

**AIR FRANCE KLM**

# Full Year Results 2006-07

24th May 2007



# 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, 2006. 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NO. 333-114188), AND SHALL BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

# Agenda

Introduction

Jean-Cyril Spinetta

Activity

Pierre-Henri Gourgeon

Results

Philippe Calavia

Strategy and outlook

Jean-Cyril Spinetta

Leo van Wijk

## A favourable environment for airlines

- ✦ Global economic growth of 4.9% in 2006
- ✦ Oil price at a high but stable level
- ✦ Discipline on the part of the major players in terms of capacity
- ✦ Traffic up 6% (source: AEA)



Cycle «stronger for longer»

## Sector highlights

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- ✦ Airline sector valuations have appreciated considerably
- ✦ «Open Skies» agreement opens a new era for the industry
- ✦ The issue of airline industry CO<sub>2</sub> emissions increasingly in the limelight

## Another strong year for Air France-KLM

- ✦ Revenues: €23.07bn (+7.6%)
- ✦ Operating income: €1.24bn (+32.5%)
- ✦ Adjusted operating margin: 6.3% (+0.9 pts)
- ✦ Net income: €891m (+80.4%, excl. Amadeus)
- ✦ Free cash flow: €632m
- ✦ Proposed dividend: €0.48 (+60%)
- ✦ Share price: +72% during the course of the year

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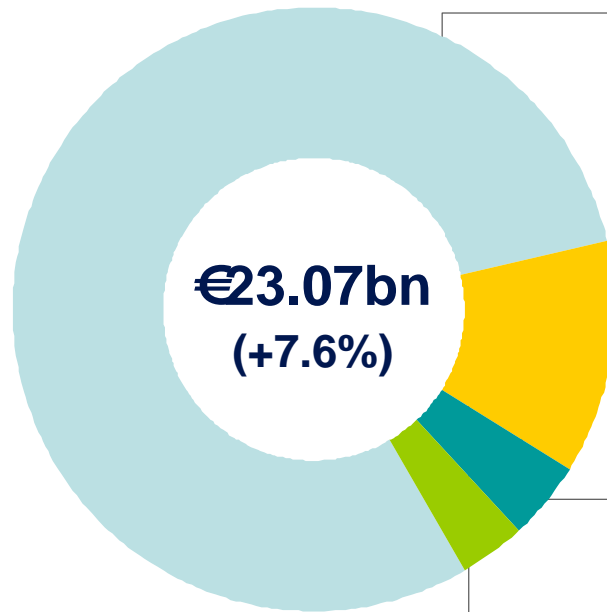
**Activity**

**Pierre-Henri Gourgeon**



# Key operating data

Revenues (in €bn)  
Financial Year 2006-07



Passenger: **18.37**  
(+8.4%)

Cargo: **2.91**  
(+0.9%)

Maintenance: **0.98**  
(+9.0%)

Other activities: **0.82**  
(+12.8%)

Optg income  
(in €m)

1,067  
(+56%)

62  
(-63%)

44  
(-19%)

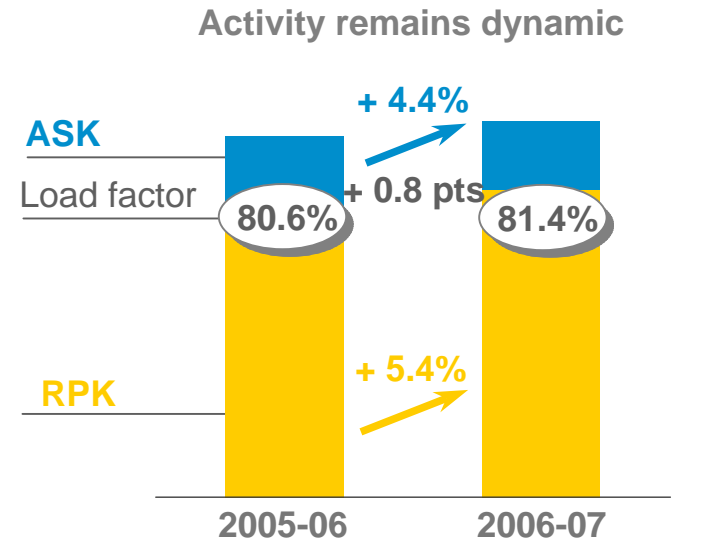
67  
(+123%)



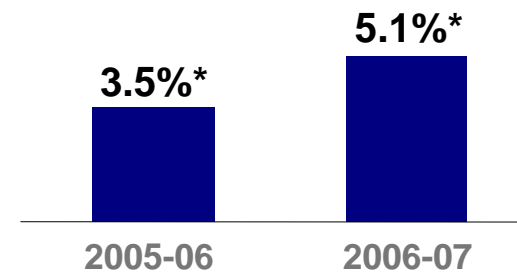
# Passenger activity: a successful strategy

## + Strong competitive advantages:

- ▶ A powerful and balanced network
- ▶ Efficient and complementary hubs
- ▶ A global alliance
- ▶ A modern fleet



