

A decorative graphic consisting of two thin blue lines that intersect and curve across the page. One line is nearly vertical, and the other is nearly horizontal. A small red four-pointed star is positioned at the intersection of the two lines.

AIR FRANCE KLM

# First Half Results

FY 2004-05

## 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's and KLM's Securities and Exchange Commission filings, including their Annual Reports on Form 20-F for the year ended March 31, 2004. 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.

# Q2 Highlights

- **Context**

- Improved economic context
- Soaring fuel prices

- **Air France-KLM**

- Finalization of the new Group structure
- Buoyant passenger and cargo activity
- Operating expenses under control...
- ... despite steep increase in fuel charges

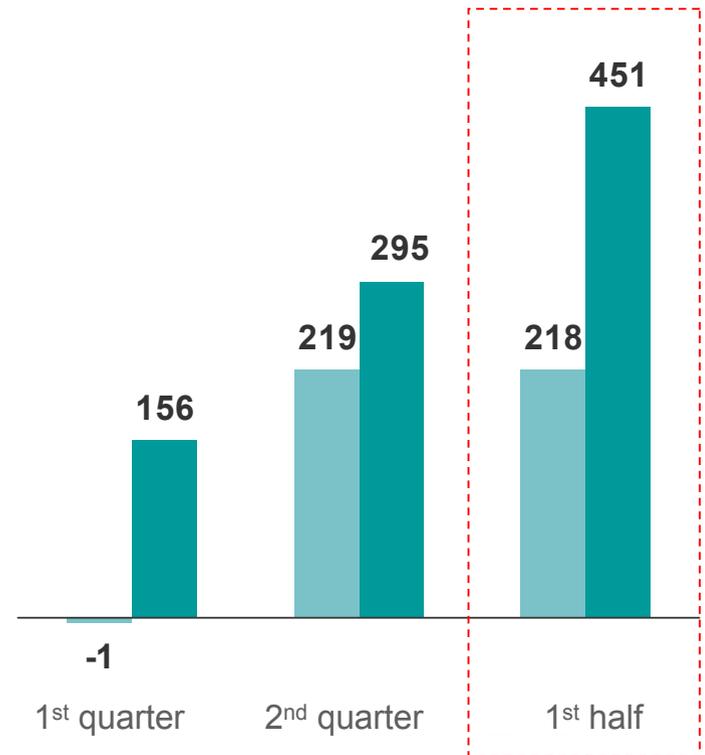
# Improved Profitability

Turnover (in €bn)

2003-04 2004-05



Operating income  
excl. aircraft sales (in €m)





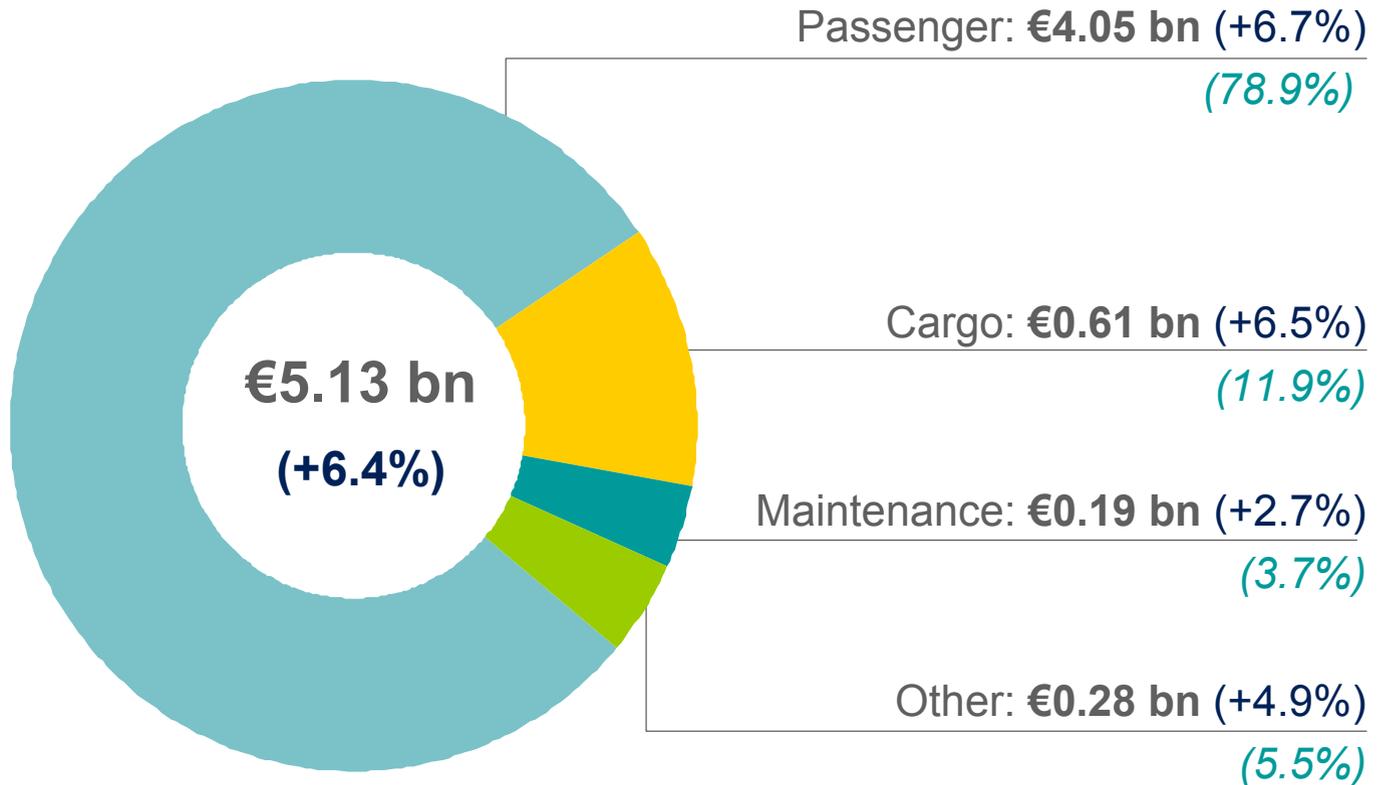
AIR FRANCE KLM



Activity

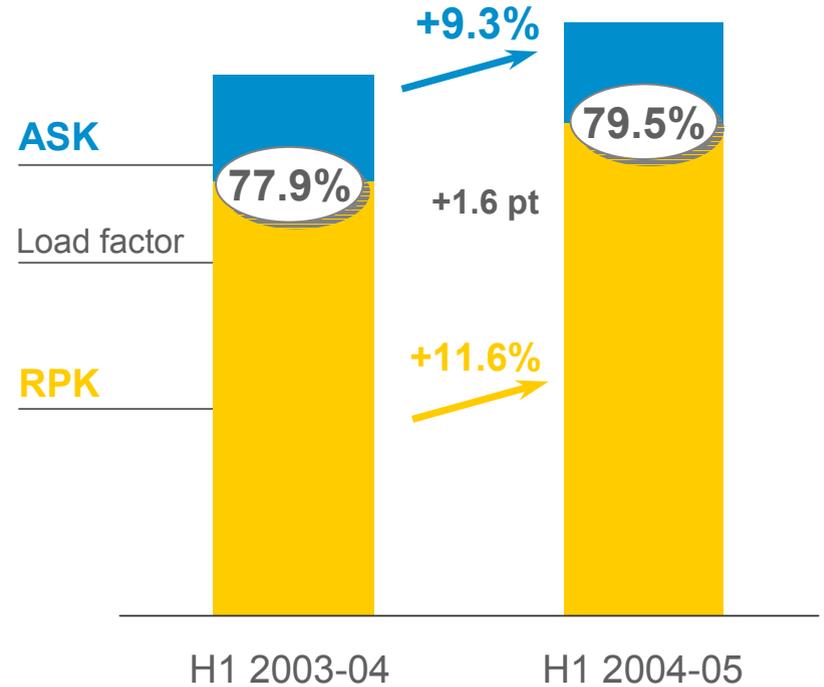
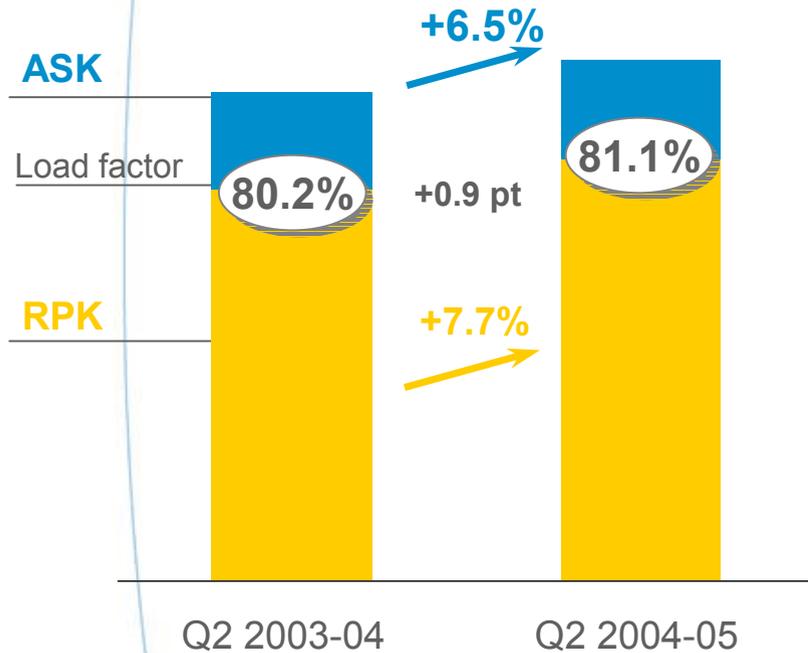
Pierre-Henri Gourgeon

# Q2 Turnover Up 6.4%



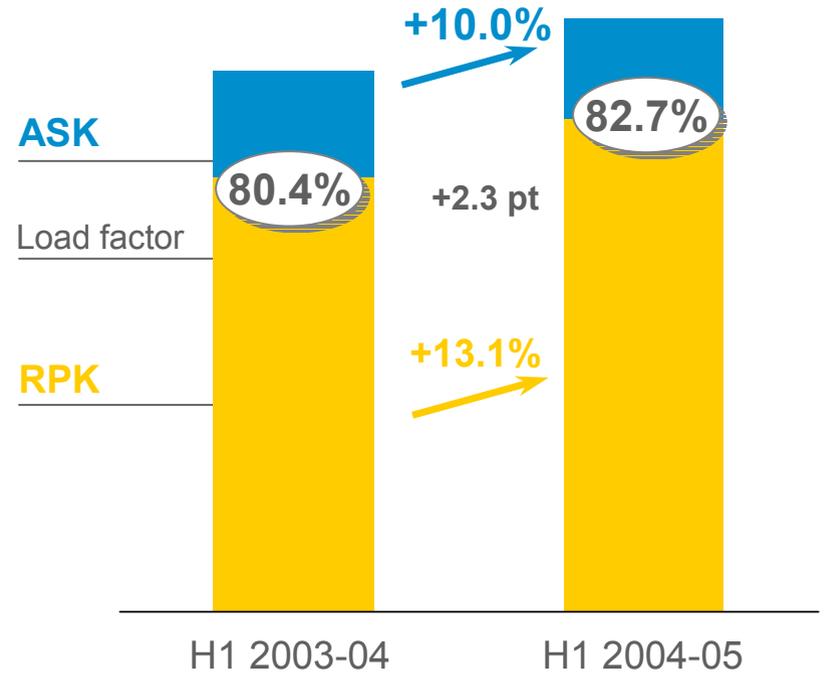
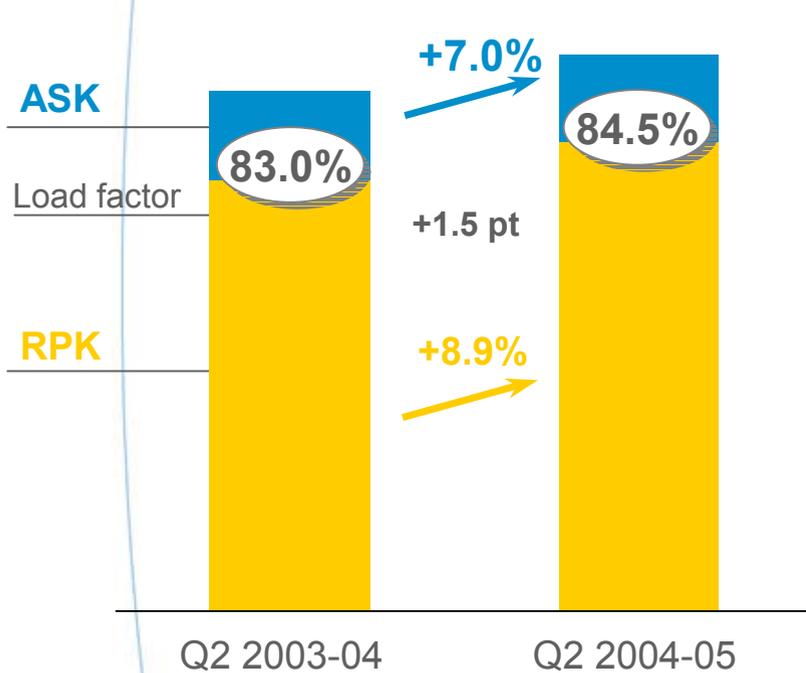
# Strong Performance in Passenger Activity

