

**AIR FRANCE KLM**

**ANNUAL RESULTS  
2004-05**

May 2005



# 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.

# Agenda

Highlights

Jean-Cyril Spinetta

Operating performance

Pierre-Henri Gourgeon

Q4 and FY results

Philippe Calavia

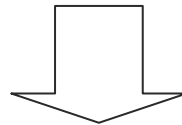
Strategy and outlook

Jean-Cyril Spinetta

Leo van Wijk

# 2004-05: first successful year of the merger

- ✦ Swift and efficient co-ordination of our teams and three core businesses, leading to an upgrade in forecast synergies
- ✦ Buoyant activity in both passenger and cargo businesses, boosted by the complementarities of both airlines



Increase in operating performance,  
despite €663 million of additional fuel charges

# An accretive merger from year one

In €m	2004-05*	2003-04* pro forma	2003-04** published
Turnover	19,078	17,782	12,337
Adjusted operating income***	703	612	288
<i>Adjusted operating margin***</i>	3.7%	3.4%	2.3%
Operating income	489	405	132
<i>Operating margin</i>	2.6%	2.3%	1.1%
Net profit	351	292	93
Number of shares (in millions)	269.4	269.4	219.8
EPS (in €)	1.30	1.08	0.42
Dividend (in €)	0.15		0.05

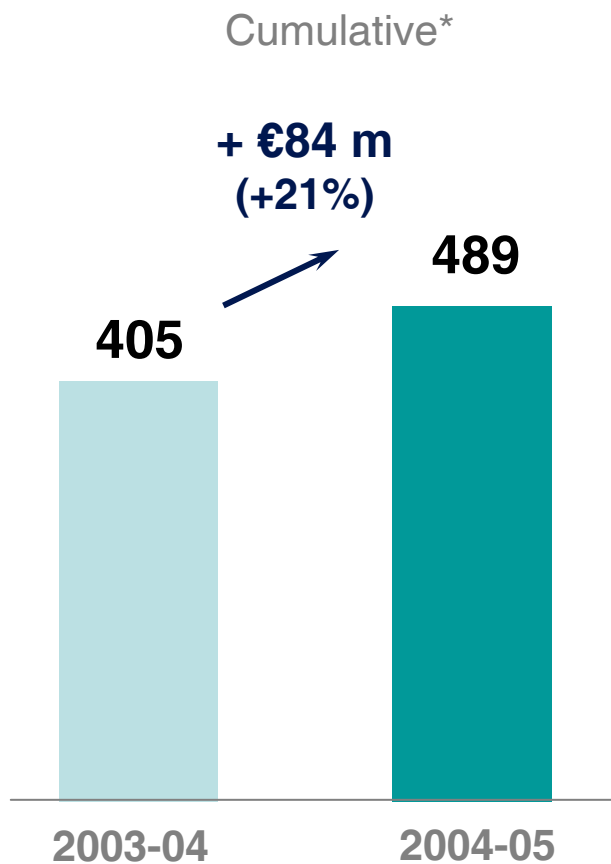
\* Consolidation of Air France over 12 months and of KLM over 11 months

\*\* Air France Group alone

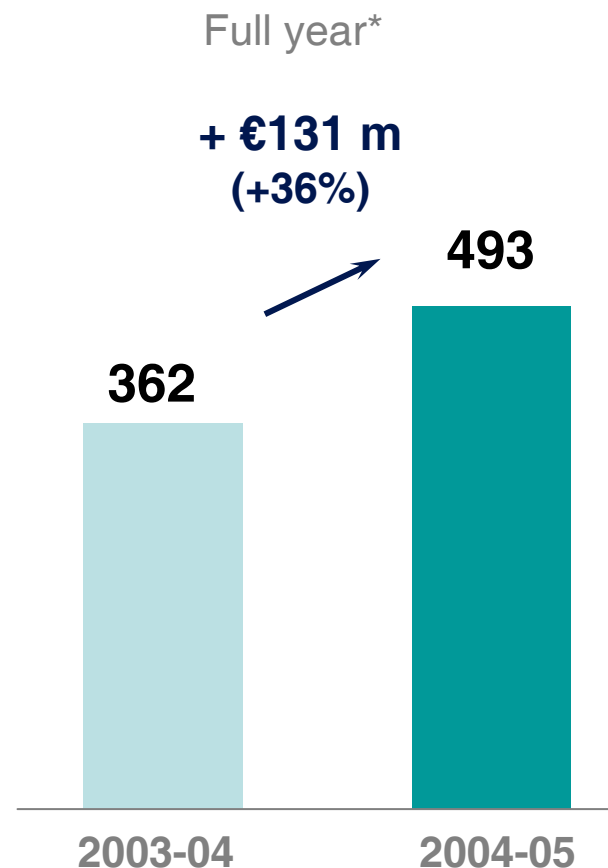
\*\*\* Operating income (excl. aircraft sales) adjusted for the interest part of operating leases (34%)

# Even stronger improvement over full year

Operating income excl. aircraft sales (in € m)



\* consolidation of Air France over **12** months (Apr-Mar) and of KLM over **11** months (May-Mar)



\* consolidation of Air France over **12** months (Apr-Mar) and of KLM over **12** months (Apr-Mar) - unaudited

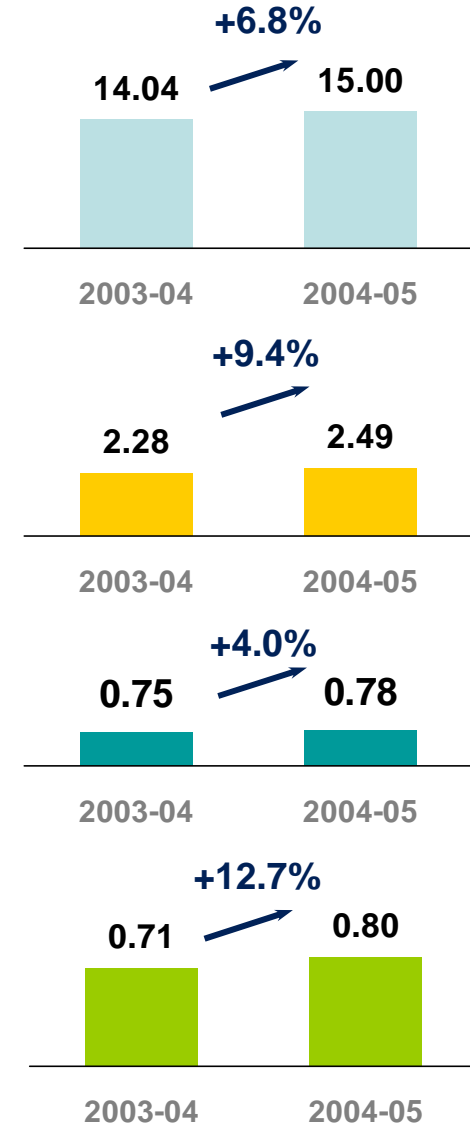
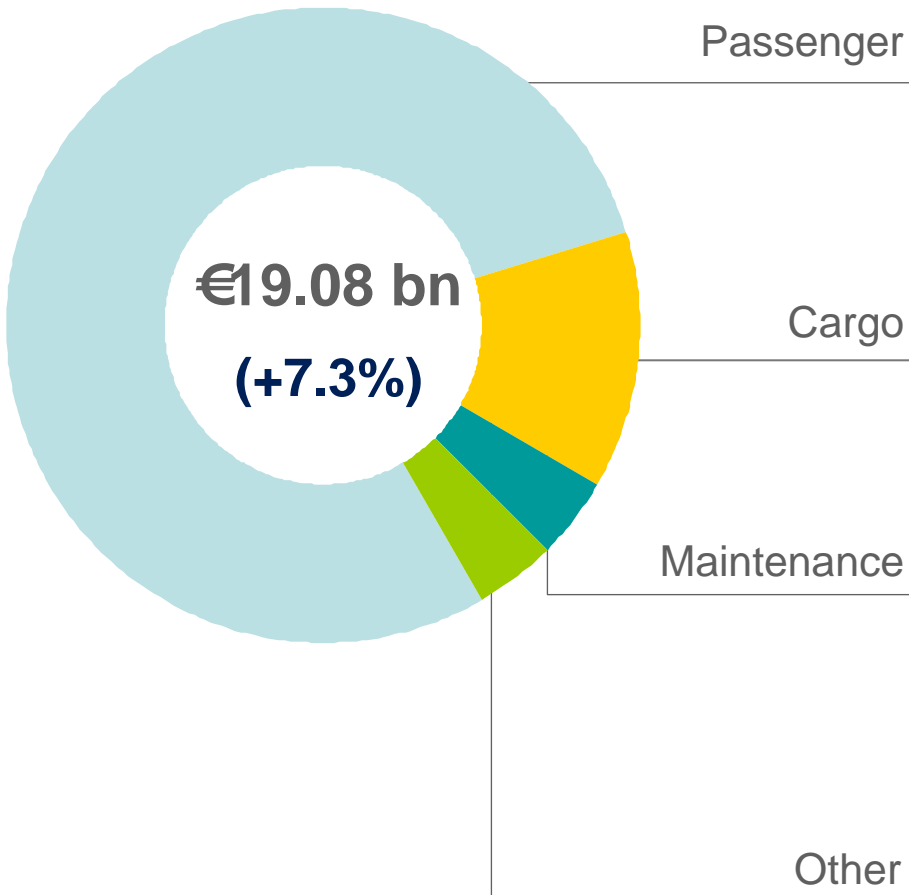
**AIR FRANCE KLM**

**Strong operating performance**



# Increased activity across all businesses

FY 2004-05  
In € bn





# Passenger business in 2004-05

## ✦ Market conditions

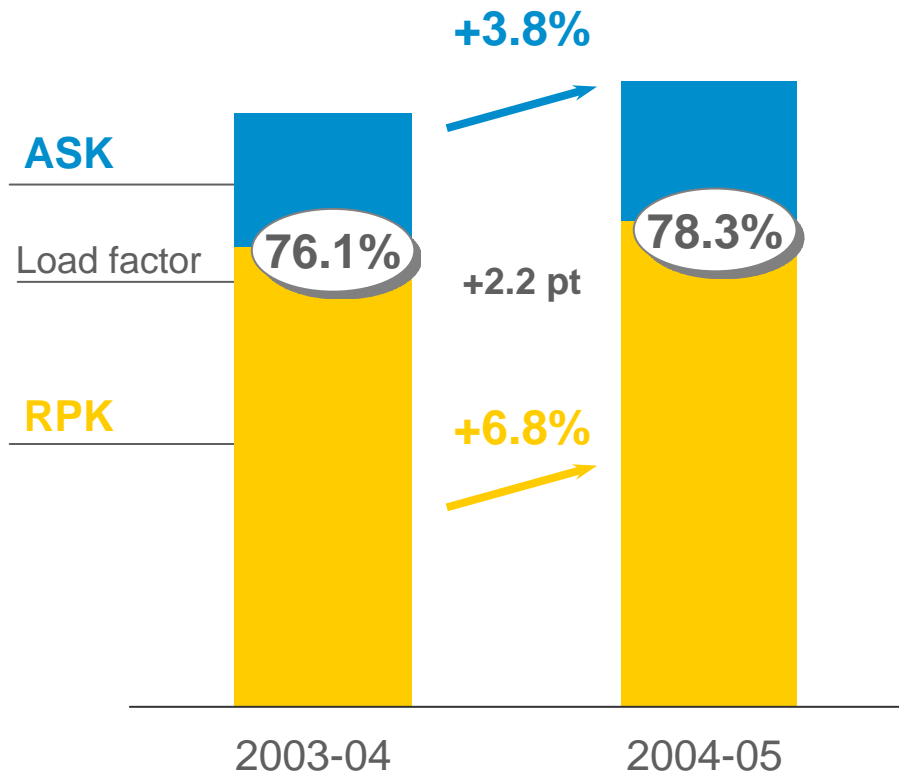
- ▶ Satisfactory economic environment
  - ▶ Sustained growth in the Americas and Asia
  - ▶ Moderate growth in Europe

## ✦ Good performance from Air France-KLM

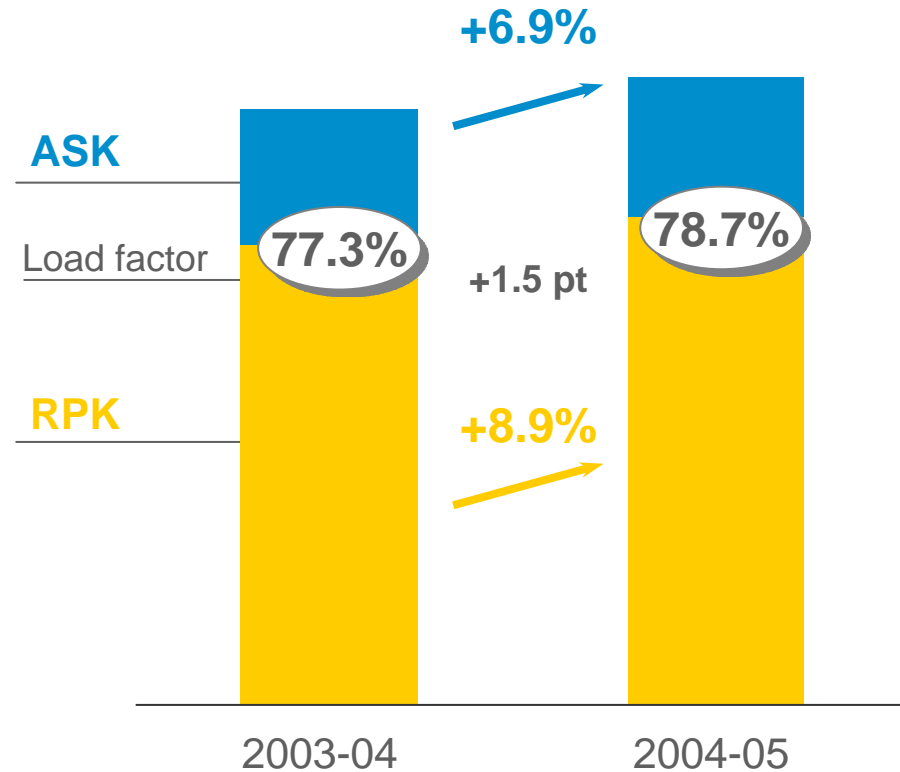
- ▶ Increase in traffic outstripping capacity
- ▶ Further improvement in already high load factor
- ▶ Growing business traffic
- ▶ Good level of unit revenue

