

AIR FRANCE KLM

Industry focus

The EU/US Aviation Agreement - what could it change?

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Reminder: Air France-KLM key figures

- ✦ Number one world-wide in terms of revenues
- ✦ Europe's leading airline in terms of passenger and cargo traffic
- ✦ A young and modern fleet of 583 aircraft
- ✦ 102,000 employees world-wide

A strategy of profitable growth

- ✦ The most powerful network with leading position on the main markets
- ✦ A balanced network, allowing for targeted growth
- ✦ Two well co-ordinated hubs, both based at airports with the potential to expand in the future
- ✦ Synergies
- ✦ Cost control and improved productivity

Success of this strategy reflected in our results

- + Financial Year 2005-06
 - ▶ Revenues up 10% to €21.4bn
 - ▶ Operating profit up 69% to €936m
 - ▶ Earnings per share of €3.47 and dividend of €30cts
- + First Quarter 2006-07 (April-June)
 - ▶ Revenues up 11.9% to €5.8bn
 - ▶ Operating profit up 84.3% to €411m
- + Upgraded Full Year 2006-07 objective
 - ▶ To generate a further significant increase in operating income compared with last year.
- + Medium term objective
 - ▶ RoCE of 7% (post tax) by 2009-10.

EU/US Aviation agreements: Current situation

- ✦ The relationships between the EU states and the US are governed by bilateral Open Sky agreements
- ✦ Most EU countries have signed Open Sky agreements; exceptions include the UK (Bermuda I and II), Spain, Greece and Ireland
- ✦ The agreements limit traffic rights allocation exclusively to the national carriers
- ✦ In 2002, the European Court of Justice considered the restrictive clause of traffic rights allocation as an infringement of EU law
- ✦ EU members therefore mandated the European Commission to negotiate a new EU/US Aviation Agreement aimed at the creation of a liberalized Transatlantic Area with a compatible regulatory environment

Existing agreements have not kept pace with the needs of today's airlines industry

+ They offer opportunities...

- ▶ Unrestricted bilateral development on the North Atlantic route
- ▶ Anti-trust immunity for closed co-operation between EU and US partner pairs

+ ...but also impose strong limitations

- ▶ Limit scope for co-operation within the alliances, which are faced with different sets of regulations
- ▶ Restrict consolidation within the sector
- ▶ The nationality clause relating to traffic rights imposes *de facto* a nationality clause on shareholdings

What a new Agreement might change (1)

- + Supply the airline industry with a long overdue stable regulatory framework
 - ▶ Solve the issue of the infringement of EU law
- + Recognition of the concept of « European carriers »
 - ▶ A first step towards world-wide recognition of European nationality
 - ▶ Simplification of the rules of ownership for both companies and investors
- + First step towards ensuring compatibility among regulatory systems, especially in the field of competition law
 - ▶ Prevention of distortion of competition

What a new Agreement might change (2)

- ✦ More opportunities for travelers thanks to greater competition on the Transatlantic market
 - ▶ Greater commercial integration inside Alliances

- ✦ A booster for consolidation...
 - ▶ ...IF the new rules to be issued by the US Department of Trade (DOT) regarding ownership and control of US carriers favour foreign investment

Where we are today

- + Initial round of unsuccessful talks in 2004
- + Second round in 2005, with an outcome expected in 2006
- + Open issues are the ownership and control of US airlines
 - ▶ Latest proposals by the DOT do not create clear and stable conditions for non-US investors

Only upside for Air France-KLM (1)

- ✦ France and the Netherlands have both signed Open Sky Agreements with the US
 - ▶ Competition with US airlines is already completely open at both CDG and Schiphol
 - ▶ Air France and KLM already enjoy anti-trust immunity with Delta and Northwest respectively

- ✦ Recognition of the « Europeanness » of our group

Only upside for Air France-KLM (2)

- ✦ Greater potential for the development of SkyTeam
 - ▶ Opens the possibility for SkyTeam to participate in all EU-US markets
 - ▶ Opens new traffic rights to market direct services to the US from any European gateway through code-sharing
- ✦ Opens the way for an enhanced cooperation among the main SkyTeam carriers operating on the North Atlantic