

**AIR FRANCE KLM**

# A strategy of profitable growth



**Leo van Wijk**  
**Vice Chairman of Air France-KLM**

# Forward-looking statements

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# Air France-KLM at a glance

- ✦ Number one world-wide in terms of revenues and Europe's leading airline in terms of passenger and cargo traffic
- ✦ A fleet of 569 aircraft
  - ▶ 164 long-haul aircraft
  - ▶ 223 medium-haul aircraft
  - ▶ 182 regional aircraft
- ✦ 240 destinations in 105 countries linked by 2,500 daily flights
- ✦ 73.5 million passengers and 1.4 million tons of cargo transported last year
- ✦ 103,000 employees

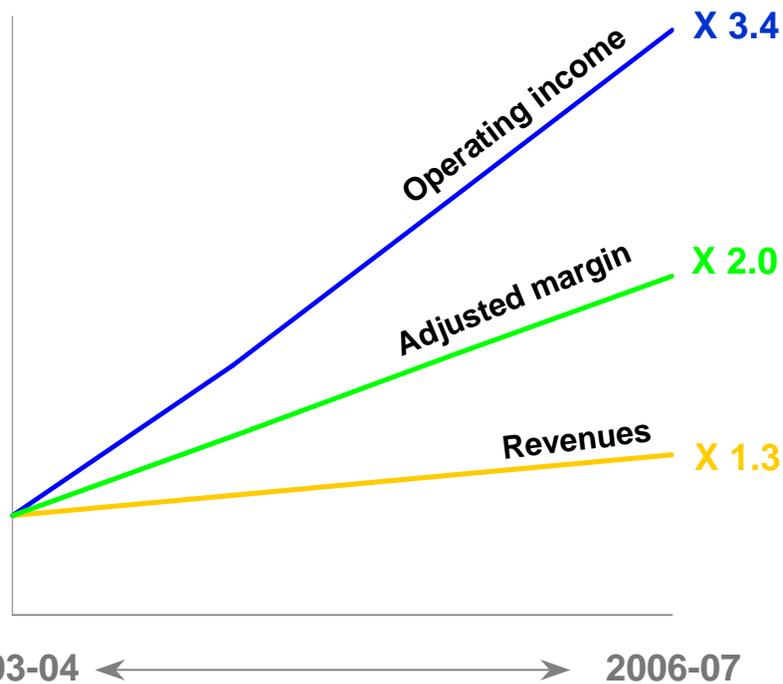
# 2006-07: another strong year for Air France-KLM

- + Revenues: €23.07bn (+7.6%)
- + Operating income: €1.24bn (+32.5%)
- + Adjusted operating margin: 6.3% (+0.9 pts)
- + Net income: €891m (+80.4%, excl. Amadeus)
- + Free cash flow: €632m
- + Dividend: €0.48 (+60%)

