

# CREDIT UPDATE



September 2015

# Agenda

- Key credit highlights
- First Half 2015 results
- Outlook

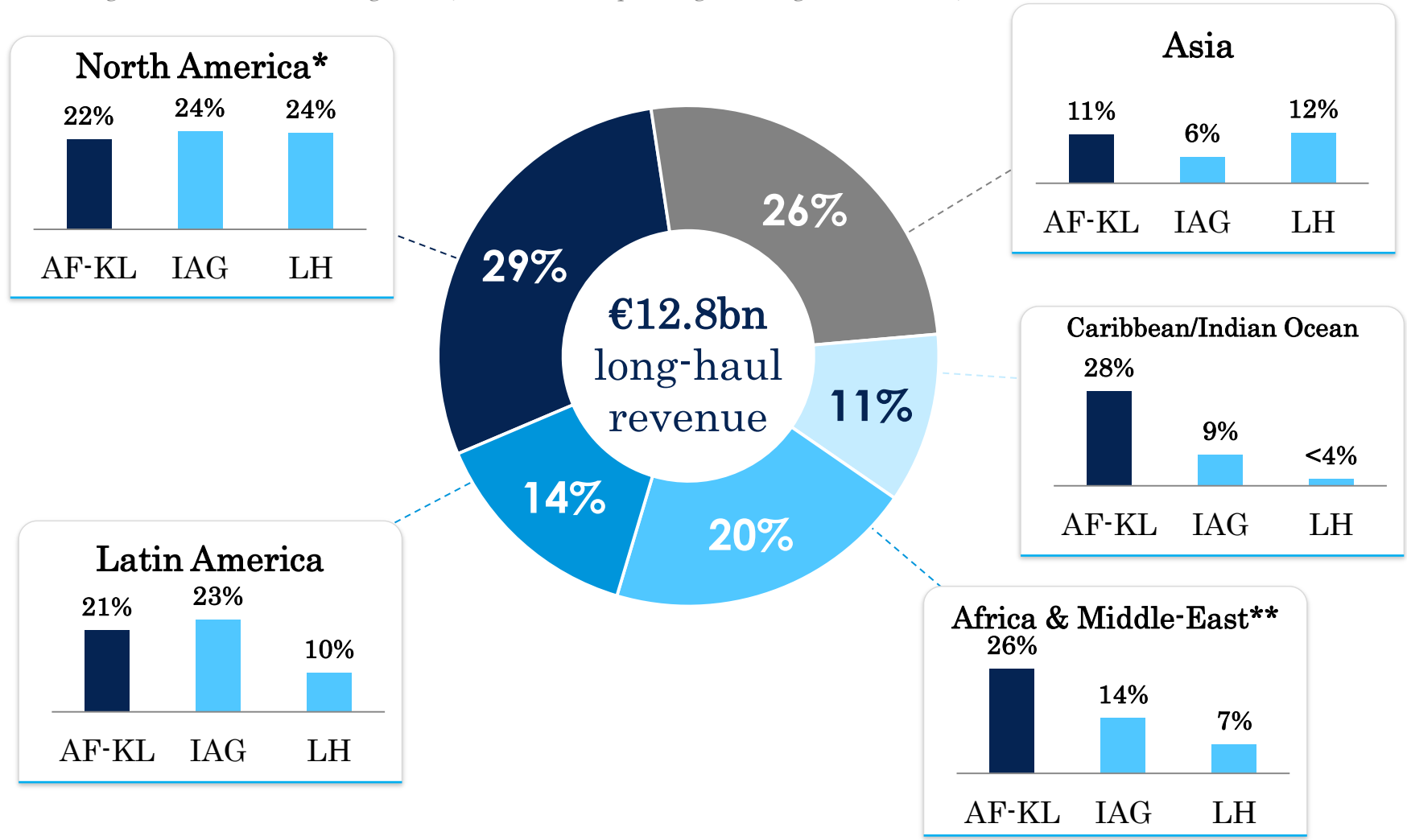
# An air transport leader with a sound strategic and financial plan

- 1 A world leader in three main businesses
- 2 Well-positioned to benefit from strong underlying market fundamentals providing secular growth
- 3 Perform 2020: delivering selective growth and further profitability improvements
- 4 Strong liquidity position and improvement in financial situation

# Air France-KLM: the long-haul European leader...


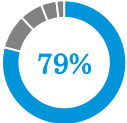

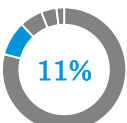

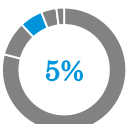

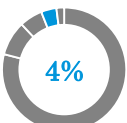

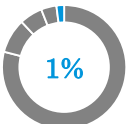
Long-haul traffic to/from Europe 27% larger than peers IAG and Lufthansa group

2014 long-haul revenue excluding strike, market share per long-haul region from OAG, Winter 2014



\* Including respective US partners - \*\* Market share on Africa only

# ...with a diversified business profile including three leading business segments

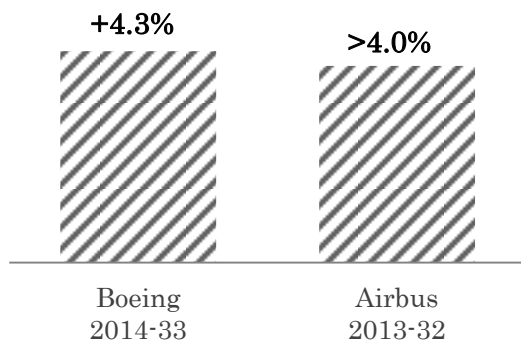
		Revenue (€bn) <sup>(2)</sup>		Operating Result (€m) <sup>(2)</sup>		
 Passenger network <sup>(1)</sup>	 79%	20.0	↗	289	↗	<ul style="list-style-type: none"> <li>▶ Largest passenger airline group in Europe</li> <li>▶ 80% of capacity on long-haul</li> <li>▶ 571 aircraft, 60,000 employees</li> </ul>
 Cargo	 11%	2.7	↘	-188	↗	<ul style="list-style-type: none"> <li>▶ Second largest air cargo group in Europe</li> <li>▶ 73% of capacity in passenger aircraft bellies</li> <li>▶ 27% of capacity in 14 full freighter aircraft</li> <li>▶ 5,400 employees</li> </ul>
 Maintenance	 5%	1.3	↗	196	↗	<ul style="list-style-type: none"> <li>▶ Second largest worldwide MRO player</li> <li>▶ €3.3bn revenue including internal sales</li> <li>▶ 150 external customers</li> <li>▶ 14,000 employees</li> </ul>
 Transavia	 4%	1.1	↗	-36	↘	<ul style="list-style-type: none"> <li>▶ Low cost leader in the Netherlands and at Orly</li> <li>▶ More than 40 destinations from Paris</li> <li>▶ Rapid growth (Passengers: +60% in 3 years)</li> <li>▶ 2,300 employees</li> </ul>
 Other	 1%	0.3	↗	35	↗	<ul style="list-style-type: none"> <li>▶ Mostly made of catering business</li> <li>▶ €870m revenue including internal sales</li> <li>▶ 10,500 employees</li> </ul>
<b>Total</b>		<b>25.4</b>	<b>↘</b>	<b>296</b>	<b>↗</b>	

(1) Passenger network: Air France, KLM and HOP!

(2) Full Year 2014 data, excluding impact of September 2014 pilot strike: €495m on revenue, €425m on operating result

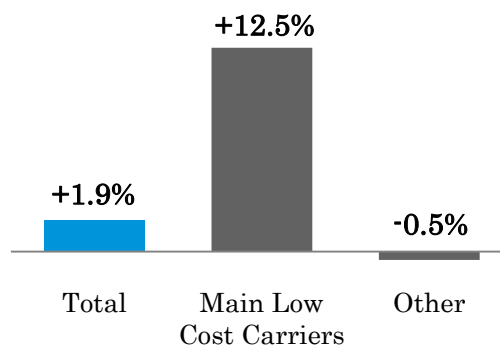
# Well positioned to benefit from growth opportunities through inherent strengths

## Long-haul travel demand to/from Europe



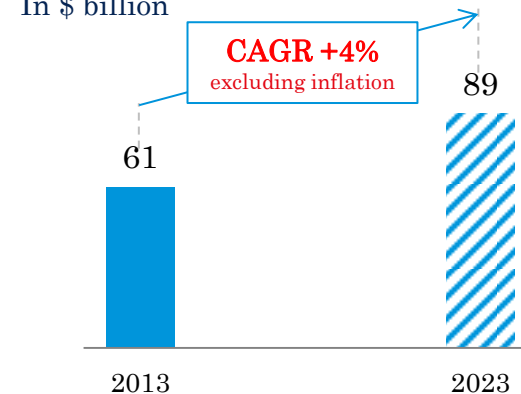
## Short and Medium-haul traffic within Europe

(2007-2013)



## Aeronautical maintenance total market

In \$ billion



### Network

- Broadest long-haul network out of Europe, especially to high growth markets
- 2 of the 4 largest hubs in the heart of Europe
- Unique portfolio of strategic partnerships in key markets

### Products and brands

- Premium product and brand positioning

### Service activities

- Strong presence in service activities around air transport

# Perform 2020: delivering selective growth and further profitability improvements

## PERFORM 2020



### A Growth

- Smart growth in passenger operations
- Successful growth in maintenance
- Accelerated development of Transavia

### B Profitability

- Capacity and investment discipline
- Further restructuring and unit cost reduction

# Investments in products and services very well received by customers

## Further deployment of new long-haul products

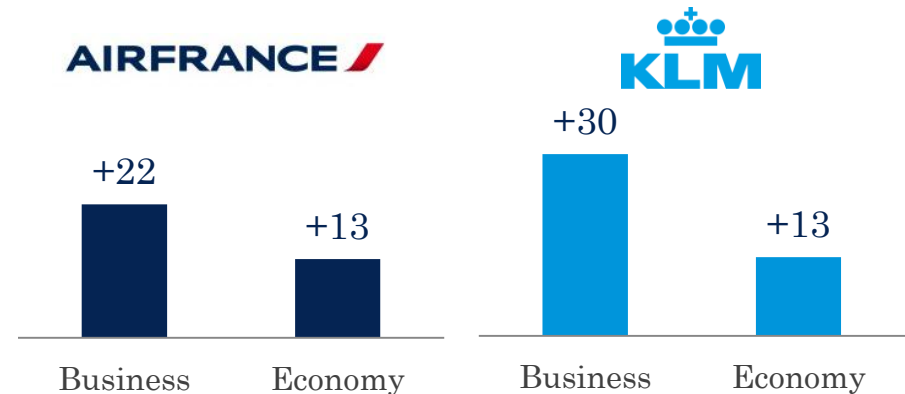
- ▶ 30% of long-haul fleet equipped at 30 June 2015, including half of KLM fleet

## Redesign of Air France medium-haul hub product

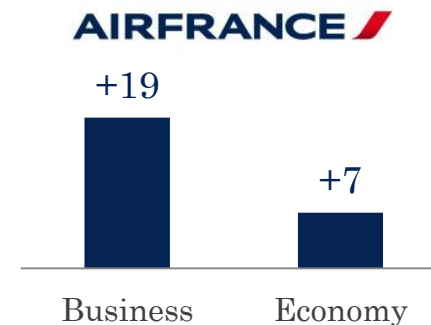
- ▶ 19 A319s equipped with new cabins at 30 June 2015
- ▶ Product repositioning and improved catering

## Air France recognized by Skytrax as world's most improved airline in 2014

### Improvements in Long-haul satisfaction<sup>(1)</sup>



### Improvements in Medium-haul satisfaction<sup>(1)</sup>



(1) Measured through Net Promoter Score

Sources: satisfaction surveys realized since launch of new products



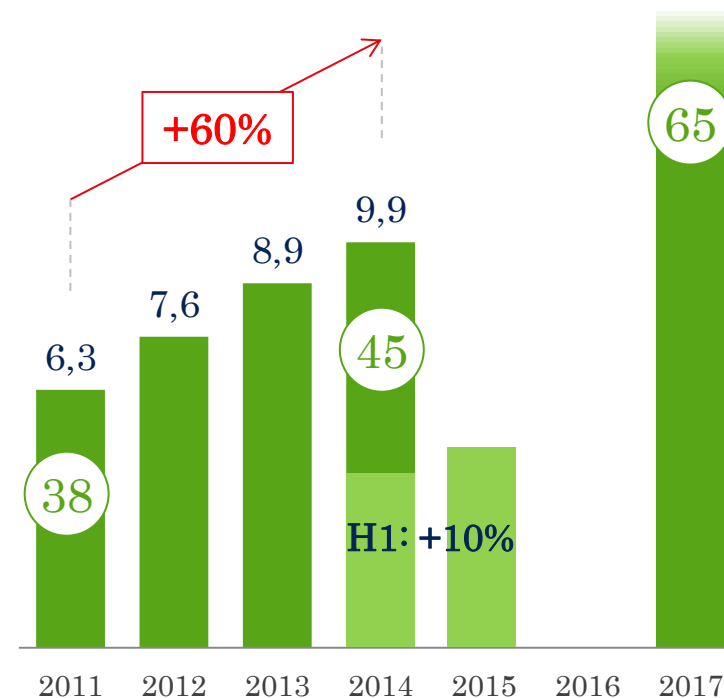
# Transavia: accelerating growth in line with plan

