AIRFRANCE KLM

# Full Year Results 2009-10

**20 May 2010**

# Agenda

| | |
|---|---|
| Introduction | Pierre-Henri Gourgeon |
| Activity | Peter Hartman |
| Results | Philippe Calavia |
| Strategy and outlook | Pierre-Henri Gourgeon |

# Highlights of the year

## Environment

- Later than expected recovery in demand for air travel
- Oil price returns to high level (+$30/bbl during course of the year)
- Euro weakness relative to other currencies in the fourth quarter

## Air France-KLM

- Strong responsiveness:
  - Capacity reduced
  - Passenger business adapted
  - Cargo restructuring
  - Headcount reduced
  - Costs and investments cut
  - Two successful bond issues
- Satisfactory financial position maintained thanks to good cash management
- Success of transatlantic joint-venture

# Fourth Quarter results

- Passenger:
  - Demand recovers at the end of the quarter
  - Stable revenues in spite of 3.4% reduction in capacity
- Cargo:
  - Continuation of positive trend
  - Sharp rise in revenues despite 12.2% capacity reduction
- Return to positive operating cash flow
- Negative impact of €173m from fuel hedges
- Stabilization of debt

# Key data

| | 2009-10 Fourth Quarter | | 2009-10 Full Year | |
|---|---|---|---|---|
| Revenues: | €5.02bn | (-0.8%) | €20.99bn | (-15.0%) |
| EBITDAR: | €77m | (+24.2%) | €1,111m | (-51.2%) |
| Operating income/(loss): | €(497)m | (nm) | €(1,285)m | (nm) |
| Operating income/(loss) ex pre-2009 fuel hedges: | €(324)m | (nm) | €(648)m | (nm) |
| Net income/(loss): | €(691)m | (nm) | €(1,559)m | (nm) |
| Net income/(loss) ex. Voluntary Depart. Plan provision: | €(594)m | (nm) | €(1,462)m | (nm) |

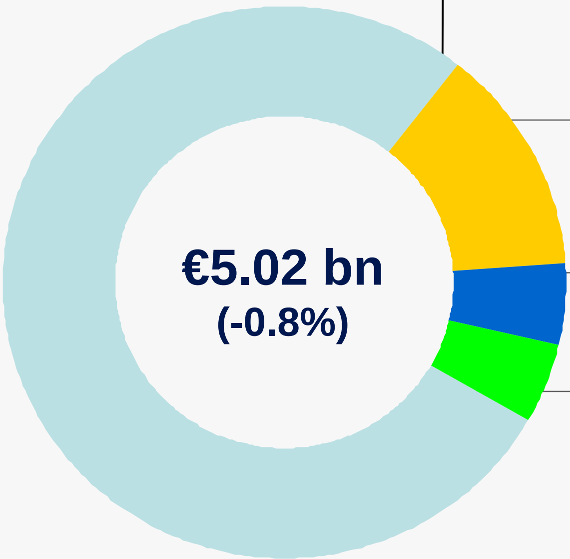
# Activity

Peter Hartman

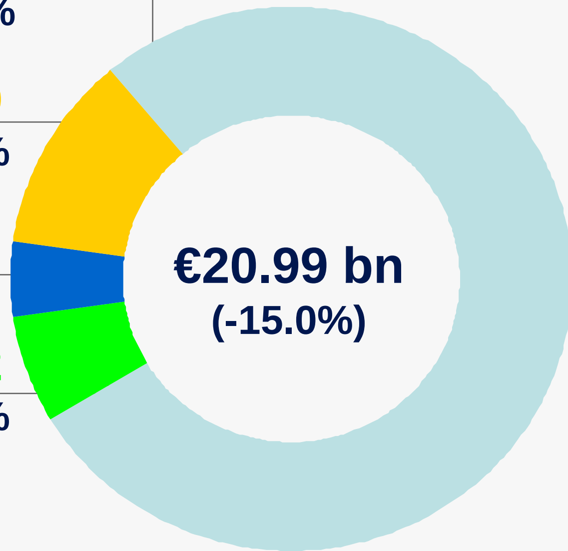
# Revenues

January-March 2010
€ millions

FY 2009-10
€ millions




| January-March 2010 | | FY 2009-10 |
| --- | --- | --- |
| 3,879 | Passenger | 16,267 |
| -1.3% | | -13.6% |
| 674 | Cargo | 2,439 |
| +12.3% | | -27.8% |
| 233 | Maintenance | 956 |
| -8.3% | | -4.0% |
| 235 | Other | 1,332 |
| -14.5% | | -10.4% |



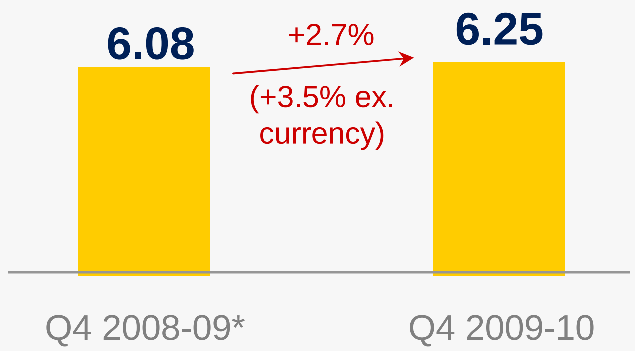

| -0.8% | Currency effect | +0.7% |
| --- | --- | --- |

# Passenger: upturn in demand at the end of the quarter

- Traffic up despite reduction in capacity
- Unit revenues rise, notably in long-haul
- Significant increase in fuel bill, including €142m of hedging losses
- Operating loss of a similar level to previous year