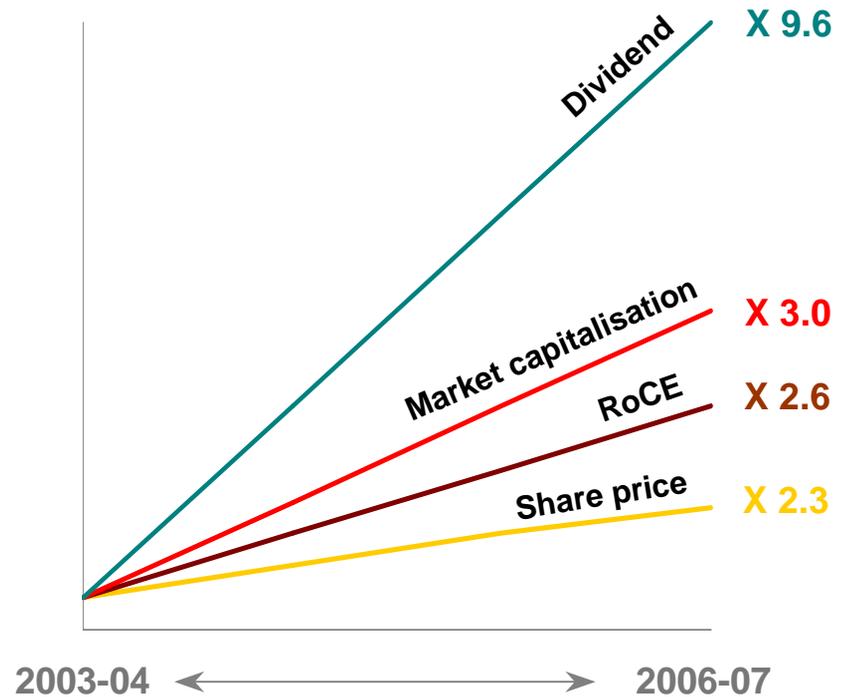
# 2004-2007: A merger which delivered

Rebased to 100 at March 2004

## For Air France-KLM...



## ...and its shareholders

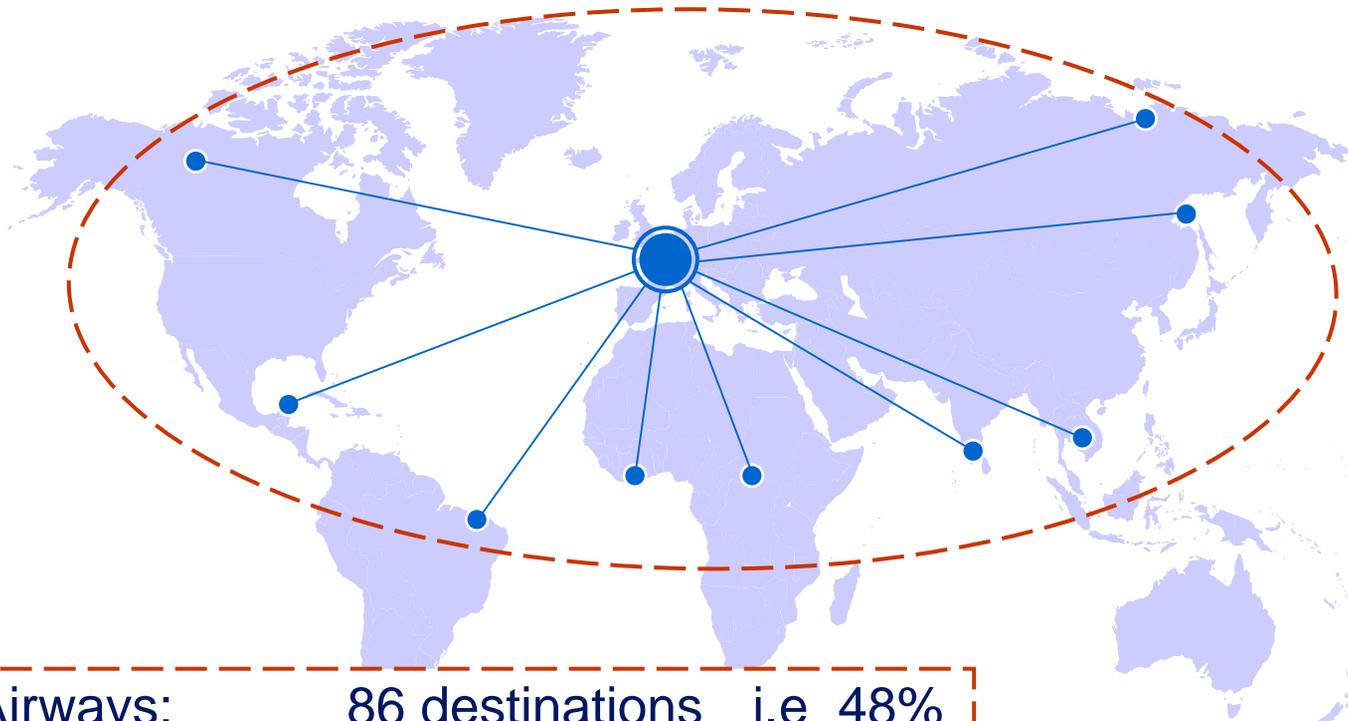


# A strategy based on strong foundations

- ✦ The most powerful combined network and two well coordinated hubs, with the potential to expand in the future
- ✦ Leading positions on the main markets and a balanced network, allowing for targeted growth
- ✦ Strong drivers behind improving profitability

