

# Information meeting

---

## Air France-KLM: a robust business model

---

Strategy based on  
strong competitive advantages...

...but cost structure not adapted  
to the change in the environment

---

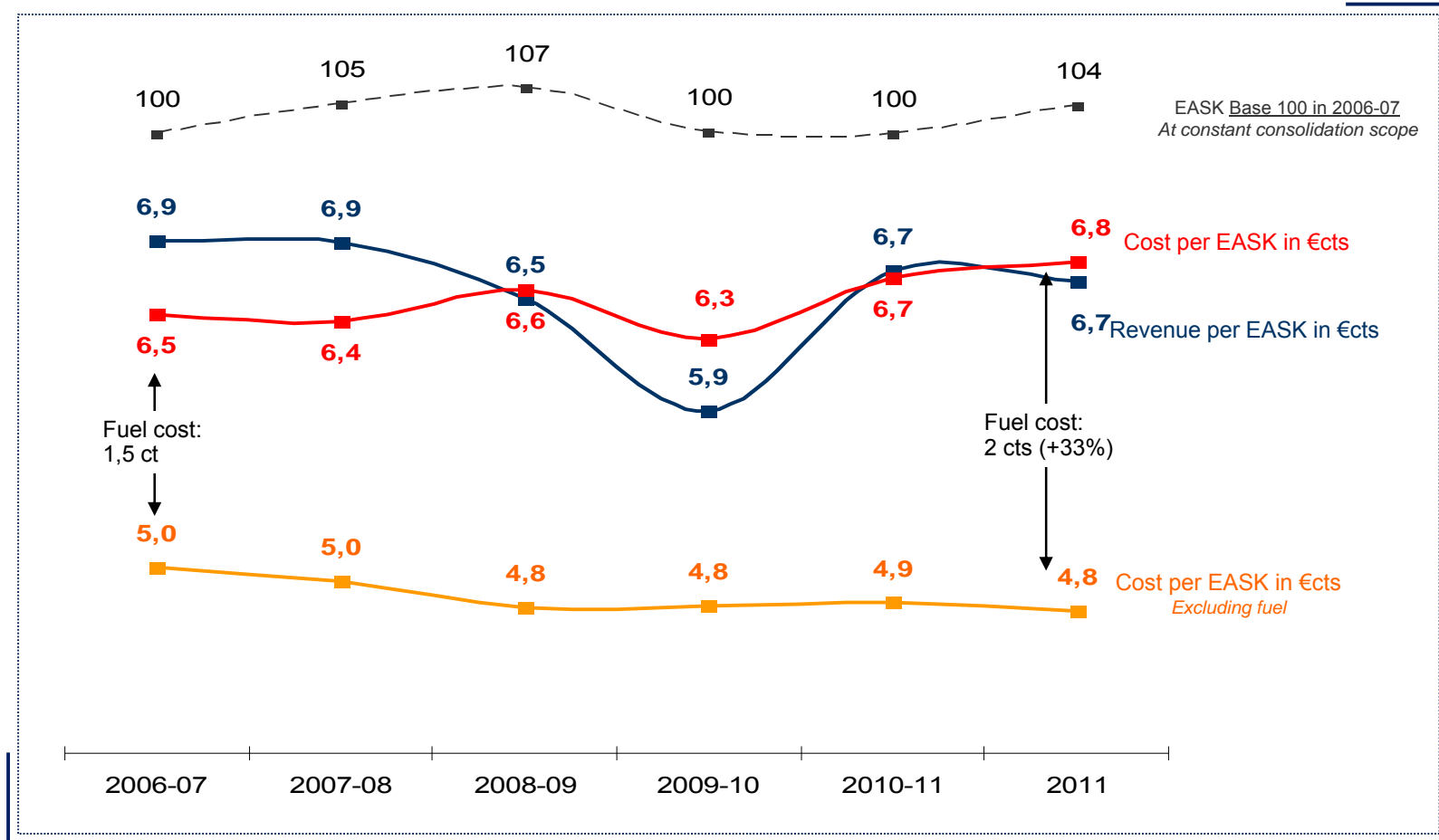
---

## Strong competitive advantages...

---

- + Combination of point-to-point and connecting traffic, organized around two of Europe's most powerful hubs
- + Strong long-haul network reinforced by the SkyTeam alliance
- + Joint-ventures with our North American and Chinese partners
- + Strong footprint in emerging economies

# ...but unit costs are too high



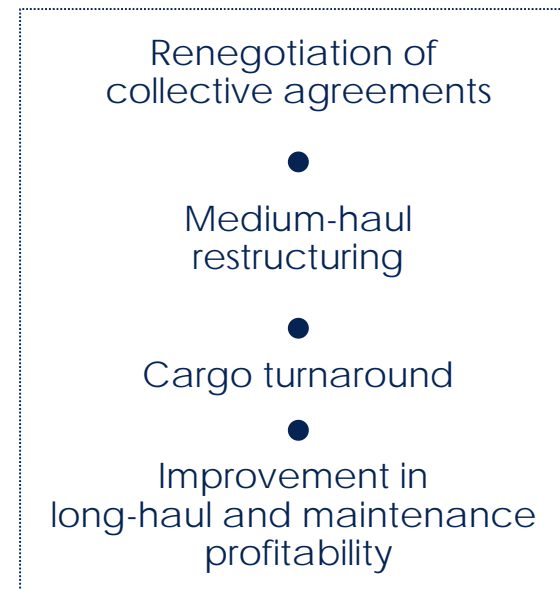
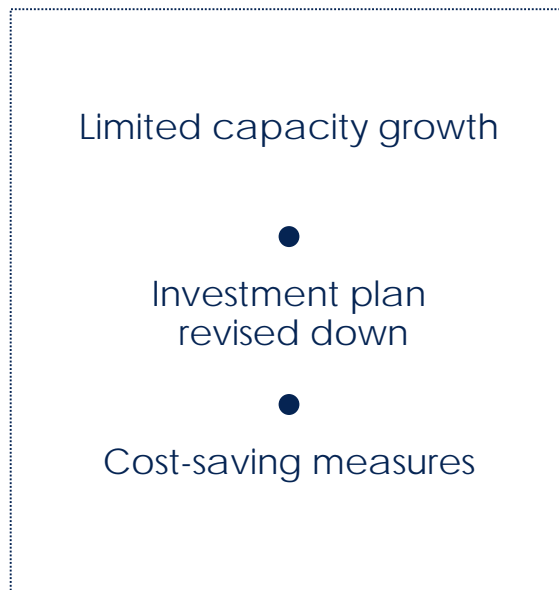