- **Number 1 international Low Cost Carrier at Paris-Orly and in the Netherlands**
  - ▶ 63 destinations at Summer 2015, including 18 European capitals (Berlin, Copenhagen, Dublin, Prague, Vienna, Warsaw...)
- **Broadened commercial positioning**
  - ▶ New digital platform launched
  - ▶ Branded fares
- **Increasing cost reduction initiatives**
  - ▶ New labor agreements signed in the Netherlands, enabling further growth
  - ▶ Implementation of additional synergies
- **Relaunching discussions on extension beyond home markets**

## Transavia passengers

In million

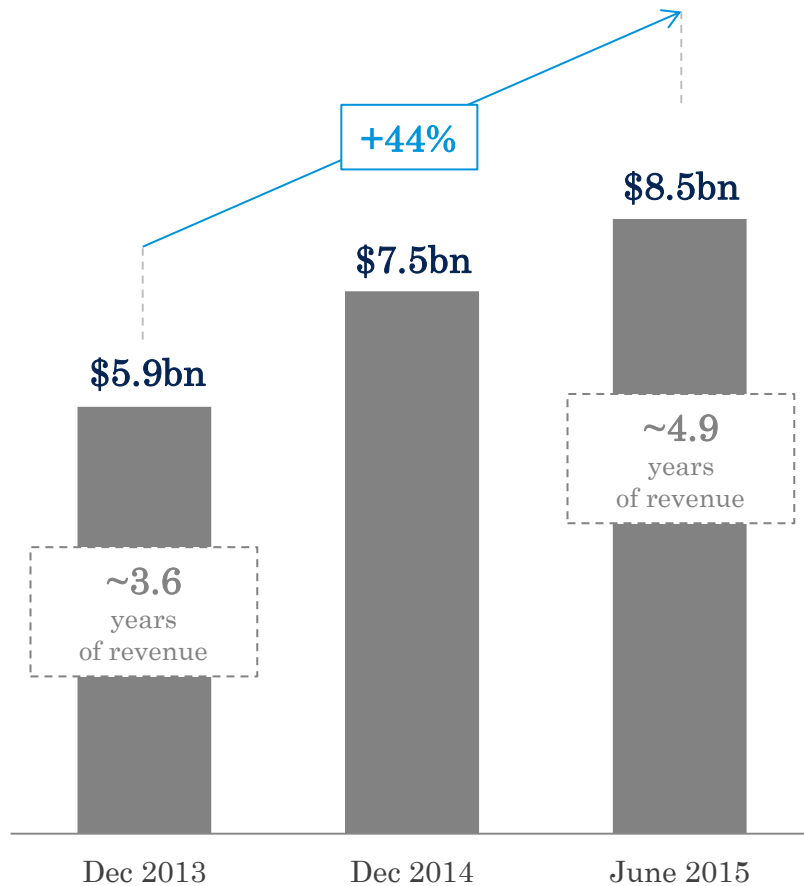
>16



○ Base fleet, excluding short term leases

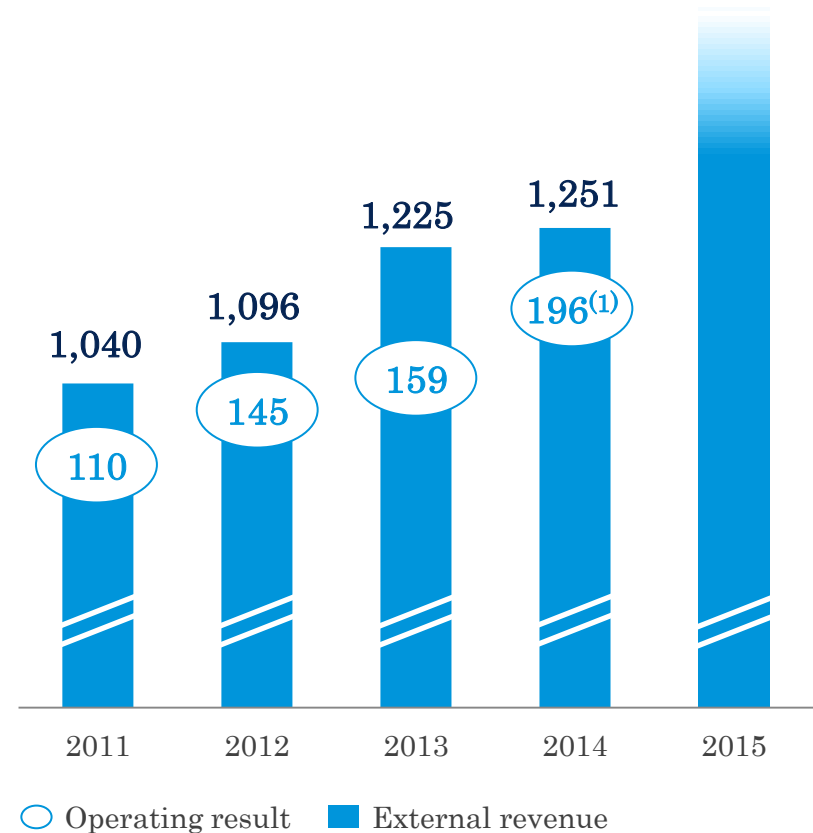
# Further momentum in maintenance

## Growth of order book



## External revenue and operating result

In € million

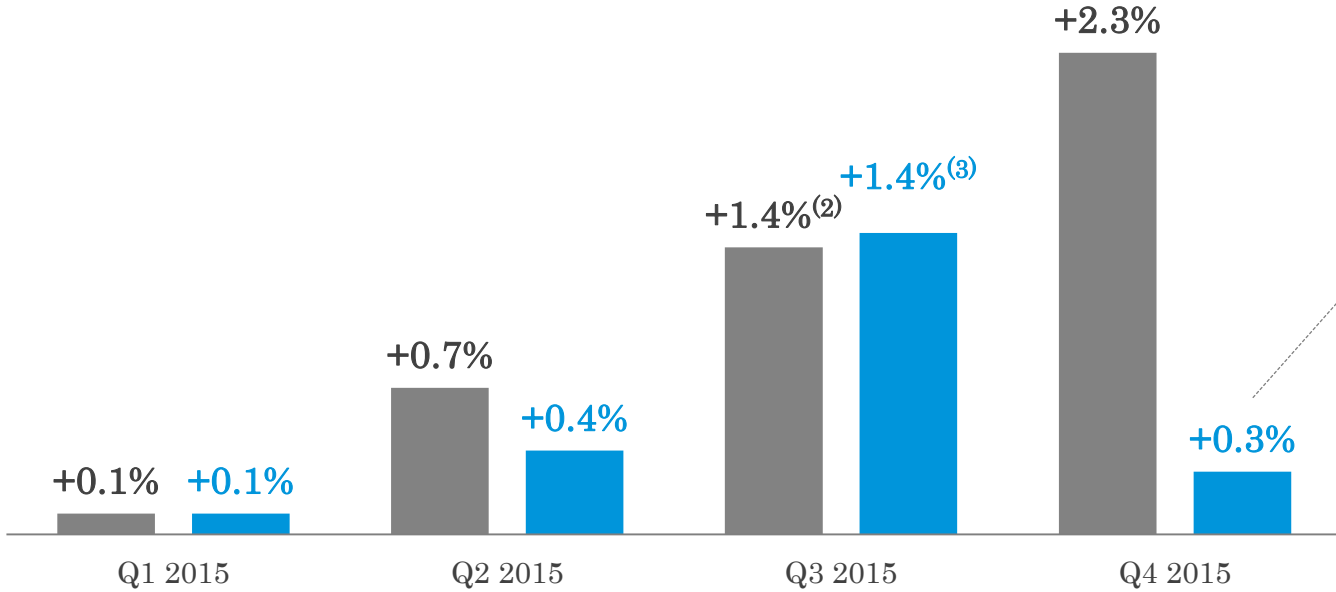


○ Operating result ■ External revenue

# Revised capacity plan for Winter 2015-16, with significant adjustments on most affected routes

## Passenger network<sup>(1)</sup> capacity growth

ASK



### Winter 2015/16 schedule

- ▶ Japan: -14%
- ▶ Brazil: -5%
- ▶ East Africa: -6%

■ February 2015 plan  
■ July 2015 update

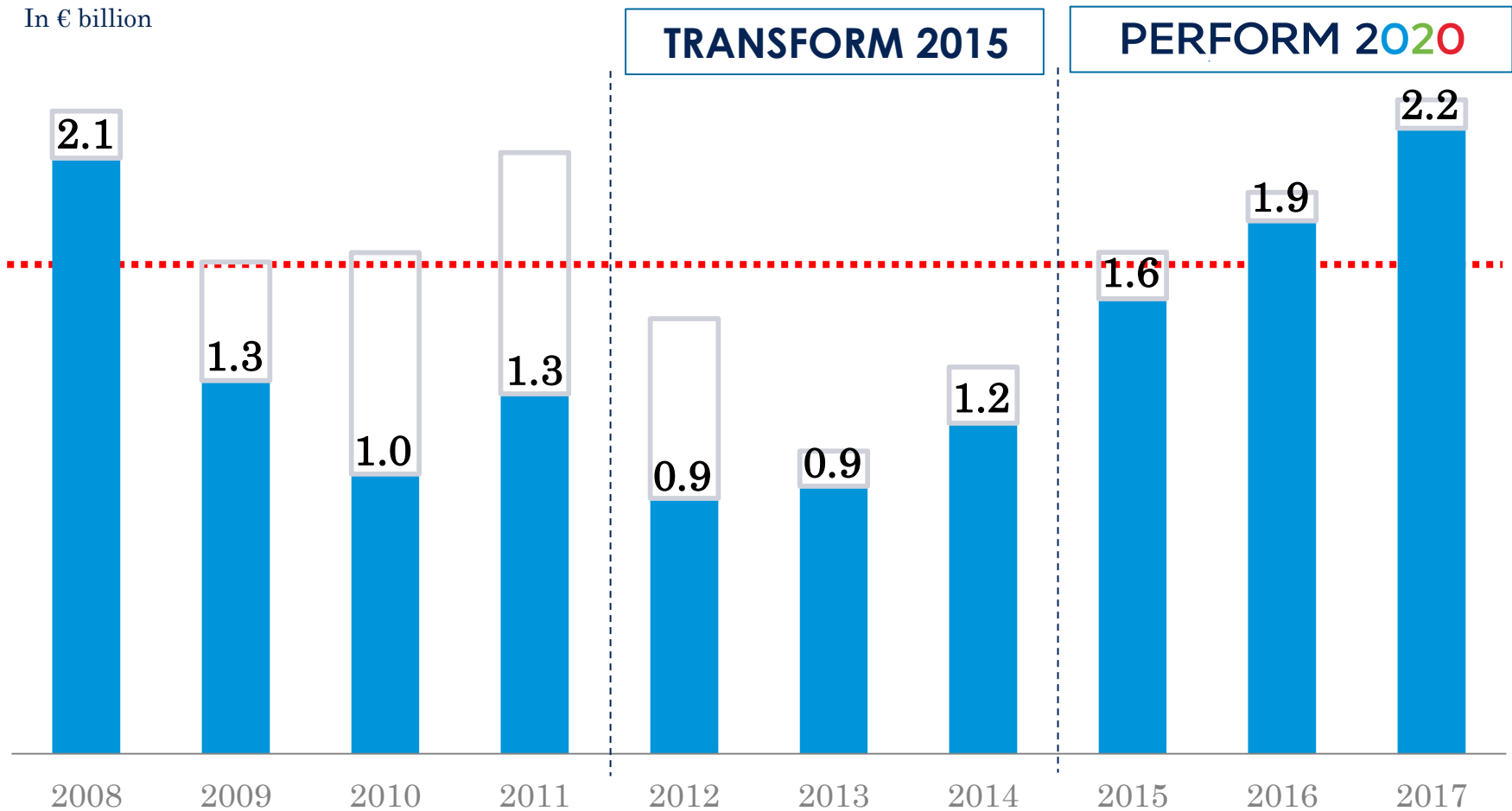
➔ Full Year 2015 growth revised down from +1.1%<sup>(2)</sup> to +0.6%<sup>(3)</sup>

(1) Passenger network: Air France, KLM and HOP!  
 (2) Excluding September 2014 strike impact. Full Year growth including strike: +2.7%, Q3 including strike: +7.6%  
 (3) Excluding September 2014 strike impact. Full Year growth including strike: +2.2%, Q3 including strike: +7.6%