# Air France-KLM: The number one network linking Europe to the rest of the world...

Of the 178 long-haul destinations\* operated from Europe by AEA members



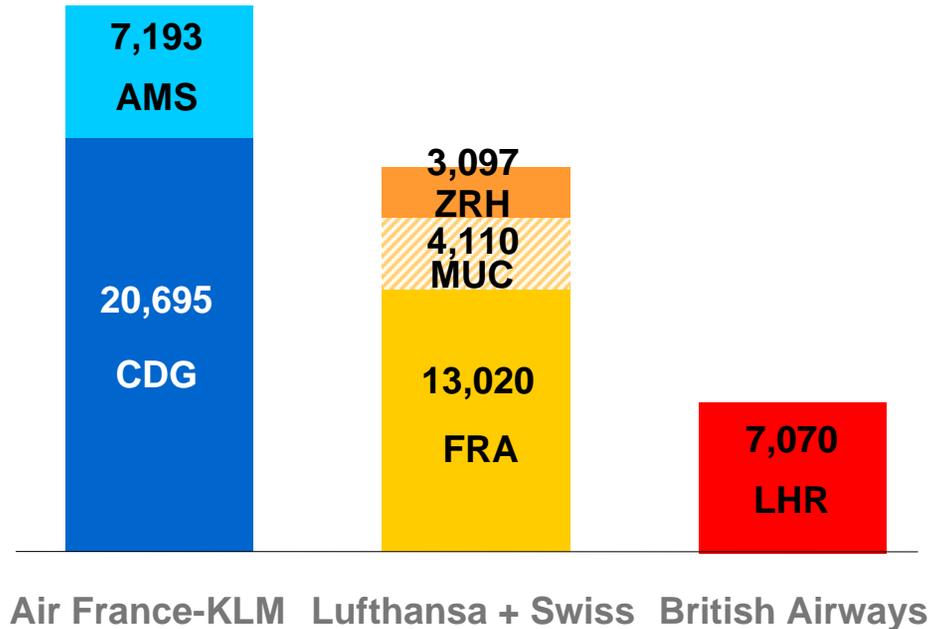
British Airways:	86 destinations	i.e 48%
Lufthansa + Swiss :	78 destinations	i.e 44%
Air France:	80 destinations	i.e 45%
KLM:	59 destinations	i.e 33%