Transform 2015

# 'Transform 2015' plan: end 2014 objectives

Reduction in net debt: **€2bn**

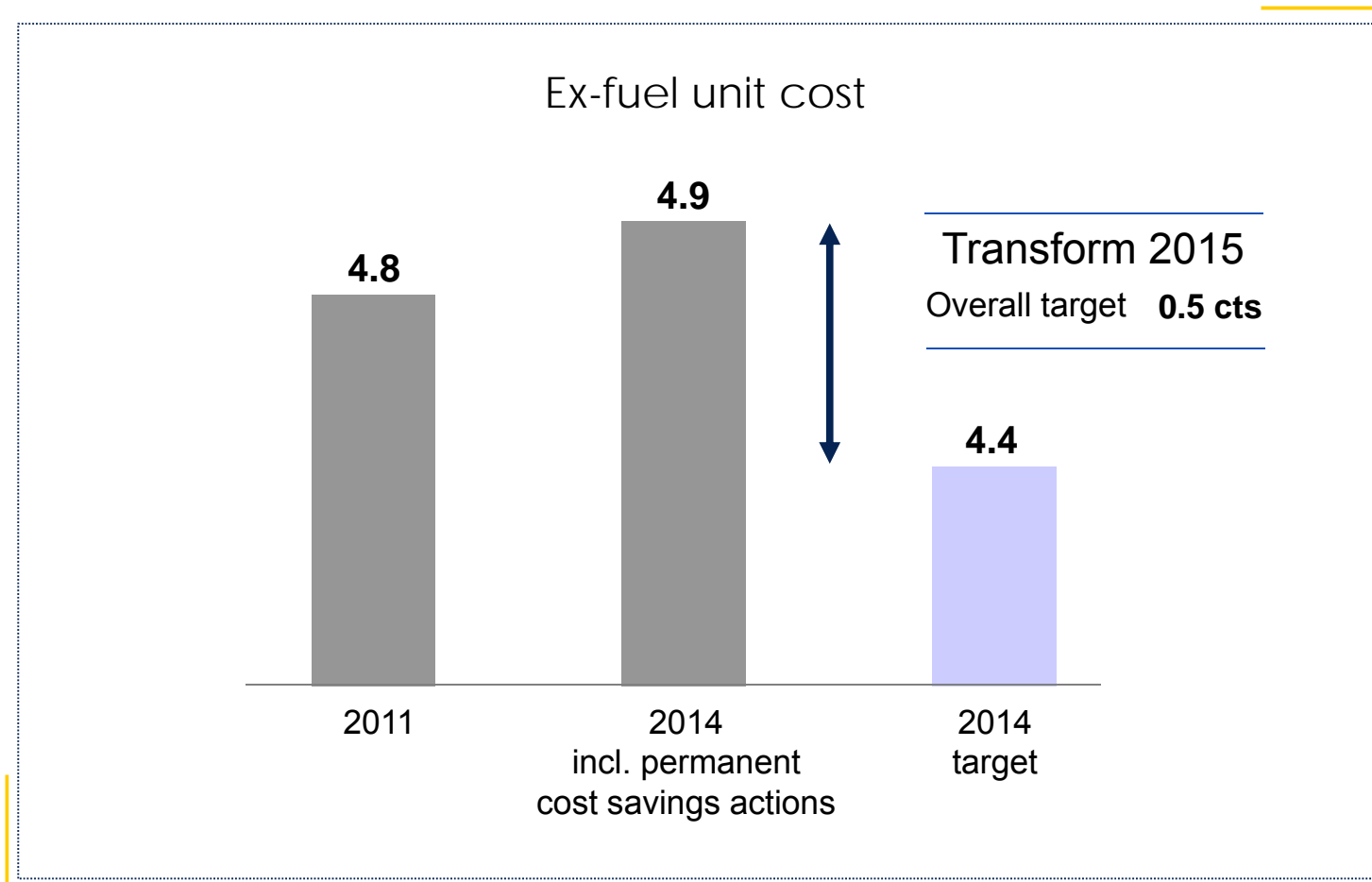
Reduction in unit costs\*: **10%**



\* Unit cost per EASK ex fuel

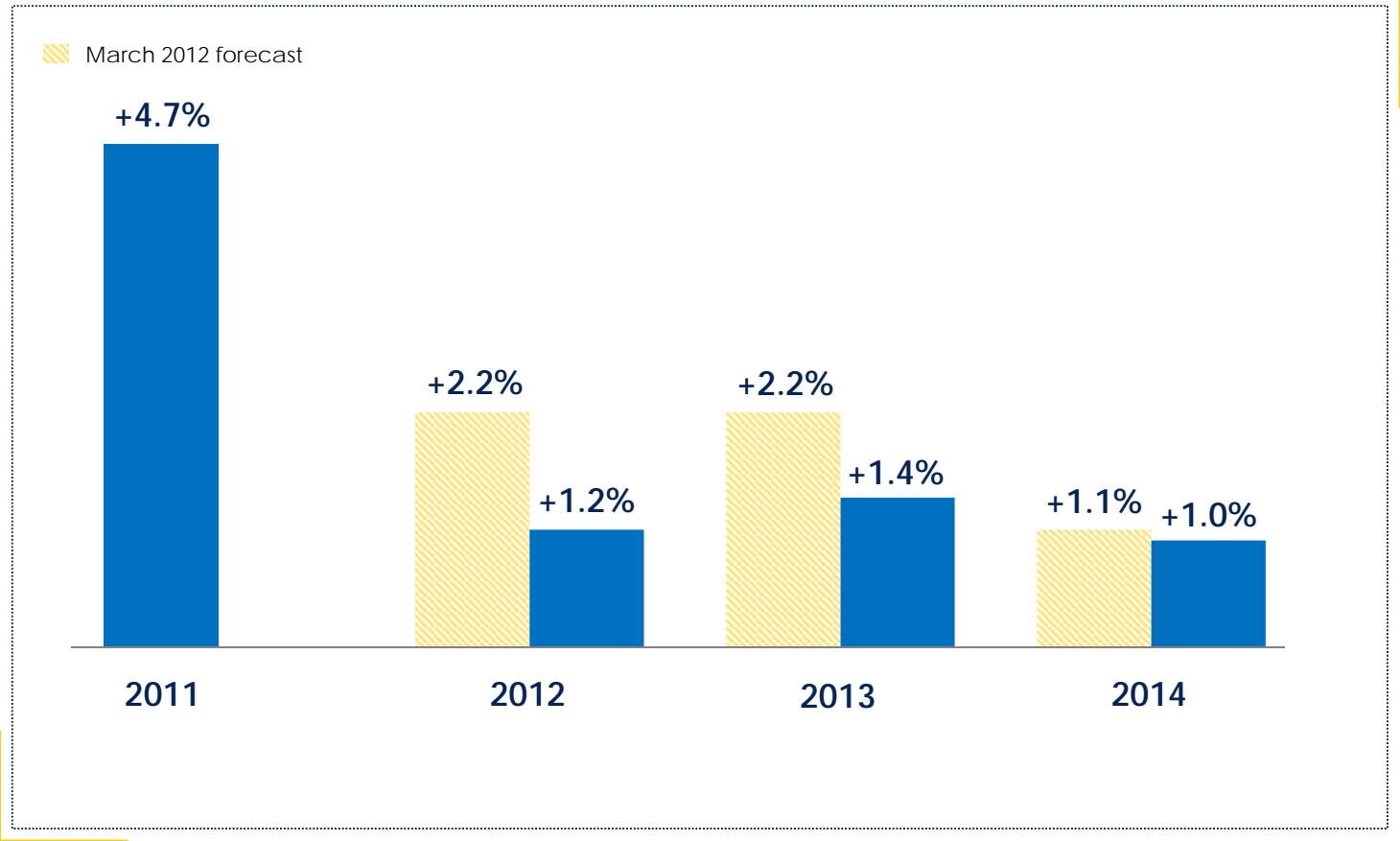
# Target: 10% reduction in unit costs

€ cts per EASK



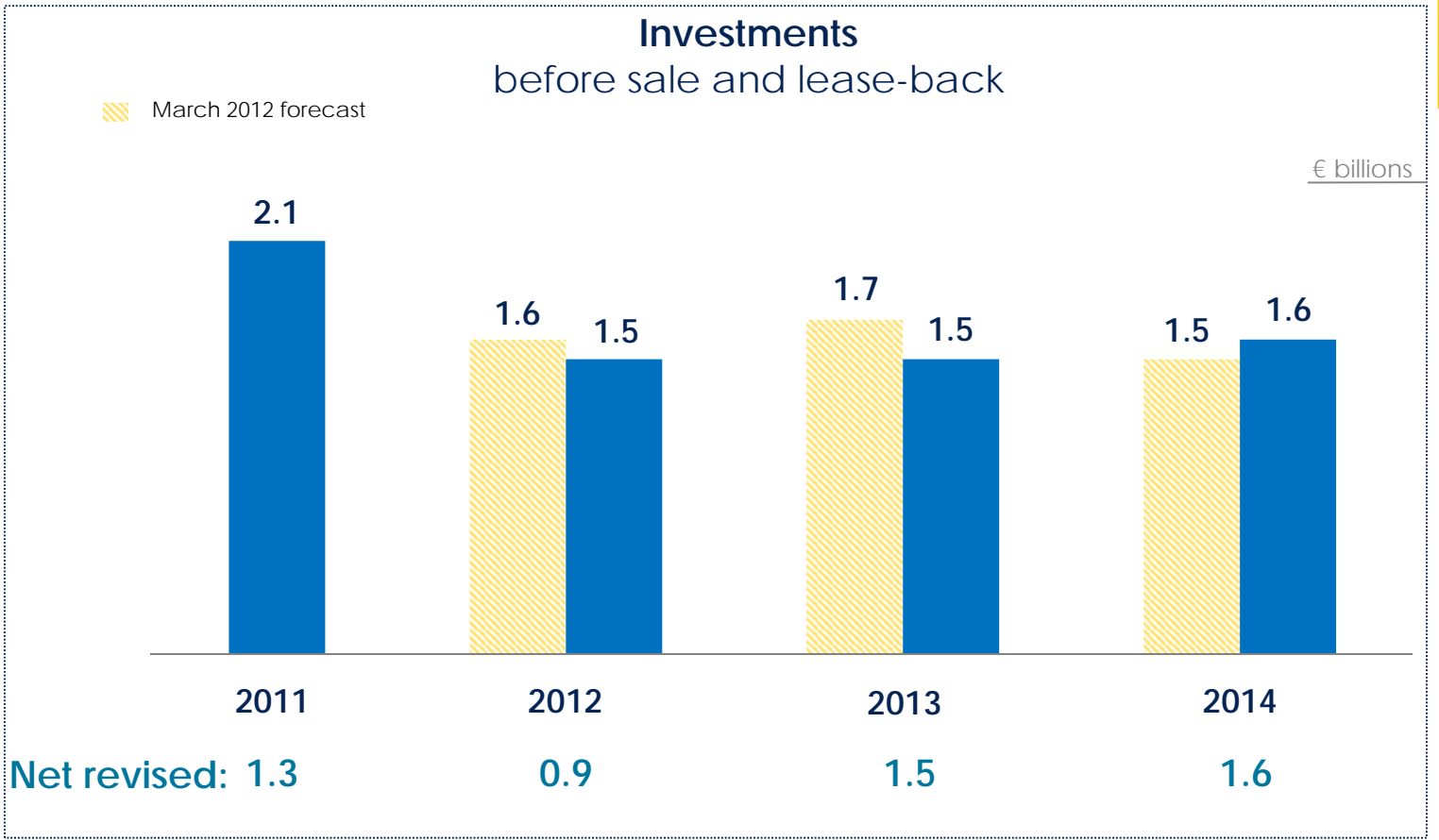
# Ongoing capacity discipline

Capacity in ASK





# Investment plan revised down



---

## Update on collective agreement renegotiations

---

- + Air France company
  - ▶ Agreement with ground staff signed and applicable 1<sup>st</sup> January 2013
  - ▶ Agreement with cockpit crew approved and applicable 1<sup>st</sup> January 2013
  - ▶ Project agreement rejected by cabin crew
  
- + Air France subsidiaries (Regional, Brit Air, Servair)
  - ▶ Negotiations due to start in September
  
- + KLM
  - ▶ Negotiations ongoing, in line with initial calendar
  - ▶ Results due in fourth quarter

## Air France company: summary of project agreements

Ground staff	Cockpit crew	Cabin crew
<ul style="list-style-type: none"><li>+ Agreement signed for application on 1<sup>st</sup> January 2013</li><li>+ 0.6% reduction in seniority creep</li><li>+ Simplification and re-definition of job classifications</li><li>+ 5.5% increase in average time worked</li><li>+ Enhanced efficiency of time worked</li></ul>	<ul style="list-style-type: none"><li>+ Agreement approved, applicable on 1<sup>st</sup> January 2013</li><li>+ 0.6% reduction in seniority creep</li><li>+ Increase in flying hours<ul style="list-style-type: none"><li>▶ Medium haul: 700 hrs (up by 65 hours)</li><li>▶ Long-haul: 740 hrs (up by 30 hours)</li></ul></li><li>+ Reduction in stop-over costs</li></ul>	<ul style="list-style-type: none"><li>+ Project agreement rejected by unions</li><li>+ End of main collective agreement on 31<sup>st</sup> March 2013, and remaining two agreements revoked</li><li>+ Application on 1<sup>st</sup> April 2013 with less favorable text relating to remuneration and working conditions than initial project agreement</li></ul>