# Maintaining a strict investment discipline

## Net investment plan

In € billion



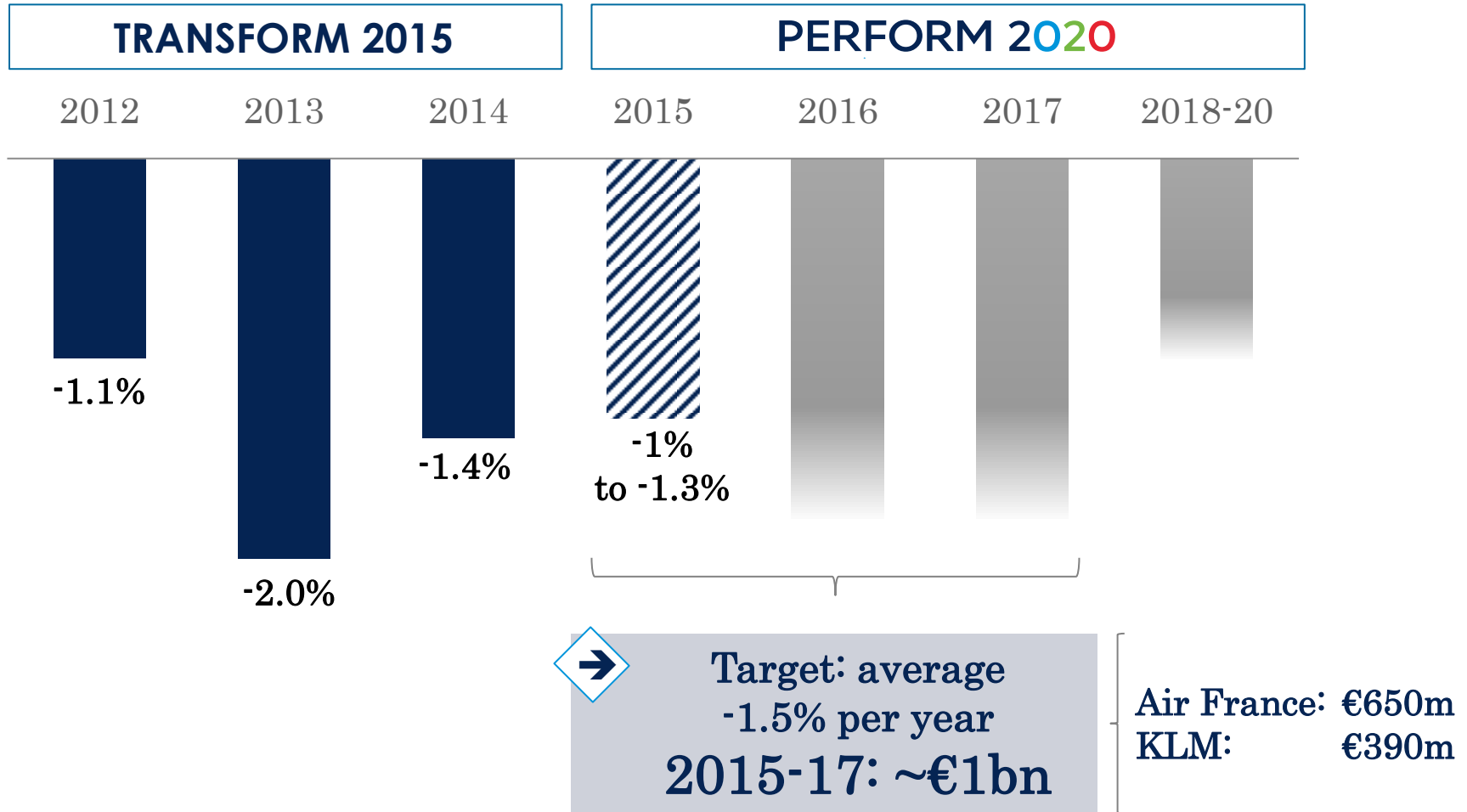
■ Net investment    □ Sale and lease-back transactions

..... Amortization and depreciations (~€1.7bn)

# Unit cost reduction target: an average of 1.5% per year

## Change in unit cost

Net unit cost per EASK<sup>(1)</sup>

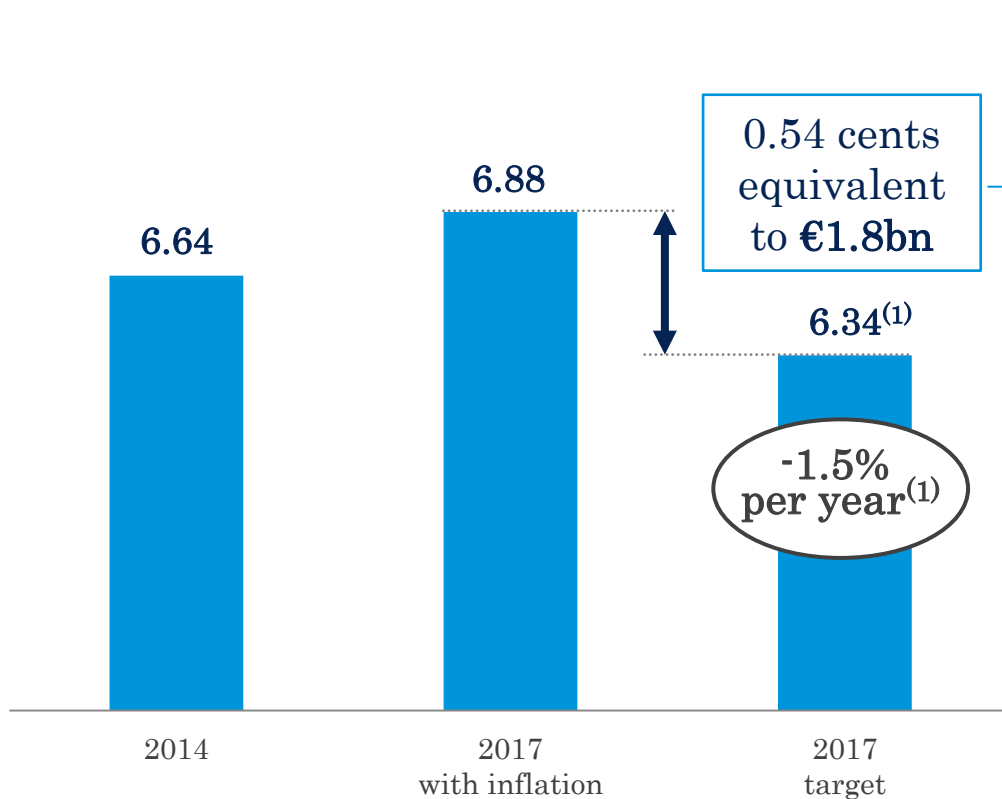


(1) Net unit cost per EASK in € cents, at constant currency, fuel price and pension-related expenses

# All cost-saving initiatives have been identified and are being rolled out

## Net unit cost per EASK

In € cents per EASK



## PERFORM 2020 initiatives

Initiative	Value (€m)
Crew productivity	380
Other passenger	260
Fleet/fuel efficiency	240
Commercial	190
Maintenance	180
Momentum of Transform 2015 measures	160
Cargo	110
Other General & Admin.	90
Transavia	90
Other	100
<b>Total (€m)</b>	<b>1,800</b>
Of which labor-related	55%
Of which non labor-related	45%

(1) On a constant currency, fuel price and pension-related expense basis.

## KLM

- ▶ Significant agreements with all work categories, for 15-36 months
- ▶ Introduced selective Voluntary Departure Plans
- ▶ Focus on execution of new Collective Labor Agreements as of September; negotiations of second phase of CLA process to start thereafter

## Air France

- ▶ Ongoing negotiations with all work categories, using benchmarks
- ▶ Conclusions expected at the end of September
- ▶ Voluntary Departure Plans closing at the end of September
- ▶ Legal proceedings resumed on implementation of remaining pilot-related Transform 2015 measures
- ▶ Depending on progress of negotiations, design and implementation of alternative plans involving significant reductions of capacity

- **Renewed Revolving Credit Facilities**
  - ▶ Main covenant: EBITDAR to adjusted net interest costs (2.5x)
- **€327m net proceeds on Amadeus shares in January**
- **Strict cash investment policy to ensure liquidity and minimal risk**
- **Active management of counterparties**
- **Strict rules and screening by Risk Management Committee**

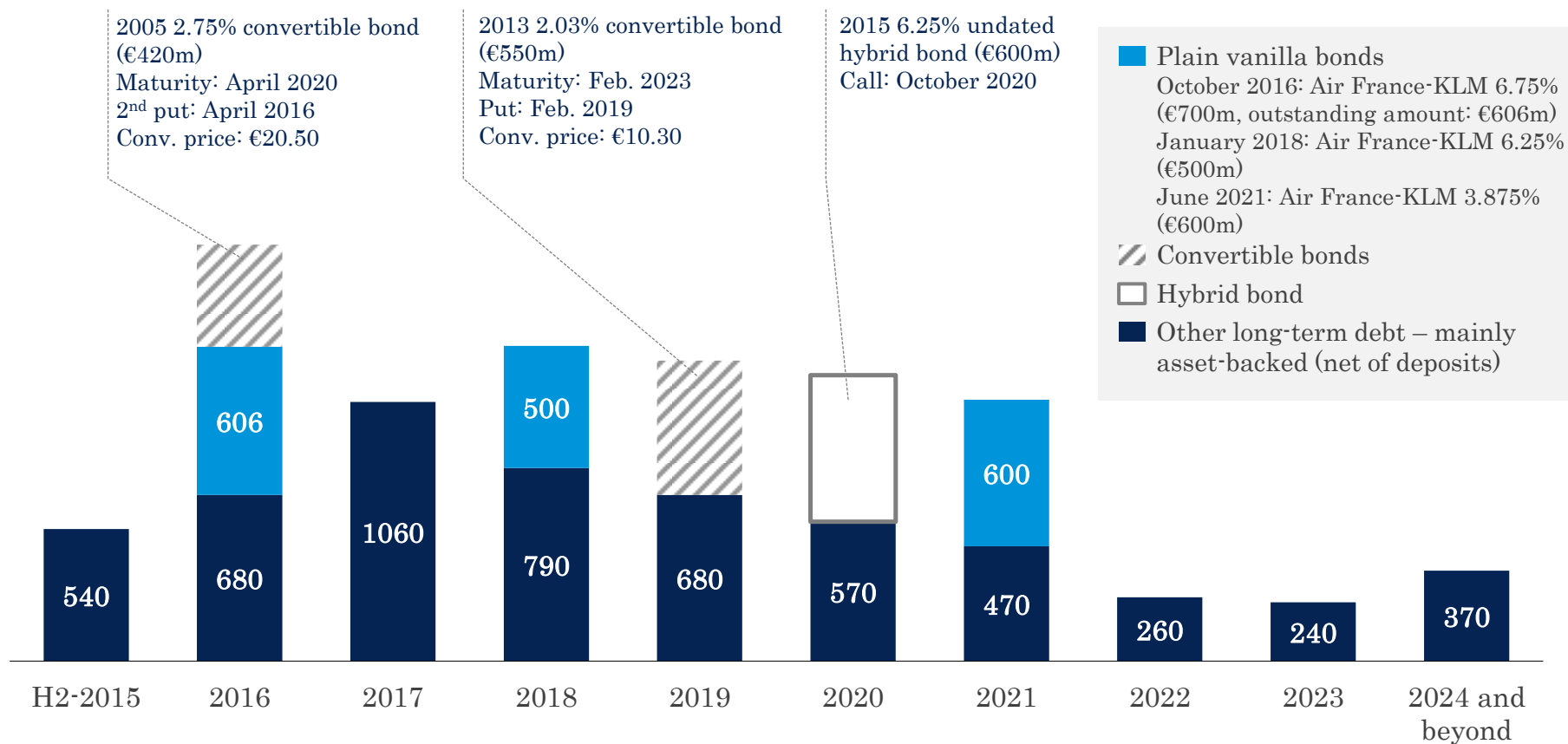
## Liquidity computation

In € million, at 30 June 2015

Net cash <sup>(1)</sup>	3,910
+ Committed Credit lines (RCF)	1,845
<b>= Gross liquidity</b>	<b>5,755</b>
- Short-term debt	1,141
<b>= Net liquidity</b>	<b>4,614</b>
<b>Net liquidity including Amadeus share value (€354m)</b>	<b>4,968</b>



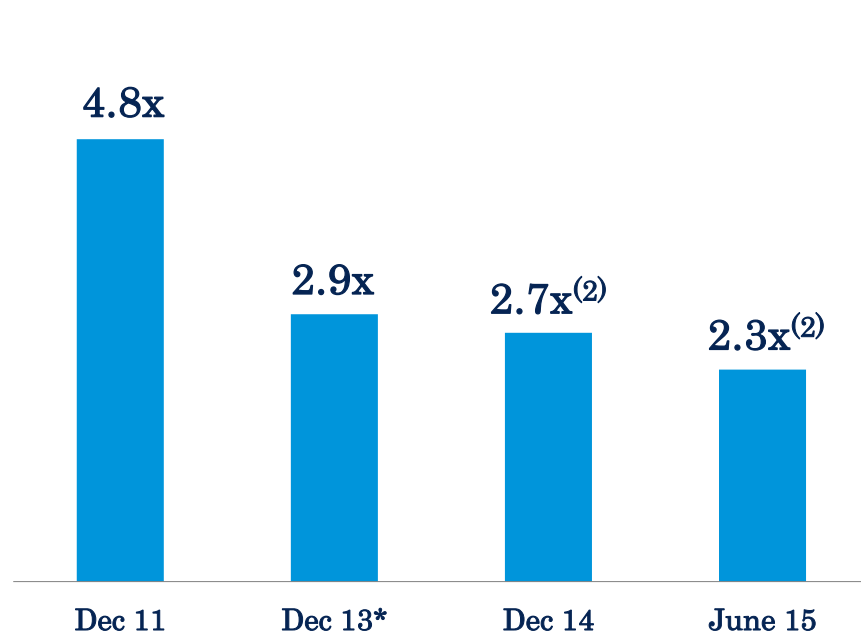
# Smooth and balanced debt profile at 30 June 2015<sup>(1)</sup>



