

**AIR FRANCE KLM**

# Full Year Results 2005-06

18 May 2006



# Agenda

Introduction

Jean-Cyril Spinetta

Activity

Pierre-Henri Gourgeon

Results

Philippe Calavia

Strategy and outlook

Jean-Cyril Spinetta  
Leo van Wijk

# Our excellent 2005-06 results...

- ✦ Revenues up 10% to €21.4bn
  - ▶ With a strong progression in Passenger and Cargo revenues
- ✦ Operating profit up 69% to €936m
  - ▶ Operating margin up 1.6 points to 4.4%
- ✦ Free cash-flow of over €1bn
- ✦ Earnings per share of €3.47 and dividend per share of 30 € cts

...reflect the success of our merger

- ✦ Full year results confirm the competitive advantage of the Air France-KLM Group...
- ✦ ...illustrate the operational and financial success of the merger...
- ✦ ...and validate our strategy of profitable growth

**AIR FRANCE KLM**

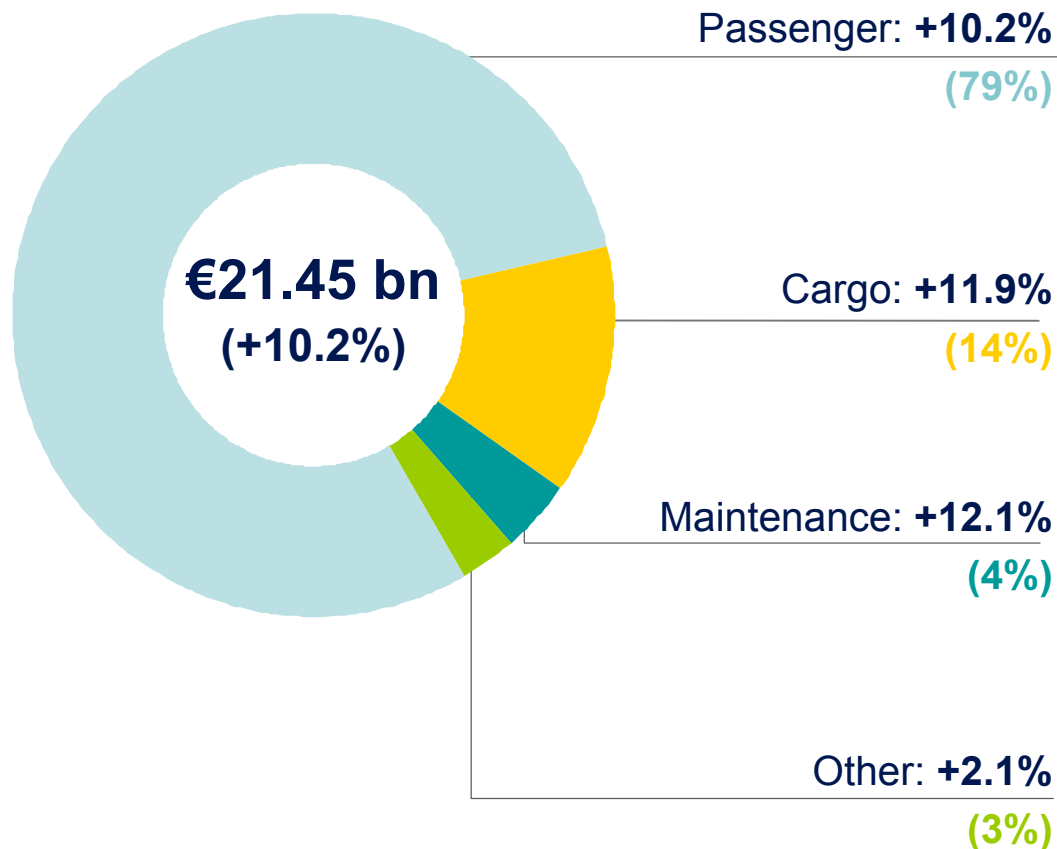
# Buoyant levels of activity

Pierre-Henri Gourgeon



# Increased levels of activity across all businesses

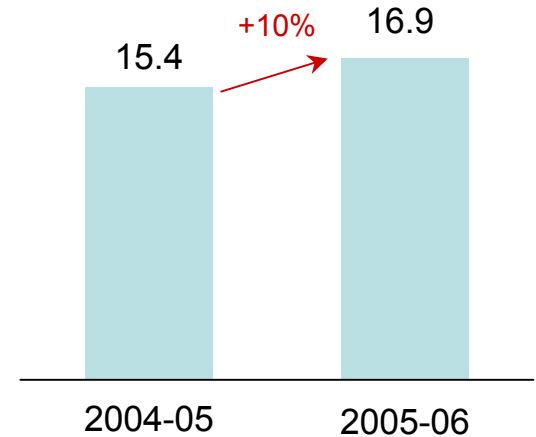
Revenues in € billions  
FY 2005-06



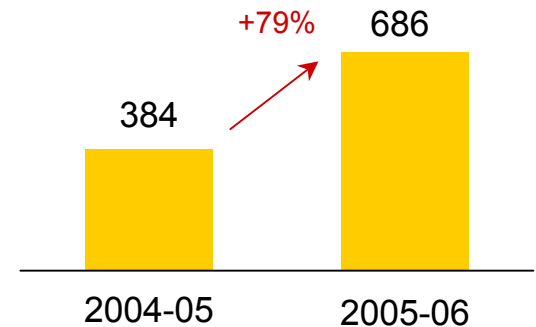
# Passenger activity

- + A favorable environment
  - ▶ Sustained levels of demand
- + Air France-KLM: an excellent performance
  - ▶ Strong performance across all networks
  - ▶ Rise in premium traffic
  - ▶ Increase in unit revenue
  - ▶ Medium-haul returns to profit
  - ▶ Improvement in profitability

**Passenger total revenues**  
(in € billions)

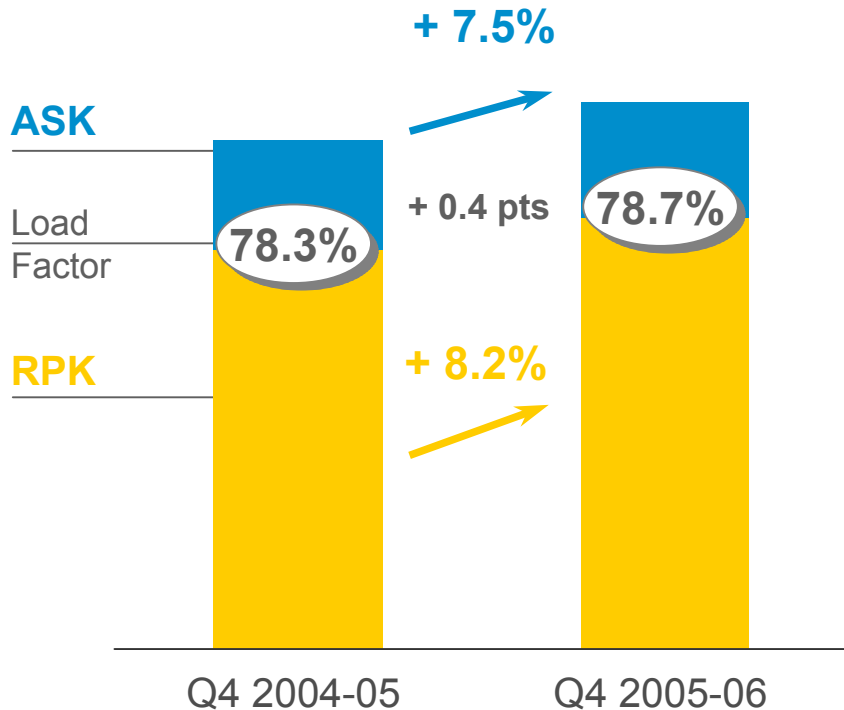


**Passenger operating income**  
(in € millions)



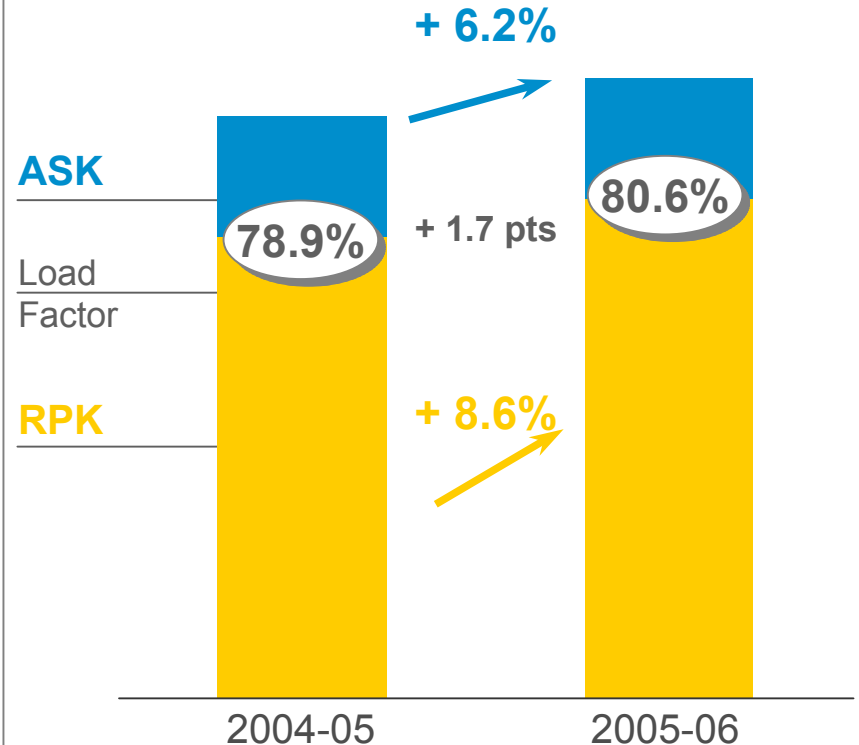
# Strong rise in activity levels and load factor ...

## Fourth Quarter



## Full Year (Apr-March)

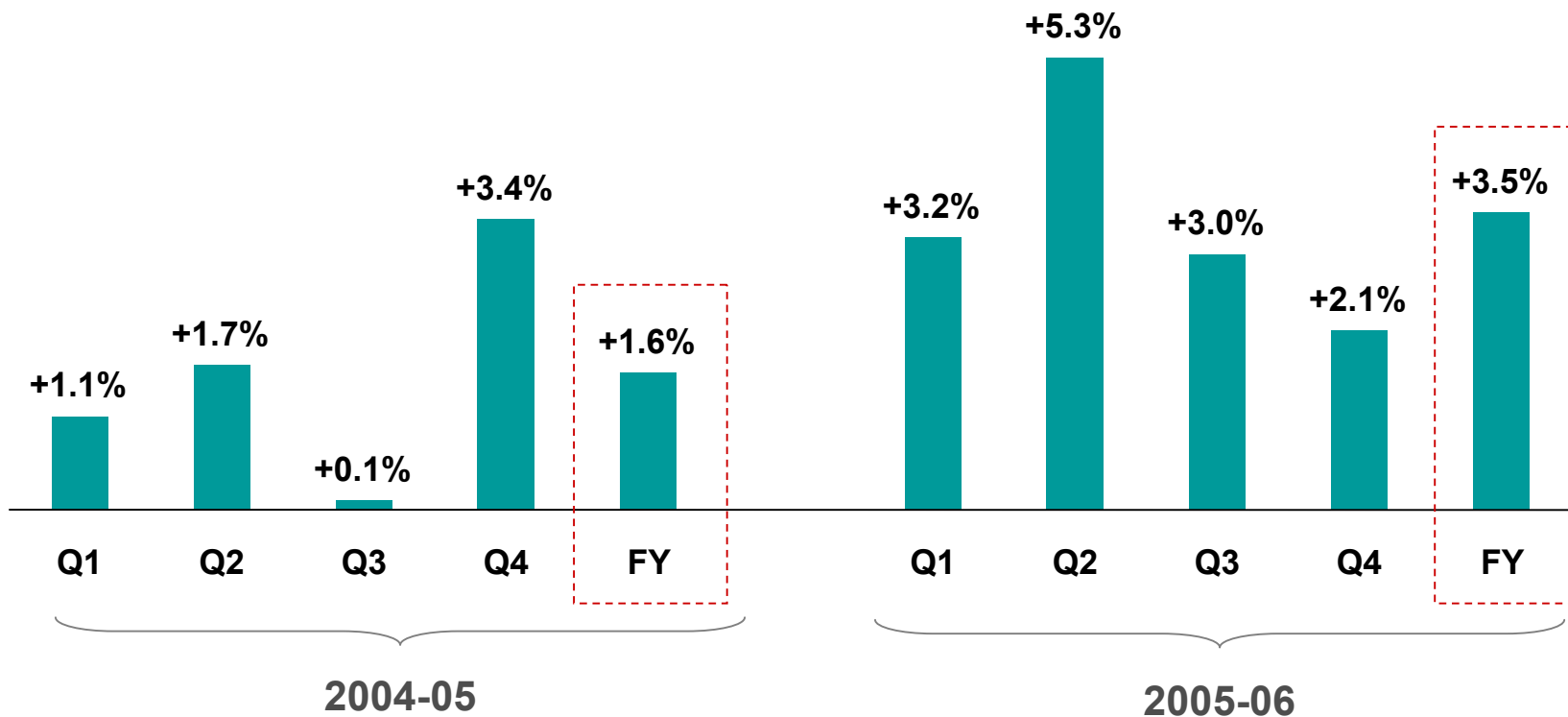
70 million passengers (+6.4%)





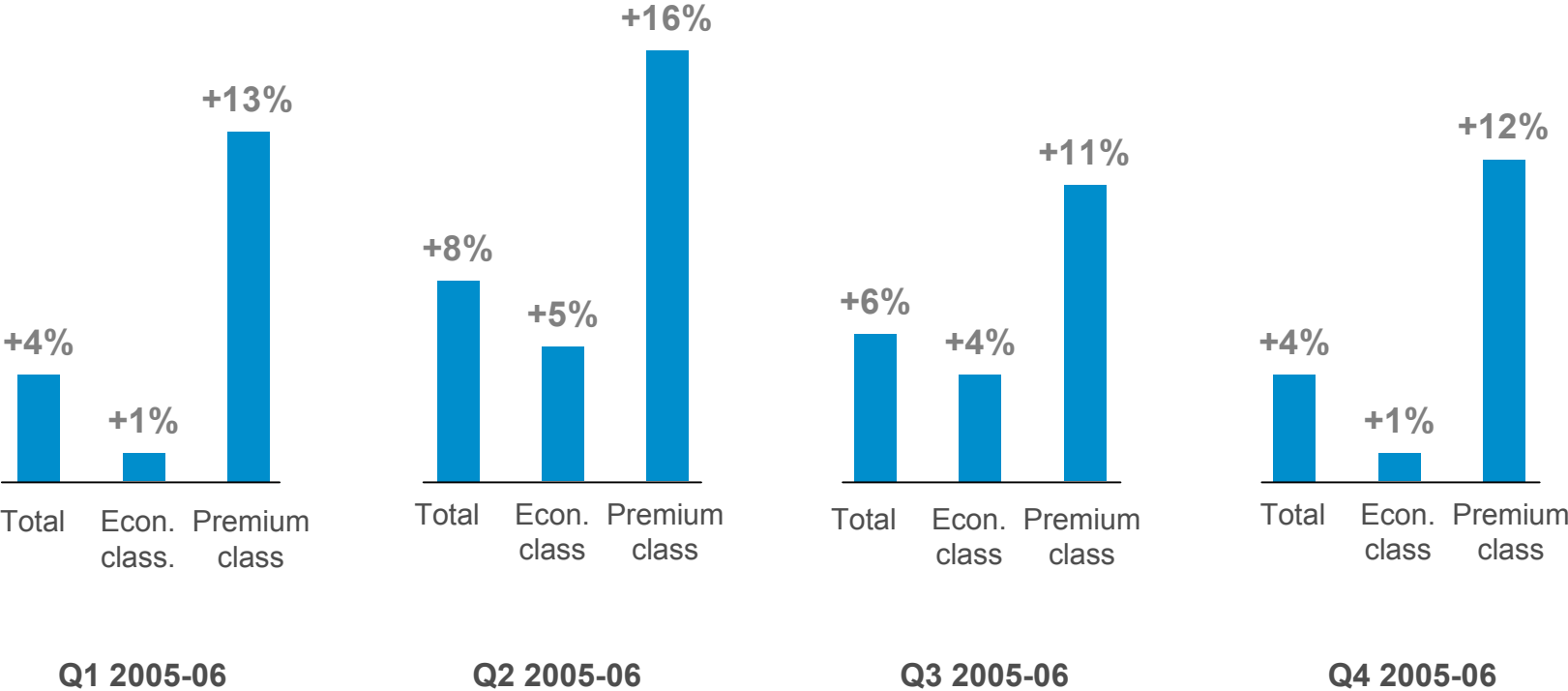
# ...with a rise in unit revenue ex-currency effect