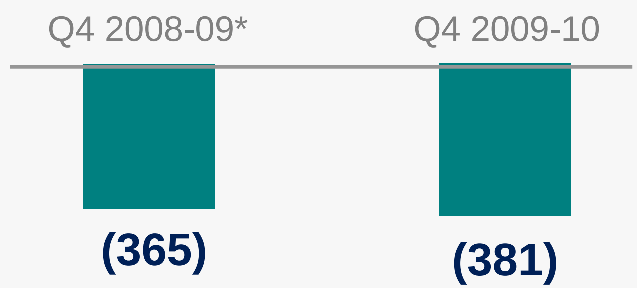
## Unit revenue per ASK

€ cts



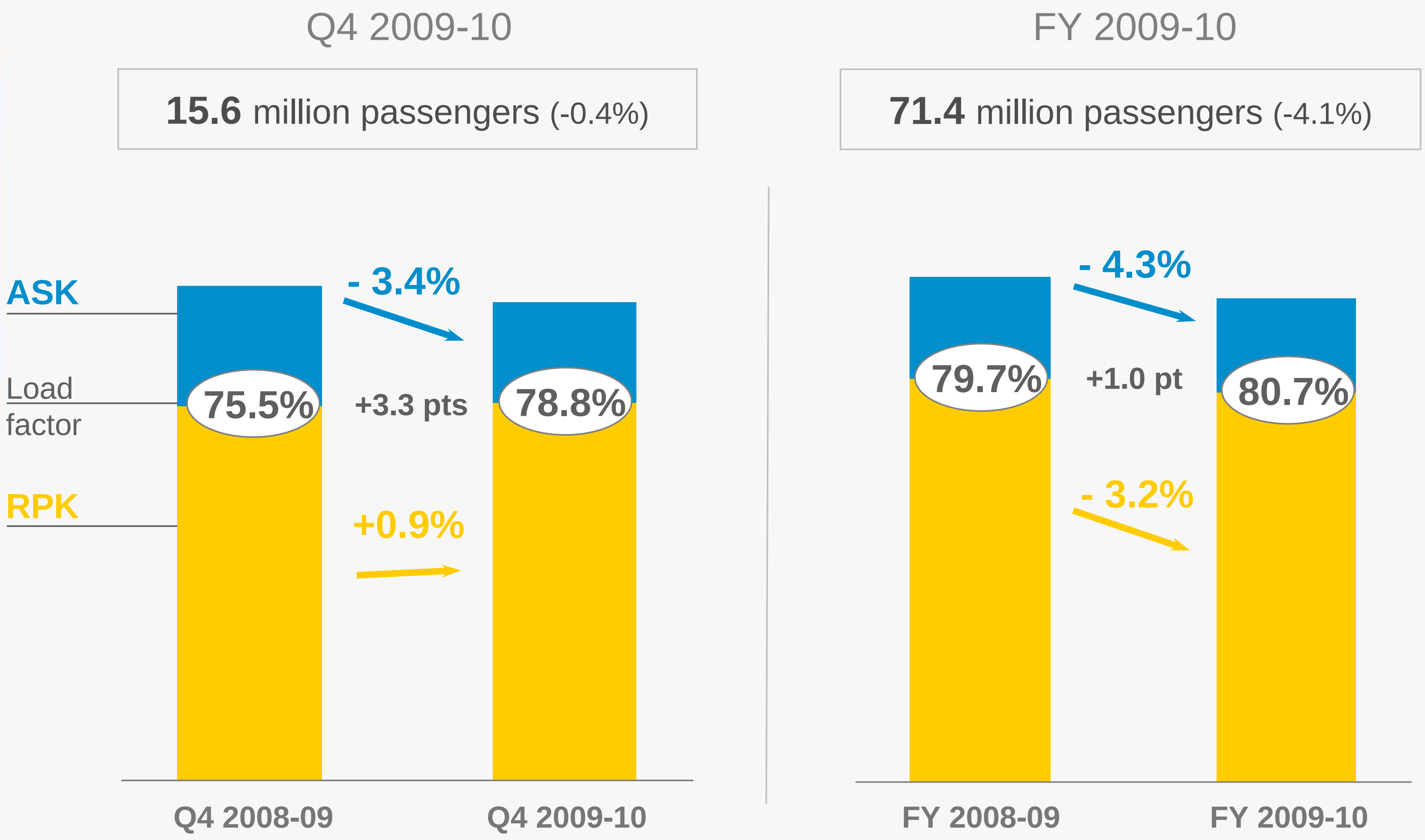

## Operating income/(loss)

€ millions

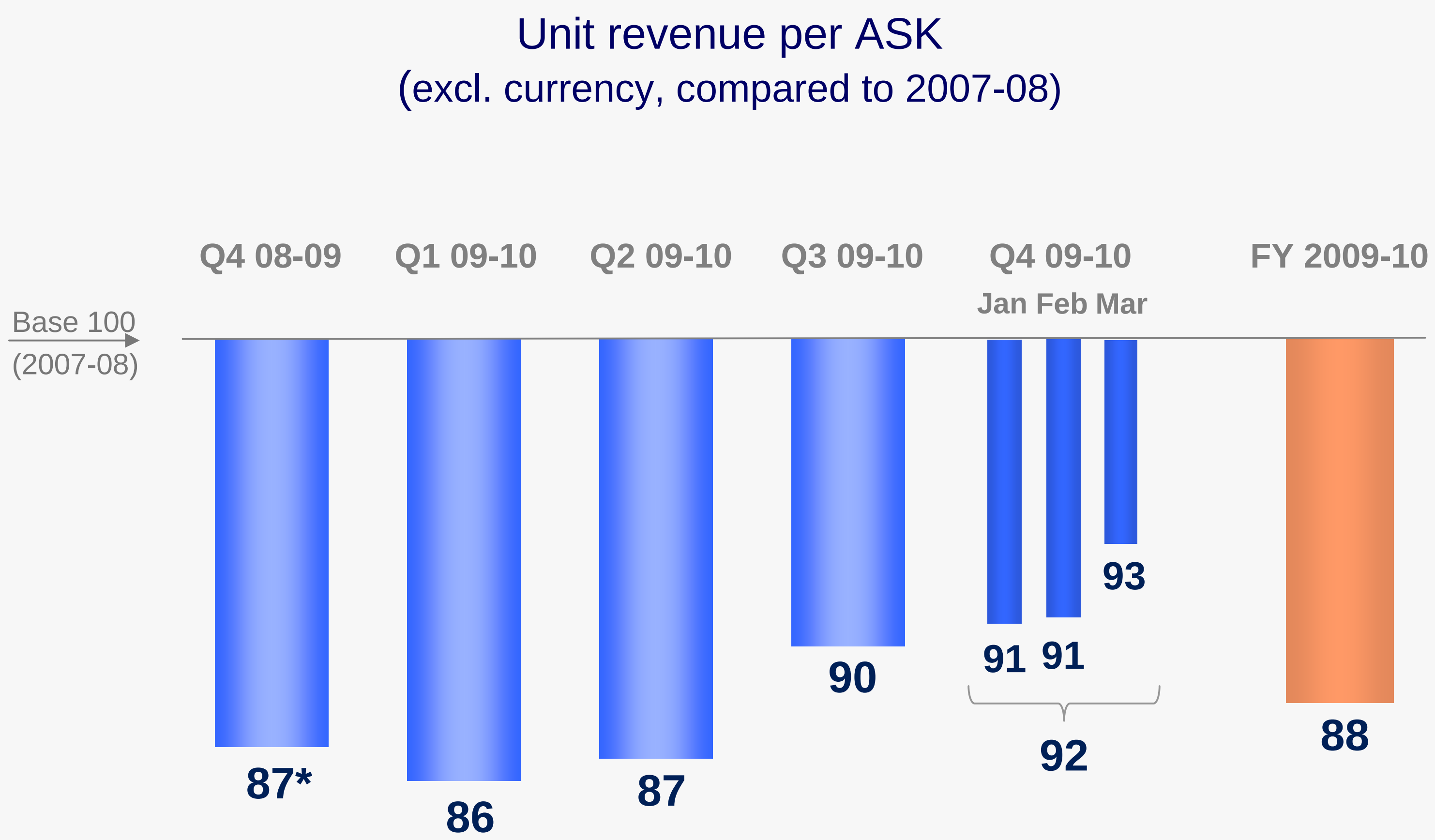



* Restated for application of IFRIC 13

# Further improvement in load factor in Q4



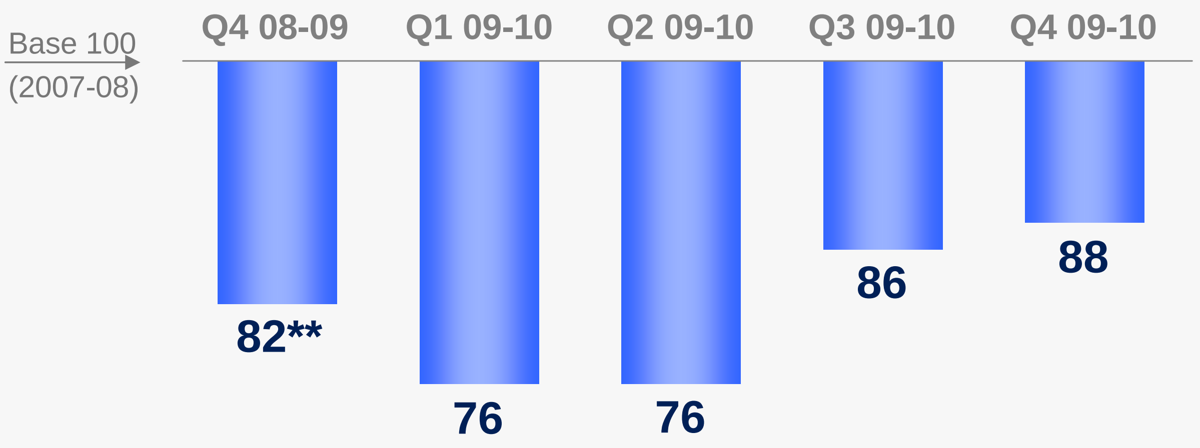
# Progressive recovery in unit revenues…



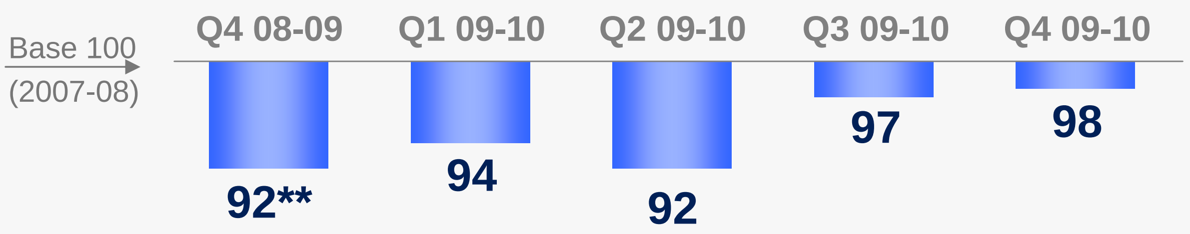

* Excluding impact of new Flying Blue redemption conditions

# …particularly in long-haul

**Premium** unit revenue per ASK*




**Economy** unit revenue per ASK*



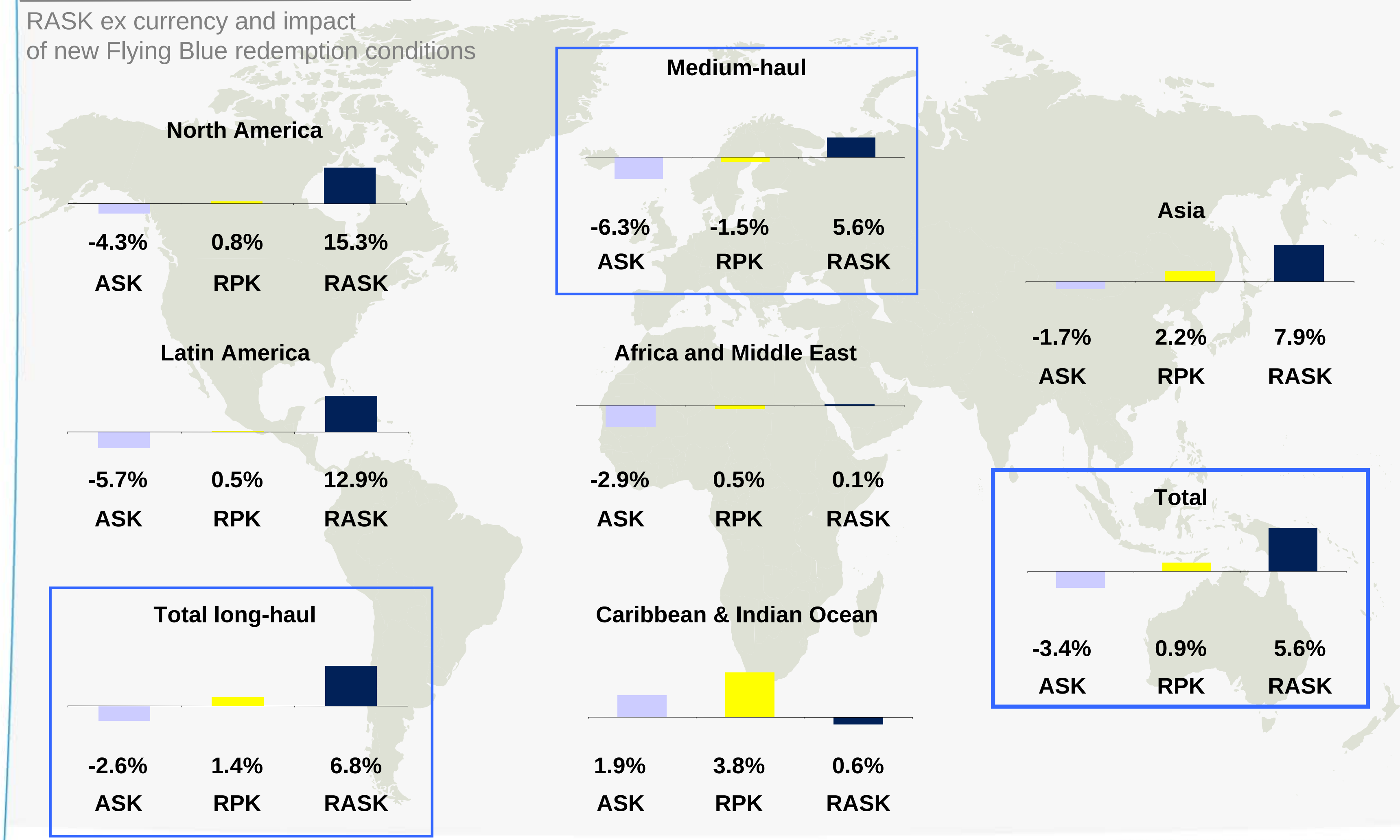

* Excluding currency, compared to 2007-08

** Excluding impact of new Flying Blue redemption conditions

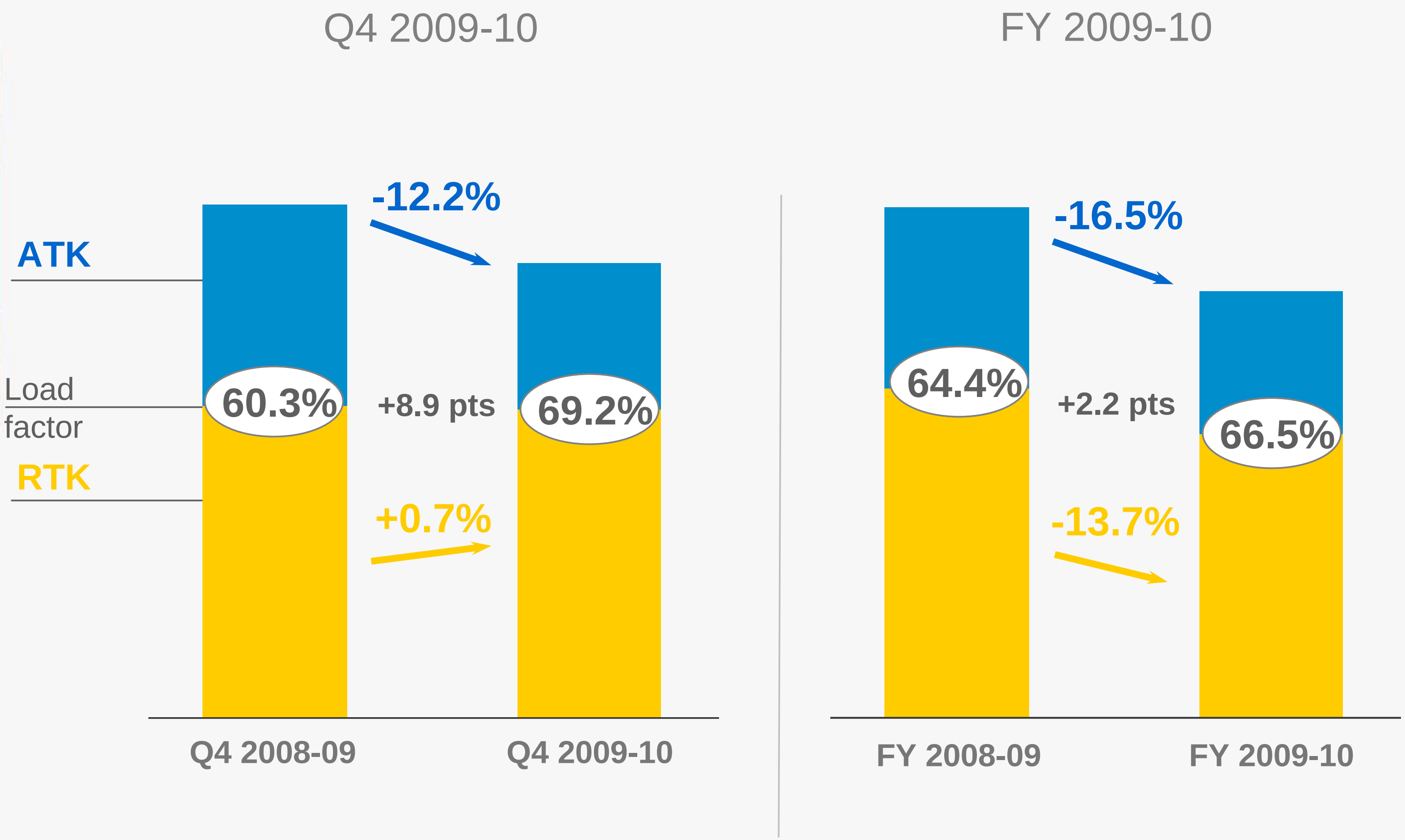
# Improvement in revenues on all networks

Q4 2009-10

RASK ex currency and impact
of new Flying Blue redemption conditions



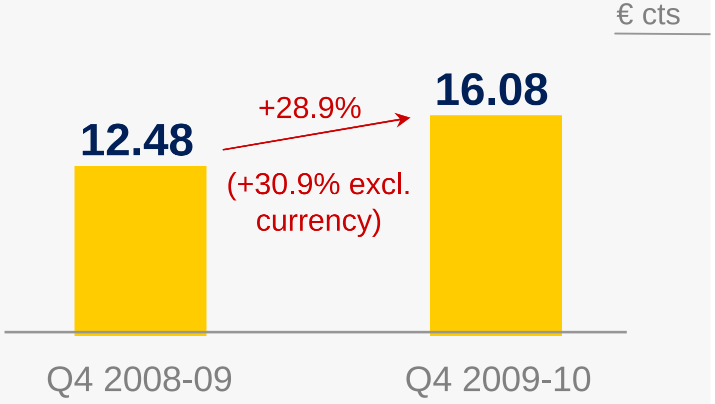
# Cargo: strong improvement in load factor in Q4