Air France-KLM Group



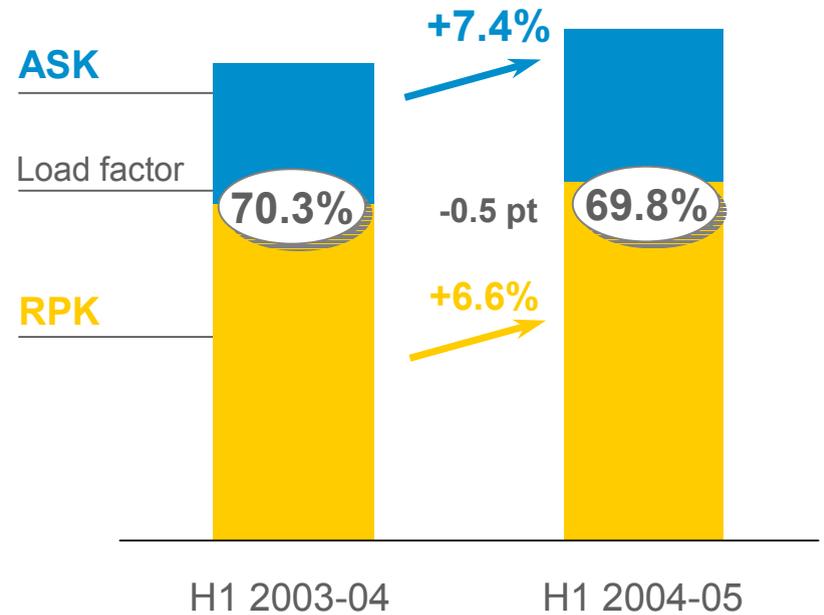
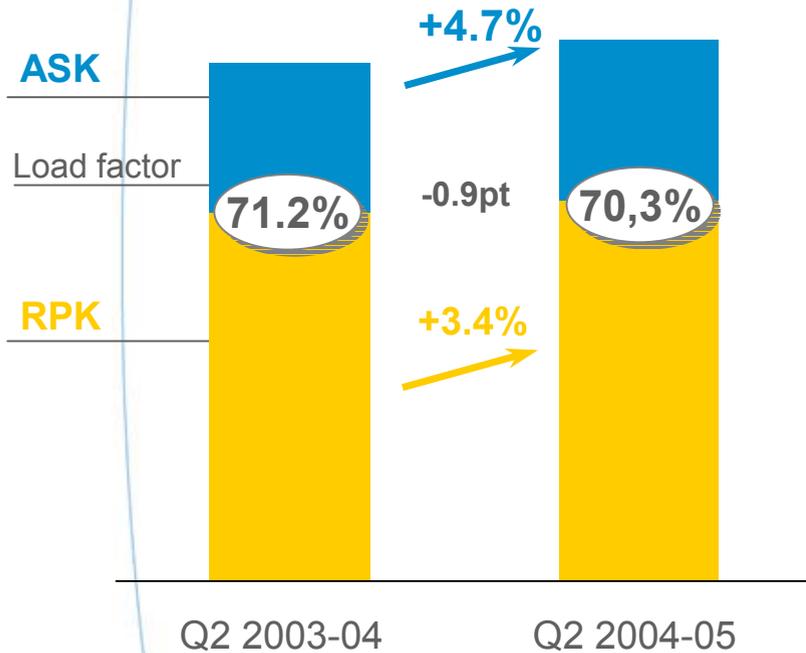
# Sustained Growth in Long-Haul Operations

Long-haul network



# A Contrasted Activity in Europe

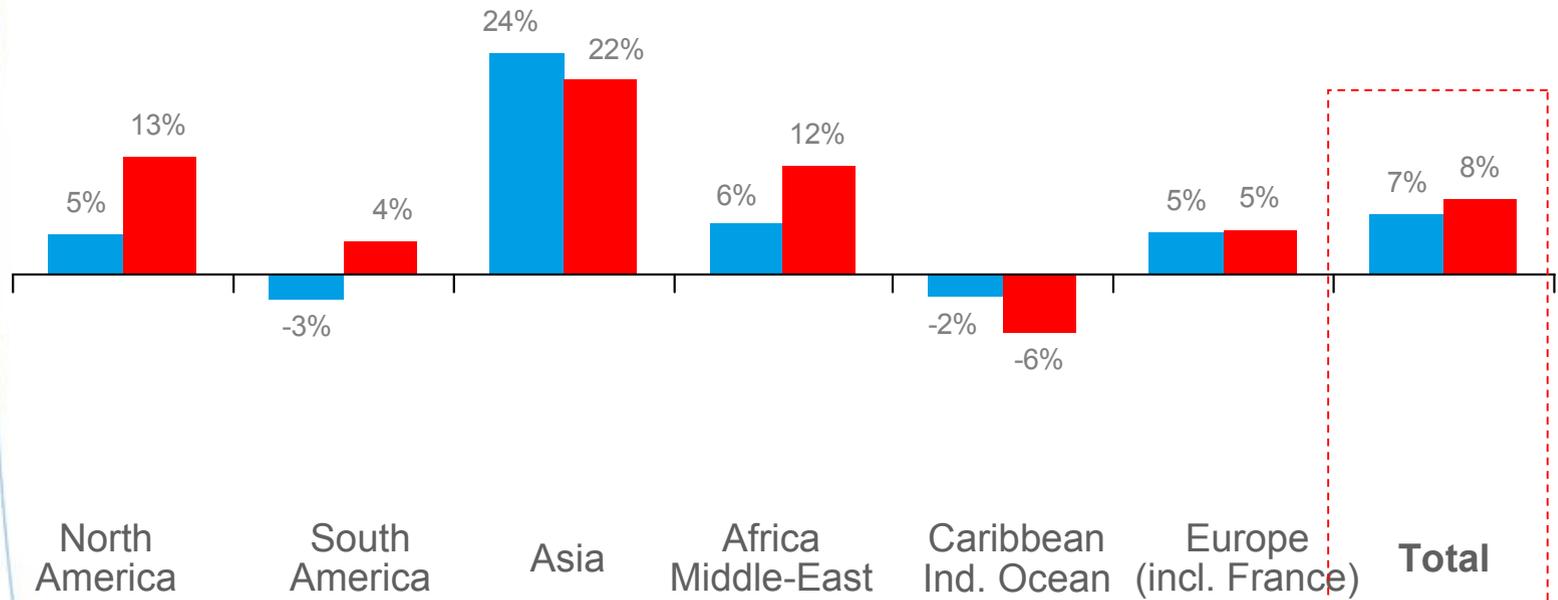
European network (incl. French domestic market)



# Passenger Sales Performance per Network

2<sup>nd</sup> quarter 2004-05  
Air France-KLM Group

ASK  
Traffic rev. excl. currency

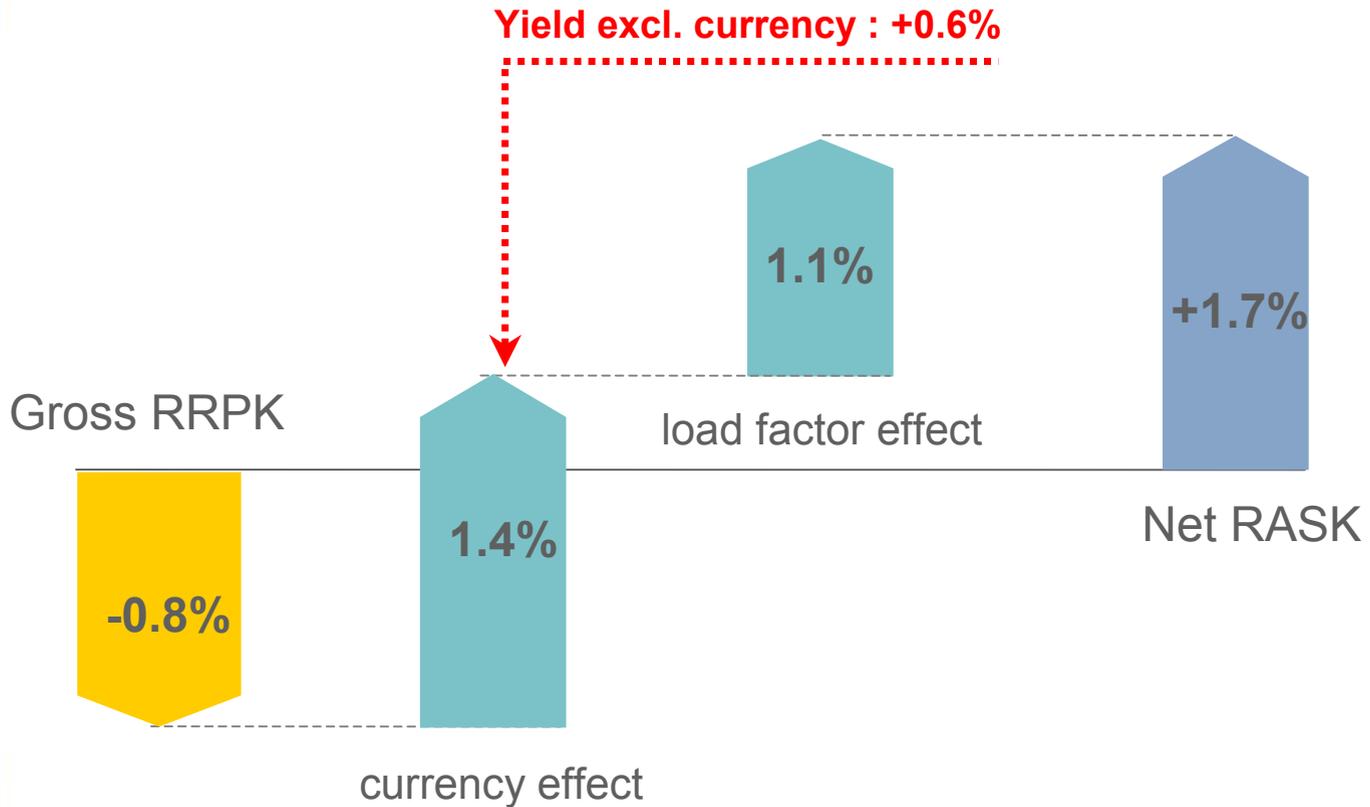


# Unit Revenue per ASK (excl. currency) Up 1.7% in Q2

2<sup>nd</sup> quarter 2004-05

Group RRPK: 8.16 € cts

Group RASK 6.62 € cts



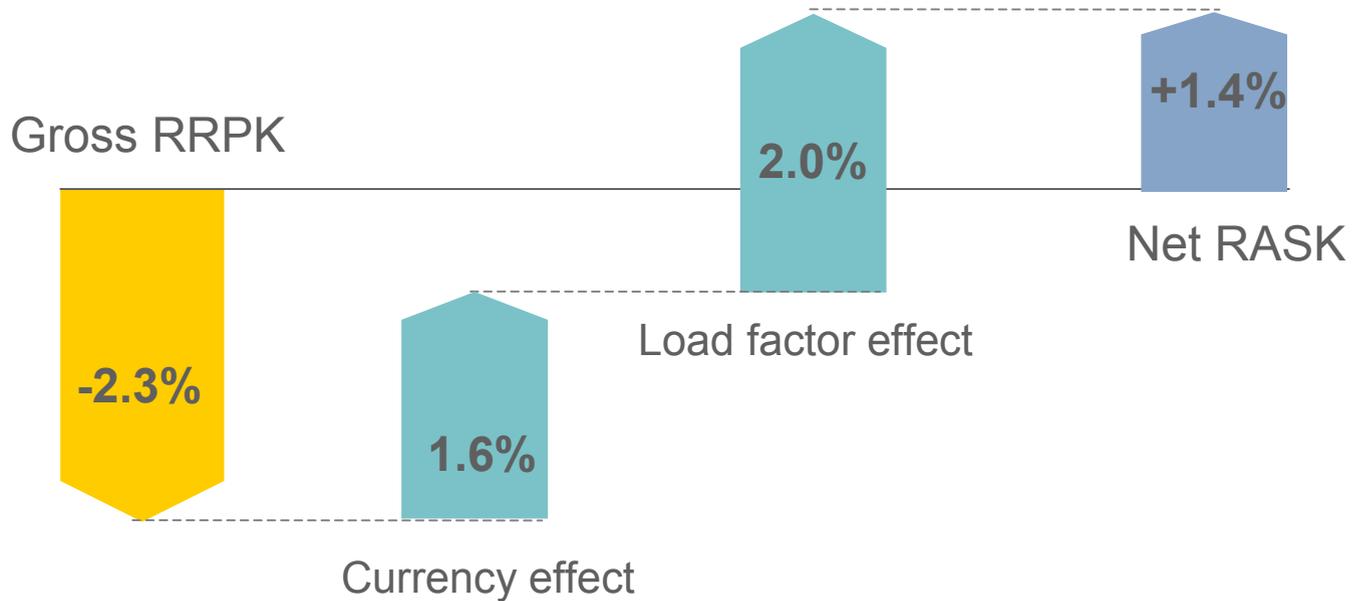
\*after €13 m adjustment corresponding to commissions deducted from traffic revenues in Q1 2003-04 which should have been recorded in expenses.