■ RASK excl.currency (total network)



# Strong increase in premium unit revenue...

■ RASK excl. currency (long-haul network)



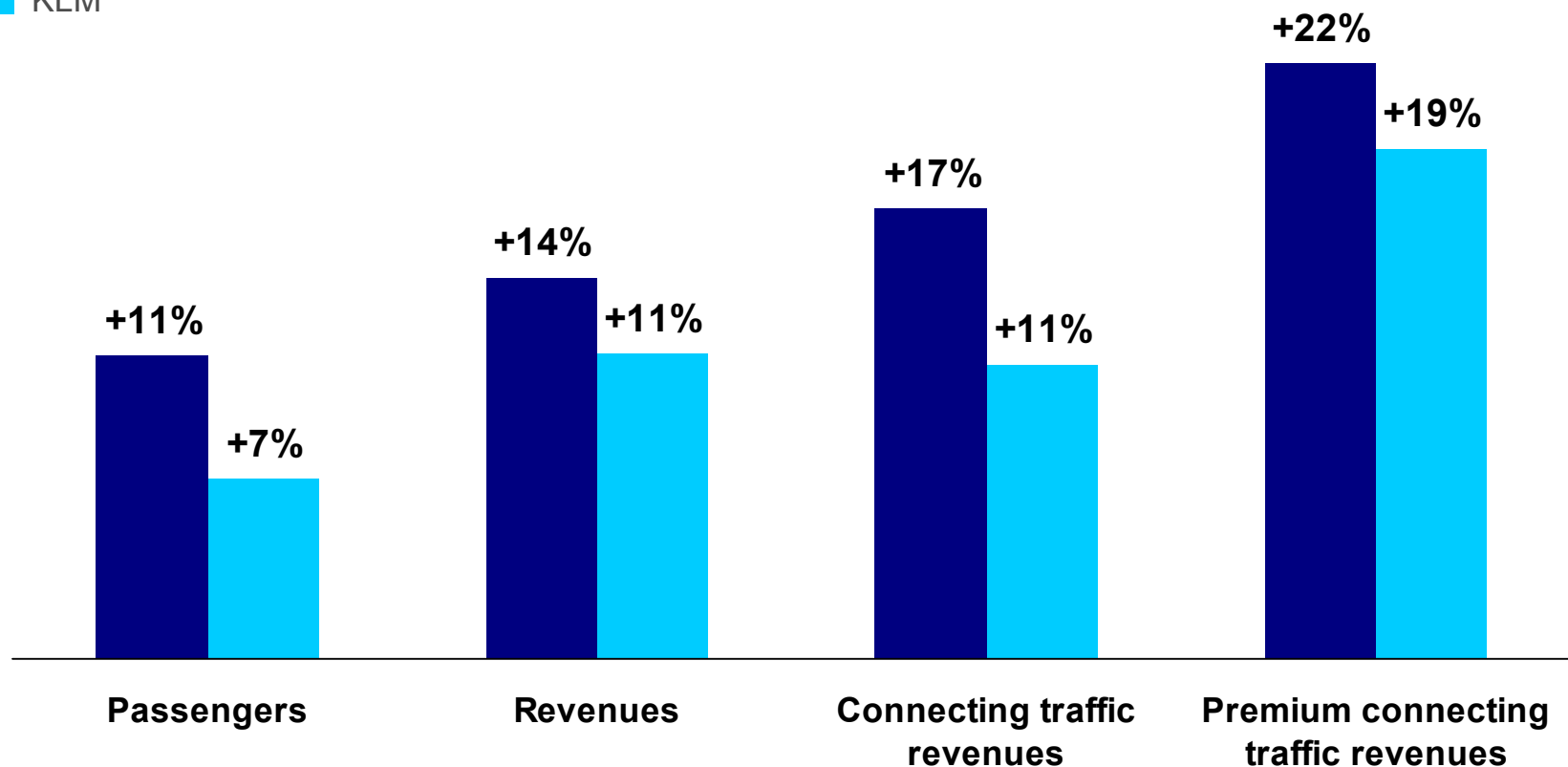
# ...underpinned by our multi-hub organization

Long-haul traffic CDG and AMS

(FY 2005-06)

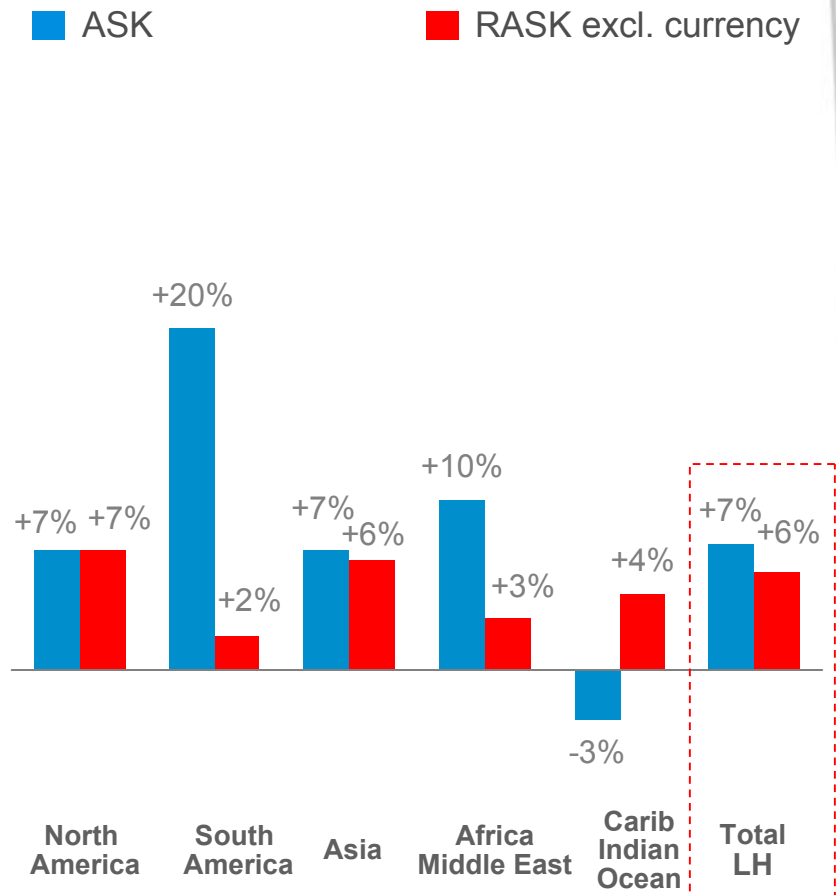
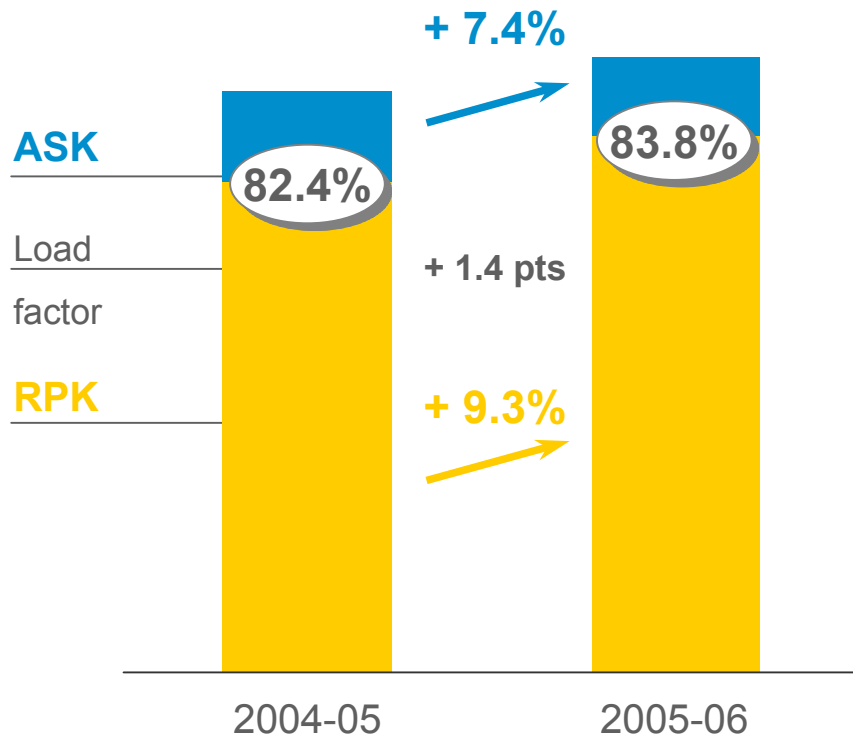
■ Air France

■ KLM



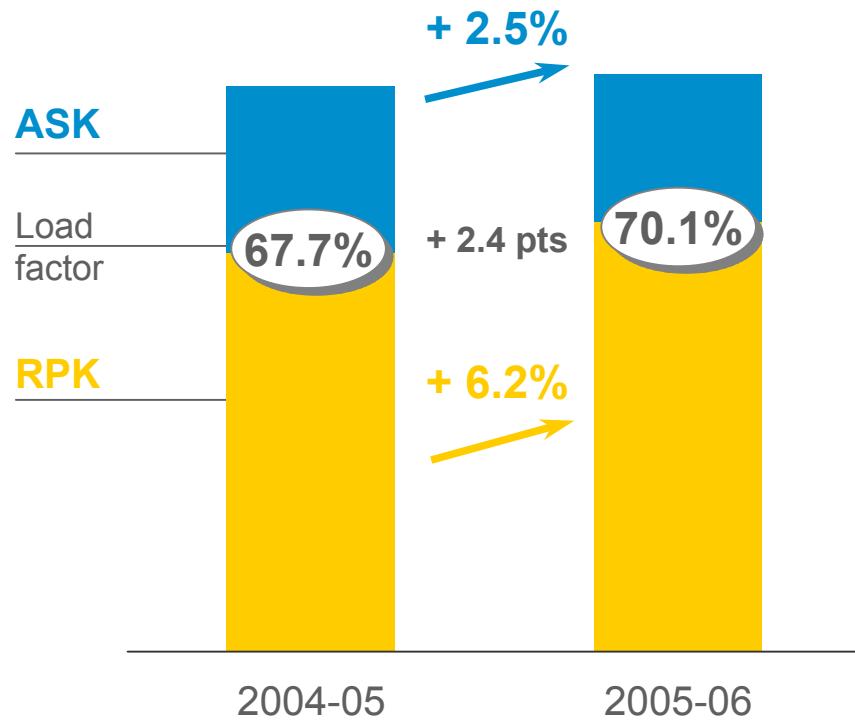
# Record levels of activity on long-haul...

## Long-haul network

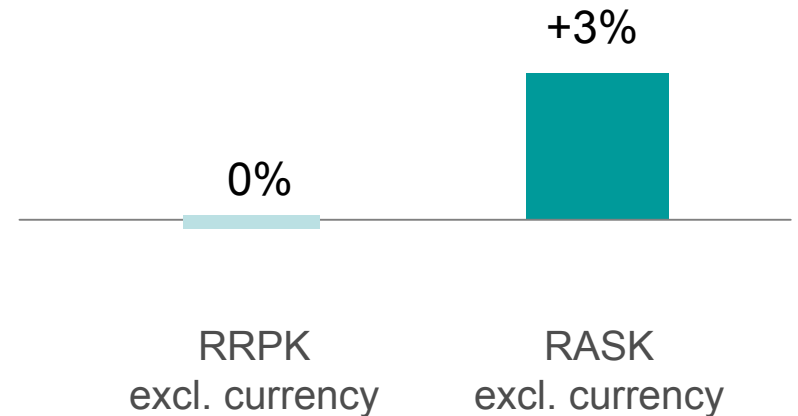


# ...as well as an excellent performance on the European network

### Medium-haul network (incl. France)



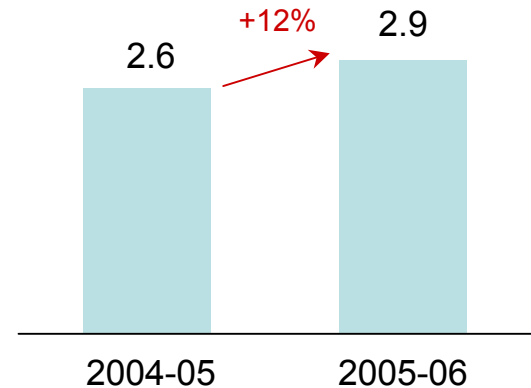
### Unit revenues (Full year 2005-06)



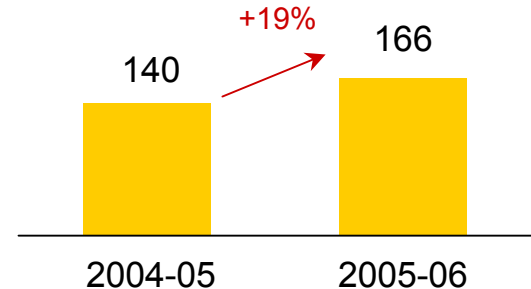
# Cargo activity

- + In a contrasted environment...
  - ▶ Sustained levels of demand globally
  - ▶ Weak European export activity
  - ▶ Intensified competition
- + ...Air France-KLM delivers a resilient performance thanks to a strong rise in yield...
- + ...and the positive effects of the new organization starting to feed through

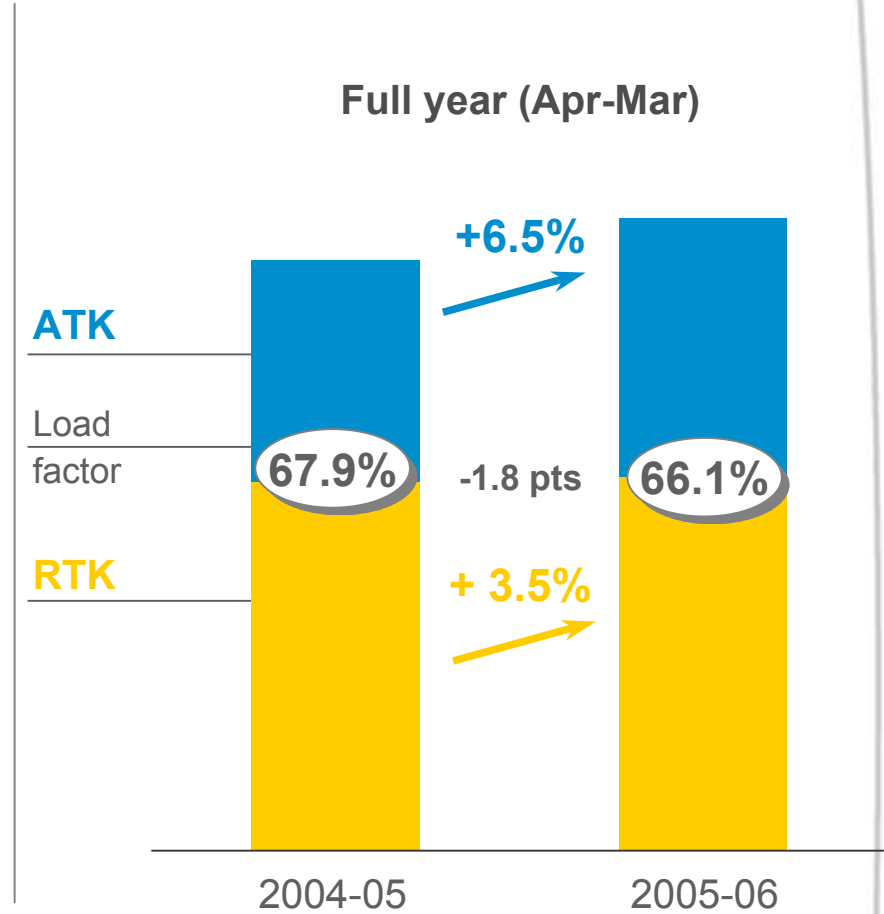
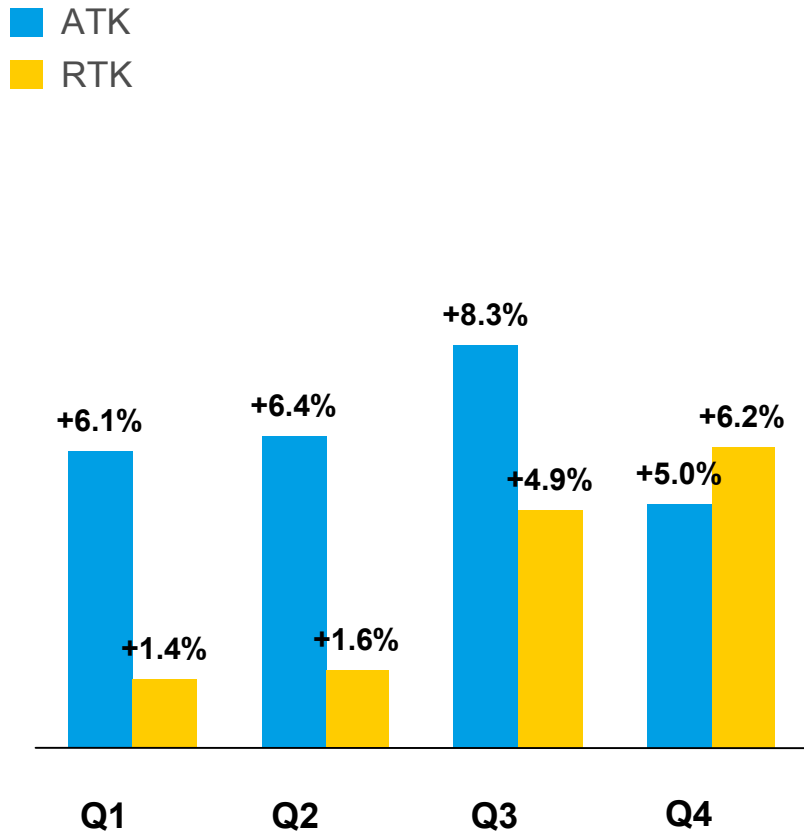
**Cargo total revenues**  
(in € billions)