# Air France company: estimated overstaffing at end 2013

- + Ground staff
  - ▶ Works council informed on 26 July
  - ▶ Details of the Voluntary Departure Plan: consultations with staff representatives
  - ▶ Opening of the plan in Q4
  
- + Cockpit crews
  - ▶ Voluntary headcount reduction measures
    - eg: mobility incentives for pilots volunteering to transfer to Transavia with attendant working conditions and pay
  
- + Cabin crews
  - ▶ No VDP given failure to approve project agreement
  - ▶ Counterparties in terms of working conditions and remuneration not guaranteed

Estimated reduction in needs:  
5 261 people by end 2013

	Ground	Cockpit	Cabin
Overstaffing	3,029	550	1,681
Voluntary Departure Plan	2,767	Agreement not yet signed	No agreement

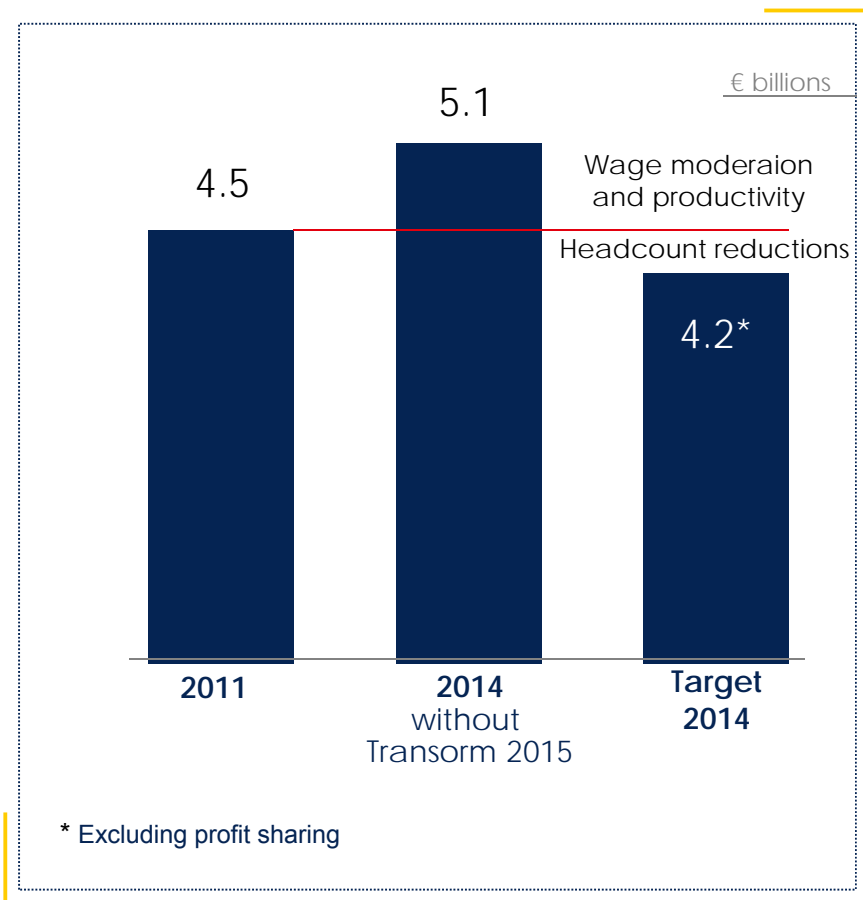
**Provision of €348m  
at 30 June 2012**

## Evaluation in H2 2013 of potential additional measures

# Air France company: objective of 20% improvement in economic efficiency in 2014

- + Wage moderation
  - ▶ Freeze in general pay increases in 2012 and 2013
  - ▶ Reduction in seniority creep
- + Productivity
  - ▶ Hiring freeze
  - ▶ Increase in amount of time worked
  - ▶ Improved efficiency of time worked
- + Headcount reduction
  - ▶ Voluntary departure plan
  - ▶ Non replacement of leavers

Evolution of payroll cost  
Air France company



# KLM: Summary of labor agreement proposals

## Outside the collective labor agreements

- + Strict headcount management
  - ▶ 10% reduction in indirect staff
  - ▶ Recruitment freeze
  - ▶ Reduction of flexible layer
  - ▶ Stimulation of temporary leave, part-time work and mobility
- + Increase in hours worked

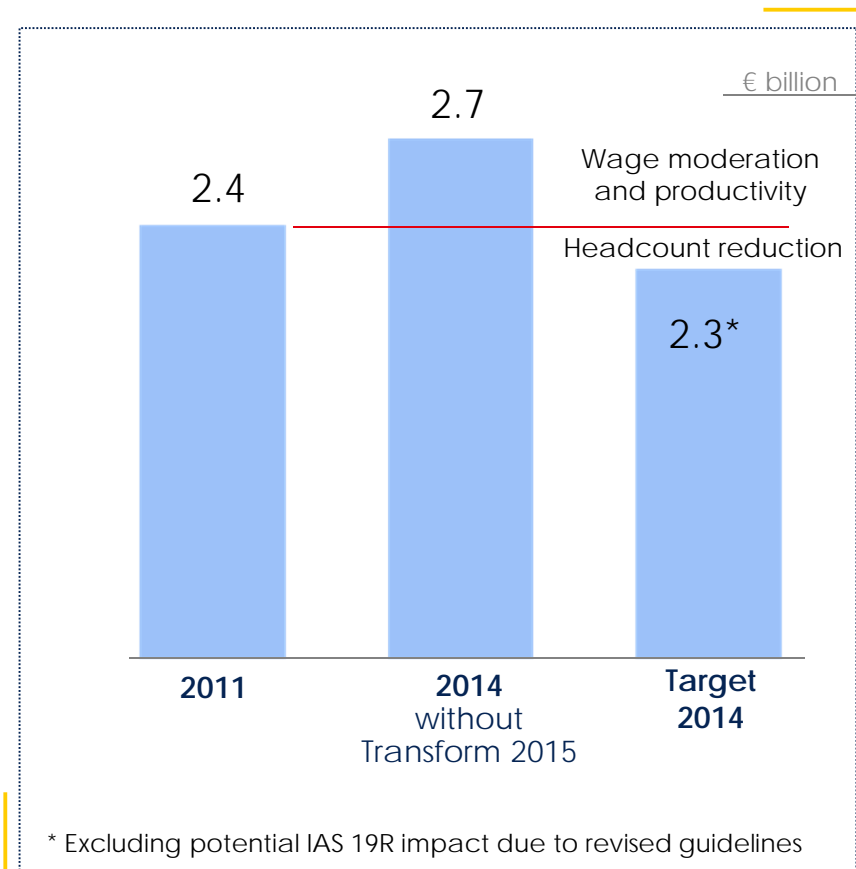
## Within the framework of collective labor agreement renewals

- + Fixed term agreements
  - ▶ To be renewed for three years (2014)
- + General measures
  - ▶ Freeze in general pay increases in 2013 and 2014
  - ▶ Restructuring pension agreements
- + Ground staff
  - ▶ Reduction of leave days
  - ▶ Promotion of mobility
  - ▶ Simplification of leave arrangements
- + Cockpit crew
  - ▶ Improvement in medium-haul productivity
  - ▶ Raise of time threshold for 3 cockpit crew operations
  - ▶ Reduction of travel leave
- + Cabin crew
  - ▶ Reduction of travel leave
  - ▶ Application of the minimum required crew level at KLC

## KLM objective: 15% improvement in economic efficiency in 2014

- + Objective of 350 million euros of labor cost saving measures
- + Wage moderation
  - ▶ Freeze in general salary increases in 2013 and 2014
- + Productivity
  - ▶ Adaptations in work & rest time regulations
  - ▶ Reduction of leave days
  - ▶ Various process improvements
- + Headcount reduction
  - ▶ Reduction of flexible layer
  - ▶ 10 % reduction indirect staff
  - ▶ Recruitment freeze

Evolution of payroll cost  
KLM group



---

## Air France-KLM industrial projects

---

- + Restructure medium-haul
  
- + Long-haul: improve profitability
  - ▶ Improve productivity
  - ▶ Reduce schedule seasonality
  - ▶ Retire MD11s from KLM fleet
  
- + Cargo: turnaround
  - ▶ Rightsizing and organization of the full-freighter fleet
  - ▶ Simplify product portfolio
  - ▶ New commercial policy
  - ▶ Reduce costs
  
- + Maintenance: improve profitability
  - ▶ Focus on high value-added businesses: engines and components
  - ▶ Restructure heavy maintenance business



# Short- and medium-haul industrial project

---

- + Air France
  - ▶ Reduction in capacity
  - ▶ Reduction of the fleet by 13 aircraft versus 2011 and 19 versus 2012 (provincial bases effect)
  
- + Regional business unit
  - ▶ Reduction of the fleet by 21 aircraft in 2014 compared with 2011
  - ▶ Decrease of 64 crew positions
  - ▶ Ground staff overstaffing indicated end of Sept. } No redundancies subject to an increase in economic efficiency of 15%
  - ▶ A single brand
  - ▶ Chartering for Air France and own business
  
- + Transavia France
  - ▶ Additional frequencies and new leisure destinations
  - ▶ Fleet increased by 14 aircraft
  - ▶ 10% reduction in ex-fuel unit cost
  
- + KLM
  - ▶ Densification of B737s
  - ▶ Code share between KLM and Transavia Netherlands

---

# The customer at the heart of our projects

---

## + Medium-haul

- ▶ Simplify Air France offer: Business/Premium Eco/Economy
- ▶ Reposition upscale the Business in-flight product
- ▶ Introduce 'Economy Comfort' at KLM
- ▶ Make available less costly offer with more options in Economy class