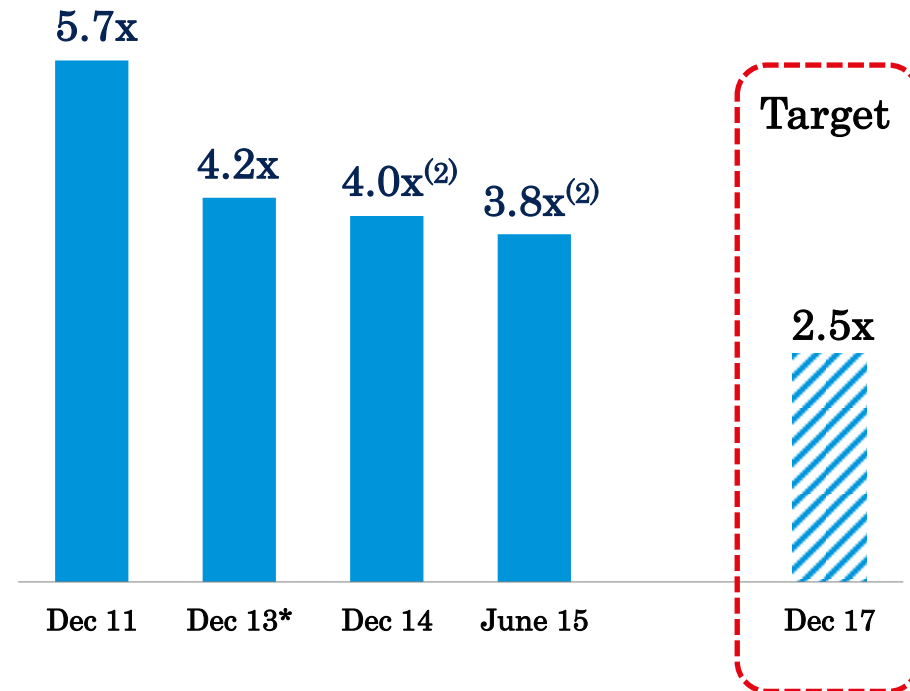
- Smooth redemption profile with average life of 3.7 years
- Majority of gross debt after swap at fixed rate (69%)
- Majority Euro-denominated debt (81% of gross debt)
- Further funding diversification and more unsecured financing going forward

# Medium-term financial targets focused on continuation of deleveraging and improvement in credit ratios

## Net debt / EBITDA



## Adjusted net debt<sup>(1)</sup> / EBITDAR



End 2015 target: net debt of c. €4.4bn

End 2017 target: adjusted net debt/EBITDAR around 2.5

2015-17: Base businesses to consistently generate annual positive free cash flow

\* Restated for IFRIC 21, CityJet reclassified as discontinued operation

(1) Adjusted for the capitalization of operating leases (7x yearly expense)

(2) Excluding strike impact on EBITDA(R). Reported adjusted net debt / EBITDAR of 4.7x at 31 December 2014 and 4.5x at 30 June 2015. Reported net debt / EBITDA of 3.4x at 31 December 2014 and 2.9x at 30 June 2015

# Agenda

- Key credit highlights
- **First Half 2015 results**
- Outlook

# First Half 2015: key data

In €m	Q2 2015	Q2 2014	Change		H1 2015	H1 2014	Change	
Revenues	<b>6,642</b>	6,451	+3.0%	↗	<b>12,298</b>	12,005	+2.4%	↗
<i>Change like-for-like<sup>(1)</sup></i>			-4.5%	↘			-3.6%	↘
EBITDAR <sup>(2)</sup>	<b>824</b>	854	-30m	↘	<b>1,053</b>	1,021	+32m	↗
EBITDA <sup>(2)</sup>	<b>569</b>	641	-72m	↘	<b>548</b>	591	-43m	↘
Operating result	<b>185</b>	238	-53m	↘	<b>-232</b>	-207	-25m	↘
Net result, group share	<b>-79</b>	-11	-68m	↘	<b>-638</b>	-619	-19m	=
Adjusted net result <sup>(2)</sup>	<b>77</b>	146	-69m	↘	<b>-427</b>	-339	-88m	↘
Operating free cash flow <sup>(2)</sup>	<b>311</b>	175	+136m	↗	<b>274</b>	95	+179m	↗
ROCE <sup>(2, 4)</sup>					<b>5.5%</b>	5.0%	+0.5 pts	↗
Net debt at end of period					<b>4,550</b>	5,407 <sup>(3)</sup>	-857m	↗
Adjusted net debt / EBITDAR <sup>(2, 4)</sup>					<b>3.8x</b>	4.0x <sup>(3)</sup>	-0.2	↗

(1) Like-for-like: excluding currency. Same definition applies in rest of presentation unless otherwise stated

(2) See definition in press release

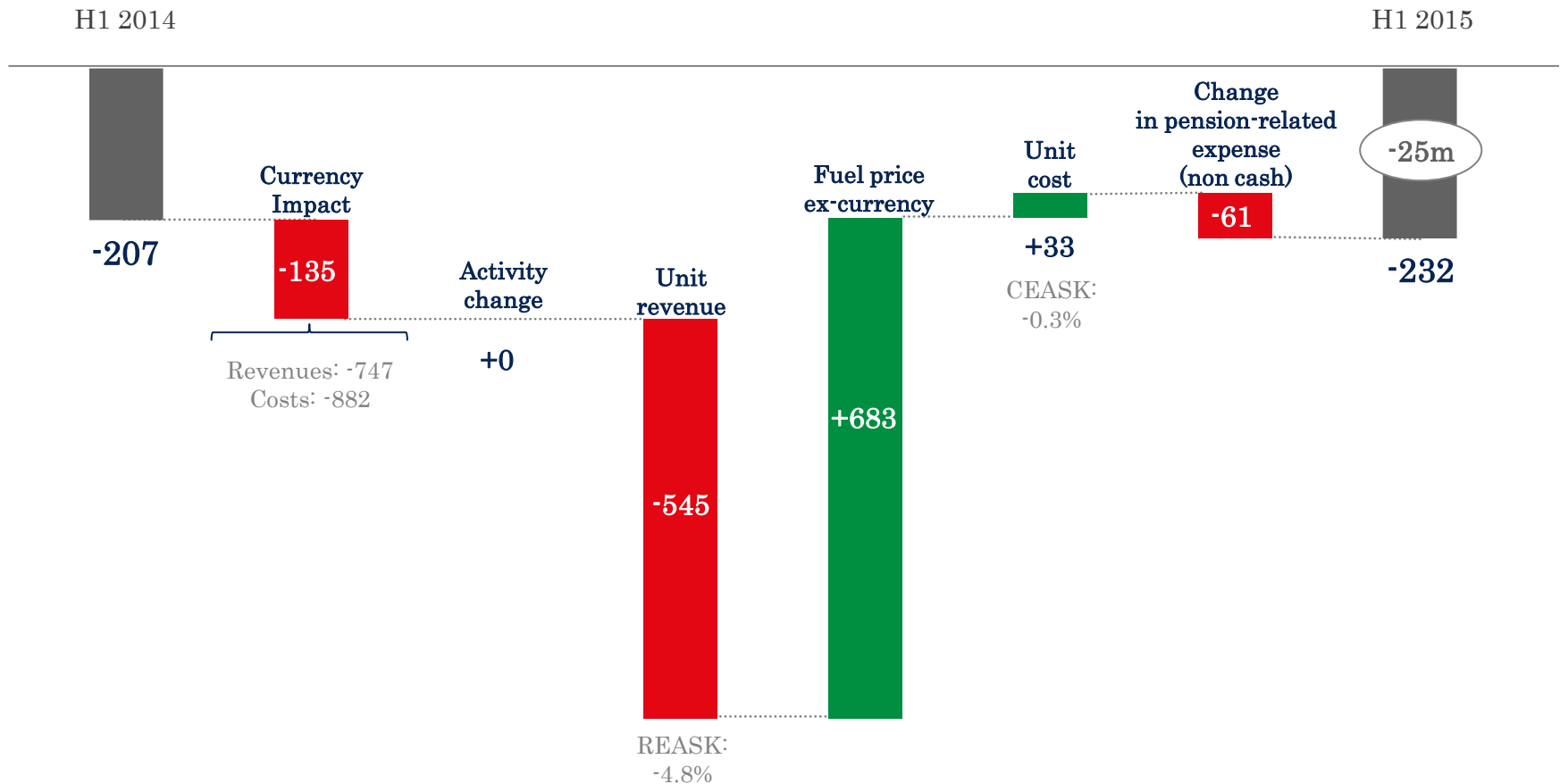
(3) At 31 December 2014

(4) Trailing 12 months; EBITDAR and ROCE excluding strike

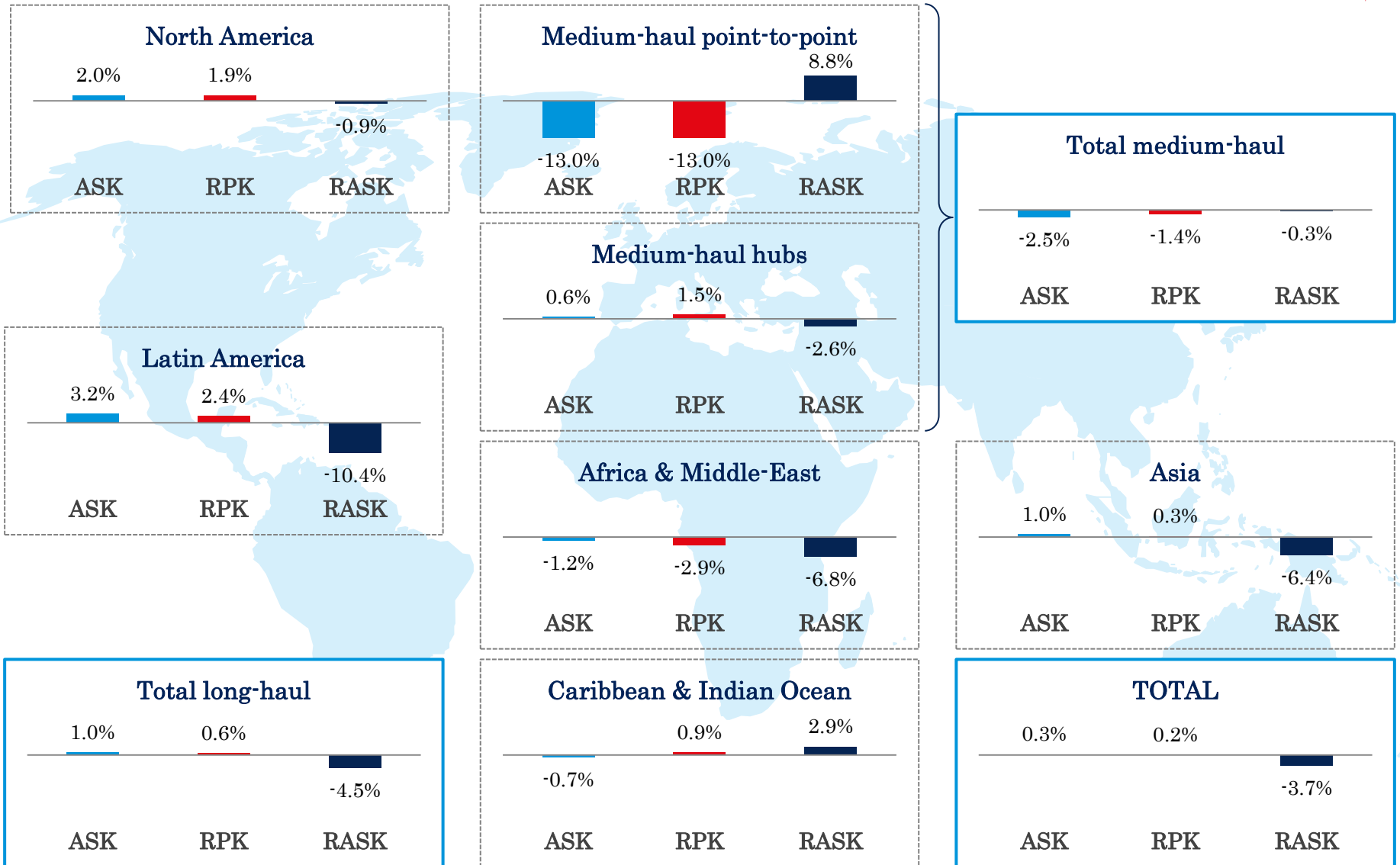
# First Half 2015 operating result: currency and pressure on unit revenues offset all fuel price benefits