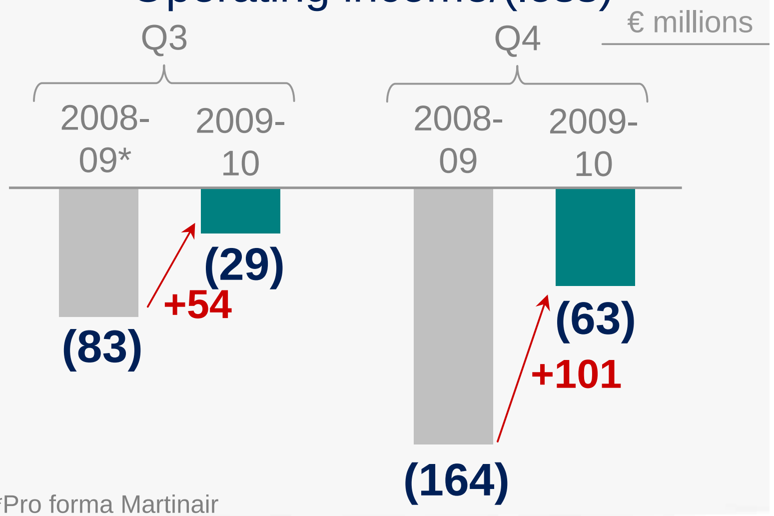
# Impact of cargo restructuring starting to feed through

- Strong rise in both load factor and unit revenues
  - Price rises and fuel surcharges
  - Rise in load factor
  - Belly utilization rates higher than pre-crisis levels
- Significant improvement in operating result

Unit revenue per ATK

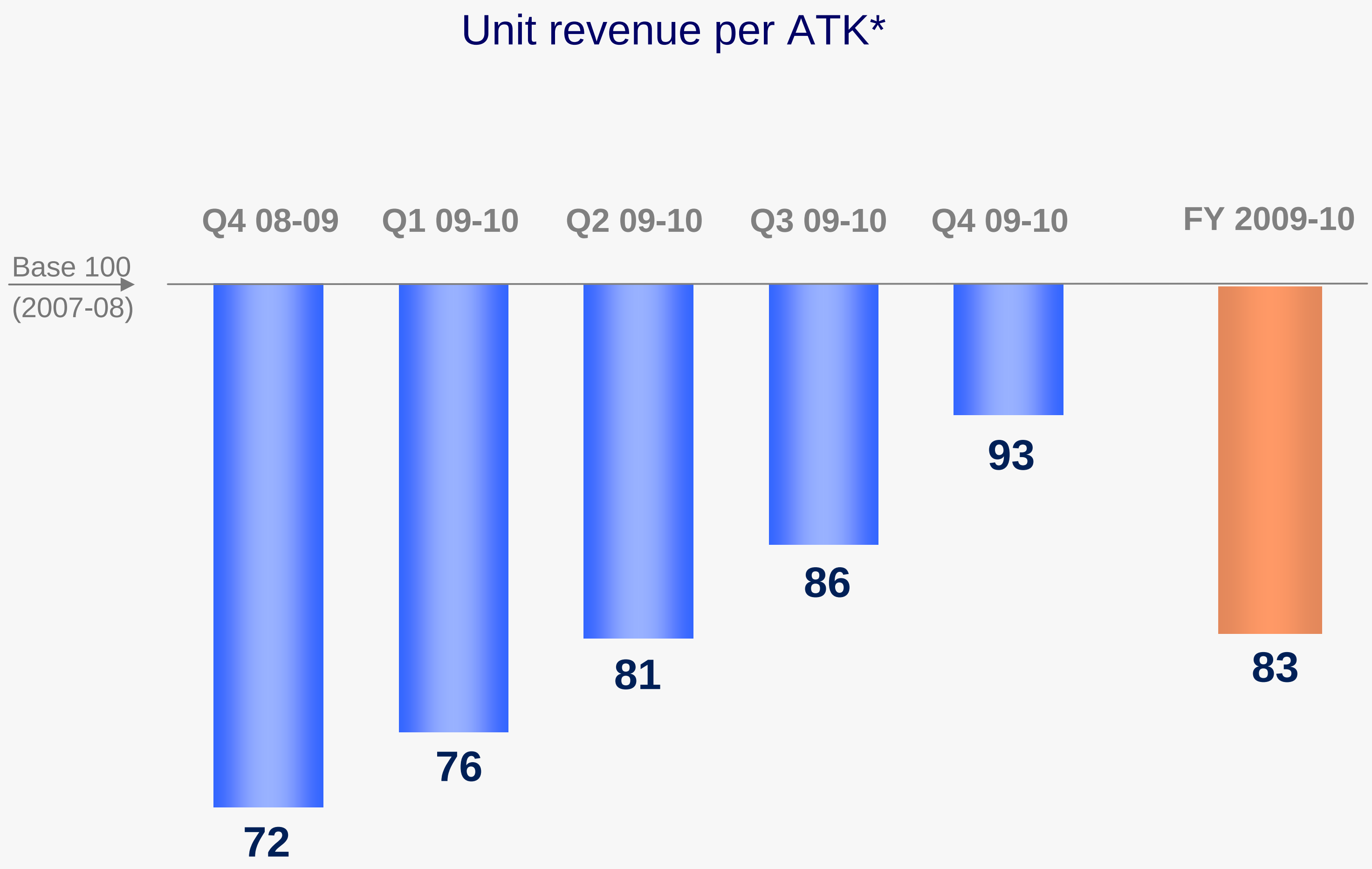



Operating income/(loss)




*Pro forma Martinair

# Marked improvement in unit revenues

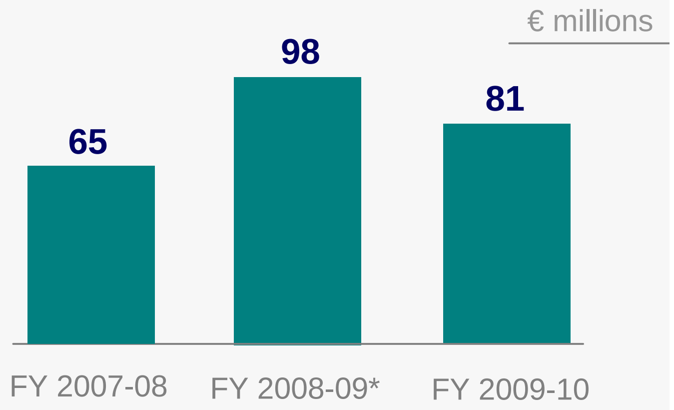



* Excluding currency, compared to 2007-08

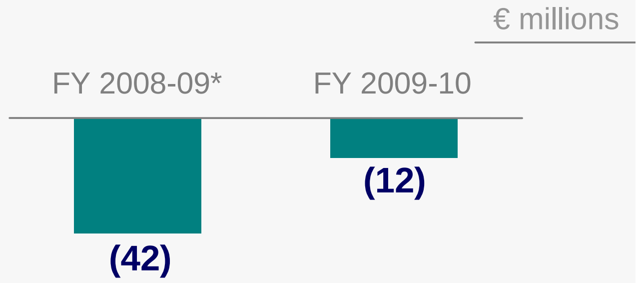
# Maintenance and other businesses

- Maintenance:
  - Relatively unaffected by the crisis
  - Slight reduction in third-party volumes
  - Increased competition
- Other businesses:
  - Leisure: improvement in operating result despite losses on fuel hedges
  - Catering: stable operating result

Maintenance operating income/(loss)




Other businesses operating income/(loss)




*Pro forma Martinair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# Results

Philippe Calavia

# Fourth Quarter results

| January-March 2010<br>€ millions | Q4 2009-10 | Q4 2008-09<br>Pro forma* | % change |
|---|---|---|---|
| **Revenues** | **5,021** | 5,060 | **(0.8)** |
| Operating costs | (5,518) | (5,595) | (1.4) |
| EBITDAR | 77 | 62 | 24.2 |
| **Operating income/(loss)** | **(497)** | (535) | **nm** |
| *Adjusted operating income/(loss)*** | *(435)* | *(474)* | *nm* |
| Non current income and expenses | (261) | (50) | |
| o/w Voluntary Departure Plan | (148) | - | |
| **Income/(loss) from operating activities** | **(758)** | (585) | **nm** |
| Net interest charge | (91) | (47) | nm |
| Other financial income and expenses | (94) | (96) | nm |
| Income taxes | 249 | 244 | nm |
| Other | 3 | 5 | - |
| **Net income/(loss), group share** | **(691)** | (479) | **nm** |

*Restated for application of IFRIC 13 and pro forma Martinair

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

# Breakdown of Q4 operating costs

January-March 2010
€ millions

| | € millions | Change |
|---|---|---|
| **EASK** | | -5.1% |
| **Revenues** | | -0.8% |
| **Operating costs ex-fuel** | | -4.1% |
| Fuel | 1,240 | +9.3% |
| Labor costs | 1,843 | -0.8%* / +1.3% |
| Aircraft costs (amortization and provisions, maintenance costs, operating leases and chartering) | 969 | -5.5% |
| Landing fees and route charges | 394 | -6.2% |
| Marketing and distribution | 203 | -1.0% |
| Handling charges | 311 | -5.2% |
| Other | 558 | -16.0% |
| **Total operating costs** | **5,518** | -1.4% |

* Excluding pension fund impact



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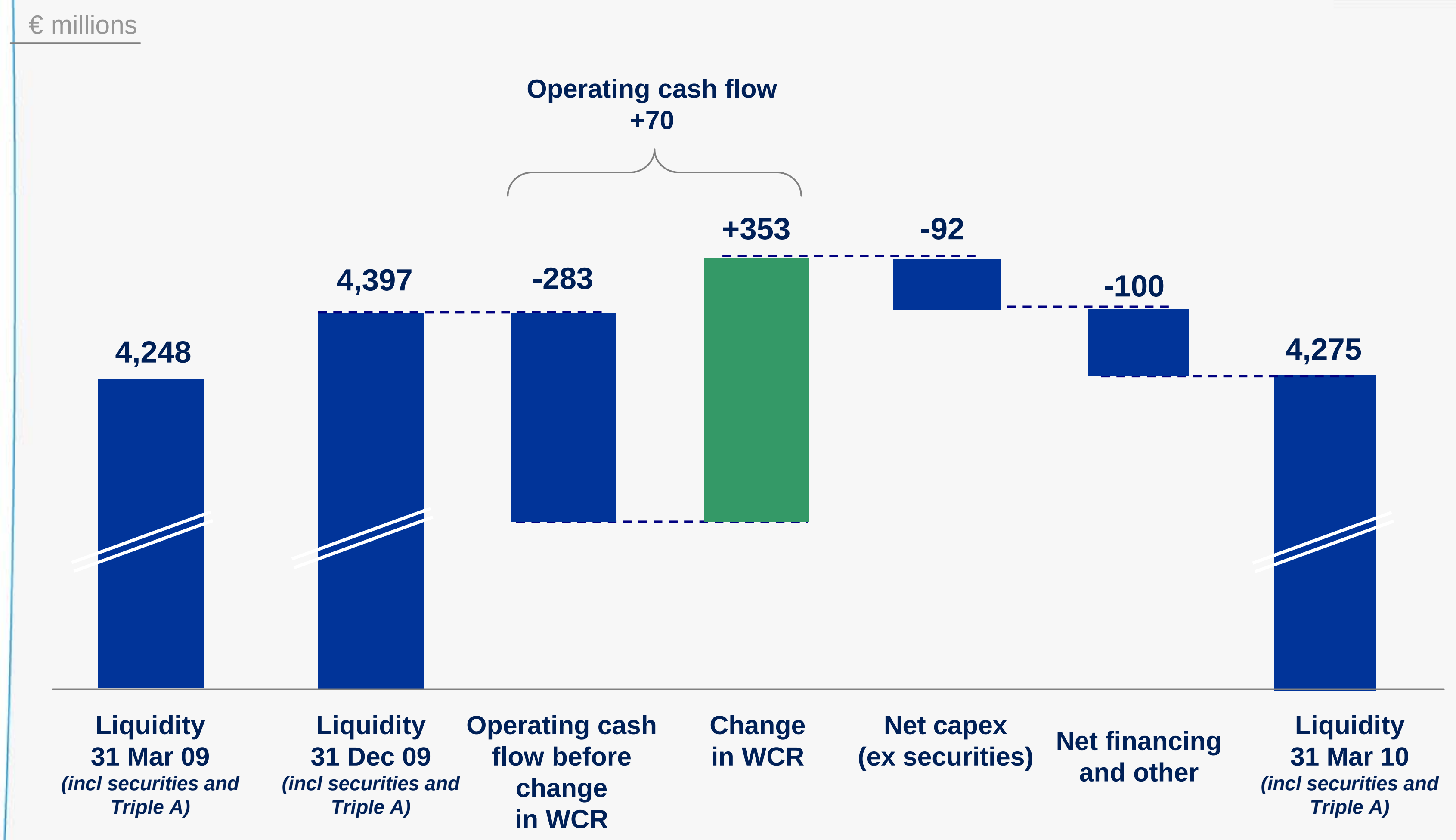
# Positive operating cash flow in Q4