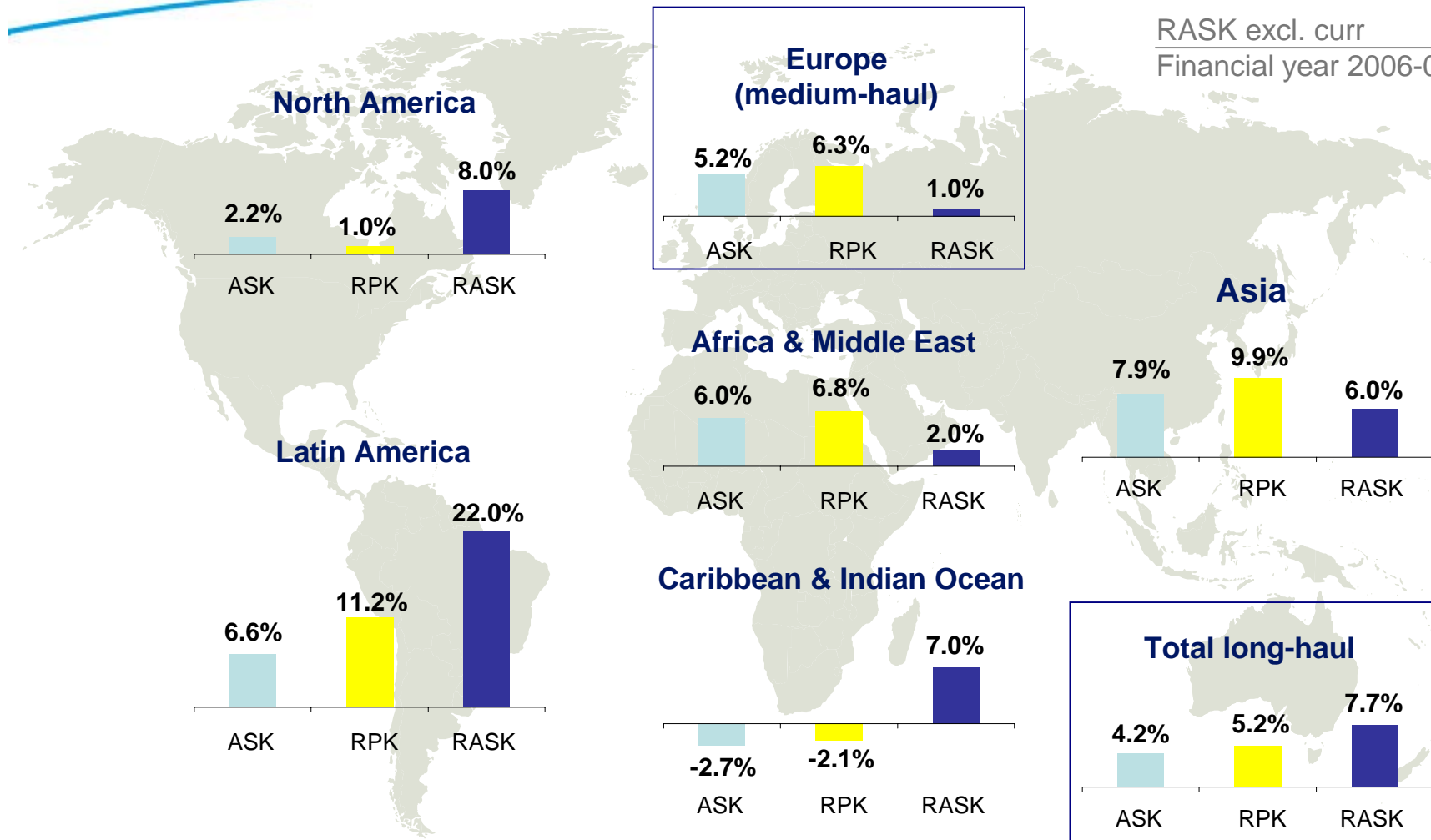
## Further rise in unit revenue per ASK



\* excl. currency impact

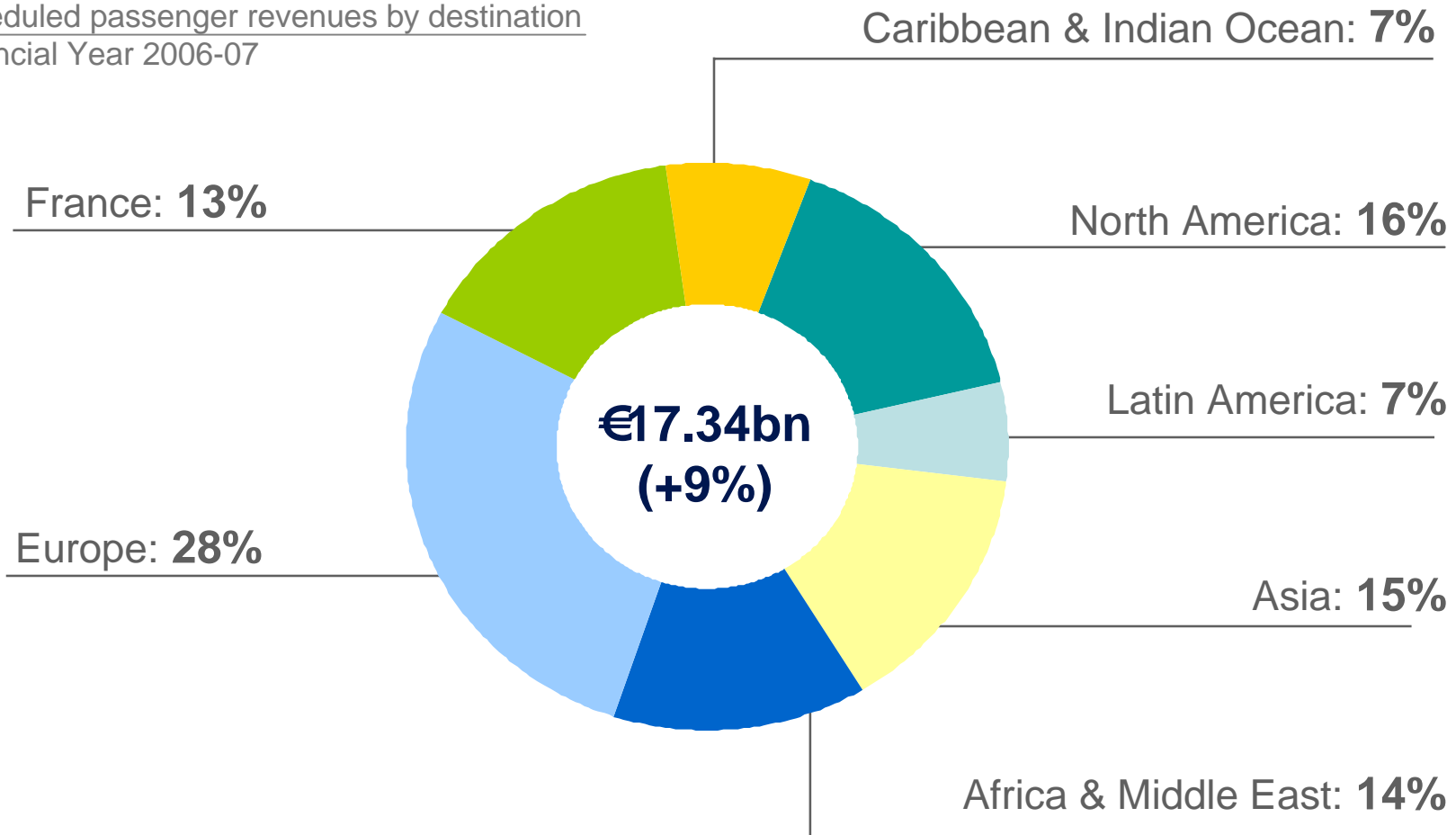
# Strong growth in all regions

RASK excl. curr  
Financial year 2006-07



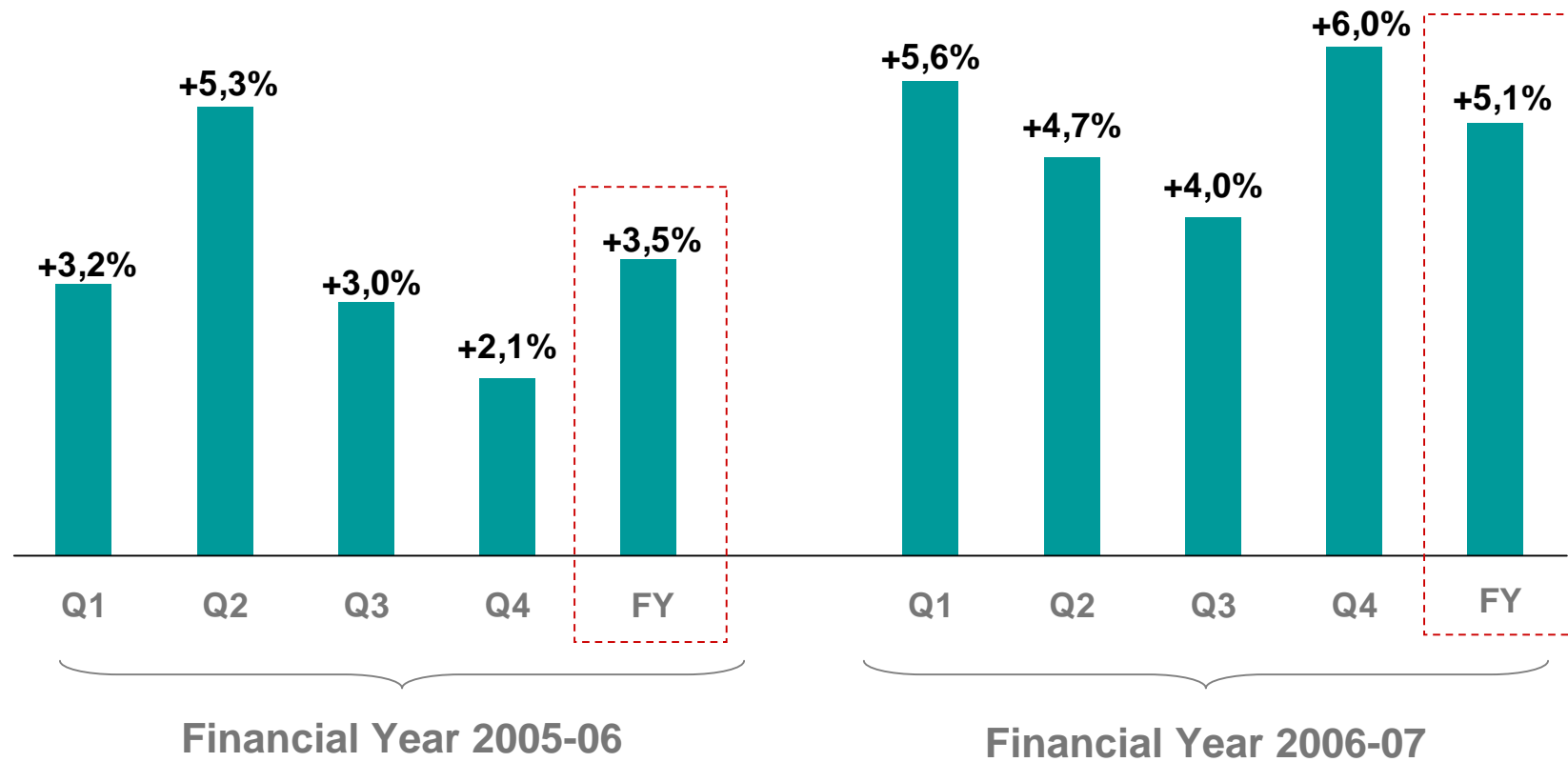
# A balanced presence in all major markets

Scheduled passenger revenues by destination  
Financial Year 2006-07



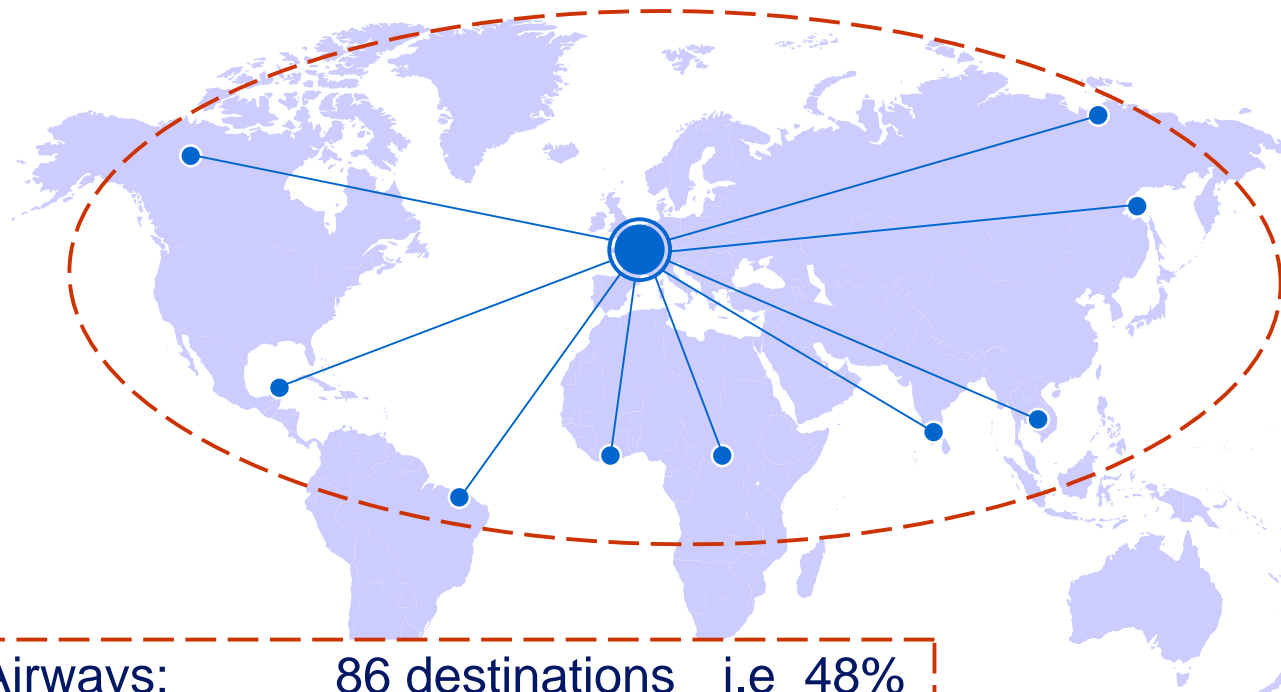
# Strong improvement in unit revenue

■ RASK excl. currency impact (total network)



# Air France-KLM: The number one network linking Europe to the rest of the world...

Of the 178 long-haul destinations\* operated from Europe by AEA members

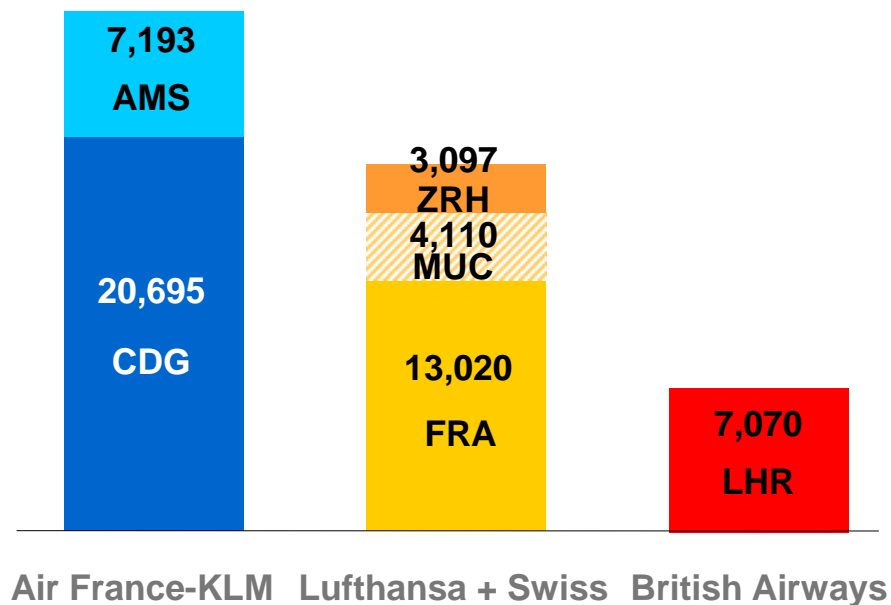


British Airways:	86 destinations	i.e 48%	} <b>AF+KLM</b> <b>= 111 destinations</b> <b>i.e 62%</b>
Lufthansa + Swiss :	78 destinations	i.e 44%	
Air France:	80 destinations	i.e 45%	
KLM:	59 destinations	i.e 33%	

\* Number of destinations served by operational flights – S2007 program

## ...organized around a powerful hub system...

Number of connection opportunities  
long-haul/medium-haul in under two hours  
(Summer 2007)



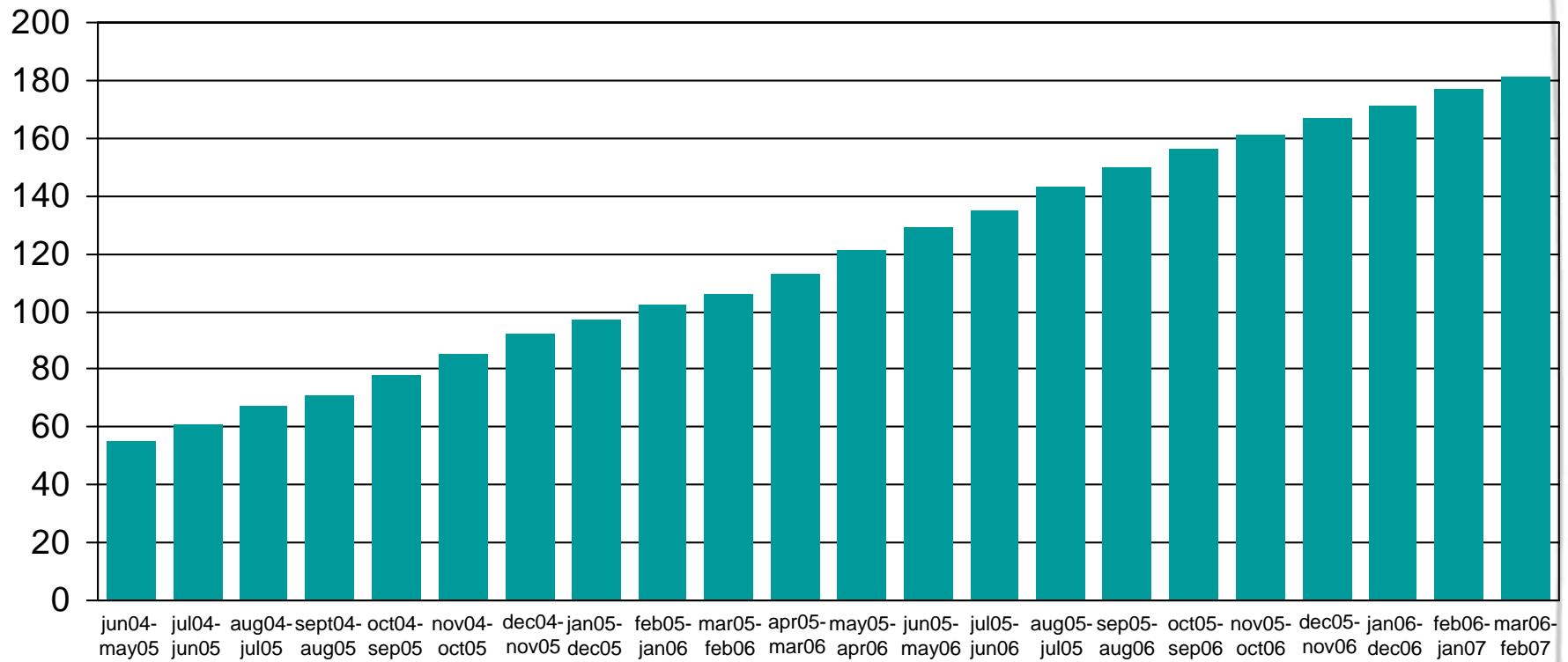
- + A wider offer in terms of numbers of flights...
  - ▶ New York: 11 daily flights
  - ▶ Los Angeles: 5 daily flights
  - ▶ Montreal: 4 daily flights
  - ▶ San Paolo: 3 daily flights
  - ▶ Tokyo: 5 daily flights
  - ▶ Beijing: 4 daily flights
  - ▶ Shanghai: 4 daily flights
  - ▶ Johannesburg: 3 daily flights
- + ...and fares, thanks to fare combinability

Source : OAG tape Summer 2007 – Air France & KLM operated flights

...efficiently combined...