## + Long-haul

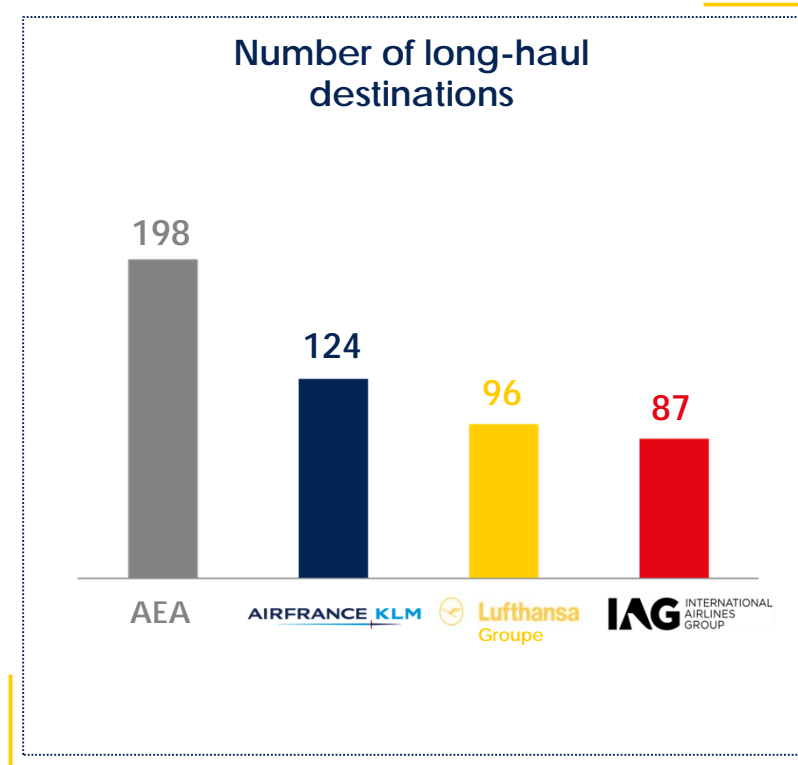
- ▶ Facilitate all stages of the customer experience
- ▶ Position the 'La Première' and 'Business' products at highest industry standards, focusing on all components of the offer
- ▶ Introduce new World Business Class seat at KLM
- ▶ Extend these improvements to Economy class



Our competitive  
advantages.

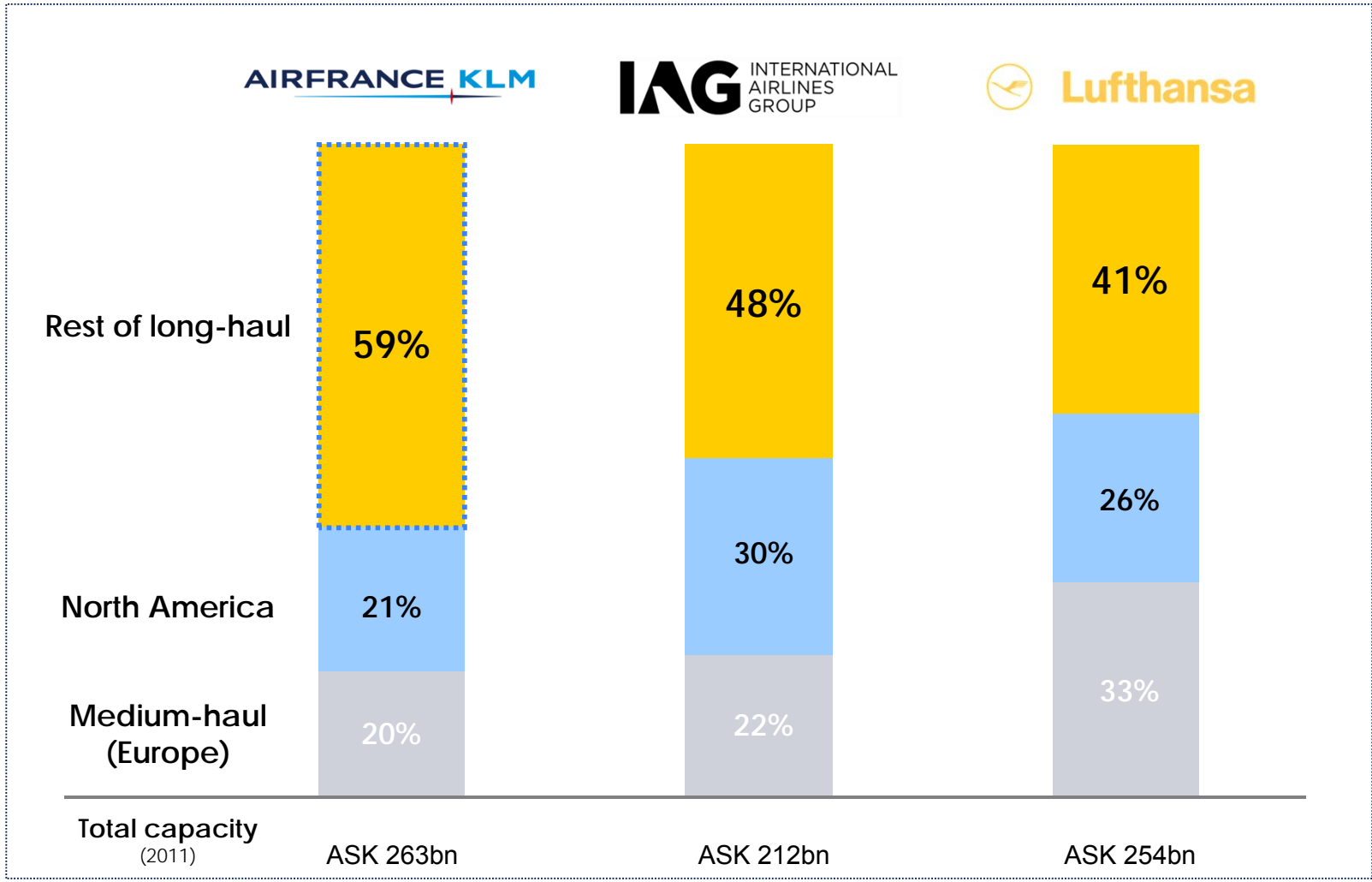
# A powerful long-haul network

- + **124** long-haul destinations\*
  - ▶ 35 from both hubs
  - ▶ 89 from a single hub
  - ▶ 66% of the long-haul destinations served by AEA members carriers
- + **143** direct long-haul flights per day
- + **34** "unique" destinations: 27% of our destinations served neither by Lufthansa nor by IAG



\* Including destinations served by Delta in the framework of the North Atlantic JV

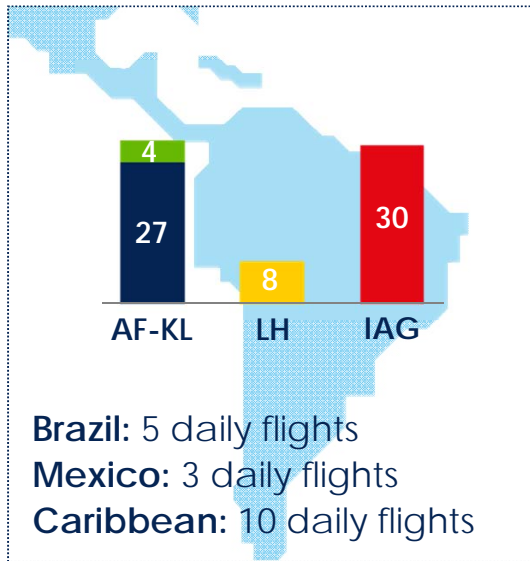
# Leading exposure to high growth market...



... with strong presence in all key regions...

### Latin America

31 daily flights  
21 gateways in 17 countries

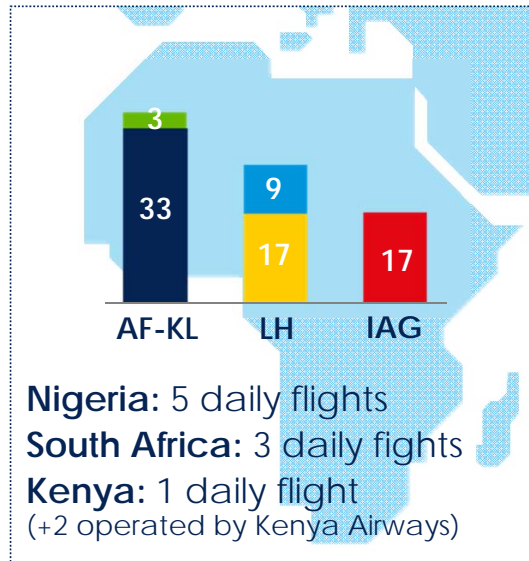


Air France-KLM  
Alitalia

Lufthansa (incl. Swiss and Austrian)  
SN Brussels

### Africa

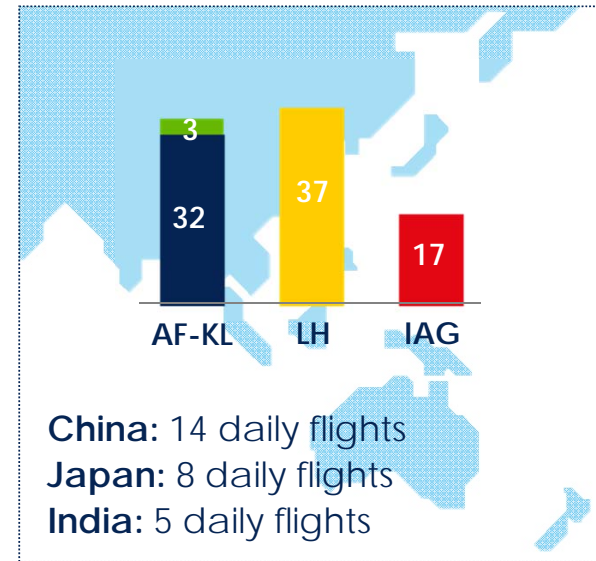
36 daily flights  
40 gateways in 33 countries