## Operating results

In € million



# First Half 2015 Passenger network unit revenue by network

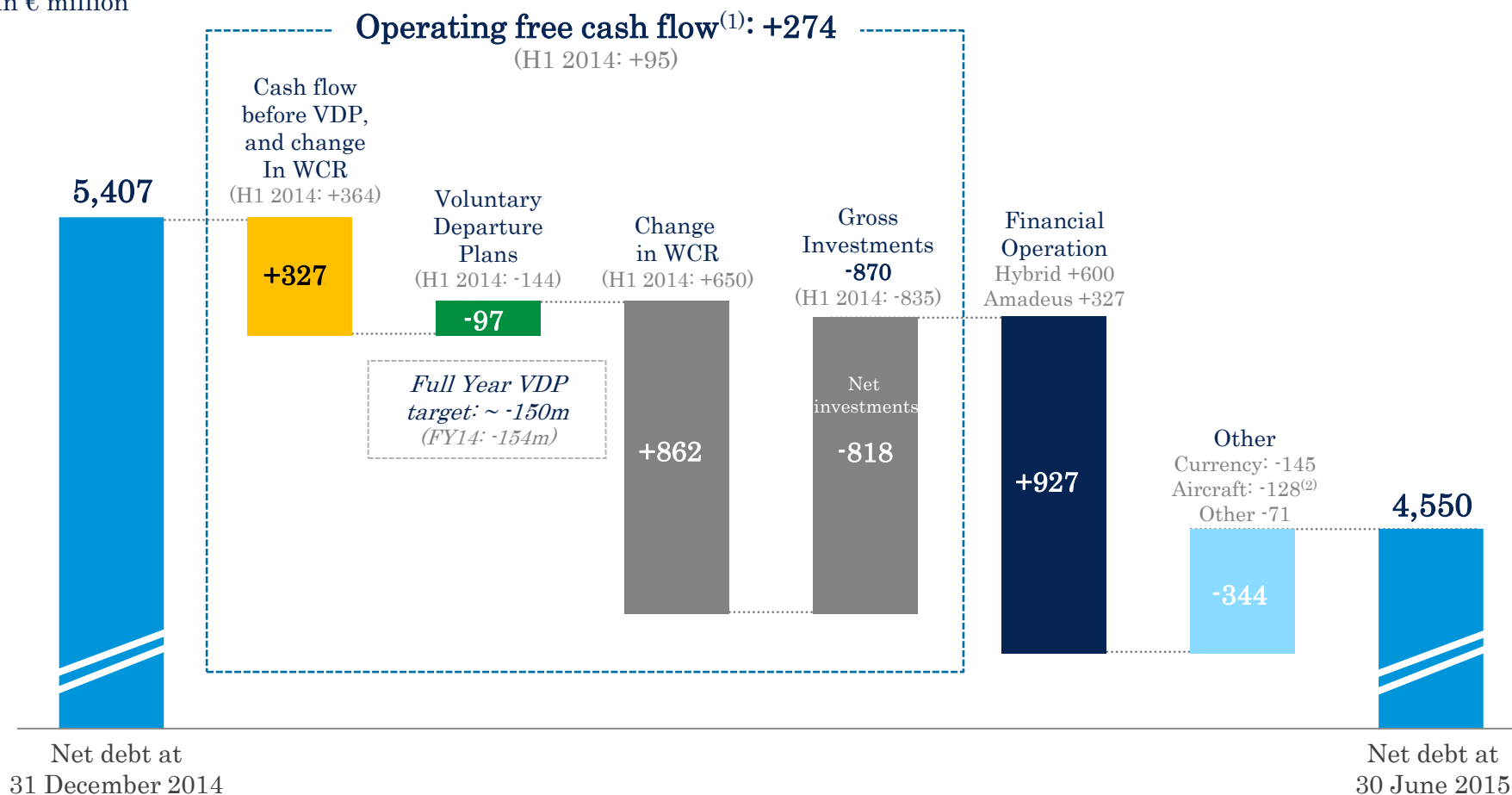


NB: RASK ex currency, passenger network only: Air France, KLM and HOP!

# First Half 2015: significant net debt reduction...

## Analysis of change in net debt, First Half 2015

In € million



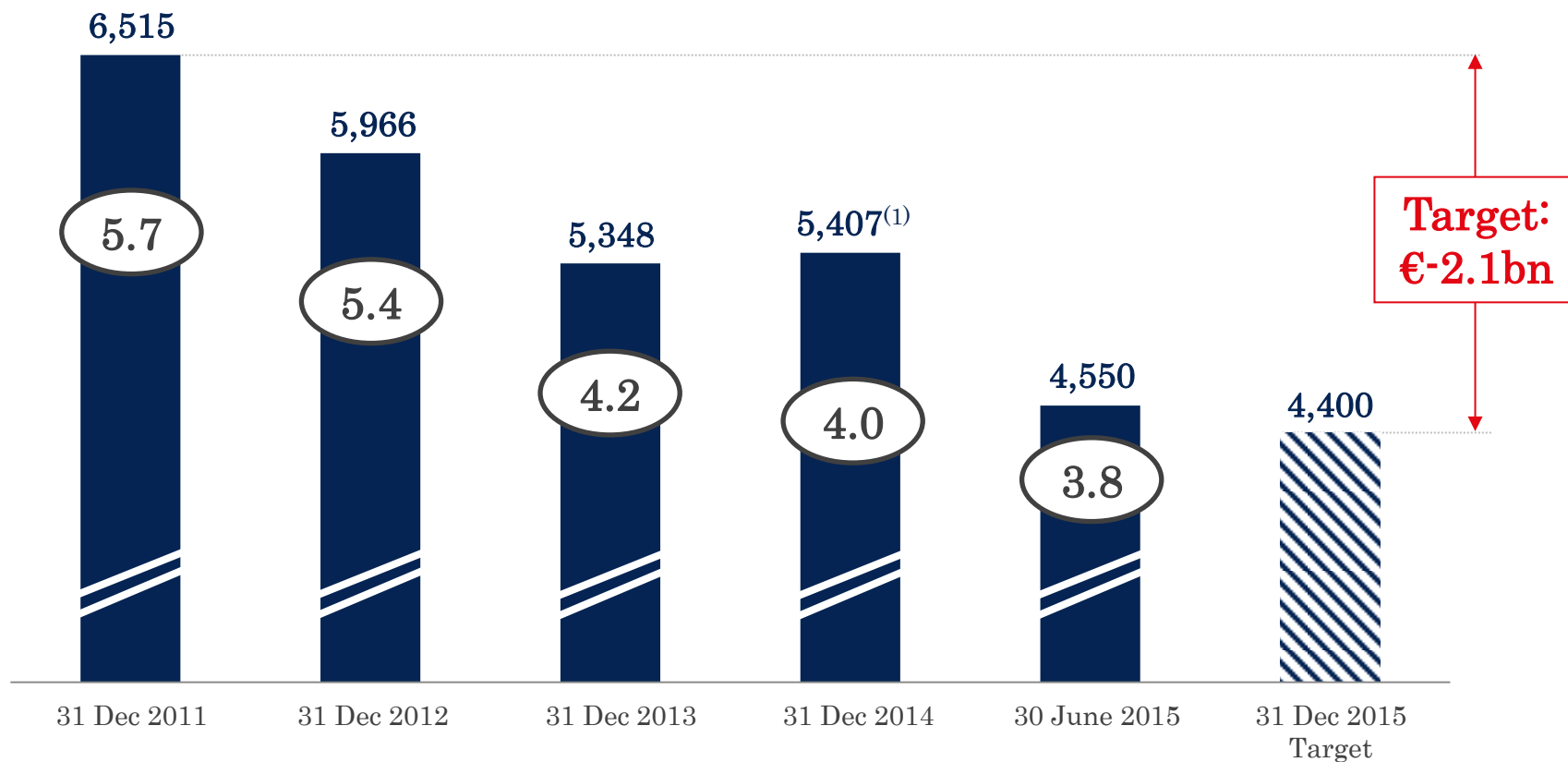
(1) Net cash flow from operating activities less net capex on tangibles and intangibles. All amounts excluding discontinued operations. See definition in press release

(2) Requalification of aircraft from operating leases to financial leases

# ...in line with net debt reduction target

## Net debt level since 2012

In € million, adjusted net debt / EBITDAR ratio



(1) Net debt level affected by strike impact of more than €400m



# Agenda

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- Key credit highlights
- First Half 2015 results
- Outlook

# Outlook for Second Half of 2015

- All initiatives planned within the Perform 2020 framework are being deployed, targeting an accelerated implementation
- Significant expected savings on the fuel bill could be almost completely offset by unit revenue pressure and negative currency impacts
- H2 capacity growth<sup>(1)</sup> revised down from +1.8% to +0.9%
- Full Year 2015 financial targets unchanged:
  - ▶ 1% to 1.3% unit cost reduction<sup>(2)</sup>
  - ▶ Net debt around 4.4 billion euros at end 2015

(1) Passenger network capacity, excluding September 2014 strike impact

(2) On a constant currency, fuel price and pension-related expense basis

## PERFORM 2020



- Selective development on growth markets
- Product and services upgrade
- Strict capacity and investment discipline
- Timeline adapted to labor context of each airline
- Accelerated cost initiatives
- Support from other stakeholders

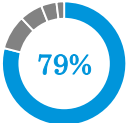

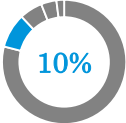

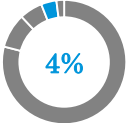

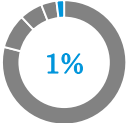


**A more efficient business  
and a deleveraged balance sheet, a leader  
taking its share of the market growth**

# Appendix



# Contribution by business segment to First Half 2015

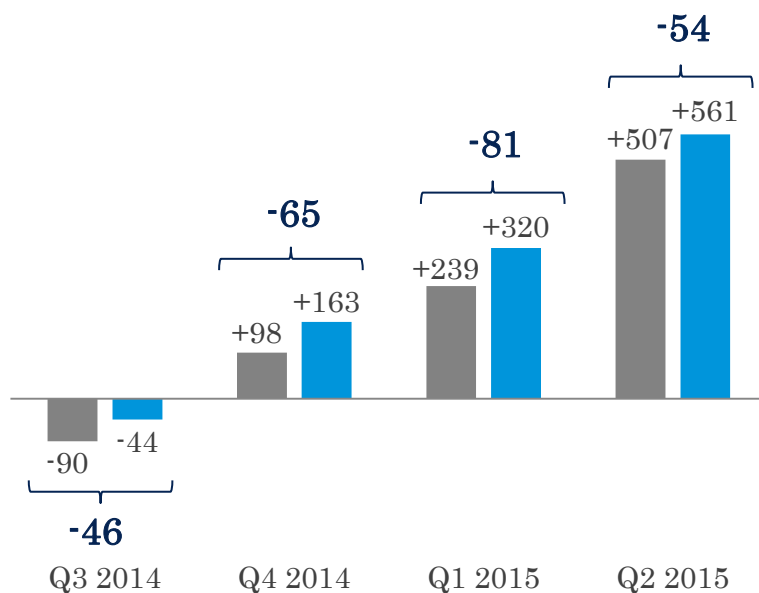
		Revenue (€bn)	Reported change (%)	Change Like-for- like (%)		Op. Result (€m)	Reported change (€m)	Change Like-for- like (€m)	
 Passenger network <sup>(1)</sup>		9.66	+2.0%	-3.3%	↘	-112	+11	+129	↗
 Cargo		1.23	-8.6%	-16.1%	↘	-141	-62	-44	↘
 Maintenance		0.78	+34.7%	+13.4%	↗	86	+34	+15	↗
 Transavia		0.45	+3.5%	+3.1%	↗	-75	-11	+3	=
 Other		0.18	+4.0%	+3.7%	↗	10	+3	+7	↗
<b>Total</b>		<b>12.30</b>	<b>+2.4%</b>	<b>-3.6%</b>	↘	<b>-232</b>	<b>-25</b>	<b>+110</b>	↗

(1) Passenger network: Air France, KLM and HOP!