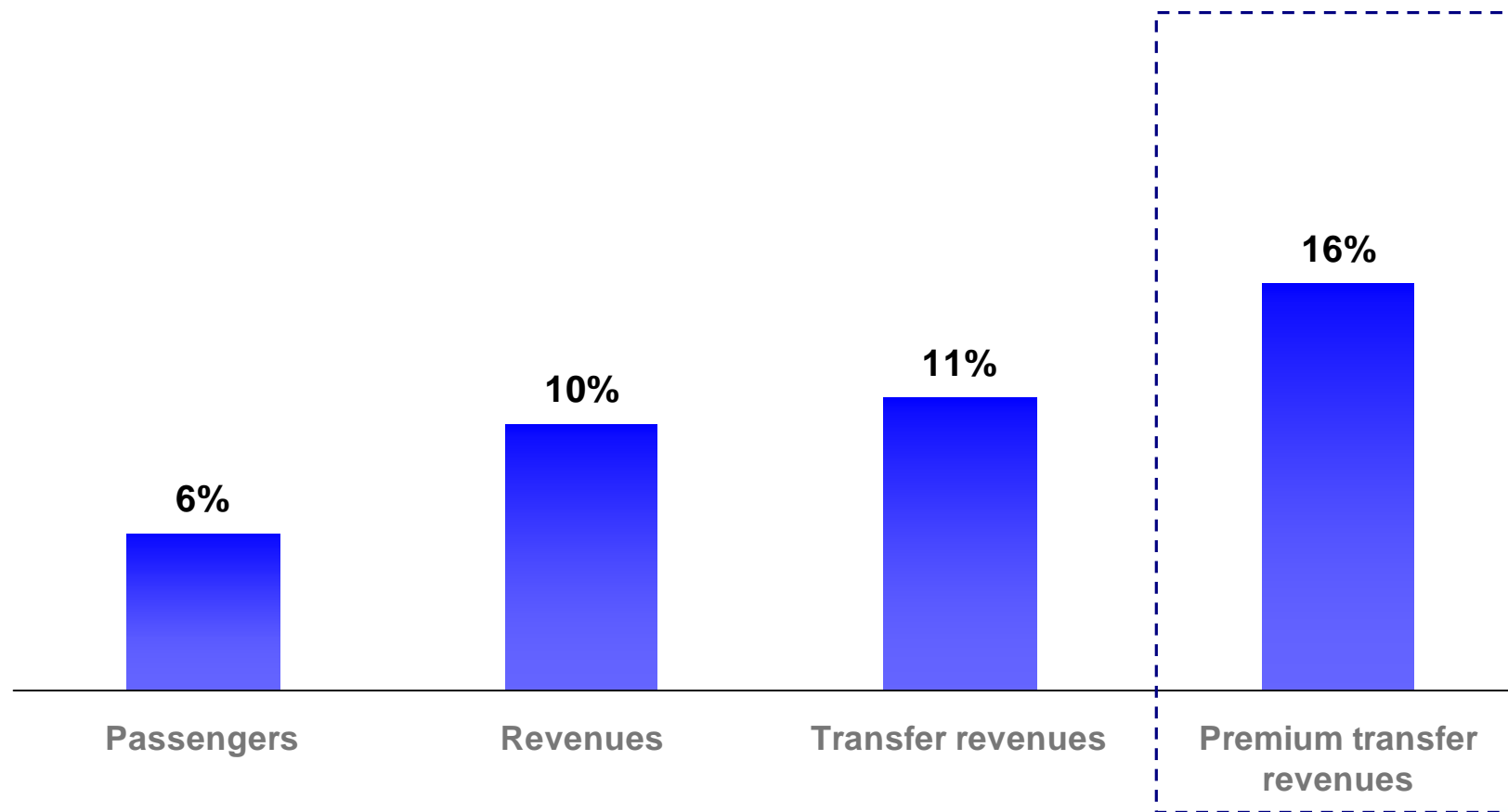
in €m

Rise in revenues generated by the use of both hubs in a single journey



...to attract premium passengers

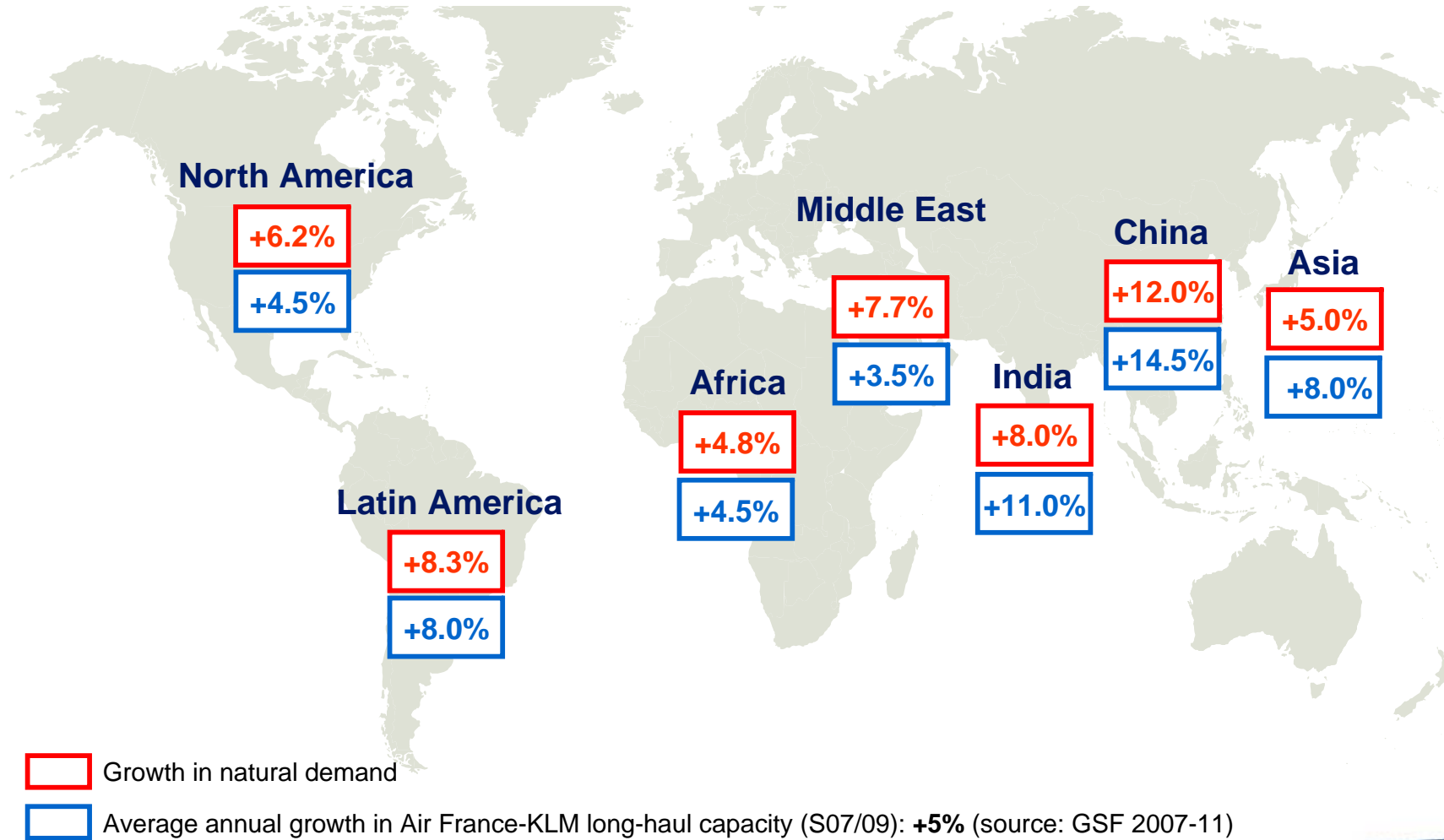
Traffic at CDG and AMS  
Financial year 2006-07





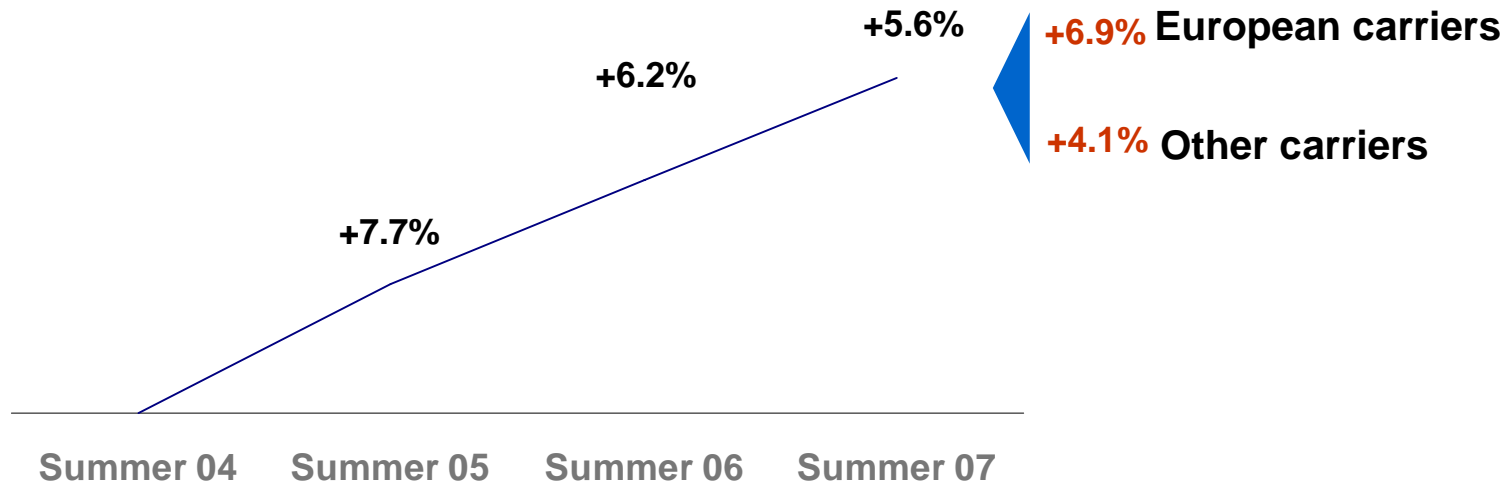
# Sustained growth in demand in future years

Average natural demand growth 2007-2011: +6%



# Planned capacity growth in line with demand

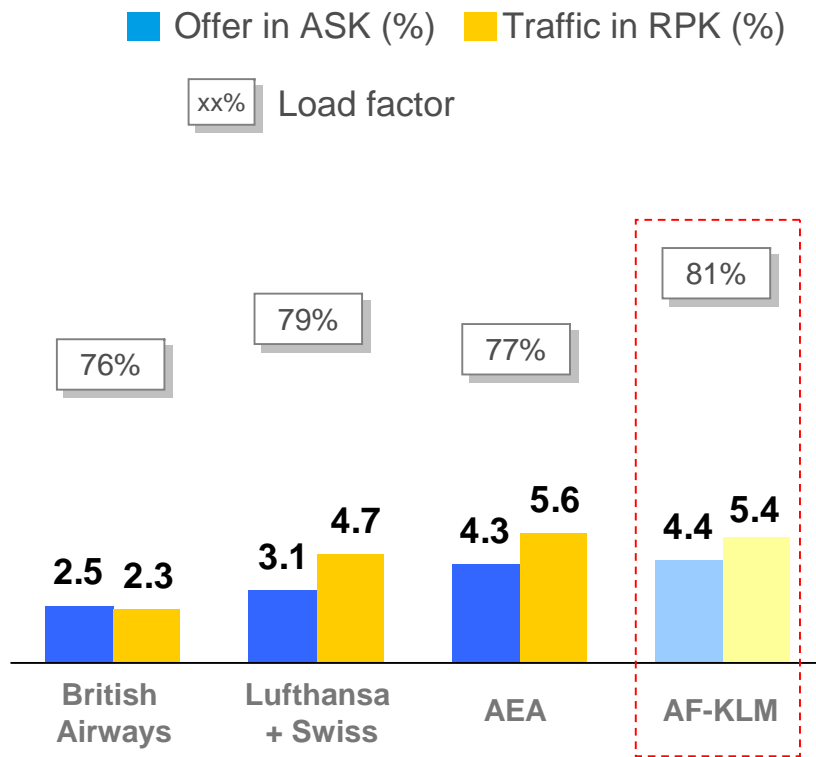
Development of long-haul ASK  
Europe / RoW



Source: OAG tape – typical week n°36

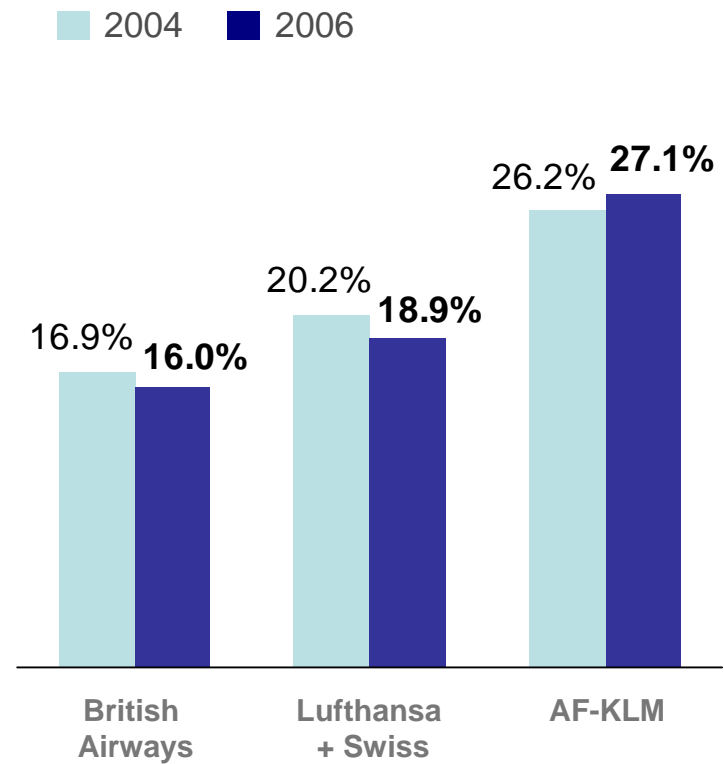
# Air France-KLM: Effectiveness of the merger