IAG (British Airways et Iberia)

### Asia

35 daily flights  
25 gateways in 13 countries



# ... with a unique position in China

	2001	2012
Own network		
	Four cities	Nine cities
SkyTeam members partners		
Joint ventures		

## Transatlantic joint venture with Delta

- + Number one operator on the North Atlantic
  - ▶ Revenues of €8,5 billion
  - ▶ 27% of capacity
  - ▶ 266 daily flights operated by 144 aircraft
  - ▶ 27 gateways in North America and Mexico, 33 in Europe
  - ▶ 7 hubs
  - ▶ 17 million passengers in 2011
  
- + Joint coordination
  - ▶ Coordinated 6% reduction in capacity at Summer 2012
  
- + Revenues and costs sharing





# SkyTeam reinforces the strength of our network





# Key 2012 figures

## Key data

(€ millions)	Q1 2012	Q2 2012	H1 2012
+ Revenues	5,645	6,500	12,145
+ EBITDAR	37	607	644
+ Operating result	-597	-66	-663
+ Net result, group share	-368	-895*	-1,263
+ Net debt at end of period			6,239

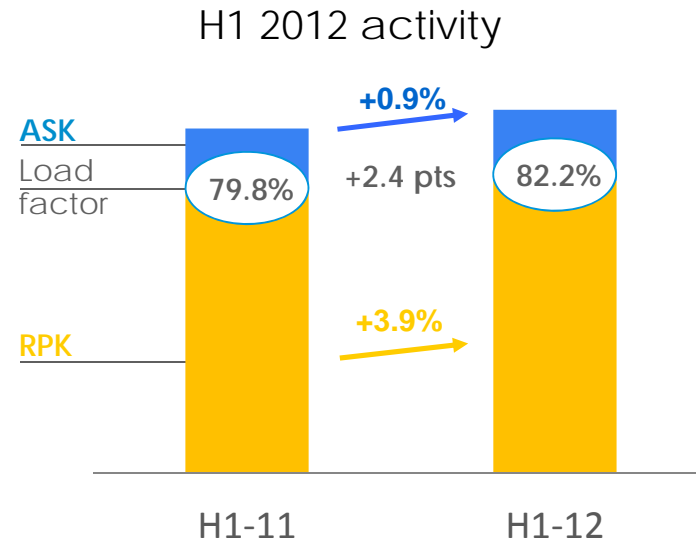
\* O/w €368m restructuring charge

## First Half: key data by activity

			Revenues		Operating result	
			€bn	% ch.	€m	H1 2011
	Passenger		9.56	+7.7%	-551	-507
	Cargo		1.51	-3.8%	-130	-23
	Maintenance		0.52	+5.7%	56	49
	Other		0.55	-9.0%	-38	-67
<b>Total</b>			<b>12.15</b>	<b>+5.2%</b>	<b>-663</b>	<b>-548</b>

# Passenger: dynamic unit revenue

- + Traffic and load factor up
  - ▶ Strict capacity control
  - ▶ Recovery of regions affected by crises last year



- + RASK increase driven by long-haul
  - ▶ Long-haul RASK\*: +6.2%
    - ▶ Premium: +8.7%
    - ▶ Economy: +5.9%
  - ▶ Medium-haul RASK\*: -0.9%

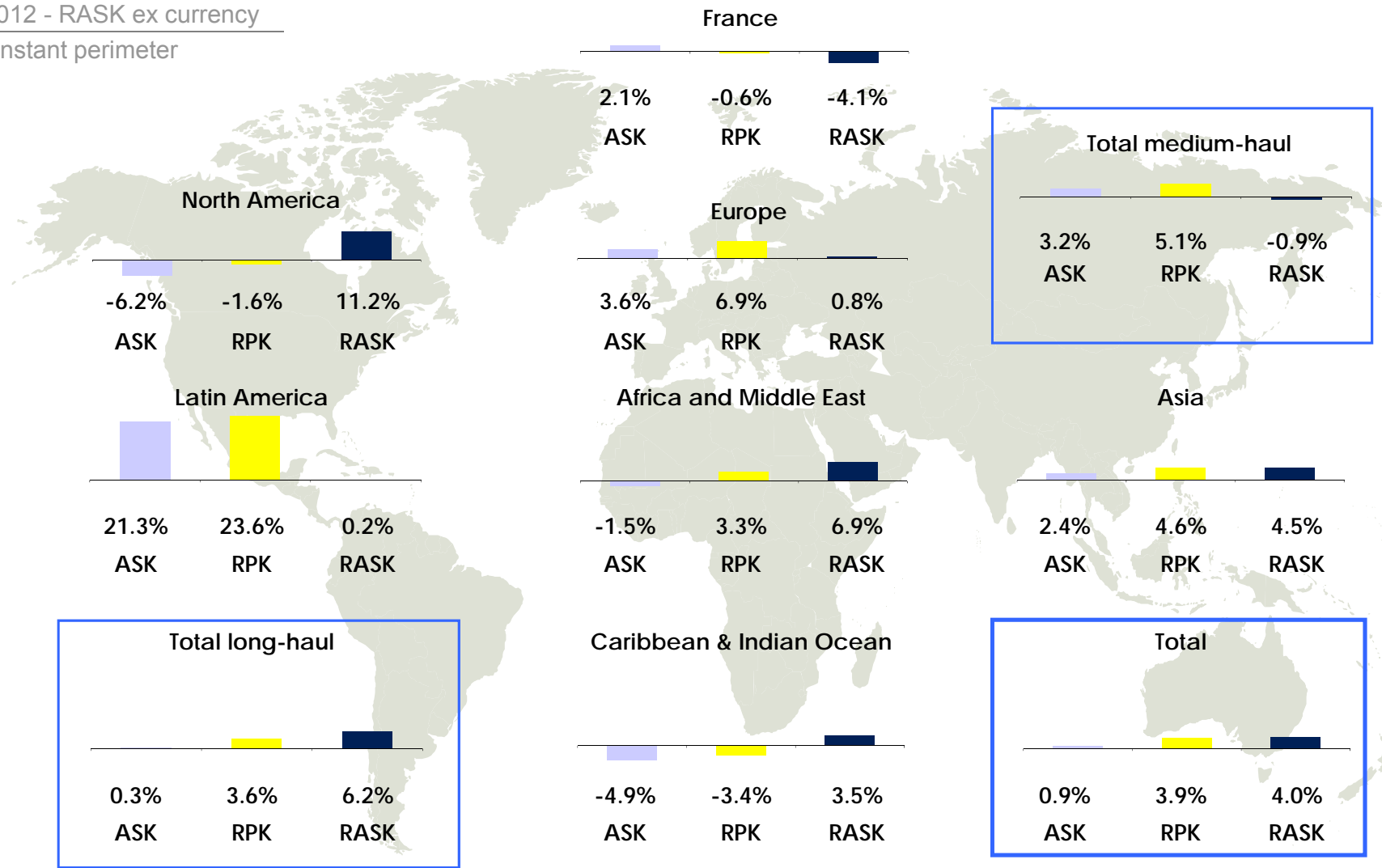


\* Ex-currency

# Passenger unit revenue per network

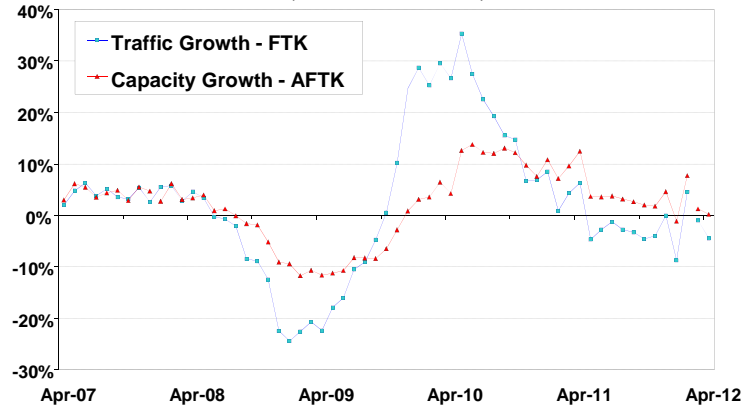
H1 2012 - RASK ex currency

At constant perimeter



# Cargo: challenging market conditions

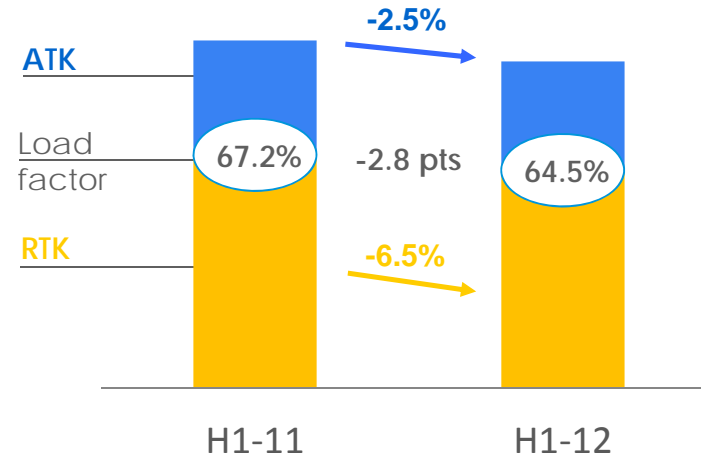
Global traffic and capacity  
(Source: IATA)