**AF+KLM**  
**= 111 destinations**  
**i.e 62%**

\* Number of destinations served by operational flights – S2007 program

# ...organized around a powerful hub system...

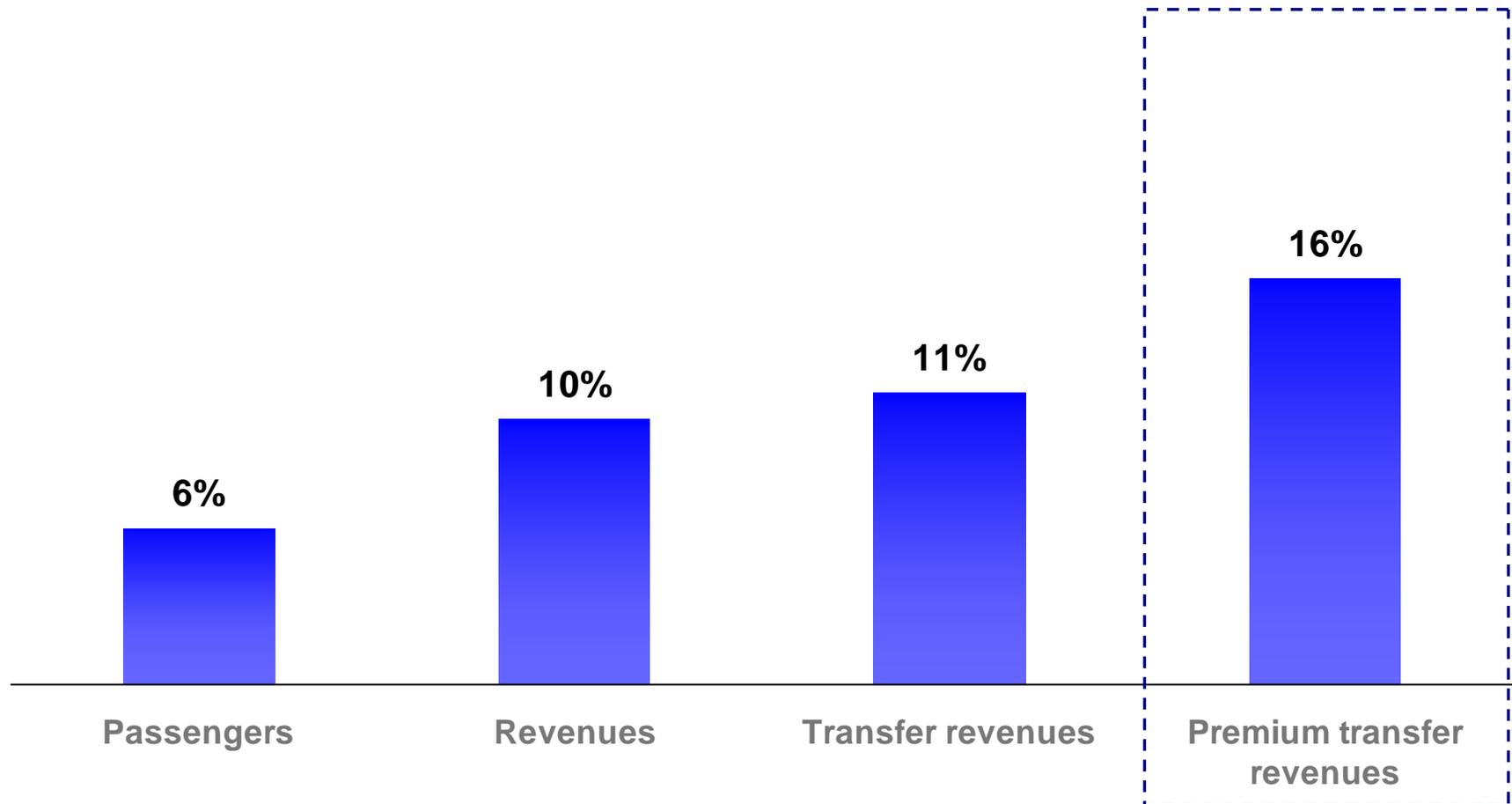
Number of connection opportunities  
long-haul/medium-haul in under two hours  
(Summer 2007)



- ✦ A wider offer in terms of numbers of flights...
  - ▶ New York: 11 daily flights
  - ▶ Los Angeles: 5 daily flights
  - ▶ Montreal: 4 daily flights
  - ▶ San Paolo: 3 daily flights
  - ▶ Tokyo: 5 daily flights
  - ▶ Beijing: 4 daily flights
  - ▶ Shanghai: 4 daily flights
  - ▶ Johannesburg: 3 daily flights
- ✦ ...and fares, thanks to fare combinability