Financial Year 2006-07



Source: Company accounts, AEA

AEA market share

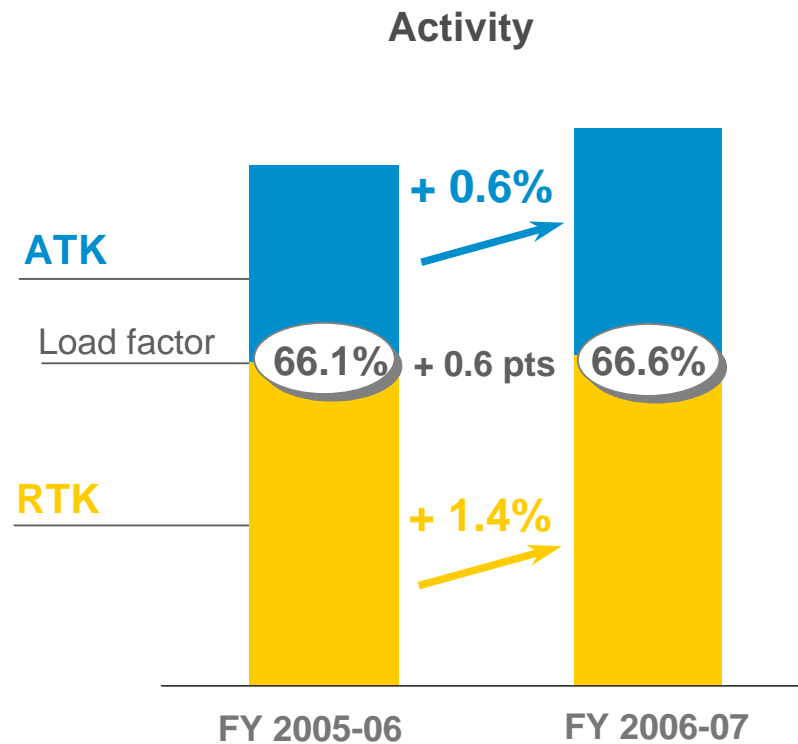


Source: AEA May 2004 -- Dec 2006 sliding

# Cargo: Adapting to a changing environment

## + A more challenging environment

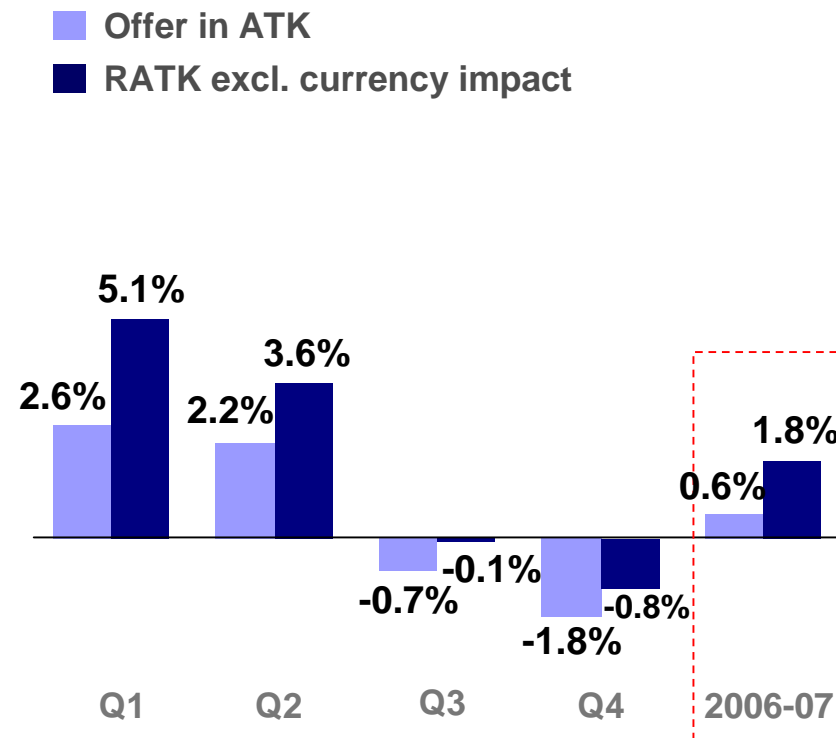
- ▶ AEA traffic: +1.9% in 2006
- ▶ Increased competition from shipping
- ▶ Imbalance in exchanges between Europe and Asia
- ▶ Strong Euro



# Unit revenue under pressure

## + Air France-KLM adapts

- ▶ By reducing capacity during H2 2006-07
- ▶ By retiring old planes by the end of 2007



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# Results

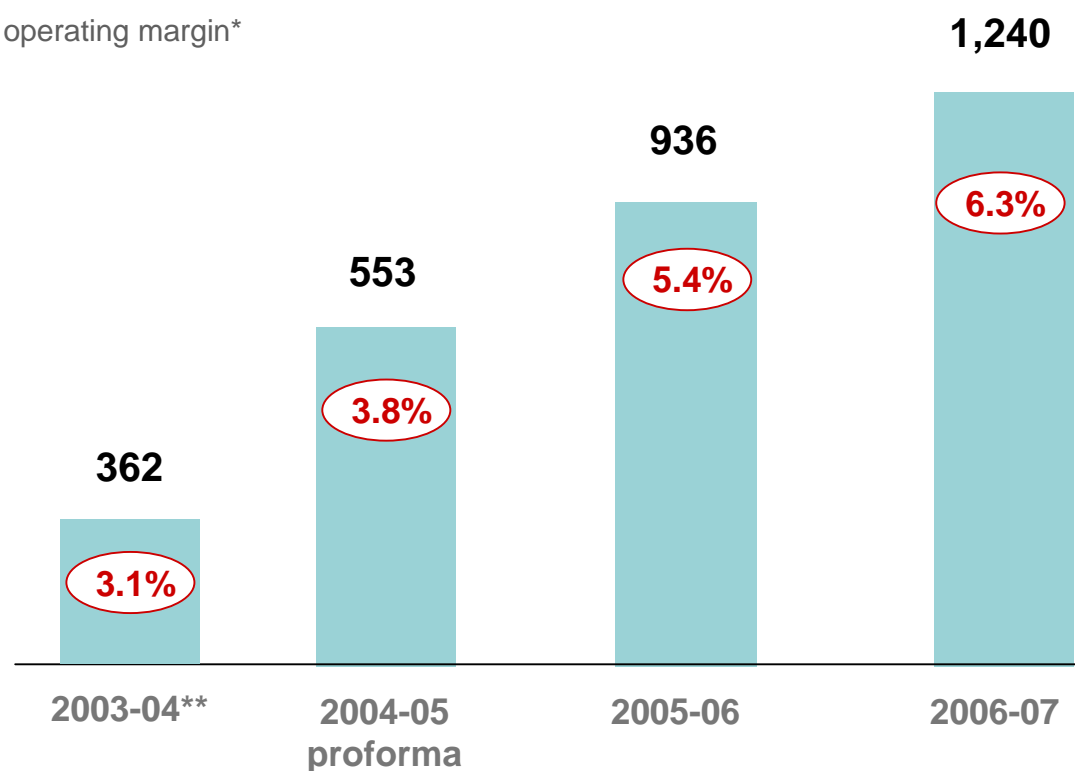
Philippe Calavia



# Profitability continues to improve

■ Operating income (in € millions)

○ x% Adjusted operating margin\*



\* Current operating income adjusted for the share of financial costs in operating leases (34%)

\*\* Reminder: non IFRS figures, proforma with KLM over 12 months

## A slight improvement in the Fourth Quarter

3 months to (in €m)	31 March 2007	31 March 2006	Change
<b>Revenues</b>	<b>5,389</b>	<b>5,197</b>	<b>+3.7%</b>
Current operating charges	(5,380)	(5,201)	+3.4%
<b>Operating income</b>	<b>9</b>	<b>(4)</b>	ns
<i>Adjusted operating margin*</i>	1.1%	1.0%	+0.1
Other non-current income and charges	9	(9)	ns
<b>Income from operating activities</b>	<b>18</b>	<b>(13)</b>	ns
Net interest charge	(29)	(53)	(45.3%)
Other	75	1	ns
Income tax	(21)	72	ns
<b>Net income, group share</b>	<b>43</b>	<b>7</b>	ns

\* Current operating income adjusted for the share of financial costs in operating leases (34%)



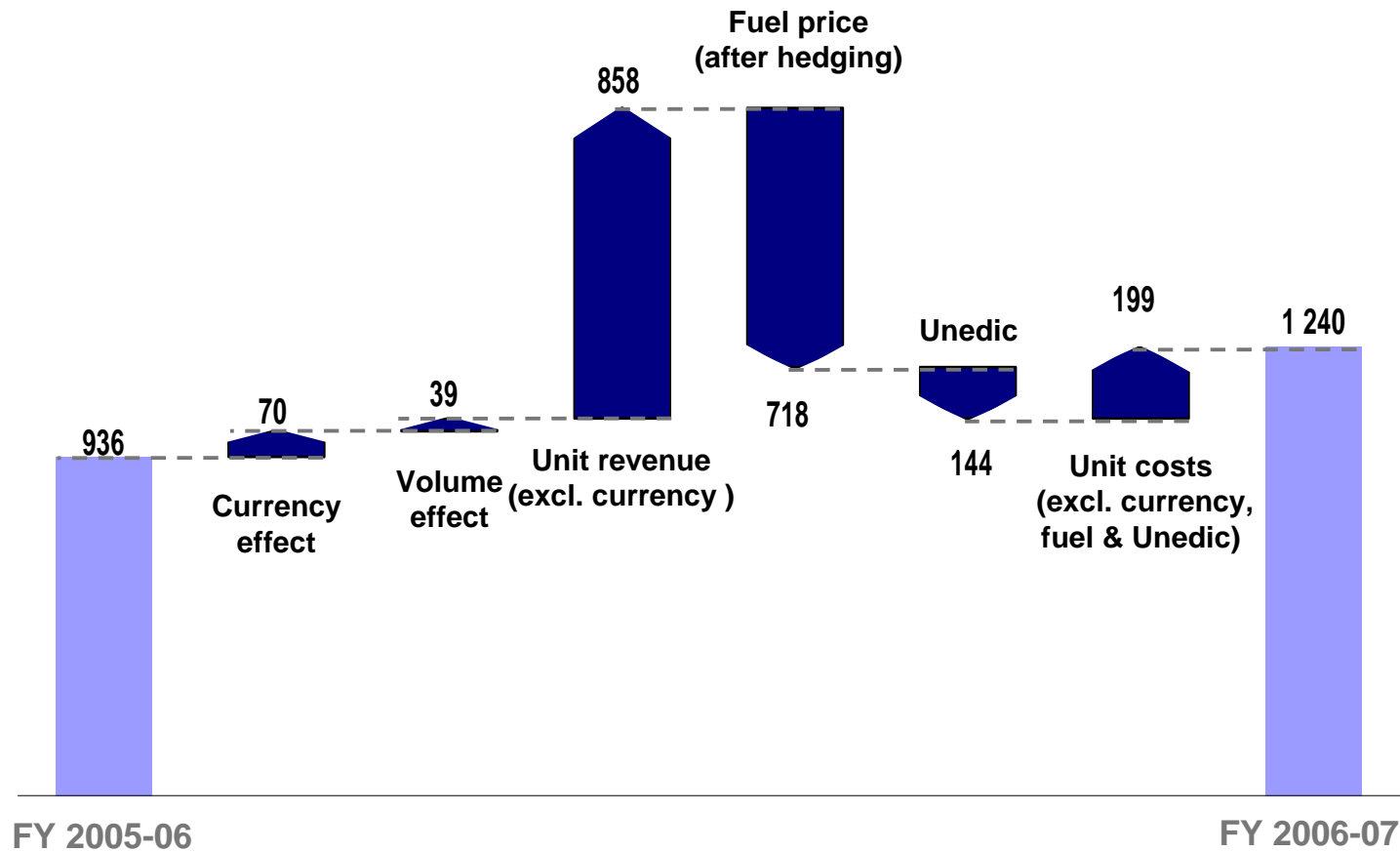
# Excellent Full Year results

12 months to (in €m)	31 March 2007	31 March 2006	Change
<b>Revenues</b>	<b>23,073</b>	<b>21,448</b>	<b>+7.6%</b>
Current operating charges	(21,833)	(20,512)	+6.4%
<b>Operating income</b> <i>Adjusted operating margin *</i>	<b>1,240</b> 6.3%	<b>936</b> 5.4%	<b>+32.5%</b> <b>+0.9 pts</b>
Other non-current income and charges	(7)	519	ns
<b>Income from operating activities</b>	<b>1,233</b>	<b>1,455</b>	ns
Net interest charge	(140)	(224)	(37.5%)
Other	46	(62)	ns
Income tax	(248)	(256)	(3.1%)
<b>Net income, group share</b>	<b>891</b>	<b>913</b>	(2.4%)
<b>Net income, group share (excl. Amadeus)</b>	<b>891</b>	<b>494</b>	<b>+80.4%</b>

\* Current operating income adjusted for the share of financial costs in operating leases (34%)