# Strong Q4 in both traffic....

## 4<sup>th</sup> Quarter

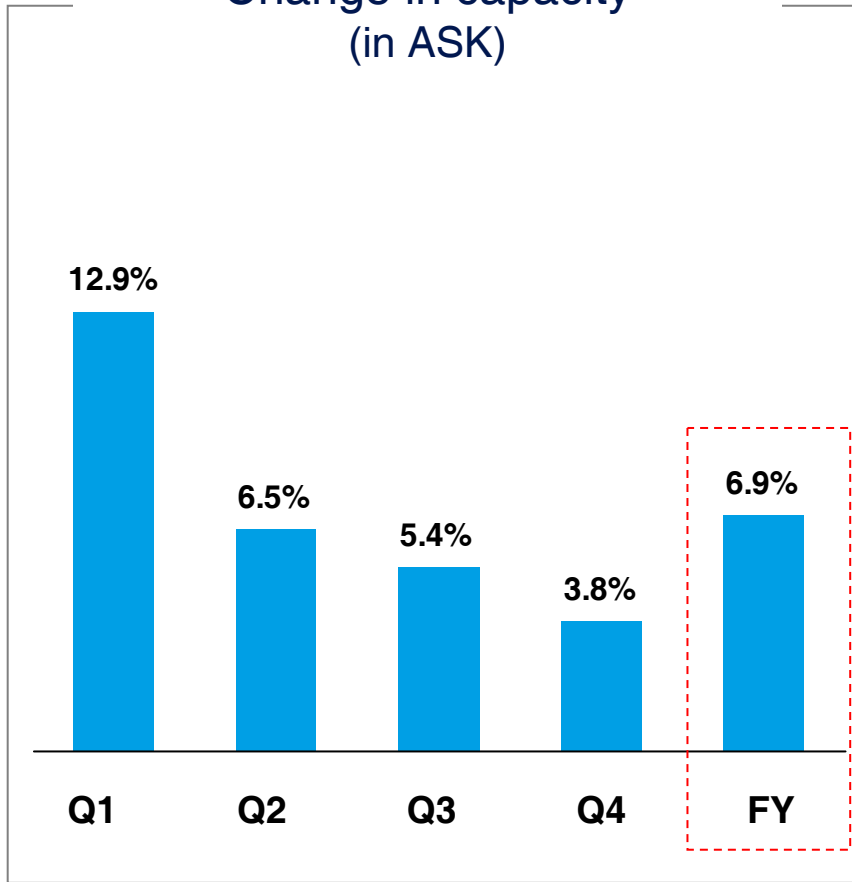


## Fiscal year

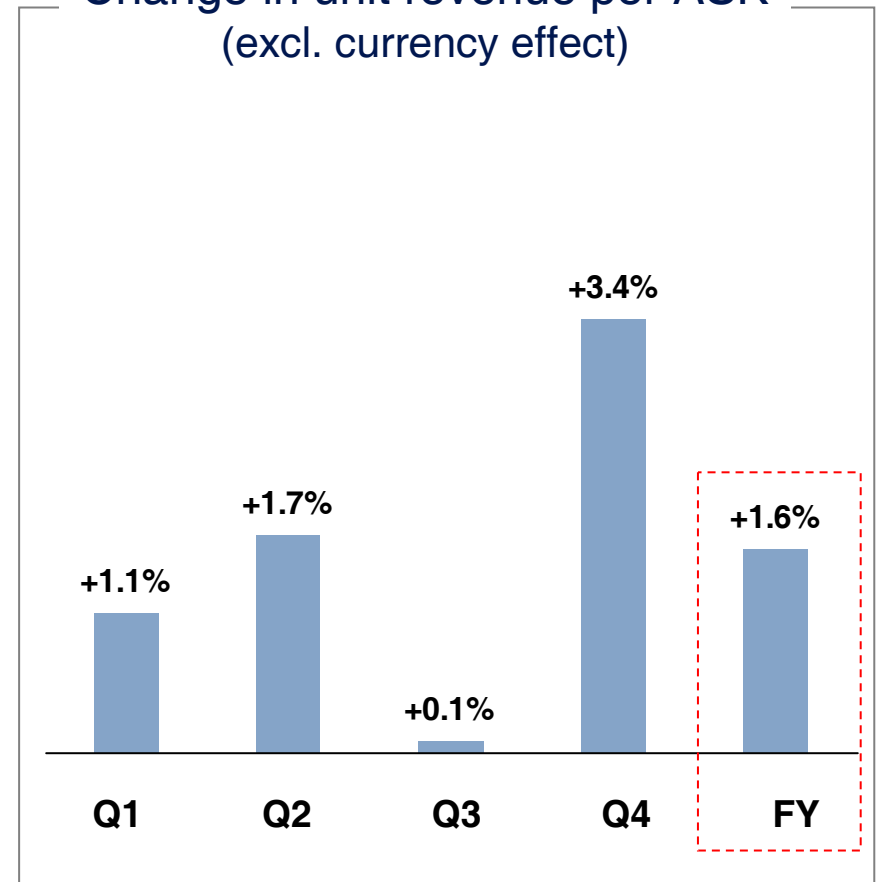


# ...and in unit revenue

Change in capacity  
(in ASK)



Change in unit revenue per ASK  
(excl. currency effect)



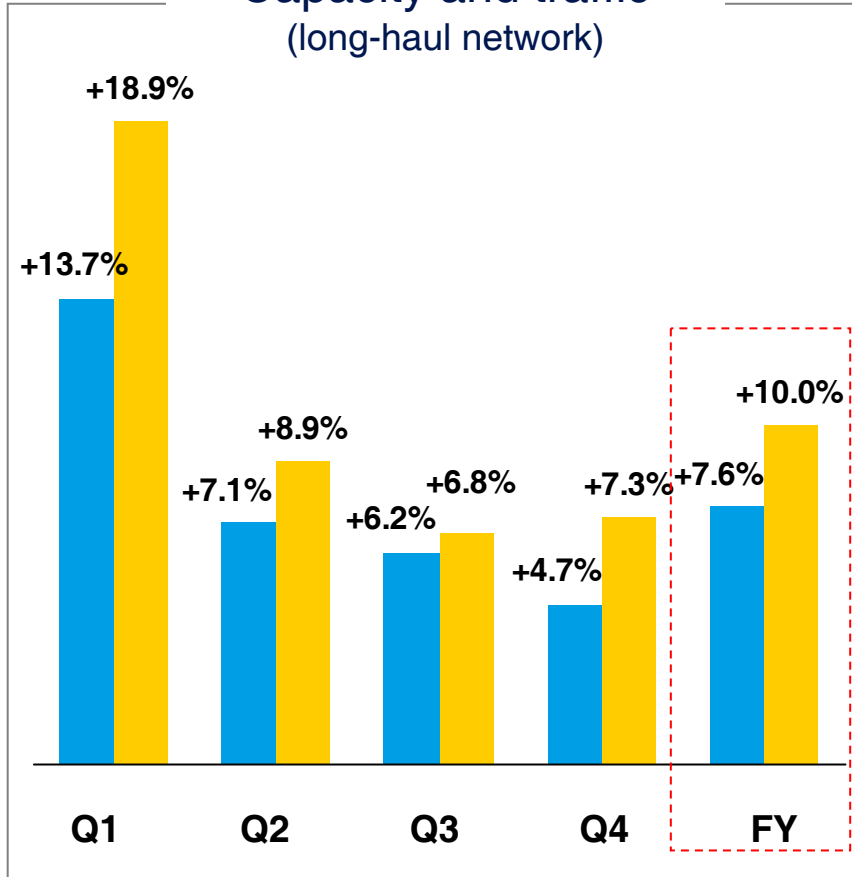
# Long-haul network: strong performance throughout the year

Capacity (ASK)

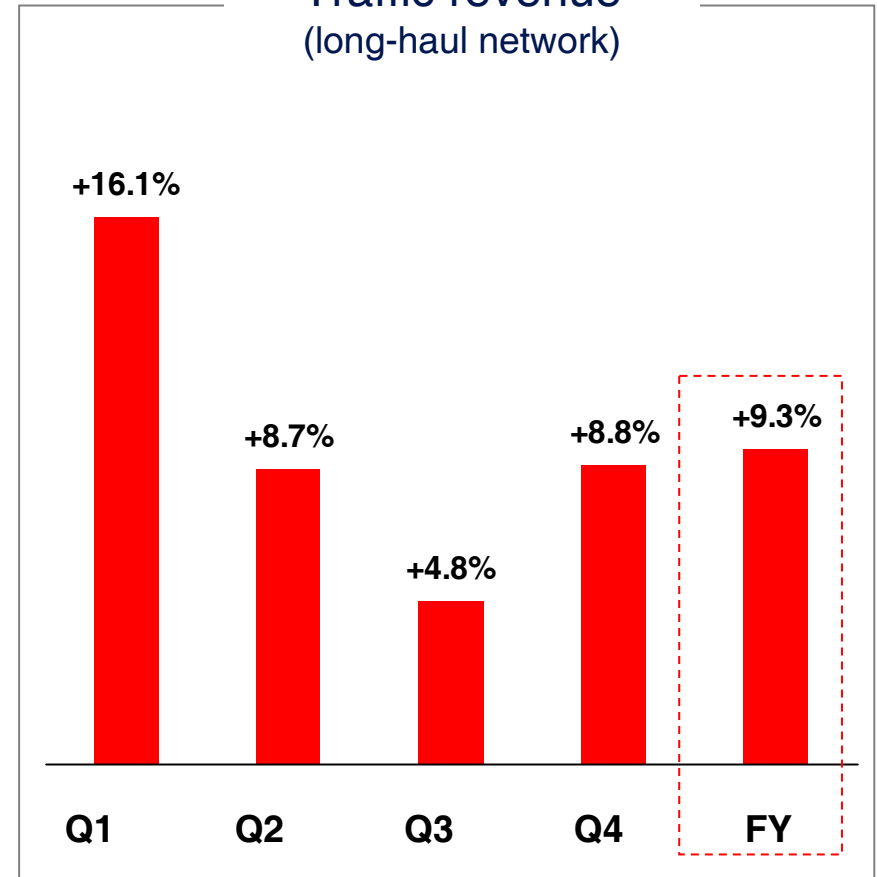
Traffic (RPK)

Traffic revenue

## Capacity and traffic (long-haul network)



## Traffic revenue (long-haul network)



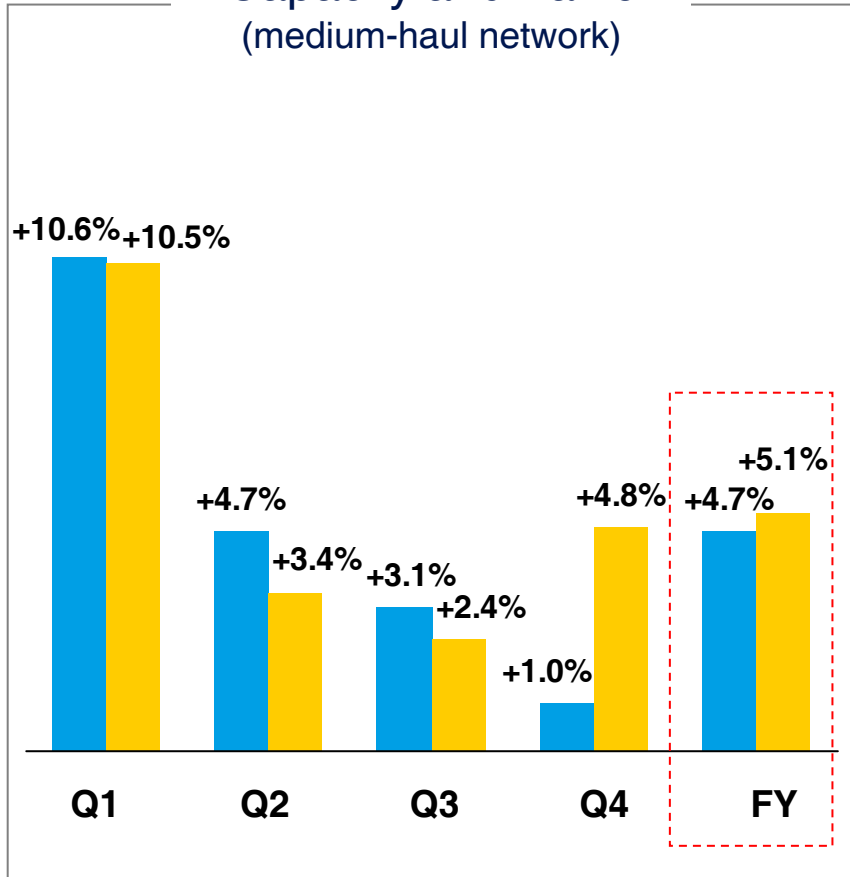
# Medium-haul network: recovery in Q4

Capacity (ASK)

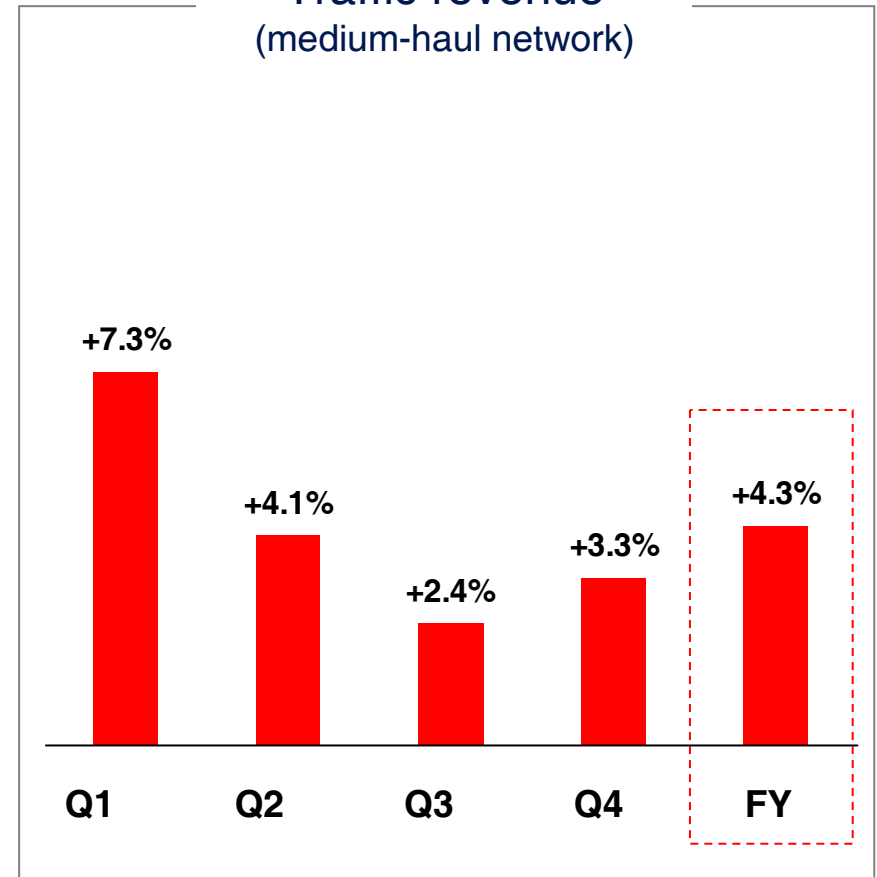
Traffic (RPK)

Traffic revenue

Capacity and traffic  
(medium-haul network)