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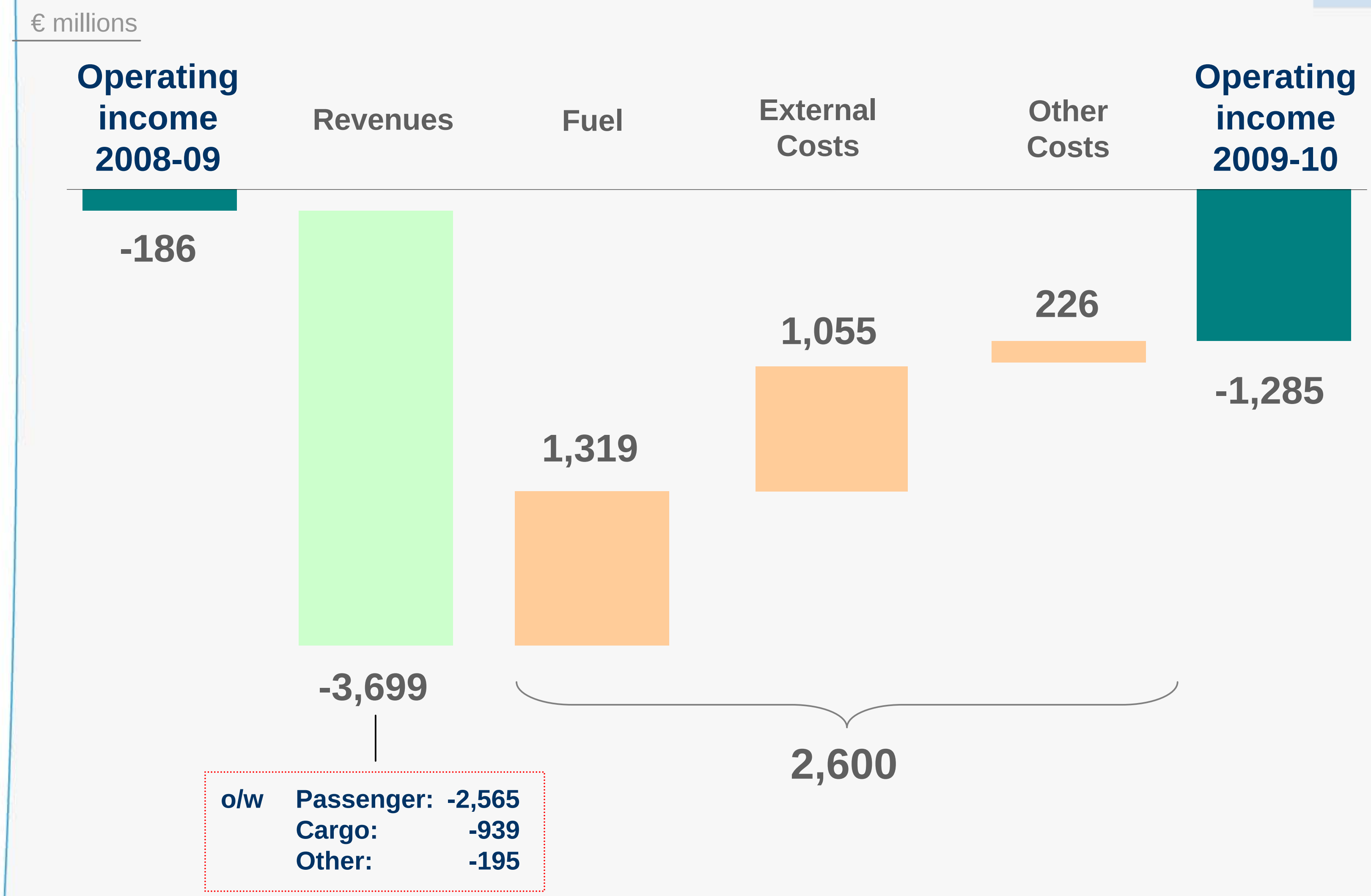
# Full Year results

€ millions

| | FY 2009-10 | FY 2008-09 Pro forma* | % change |
|---|---|---|---|
| **Revenues** | **20,994** | **24,693** | **(15.0)** |
| Operating costs | (22,279) | (24,879) | (10.5) |
| EBITDAR | 1,111 | 2,275 | (51.2) |
| **Operating income/(loss)** | **(1,285)** | **(186)** | **nm** |
| *Adjusted operating income/(loss)*** | *(1,040)* | *45* | *nm* |
| Non current income and expenses | (347) | (71) | |
| o/w Voluntary Departure Plan | (148) | | |
| **Income/(loss) from operating activities** | **(1,632)** | **(257)** | **nm** |
| Net interest charge | (304) | (103) | nm |
| Other financial income and expenses | (193) | (917) | nm |
| Income taxes | 586 | 457 | nm |
| Other | (16) | 9 | nm |
| **Net income/(loss), group share** | **(1,559)** | **(811)** | **nm** |

* Pro forma Martinair
**Adjusted for the share of financial costs within operating leases (34%)

# Significant cost reduction limits impact of revenue decline





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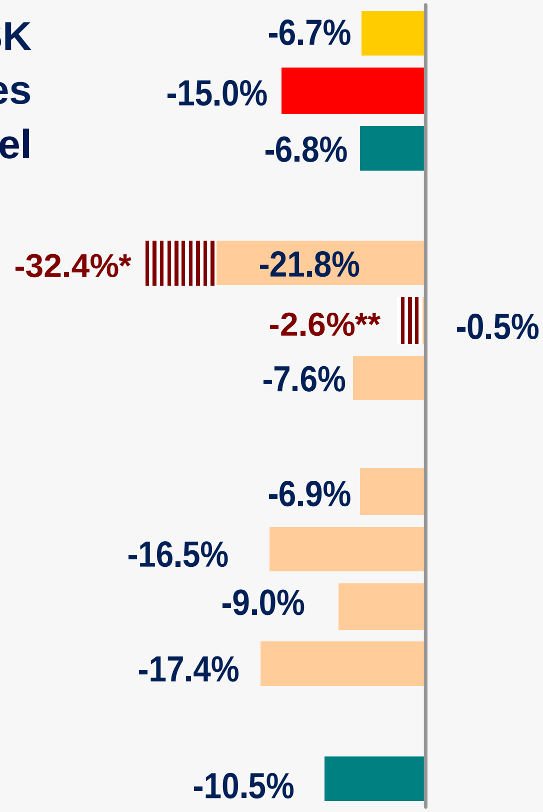
# Breakdown of FY operating costs

April 2009-March 2010
€ millions

EASK
Revenues
Operating costs ex-fuel

| | |
|---|---|
| Fuel | 4,725 |
| Labor costs | 7,388 |
| Aircraft costs (amortization and provisions, maintenance costs, operating leases and chartering) | 3,948 |
| Landing fees and route charges | 1,707 |
| Marketing and distribution | 854 |
| Handling charges | 1,281 |
| Other | 2,376 |
| **Total operating costs** | **22,279** |