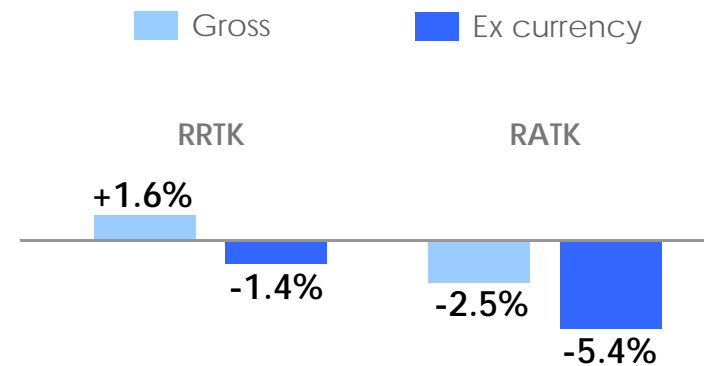
Global traffic and leading PMI  
(Sources: IATA, JP Morgan)



Air France-KLM H1 2012 activity



Air France-KLM H1 2012 unit revenue



## Group results

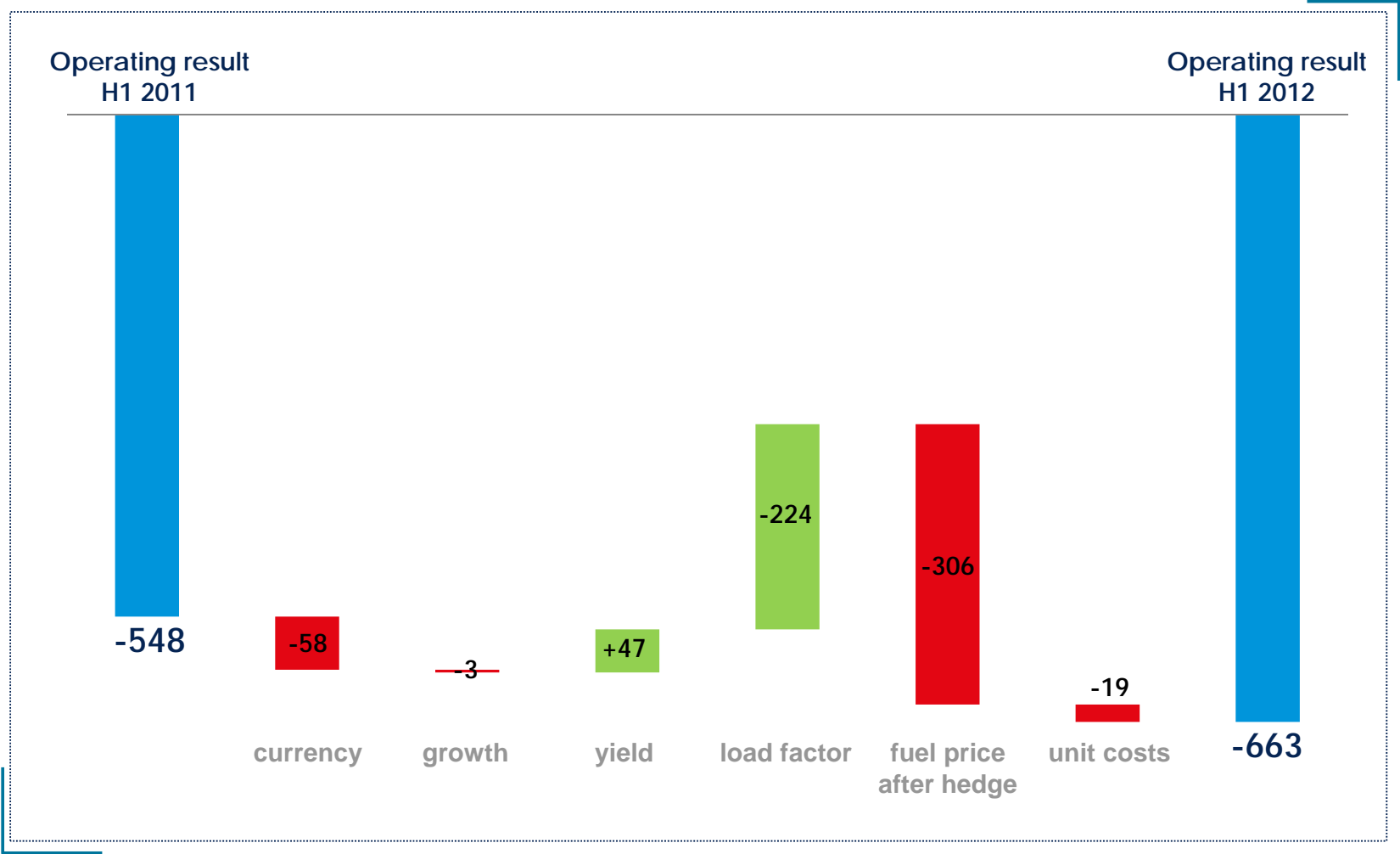
€m	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Revenues</b>	<b>6,500</b>	<b>6,220</b>	<b>+5%</b>	<b>12,145</b>	<b>11,546</b>	<b>+5%</b>
EBITDAR	607	503	21%	644	708	-9%
EBITDA	368	292	26%	180	290	-38%
<b>Income from current operations</b>	<b>-66</b>	<b>-145</b>		<b>-663</b>	<b>-548</b>	
Adjusted operating income*	15	-73		-505	-406	
<i>Adjusted operating margin</i>	<i>0.2%</i>	<i>-1.2%</i>	<i>+1.4 pt</i>	<i>-4.2%</i>	<i>-3.5%</i>	<i>-0.6 pt</i>
Net income, group	-895	-197		-1,263	-564	
Net capex	209	436	-52%	600	691	-13%
<b>Free cash flow</b>	<b>310</b>	<b>-91</b>		<b>-139</b>	<b>30</b>	
Net debt at end of period	-	-	-	6,239		