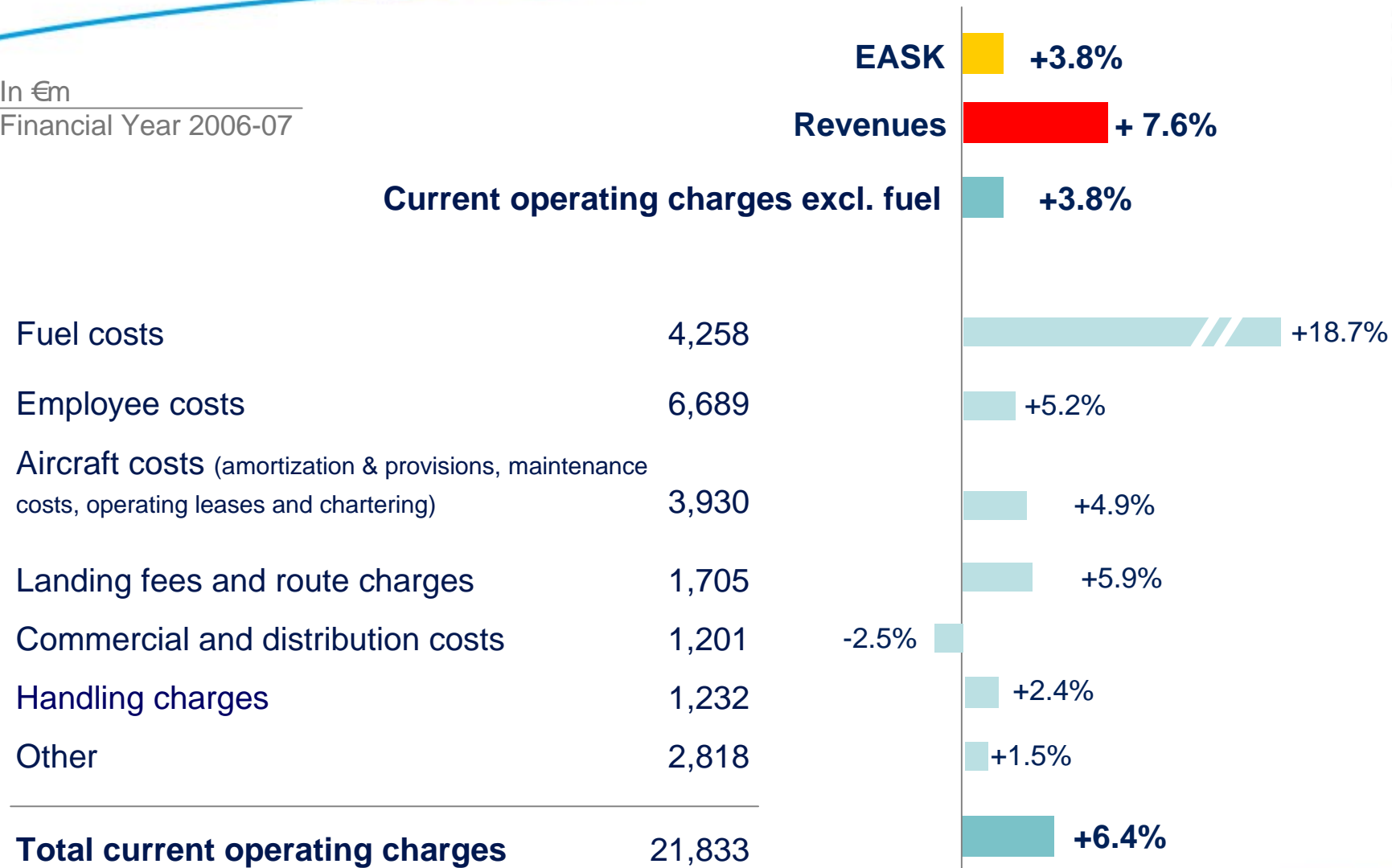
# Analysis of change in operating income

in €m



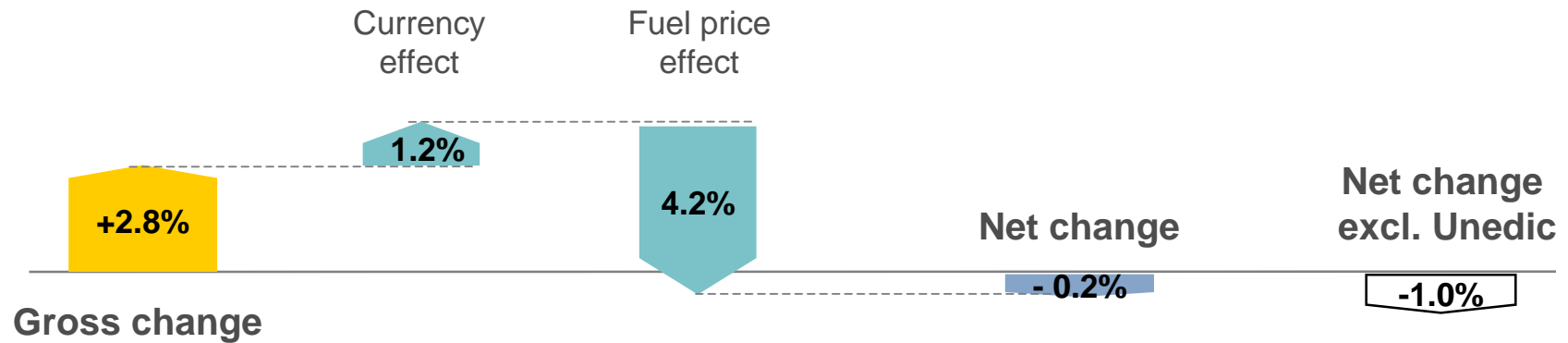
# Operating costs contained

In €m  
Financial Year 2006-07



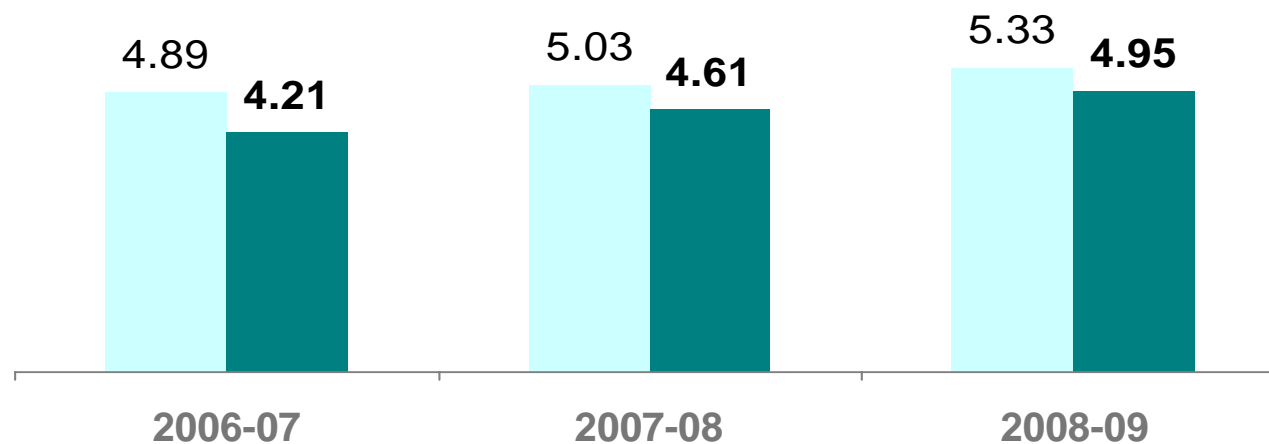
# Change in unit costs

Unit cost per EASK: €6.48cts  
Full Year 2006-07



# A further rise in the fuel bill

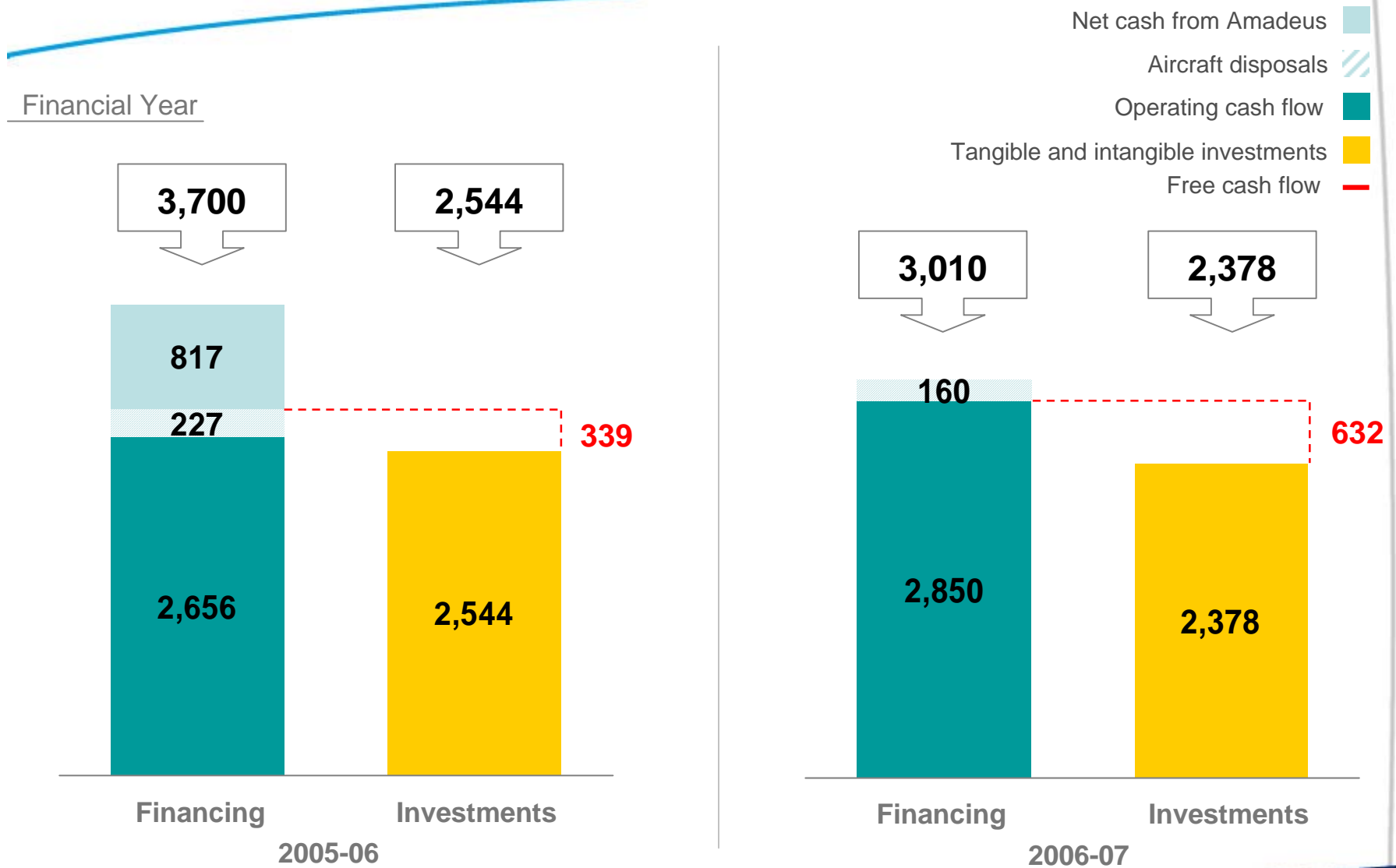
■ Fuel bill before hedging (in €bn)  
■ Fuel bill after hedging (in €bn)



Market price (\$/bbl)*	65	70	72
<b>Hedged consumption</b>	<b>85%</b>	<b>76%</b>	<b>48%</b>
Average hedged price (\$/bbl)	52	60	58
€ / \$ exchange rate	1.27	1.35	1.35