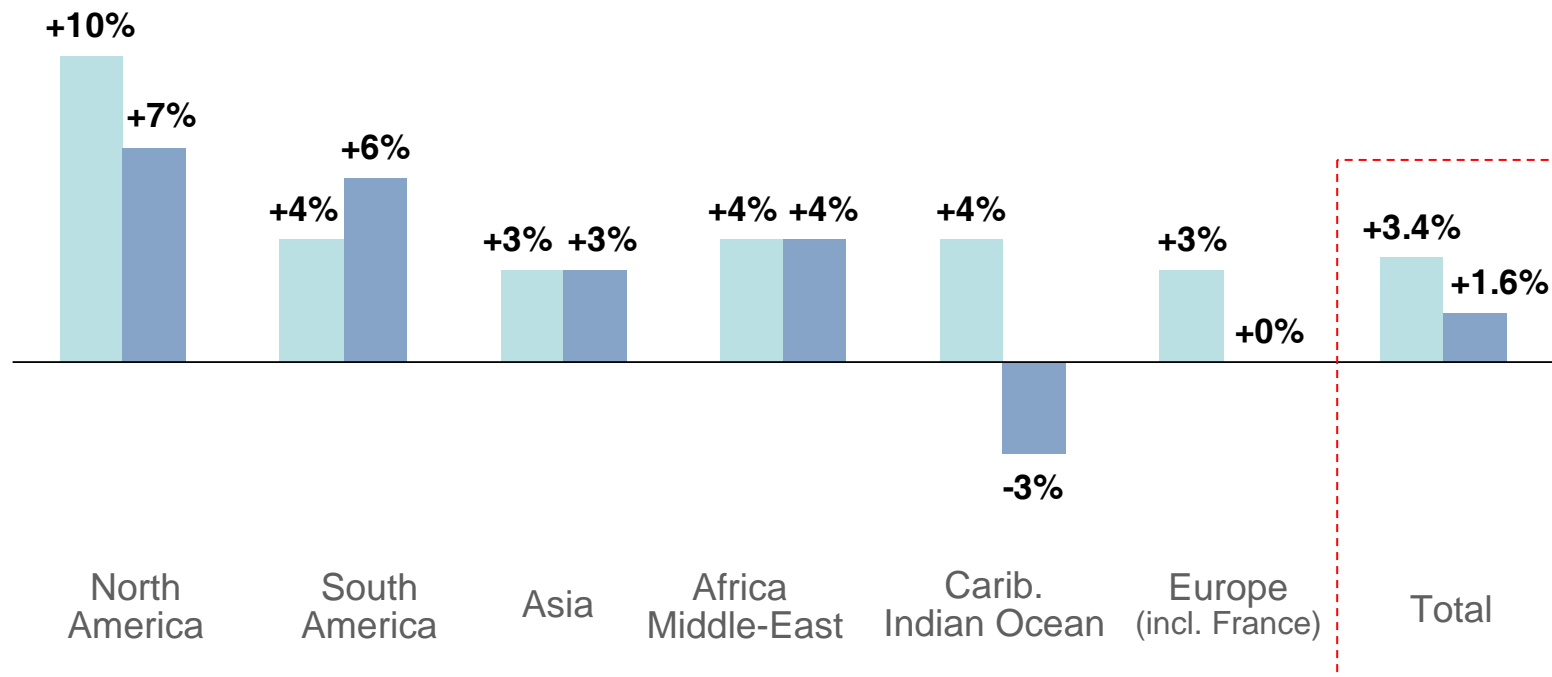
Traffic revenue  
(medium-haul network)



# Increase in unit revenue driven by long-haul...

Change in unit revenue per ASK (excl. currency effect)

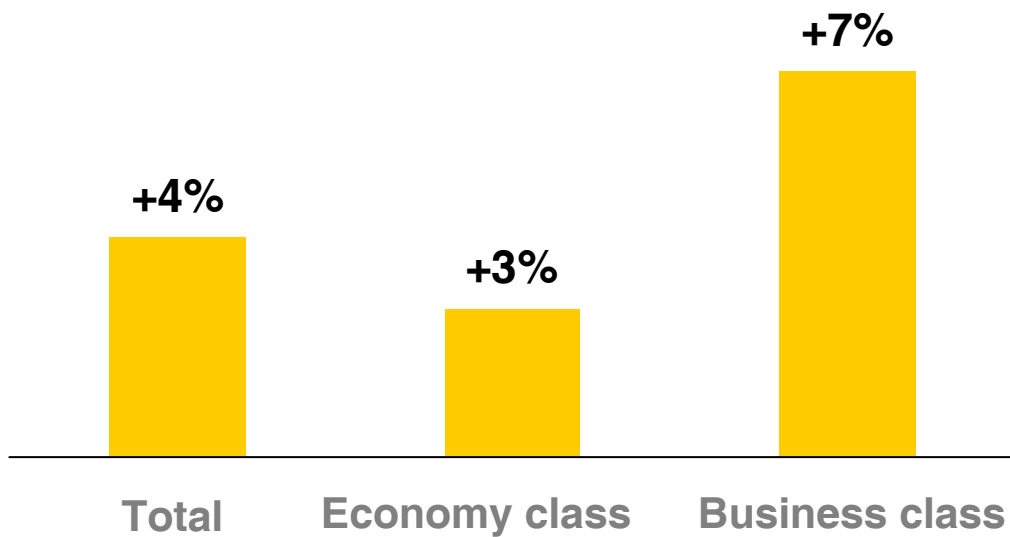
■ Q4 2004-05 ■ FY 2004-05



# ...and business traffic

## Long-haul network

Year-on-year change in unit revenue per ASK (excl. currency)



# Cargo business in 2004-05

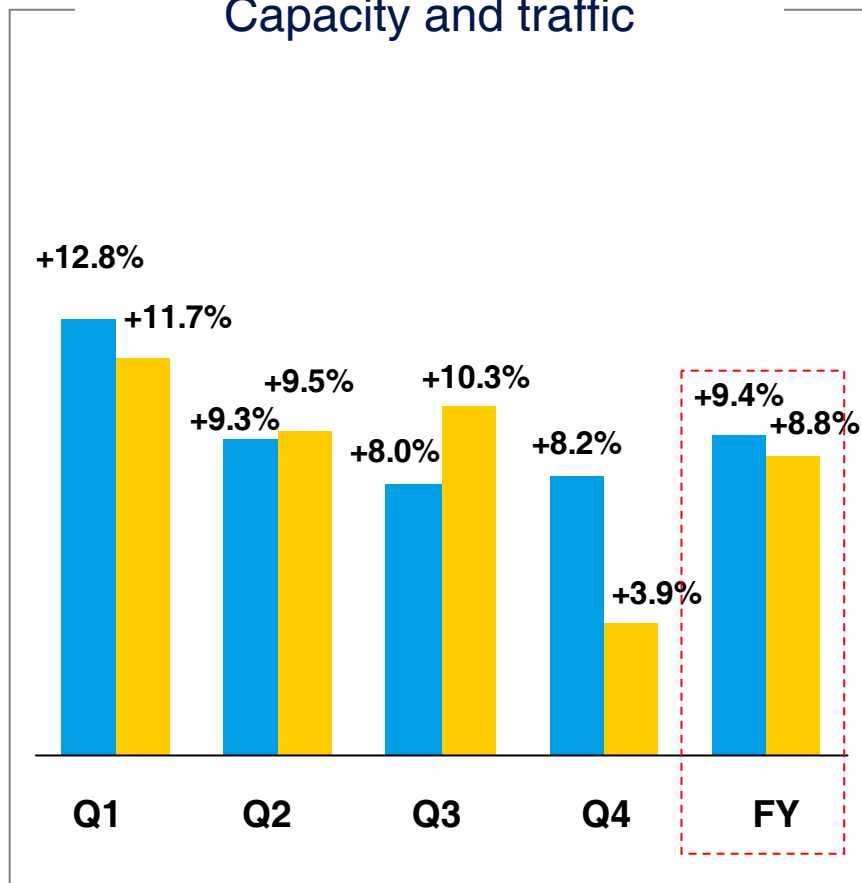
- ✦ Air France-KLM: excellent development...
  - ▶ Substantial growth in volumes...
  - ▶ ...as well as an increase in unit revenue
  
- ✦ ...within a contrasted market environment
  - ▶ Strong global demand
  - ▶ European exports penalized by strong euro
  - ▶ Tougher competition



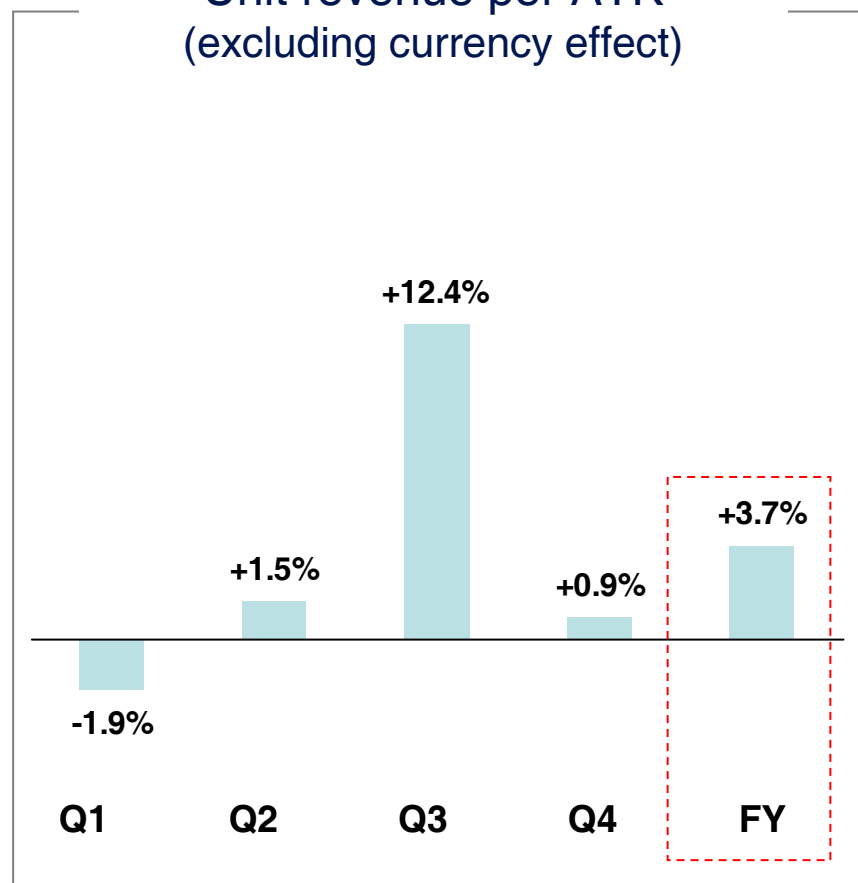
# Cargo: a very good year overall

■ Capacity (ATK) ■ Traffic (RTK)

## Capacity and traffic



## Unit revenue per ATK (excluding currency effect)

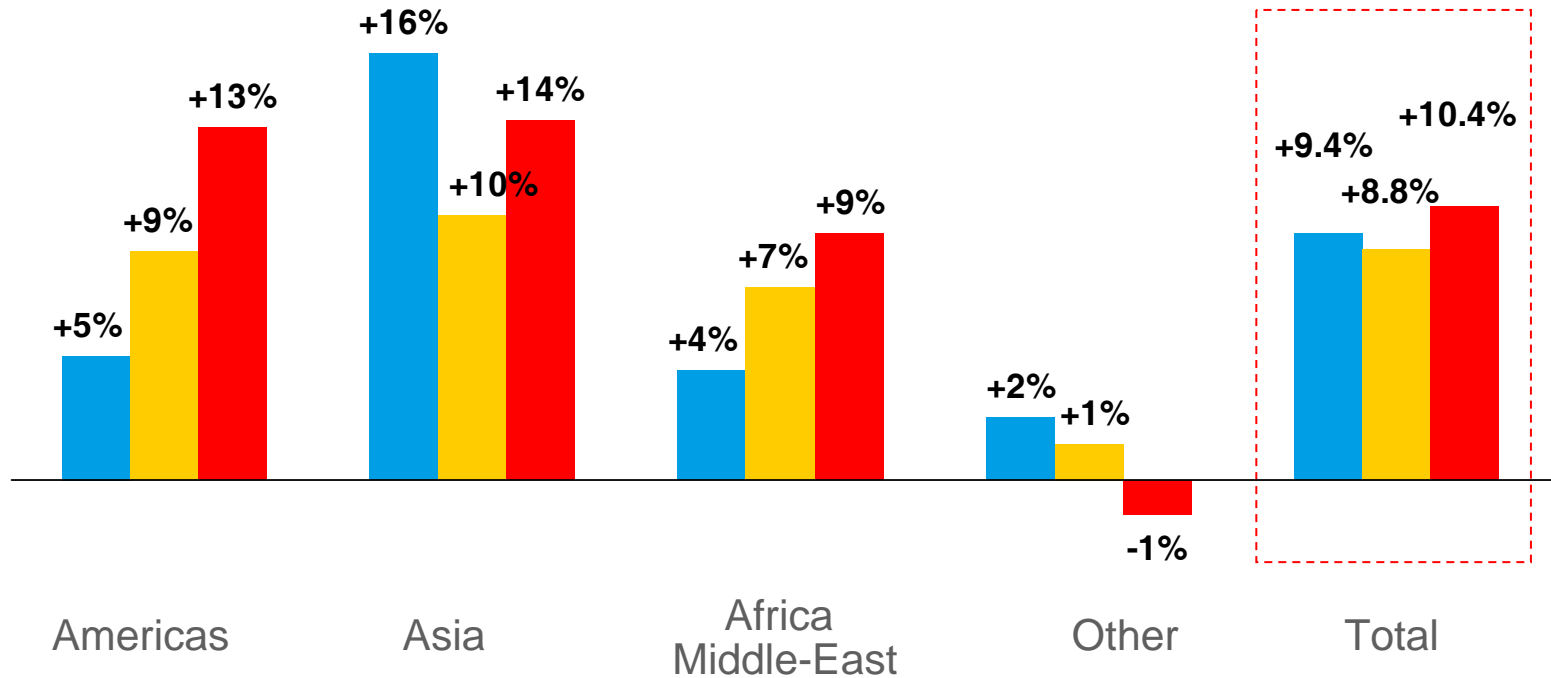


# Different markets balance out performance

FY 2004-05

Air France-KLM Group

■ ATK ■ RTK ■ Traffic rev.