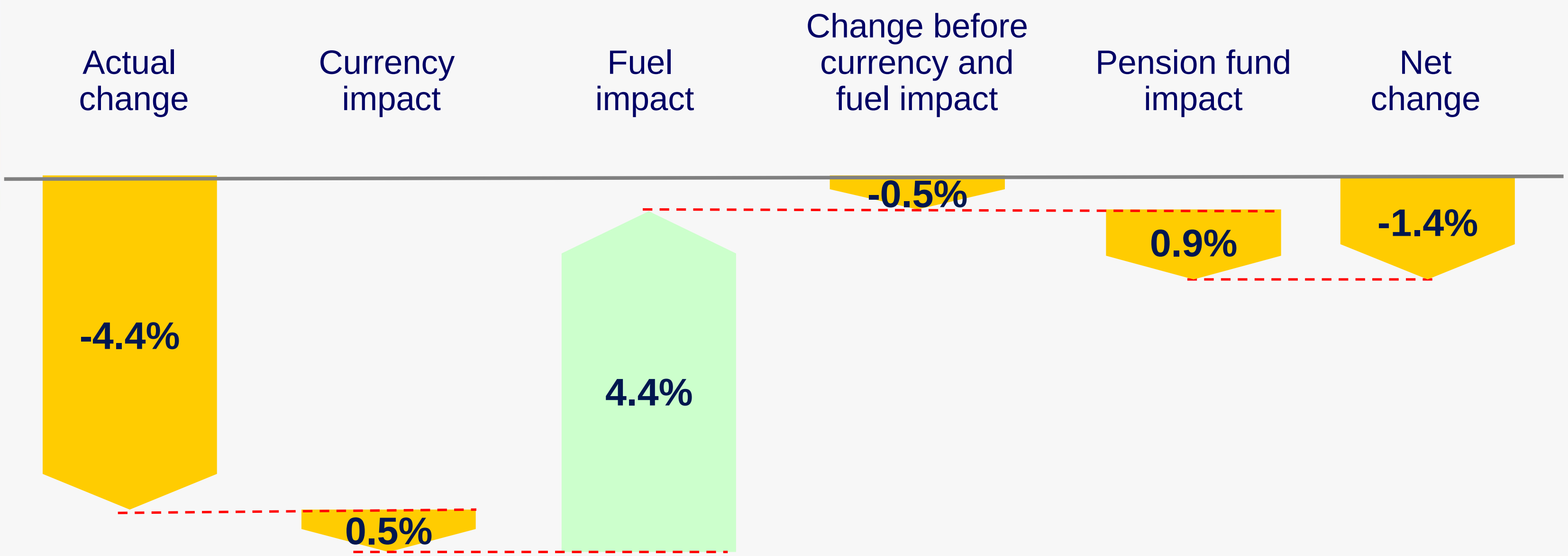

* Excluding fuel hedging impact
** Excluding pension fund impact

# Effective control of unit costs

April 2009-March 2010

Unit cost per EASK: **6.25 € cts**

Capacity in EASK: **-6.7%**



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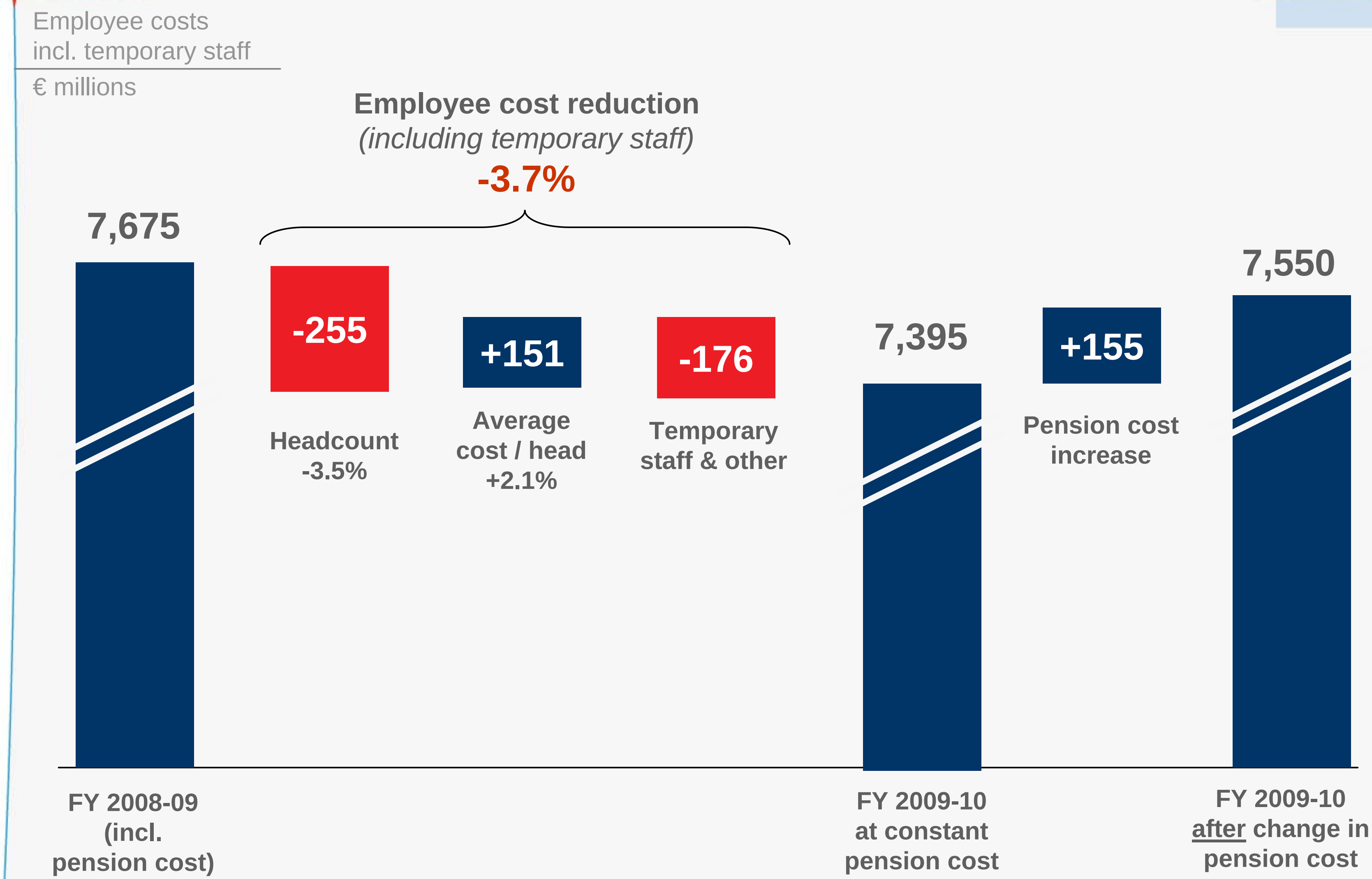
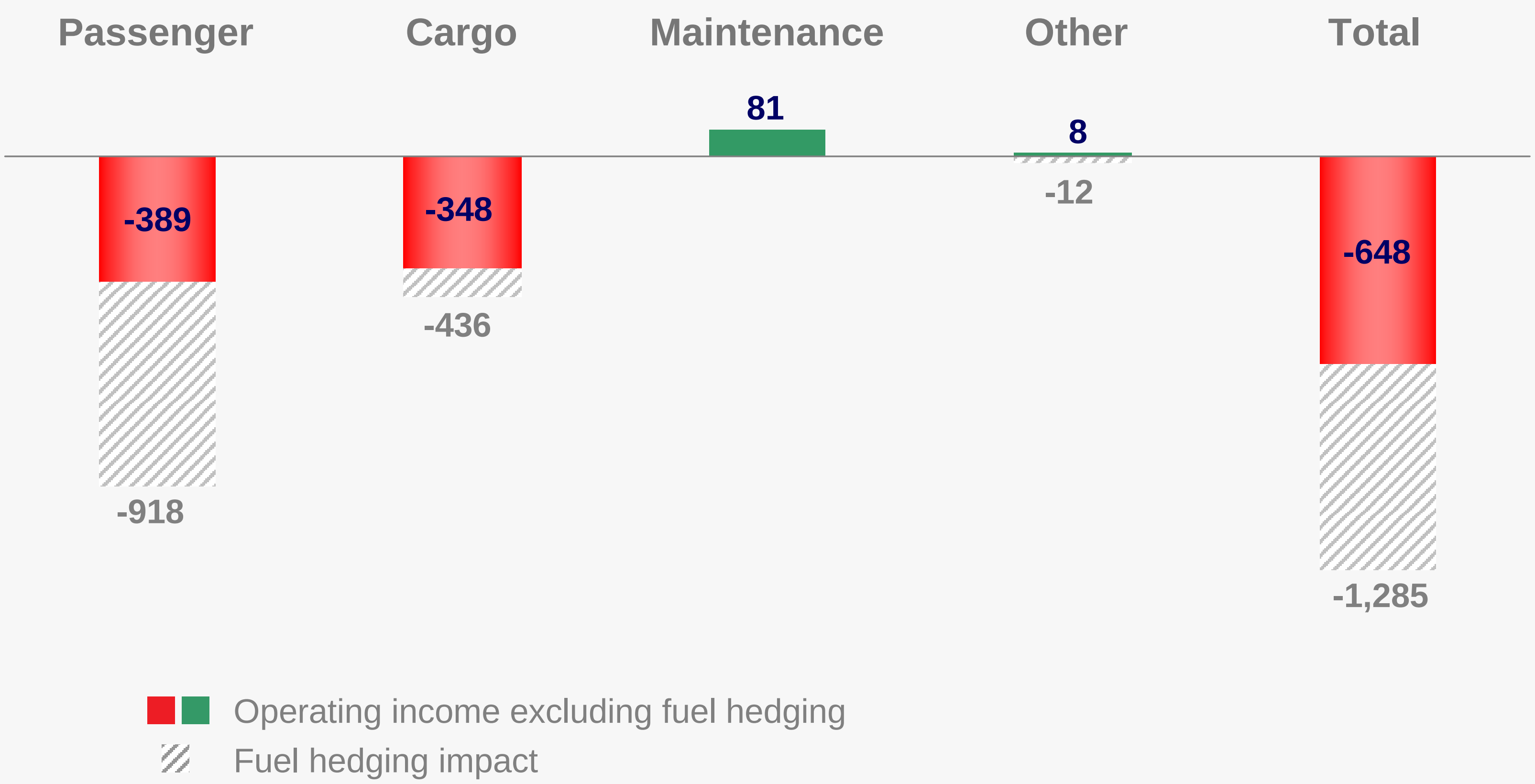
# Analysis of employee costs



# Impact of fuel hedging on operating income by business

FY 2009-10
operating income
€ millions

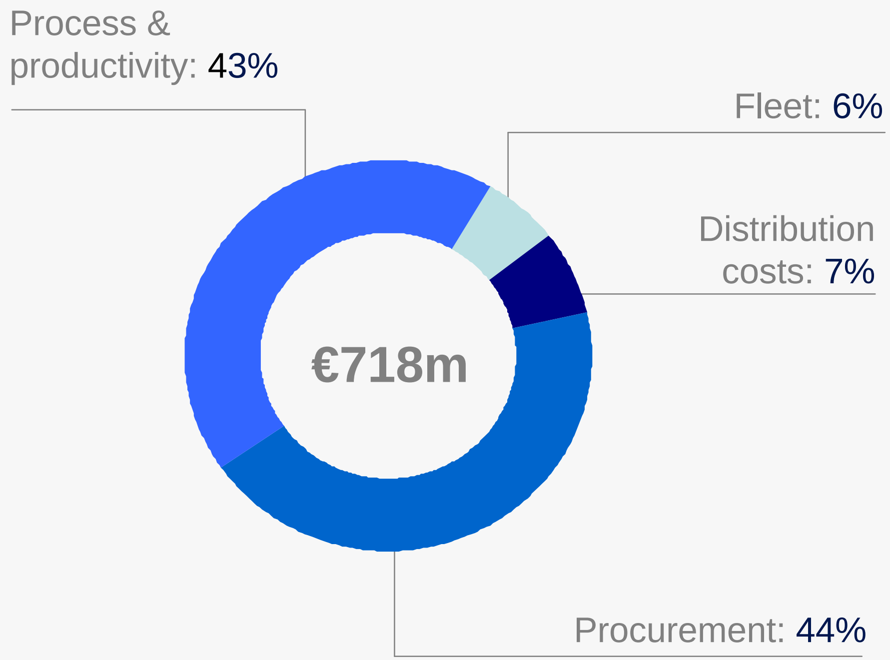


# 'Challenge 12' savings ahead of target

April 2009-March 2010

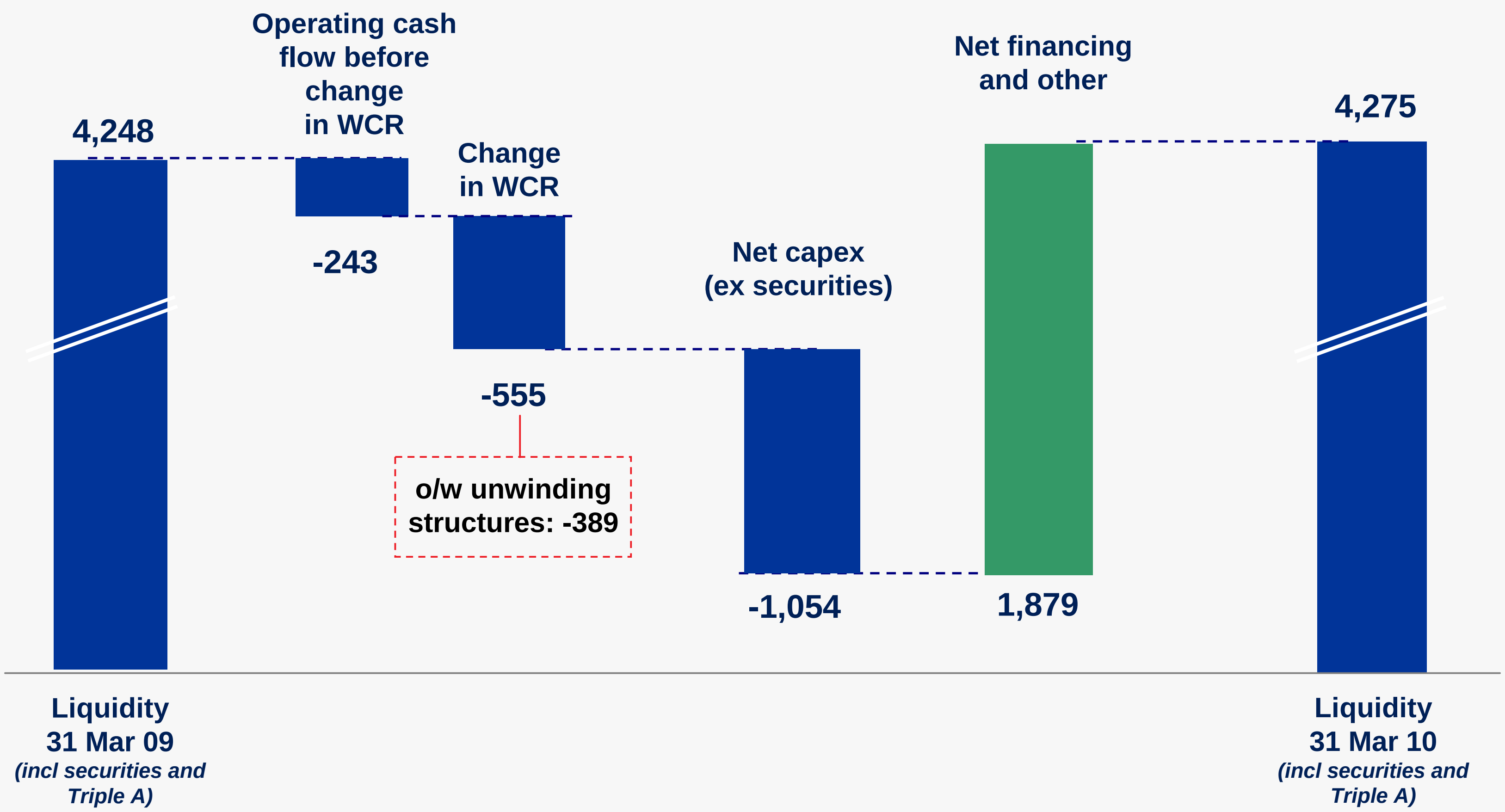
- **€190m** in savings in the Fourth Quarter
- Objective of **€700m** for FY 2009-10
- Actually realized: **€718m**

Breakdown of savings in FY 2009-10



# Stable cash position

€ millions



# Impact of Amadeus operation

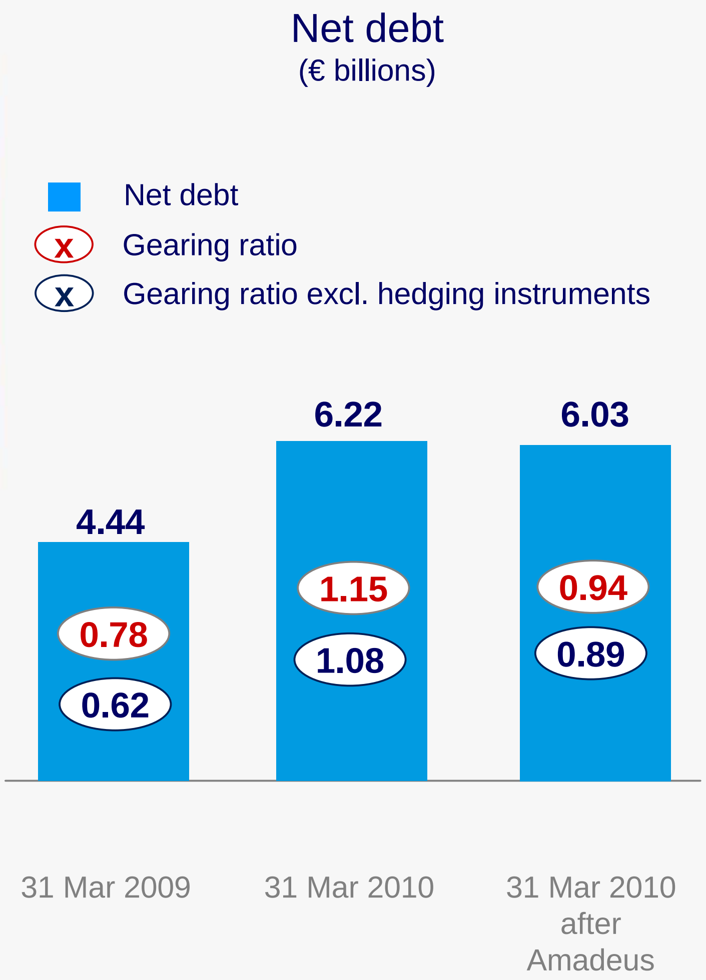
- Cash on disposal of shares: €195m
  - Repurchase of class B shares: €60m
  - Sale of shares in the market: €135m