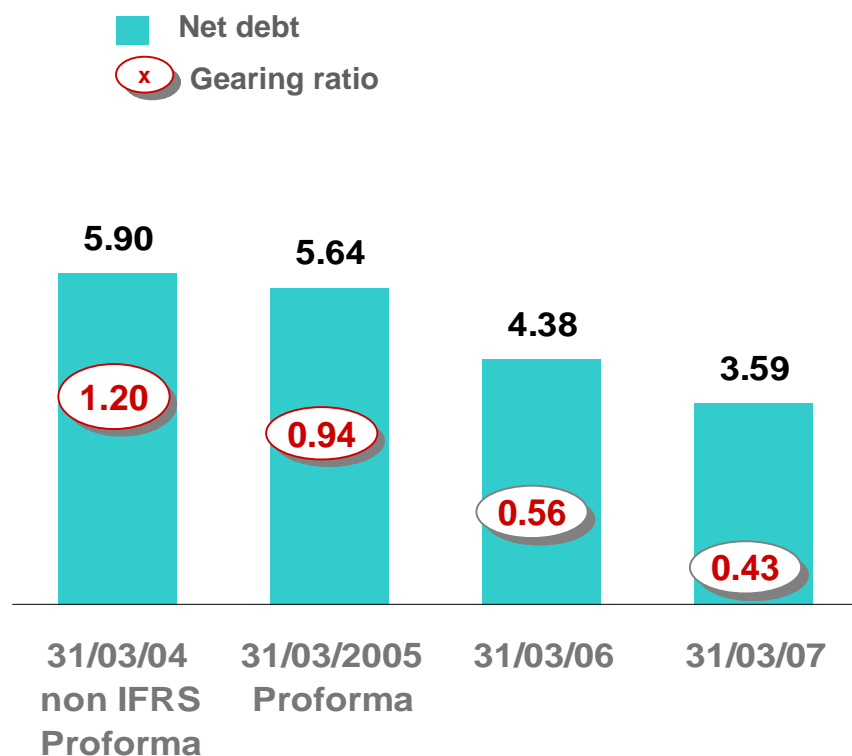
\*Futures prices at 18 May 2007

# Free cash flow of 632 million euros

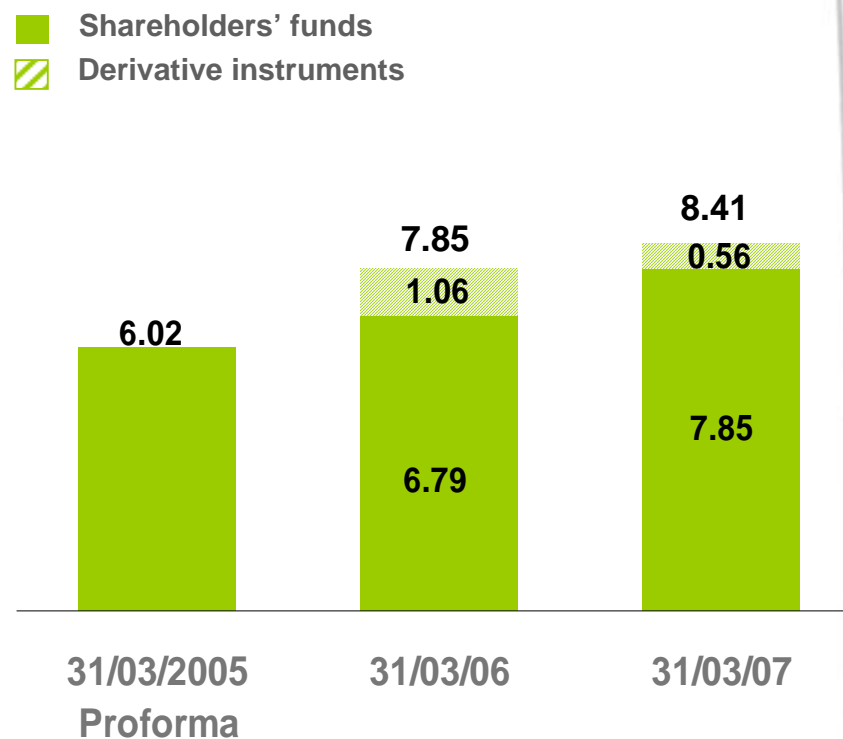


# Balance sheet significantly reinforced

**Net debt**  
(in billions of euros)

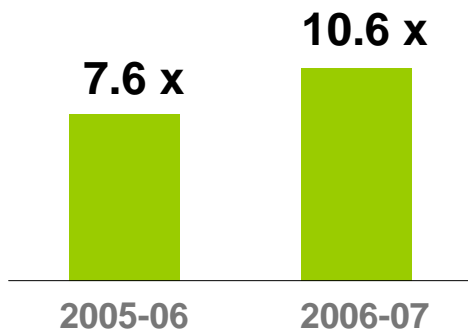


**Shareholders' equity**  
(in billions of euros)

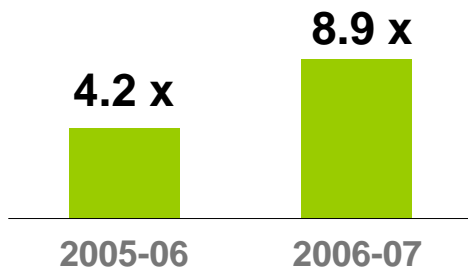


# Improved financial ratios

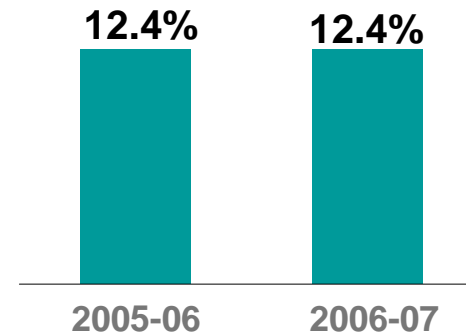
EBITDAR / net adjusted financial costs\*



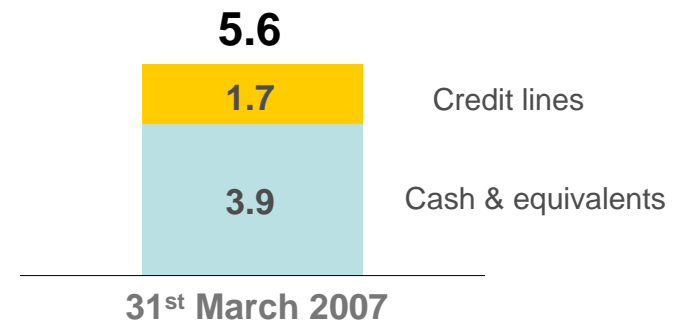
EBIT / net financial costs



Operating cash flow margin



Cash at hand (in €bn)

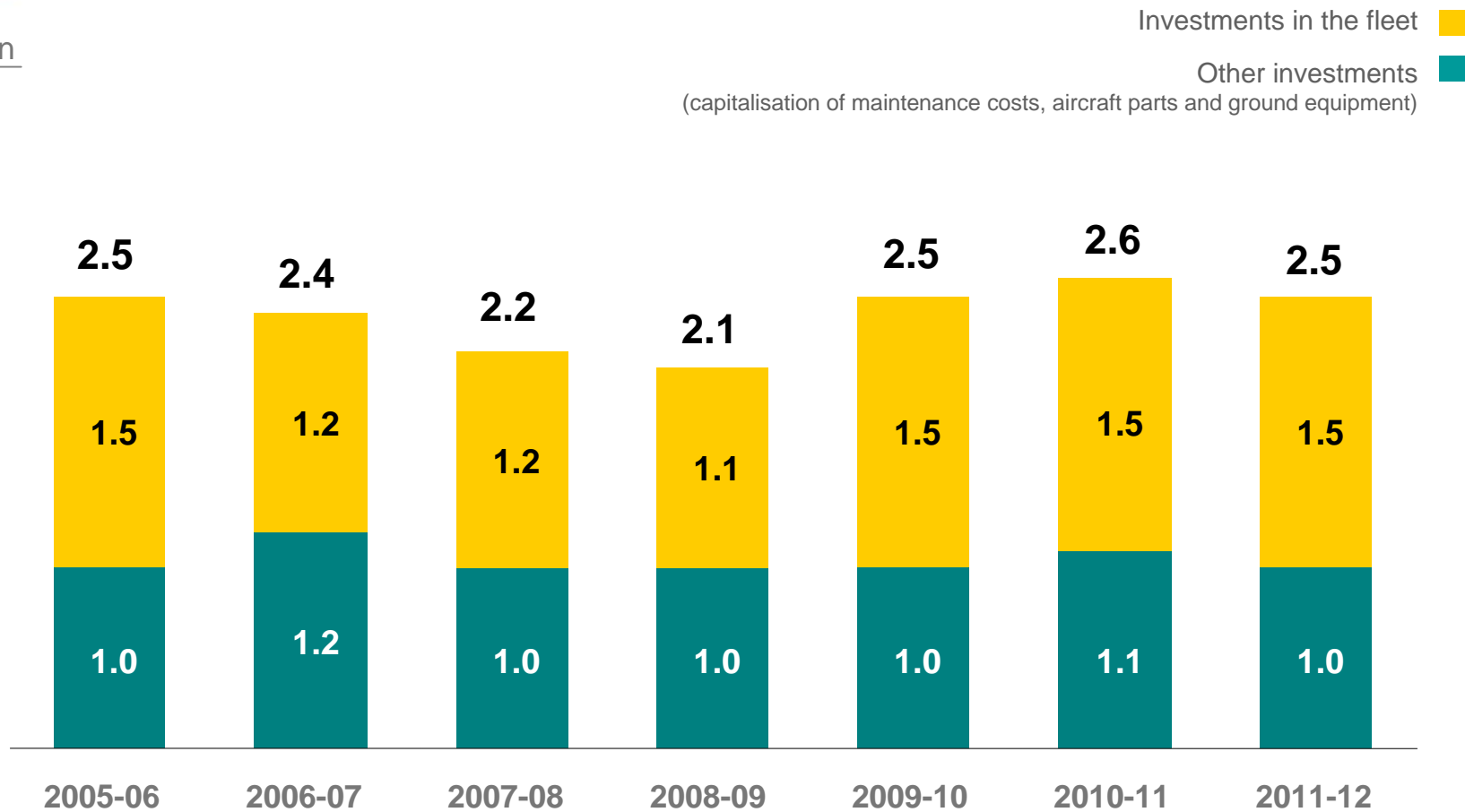


\* Adjusted for the share of financial costs in operating leases (34%)



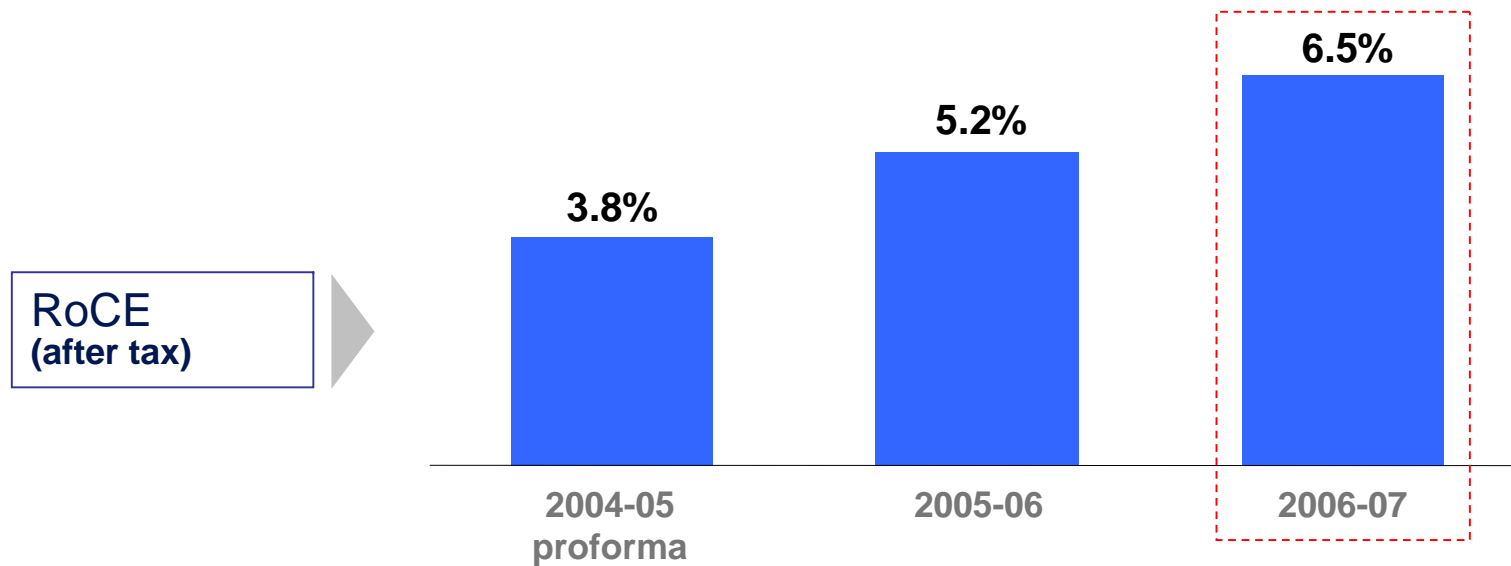
# Investments: Fleet modernisation continues

in €bn



# Financial Year 2006-07: A strong improvement in RoCE

WACC: ~7%



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# Our medium-term vision for the Group

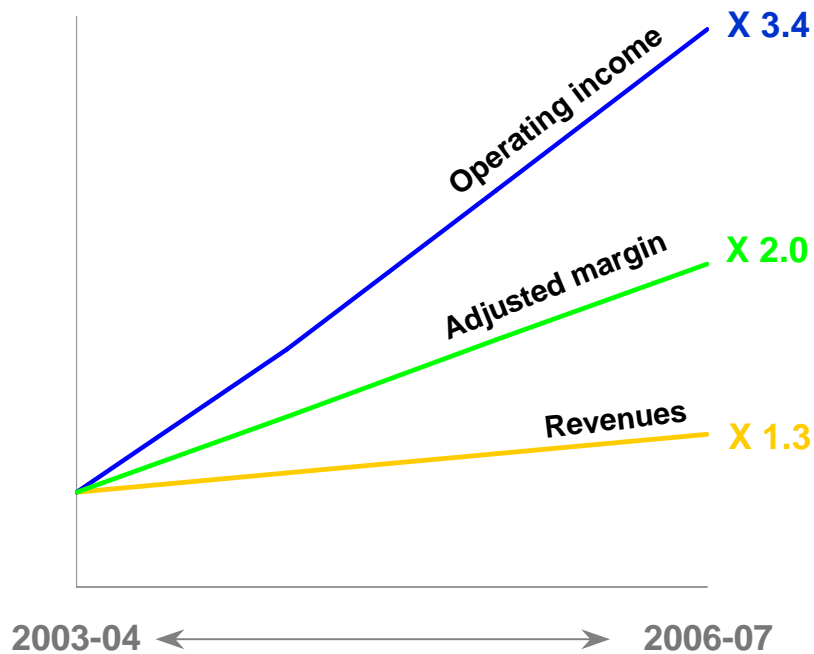
Jean-Cyril Spinetta  
Leo van Wijk



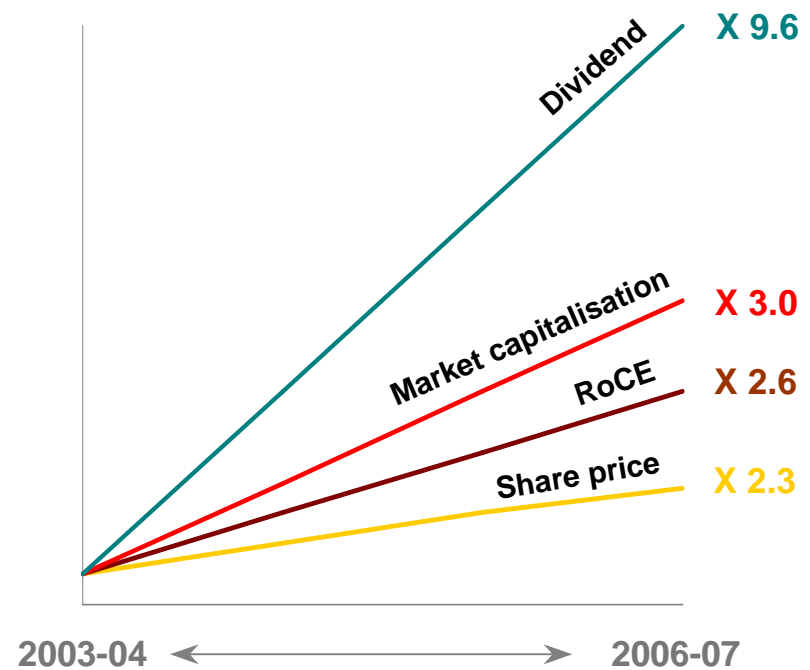
# 2004-2007: A first phase of value creation