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**Strong growth in results**



# Positive operating income in Q4...

## 4th Quarter

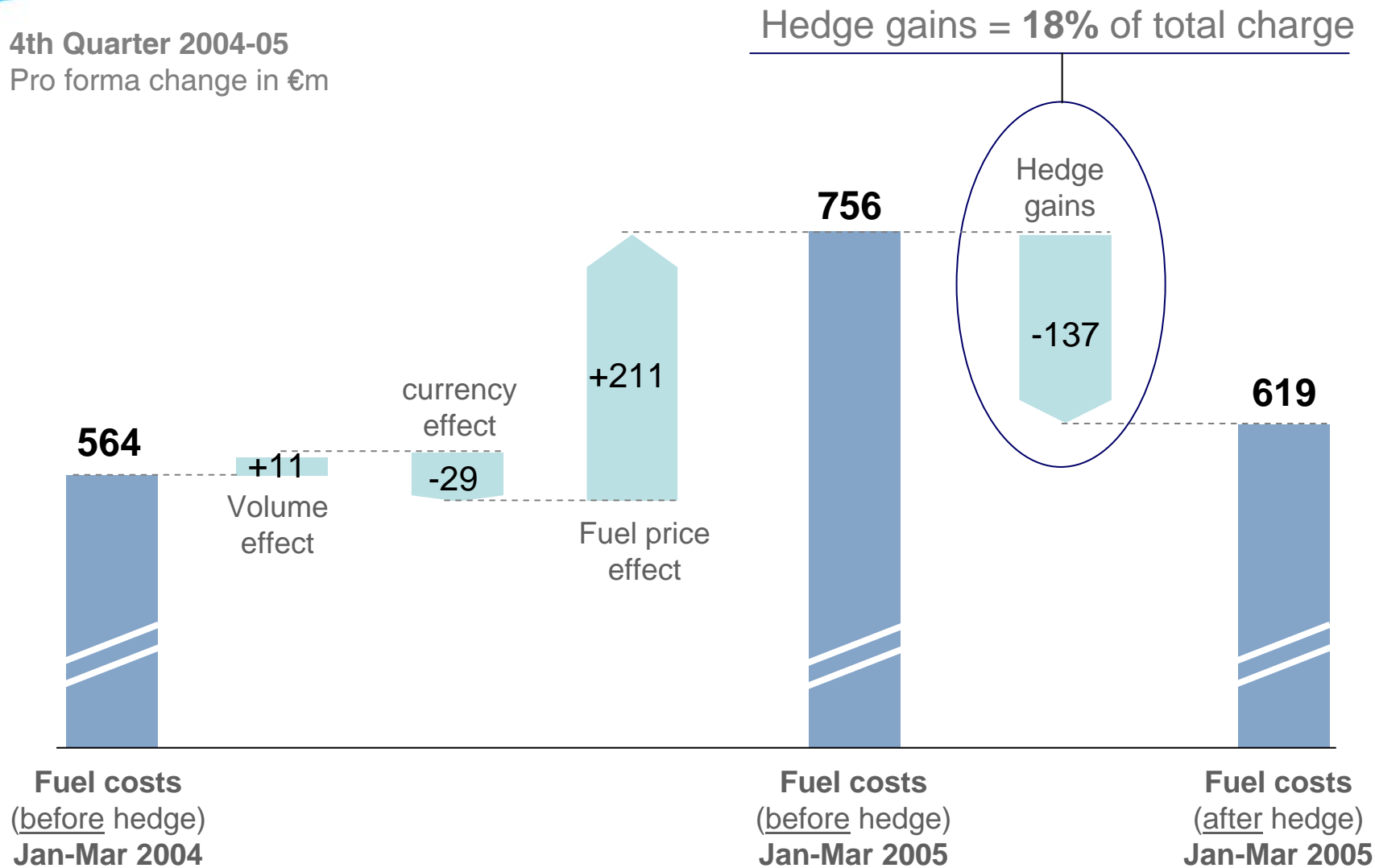
Pro forma change in €m

	31 Mar. 2005	31 Mar. 2004 pro forma	Change
Turnover	4,625	4,387	+5.4%
Operating charges	(4,616)	(4,353)	+6.0%
<b>Adjusted operating income*</b>	<b>61</b>	<b>82</b>	-25.6%
<b>Operating income</b>	<b>9</b>	<b>34</b>	-73.5%
Net interest charge	(56)	(40)	
Net profit	(6)	42	

\* Operating income (excl. aircraft sales) adjusted for the interest part of operating leases (34%)

# ...thanks to an efficient fuel hedging policy

4th Quarter 2004-05  
Pro forma change in €m



# Substantial improvement in full year results

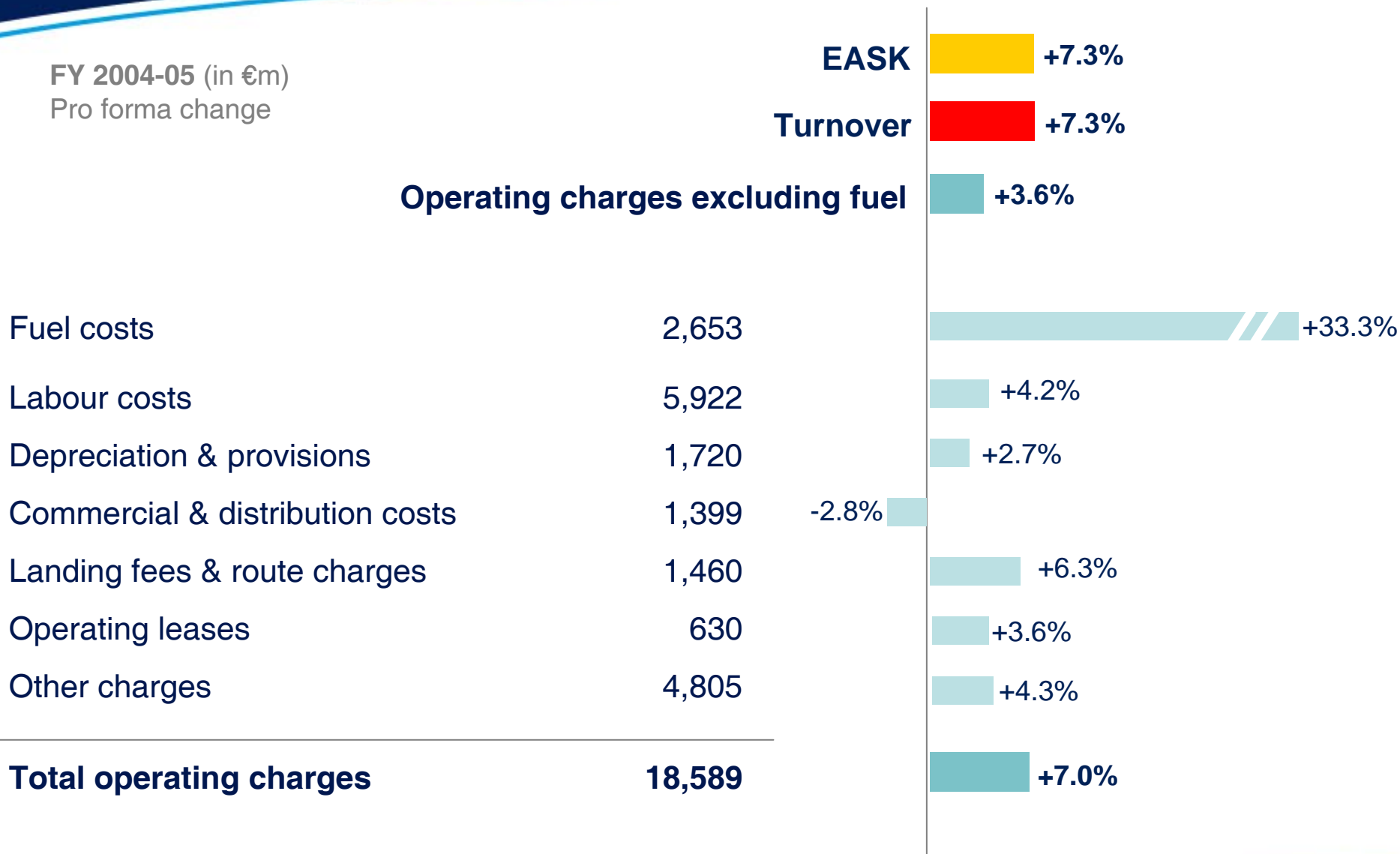
Consolidation of Air France over 12 months  
and of KLM over 11 months

	31 Mar. 2005	31 Mar. 2004 pro forma	Change
Turnover	19,078	17,782	+7.3%
Operating charge	(18,589)	(17,377)	+7.0%
<b>Adjusted operating income</b> (excl. aircraft sales)*	<b>703</b>	<b>612</b>	<b>+14.9%</b>
<b>Adjusted operating margin*</b>	<b>3.7%</b>	<b>3.4%</b>	<b>+0.3 pt</b>
<b>Operating income</b> (excl. aircraft sales)	<b>489</b>	<b>405</b>	<b>+20.7%</b>
<b>Operating margin</b>	<b>2.6%</b>	<b>2.3%</b>	<b>+0.3 pt</b>
Net interest charge	(202)	(228)	-11.4%
Profit before tax & goodwill	397	283	+40.3%
Group net income	351	292	+20.2%

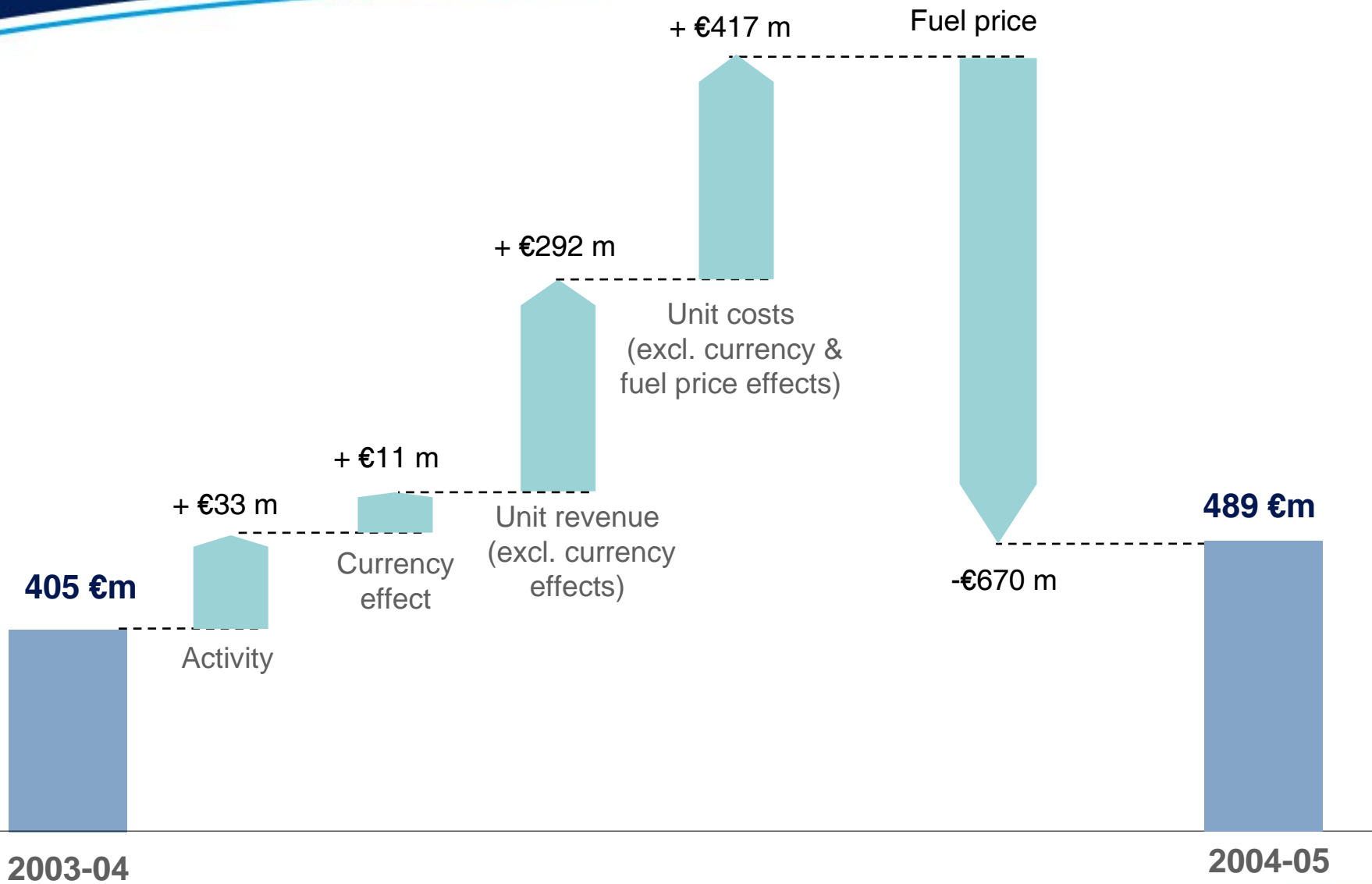
\* Operating income (excl. aircraft sales) adjusted for the interest part of operating leases (34%)