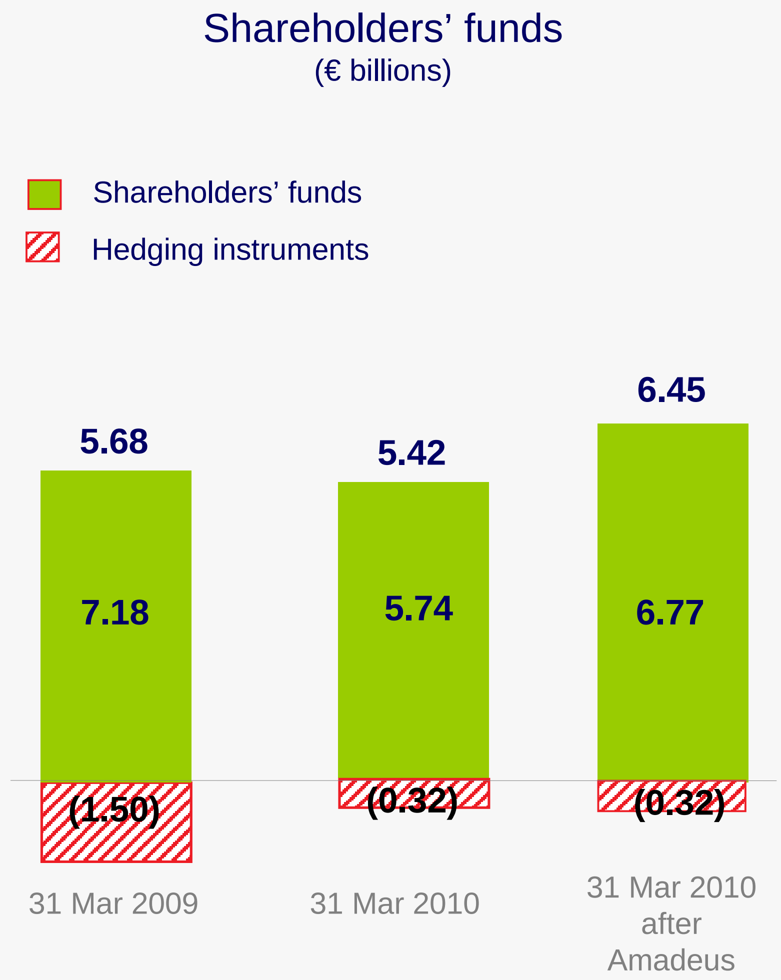
- Shareholders’ funds: + €1,029m
  - Net capital gain on disposal of shares*: €280m
  - Value of remaining 15.2% shareholding: €749m

- Remaining shareholding revalued each quarter based on market price

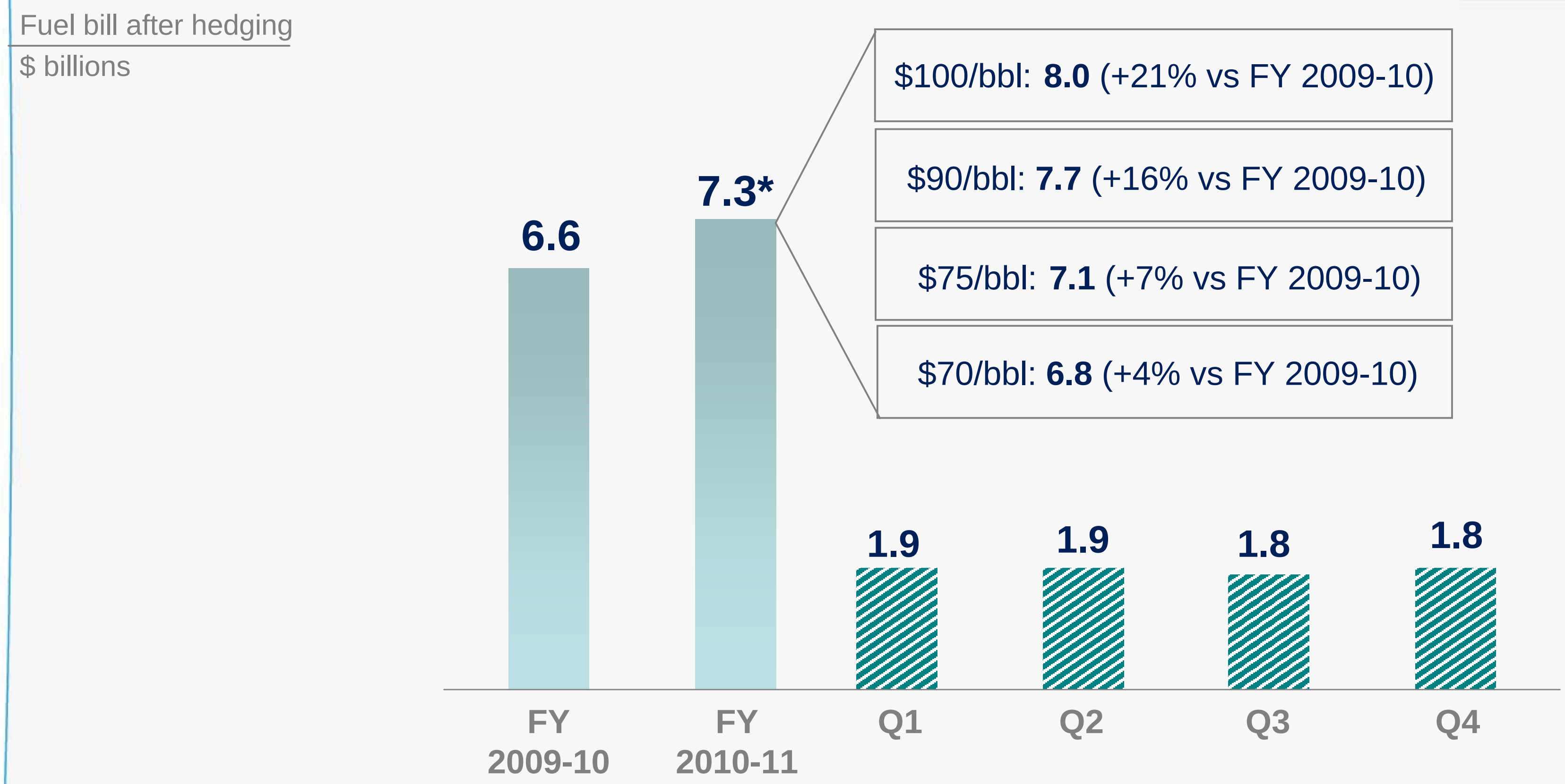
*After restatement following change in consolidation status

# Gearing ratio below 1 post-Amadeus operation



# 2010-11 fuel bill likely to exceed 2009-10




| | FY 2009-10 | FY 2010-11 |
|---|---|---|
| Share of consumption hedged | 53% | 58% |
| Market price ($/bbl) | 70 | 82* |

* Based on 14 May 2010 forward curve

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# Strategy and Outlook

Pierre-Henri Gourgeon

# Improving environment

- Air travel twice as badly affected by the crisis as the overall economy

- However the environment is showing signs of improvement
  - Behavior of individual and corporate customers is gradually reverting to previous trends
  - Recovery in demand for air travel is significant, even though it remains below pre-crisis levels

- Measures launched by Air France-KLM in 2009 are starting to bear fruit

# Our roadmap for recovery

- Contain capacity and investments
- Reduce costs
- Focus on the needs of customers by adapting our business model
- Develop the transatlantic JV and strengthen SkyTeam and other strategic partnerships

# Low capacity growth over the year

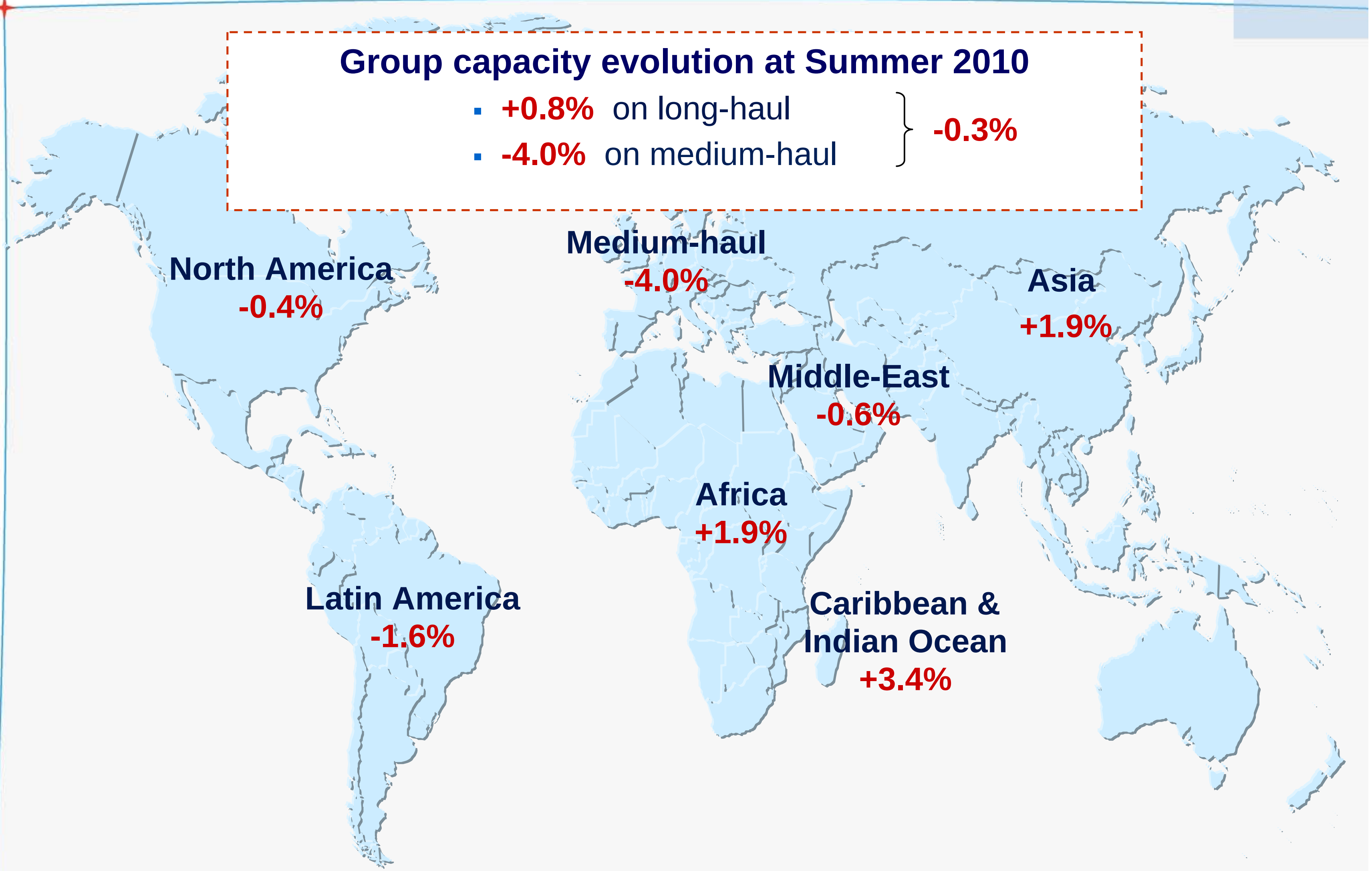
- Low capacity growth, with emphasis on restoring unit revenues…
  - +1% in passenger
  - Stable in cargo
- …while maintaining the flexibility to rebound
  - Increase aircraft utilization rates
  - Extend operating leases
  - Available crew
- Encouraging trend in advance bookings