# Unit Revenue per ASK (excl. currency) Up 1.4% in H1

First half 2004-05

RRPK: 8.38 € cts

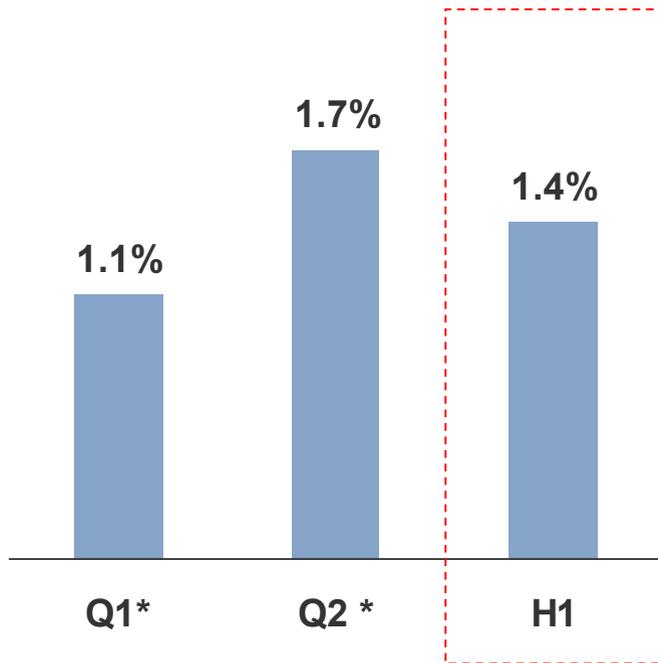
RASK: 6.66 € cts



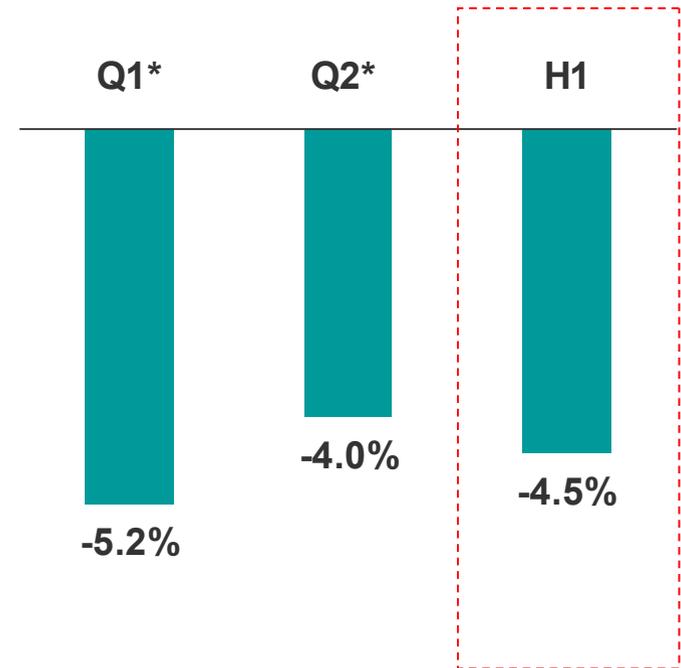
# Passenger Business Performance

## Air France-KLM Group

Passenger unit revenue per ASK  
(excl. currency effect)



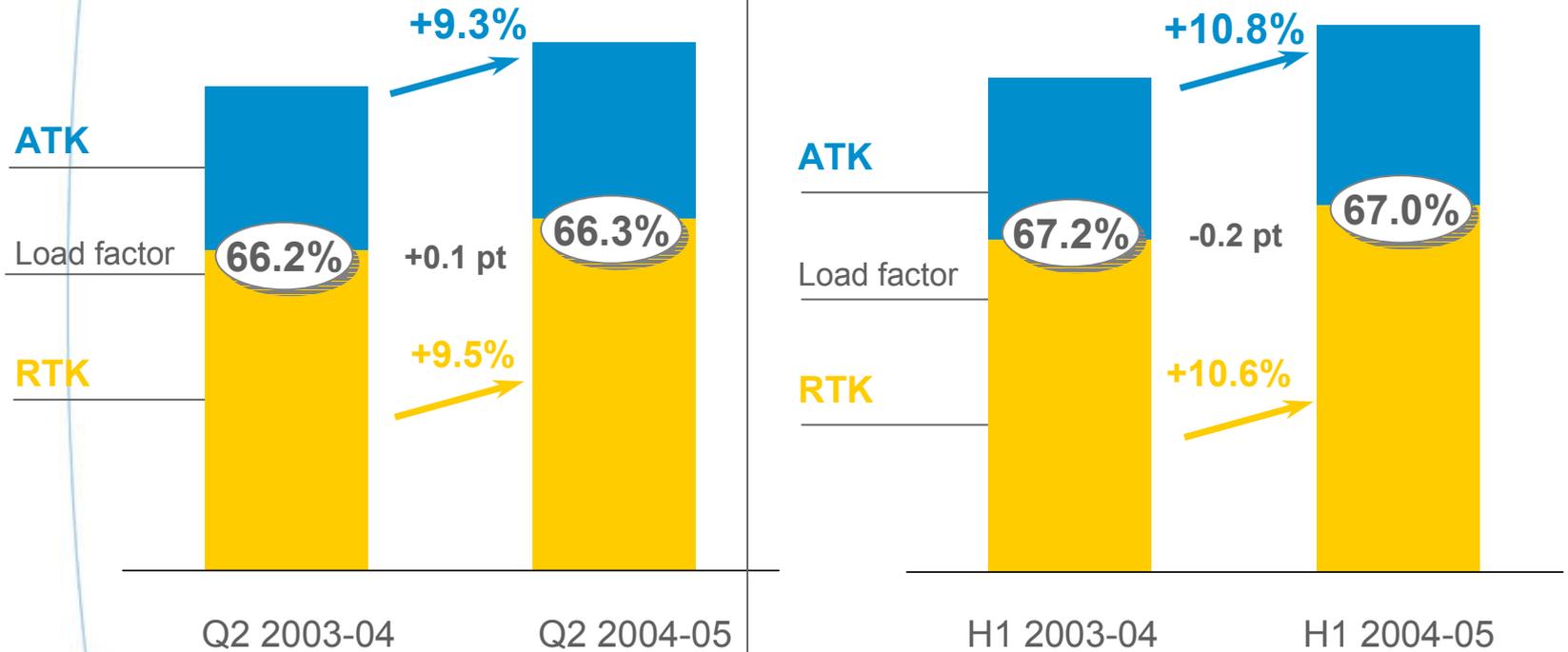
Passenger unit costs per ASK  
(at constant currency and fuel price)



\* after €13 m adjustment corresponding to commissions deducted from traffic revenues in Q1 2003-04 which should have been recorded in expenses.

