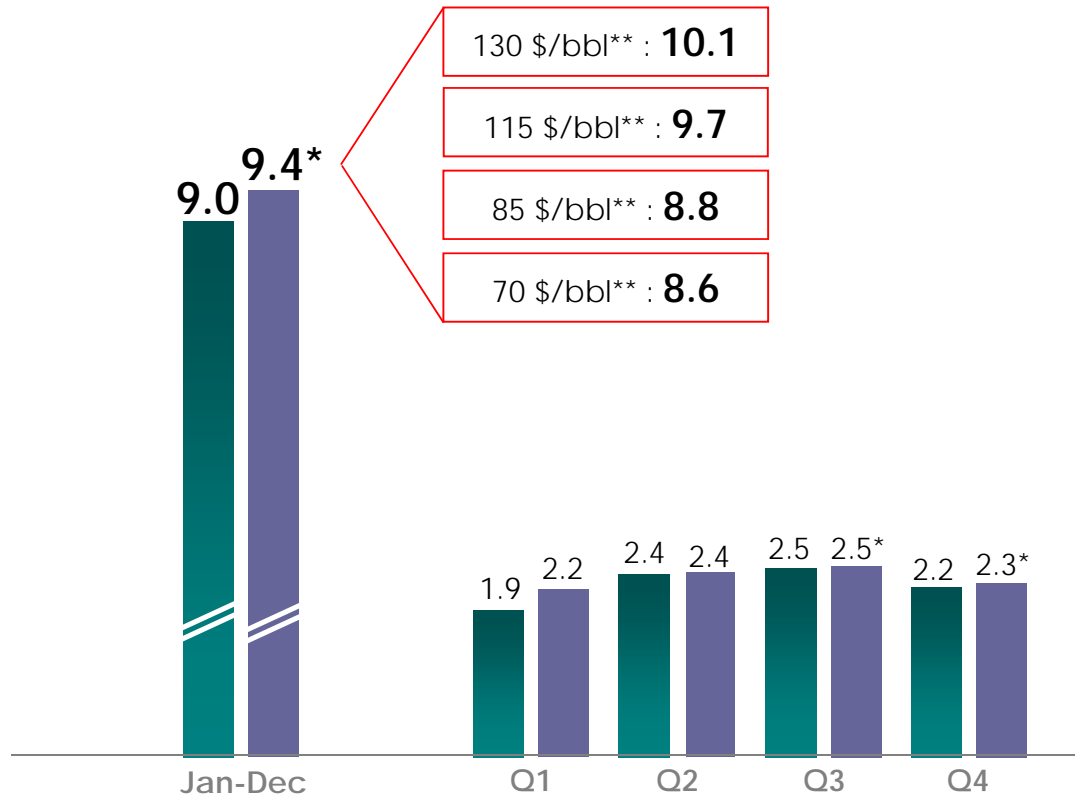
# Outlook

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# Update on the fuel bill

Fuel bill in billion dollars  
after hedging

■ 2011  
■ 2012



Market price Brent (\$ per bbl)*	109	118	109	105	105
Jet fuel (\$ per mt)*	1,010	1,060	990	985	990
% of covered consumption	63%	57%	61%	66%	67%

\* Forward curve at 20 July 2012

\*\* Over remainder of the year

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## Outlook for second half of 2012

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- + Summer bookings well oriented
- + Global economic outlook makes forecasts difficult for the latter part of the year
- + First significant positive effects of Transform 2015
- + Operating result should be above 195 million euros realized in second half of 2011
- + Net debt at 31<sup>st</sup> December should be lower than at the end of 2011



# Appendices

## Net debt calculation

€ millions

	30 June 2012	31 Dec. 2011
Current and non-current financial debt	10,549	10,402
Deposits on leased aircraft	(534)	(491)
Financial assets pledged (OCEANE swap)	(393)	(393)
Currency hedge on financial debt	9	4
Accrued interest	(90)	(122)
<b>= Financial debt</b>	<b>9,541</b>	<b>9,400</b>
Cash and cash equivalents	2,681	2,283
Marketable securities	390	359
Available cash pledges	235	235
Deposits (Triple A)	131	165
Bank overdrafts	(135)	(157)
<b>= Net cash</b>	<b>3,302</b>	<b>2,885</b>
<b>Net debt</b>	<b>6,239</b>	<b>6,515</b>
<b>Consolidated shareholders' funds</b>	<b>4,881</b>	<b>6,094</b>
<b>Net debt / shareholders' funds</b>	<b>1.28</b>	<b>1.07</b>
<i>Net debt / shareholders' funds excluding derivatives</i>	<i>1.28</i>	<i>1.08</i>