# ...to attract premium passengers

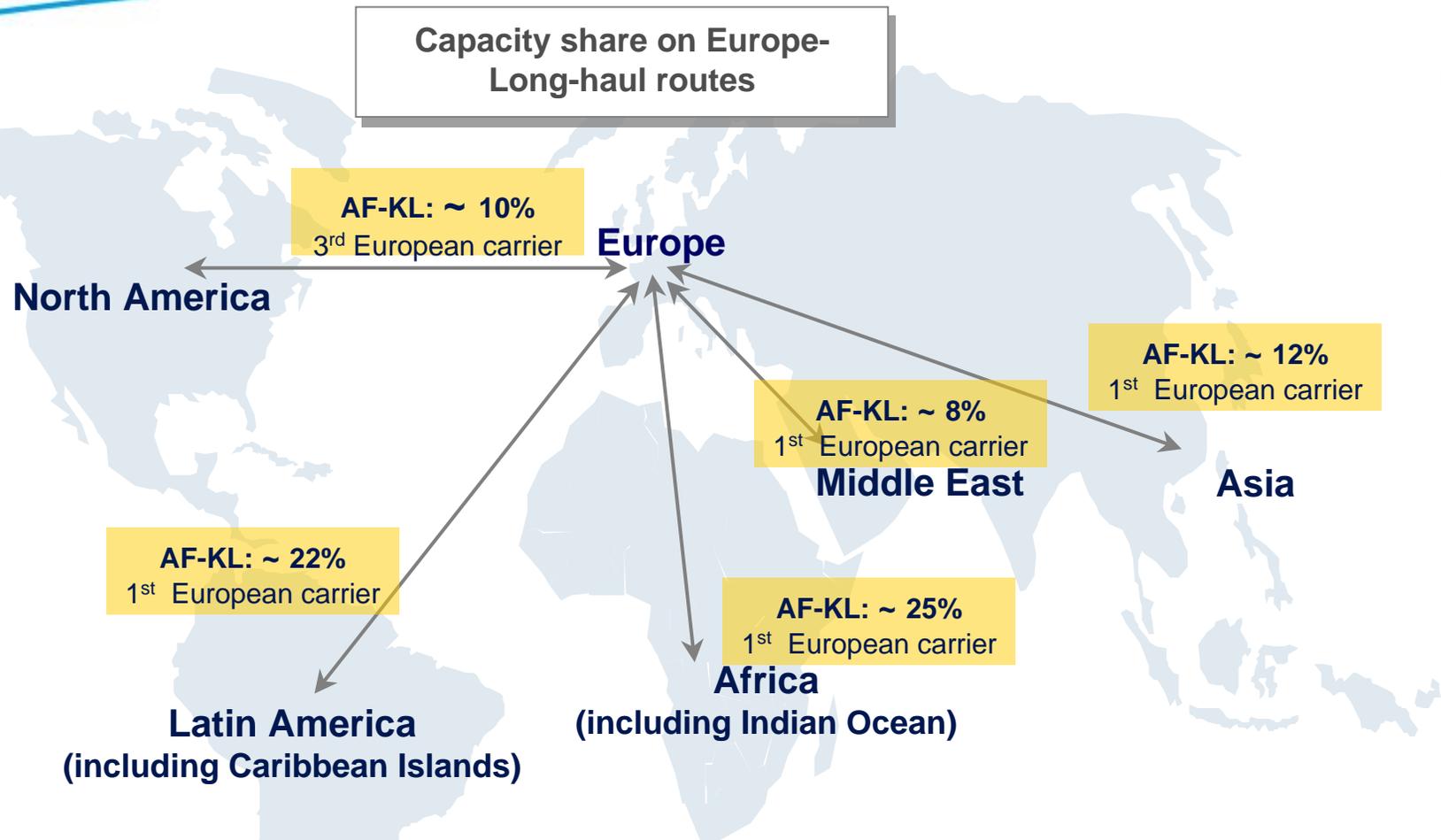
Traffic at CDG and AMS  
Financial year 2006-07



# A strategy based on strong foundations

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- ✦ Strong drivers behind improving profitability

# Leading positions on the main global markets...



Source: ASK, OAG data tapes, week 36 (Summer 2006) – non stop operating flights

...will allow us to tap into sustained growth in demand in future years

**To/from Europe (2006-2010)**  
average annual growth in demand ~ **6%**  
for average annual growth in capacity of **5-6%**

**North America**

+6.2%

+4.5%

**Middle East**

+7.7%

+3.5%

**China**

+12.0%

+14.5%

**Japan**

+4.6%

+3.5%

**Africa**

+4.8%

+4.5%

**India**

+8.0%

+11.0%

**Latin America**

+8.3%

+8.0%

 Growth in natural demand

 Average annual growth in Air France-KLM long-haul capacity (S07/09): **+5%** (source: GSF 2007-11)