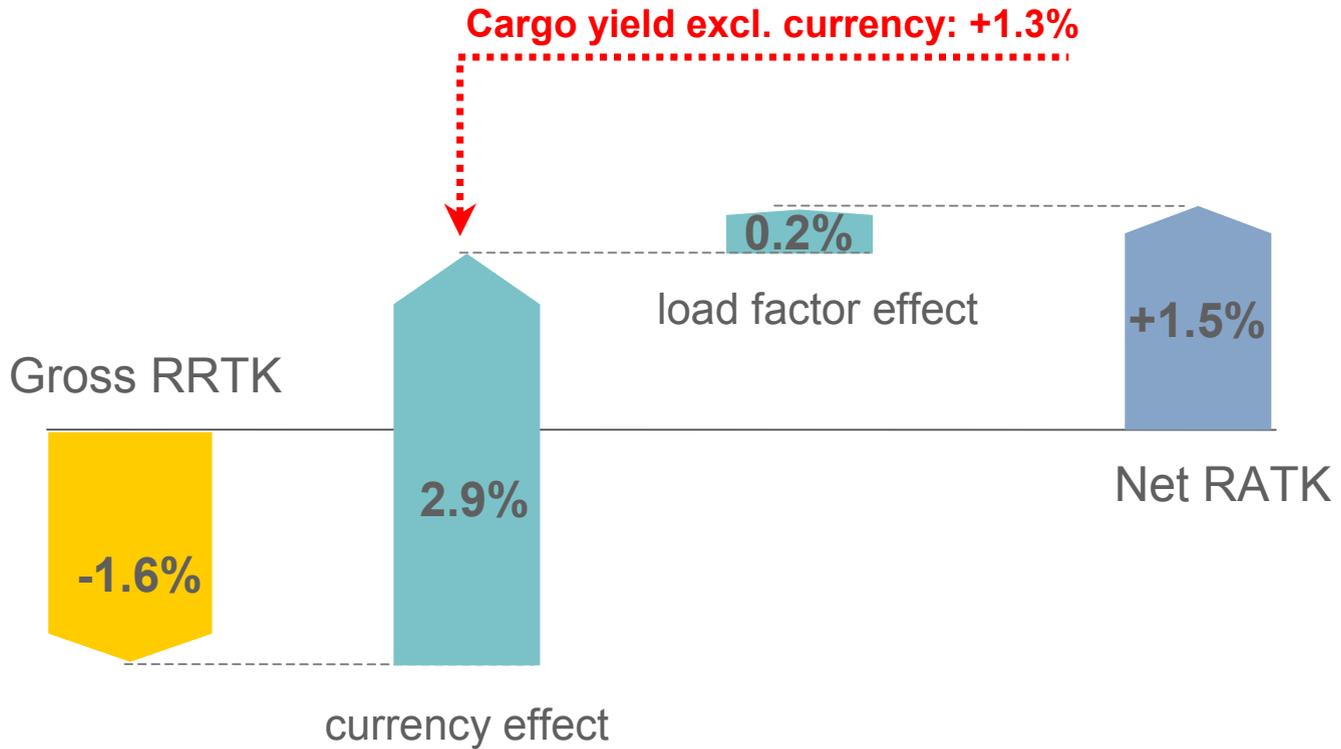
# Cargo: Strong Growth in Traffic

Air France-KLM Group



# Increased Unit Revenue per ATK in Q2 (excl. currency)

2<sup>nd</sup> quarter 2004-05  
Group RRTK: 22.16 €cts  
Group RATK 14.69 € cts

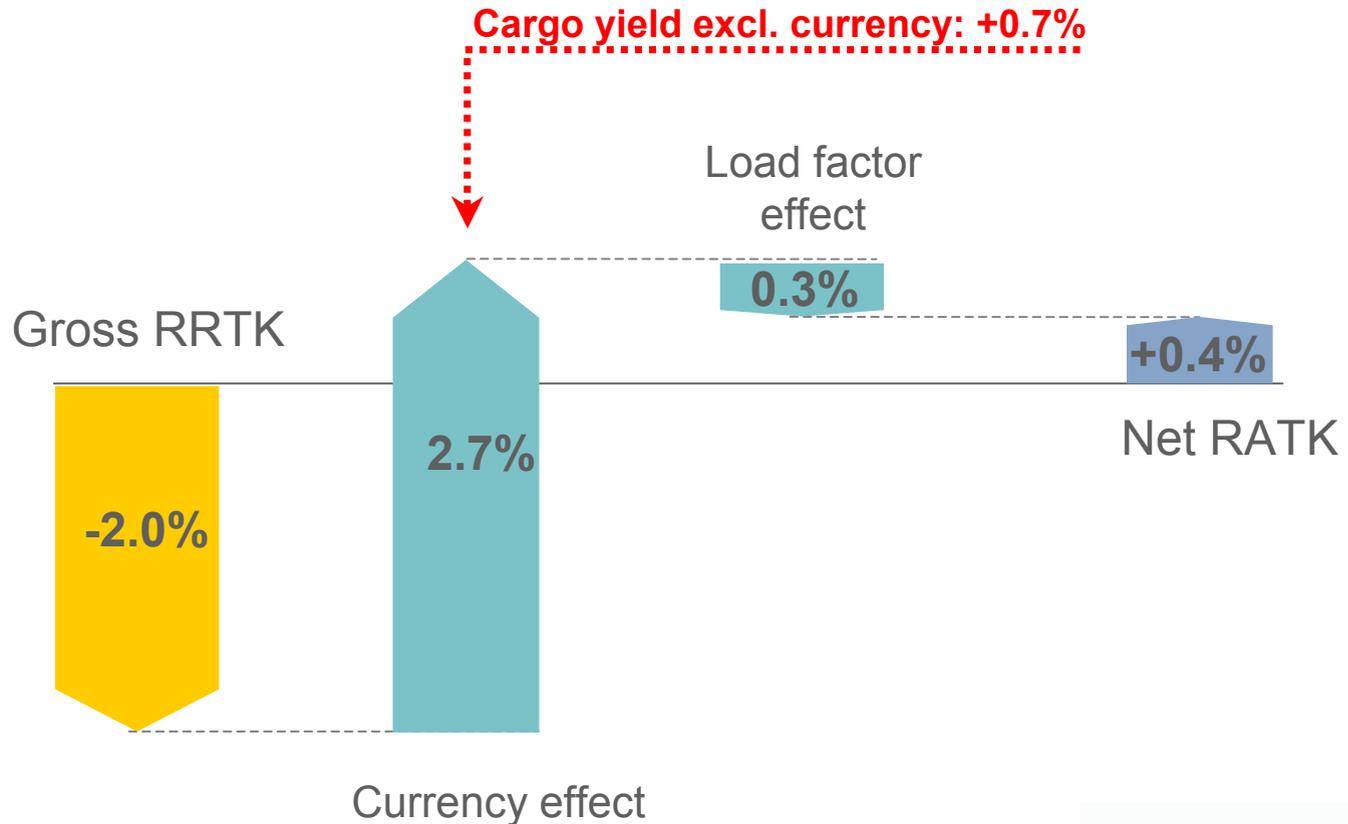


# Slight Increase in Unit Revenue per ATK in H1 (excl. currency)

First half 2004-05

RTKT: 22.23 cts d'€

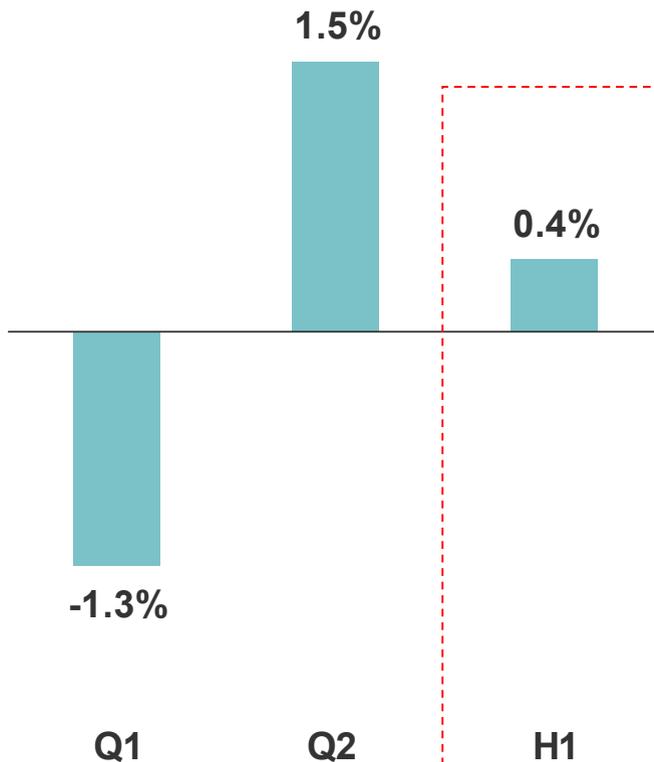
RTKO: 14.89 cts d'€



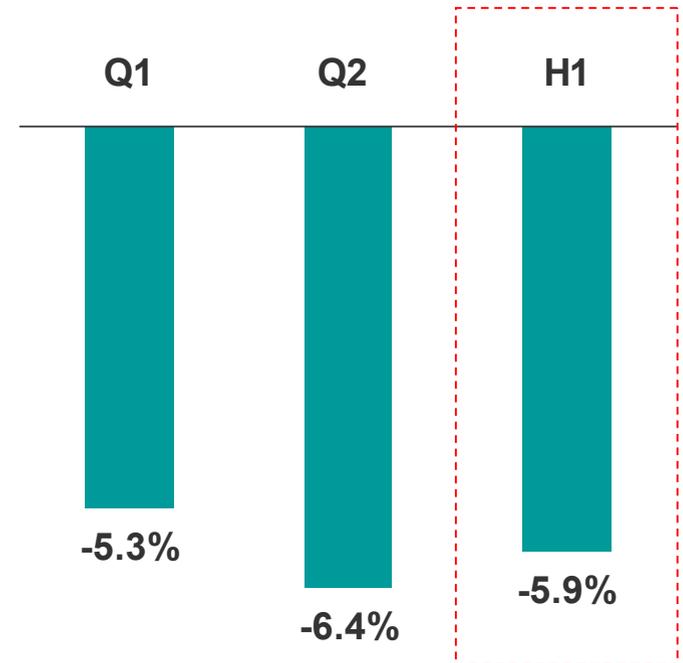
# Cargo Business Performance

## Air France-KLM Group

Cargo unit revenue per ATK  
(excl. currency effect)



Cargo unit costs per ATK  
(at constant currency and fuel price)

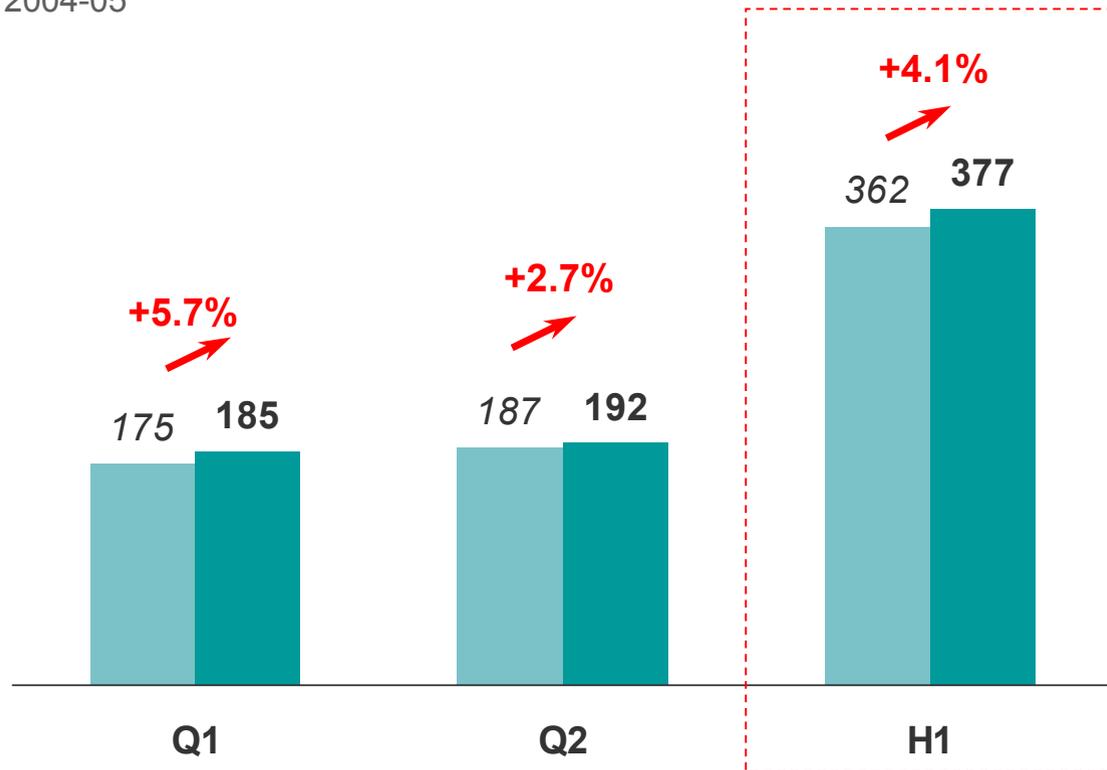


# Maintenance

Third-party revenues (in €m)

2003-04

2004-05



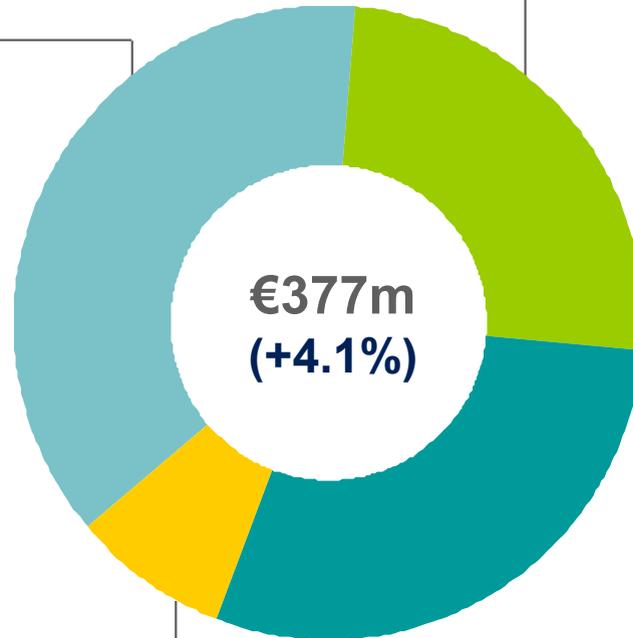
# Maintenance

1<sup>st</sup> half 2004-05

Breakdown of third-party revenues  
per activity

Engines: **35%**

Components: **27%**



Line maintenance  
and other: **29%**

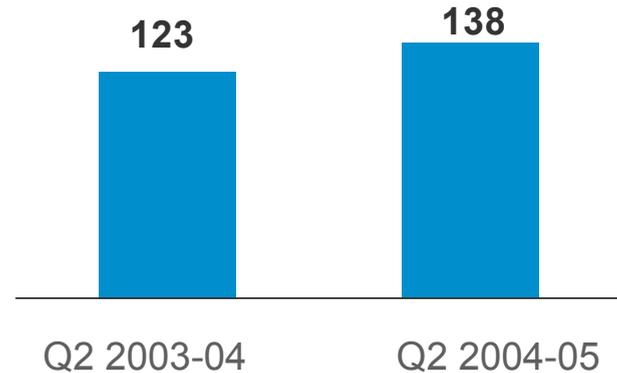
Light maintenance: **9%**

# Other Businesses

## "Catering" Business



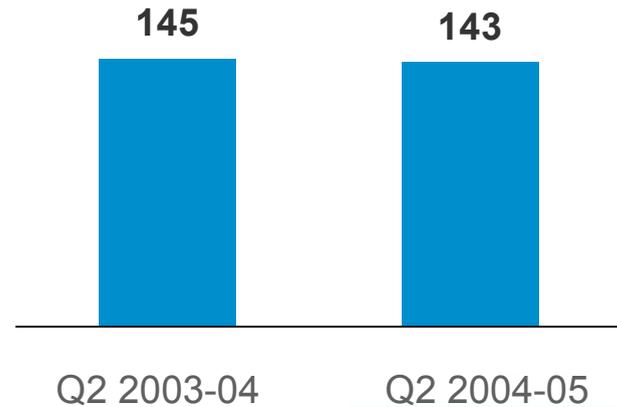
Third-party revenues in €m



## "Charter & Low Cost" Business



Revenues in €m



# Financial Results

Philippe Calavia

# Improved Q2 Results

	30 Sep 2004	30 Sep 2003 <i>pro forma</i>	change
Turnover	5,132	4,823	+6.4%
Operating expenses	(4,837)	(4,604)	+5.1%
EBITDAR	922	855	+7.8%
<b>Operating income (excl. aircraft disposals)</b>	<b>295</b>	<b>219</b>	<b>+34.7%</b>
Net interest charge	(29)	(58)	ns
Other (financial provisions, foreign exchange, disposals, etc.)	23	49	ns
Profit before tax and amortization of goodwill	289	210	+37.6%
Income tax	(94)	(75)	ns
Amortization of goodwill	12	13	ns
Group net income	201	143	+40.6%