**Cargo operating income**  
(in € millions)

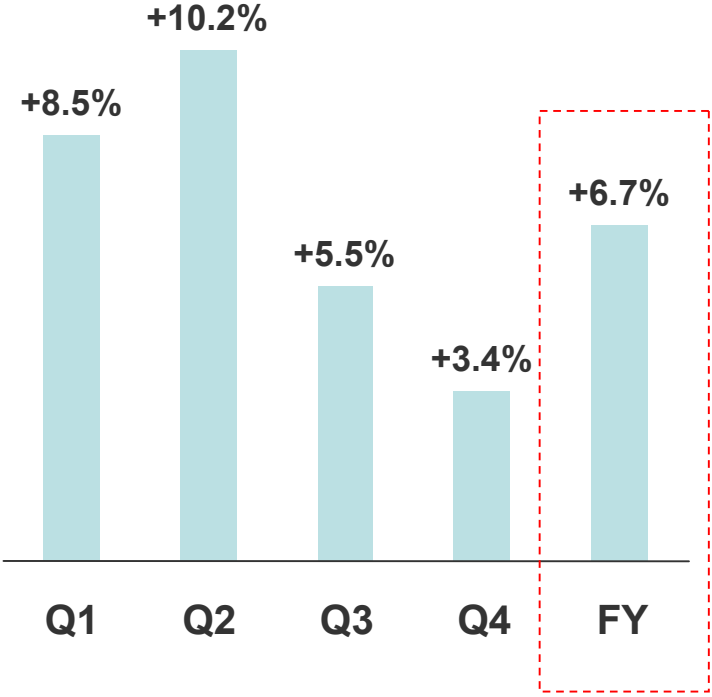


# Improved traffic levels in the Second Half

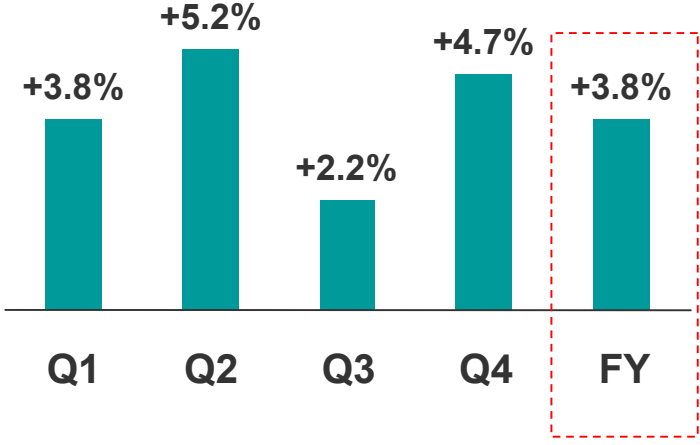


# Strong level of unit revenues

Unit revenue per RTK excl. currency



Unit revenue per ATK excl. currency





# Maintenance activity

## + Environment

- ▶ An active market (\$38.3bn in 2005)
- ▶ Stiff competition including from the constructors
- ▶ Further consolidation within the sector

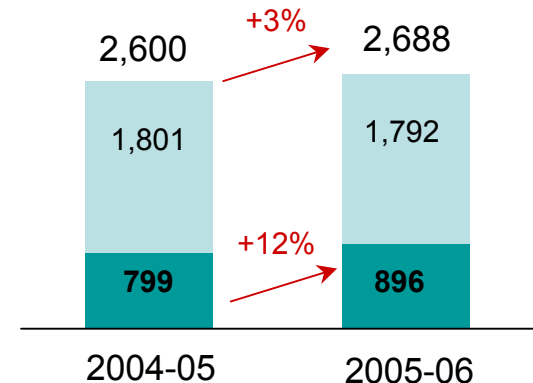
## + Air France-KLM

- ▶ A developing equipment support (maintenance & logistics) activity
- ▶ Internal maintenance of CFM56-7, CF6-80E1 and GE90 engines
- ▶ Further development of joint-purchasing synergies

### Maintenance revenues

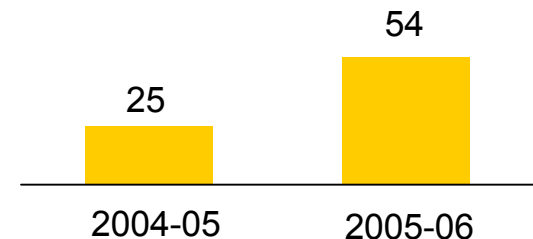
(in € millions)

Internal revenues  
External revenues



### Maintenance operating income

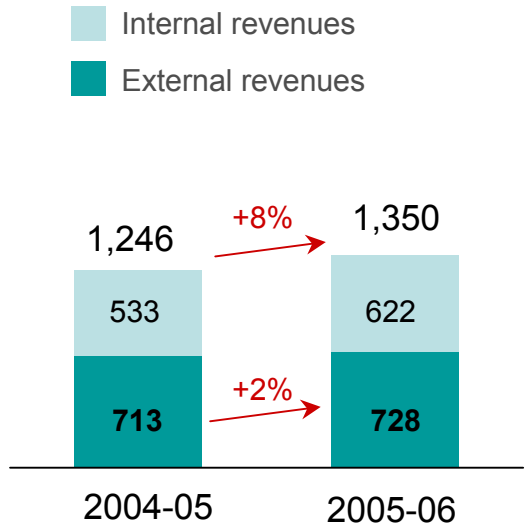
(in € millions)



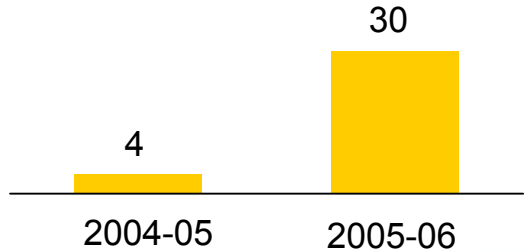
# Other Activities

- + Catering
  - ▶ Third party revenues of €260m
  
- + Transavia charter business
  - ▶ Revenues of €468m (up 14%)

**Revenues from other activities**  
(in € millions)



**Operating income from other activities**  
(in € millions)



**AIR FRANCE KLM**

**Significant increase in results**

Philippe Calavia



# Accounting treatment of the KLM pension fund surplus

+	The recognition of the KLM pension fund surplus has been the subject of debate within the accounting profession	
+	In the meantime Air France-KLM recognized only €424m of negative goodwill in its 2004-05 financial statements under IFRS	424
+	On the basis of current interpretations by the authorities and auditors, the pension fund surplus has now been fully recognized in the accounts	
	Write-back of the portion of negative goodwill relating to the surplus	622
	Review of the asset ceiling and the valuation of the plans	306
		<hr/>
→	Total impact on equity as at April 1, 2004	1,352
→	Reduction in retirement charges 2004-05 (before tax)	70

# Break-even in the Fourth Quarter

In €m

	31 March 2006	31 March 2005 new pro forma*	change	31 March 2005 published pro forma
<b>Revenues</b>	<b>5,197</b>	<b>4,610</b>	<b>+12.7%</b>	<b>4,610</b>
Current operating charges	(5,201)	(4,640)	+12.1%	(4,659)
<b>Operating income</b>	<b>(4)</b>	<b>(30)</b>	<b>ns</b>	<b>(49)</b>
<i>Operating margin</i>	<i>(0.1%)</i>	<i>(0.7%)</i>	<i>+0.6 pts</i>	<i>(1.1%)</i>
<i>Adjusted operating margin**</i>	<i>1.0%</i>	<i>0.5%</i>	<i>+0.5 pts</i>	<i>0.0%</i>
Other non-current income and charges	(9)	(7)		(5)
<b>Income from operating activities</b>	<b>(13)</b>	<b>(37)</b>		<b>(54)</b>
Net interest charge	(53)	(52)		(53)
Income tax	72	81		64
<b>Net income, Group share</b>	<b>7</b>	<b>10</b>		<b>(25)</b>

\* Pro forma 2004-05 P&L under IFRS integrating the write-back of KLM's pension surplus

\*\* Adjusted by the share of financial charges in operating leases (34%)

# Significant increase in Full Year results

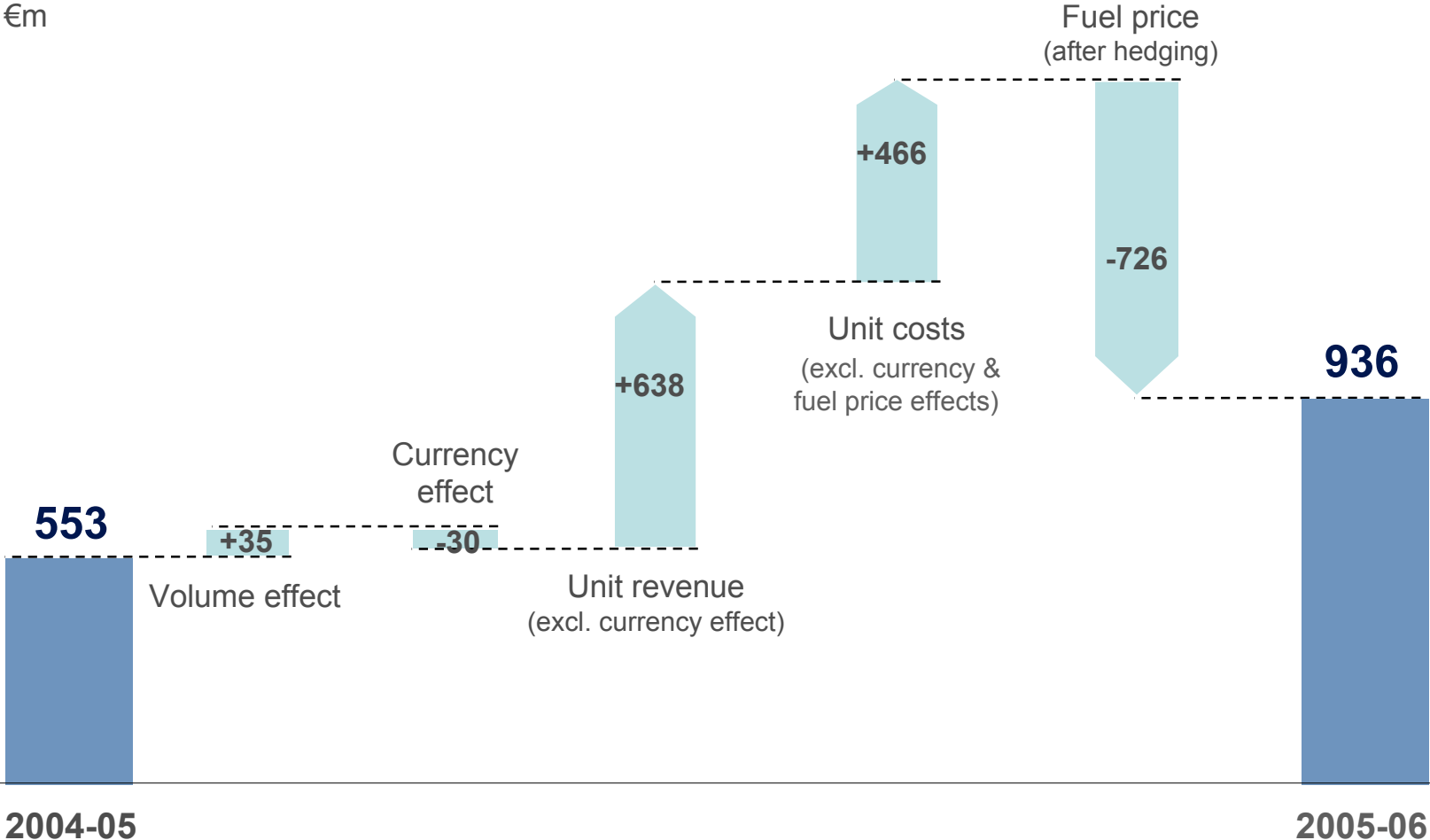
In €m	2005-06	2004-05 new pro forma*	change	2004-05 published pro forma
<b>Revenues</b>	<b>21,448</b>	<b>19,467</b>	<b>+10.2%</b>	<b>19,467</b>
Current operating charges	(20,512)	(18,914)	+8.4%	(18,984)
<b>Operating income</b>	<b>936</b>	<b>553</b>	<b>+69.3%</b>	<b>483</b>
<i>Operating margin</i>	4.4%	2.8%	+1.6 pts	2.5%
<i>Adjusted operating margin**</i>	5.4%	3.8%	+1.6 pts	3.5%
Other non-current operating income & charges	519	1,378	ns	516
<b>Income from operating activities</b>	<b>1,455</b>	<b>1,931</b>	<b>ns</b>	<b>999</b>
Net interest charge	(224)	(229)		(230)
Income tax	(256)	(133)		(146)
<b>Net income, Group share</b>	<b>913</b>	<b>1,704</b>	<b>ns</b>	<b>706</b>
<b>Net income excluding pension adjustments</b>	<b>913</b>	<b>706</b>	<b>+29.3%</b>	<b>706</b>

\* Pro forma 2004-05 P&L under IFRS integrating the write-back of KLM's pension surplus

\*\* Adjusted by the share of financial charges in operating leases (34%)

# Analysis of change in operating income

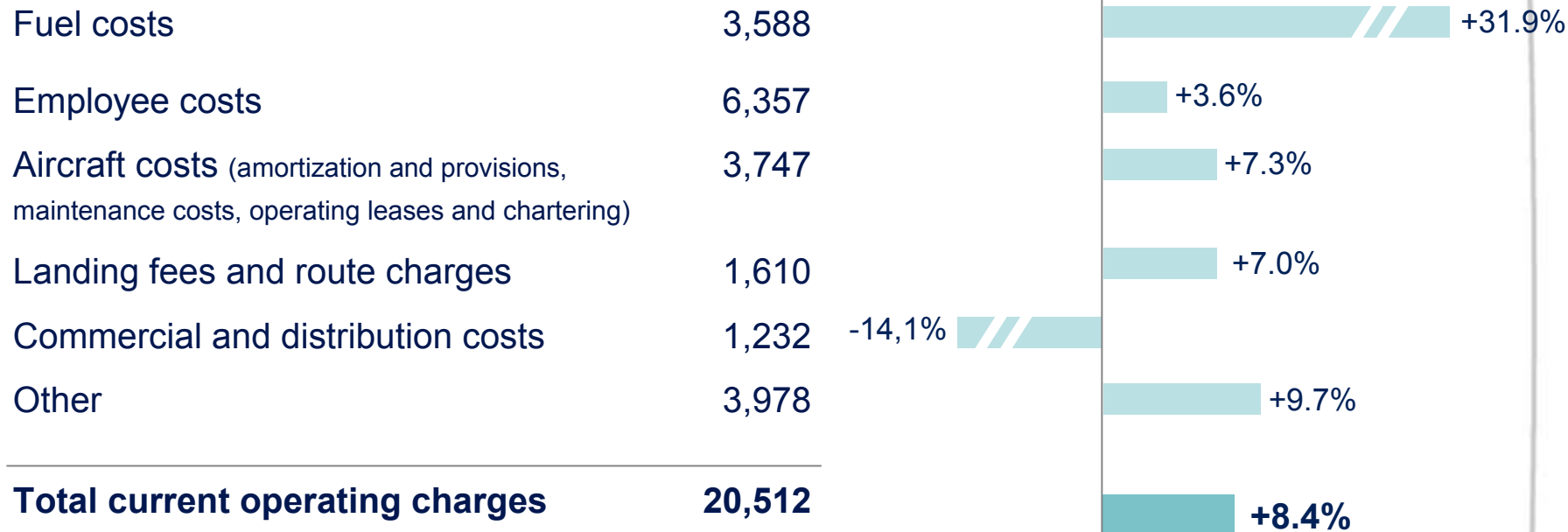
Operating income  
In €m



# Operating charges contained

Full year 2005-06  
in €m

## Current operating charges excluding fuel costs



**EASK** +6.2%

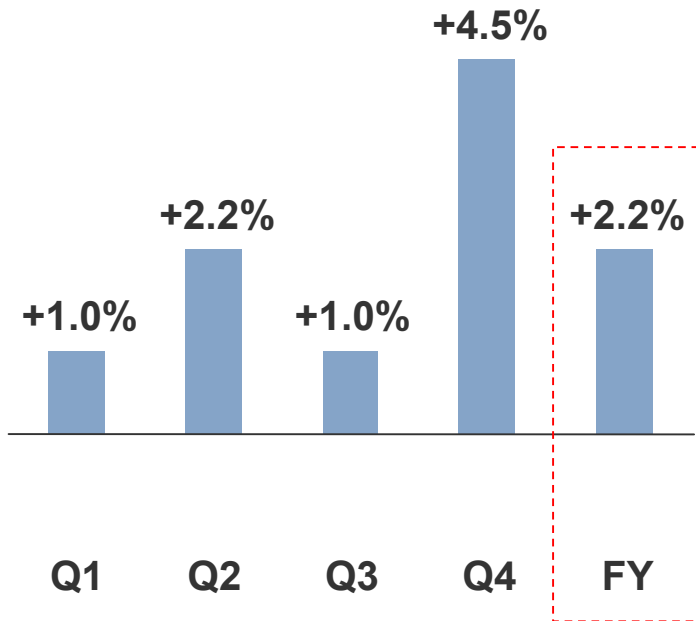
**Revenues** +10.2%



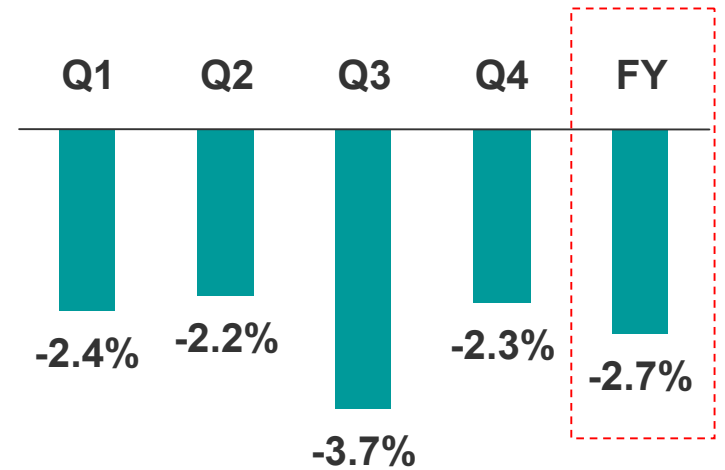
# Reduced unit costs on a constant currency and fuel cost basis