Rebased to 100 at March 2004

## For Air France-KLM...



## ...and its shareholders



## 2007-2010: A new phase of value creation

- ✦ More integrated management structure
- ✦ A wide-reaching joint cost savings programme
- ✦ Synergy targets confirmed
- ✦ Airport infrastructures commensurate with our growth targets
- ✦ New opportunities created by Open Skies Agreement

# Management structure adapted to the needs of the business

- ★ 2004-07: Execution of the Air France-KLM merger
  - ▶ Strategic Management Committee representing both companies
  
- ★ 2007: Towards greater integration of the two businesses
  - ▶ Executive Committee\* whose members will have a group level responsibility while retaining their responsibilities at company level, in the following areas:
    - Strategy
    - Finance
    - Networks and marketing
    - Commercial
    - Cargo
    - Maintenance
    - Fleet and purchasing
    - Information Technology

\* Subject to work council approbation

## «Challenge 10»: The new cost-savings programme

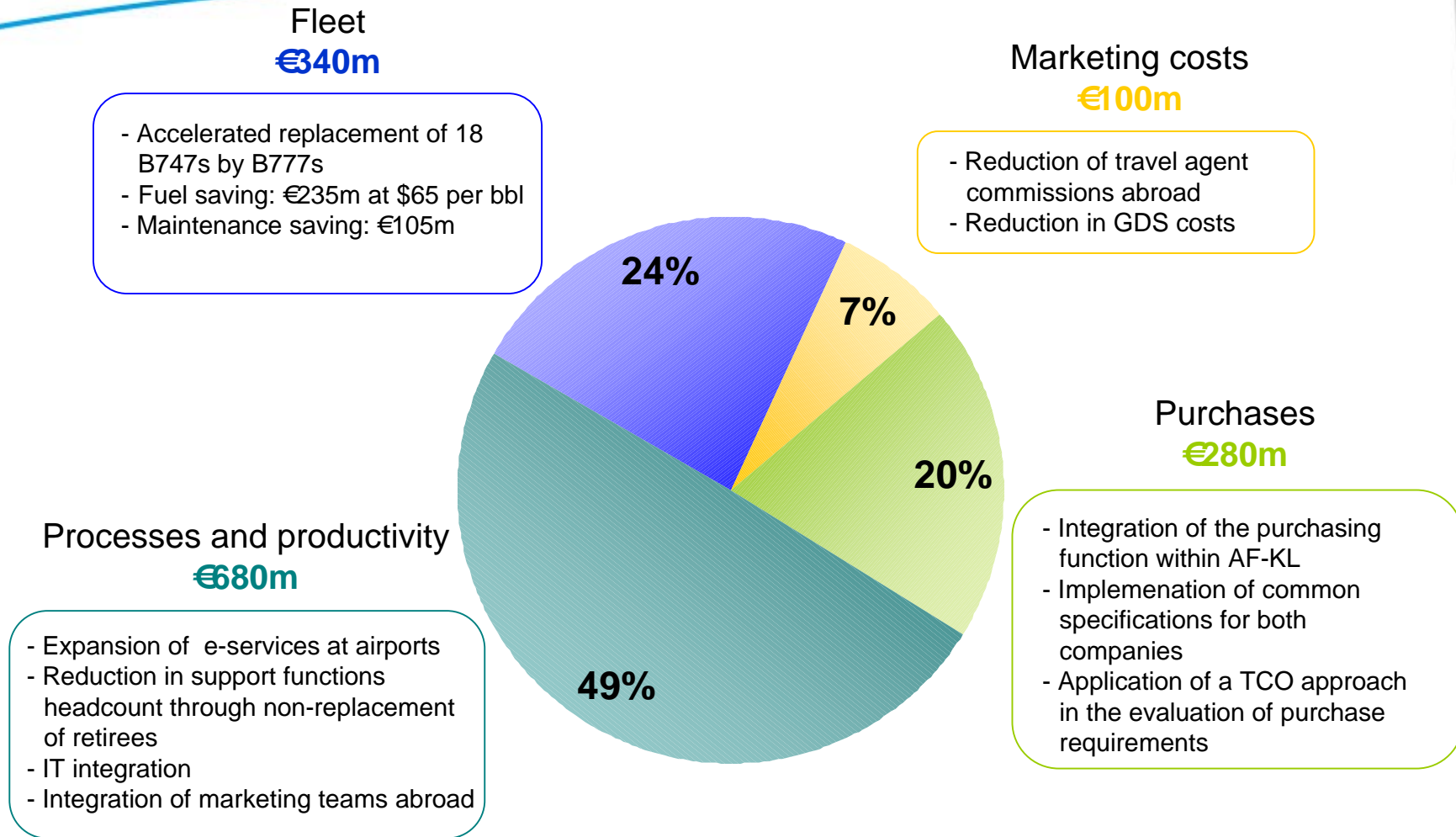
- ✦ The first joint Air France and KLM savings programme
- ✦ Total scope of the new programme: €1.4 billion\*



Reduce unit costs  
by 3% over 3 years

\* Including €12m in cost synergies

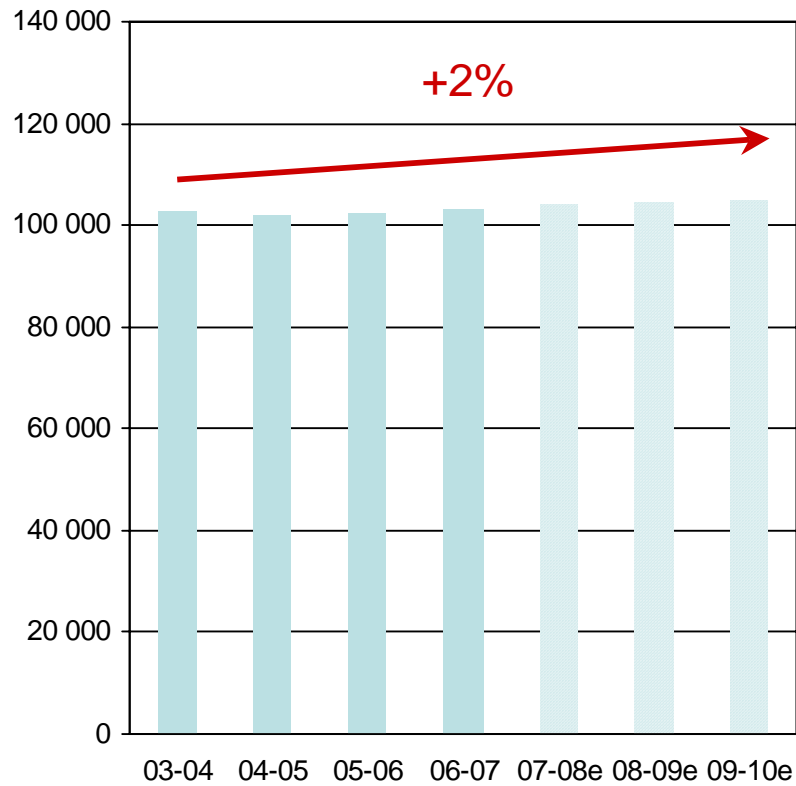
# Breakdown of «Challenge 10» by source of savings