# Operating Expenses Under Control Despite Rising Fuel Costs

2<sup>nd</sup> quarter (in €m)  
pro forma change

		<b>EASK</b>	<b>+6.9%</b>
		<b>Turnover</b>	<b>+6.4%</b>
<b>Operating expenses</b>	<b>4,837</b>		<b>+5.1%</b>
Labour costs	1,487		<b>+1.3%</b>
Fuel costs	704		<b>+32.8%</b>
Depreciation and provisions	437	<b>-6.2%</b>	
Commercial & distribution costs	374	<b>-7.9%</b>	
Landing fees & route charges	396		<b>+7.0%</b>
Operating leases	166		<b>+7.1%</b>
Other	1,273		<b>+5.3%</b>

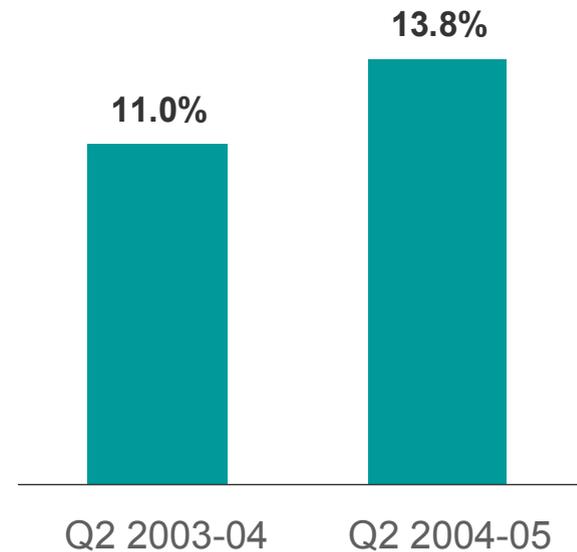
# Soaring Fuel Costs

2<sup>nd</sup> quarter (in €m)  
pro forma change

Fuel costs as of 30 Sep 03:	€530m	
Volume effect	+ €25m	+5 pts
Price effect	+ €239m	+45 pts
Currency effect	- €38m	-7 pts
Hedge effect	- €51m	-10 pts
<b>Fuel costs as of 30 Sep 04:</b>	<b>€704m</b>	<b>+33%</b>

**Hedge gains in Q2: €90m**

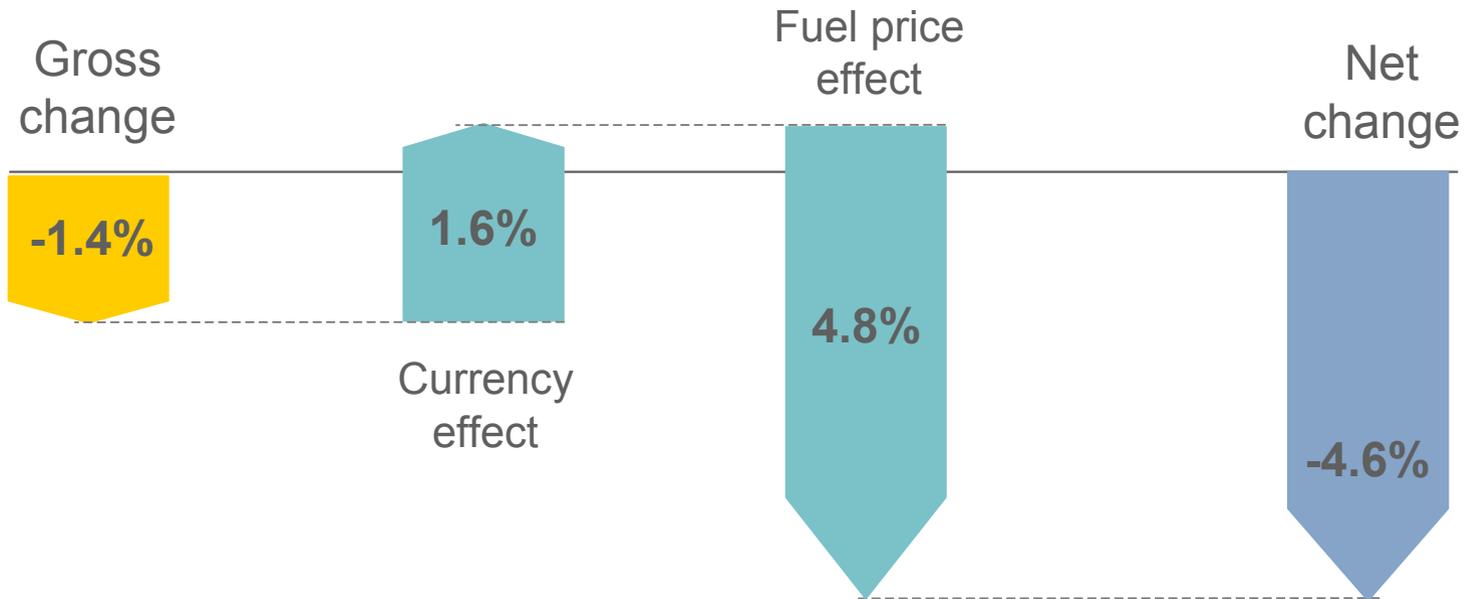
Fuel costs as %  
of total turnover



# Lower Unit Costs

2<sup>nd</sup> quarter 2004-05

Air France-KLM Group unit costs per EASK: 5.98 € cts



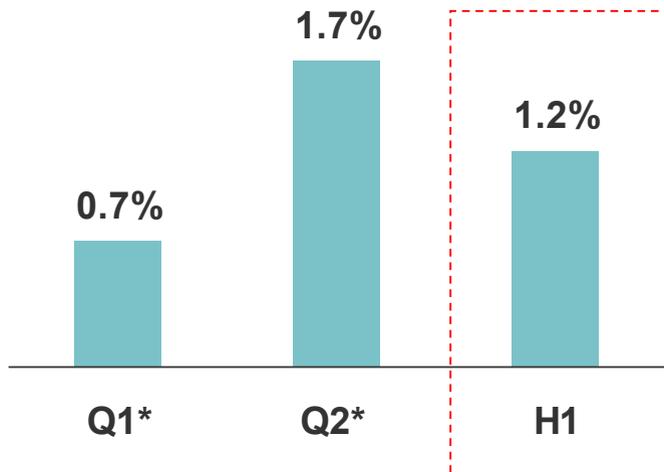
# H1 Results: €384m Profit before Tax and Amortization of Goodwill

	30 Sep 2004	30 Sep 2003 <i>pro forma</i>	change
Turnover	9,595	8,797	+9.1%
Operating expenses	(9,144)	(8,579)	+6.6%
EBITDAR	1,615	1,379	+17.1%
<b>Operating income (excl. aircraft disposals)</b>	<b>451</b>	<b>218</b>	<b>+106.9%</b>
Net interest charge	(79)	(112)	ns
Other (financial provisions, foreign exchange, disposals, etc.)	12	107	ns
Profit before tax and amortization of goodwill	384	213	+80.3%
Income tax	(121)	(61)	ns
Amortization of goodwill	42	43	ns
Group net income	296	189	+56.6%

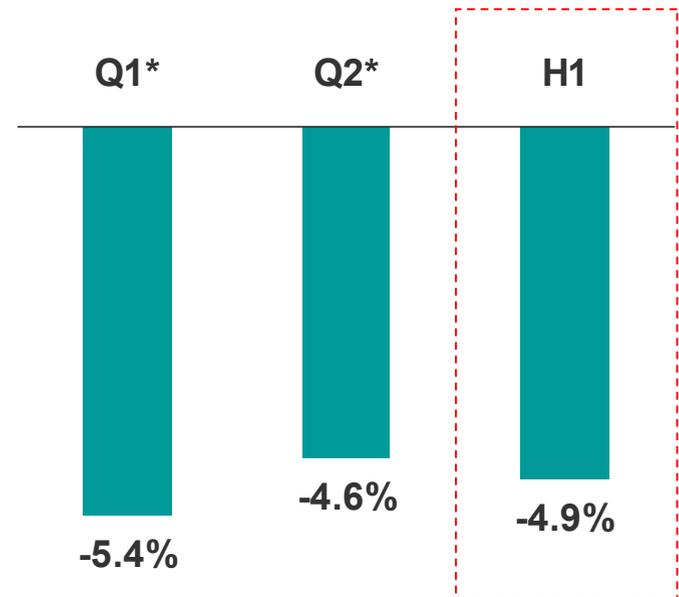
# Group Performance

## Air France-KLM Group

### Unit revenue per EASK (excl. currency effects)



### Unit costs per EASK (at constant currency and fuel price)



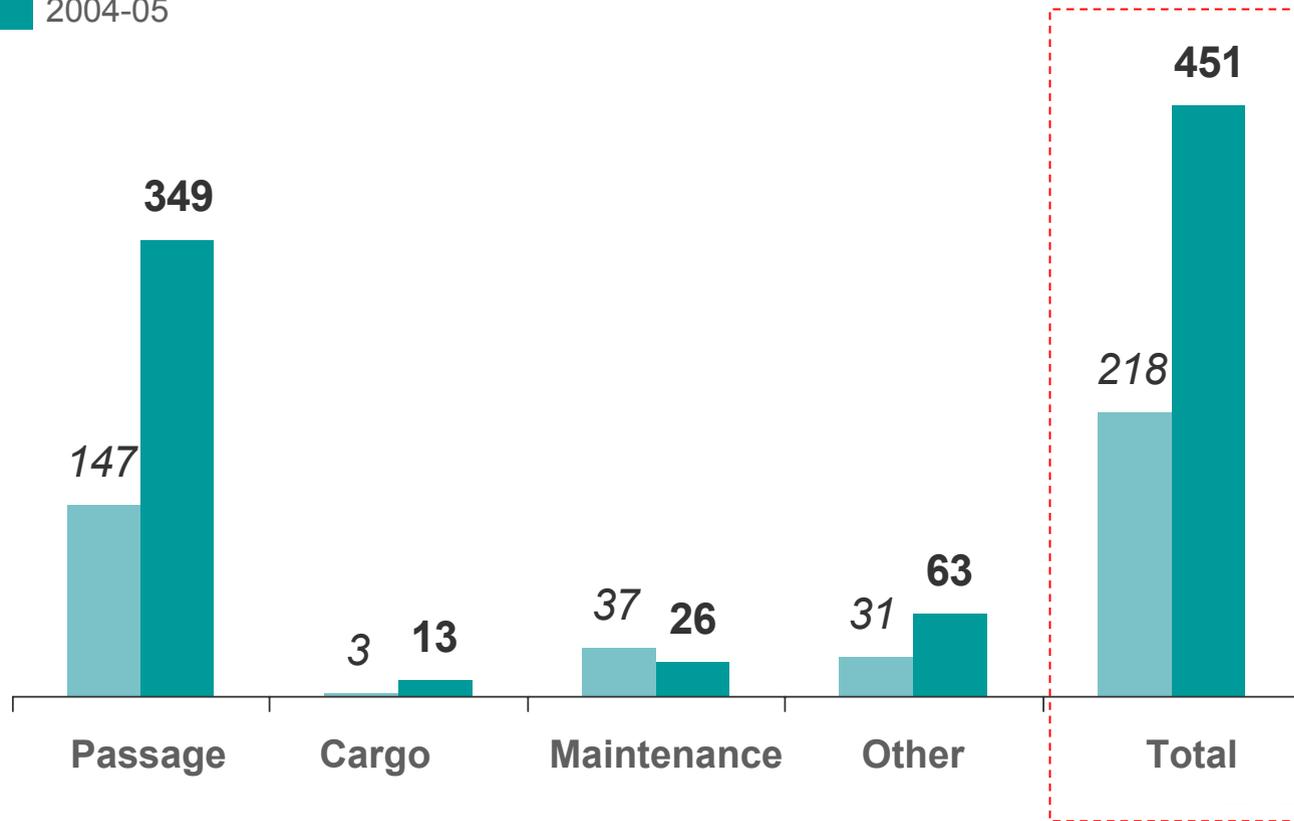
\* after €13 m adjustment corresponding to commissions deducted from traffic revenues in Q1 2003-04 which should have been recorded in expenses.