# Targeted developments in Summer 2010

**Group capacity evolution at Summer 2010**

- **+0.8%** on long-haul
- **-4.0%** on medium-haul

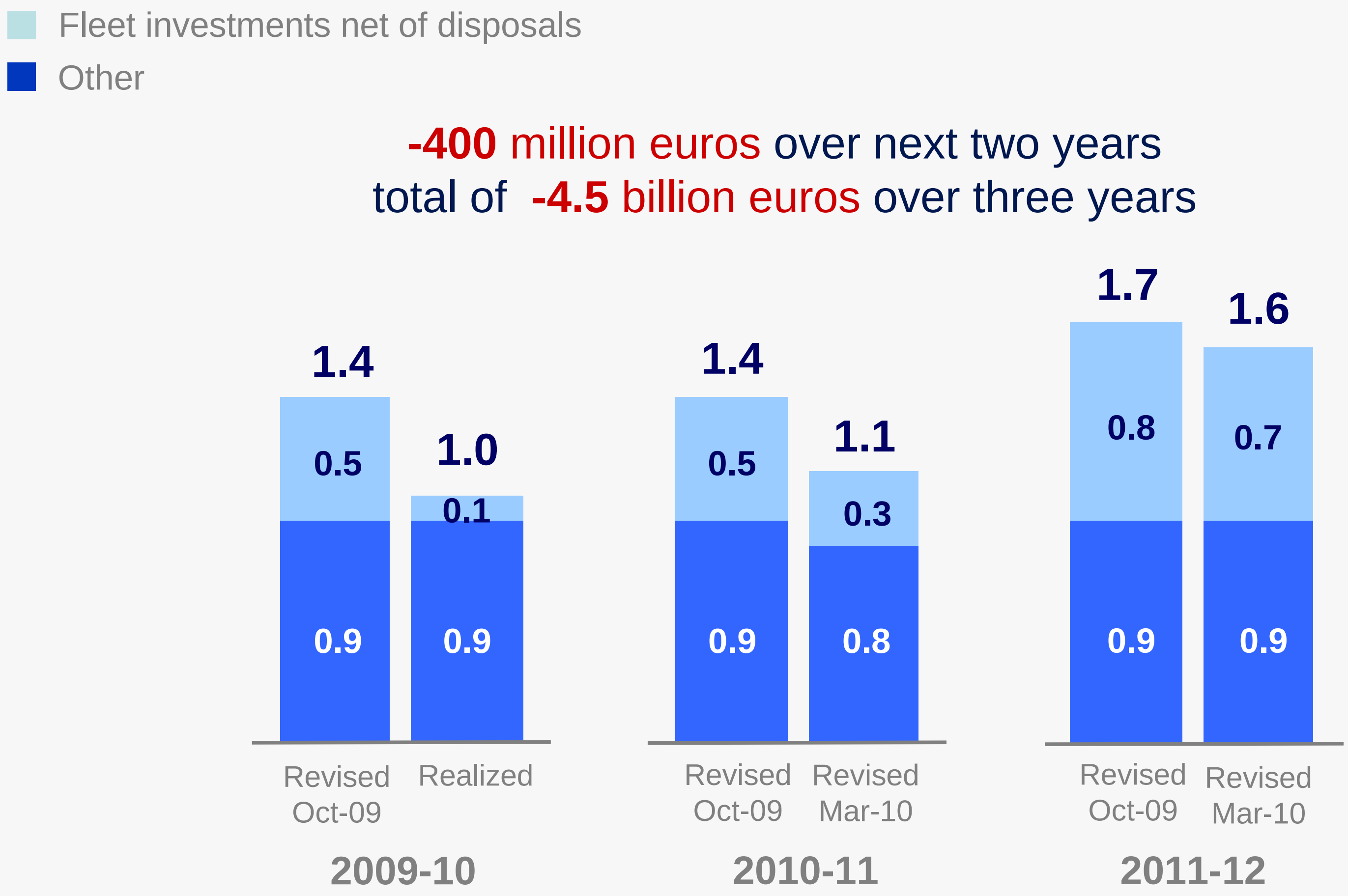
} **-0.3%**



# Further adjustment to the investment plan

€ billions

-400 million euros over next two years
total of -4.5 billion euros over three years



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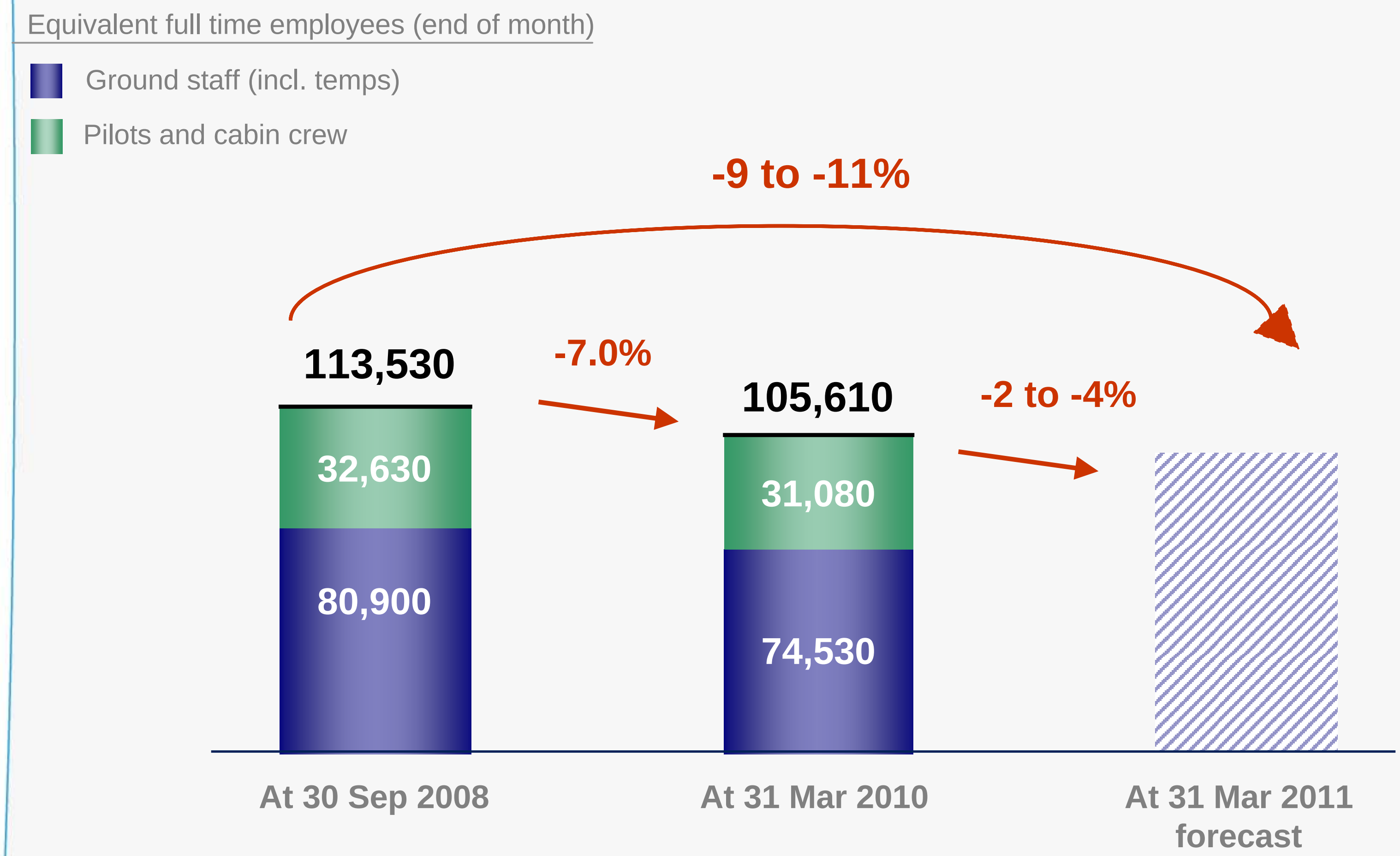
# Our roadmap for recovery

- Contain capacity and investments
- **Reduce costs**
- Focus on the needs of customers by adapting our business model
- Develop the transatlantic JV and strengthen SkyTeam and other strategic partnerships

# Significant reduction in headcount since onset of the crisis…

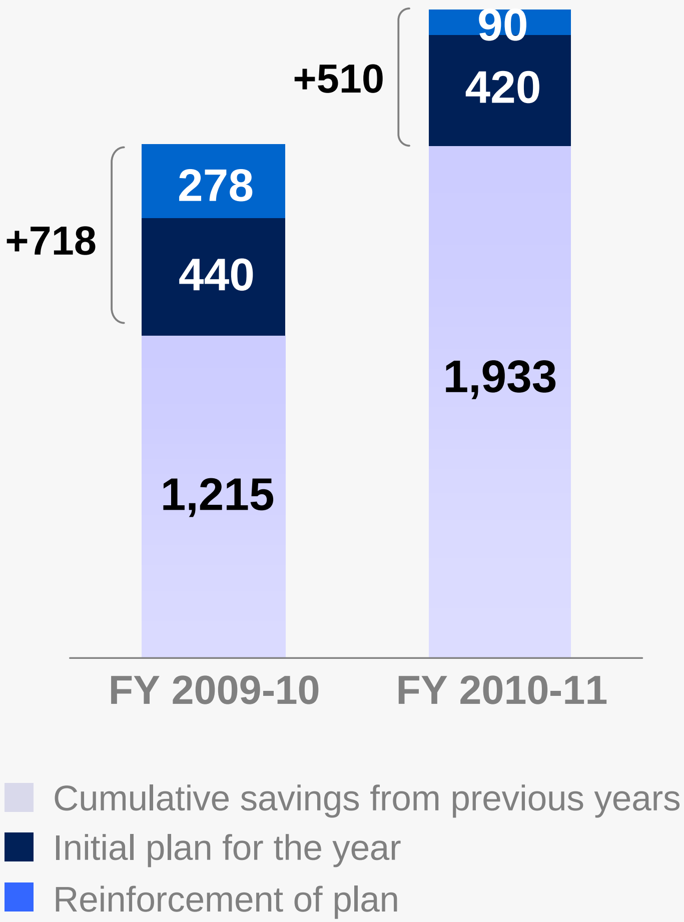


# …underpinned by further measures

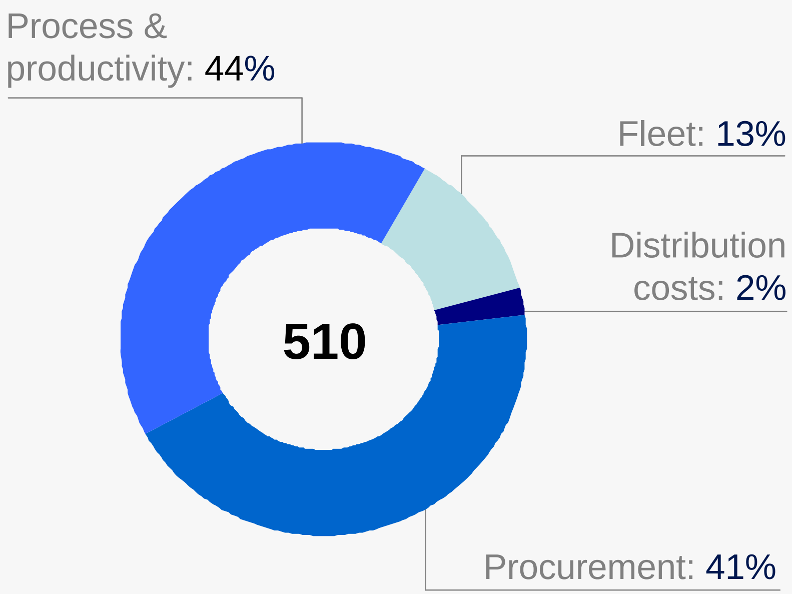
- Hiring freeze maintained
- Reduction in headcount via non replacement of natural attrition
- Acceleration at Air France thanks to the Voluntary Departure Plan
  - 1,684 FTEs
  - All departures effective by 31st December 2010
  - Provision of €148m at 31st March 2010
  - Payback period slightly less than 2 years

# ‘Challenge 12’ further reinforced

€ millions




Breakdown of savings in 2010-11



# Our roadmap for recovery

- Contain capacity and investments
- Reduce costs
- Focus on the needs of customers by adapting our business model
- Develop the transatlantic JV and strengthen SkyTeam and other strategic partnerships

# Success of new long-haul classes

## PREMIUM VOYAGEUR

- First aircraft equipped in October 2009
- 37 aircraft at 1st May, 2010
- 76 aircraft equipped by end 2010
- 70% of customers would recommend
- Revenue per passenger 2.2 times higher than in economy class in the first months

## Economy Comfort

- Entire fleet equipped by December 2009
- High level of customer satisfaction
- Revenue growth exceeds expectations

# Medium-haul transformation on track

| | |
|---|---|
| **Repositioning the product** | New product well received by contract customers<br>Successful launch on Air France routes on 1st April 2010<br>Robust forward bookings in ‘premium eco’ |
| **Cost savings and productivity gains** | Headcount reduction at stations underpinned by voluntary departure plan<br>23 aircraft equipped with the new seat at 1st May 2010, full fleet by year end<br>Savings on on-board services implemented at 1st April 2010 |
| **Network adjustments** | Continuation of schedule restructuring implemented in Winter 2009-10 |

# Cargo restructuring ahead of plan

- Improvement in results reflects success of restructuring measures
  - Integration of Martinair
  - 40% reduction in full freighter capacity
  - Higher belly utilization than pre-crisis
  - Adaptation of commercial strategy and organization
- Confirms benefits of re-positioning as a mixed carrier with priority on bellies and combis
  - Passenger fleet with significant low cost belly space fulfils majority of demand, complemented by full freighter fleet
  - Full freighter fleet limited to 14 aircraft
- Losses now expected to be reduced by 2/3 in 2010-11

# Our roadmap for recovery

- Contain capacity and investments
- Reduce costs
- Focus on the needs of our customers by adapting our business model
- Develop the transatlantic JV and strengthen SkyTeam and other strategic partnerships