# Continued significant negative currency impact on operating result

## Currency impact on revenues and costs

In € million

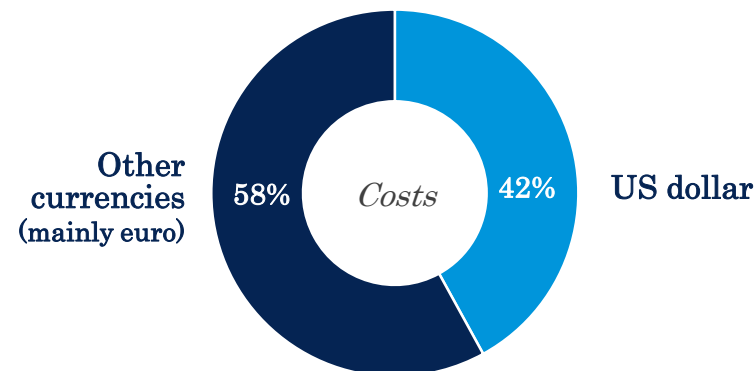
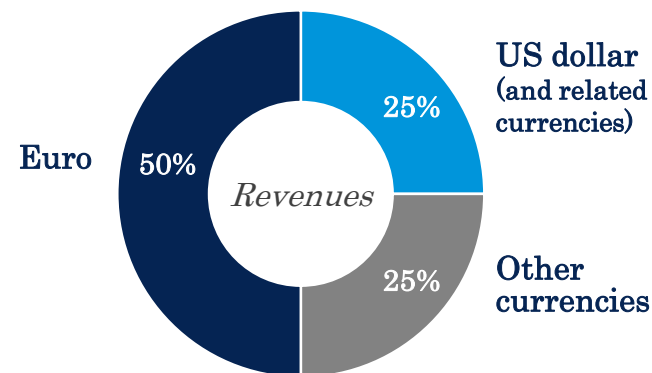


- Currency impact on revenues
- Currency impact on costs, including hedging

-XX Currency impact on operating result

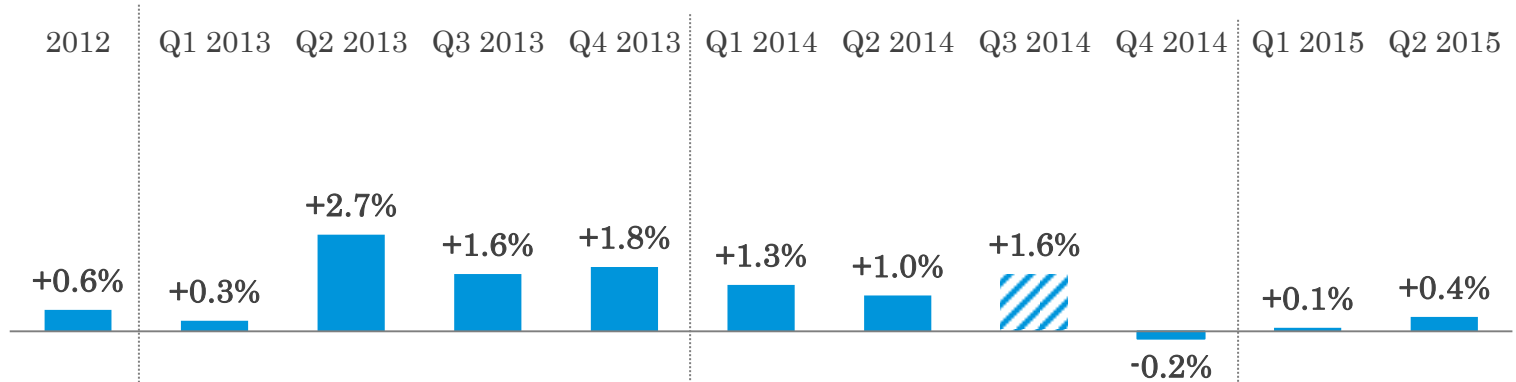
## Revenues and costs per currency

FY 2014



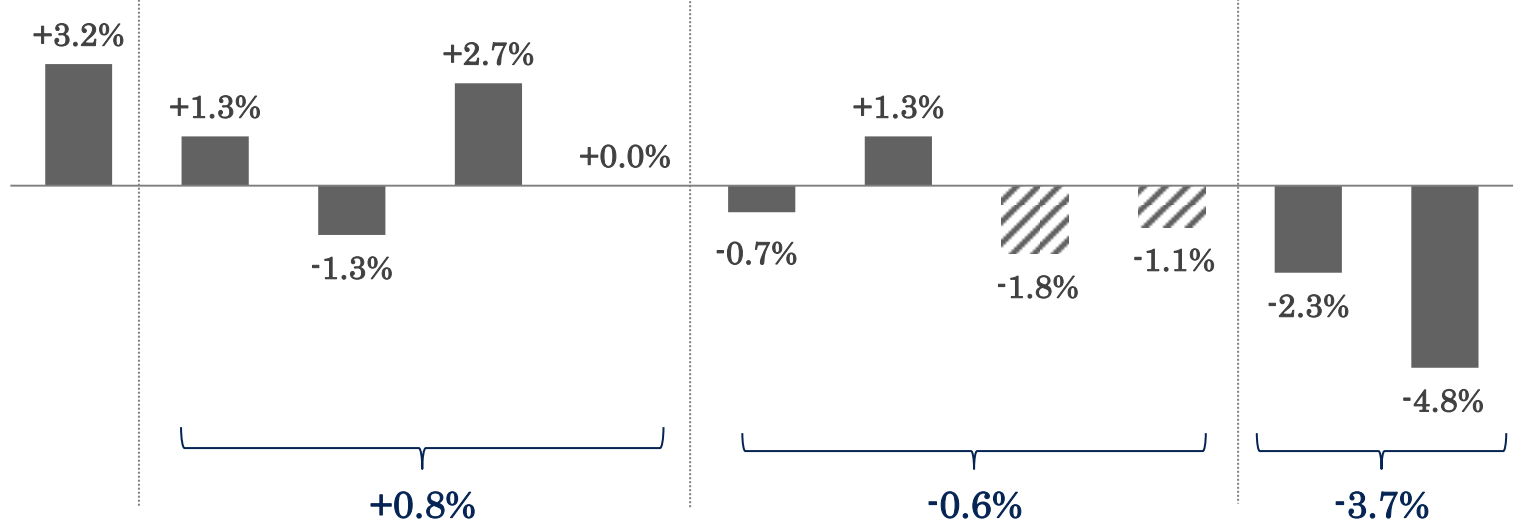
# Passenger network capacity and unit revenue by quarter

## Capacity



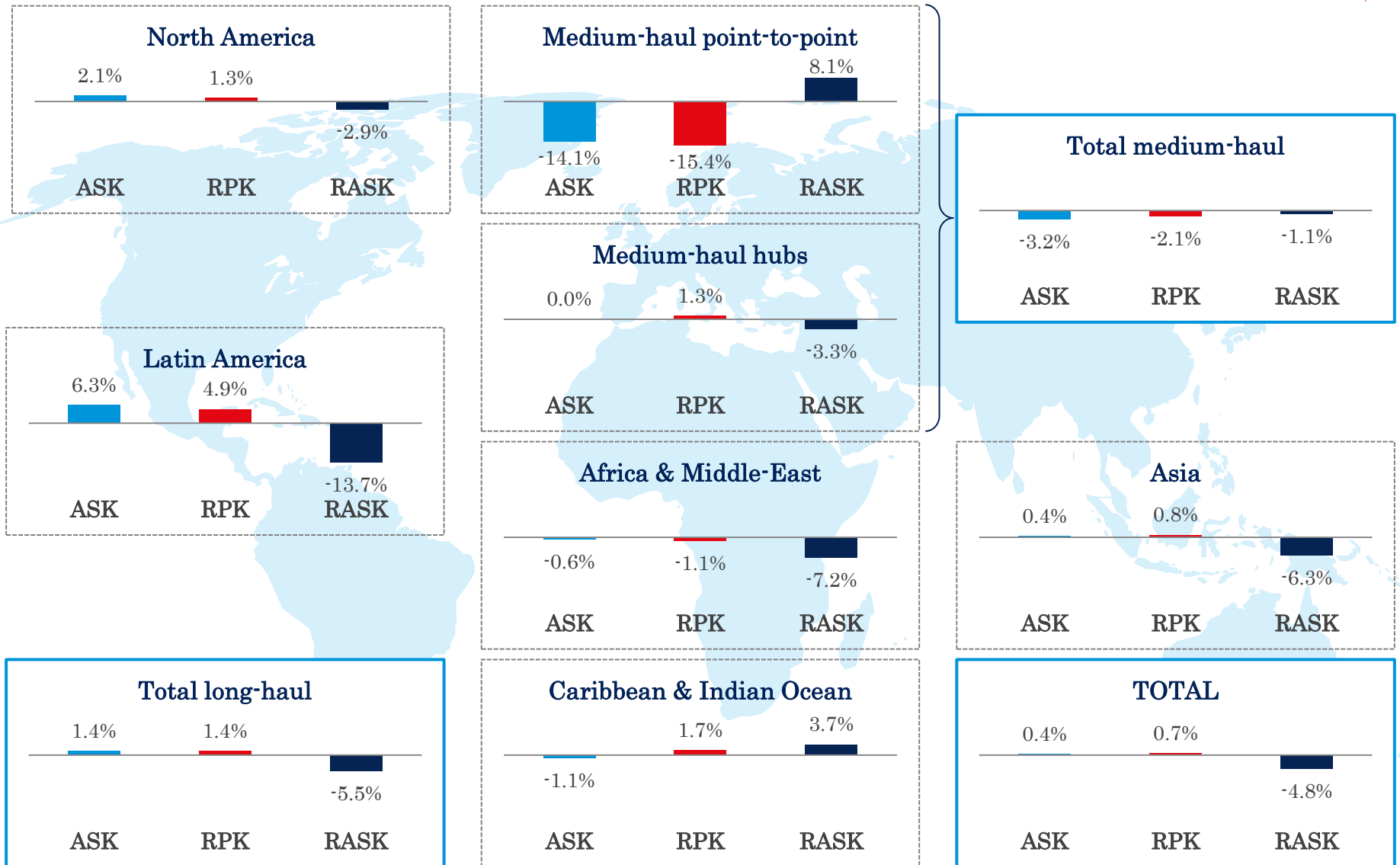
## RASK

Ex-currency



Like-for-like<sup>(1)</sup>

# Second Quarter 2015 Passenger network unit revenue by network

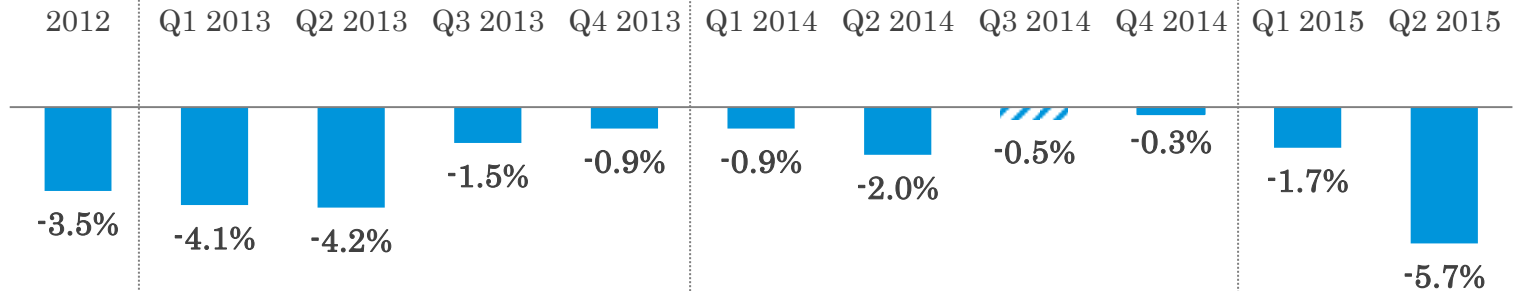


NB: RASK ex currency, passenger network: Air France, KLM and HOP!



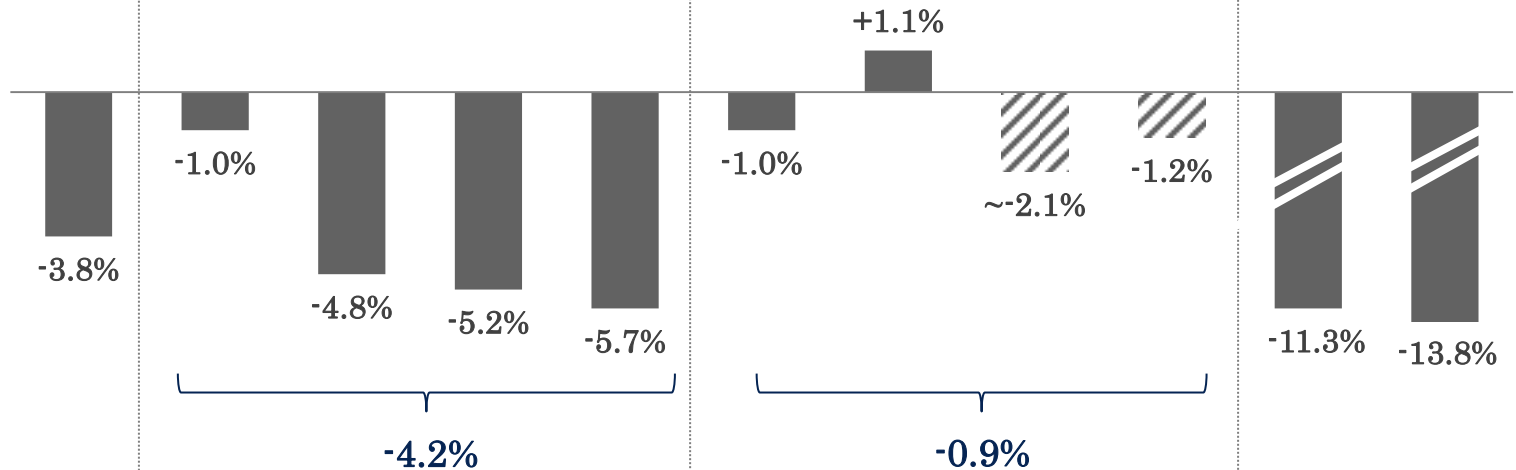
# Cargo capacity and unit revenue by quarter