# Containment of operating charges excluding fuel

FY 2004-05 (in €m)  
Pro forma change



# Analysis of change in operating income

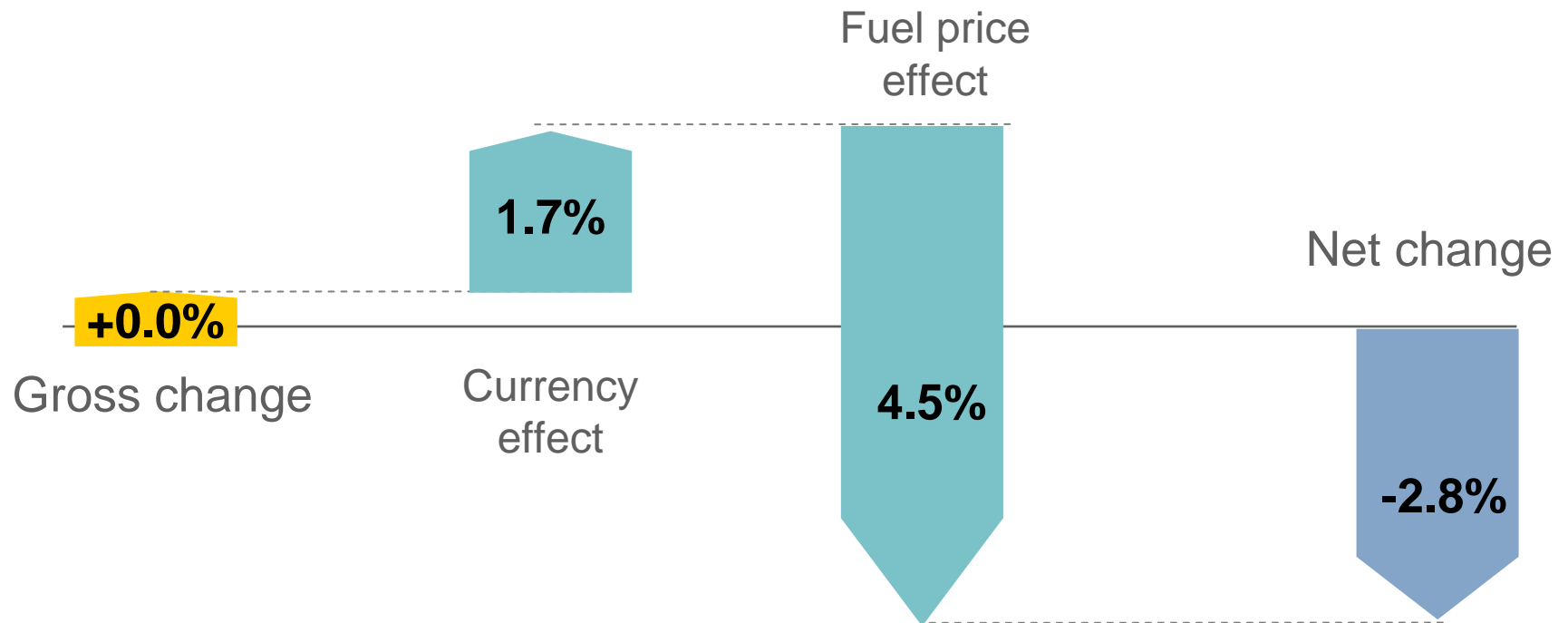




# Reduction in unit costs at constant currency and fuel price

FY 2004-05

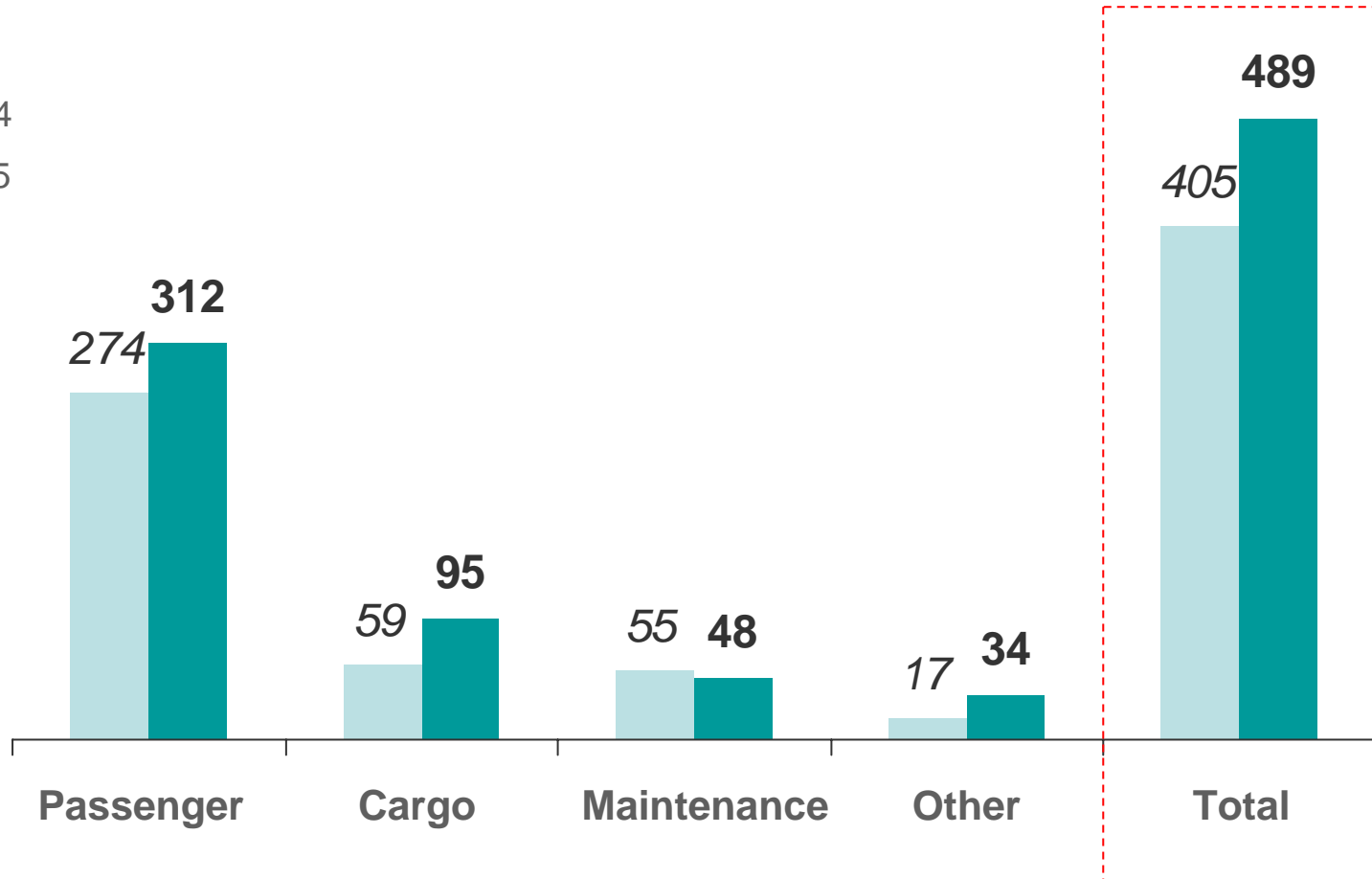
Unit costs per EASK: 6.23 € cts



# Positive contribution from all businesses

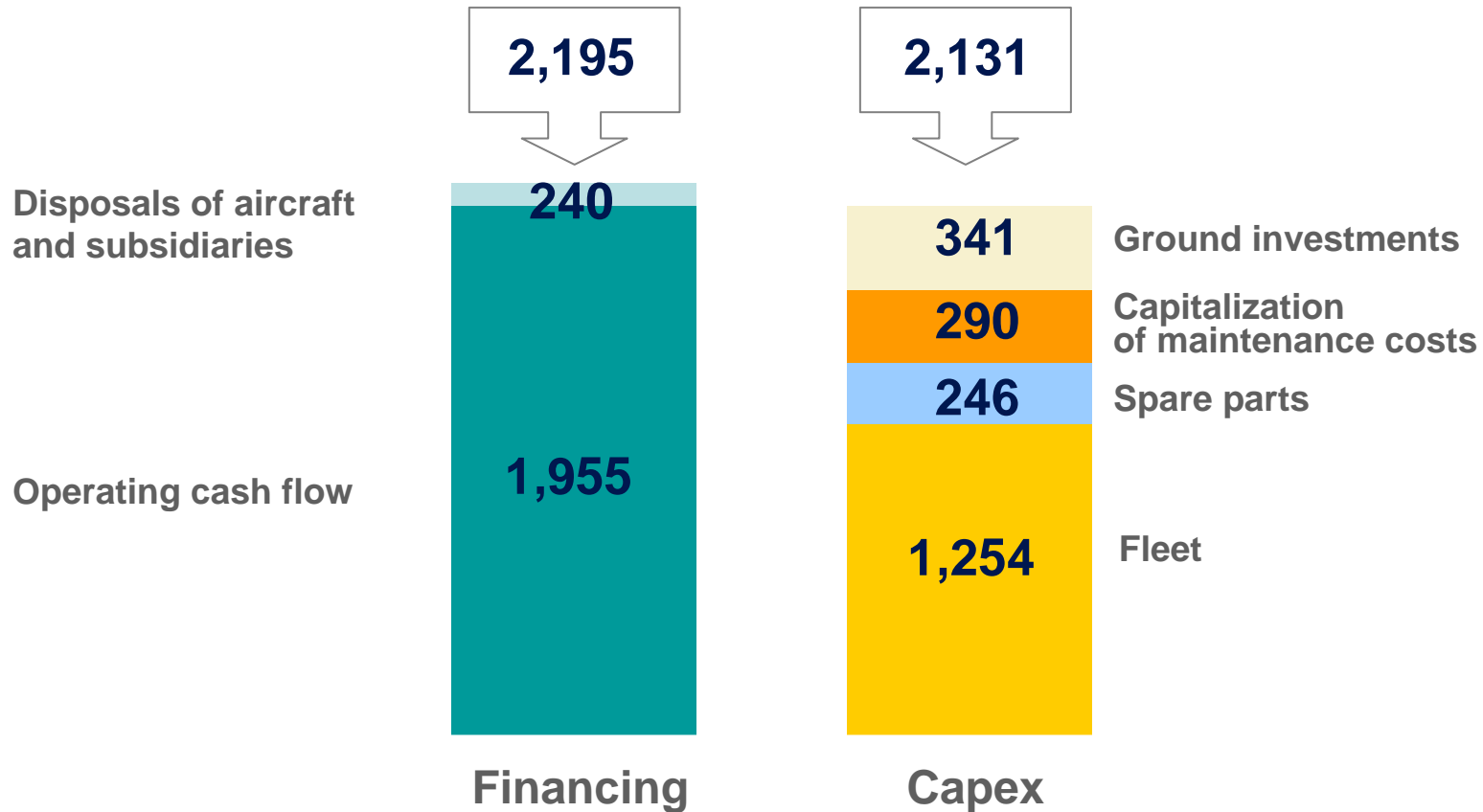
Operating income  
excl. aircraft disposals (in €m)

2003-04  
2004-05



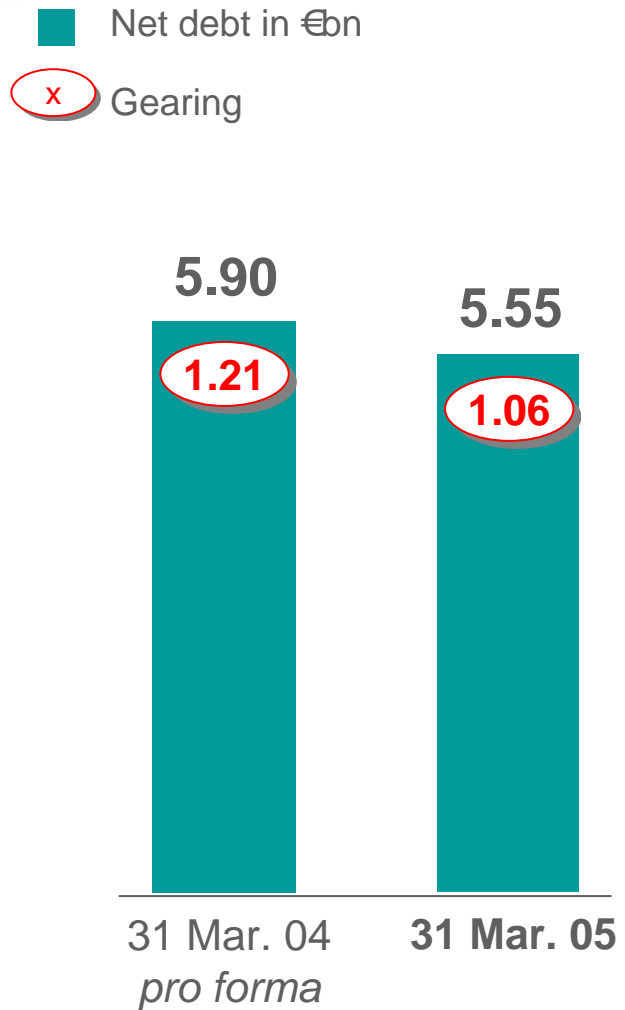
# Investments funded by cash flow

FY 2004-05\* (in €m)

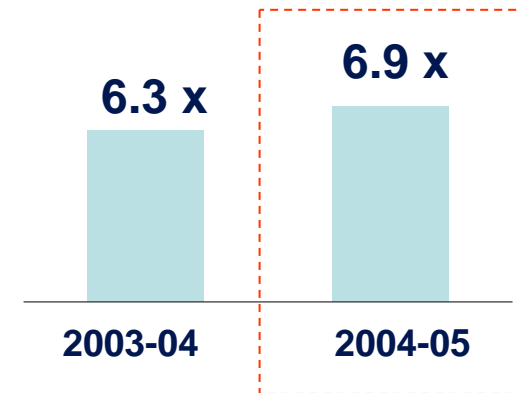


\* Consolidation of Air France over 12 months (Apr-Mar) and of KLM over 11 months (May-Mar)

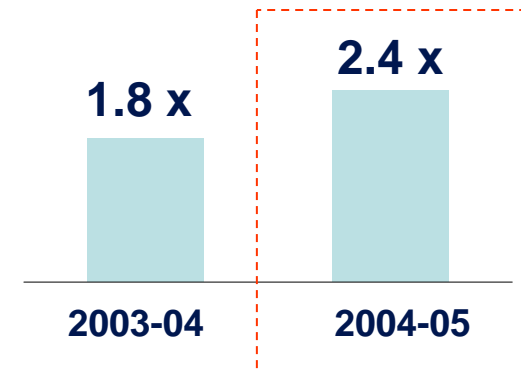
# Financial structure reinforced



## EBITDAR / adjusted net interest charge\*



## EBIT / net interest charge



\* Net interest charge adjusted for the interest part of operating leases (34%)

**AIR FRANCE KLM**

# Strategy and outlook



# Our challenges

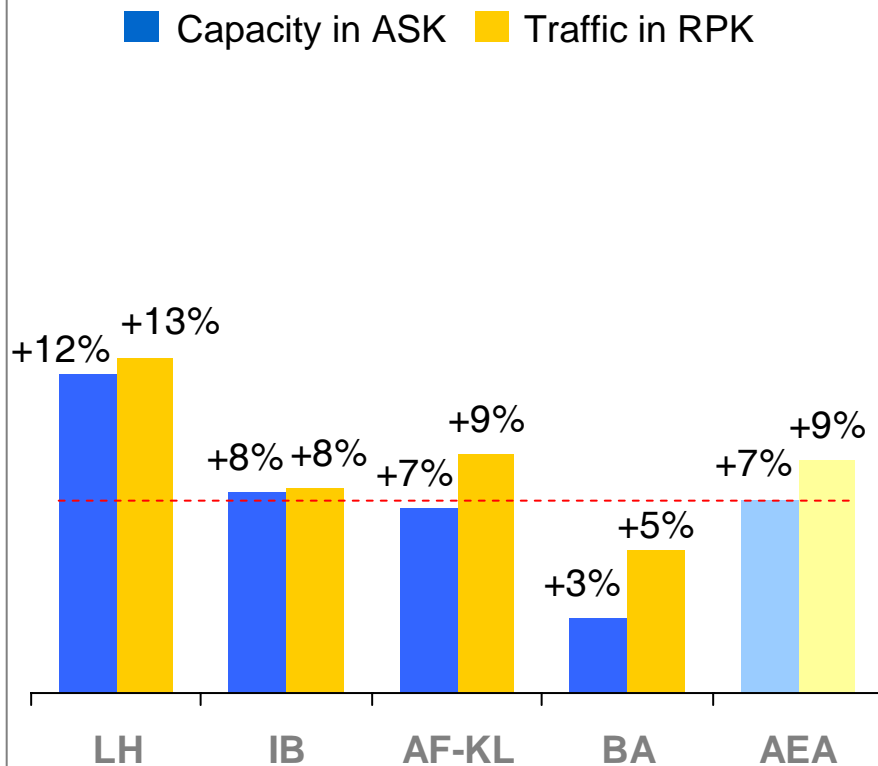
- ✦ Reinforce the leadership position of Air France-KLM in an increasingly competitive environment
- ✦ Strengthen our financial base to respond to the demand for lower fares against a backdrop of increasing external costs (fuel, taxes...)
- ✦ Deliver long-term profitable growth for the benefit of our shareholders

# Reinforce the group's competitive position

- ✦ Capacity expansion focused on growth markets and adapted to demand
- ✦ Use our hub model to leverage the complementarity of our networks, types of traffic and customers
- ✦ Maintain a high level of responsiveness and flexibility