Pro forma change

### Unit costs per EASK



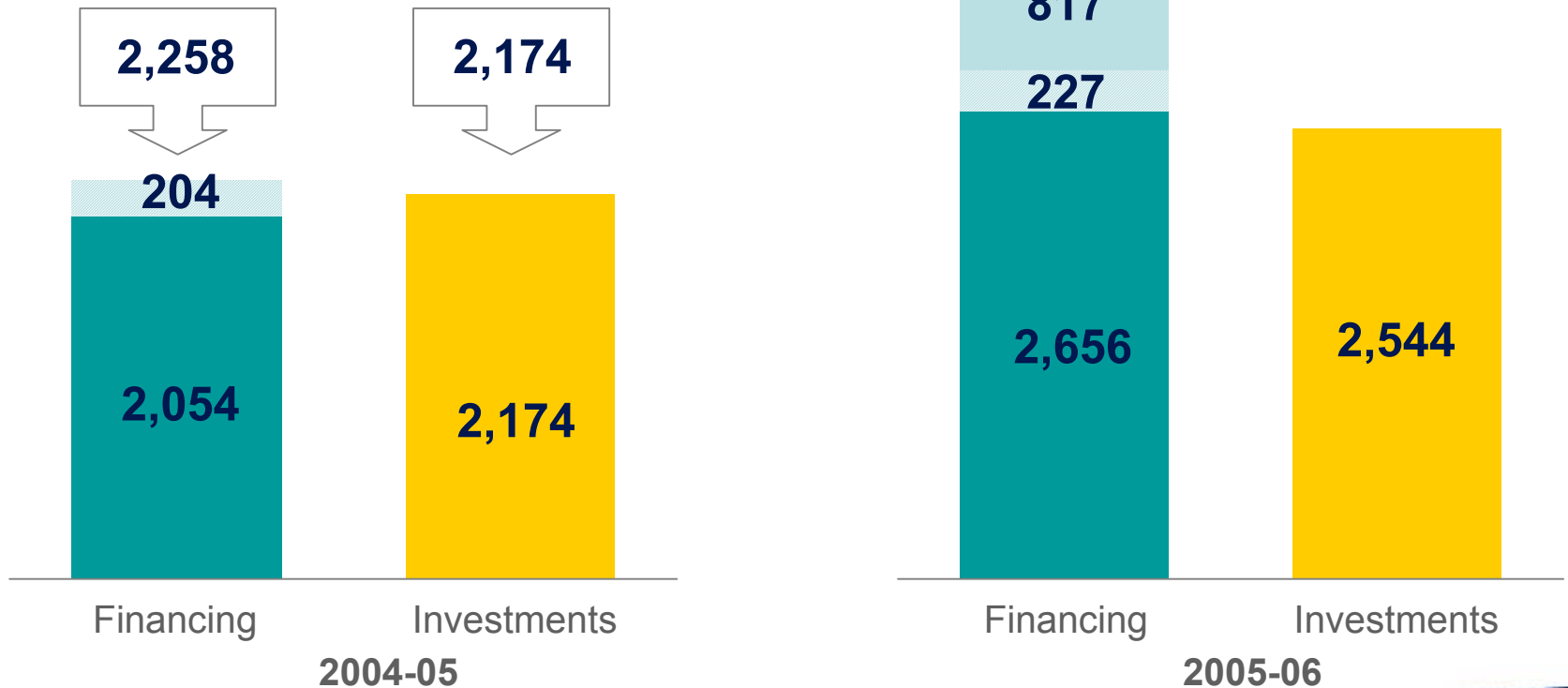
### Unit costs per EASK (excl. currency and fuel costs)



# Free cash flow exceeds €1 billion

Apr-May (in € Millions)

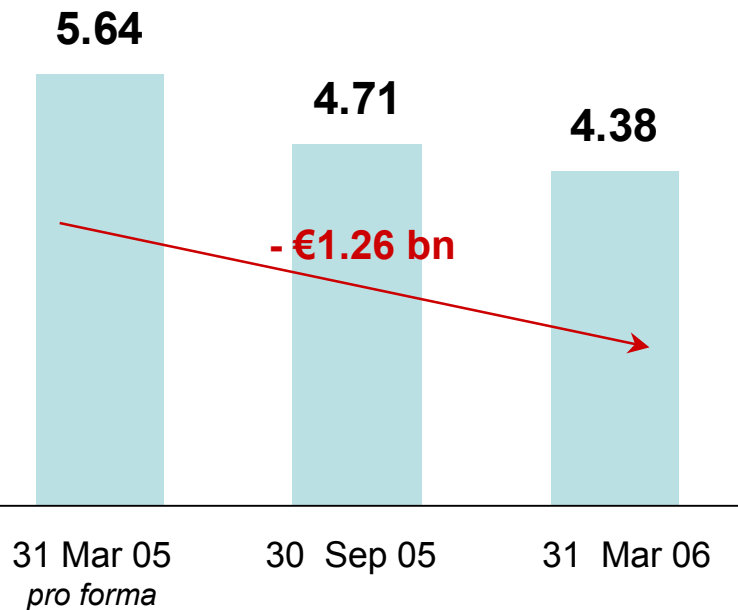
- Net cash from Amadeus
- Aircraft disposals
- Operating cash flow
- Tangible and intangible investments



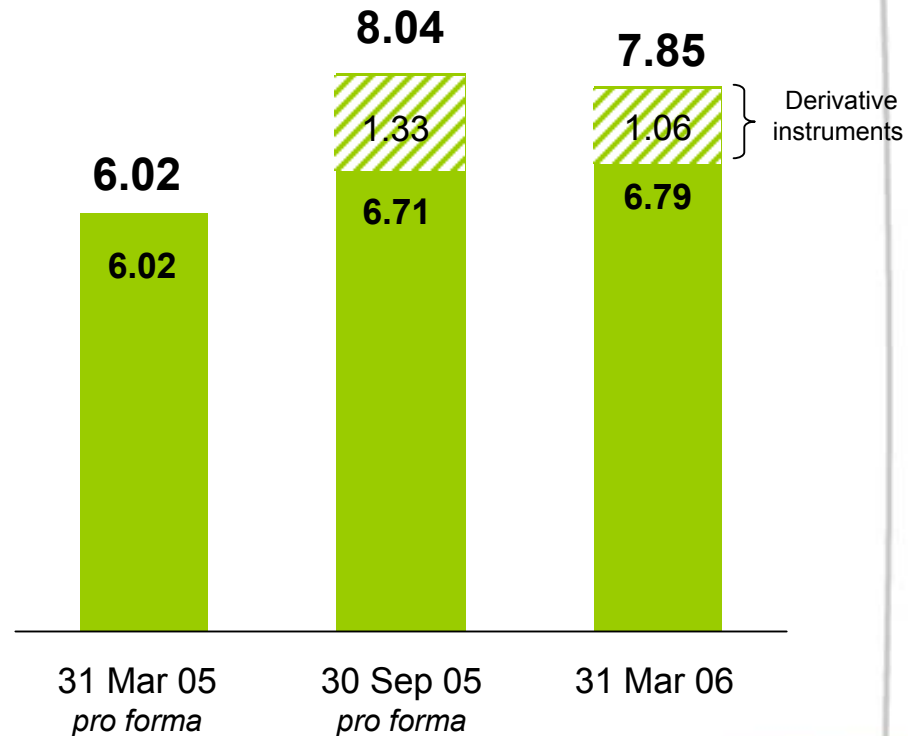
# A further reduction in net debt...

Gearing ratio as at March 31, 2006: **0.56**

Net debt  
(in € Billions)

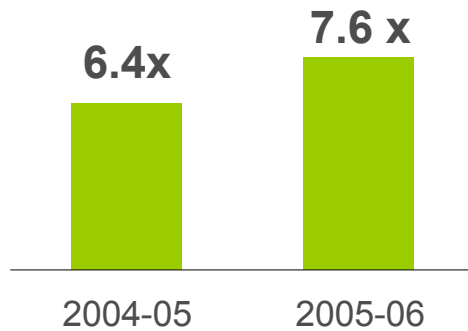


Shareholders' equity  
(in € billions)

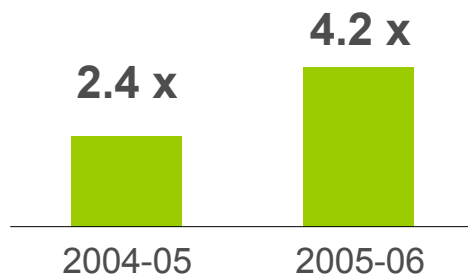


# ...and a reinforced financial position

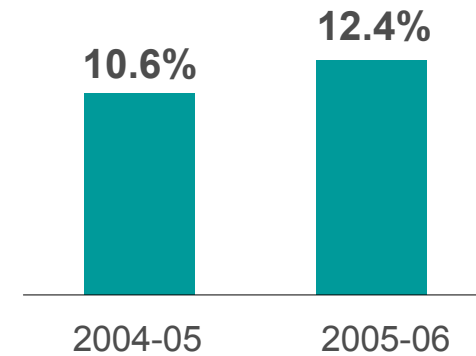
### EBITDAR / net adjusted interest costs \*



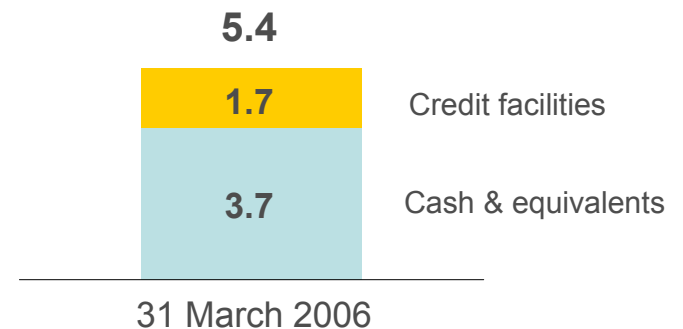
### EBIT / net interest costs



### Operating cash flow margin



### Cash at hand (in €bn)



\* Adjusted by the share of financial charges in operating leases (34%)

**AIR FRANCE KLM**

# Strategy and outlook

Jean-Cyril Spinetta

Leo van Wijk



# Our aims

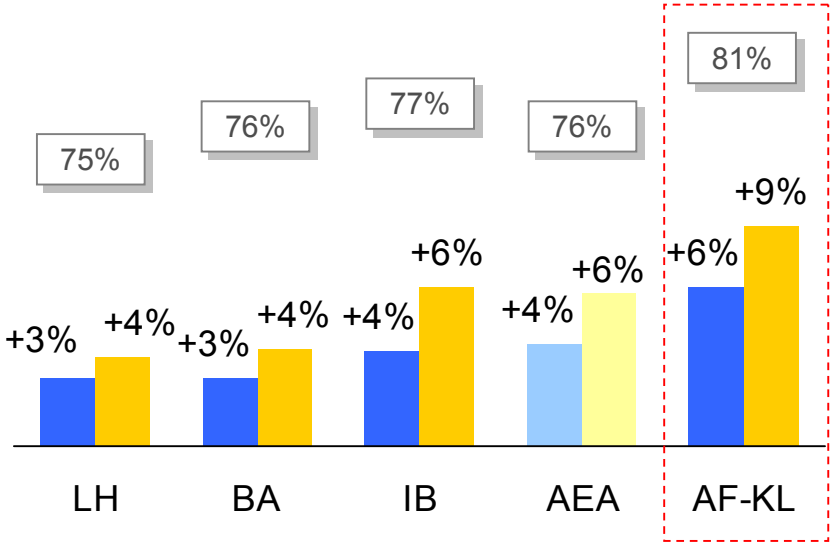
- ✦ Strengthen the leadership position of Air France-KLM
- ✦ Reinforce our financial strengths
- ✦ Pursue our strategy of profitable growth