# Open Skies Agreement: potential benefits for Air France-KLM

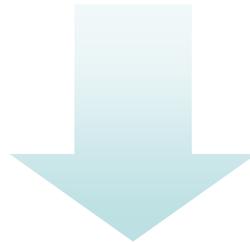
- ✦ Open Skies agreement was a pre-condition for obtaining anti-trust immunity for Air France, KLM, Delta and Northwest
- ✦ Enhances the development potential for SkyTeam
  - ▶ Possibility to offer direct flights towards the US from any European platform through code-sharing
  - ▶ Increased potential for corporate travel agreements in third party markets
  - ▶ Possibility of creating a joint-venture on the North Atlantic, reinforcing co-operation between SkyTeam partners in terms of capacity and yield

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# «Challenge 10»: The new cost-savings programme

- ✦ The first joint Air France and KLM savings programme
- ✦ Total scope of the new programme: €1.4 billion\*



Reduce unit costs  
by 3% over 3 years

\* Including €12m of cost synergies

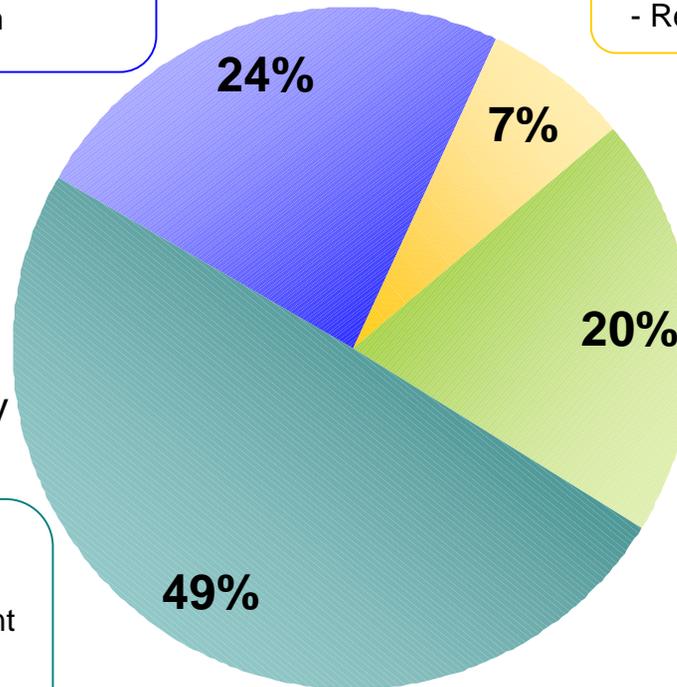
# Breakdown of «Challenge 10» by source of savings

## Fleet €340m

- Accelerated replacement of 18 B747 by B777s
  - Fuel savings: € 235 m at \$ 65 per bbl
  - Maintenance saving: €105 m