# Air France-KLM: expansion adapted to market demand

## Fiscal 2004-05



source: AEA

## Fiscal 2004-05 Load factor



source: AEA



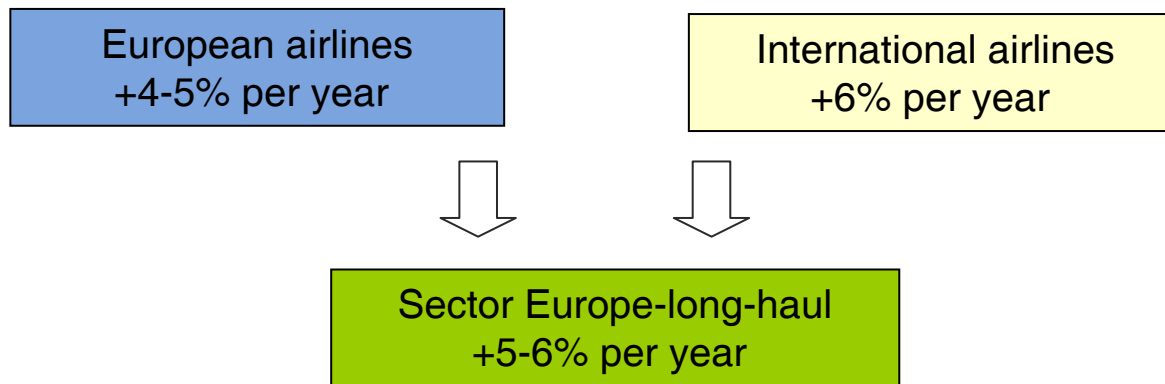
# No excess capacity in long-haul sector

## + Sustained demand on long-haul

- ▶ Expected worldwide economic growth of **+3%** per year...
- ▶ ...driving a natural demand of **+6%** per year (elasticity of demand ~2x)

## + No excess capacity in long-haul sector

### Capacity Europe – long-haul (2006-2010)



# Air France-KLM: expansion focused on long-haul

## ✦ Capacity development focused on long-haul...

	Summer 2005	S 2005 → S 2009 CAGR in ASK
Long-haul	+6%	+6%
Medium-haul	+1%	2%
<b>Total</b>	<b>+5%</b>	<b>+5%</b>

## ✦ ...and especially on emerging markets

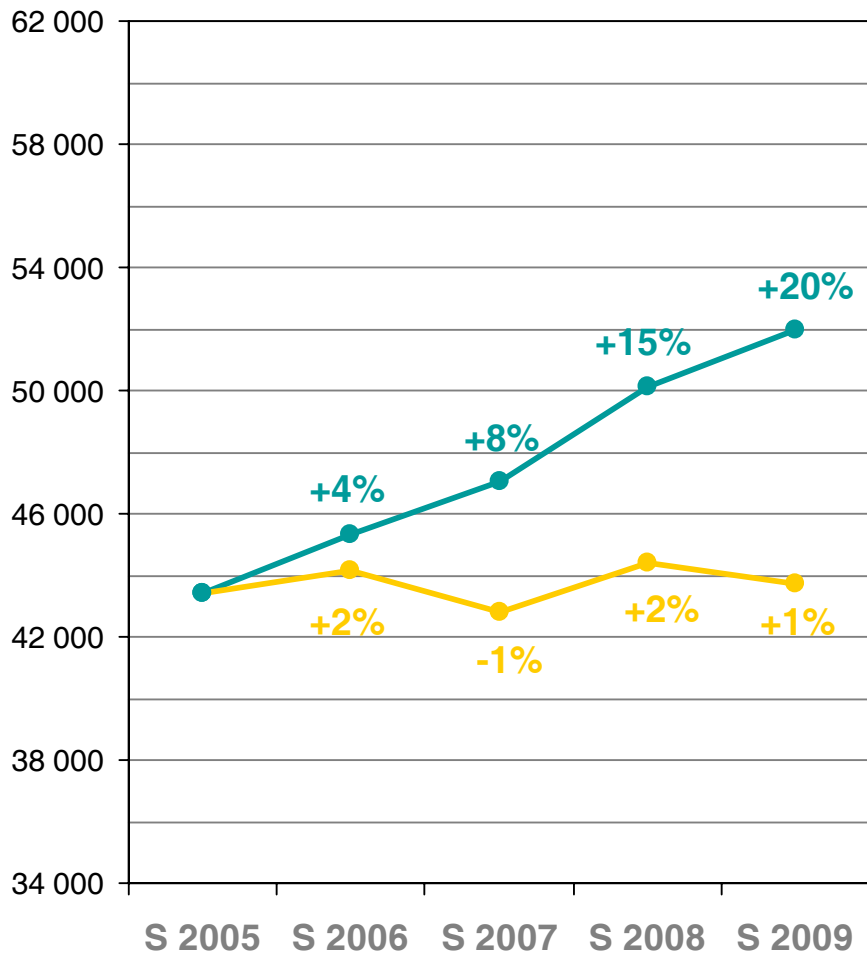
- ▶ Asia
- ▶ South America
- ▶ Middle-East
- ▶ Eastern Europe

# Fleet flexibility increases our responsiveness

Long-haul fleet  
(in number of seats)

● 4 year plan  
● down flexibility

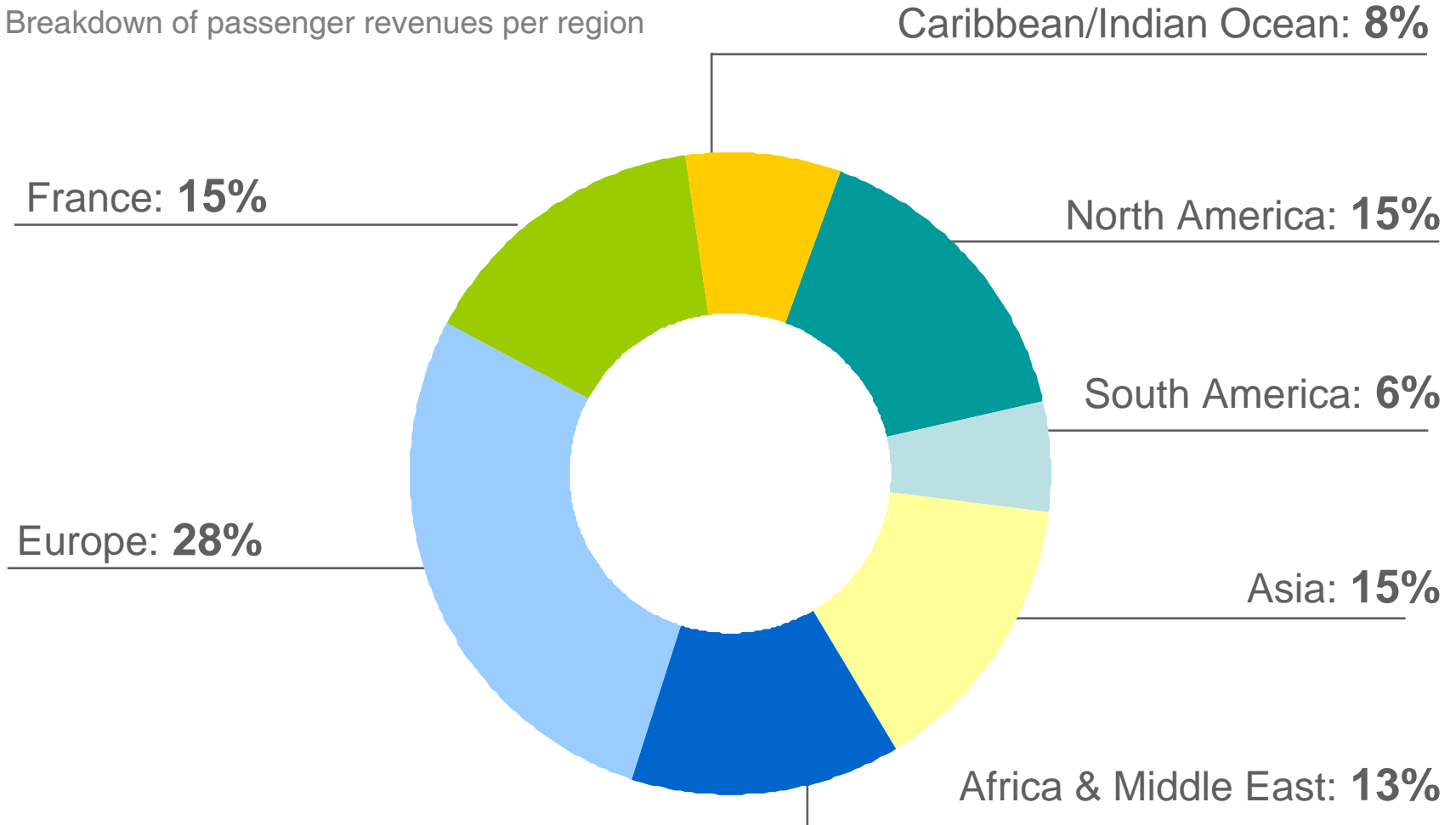
Medium-haul fleet  
(in number of seats)



# Our well-balanced network : a natural hedge

**Fiscal 2004-05**

Breakdown of passenger revenues per region



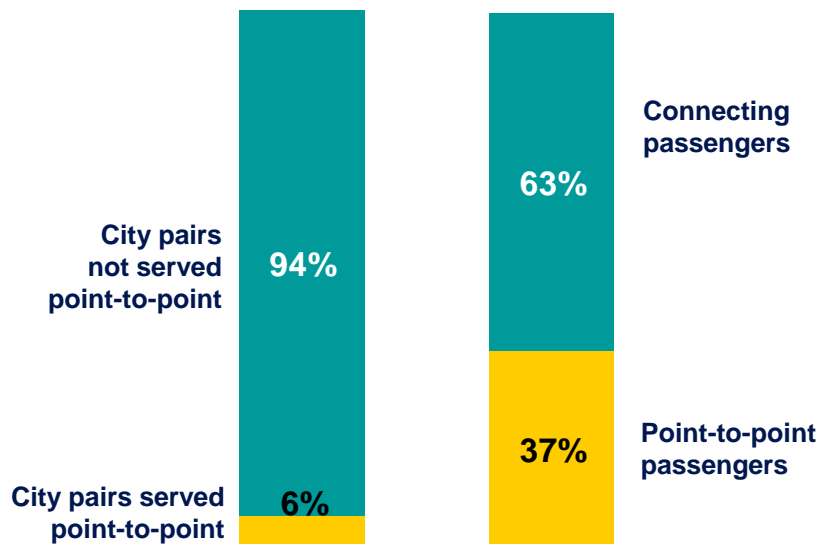
# The hub: an effective model for Europe

- ▶ Overall, **60%** of intercontinental passengers connect

## Europe – Asia

~12,000 city pairs

~30 million passengers

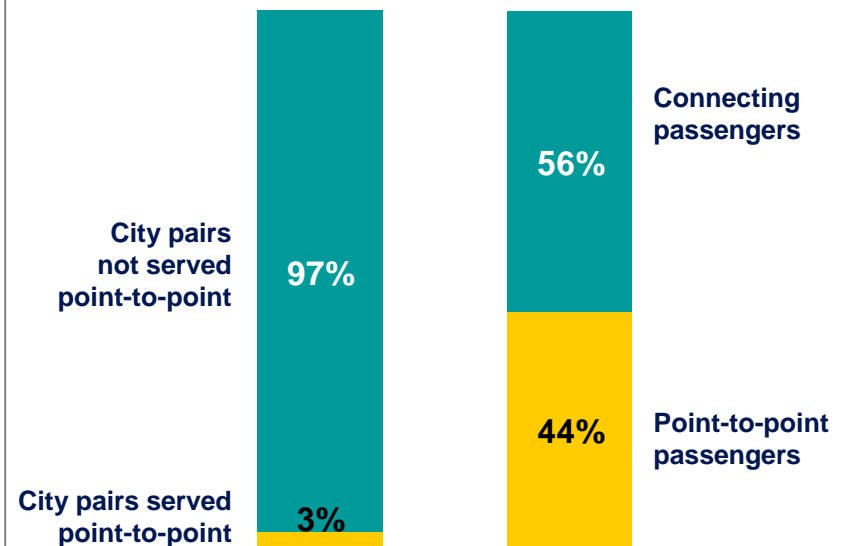


source : BCG

## Europe – North America

~21 000 city pairs

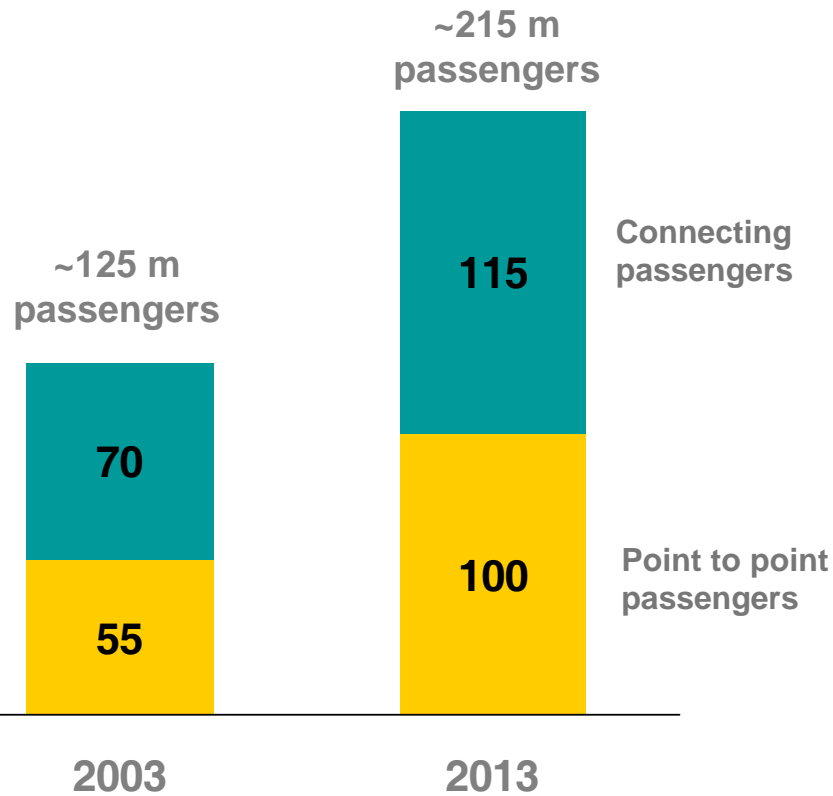
~52 million passengers



# A model for the future

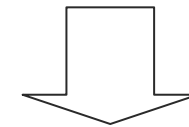
Growth in the intercontinental market

**+5.5% per year**



source : BCG

- + High growth forecast in both connecting and point-to-point traffic
- + Role of major intercontinental hubs reinforced