# Confirmation of our leadership position...

Full year 2005-06

ASK RPK

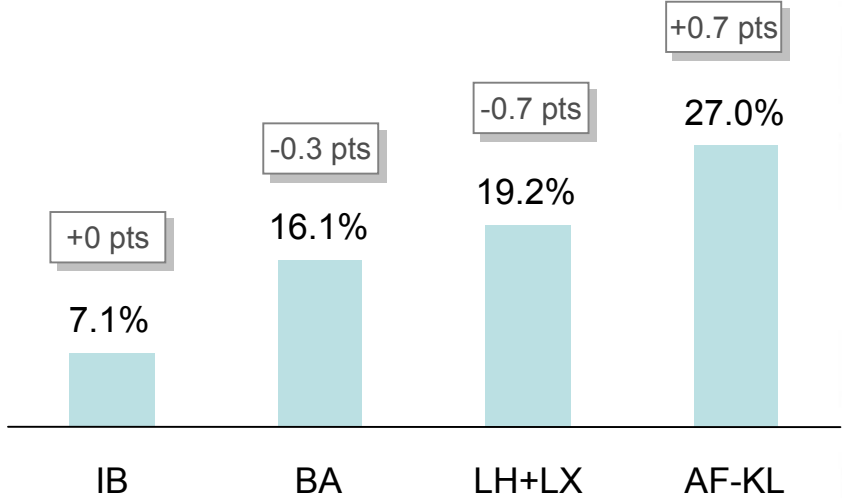
xx% Load factor



sources: companies, AEA

Full year 2005-06

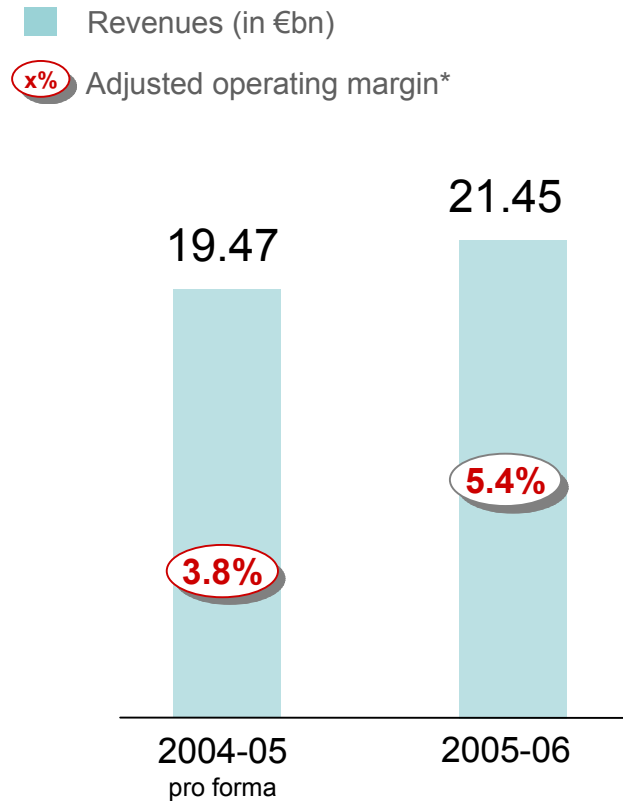
Traffic share in AEA



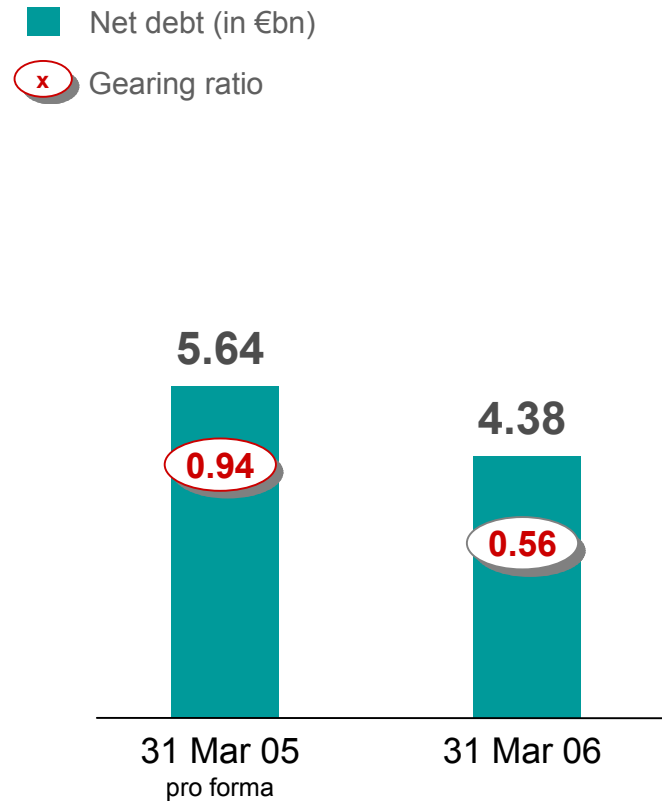
source: AEA

# ...with a reinforced financial performance

## Improved profitability



## Strengthened financial position

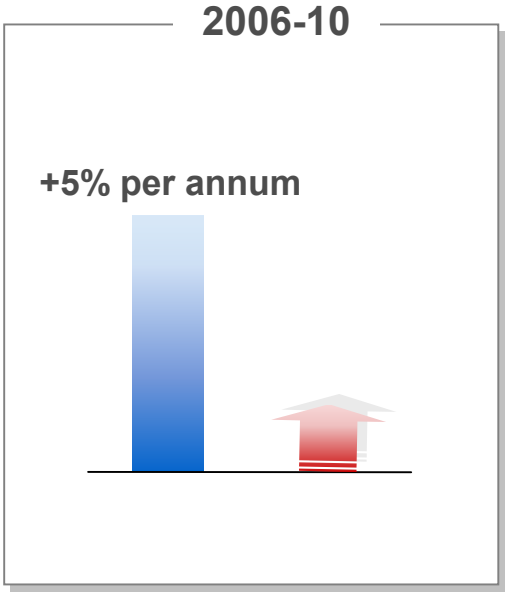
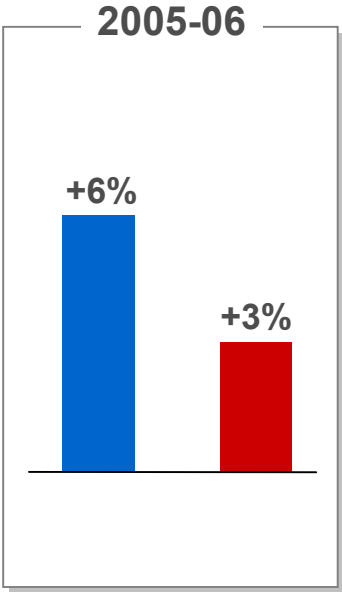
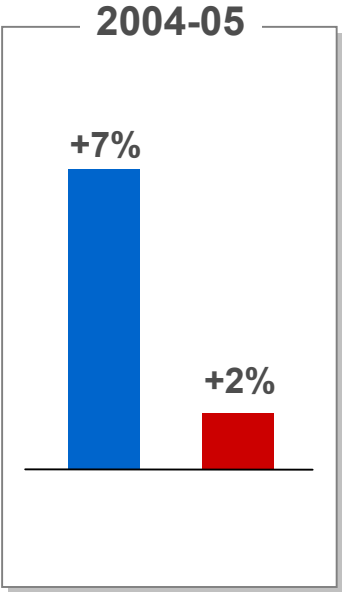


\* Adjusted by the share of financial charges in operating leases (34%)



# Pursue our strategy of profitable growth

- ASK
- RASK excl. currency



# Strong foundations from which to grow

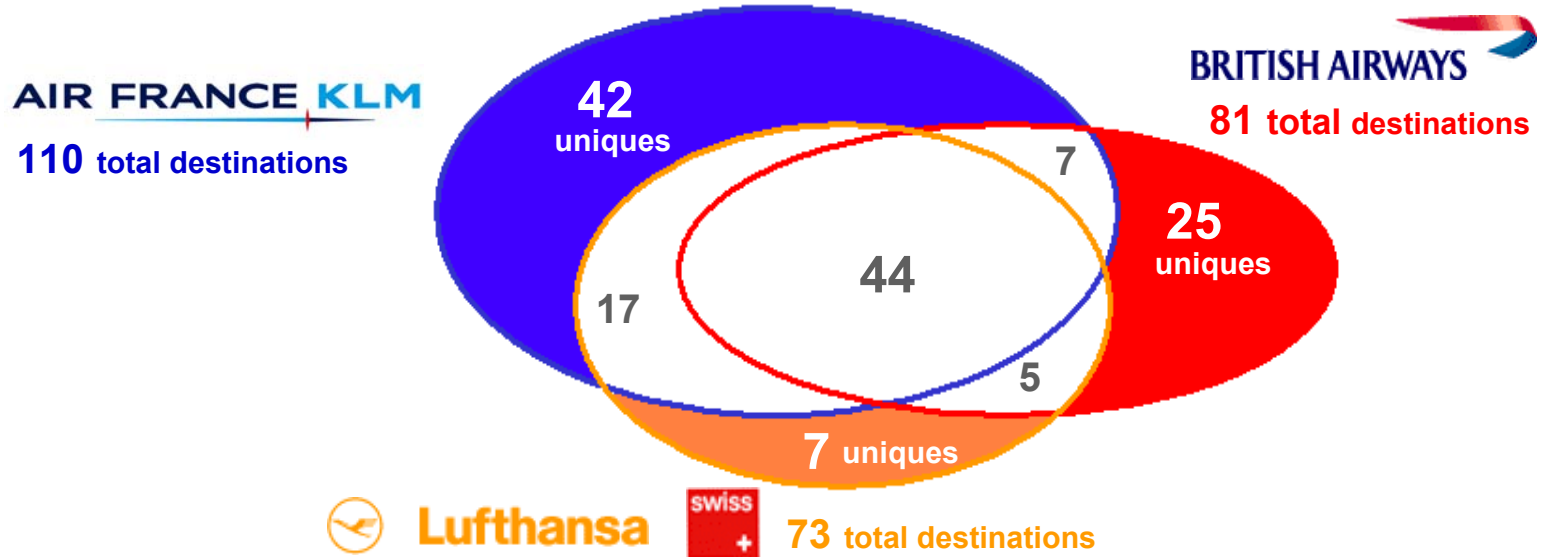
- ✦ The most powerful network
- ✦ A balanced network, allowing for targeted growth
- ✦ Two well co-ordinated hubs, both based at airports with the potential to expand in the future
- ✦ Efficient customer loyalty tools



An attractive offer enabling us to maintain good levels of unit revenue

# Air France-KLM: the most powerful network linking Europe to the rest of the world

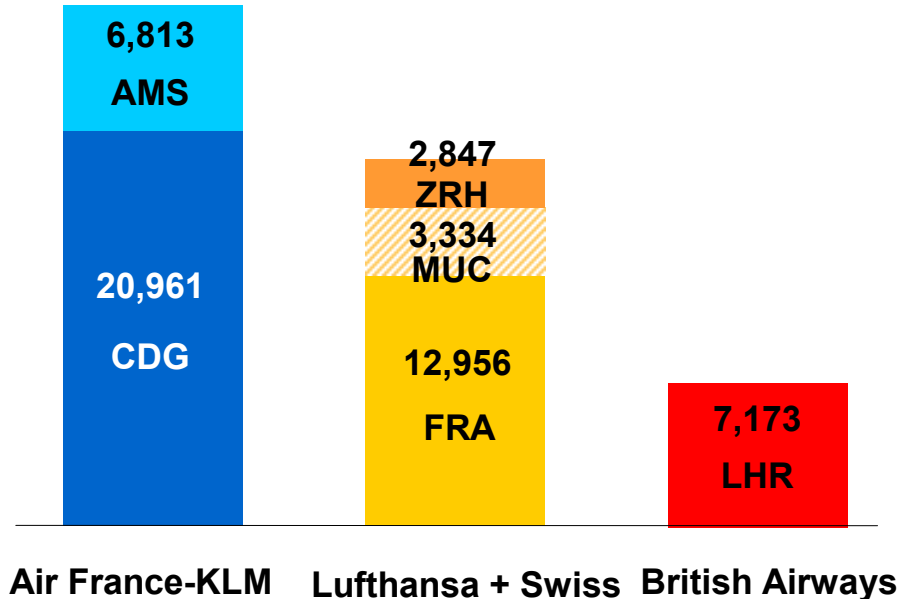
Summer 2006 long-haul destinations served by Air France-KLM, Lufthansa, Swiss et British Airways



- + 38% of AIR FRANCE KLM destinations are served neither by BRITISH AIRWAYS, nor LUFTHANSA SWISS
- + Destinations served by all three (44) represent only 40% of the AIR FRANCE KLM network, versus 54% for BRITISH AIRWAYS and 60% for LUFTHANSA SWISS.

# The multi-hub strategy optimizes destinations where we are in competition...

Number of long-haul/medium-haul connecting opportunities of less than 2 hours



+ A wider offer in terms of schedules ...

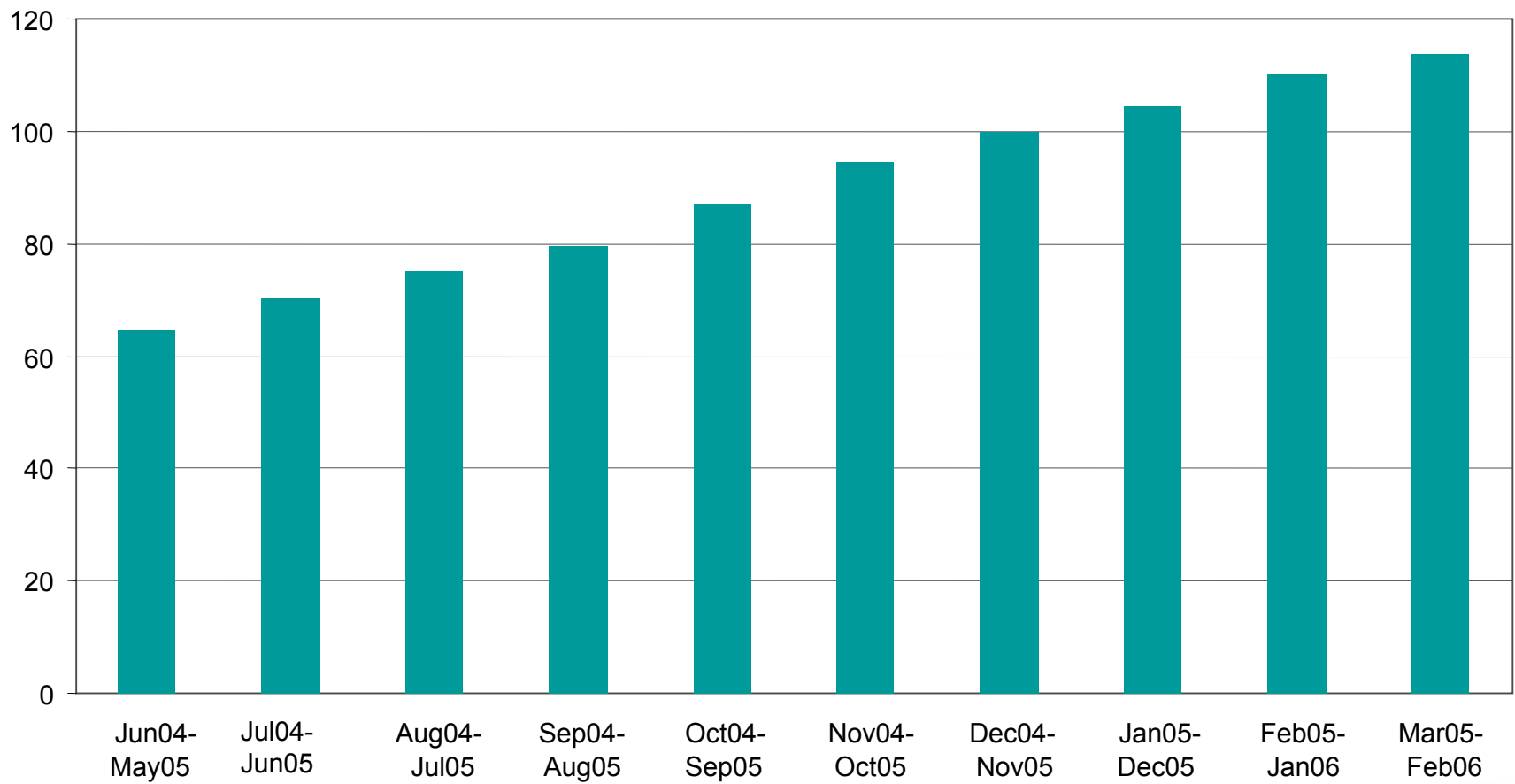
- ▶ New York: 11 daily flights
- ▶ Washington: 4 daily flights
- ▶ Montreal: 4 daily flights
- ▶ San Paolo: 2 daily flights
- ▶ Tokyo: 4 daily flights
- ▶ Beijing: up to 4 daily flights
- ▶ Dubai: up to 4 daily flights
- ▶ Johannesburg: 2 daily flights

+ ...and fares, thanks to fare combination

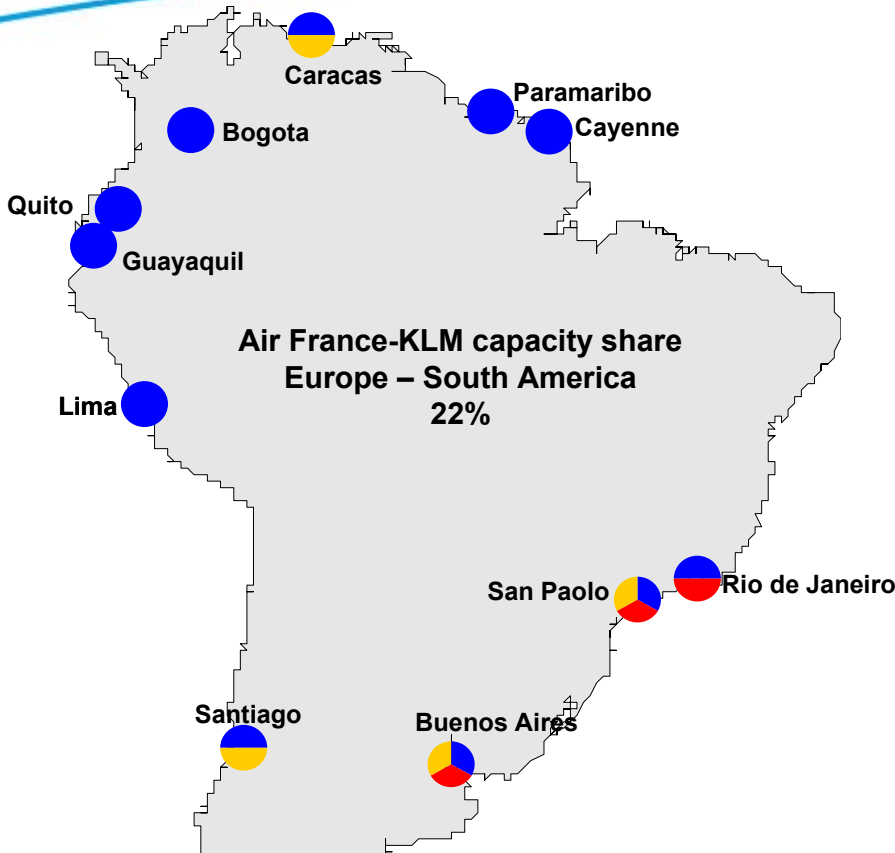
Source: OAG data as at 9 May 2006 (week 36)