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



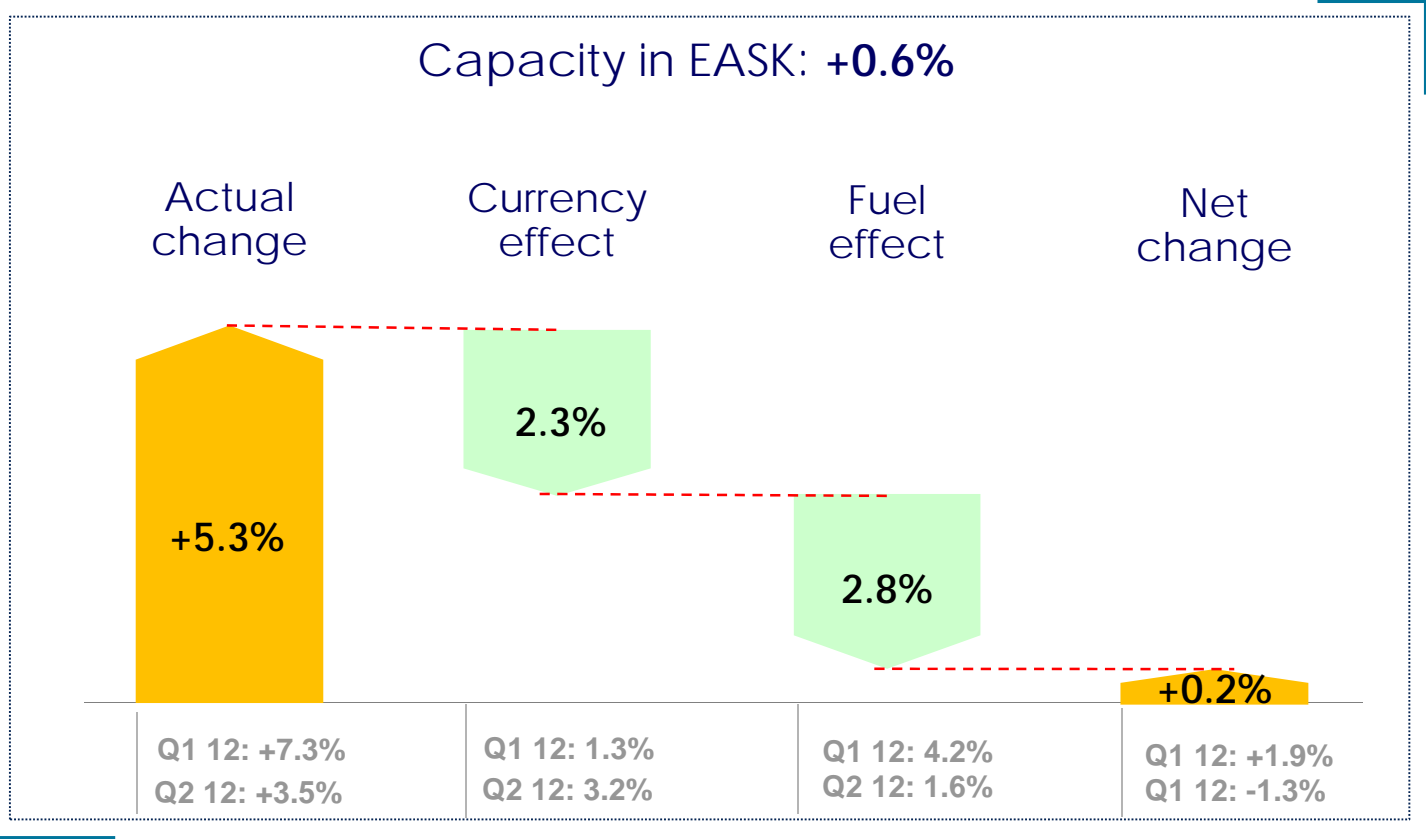
# Change in H1 operating result

€ millions



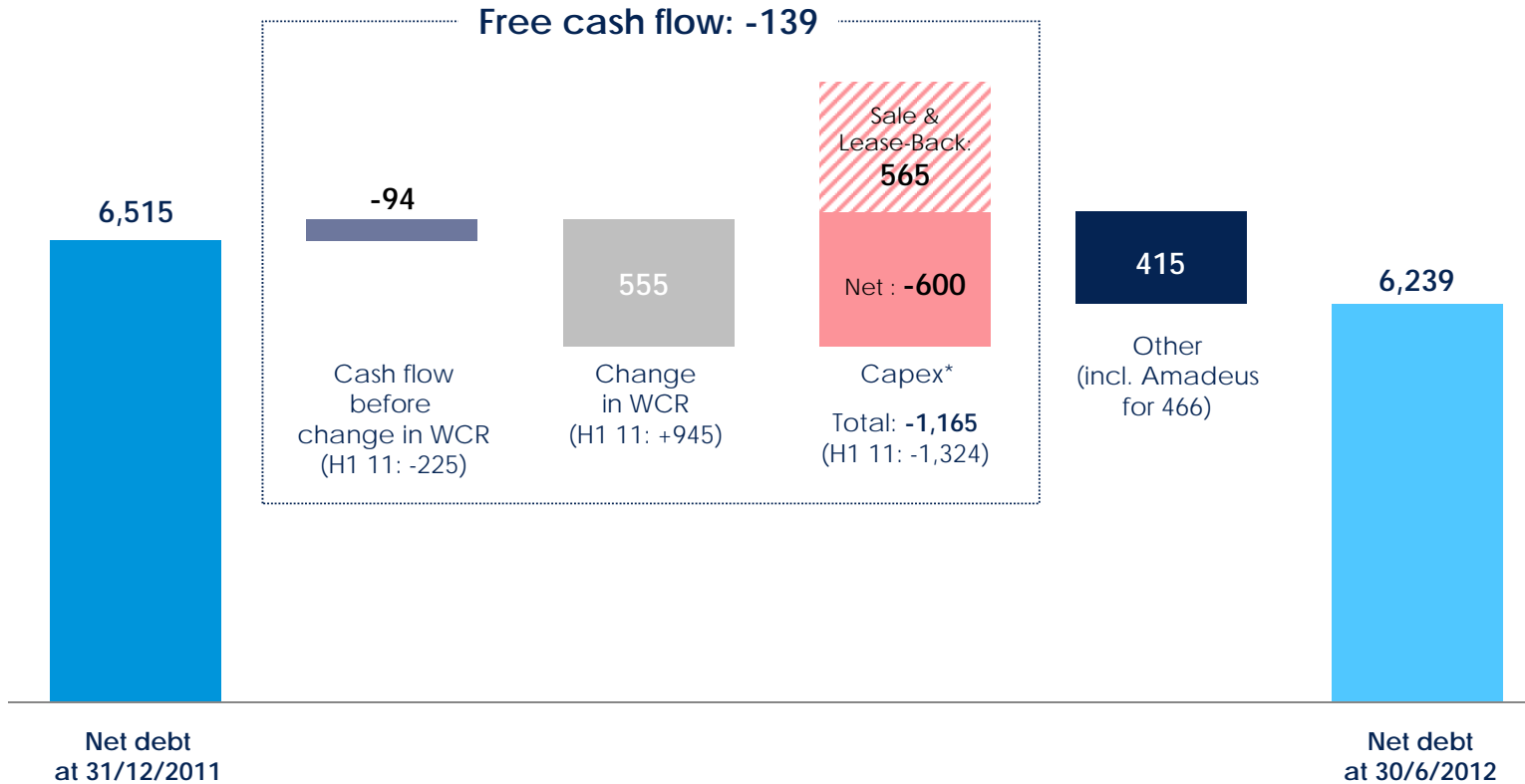
# Unit cost analysis

January-June 2012  
 Unit cost per EASK: €7.22 cts



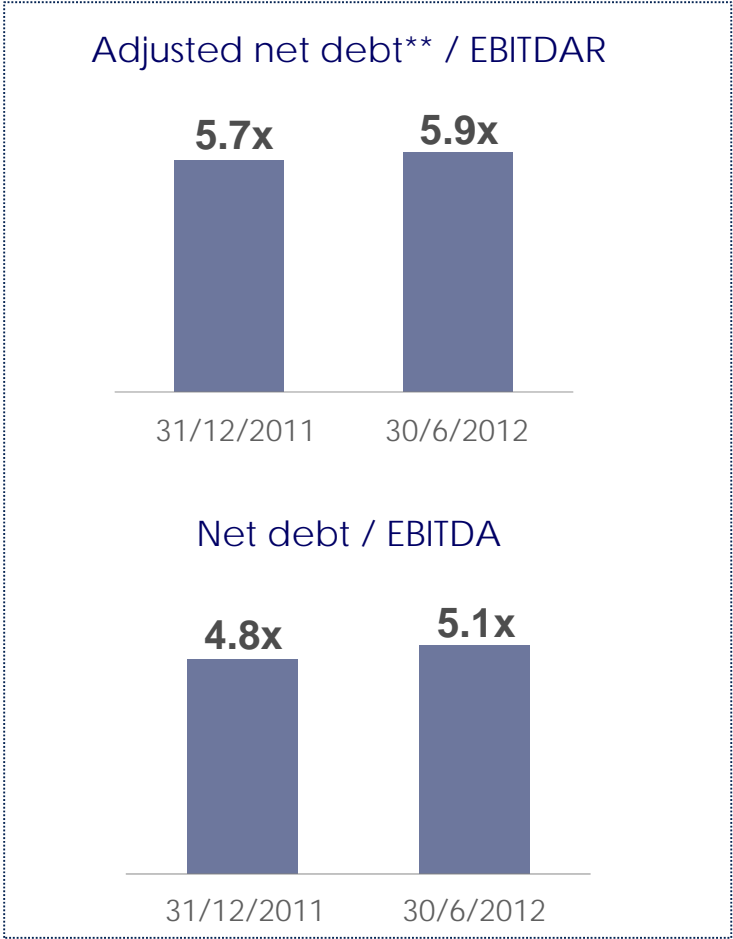
# Change in net debt over the half year

€ millions



\* Including €175m in asset acquisitions not qualified as capex under IFRS standards

# Financial ratios at 30 June 2012, last twelve months



\* Adjusted for the portion of financial charges in operating leases (34%)

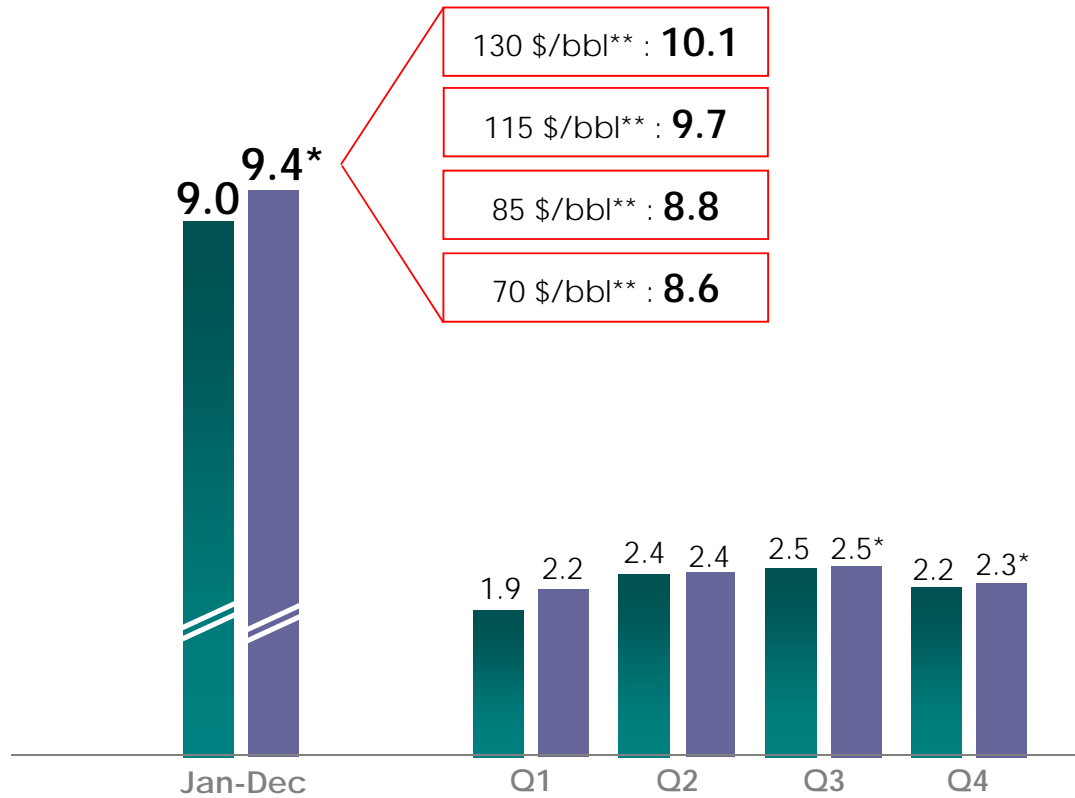
\*\* Adjusted for capitalized operating leases (7x yearly charge)



# Update on the fuel bill

Fuel bill in billion dollars  
after hedging

■ 2011  
■ 2012



Market price Brent (\$ per bbl)*	109	118	109	105	105
Jet fuel (\$ per mt)*	1,010	1,060	990	985	990
% of covered consumption	63%	57%	61%	66%	67%

\* Forward curve at 20 July 2012

\*\* Over remainder of the year

---

## Outlook for second half of 2012

---

- + Summer bookings well oriented
- + Global economic outlook makes forecasts difficult for the latter part of the year
- + First significant positive effects of Transform 2015
- + Operating result should be above 195 million euros realized in second half of 2011
- + Net debt at 31<sup>st</sup> December should be lower than at the end of 2011