# Rapid implementation of the transatlantic joint-venture

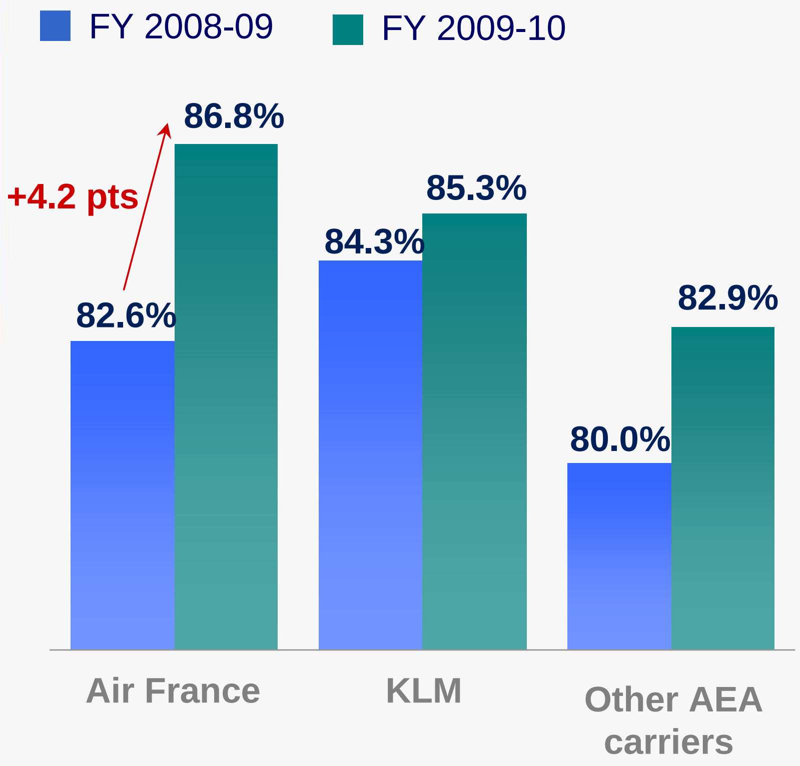
AIRFRANCE KLM DELTA

- Reallocation of routes between the three operators
- Capacity reductions (-11% on transatlantic bundle)
- Single revenue management team
- Integration of sales teams
- Common contracts with 4,000 businesses and 1,400 travel agents

Contribution of €50m to operating income
in the first year

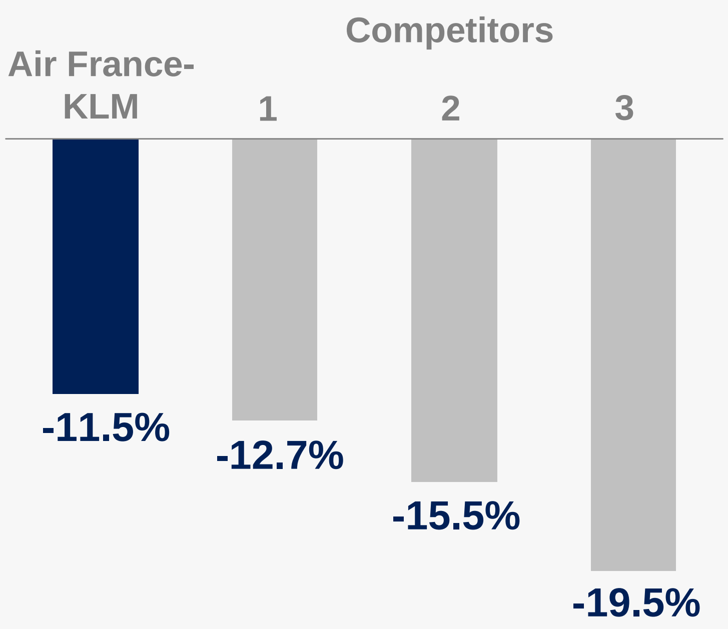
# Transatlantic JV: marked impact on both load factor and RASK

North Atlantic load factor




Source: AEA

Change in North Atlantic RASK, Apr-Dec 2009




Source: AEA



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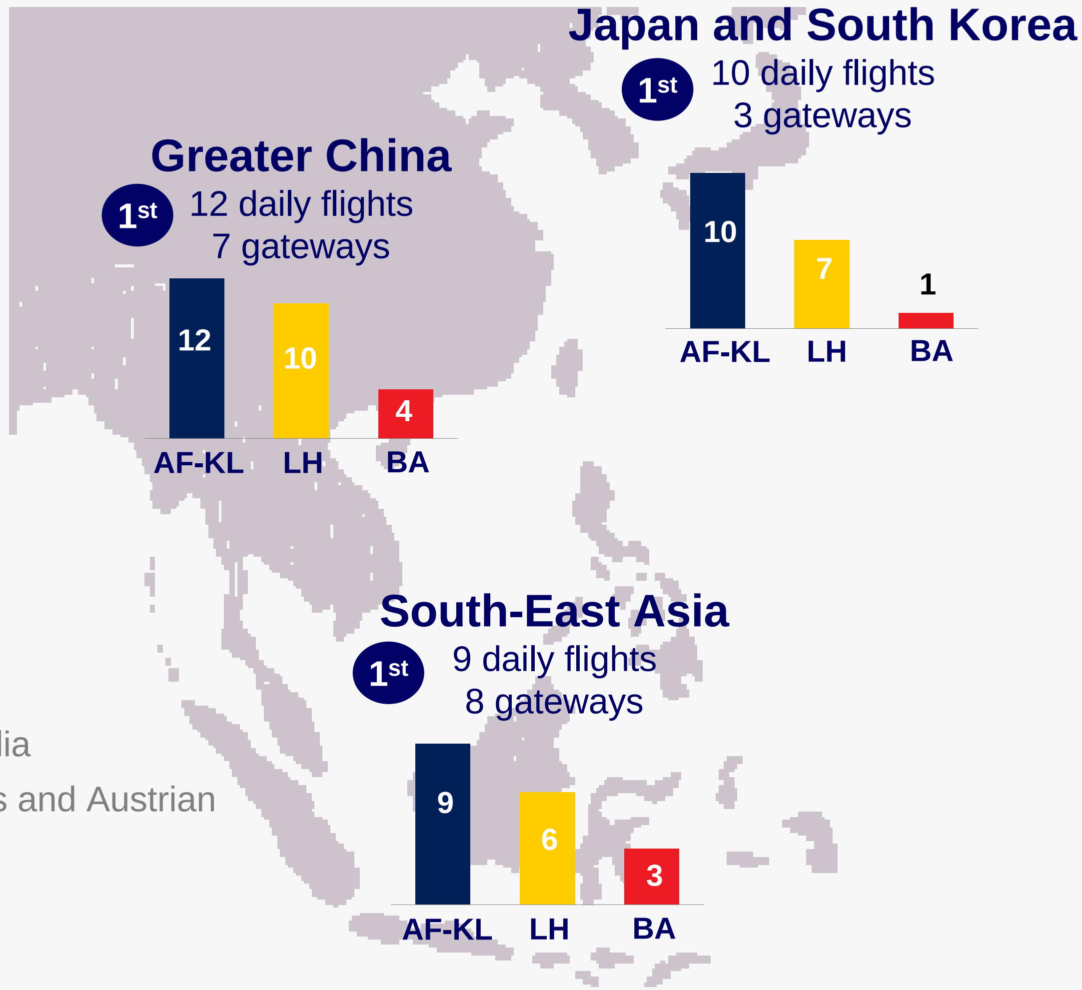
# Development of SkyTeam in Asia

- SkyTeam, the number one alliance in China
- China Southern, the Chinese domestic leader
- China Eastern selects SkyTeam
  - Based in Shanghai
  - Strengthened via recent merger with Shanghai Airlines
  - 25 additional destinations in China
- Chinese members of SkyTeam account for 40% of Chinese carrier traffic
- Vietnam Airlines to join in June 2010

SkyTeam members in Asia

# Air France-KLM, the number one European carrier to Asia

OAG Summer 2010
Operating passenger flights only




- Air France-KLM and Alitalia
- Lufthansa including Swiss and Austrian
- British Airways and Iberia

# New strategic partnerships

In Asia:

- Launch of a JV between Air France and China Southern in Winter 2010-11, complementing existing JV between KLM and China Southern
- Planned JV with China Eastern
- Code share with Vietnam Airlines

And code share agreements elsewhere:

- Aeroflot: 6 additional destinations in Russia
- GOL: 8 additional destinations in Brazil

# Impact of cost savings plan and strategic measures in 2010-11

- Cost savings: €700-750m
  - ‘Challenge 12’: €510m
  - Adaptation of the businesses: €200-250m

- Additional revenues: €180-220m
  - ‘Premium Voyageur’ and ‘Economy Comfort’: €70m
  - Repositioning of medium-haul product: €80m
  - Transatlantic JV: €50m

- Ongoing performance improvements

Operating income improvement:
€900m to €1bn

# Strong mobilization by the group

- We emerge from this crisis with:
  - A passenger business model and product set adapted to the needs of our customers
  - A restructured cargo business
  - The youngest long-haul fleet in Europe among our peers
  - A solid financial position
  - A motivated and supportive workforce
- Strategic measures launched in 2009 will enable us to restore profitability, even in a less benign economic environment
- We are equipped to respond to a stronger than expected economic recovery
- Our objective is to resume our strategy of profitable growth

# Shut down of European air space

- Quasi-total cessation of activity between 16 and 19 April 2010
- Impact on FY 2010-11:
  - Loss in revenues of €260m
  - Estimated negative impact on operating income of €160m
- Currently negotiating compensation with authorities
- Working with authorities to define new approach to volcanic ash risk

# Outlook for 2010-11

Objective of operating break even excluding impact of pre-2009 fuel hedges maintained, subject to final impact of European airspace closure

# Appendices

# Calculation of net debt

€ millions

| | 31 March 10 | 31 March 09 |
|---|---|---|
| Current and non-current financial debt | 10,932 | 9,137 |
| Deposits on leased aircraft | (471) | (496) |
| Currency hedging instruments | 39 | 51 |
| **= Gross financial debt** | **10,500** | **8,692** |
| | | |
| Cash and cash equivalents | 3,751 | 3,748 |
| Cash deposits of over three months | 343 | 430 |
| Triple A deposits | 297 | 352 |
| Bank current accounts | (116) | (282) |
| **= Net cash** | **4,275** | **4,248** |
| | | |
| **Net financial debt** | **6,225** | **4,444** |
| | | |
| **Consolidated shareholders' funds** | **5,418** | **5,676** |
| | | |
| **Net debt / Equity** | **1.15** | **0.78** |
| ***Net debt / Equity excl. hedging instruments*** | ***1.08*** | ***0.62*** |

# Reconciliation of Q4 and FY 2008-09 results

| € millions | Q4 2008-09 | FY 2008-09 |
|---|---|---|
| **Published revenues** | 5,014 | 23,970 |
| IFRIC 13 impact | 38 | 0 |
| Martinair impact | 8 | 723 |
| **Restated pro forma revenues** | **5,060** | **24,693** |
| | | |
| **Published operating costs** | 5,588 | 24,099 |
| Martinair impact | 7 | 780 |
| **Pro forma operating costs** | **5,595** | **24,879** |
| | | |
| **Published operating income** | (574) | (129) |
| IFRIC 13 impact | 38 | 0 |
| Martinair impact | 1 | (57) |
| **Restated pro forma operating income** | **(535)** | **(186)** |
| | | |
| **Published pretax income of consolidated companies** | (766) | (1,204) |
| IFRIC 13 impact | (38) | 0 |
| Martinair impact | 0 | (73) |
| **Restated pro forma pretax income of consolidated companies** | **(728)** | **(1,277)** |
| | | |
| **Published income tax** | 255 | 439 |
| IFRIC 13 impact | (11) | 0 |
| Martinair impact | 0 | 18 |
| **Restated pro forma income tax** | 244 | 457 |
| | | |
| **Published net income, group share** | (505) | (814) |
| IFRIC 13 impact | 27 | 0 |
| Martinair impact | (1) | 3 |
| **Restated pro forma net income, group share** | **(479)** | **(811)** |



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# Restated net income/(loss)

€ millions

| | Q4 2009-10 | Q4 2008-09* | FY 2009-10 | FY 2008-09** |
|---|---|---|---|---|
| Net income/(loss), Group share | (691) | (479) | (1,559) | (811) |
| Income taxes | (249) | (244) | (586) | (457) |
| **= Net income/(loss), Group share, before tax** | **(940)** | **(723)** | **(2,145)** | **(1,268)** |
| Non-recurring items*** | 261 | 50 | 346 | 71 |
| Non-cash portion of the change in fair value of hedging instruments | (19) | (222) | (8) | 333 |
| **= Restated net income/(loss), before tax** | **(698)** | **(895)** | **(1,807)** | **(864)** |
| Income taxes | 221 | 285 | 575 | 286 |
| **Restated net income/(loss)** | **(477)** | **(610)** | **(1,232)** | **(578)** |

* Restated for application of IFRIC 13 and pro forma Martinair
** Pro forma Martinair
*** Non-recurring items: income and expenses accounted for between income from current operations and income from operating activities

# Breakdown of operating income by business