# ...thanks to fare combination

Revenues generated by fare combinability in €m  
12 rolling months



# The South American example: an increasingly solid and profitable leadership position



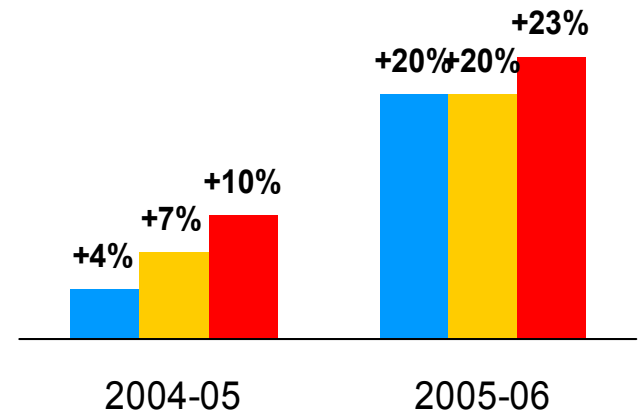
Europe-Long-haul operating flights (direct or with stopover)

- Destinations served by Air France-KLM
- Destinations served by British Airways
- Destinations served by Lufthansa

Source: OAG data as at 21/02/2006 week 36

## South American network

- Capacity in ASK
- Traffic in RPK
- Traffic revenues excluding currency effect



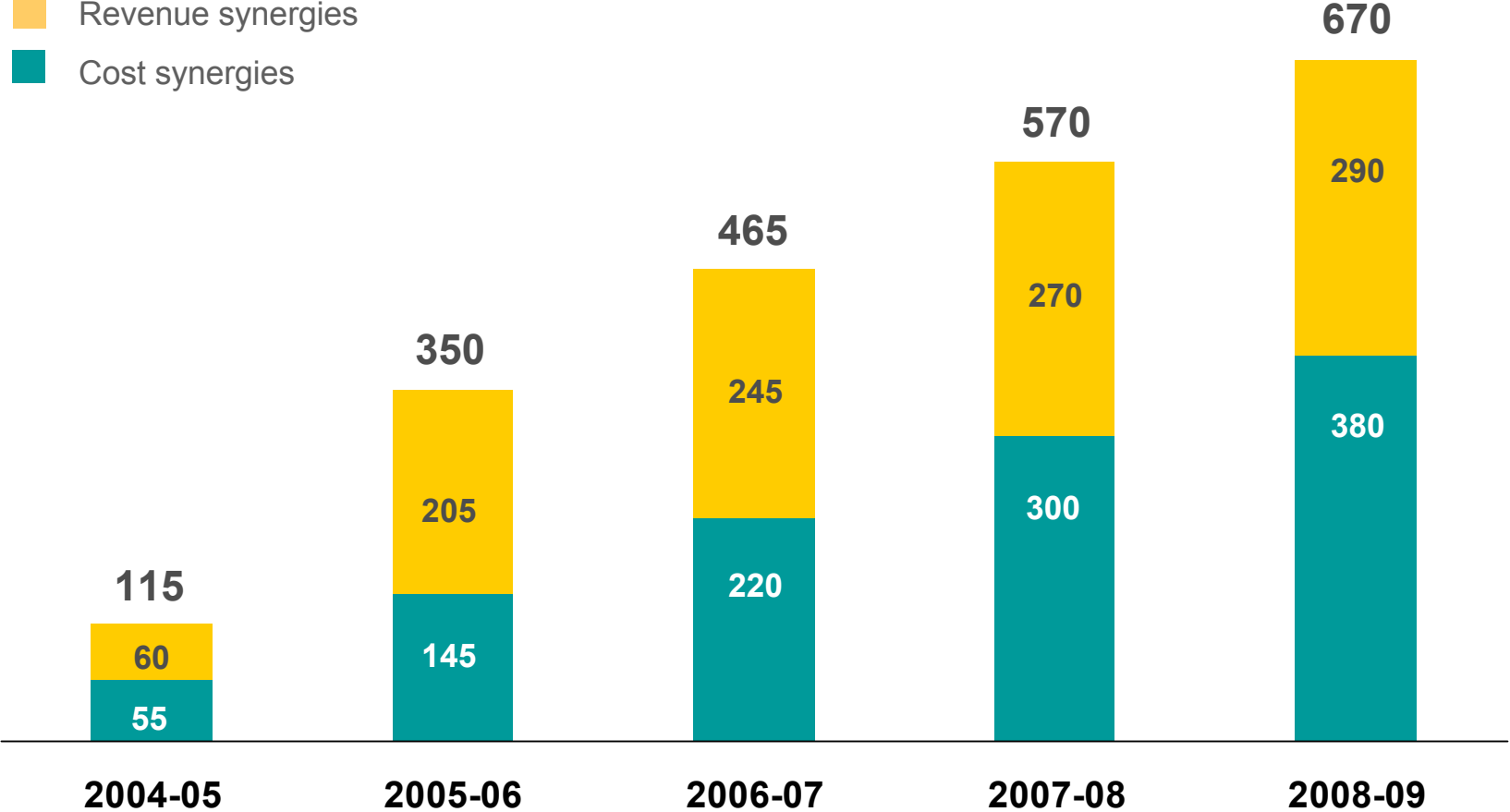
# The drivers behind improving profitability

- + Synergies
- + Cost control and improved productivity
- + Investment in product and efficiency
- + Employee relations

# Cost synergies increasingly feeding through

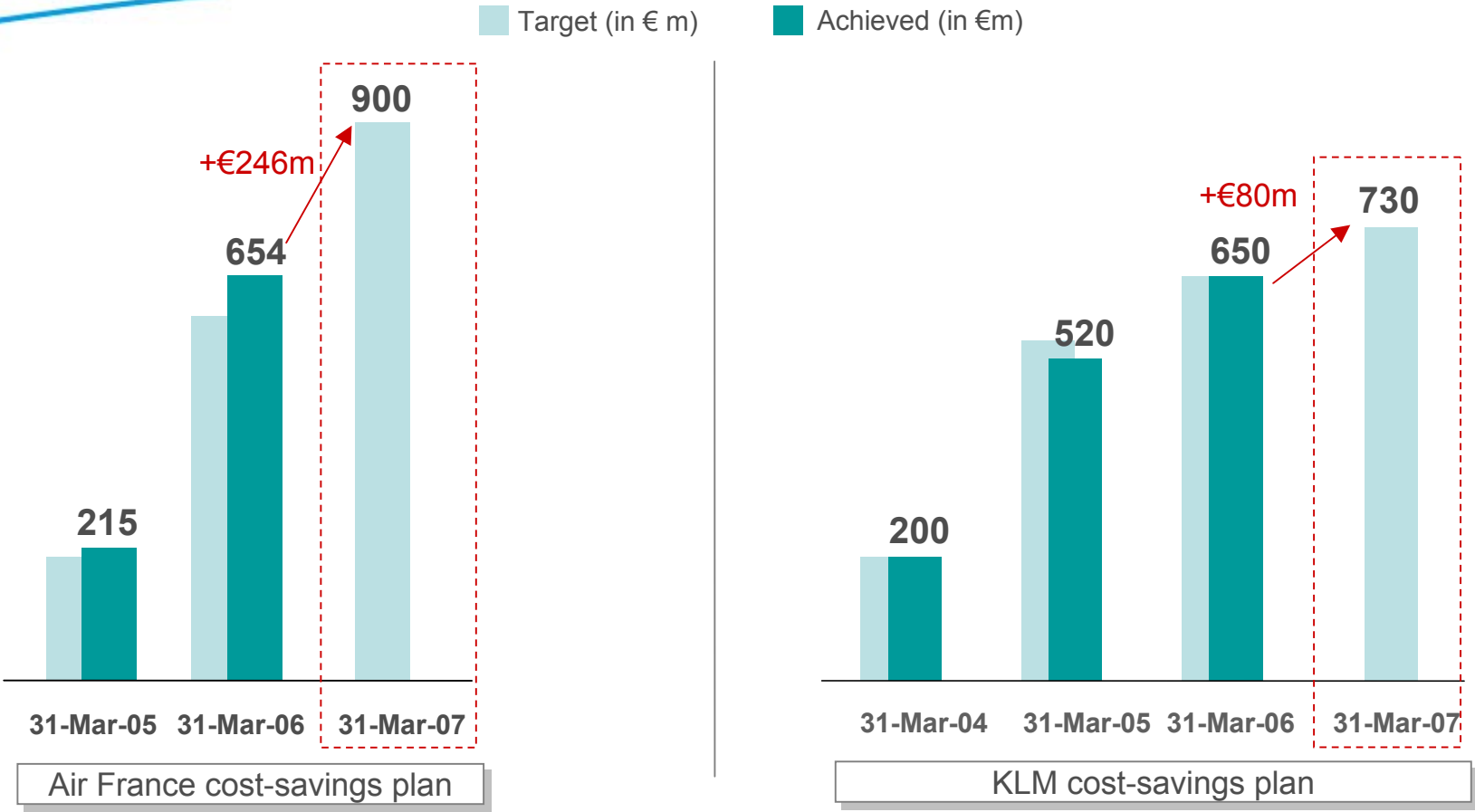
in € millions

- Revenue synergies
- Cost synergies





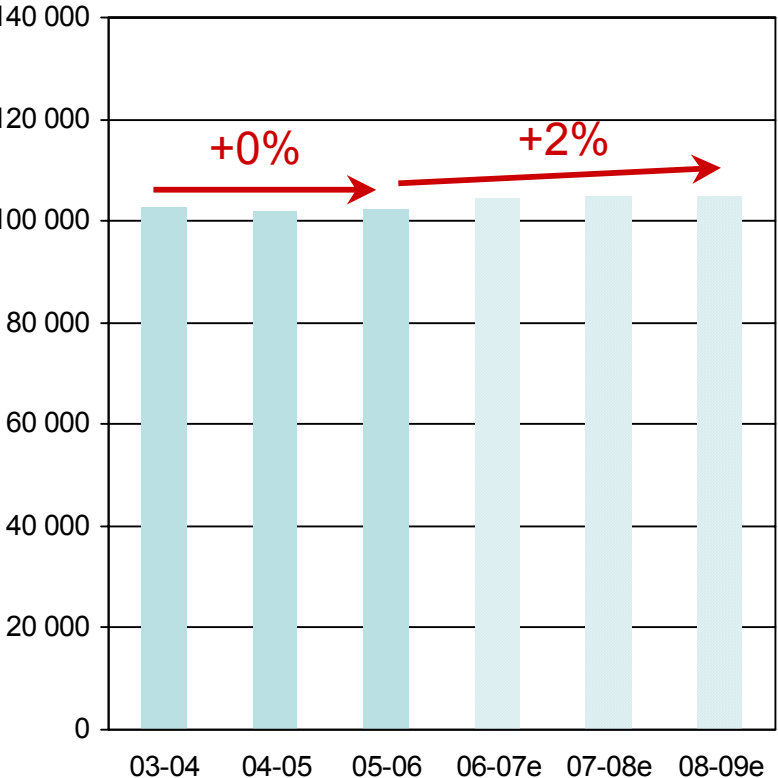
# Ongoing effort in terms of cost control



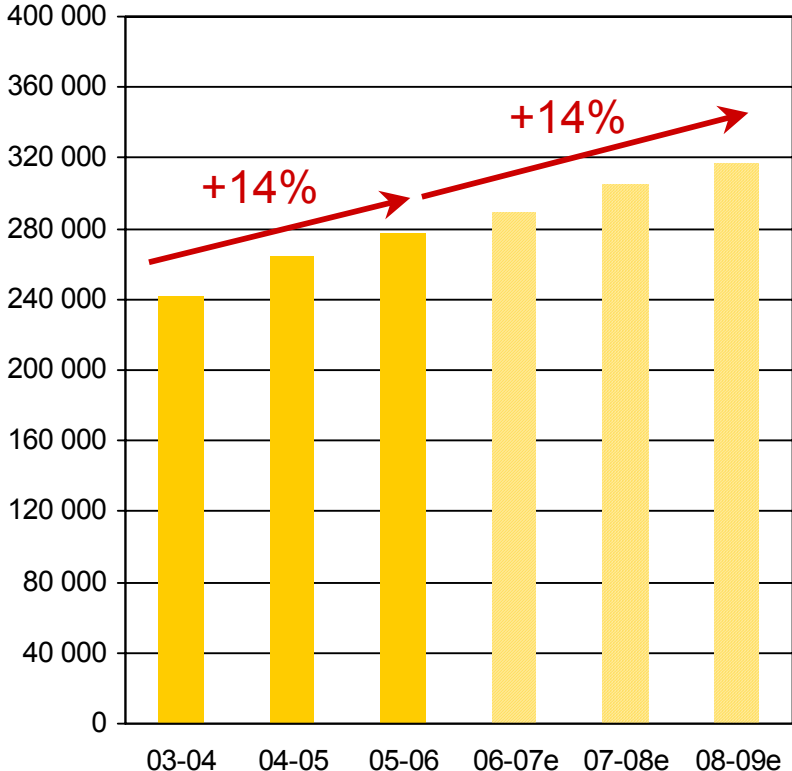
New related initiatives will be prepared during 2006-07 to pursue recent successful achievements