## Capacity



## RATK

Ex-currency



 Excluding strike

# Update on 2015 fuel bill

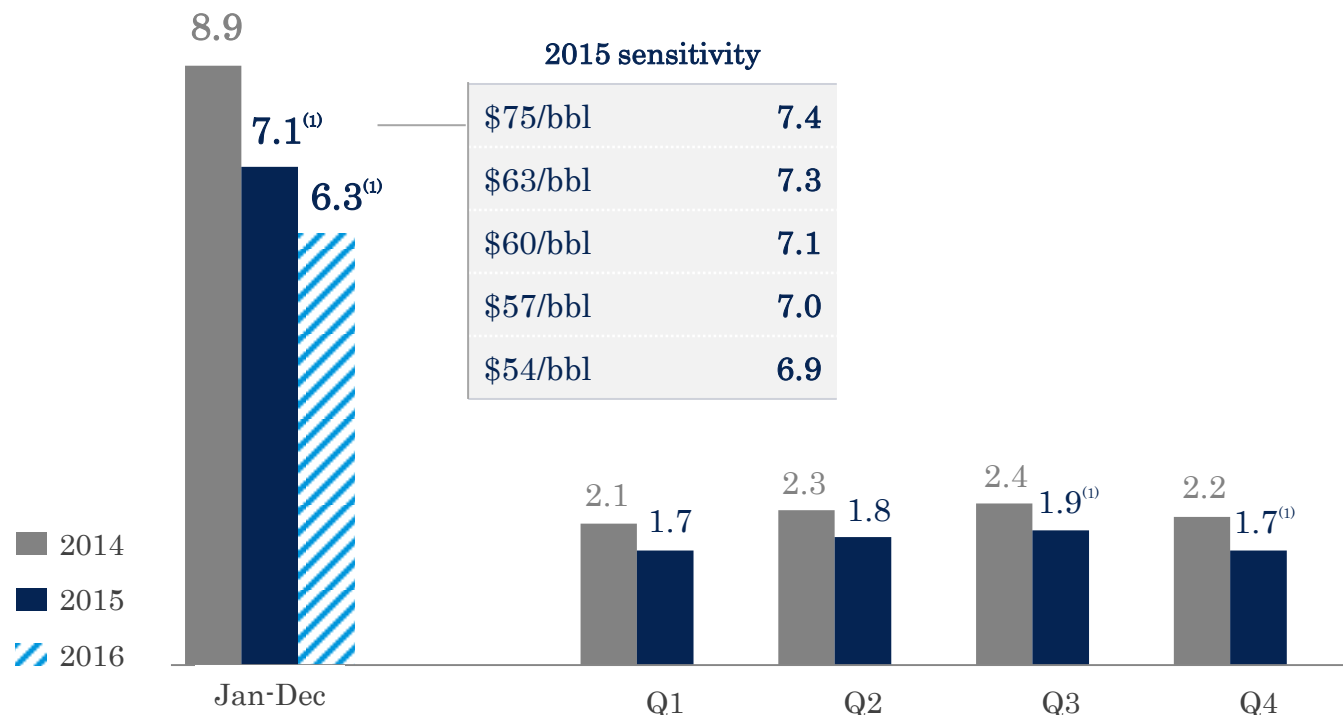
## Fuel bill after hedging

In \$ billion

2014:  
fuel bill \$8.9bn / €6.6bn

2015:  
fuel bill \$7.1bn / €6.4bn<sup>(2)</sup>

2016:  
fuel bill \$6.3bn / €5.7bn<sup>(2)</sup>

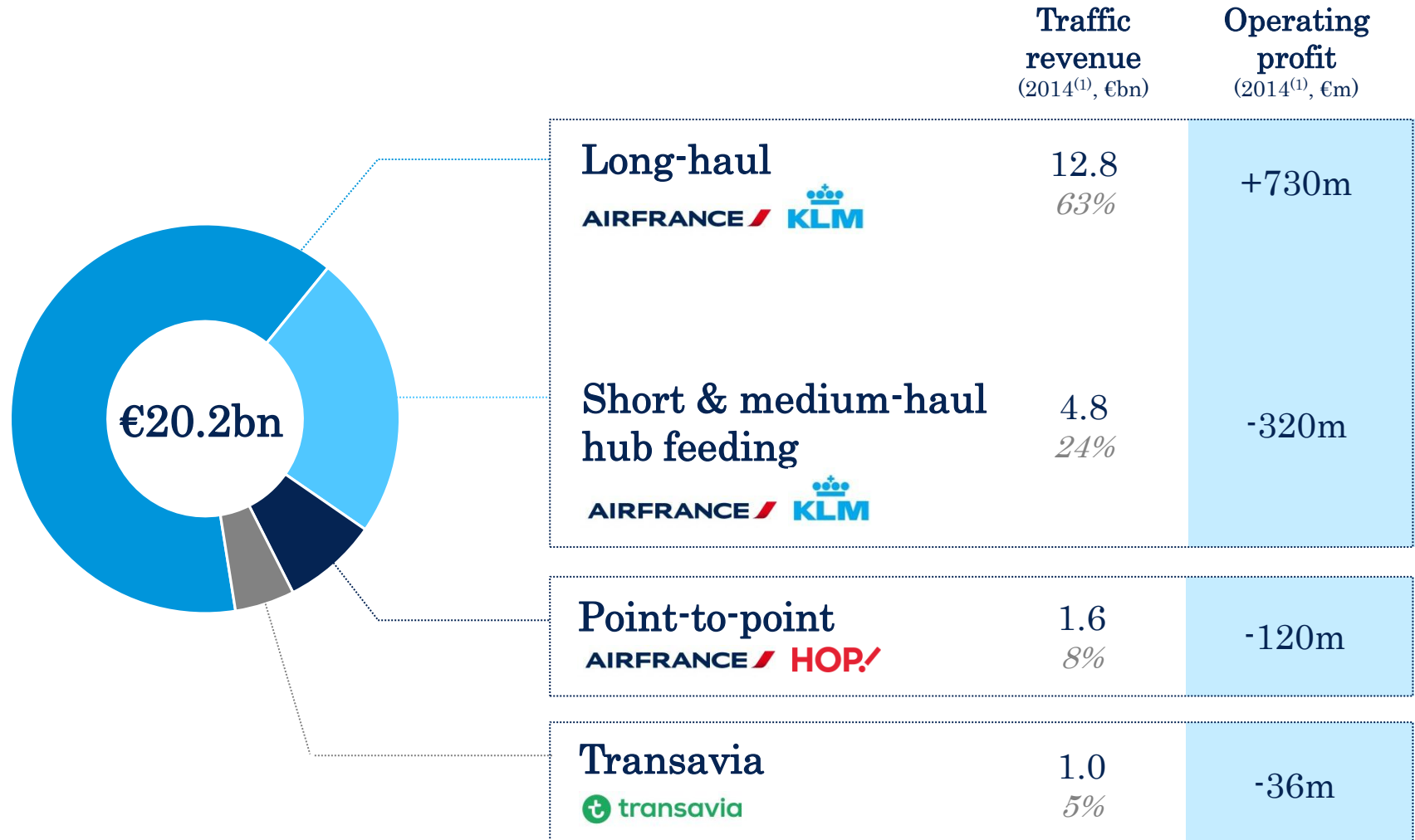


MARKET PRICE	2015		2015				
	Brent (\$ per bbl) <sup>(1)</sup>	Jet fuel (\$ per metric ton) <sup>(1)</sup>	Jan-Dec	Q1	Q2	Q3	Q4
	60	578	60	55	64	59	61
				565	603	563	578
	% of consumption already hedged					75%	76%

(1) Based on forward curve at 10 July 2015. Sensitivity computation based on July-December 2015 fuel price, assuming constant crack spread between Brent and Jet Fuel

(2) Assuming average exchange rate of 1.10 US dollar per euro from Q3 2015 onwards

# Three operating platforms for passenger air transportation

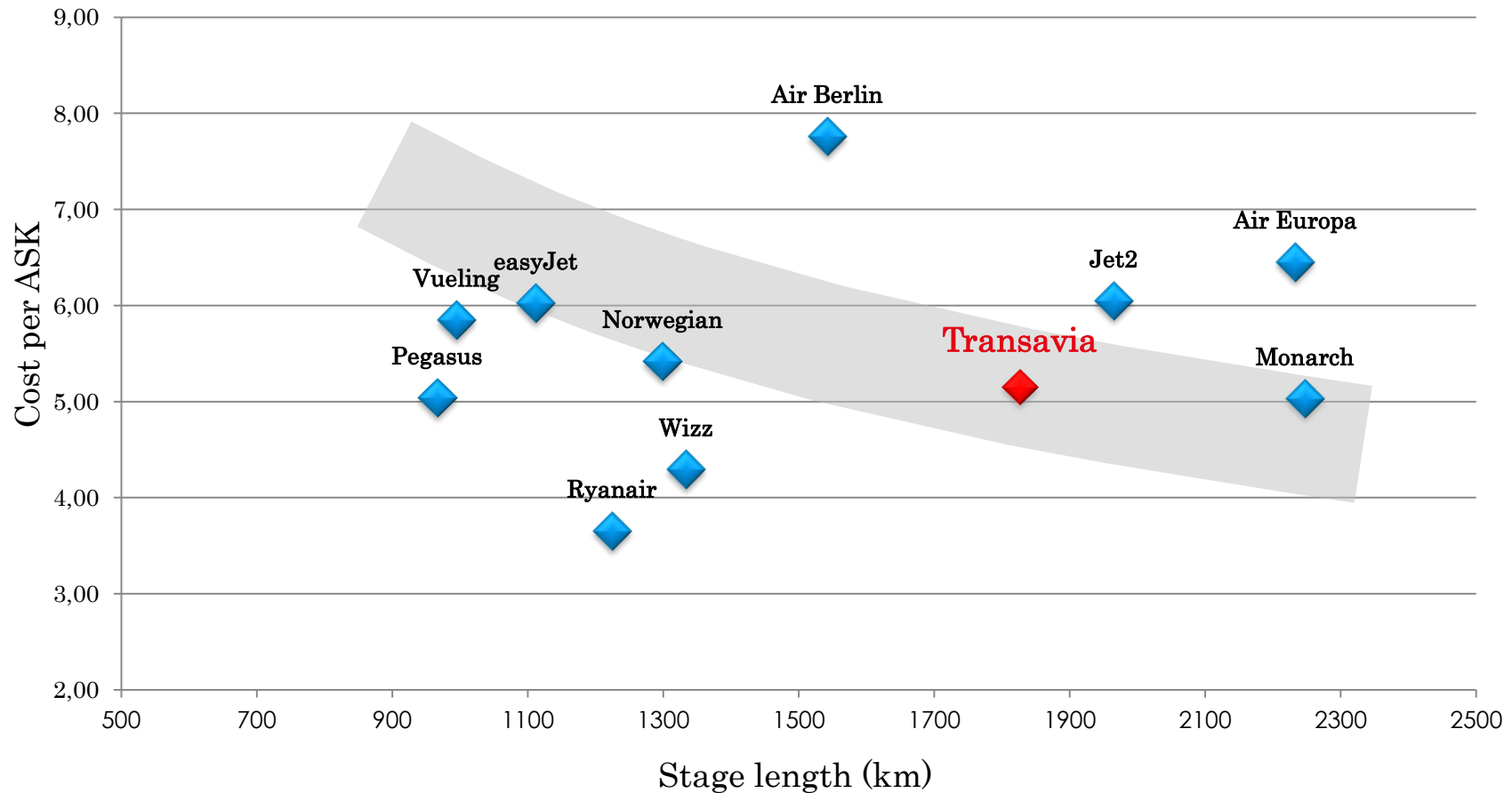


(1) Excluding September 2014 pilot strike impact

# Short and medium-haul low-cost market: unit cost is the key factor in achieving profitable growth

## Cost per ASK vs stage length

In € cents per ASK, 2013<sup>(1)</sup>



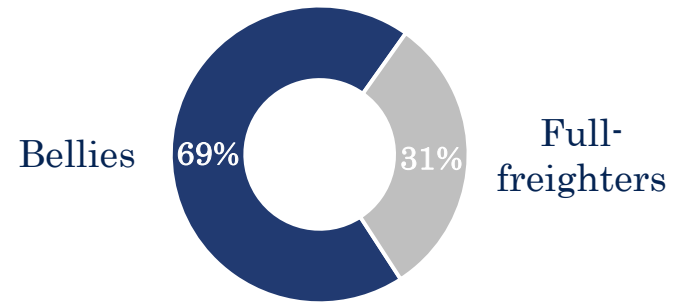
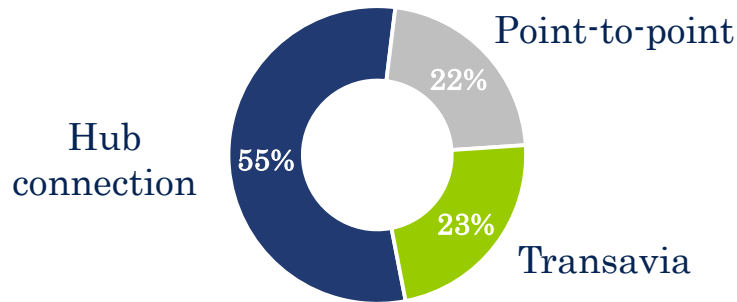
(1) Source: Airline business, financial reports