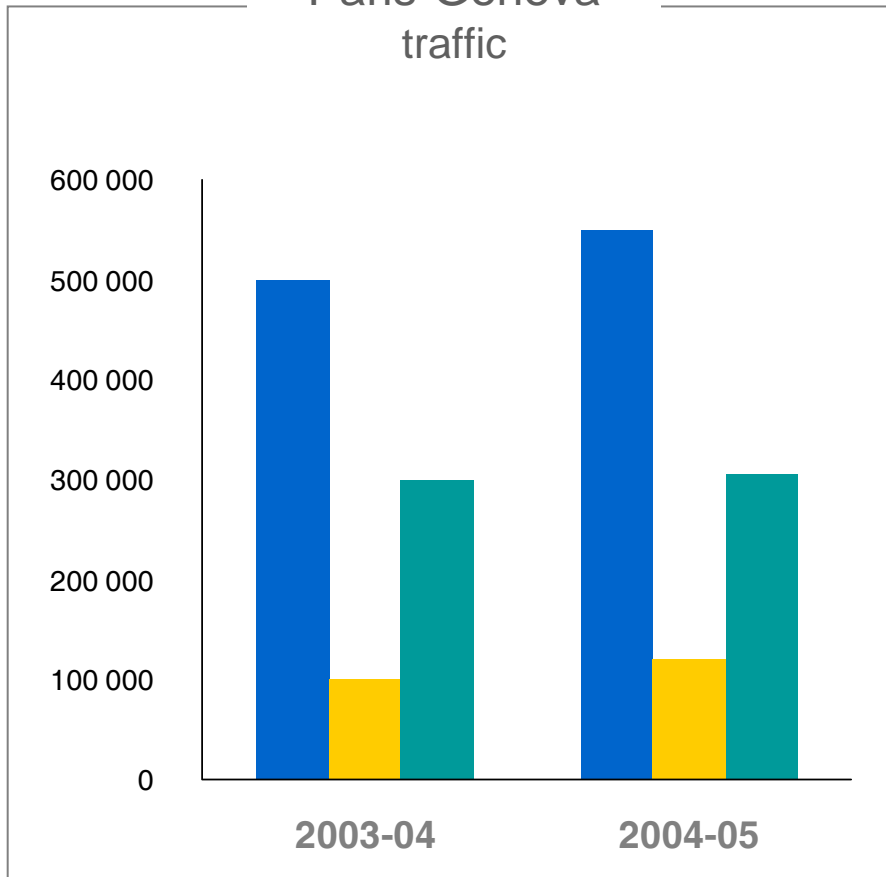


Thanks to its CDG and AMS hubs, Air France-KLM is well positioned to take advantage of growth opportunities in both connecting and point-to-point traffic

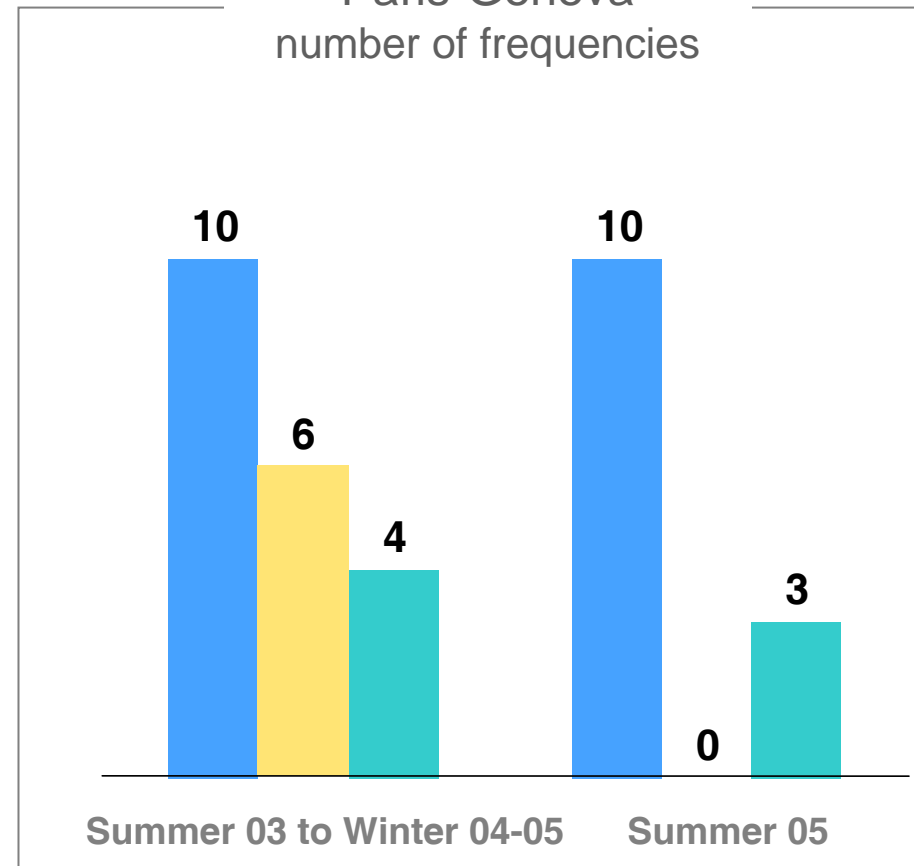
# The hub system: a barrier to low-cost carriers in Europe

■ Air France ■ Swiss ■ easyJet

### Paris-Geneva traffic

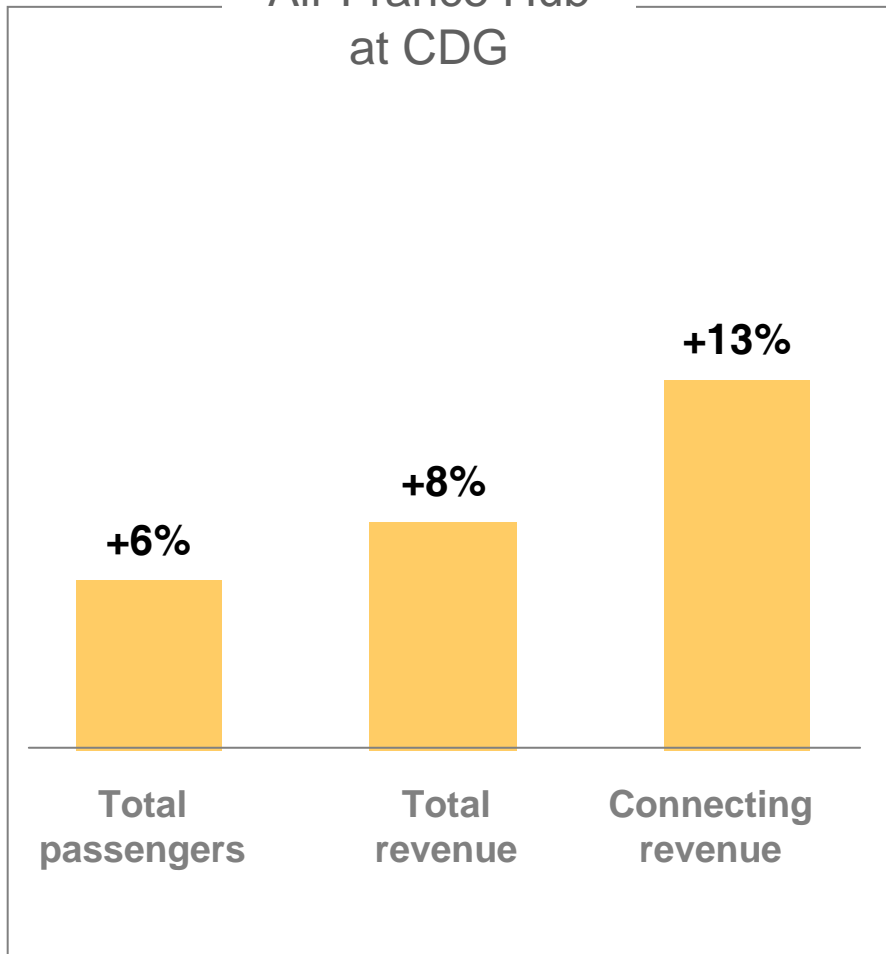


### Paris-Geneva number of frequencies

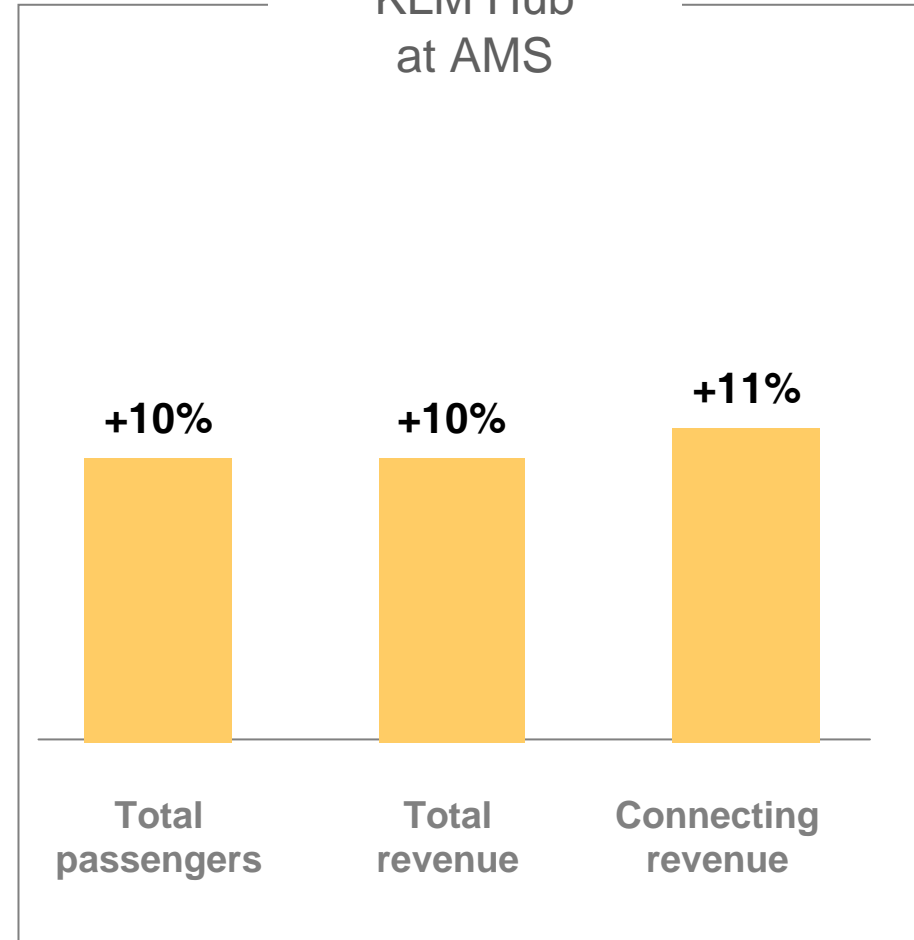


# Air France-KLM: an efficient and profitable multi-hub strategy

Air France Hub  
at CDG



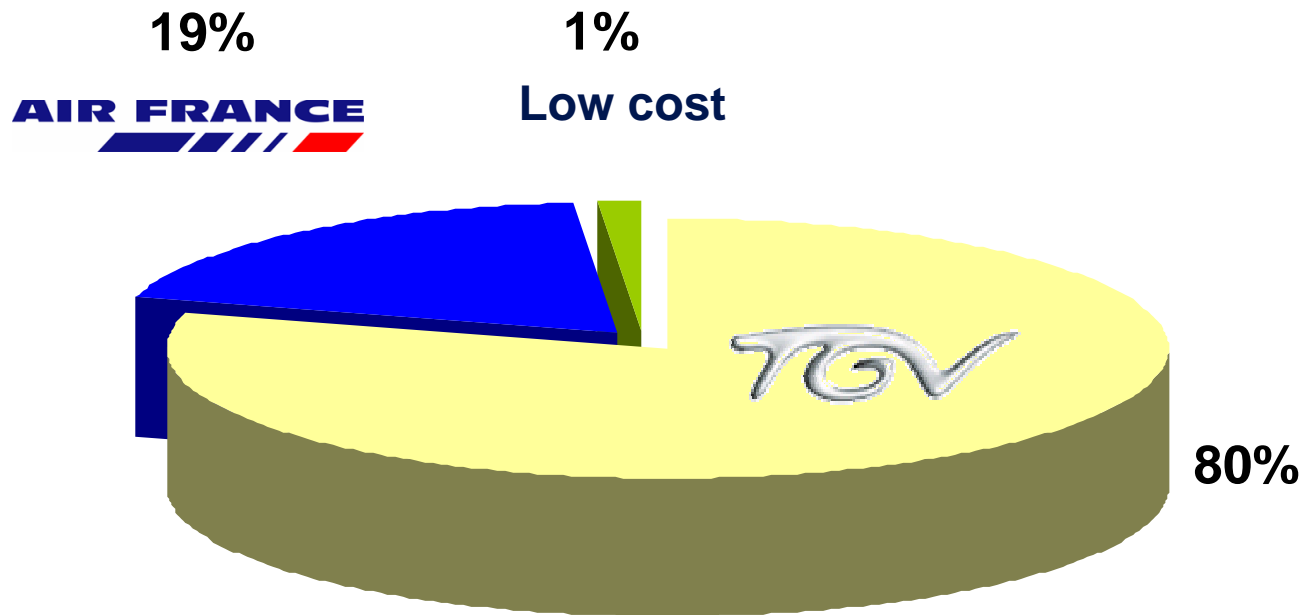
KLM Hub  
at AMS





# The French domestic market: the high speed train fills the space of the "low cost" carriers

2004 Traffic on French domestic market  
(in million passengers)



► easyJet pulls out of Orly-Marseille

Sources: SNCF, Air France, autres

# Strengthen the financial base of the Group

- ✦ Renewal and upgrading of fleet: investing in our future competitiveness
- ✦ Optimization of fuel hedging policy
- ✦ Continued focus on cost control
- ✦ Further generation of synergy benefits

# The fleet: investing in our future competitiveness

- ✦ 1997: an old and heterogeneous fleet weighing on competitiveness
- ✦ A 10 year rationalization program financed by cash flow
- ✦ The level of the oil price and the dollar are accelerating the process of renewing of old aircraft

# The fleet: investing in our future competitiveness

## + Passenger fleet

- ▶ Replacement of the B747-200/300 by the B777-300ER on the Caribbean and Indian Ocean sector
  - ▶ Improvement in operating unit costs of up to 15%
- ▶ Replacement of the B767-300ER by the A330-200
  - ▶ Improvement in operating unit costs of up to 6%

## + Cargo fleet

- ▶ Replacement of the B747-200F by the B777F and by the B747-400ERF
  - ▶ Improvement in operating unit costs of 13 to 23%

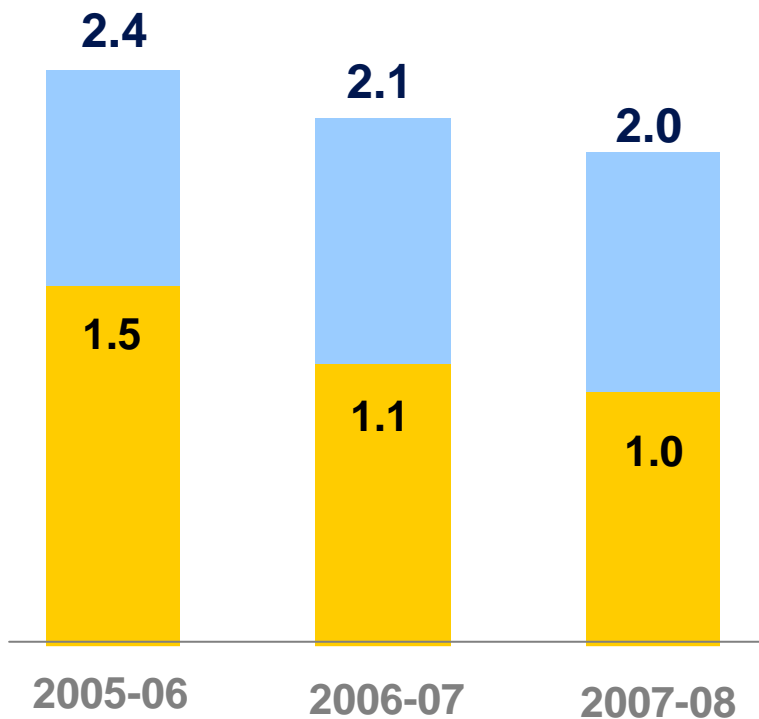
# Positive free cash flow over the next three years