# Ongoing focus on productivity: a stable headcount within a growth environment

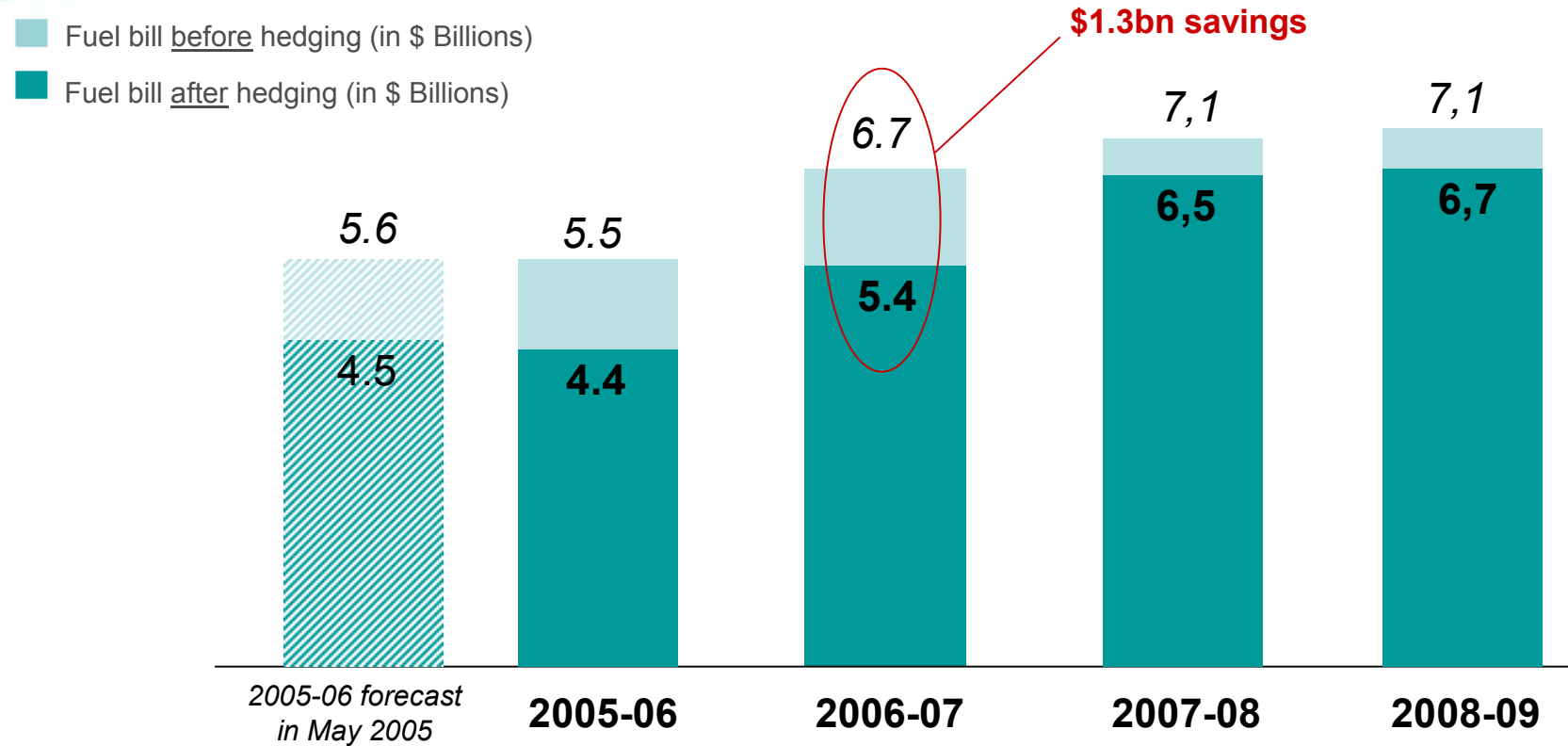
### Equivalent full-time headcount



### Capacity in EASK



# Fuel hedging: reducing the impact of fuel price rises and volatility

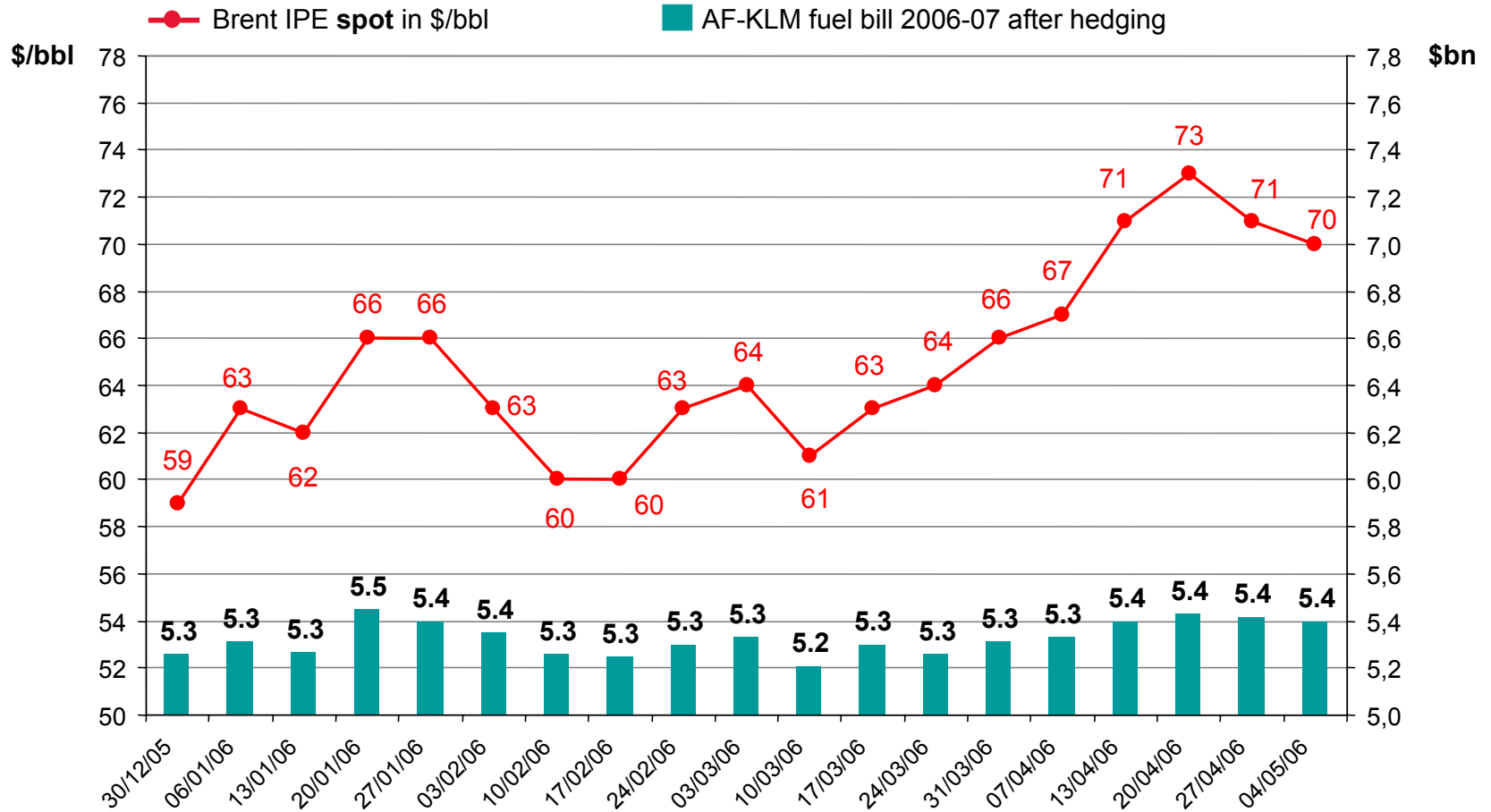


Market price (\$/bbl)*	59	72	72	70
<b>Hedged consumption</b>	<b>85%</b>	<b>77%</b>	<b>37%</b>	<b>21%</b>
Average hedged price (\$/bbl)	39	50	52	47

\* Future prices as at May 4, 2006

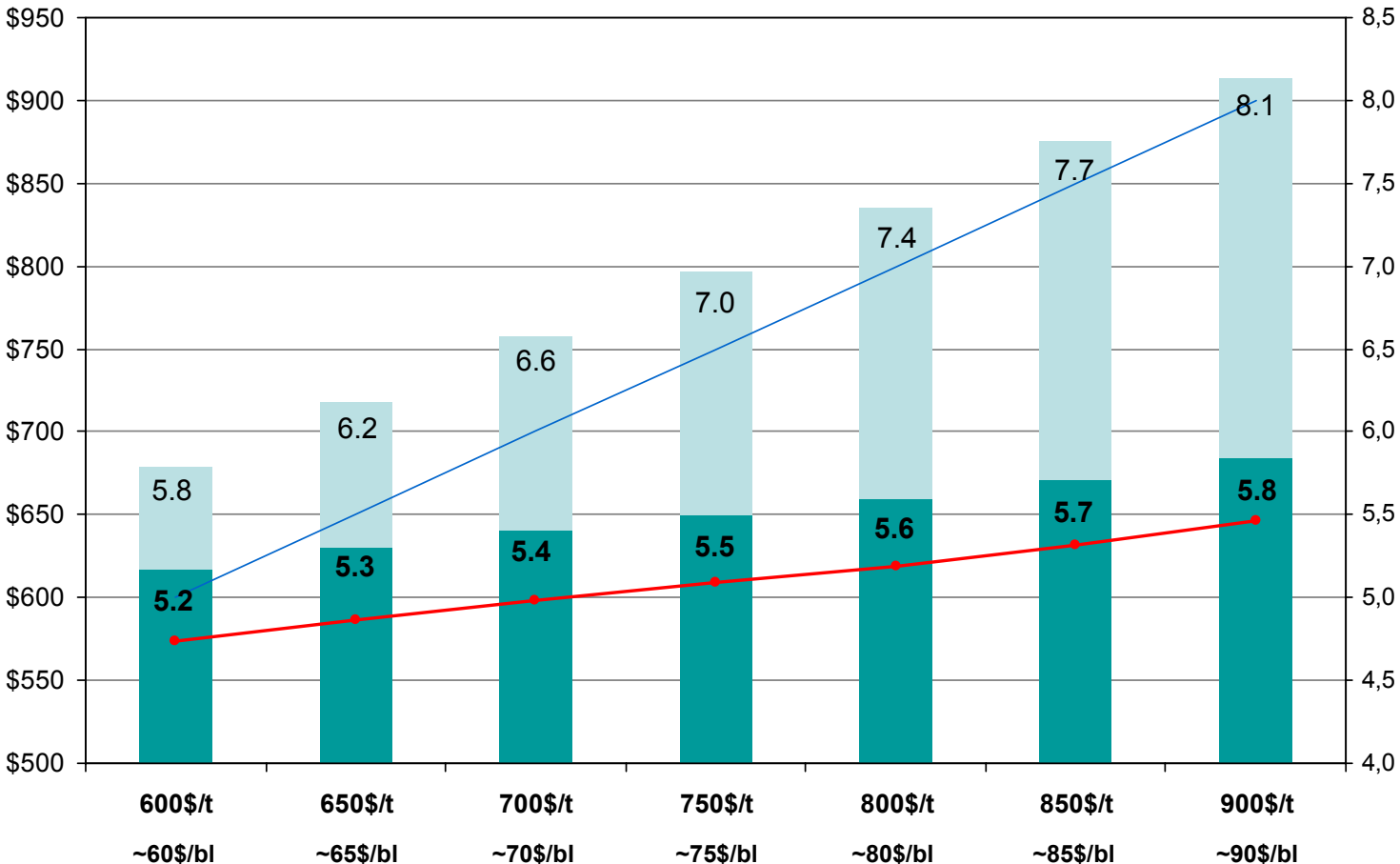
# Example: the 2006-07 fuel bill

Weekly evolution of the 2006-07 fuel bill since end 2005



# Fuel price sensitivity

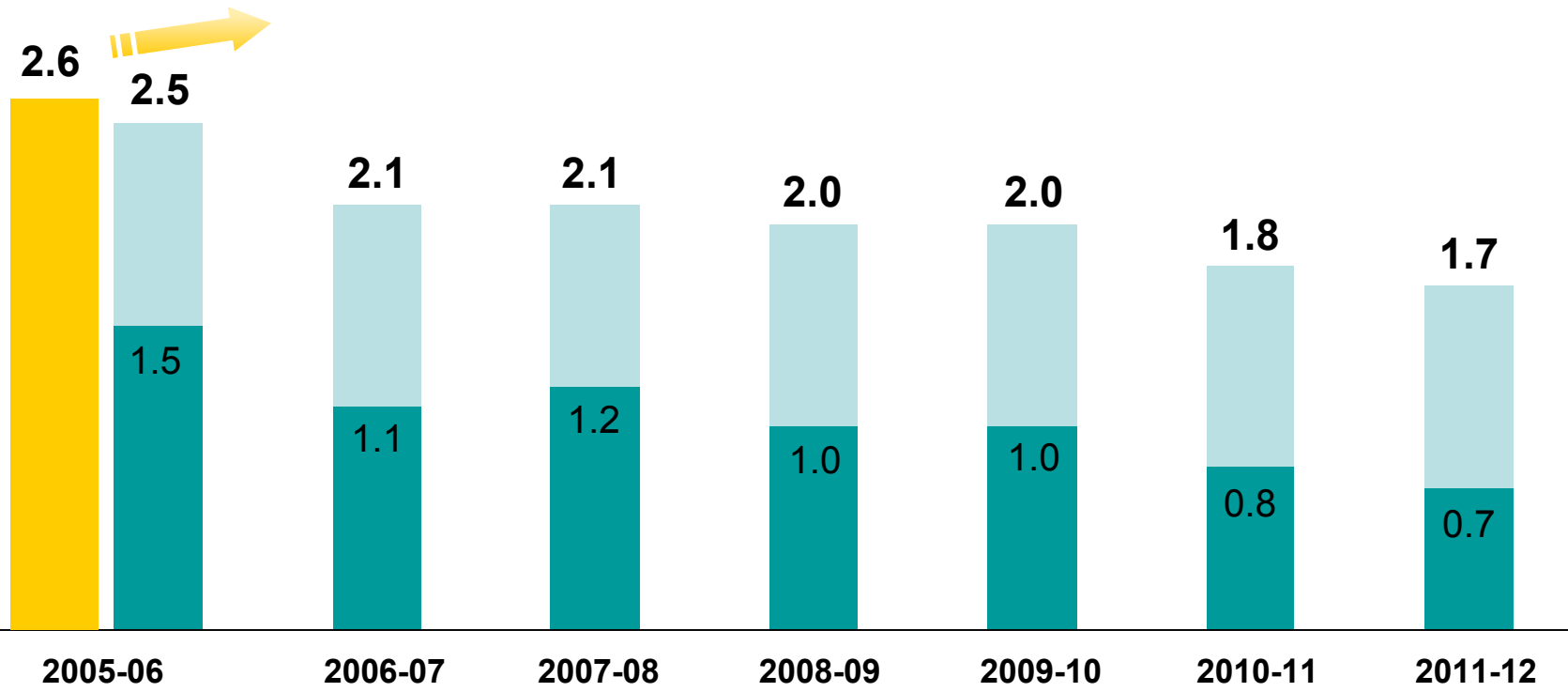
—● Jet fuel market price (\$/t)      ■ Fuel expense before hedging (in \$bn)  
—● Air France-KLM final purchase price (\$/t)      ■ Fuel expense after hedging (in \$bn)



# Strong improvement expected in free cash flow

In € billions

- Investments in the fleet
- Other investments (capitalized maintenance costs, spare parts, ground capex)
- Operating cash flow



# Fleet investments generating significant savings

## + Passenger fleet

- ▶ Replacing B747-200/300s by B777-300ERs on the Caribbean & Indian Ocean network
  - ▶ Improvement in unit operating costs of up to 15%
- ▶ Introduction of B777-300ERs at KLM
- ▶ Replacing B767-300ERs by A330-200s
  - ▶ Improvement in unit operating costs of up to 6%

## + Cargo fleet

- ▶ Replacing B747-200Fs by B777Fs and B747-400ERFs
  - ▶ Improvement in unit operating costs of 13 to 23%

# Our contractual policy lends good visibility on employee relations

## + Air France

- ▶ All personnel
  - ▶ Status transfer agreement signed in April 2006
- ▶ Ground staff and cabin crew
  - ▶ Two-year wage agreement concluded in March 2006
- ▶ Pilots
  - ▶ Three-year agreement signed in May 2006

## + KLM

- ▶ Multi-annual agreement signed with all categories of staff in June 2005 covering the period January 2005 to March 2007



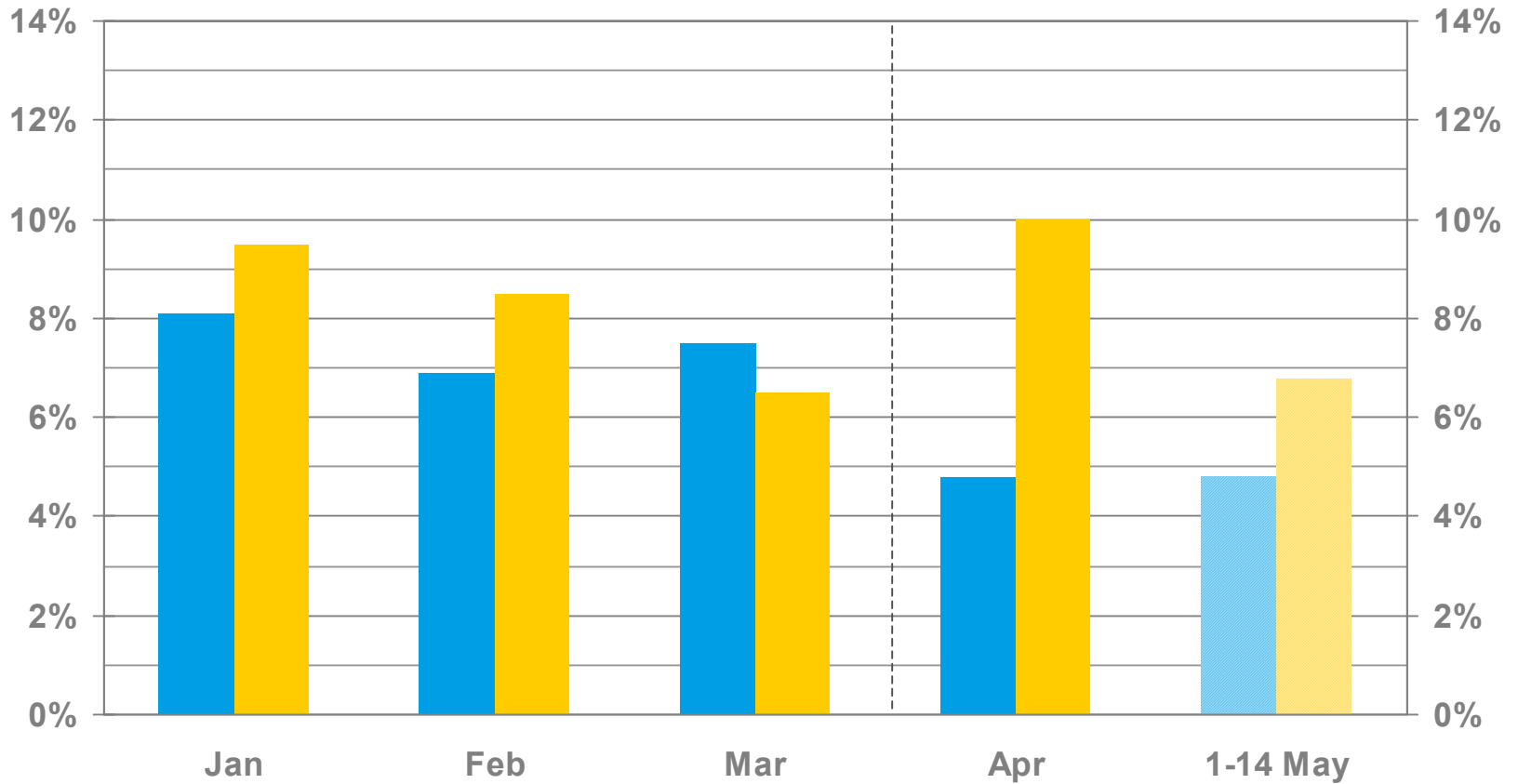
**AIR FRANCE KLM**

# Outlook for 2006-07



# A favorable start to the year and positive booking trends

Capacity Traffic



# Our assumptions for 2006-07

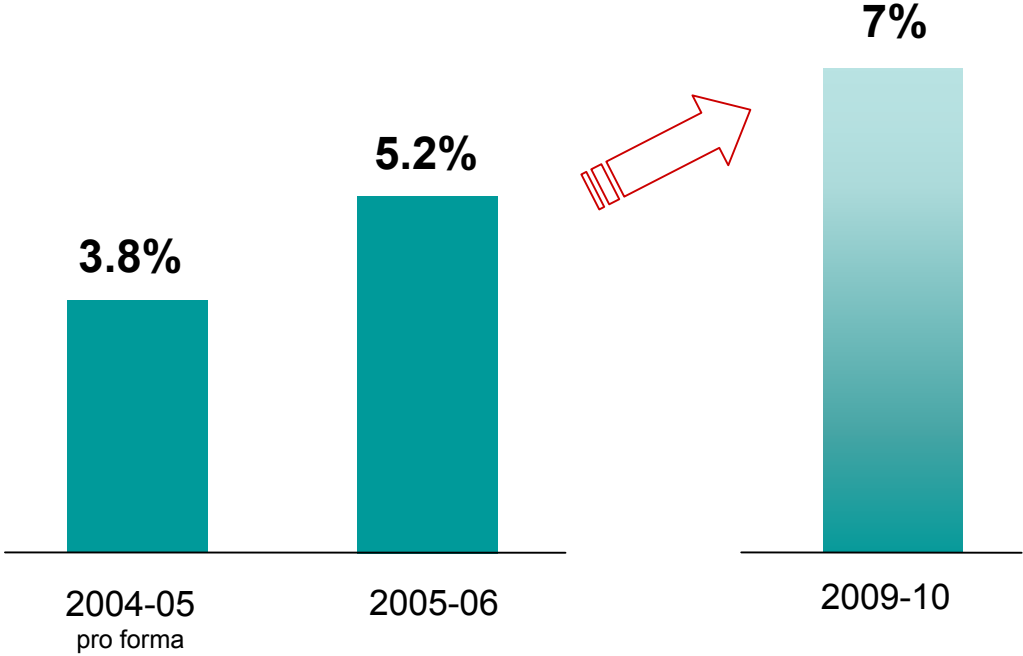
- + 5% increase in capacity
- + Increase in unit revenue excluding currency effect
- + Dollar exchange rate: €1 = \$1.22
- + A fuel bill of €4.4bn based on a jet fuel price of \$700 per ton (~70\$/bbl)