# A deep transformation of the business mix

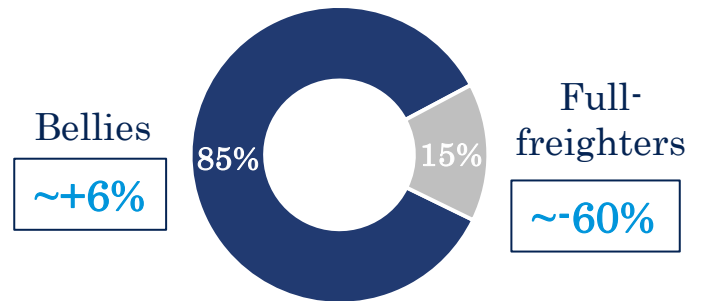
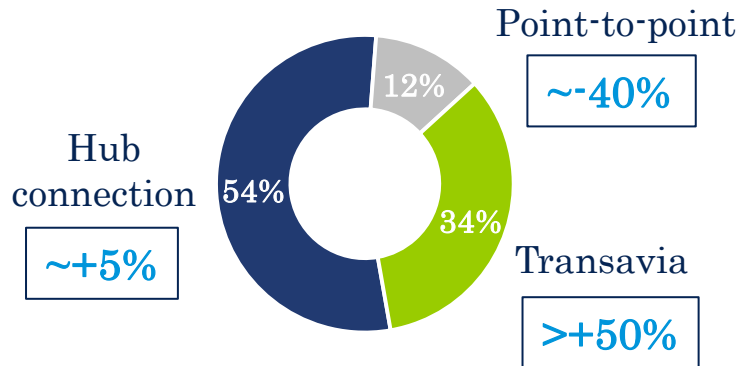
Medium-haul capacity  
(ASK)

Cargo capacity  
(ATK)

2012



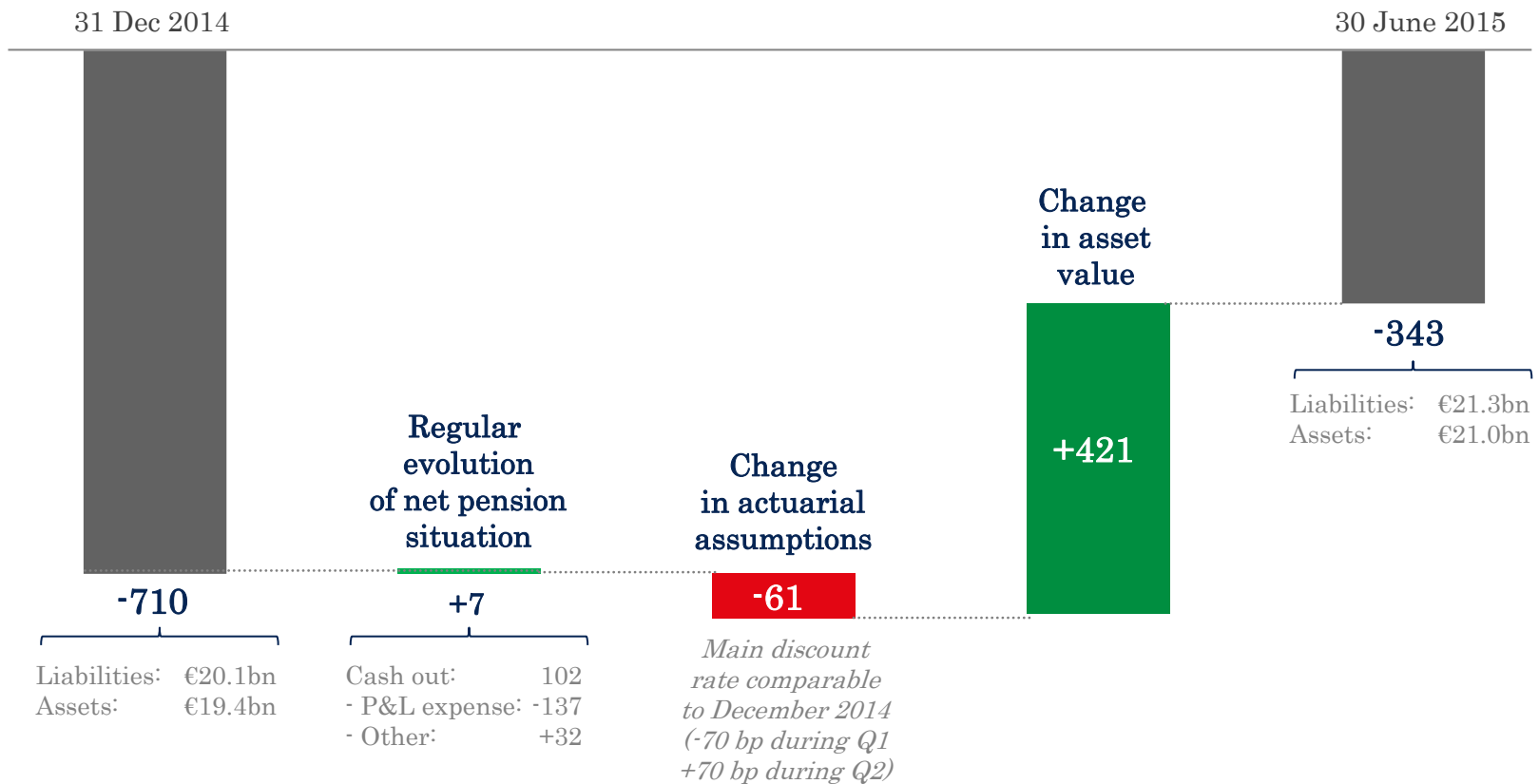
2017



# First Half 2015: improved pension situation

## Evolution of net pension balance sheet situation

In € million

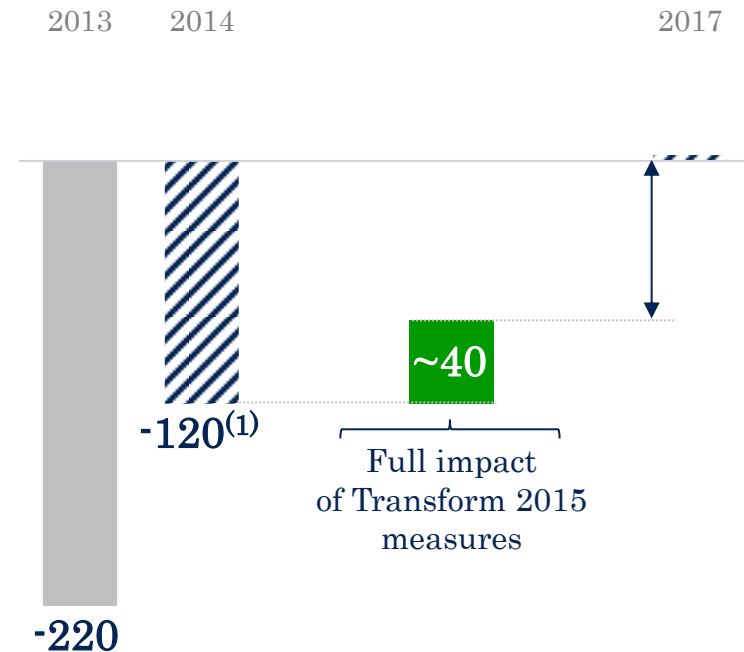


# Cost reduction initiatives launched across the organization: further repositioning of HOP! Air France

- New renovated commercial offer
- Ongoing Voluntary Departure Plans to reduce station costs
- Merger of regional operating carriers
- Sharpened fleet management
  - ▶ Mixing regional and A320 family aircraft

## HOP! Air France operating result

In € million



(1) Excluding September 2014 pilot strike impact

# Cost reduction initiatives launched across the organization: further full-freighter fleet reduction in Amsterdam

## Accelerated phase out of 5 MD11s in Amsterdam

- ▶ Full-freighter capacity: -26% in Q2 2015
- ▶ Operating 5 aircraft at June 2016, 2 at Paris-CDG and 3 at Amsterdam

## Keeping a small full-freighter fleet as important commercial lever to maintain revenue premium in bellies

## €71m restructuring cost recorded in H1 accounts

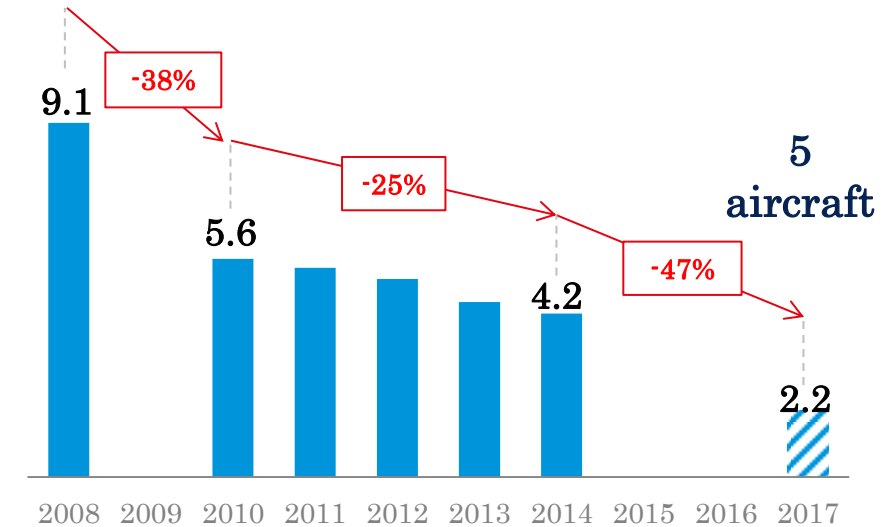
- ▶ Also covering Voluntary Departures in other departments



**3 full-freighters in operation in Amsterdam by 2016**

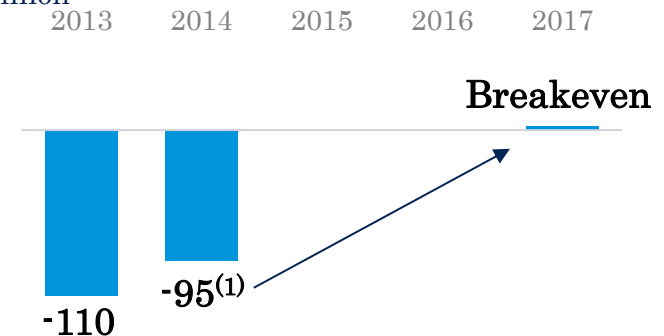
### Full-freighter capacity

In billion ATKs



### Full-freighter operating result

In € million



(1) Excluding September 2014 pilot strike impact

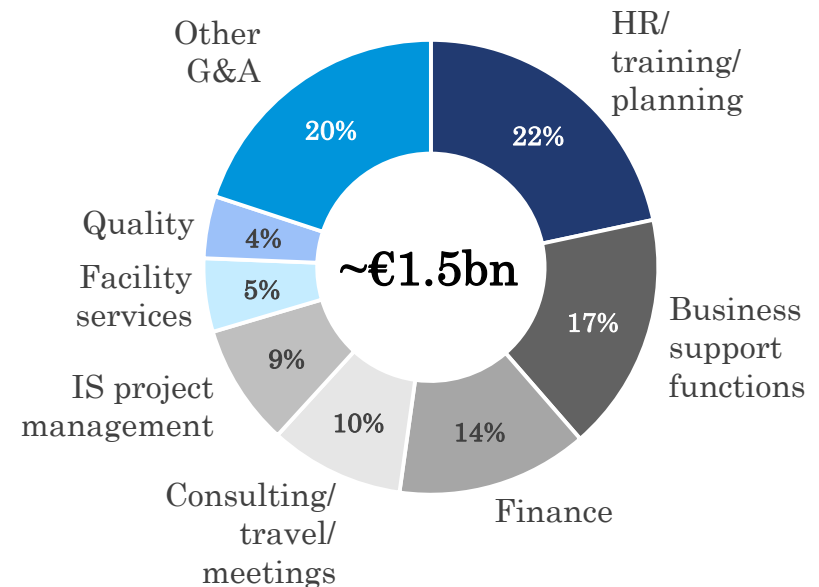


# Cost reduction initiatives launched across the organization: G&A initiative

- Systematic review of General and Administrative processes
- Combined with initiatives to delayer/simplify the organization
- Grow share of outsourcing
- €150m savings already identified
  - ▶ Extra potential of the same amount

## Breakdown of G&A costs

In € million



# Net debt calculation

In € million	30 June 2015	31 Dec. 2014
Current and non-current financial debt	9,415	9,879
Deposits linked to financial debt	(456)	(584)
Financial assets pledged (OCEANE swap)	(393)	(196)
Currency hedge on financial debt	(36)	(21)
Accrued interest	(70)	(123)
<b>= Gross financial debt (A)</b>	<b>8,460</b>	<b>8,955</b>
Cash and cash equivalents	3,344	3,159
Marketable securities	74	73
Cash pledges	405	399
Deposits (Triple A bonds)	195	166
Bank overdrafts	(108)	(249)
<b>= Net cash (B)</b>	<b>3,910</b>	<b>3,548</b>
<b>Net debt (A – B = C)</b>	<b>4,550</b>	<b>5,407</b>
Aircraft operating leases x7 (trailing 12 months) (D)	6,636	6,111
<b>Adjusted net debt (C + D = E)</b>	<b>11,186</b>	<b>11,518</b>
<b>EBITDAR excluding strike impact (trailing 12 months)<sup>(1)</sup></b>	<b>2,920</b>	<b>2,887</b>
<b>Adjusted net debt / EBITDAR (excluding strike impact) ratio</b>	<b>3.8x</b>	<b>4.0x</b>

(1) September 2014 pilot strike impact: €425m