# Operating Income Excluding Aircraft Sales

Operating income  
excluding aircraft sales (in €m)

2003-04

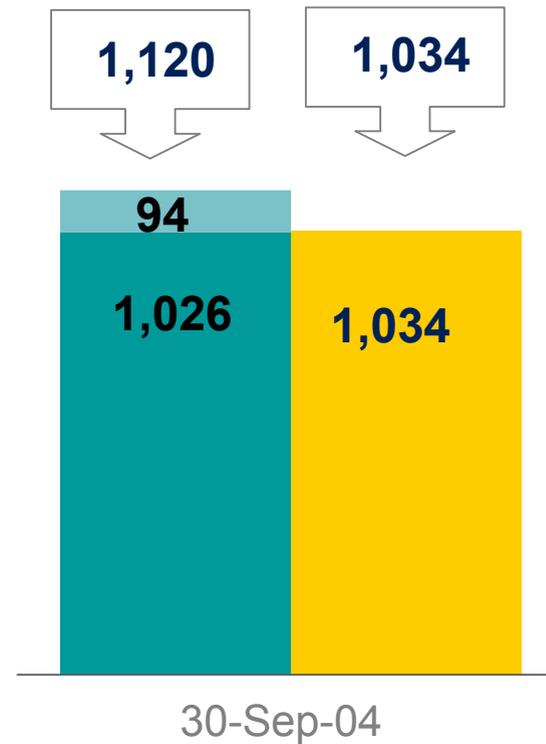
2004-05



# Investments Funded by Operating Cash Flow

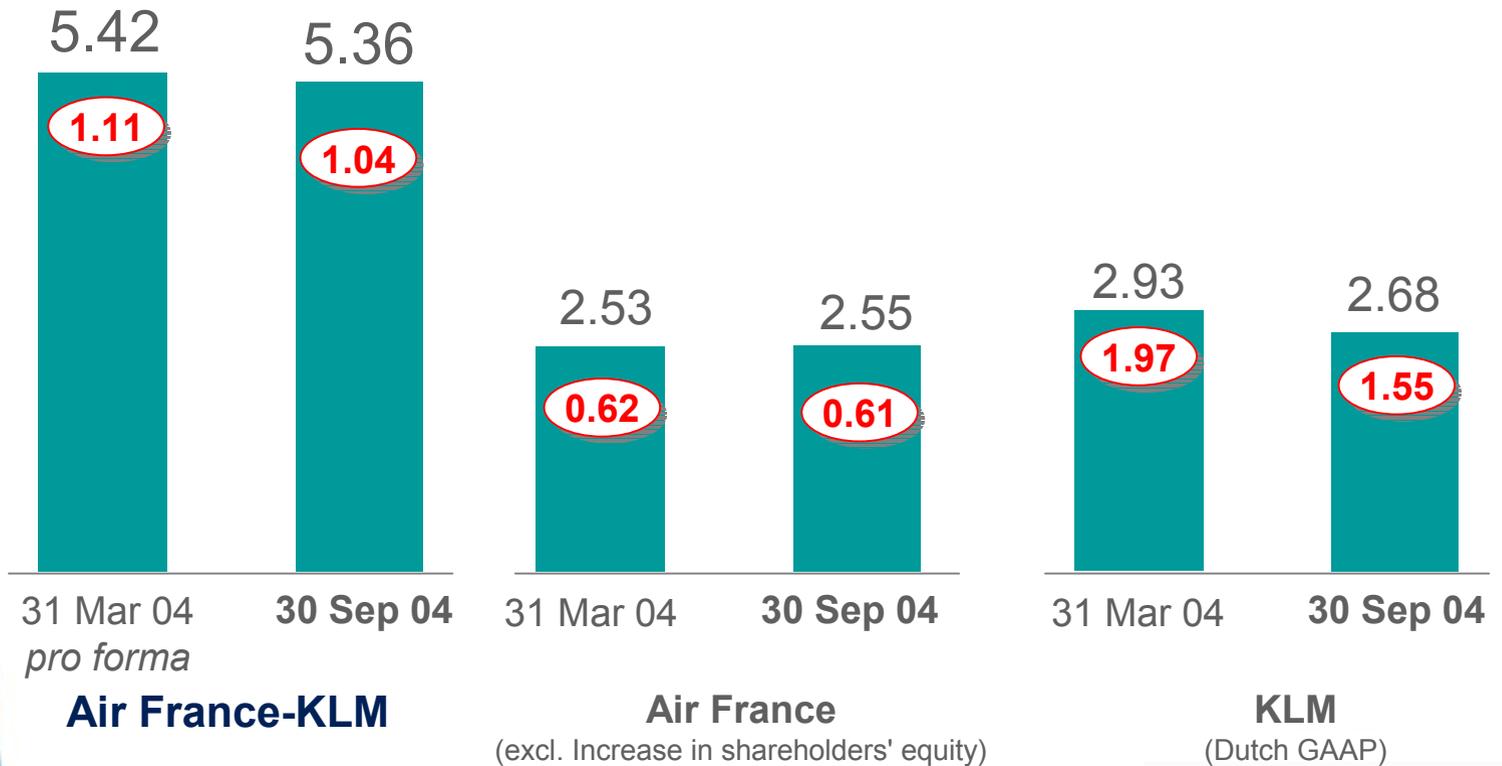
April-September 2004 (in €m)

- Operating cash flow
- Aircraft disposals
- Tangible & intangible investments



# Improved Financial Structure

■ Net debt (in €bn)  
 ○ x Gearing



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AIR FRANCE KLM

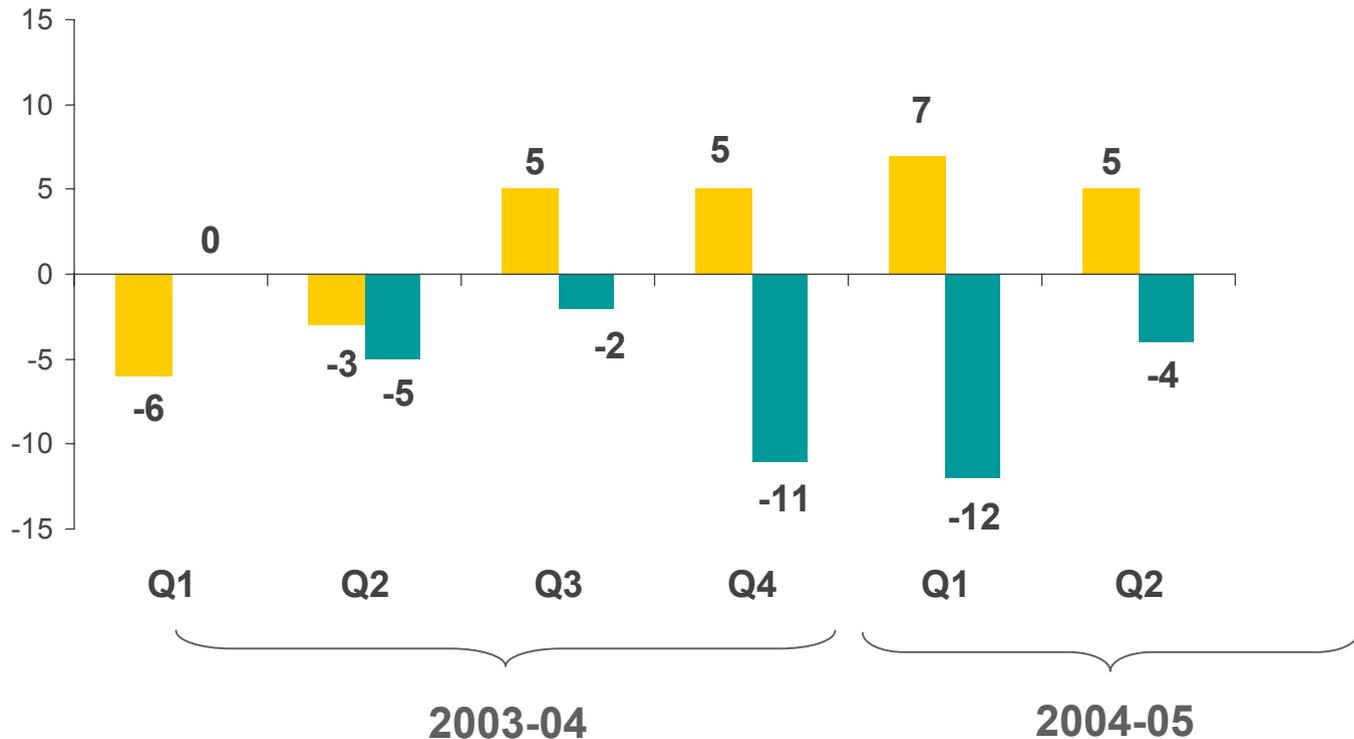
# KLM and the Air France - KLM Synergies

Leo van Wijk

# Continued Improvement in KLM Operating Performance

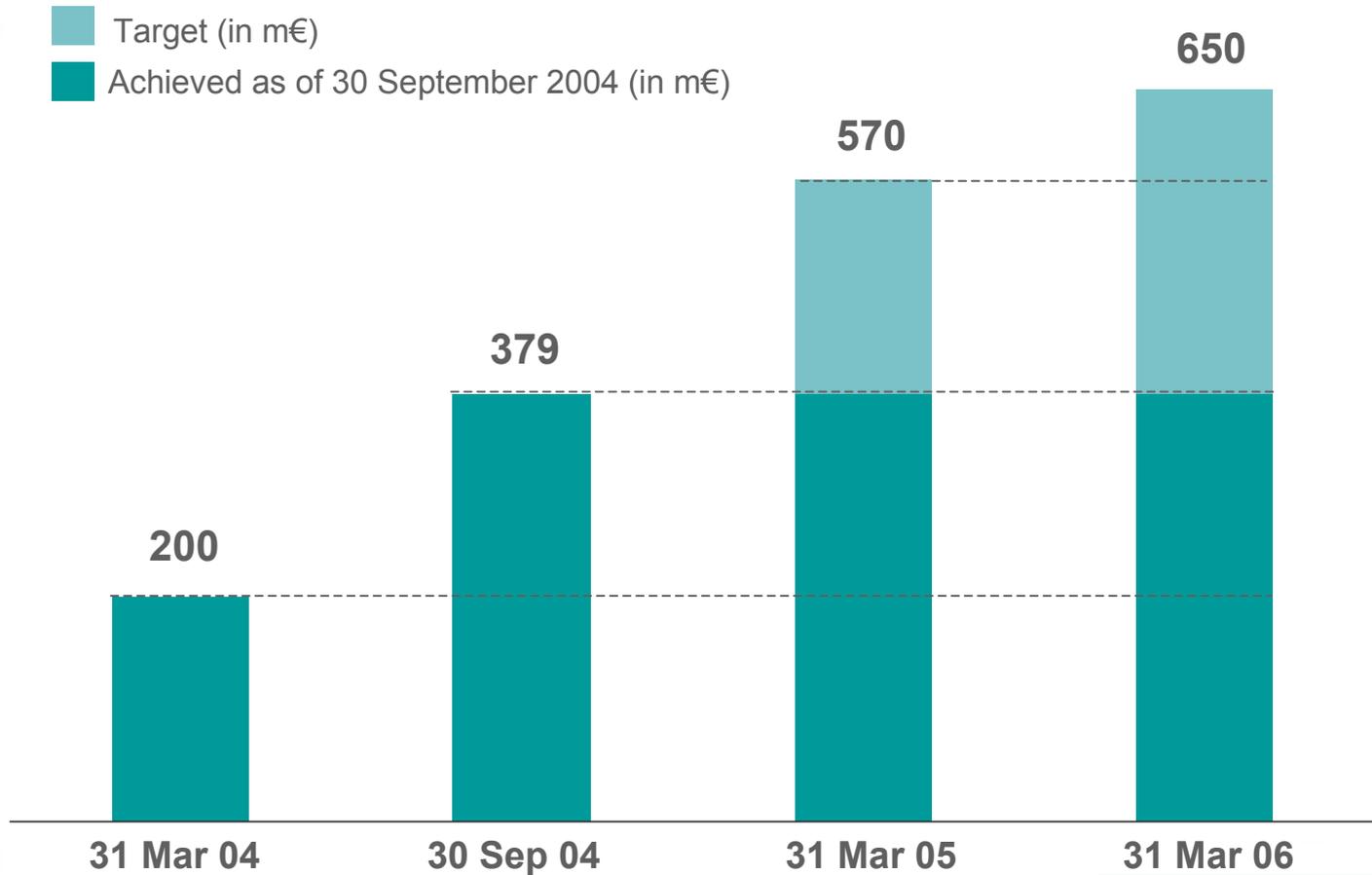
## Year-on-Year % change by quarter

- Manageable Unit Revenues (at constant currency)
- Manageable Unit Costs (at constant currency and fuel price)



# KLM Restructuring Plan in Progress

Unit cost reduction of 10% will be achieved in 2005-06



# KLM - Strong Improvement in Manageable Unit Revenues

- Improved trading conditions
- Fuel surcharges
  - Positive effect on passenger yield
  - Strong effect on cargo yield
- Air France-KLM revenue synergies
  - Higher impact on KLM than Air France