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## Air France company: Ground staff collective agreement

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- + Application as of 1<sup>st</sup> January 2013 of agreement signed on 6<sup>th</sup> July 2012
  
- + Main new measures:
  - ▶ **Limit the increase in payroll costs**
    - Reduction in seniority creep of 0.6 points per annum:
      - Revision of seniority definitions
      - Closer link between remuneration and performance
  
    - Simplification and redefinition of job classifications
  
  - ▶ **Increase in time worked**
    - Increase of 10 to 12 days in time worked (+5.5% on average)
    - Improvement in the efficiency of time worked thanks to new operational organisation

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**Collective agreement signed by 3 union organisations representing  
46% of votes cast in the most recent elections**

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## Air France company: project agreement for cockpit crews

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- + Application starting from 1<sup>st</sup> January 2013 of agreement submitted for signature on 5<sup>th</sup> July 2012
  
- + Main new measures:
  - ▶ **Limit rise in payroll cost: objective of reducing seniority creep by 0.6% per annum**
    - Class promotions frozen for 3 years until end-2014
    - Change in certain eligibility rule, eg: ground activity remunerated on a percentage of fixed salary, or the valuation of night hours reduced from 50 to 40%
  
  - ▶ **Increase in time worked**
    - Medium-haul: 700 hours (+65 hours); long-haul: 740 hours (+30 hours); 3 day increase in activity
    - Implementation of a Fatigue Risk Management System, to review crew composition and rest regulations during stop-overs
  
  - ▶ **Cost saving measures**
    - Accommodation, subsistence allowances...

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**Favorable view from the SNPL union (71% of cockpit crews votes at the latest elections). Project submitted to ballot with SNPL members, with outcome expected mid-August**

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## Air France company: project agreement for cabin crews

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### + Main new measures

- ▶ **Limit rise in payroll cost: objective of reducing seniority creep by 0.6% per annum**
  - Rankings frozen for 3 years
  - No promotions in 2012
  
- ▶ **Increase in productivity**
  - Rules governing use and organization of work
    - Increase hours flown with no rise in salary
    - Review of time worked by cabin crew (stop-over time on long-haul, increase in number of hours flown in a single day in medium-haul)
    - Account taken of seasonality
  - Review of crew composition
    - Reduce number of pursers on certain long-haul flights
    - Evolve passenger/cabin crew ration
  - Increase hours flown: 620 hrs/pa on medium-haul (up from 535 hours), 720 hrs / pa on long-haul (up from 680 hours)
  
- ▶ **Reduction in travel costs (accommodation, on-board catering for crews)**

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**In view of the failure of unions representing more than 30% of votes at the most recent elections to approve the project agreement, the agreement currently in place until 31<sup>st</sup> March 2013 will be replaced by a text with less favorable counterparties**

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# KLM: Proposed measures CLA negotiations

<p><b>KLM Group wide</b></p>	<ul style="list-style-type: none"> <li>▶ CLA for the period until end 2014</li> <li>▶ No generic salary increase in 2013 and 2014, hence no compensation for inflation</li> <li>▶ Various productivity improvement measures across all CLA domains</li> <li>▶ Measures in the domain of pensions leading to future-proof pension schemes</li> </ul>
<p><b>CLA Ground</b></p>	<ul style="list-style-type: none"> <li>▶ Reduction of number of leave days</li> <li>▶ Simplification of leave arrangements (especially in rostering), as a result of which number of productive hours per employee increase and total number of staff decreases</li> <li>▶ Implementation of a number of cost-cutting measures, such as the revision of the expatriate benefits package for people working (temporarily) in France</li> <li>▶ Implementation of measures promoting mobility</li> </ul>
<p><b>CLA Cockpit</b></p>	<ul style="list-style-type: none"> <li>▶ Work and rest time regulations improvements resulting in higher productivity for 737 unit and KLM Cityhopper</li> <li>▶ Raise of time threshold for 3 pilot operations, resulting in decrease of number of 4 pilot operations</li> <li>▶ Reduction of travel leave for North Atlantic flights with 1 day</li> <li>▶ Better spread of winter / summer holiday leave</li> <li>▶ Abolishment of annual 'extra' day off (also for KLC), in line with elimination of Good Friday as day off</li> </ul>
<p><b>CLA Cabin</b></p>	<ul style="list-style-type: none"> <li>▶ Reduction of travel leave (# of days) on long routes</li> <li>▶ Abolishment of 1 leave day in Winter, in line with elimination of Good Friday as day off</li> <li>▶ Switch of 1 summer leave day to winter</li> <li>▶ Increase of KLM's direct influence on holiday scheduling</li> <li>▶ Introduction of deferred travel leave</li> </ul>