■ Fleet investment

■ Other investments (including maintenance costs capitalisation)

## Capital expenditure

(in € bn)



## Financing

+ Operating cash flow

+ Amadeus operation

- ▶ €800m of cash before tax in 2005-06

# A systematic fuel hedging policy

	2004-05	2005-06	2006-07
Consumption hedged	69%	81%	45%
Jet fuel market price* (in \$/t)	\$440	\$565	\$562
Hedge gains (in m\$)	465	830	435

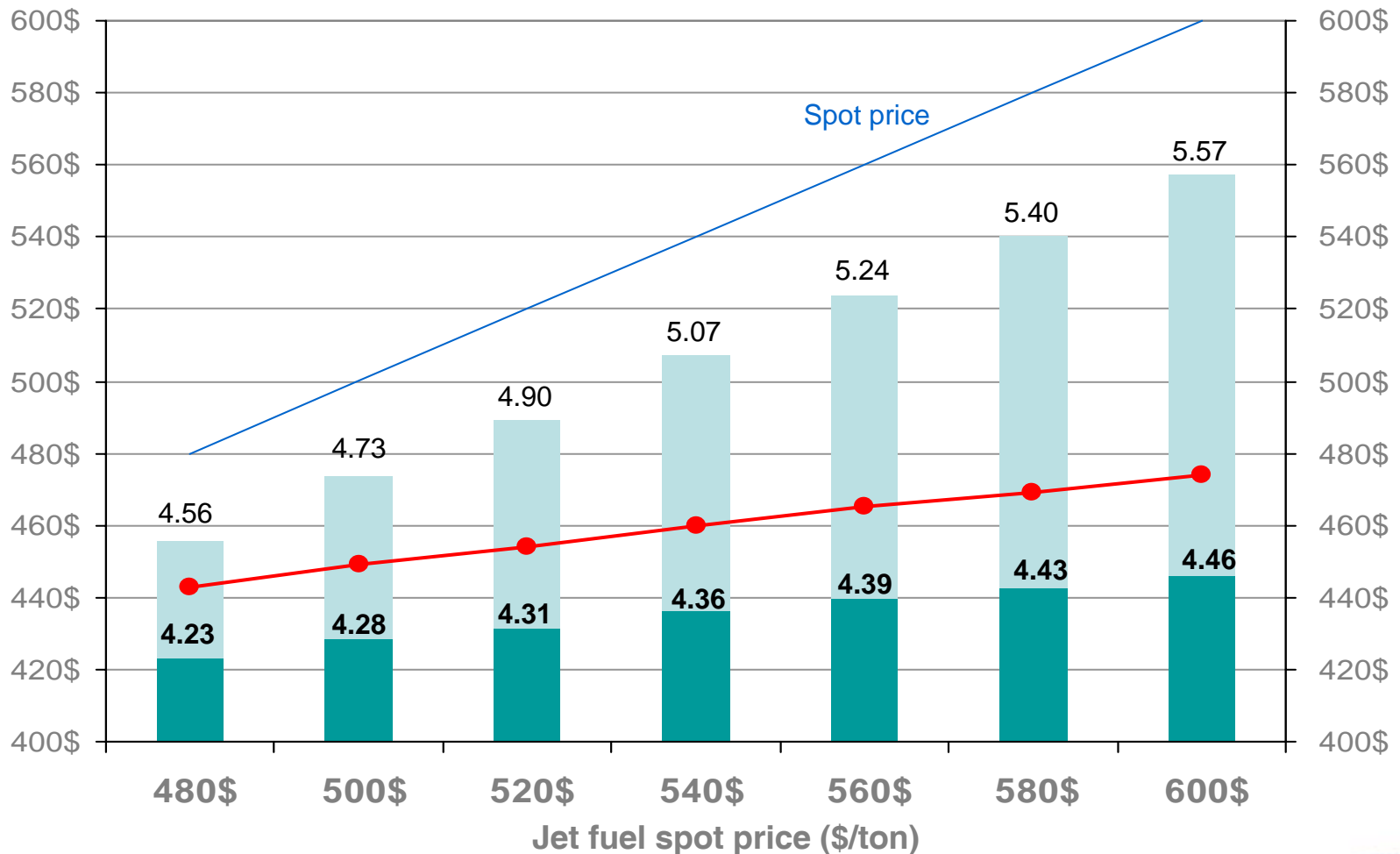
\* Price of "futures" on 29 April 2005

# Fuel price sensitivity

■ Fuel costs before hedging (in \$ bn)

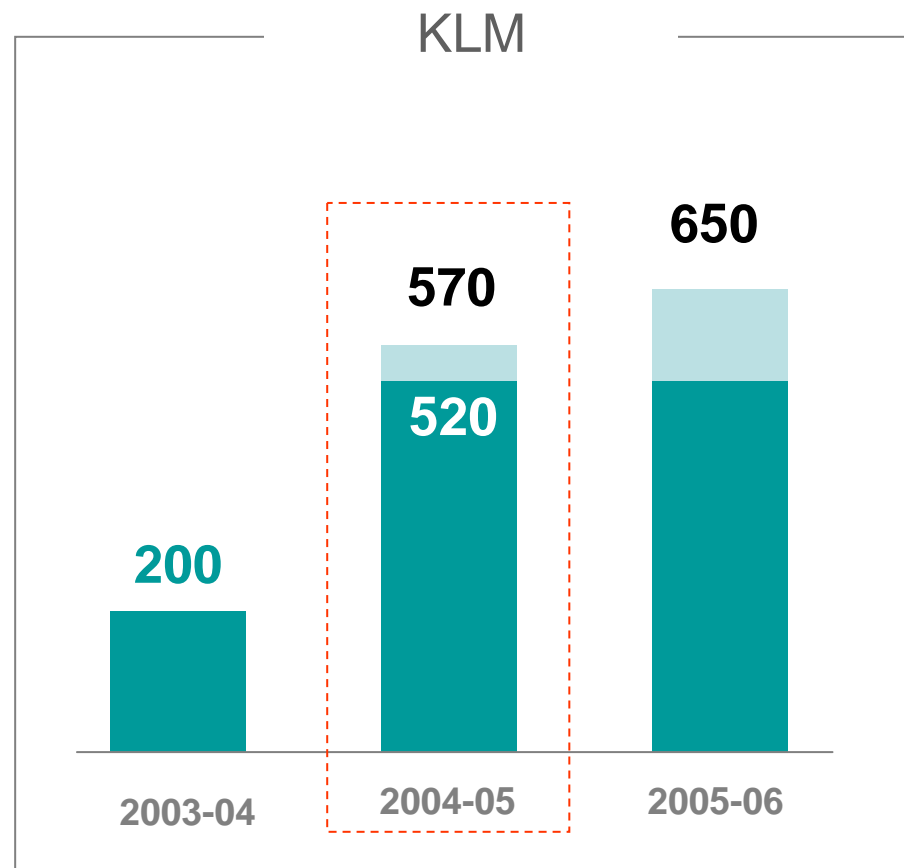
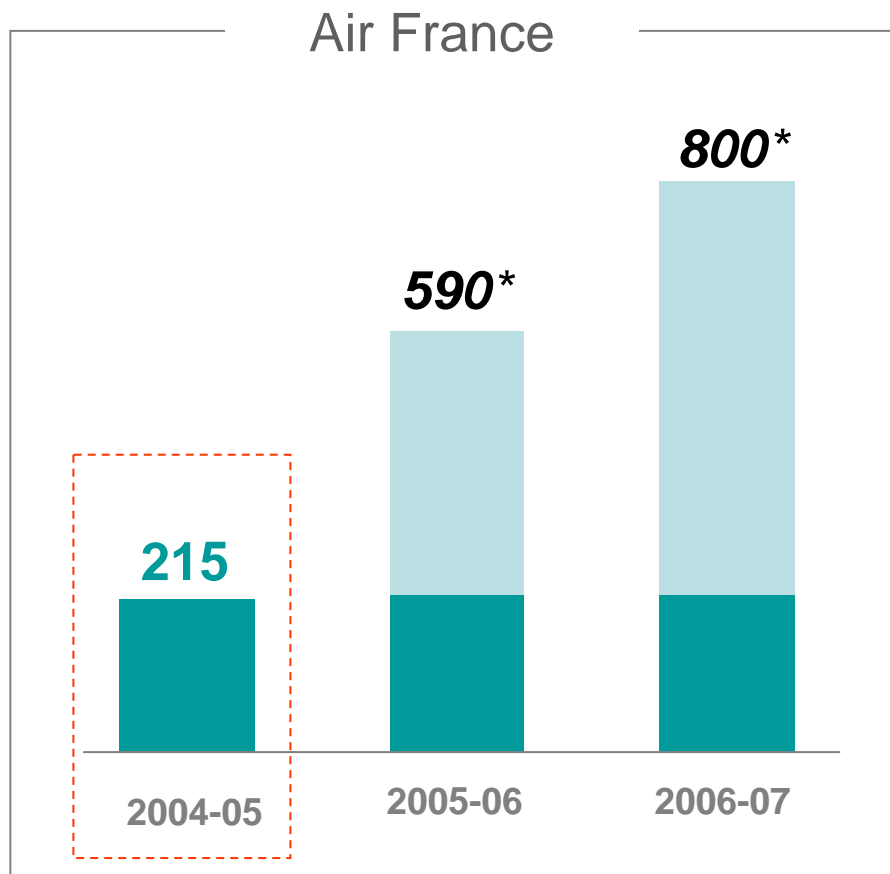
■ Fuel costs after hedging (in \$ bn)

● Air France-KLM  
final purchase price(\$/t)



# Pursuit of cost savings plans

Targeted (in m€) Achieved (in m€)



\* Including gross cost savings resulting from the implementation of the zero commission



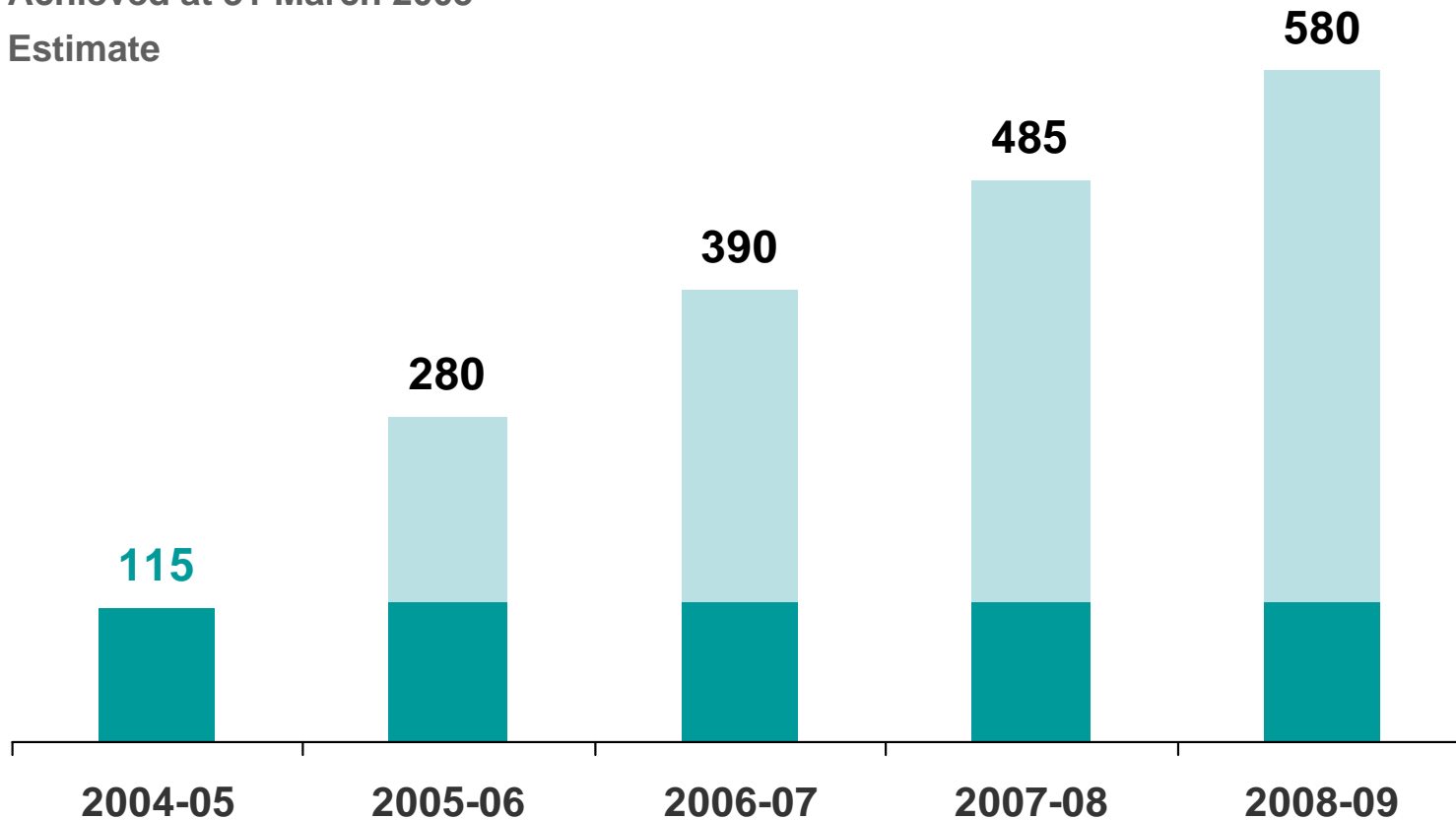
# Main cost-saving measures in 2005-06

- ✦ Implementation of zero commission  
(since 1<sup>st</sup> January 2005 for KLM and 1<sup>st</sup> April 2005 for Air France )
- ✦ Improved productivity
- ✦ Objective of breakeven at the medium-haul network for Air France

# Synergies feeding through faster than expected

In €m

 Achieved at 31 March 2005  
 Estimate



**AIR FRANCE KLM**

# Objectives for 2005-06



# Our assumptions

- ✦ Capacity: up 5% compared with planned 2004-05 schedule
- ✦ Stable RASK excluding currency
- ✦ Dollar exchange rate: €1 = \$1.30
- ✦ An average jet fuel market price of 553 \$/t

# Objective of a similar operating income in 2005-06

- ✦ An expected 650 million euro increase in fuel charge\*
- ✦ Additional synergy generation of €165 million
- ✦ Further reduction in gearing

Maintain our operating income  
relative to 2004-05

\* Compared with 2004-05 pro forma consolidation of Air France and KLM over 12 months (€ 2,720 m) and based on the assumption of a jet fuel market price of 553 \$/t

**AIR FRANCE KLM**

**ANNUAL RESULTS**  
**2004-05**

May 2005