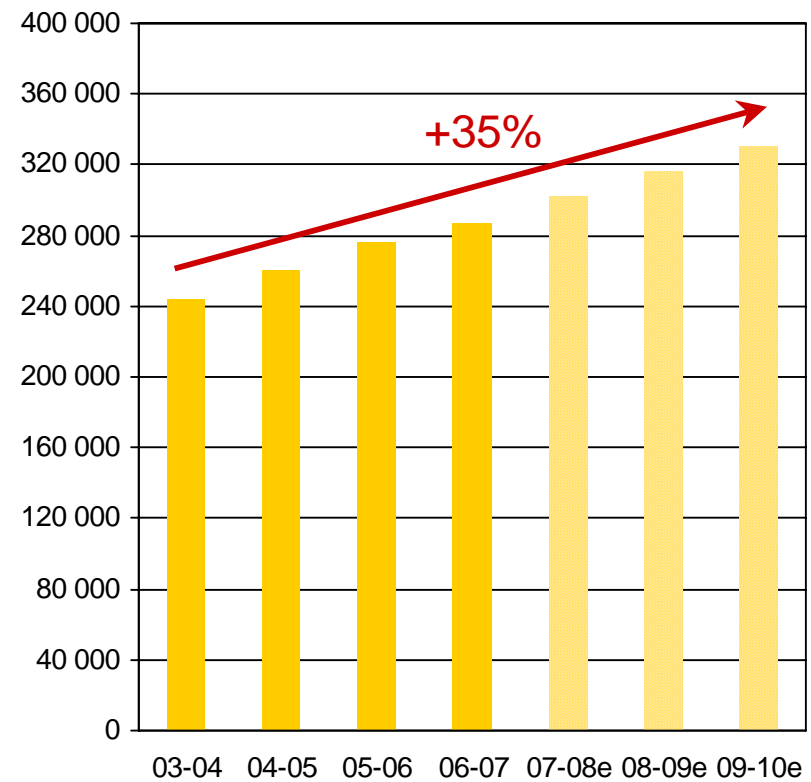


# Productivity gains of 4% per annum in the next three years

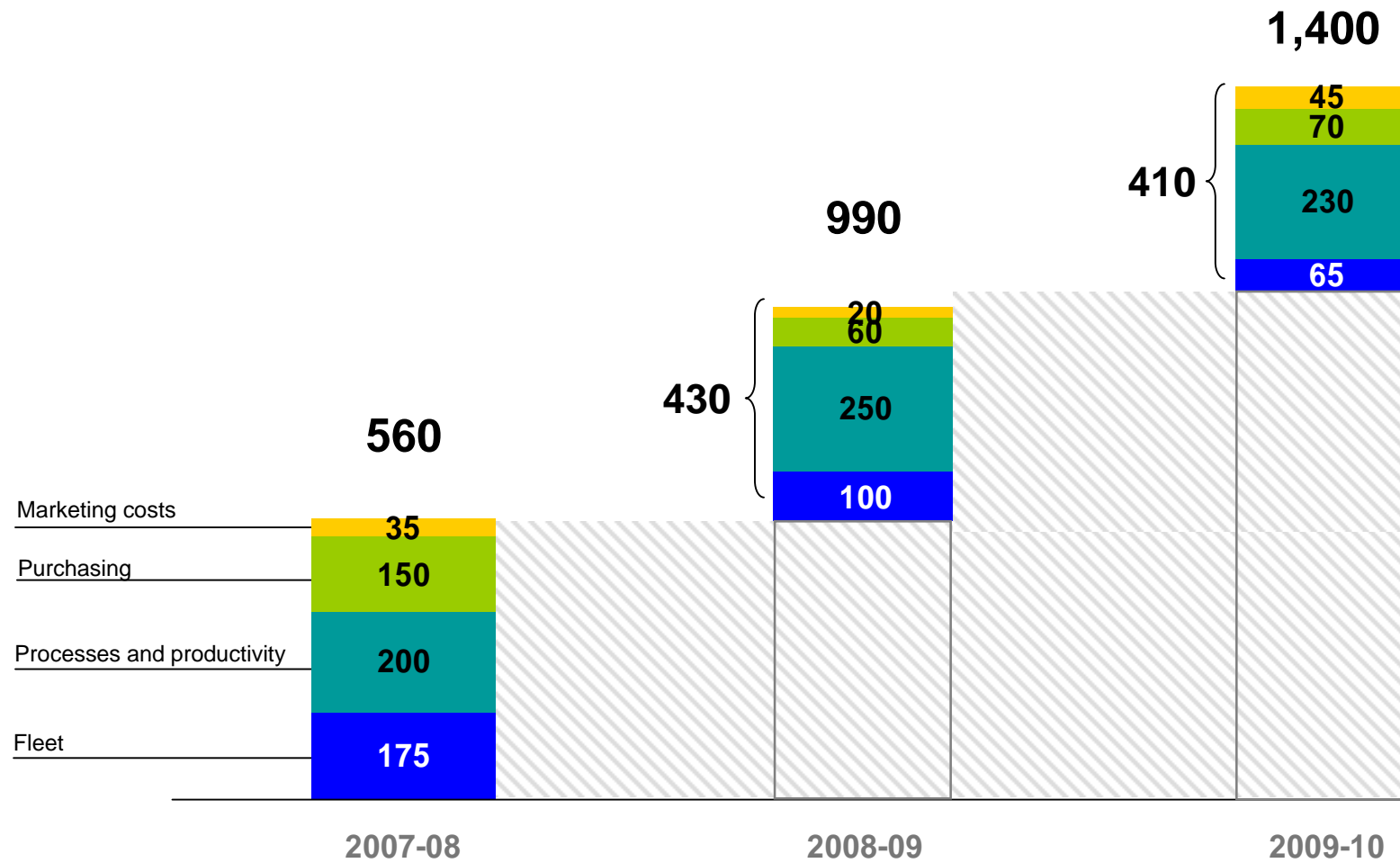
### Equivalent full-time employees



### Production In EASK



# Phasing of «Challenge 10» over three years

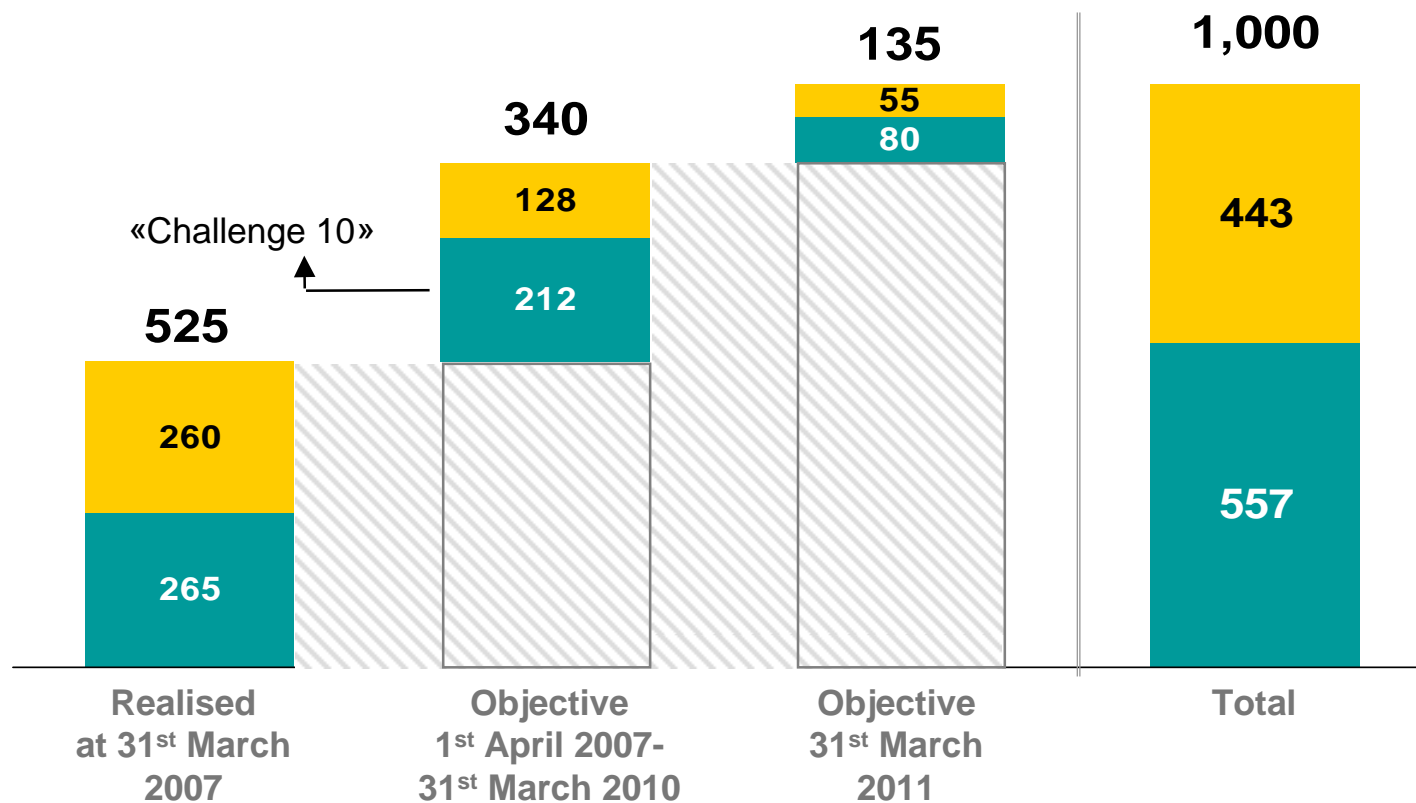


# Objective of 1 billion euros in synergies confirmed

in €m

■ Cost synergies

■ Revenue synergies



# Airport infrastructures: Making CDG a standard bearer for the industry

Jun 2007 - Terminal S3 comes into service

Apr 2008 - Re-opening of Terminal 2E

Nov 2008 - Opening of the regional terminal, 2G

Autumn 2007 - Centralised baggage handling system

2012 - Satellite S4



Airport infrastructures commensurate  
with our growth ambitions

# «Roissy 2»: Meeting our passengers' expectations

- ✦ Improved airport transit experience
  - ▶ Top quality service for premium passengers
  - ▶ Enhanced comfort in passenger lounges
  - ▶ Integrated and more efficient connecting circuits
  - ▶ Expansion of e-services with customer support
  
- ✦ Contributing to enhancing productivity
  - ▶ Air France-KLM operations regrouped
  - ▶ Strong rise in direct contacts at CDG
    - ▶ Long-haul from 53% to 92% by Summer 2012
  
- ✦ Capacity development in line with anticipated growth in our traffic

## «Open Skies»: a landmark agreement for the airline industry

- ✦ Applies to the No.1 market for air travel
- ✦ Re-establishes a 'normal' competitive situation in Europe
- ✦ Recognises the notion of «European» companies, validating the Air France-KLM merger and paving the way for further consolidation in the sector

# Potential benefits for Air France-KLM

- ✦ Open Skies agreement was a pre-condition for obtaining anti-trust immunity for Air France, KLM, Delta and Northwest
  
- ✦ Enhances the development potential for SkyTeam
  - ▶ Possibility to offer direct flights towards the US from any European platform through code-sharing
  - ▶ Increased potential for corporate travel agreements in third party markets
  - ▶ Possibility of creating a joint-venture on the North Atlantic, reinforcing co-operation between SkyTeam partners in terms of capacity and yield

# CO<sub>2</sub> emissions: the airline sector must face up to its responsibilities

- ✦ Although the sector currently accounts for just 2-3% of man-made CO<sub>2</sub> emissions, its contribution is set to increase as that of other industries falls
- ✦ The inclusion of the airline sector within the emissions trading scheme is the way forward
- ✦ Airports and European air traffic control must also play their part in reducing non-essential emissions
  - Reduction of 6% to 12% of emissions through efficient control



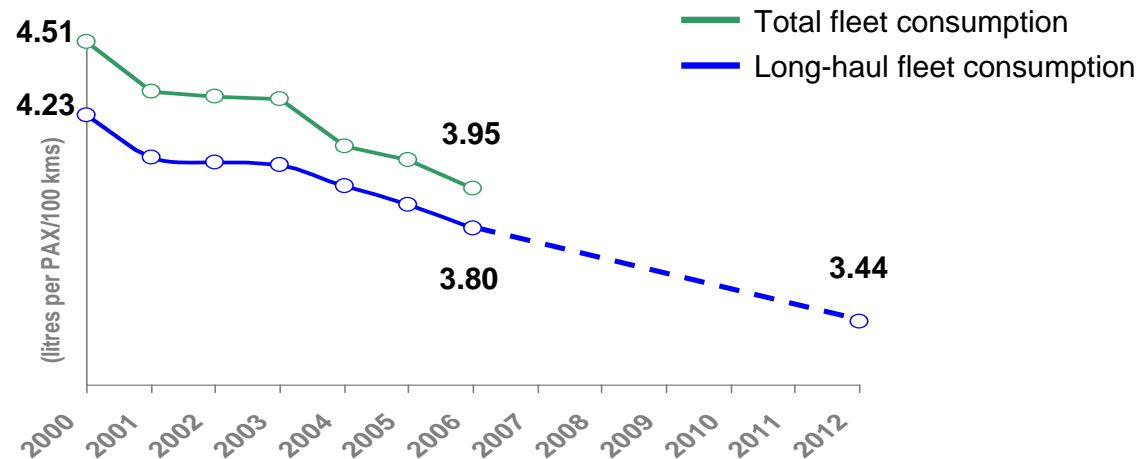
## Air France-KLM: a strong commitment to this challenge...

- ✦ The environment has always been a key consideration in our development strategy
- ✦ Active lobbying for air transport to be included in the emissions trading scheme
- ✦ Dialogue with all interested parties, notably local communities
- ✦ Choices being evaluated regarding measures to neutralise carbon effects

...underpinned by significant investments...

- ★ To increase the energy efficiency of the Air France fleet

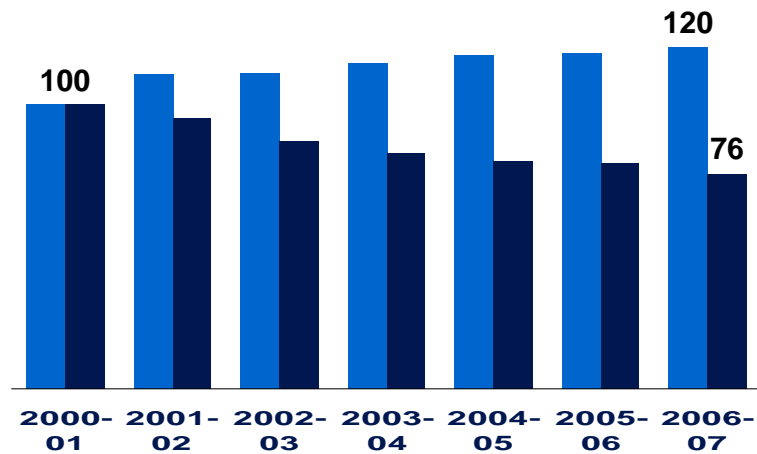
12% reduction in fuel consumption in 7 years



- ★ To accelerate the reduction in emissions
  - ▶ **On the Caribbean Indian Ocean network:**
    - ▶ Replacement of B747-300/400s → -21% in CO<sub>2</sub> in 2006  
-28% in CO<sub>2</sub> in 2007
  - ▶ **Replacement of B747-400s by B777s**
    - ▶ -23% to -28% in CO<sub>2</sub> between 2006 and 2012

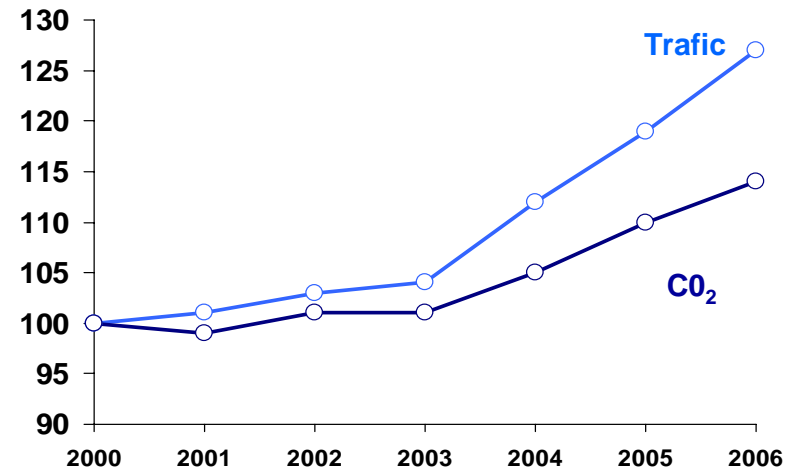
# ...with tangible results

### Evolution of noise energy and number of aircraft movements Air France-KLM



■ Aircraft movements ■ Noise energy

### Evolution of CO<sub>2</sub> emissions and passenger and cargo traffic Air France-KLM



# To conclude

## A favourable operating environment

- + Structural growth in demand
- + Greater capacity discipline on the part of the main players
- + Sector developments creating new opportunities

## Actions to increase our profitability

- + Deeper integration of Air France and KLM
- + An ambitious cost-savings plan
- + A modern fleet and top quality airport facilities



Target RoCE  
of 8.5% by 2009-10

## 2007-08: A further improvement in results

- ✦ First quarter affected by calendar effects
  - ▶ In line with our expectations
  - ▶ Positive trend in forward bookings
- ✦ A further improvement in operating income for financial year 2007-08



Target RoCE of 7%  
two years ahead of schedule

**AIR FRANCE KLM**

# Appendices



# Net debt calculation

<u>in €m</u>	<u>31 March 07</u>	<u>31 March 06</u>
Current and non-current financial debt	8,517	9,087
- accrued interest not yet due	96	107
- Deposits on leased aircraft	933	943
+ Currency hedging instruments	0	52
<b>= Gross financial debt</b>	<b>7,488</b>	<b>8,089</b>
Cash and cash equivalents	3,497	2,946
+ Cash deposits over 3 months	533	865
- Short-term credit facilities	133	102
<b>= Net cash</b>	<b>3,897</b>	<b>3,709</b>
<b>Net financial debt</b>	<b>3,591</b>	<b>4,380</b>
<b>Consolidated equity</b>	<b>8,412</b>	<b>7,853</b>
<b>Gearing ratio</b>	<b>0.43</b>	<b>0.56</b>

## Simplified RoCE calculation

	31/03/07	31/03/06
Shareholders' funds restated for KLM pension fund (€928m) and derivative instruments	6,927	5,866
Operating leases x 7	4,200	4,459
Net debt	3,591	4,380
<b>Capital employed</b>	<b>14,718</b>	<b>14,705</b>
Adjusted margin	1,444	1,152
RoCE before tax	9.8	7.8
<b>RoCE after tax</b>	<b>6.5</b>	<b>5.2</b>



# Unit revenue by segment

■ RASK excl. currency effect (long-haul network)