# Air France-KLM Passenger Business Revenue Synergies

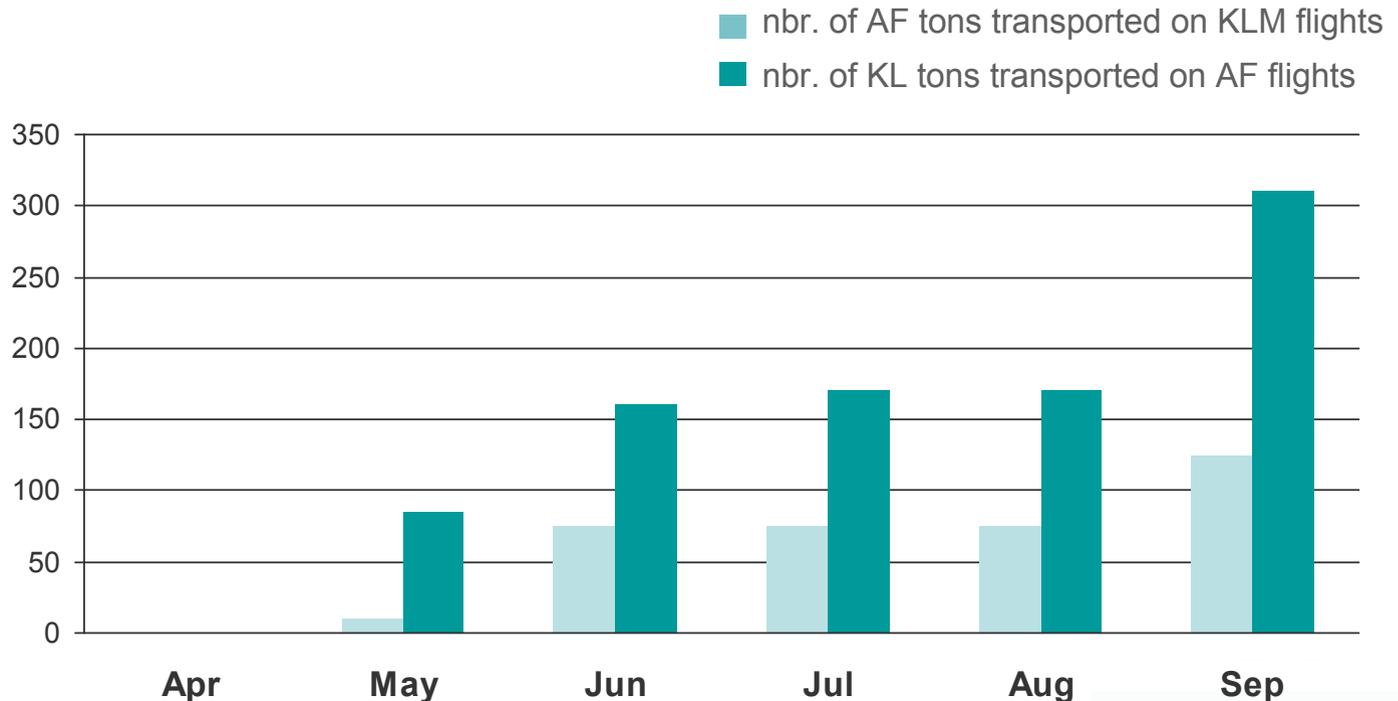
- Revenue synergies higher and faster than anticipated
  - Access to French market
    - 36% increase on unique destinations
    - Corporate accounts
    - Direct sales
  - Network rationalization
  - Frequent Flyer Program
  - Fare combinability/ alignment

# Air France-KLM Cargo Synergies

- 1<sup>st</sup> half 2004-05

- Capacity swap on several routes

- From 1<sup>st</sup> June: Sao Paulo, Beijing, Hong-Kong
- as from September: Hong-Kong, Tokyo, Johannesburg



# Air France-KLM Engineering & Maintenance Synergies

- Redirecting of outsourced work to the partner airline:
  - KLM: overhaul of Air France's CF680E1 engines
  - AF: maintenance of KLM's components and GE90 engines of its B777 fleet
- Sharing of maintenance manuals and policies
  - Savings on stocks of spare parts
- Coordination of production schedules and capacity on common products
  - Overhauls and maintenance of Boeing 747 CF6 engines
- Joint purchasing
- Developing business from customer airlines

# Strategy and Outlook

Jean-Cyril Spinetta

# General Context

- **Contrasted economic context**
  - Strong economic growth worldwide
  - More limited growth in Europe
  - Fluctuating growth in France
  
- **Risk factors**
  - Continued international tensions
  - Continued high fuel prices
  - Increased competition due to overcapacity situation on intra-European market and arrival of new competitors

# Three Levels of Priorities

Airlines

**AIR FRANCE**

**KLM**

**Curb costs**

Air France-KLM

**Implement synergies**

SkyTeam

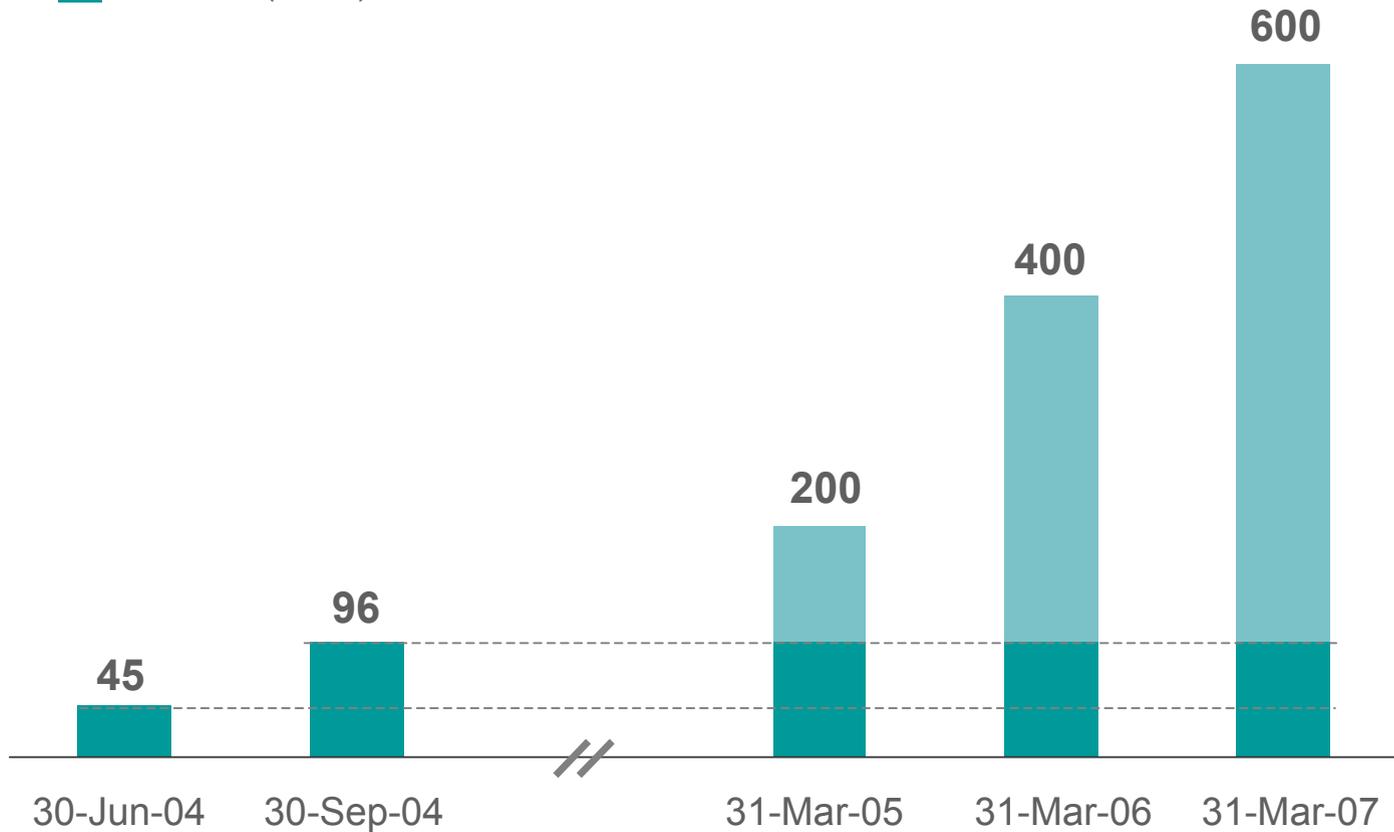


**Develop alliance**

# Air France: Three-Year Savings Plan Under Way

## “Major 2007 Competitiveness” Plan

- Target (in €m)
- Achieved (in €m)



# Air France: Three-Year Savings Plan Under Way

	Achieved as at 30 Sep. 2004	Target FY2004-05
<b>New products and distribution model</b>	<b>32</b>	<b>60</b>
Renewal of medium-haul product		
New long-haul product		
New distribution model		
<b>Air France-KLM cost synergies*</b>	<b>6</b>	<b>15</b>
<b>Optimization of external resources</b>	<b>38</b>	<b>80</b>
Reducing consumption		
Optimizing referrals		
Negotiating prices		
<b>More efficient processes</b>	<b>20</b>	<b>45</b>
New tools		
Reengineering and productivity		
<b>Total</b>	<b>96</b>	<b>200</b>

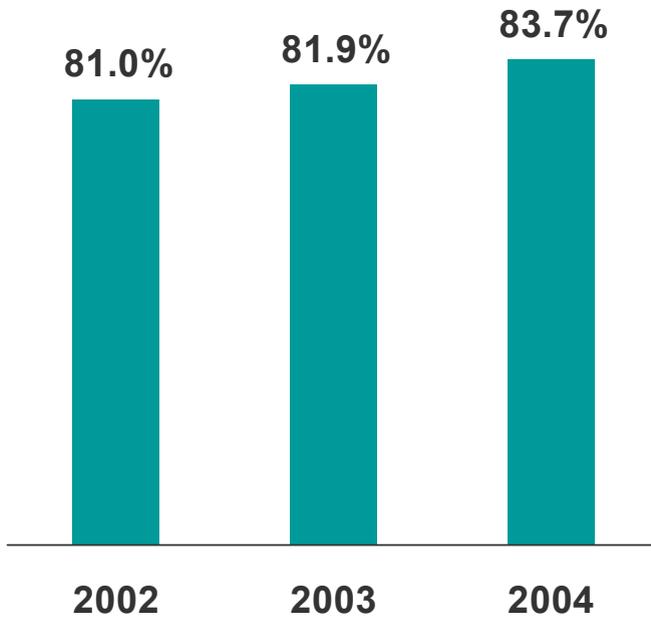
\* Proportion of cost synergies attributable to Air France

# €60m in Additional One-Time Savings Expected in Second Half

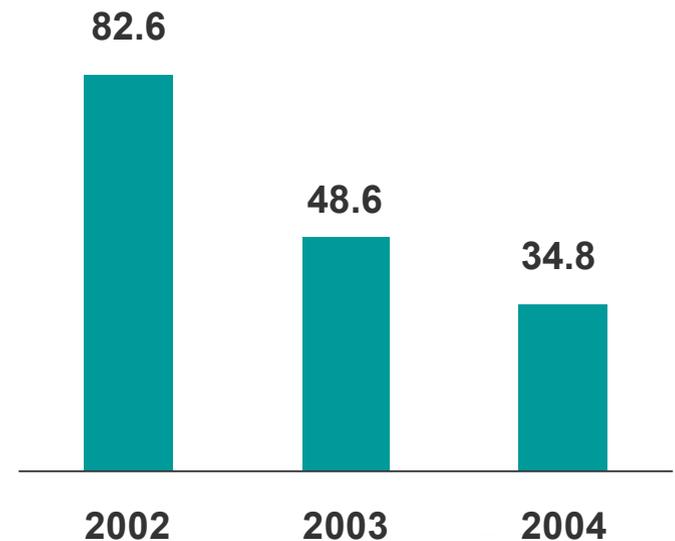
	<b>Target</b>
<b>Sales and distribution expenses</b>	<b>€15m</b>
- advertising and public relations	
- commissions	
<b>Other expenditure</b>	<b>€31m</b>
- Station costs	
- IT outsourcing	
- Fees, studies and research	
- Duty travel, assignments, receptions, seminars	
<b>Deferred hiring</b>	<b>€14m</b>
<b>Total</b>	<b>€60m</b>

# Improved Punctuality and Baggage Performance

Average departure punctuality  
Air France (Jan-Oct)



Baggage incident rate per 1,000 passengers  
Air France (Apr-Sep)