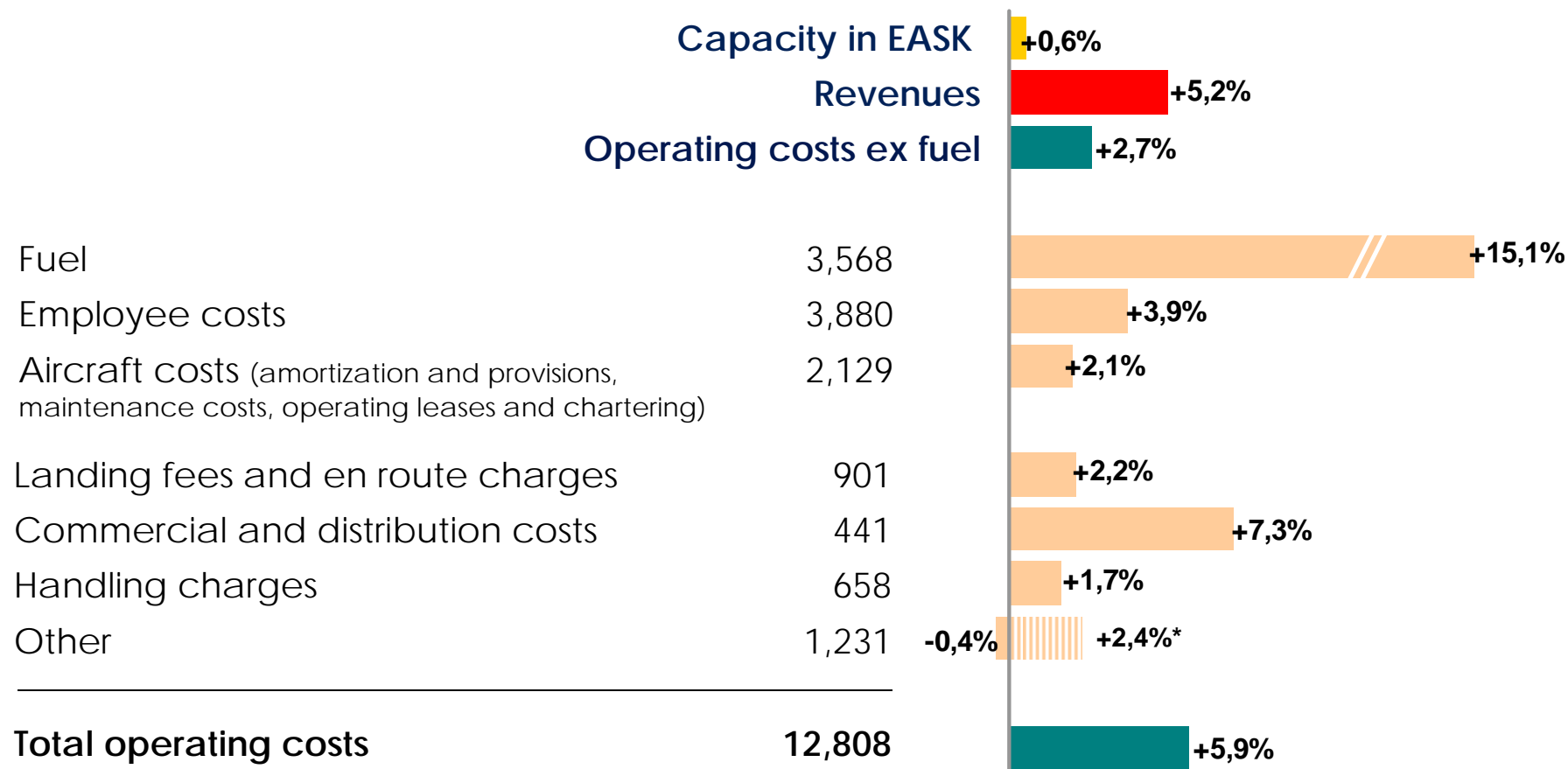


# Appendices

# Change in operating costs

January-June 2012

€ millions



(\*) Excluding currency hedging



## Net result

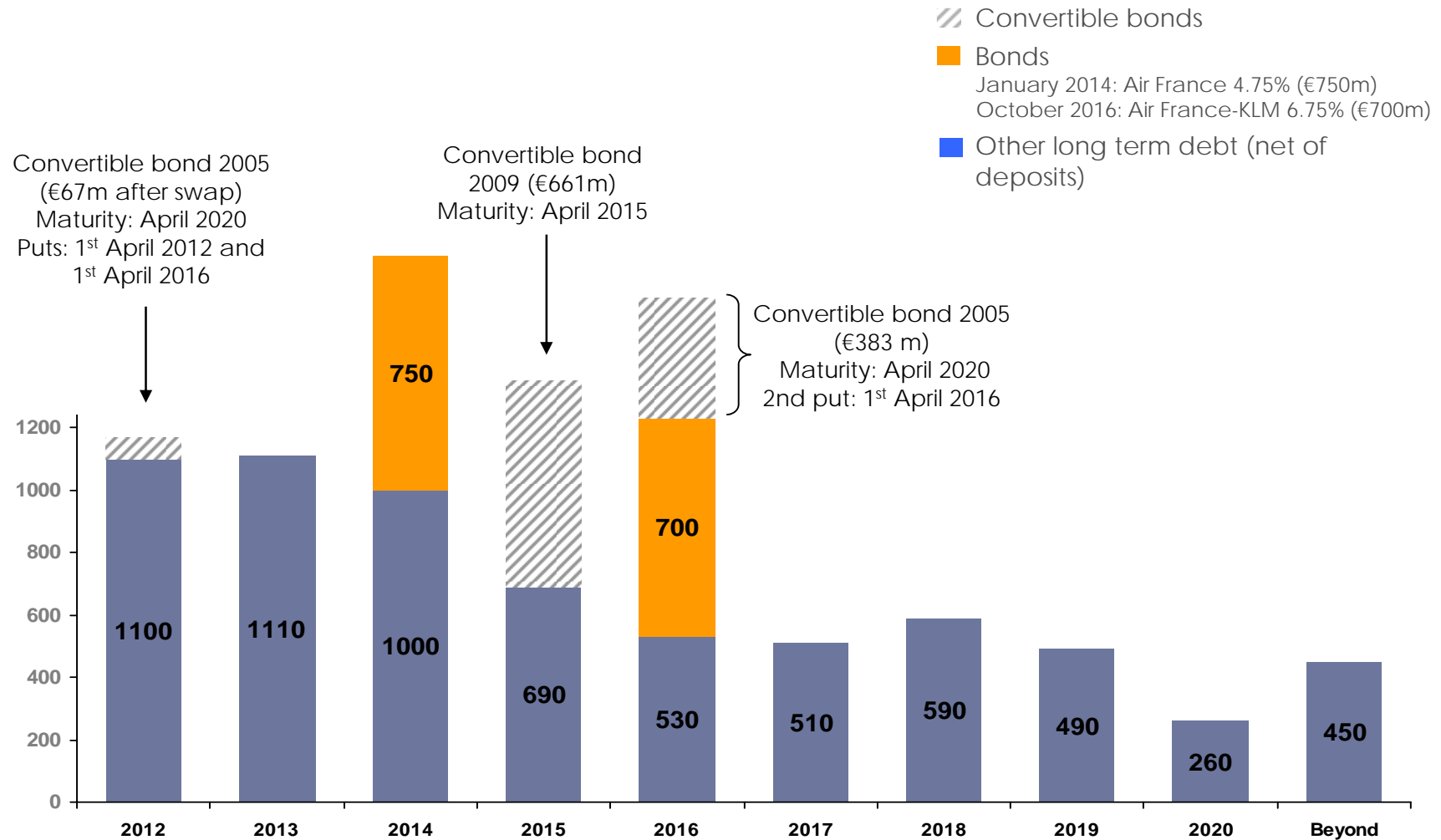
€m	Second quarter			First Half Year		
	2012	2011	% ch.	2012	2011	% ch.
<b>Income from current operations</b>	<b>-66</b>	<b>-145</b>	<b>-54%</b>	<b>-663</b>	<b>-548</b>	<b>+21%</b>
Non current income and expenses	-377	2		-282	-101	
<i>o/w Amadeus operation</i>	0	0		97	0	
<i>o/w restructuring</i>	-368	0		-372	0	
<b>Income from operating activities</b>	<b>-443</b>	<b>-143</b>		<b>-945</b>	<b>-649</b>	
Net cost of financial debt	-88	-87		-170	-178	
Net foreign exchange	-86	-33		-32	37	
Change in fair value of financial assets and liabilities	-372	5		-152	3	
Income taxes	111	81	+37%	89	251	-65%
Share of profit (losses) of associates, minority interest	-22	-18		-60	-25	
<b>Net income, group</b>	<b>-895</b>	<b>-197</b>		<b>-1,263</b>	<b>-564</b>	

## Net debt calculation

€ millions

	30 June 2012	31 Dec. 2011
Current and non-current financial debt	10,549	10,402
Deposits on leased aircraft	(534)	(491)
Financial assets pledged (OCEANE swap)	(393)	(393)
Currency hedge on financial debt	9	4
Accrued interest	(90)	(122)
<b>= Financial debt</b>	<b>9,541</b>	<b>9,400</b>
Cash and cash equivalents	2,681	2,283
Marketable securities	390	359
Available cash pledges	235	235
Deposits (Triple A)	131	165
Bank overdrafts	(135)	(157)
<b>= Net cash</b>	<b>3,302</b>	<b>2,885</b>
<b>Net debt</b>	<b>6,239</b>	<b>6,515</b>
<b>Consolidated shareholders' funds</b>	<b>4,881</b>	<b>6,094</b>
<b>Net debt / shareholders' funds</b>	<b>1.28</b>	<b>1.07</b>
<i>Net debt / shareholders' funds excluding derivatives</i>	<i>1.28</i>	<i>1.08</i>

# Debt reimbursement profile at 1st January 2012



\* In million euros, net of deposits on financial leases and excluding KLM perpetual debt (€625 m)

# Financial position

Net financial debt  
(€ billion)

- Net debt
- X Gearing ratio
- X Gearing ratio ex hedging instruments



Shareholders' Funds  
(€ billion)

- Shareholders' funds
- Hedging instruments