## Objective for Full Year 2006-07

Objective of operating income for 2006-07  
of at least the same level as 2005-06

# Medium-term objective: RoCE of 7%

■ Return on Capital Employed after tax



**AIR FRANCE KLM**

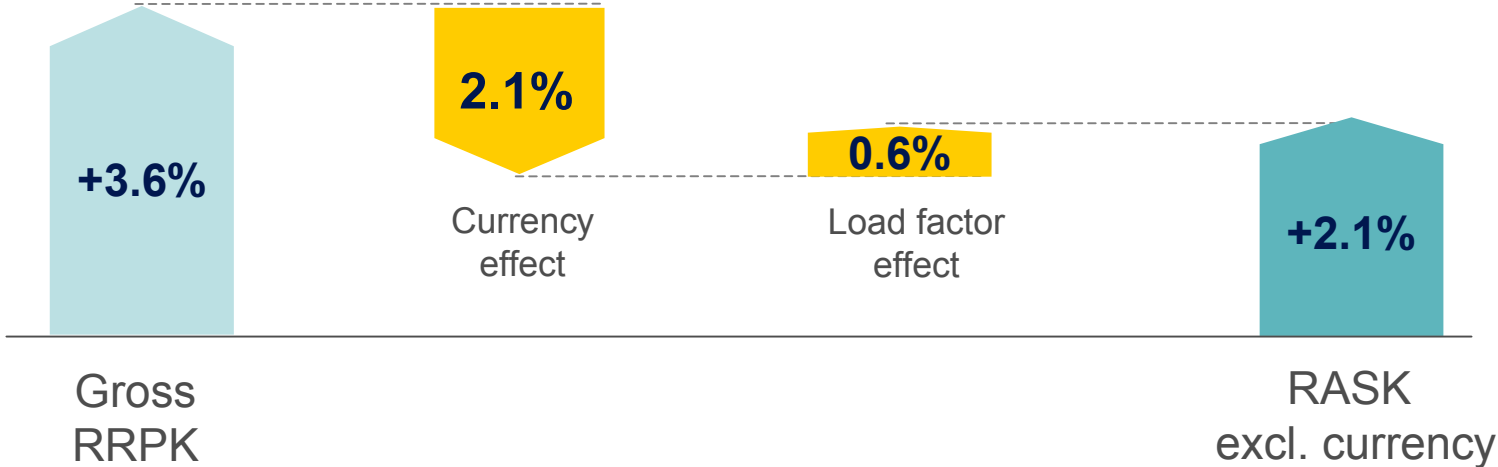
Annexes



# Change in unit revenue – Q4 2005-06

Q4 2005-06  
RRPK: 8.43 € cts  
RASK: 6.64 € cts

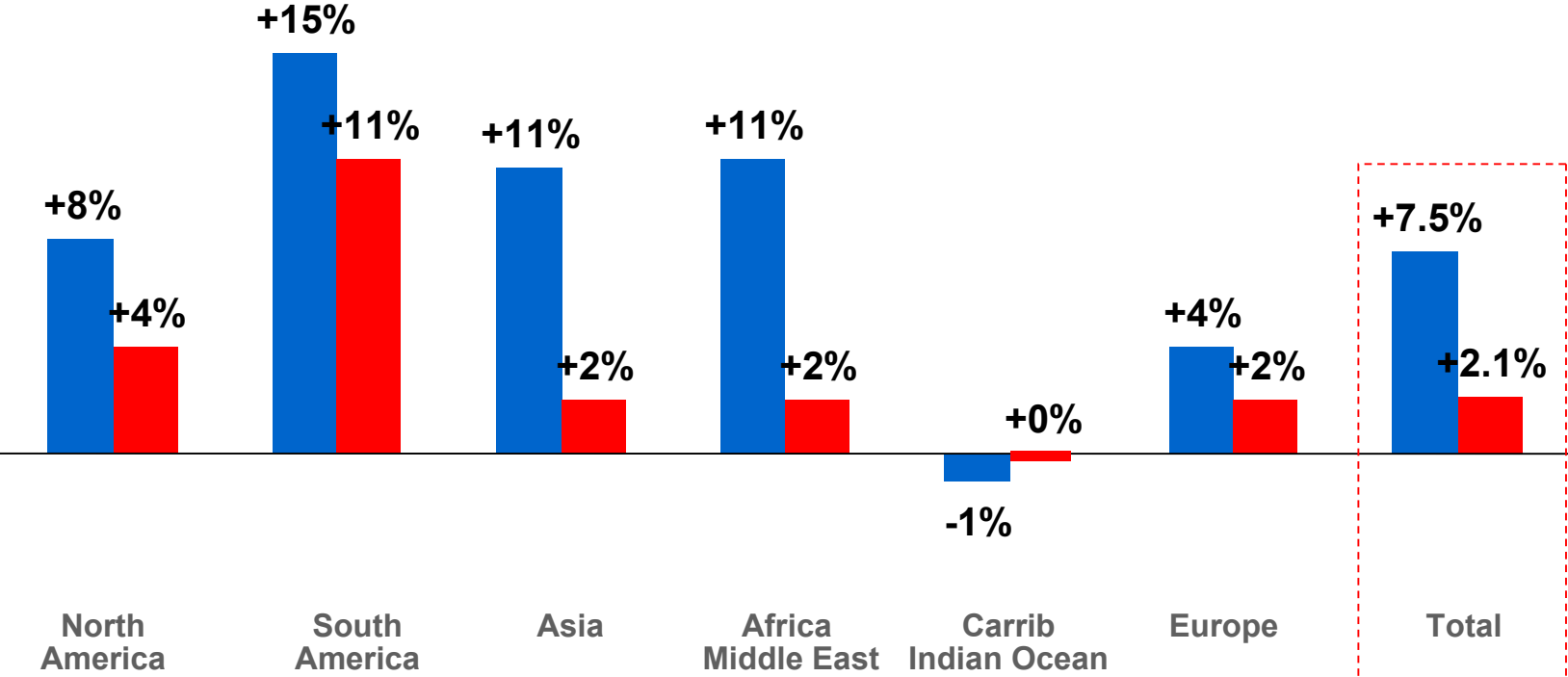
**RRPK excl. currency: +1.5%**



# Performance by sector – Q4 2005-06

Q4 2005-06

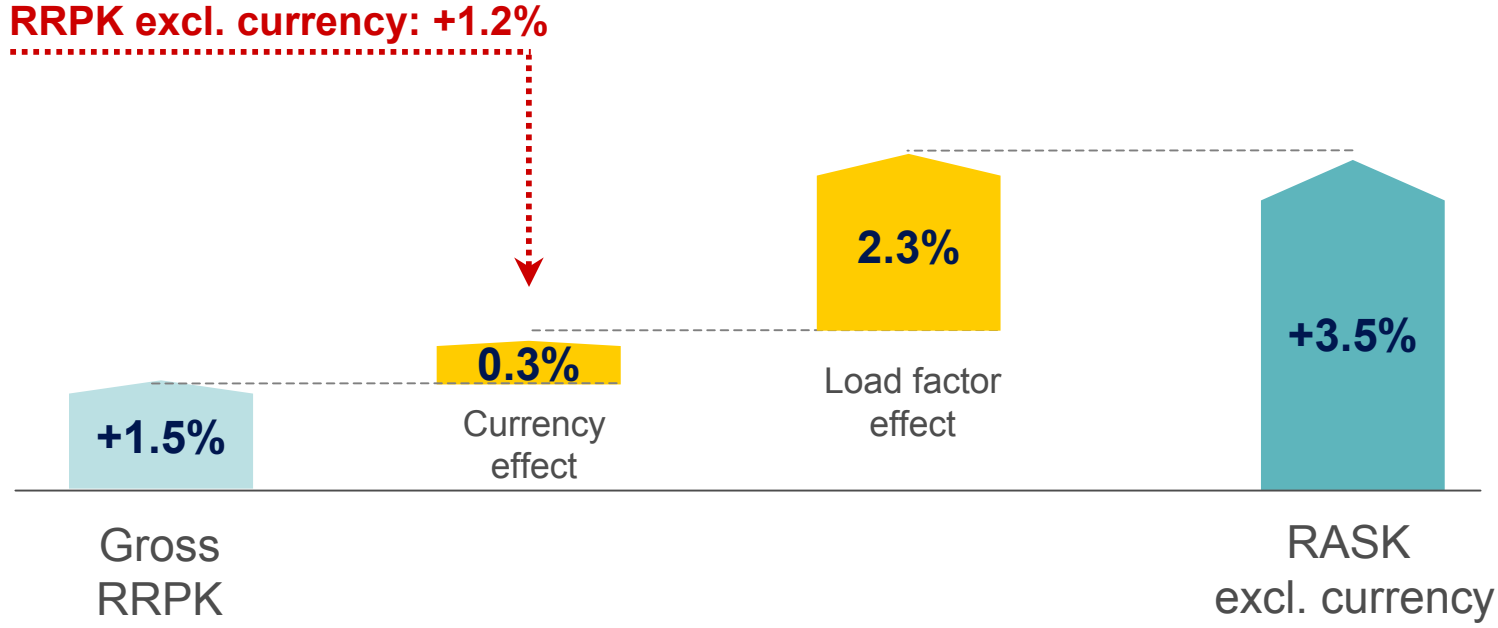
ASK RASK hors change





# Change in unit revenue – FY 2005-06

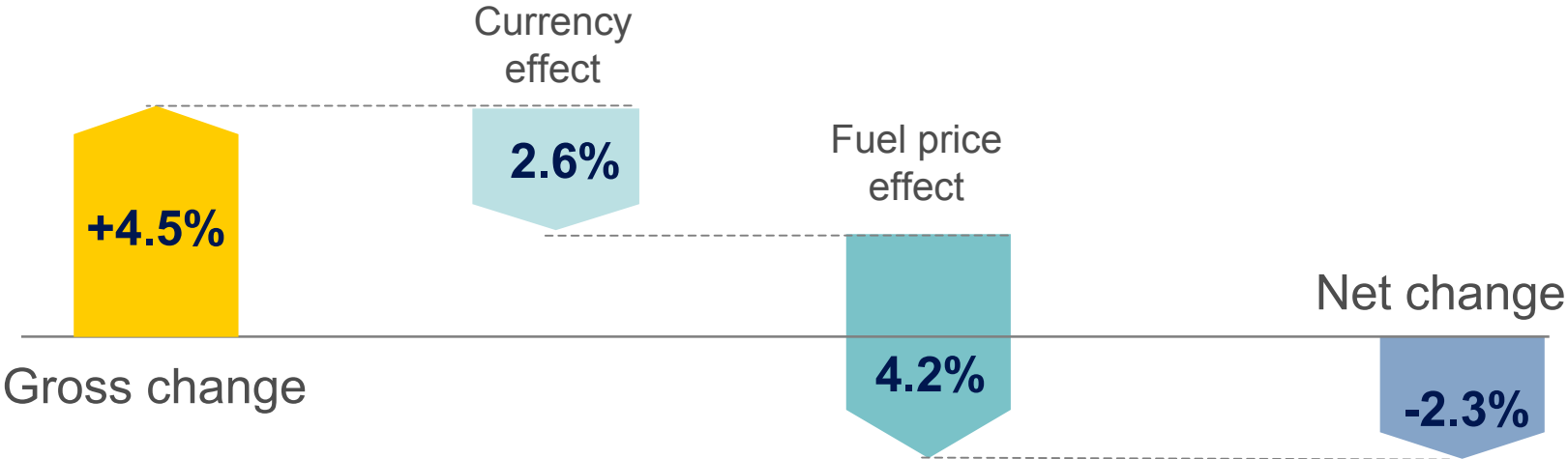
FY 2005-06  
RRPK: 8.40 € cts  
RASK: 6.78 € cts



# Change in unit costs – Q4 2005-06

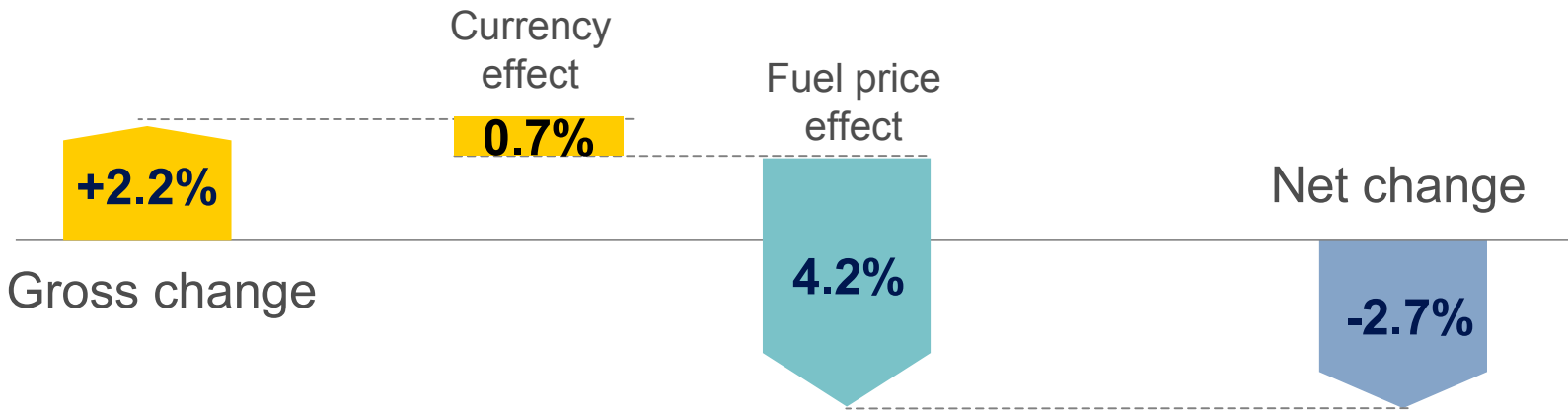
Q4 2005-06

Unit costs per EASK: 6.55 € cts



# Change in unit costs – FY 2005-06

FY 2005-06  
Unit costs per EASK: 6.31 € cts



# Net debt calculation

in €m

	<b>31 March 06</b>	<b>31 March 05</b>
Current & non current financial debts	9,087	8,933
- Accrued interest not yet due	107	79
- Deposits on finance leased aircraft	943	900
+ Currency derivatives on debt	52	75
<b>= Gross financial debt</b>	<b>8,089</b>	<b>8,030</b>
Cash & cash equivalent	3,088	2,500
+ Marketable securities (over 3 months)	723	152
- Short term bank facilities	102	262
<b>= Net cash</b>	<b>3,709</b>	<b>2,390</b>
<b>Net financial debt</b>	<b>4,380</b>	<b>5,640</b>
<b>Consolidated equity</b>	<b>7,853</b>	<b>6,020</b>
<b>Gearing ratio</b>	<b>0.56</b>	<b>0.94</b>

# 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, 2005. 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.

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