# Three Levels of Priorities

Airlines

AIR FRANCE

KLM

Curb costs

Air France-KLM

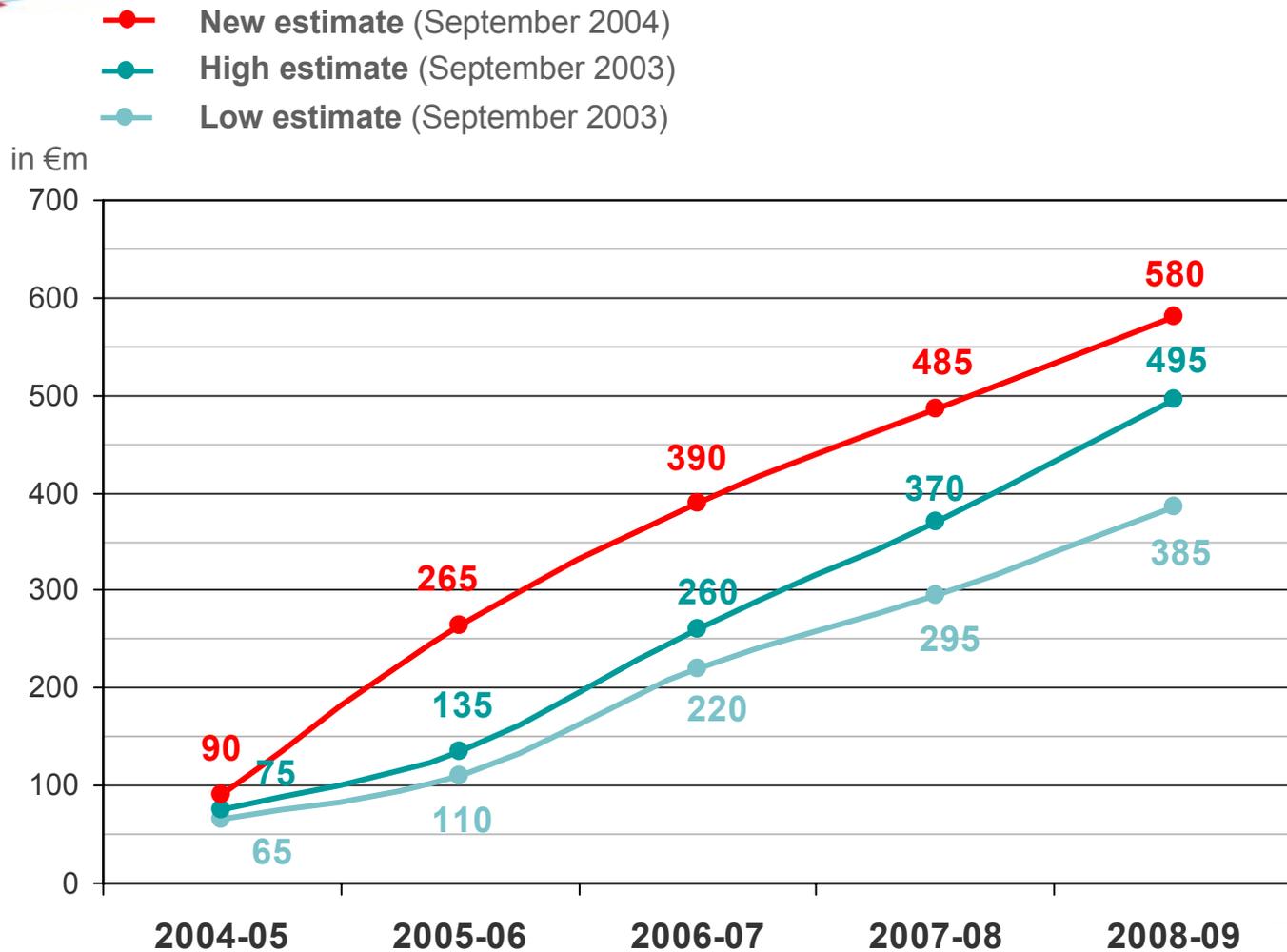
Implement synergies

SkyTeam



Develop alliance

# Synergies Higher than Expected



# Three Levels of Priorities

Airlines

AIR FRANCE

KLM

Curb costs

Air France-KLM

Implement synergies

SkyTeam



Develop alliance

# Developing and Strengthening SkyTeam

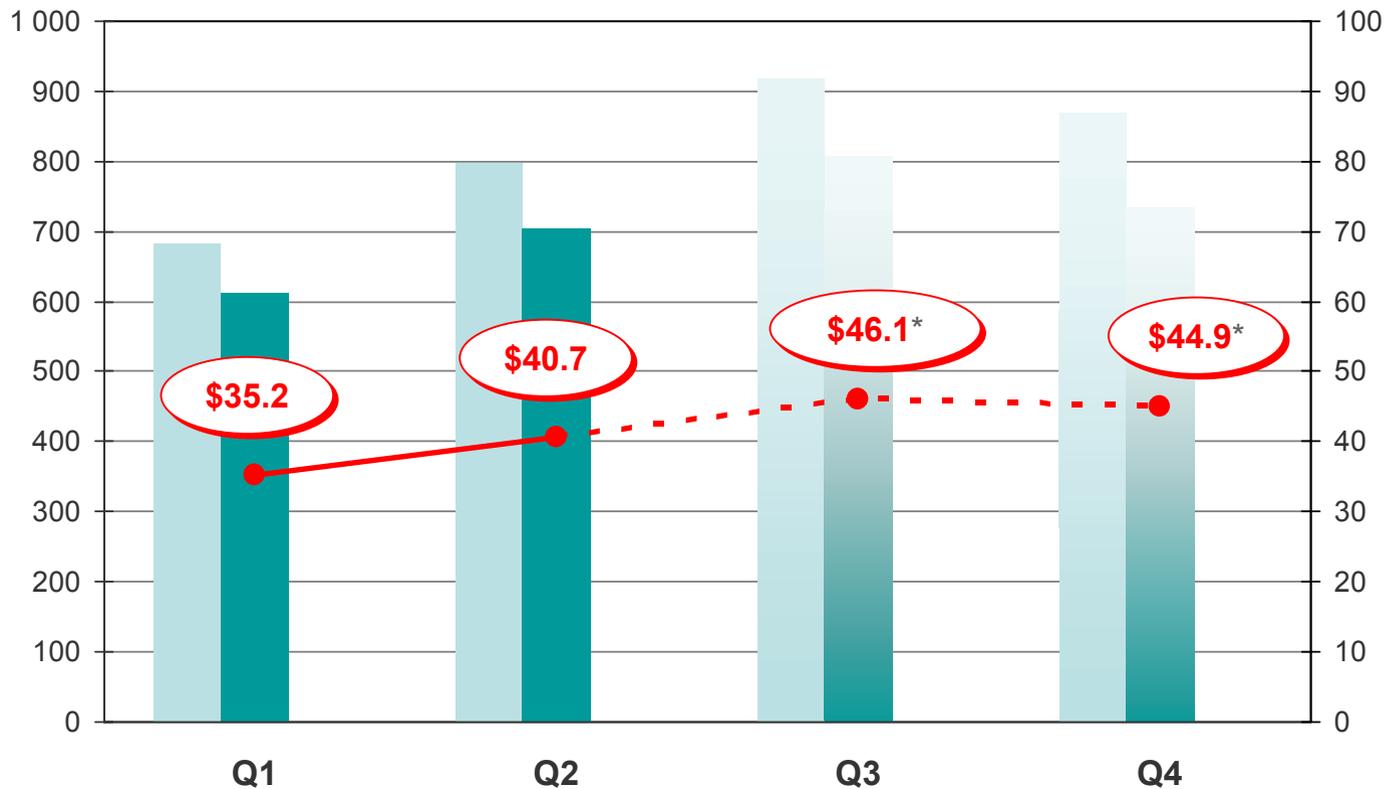
- 15 September 2004: KLM, Northwest and Continental join SkyTeam
- October 2004: Application for global ATI for Air France, Alitalia, CSA, Delta, KLM and Northwest
- 12 November 2004: clearance from U.S. Authorities to code-share with Continental.
- MOUs signed with Aéroflot and China Southern to join SkyTeam – discussions under way.
- Creation in 2005 of Associate Member status in SkyTeam

# Continued Rise in Fuel Prices

Fuel costs before hedging (in €m)

Fuel costs after hedging (in €m)

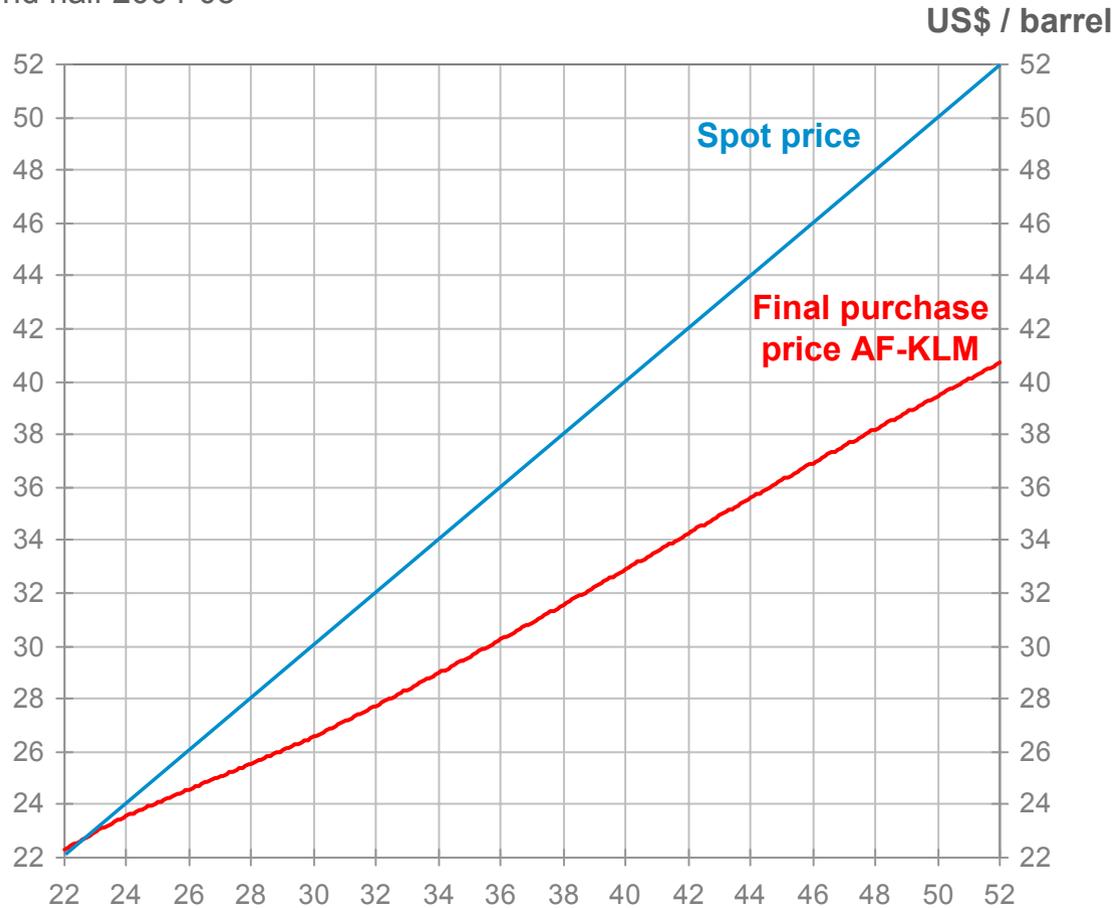
Brent IPE (in \$/bl) ●—



\* Future prices as of 19/11/04 and €/€ at 1.22\$

# Fuel Price Sensitivity

Air France-KLM Group  
Second half 2004-05



# Implementation of Fuel Surcharges

	Air France	KLM
<b>Passenger</b>		
1 <sup>st</sup> surcharge (May)	€3 per leg	€4 per leg
2 <sup>nd</sup> surcharge (August)	€2 to €12 per leg	€2 to €3 per leg
3 <sup>rd</sup> surcharge (October)	€11 per leg LH	€7 per leg LH
<b>Cargo (November)</b>		
Surcharge indexed on Jet fuel price 0.35 €/kg		0.35 €/kg

Expected additional revenues  
for FY 2004-05

Passenger: +€200m  
Cargo: +€170m

# Winter 2004-05 Capacity

- Increase in Air France-KLM capacity for Winter 2004-05 schedule: +4.8%
  - Long-haul: +5.2%
  - Medium-haul: +3.2%
  - France: +4.9%

## Objective for FY 2004-05

- Thanks to cost-savings plans and...
- potential synergies between Air France and KLM,
- and in spite of the steep increase in oil prices forecast for the second half-year, which will slow down the Group's improved financial performance,
- we continue to target a higher operating income than last year.