## Marketing costs €100m

- Reduction of travel agent commissions abroad
- Reduction in GDS costs



## Processes and productivity €680m

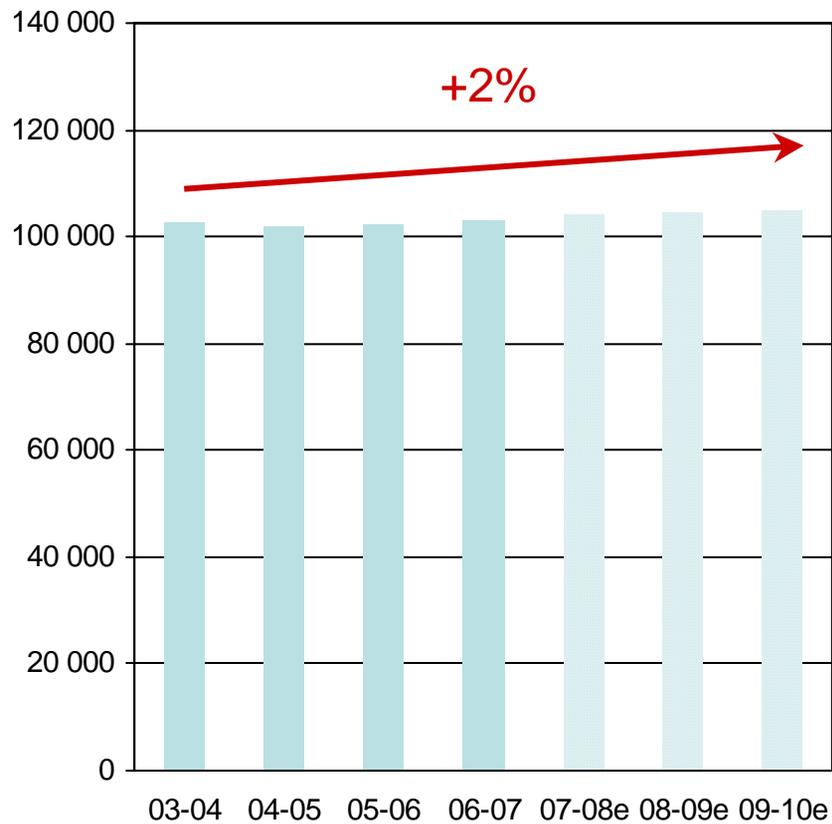
- Expansion of e-services at airports
- Reduction in support functions headcount through non-replacement of retirees
- IT integration
- Integration of marketing teams abroad

## Purchases €280m

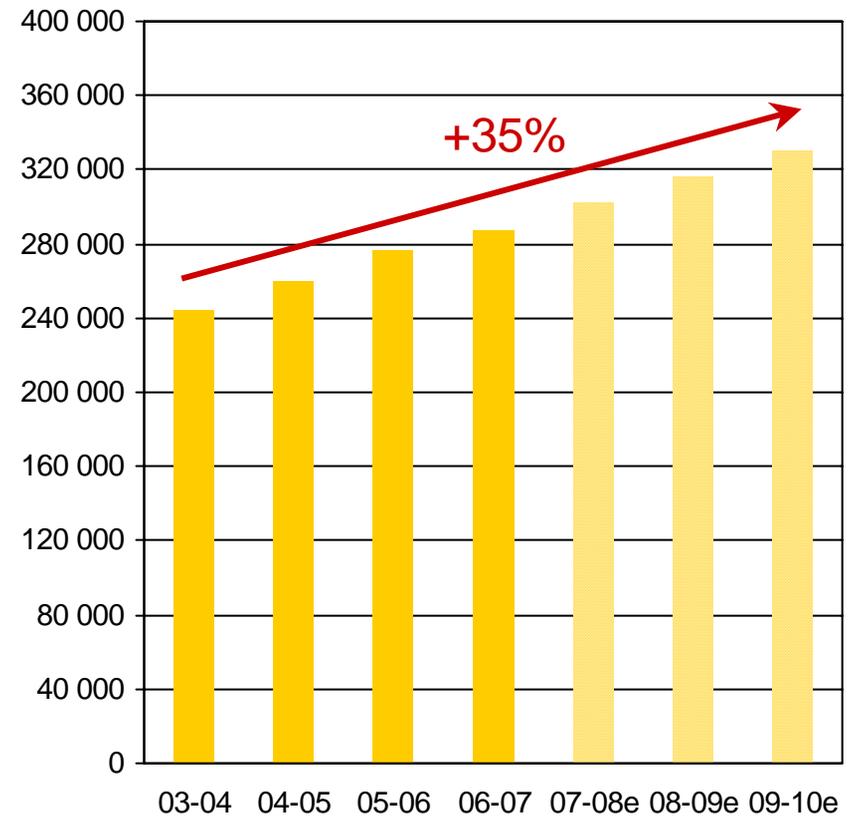
- Integration of the purchasing function within AF-KL
- Implementation of common specifications for both companies
- Application of a TCO approach in the evaluation of purchase requirements

# Productivity gains of 4% per annum in the next three years

## Equivalent full-time employees



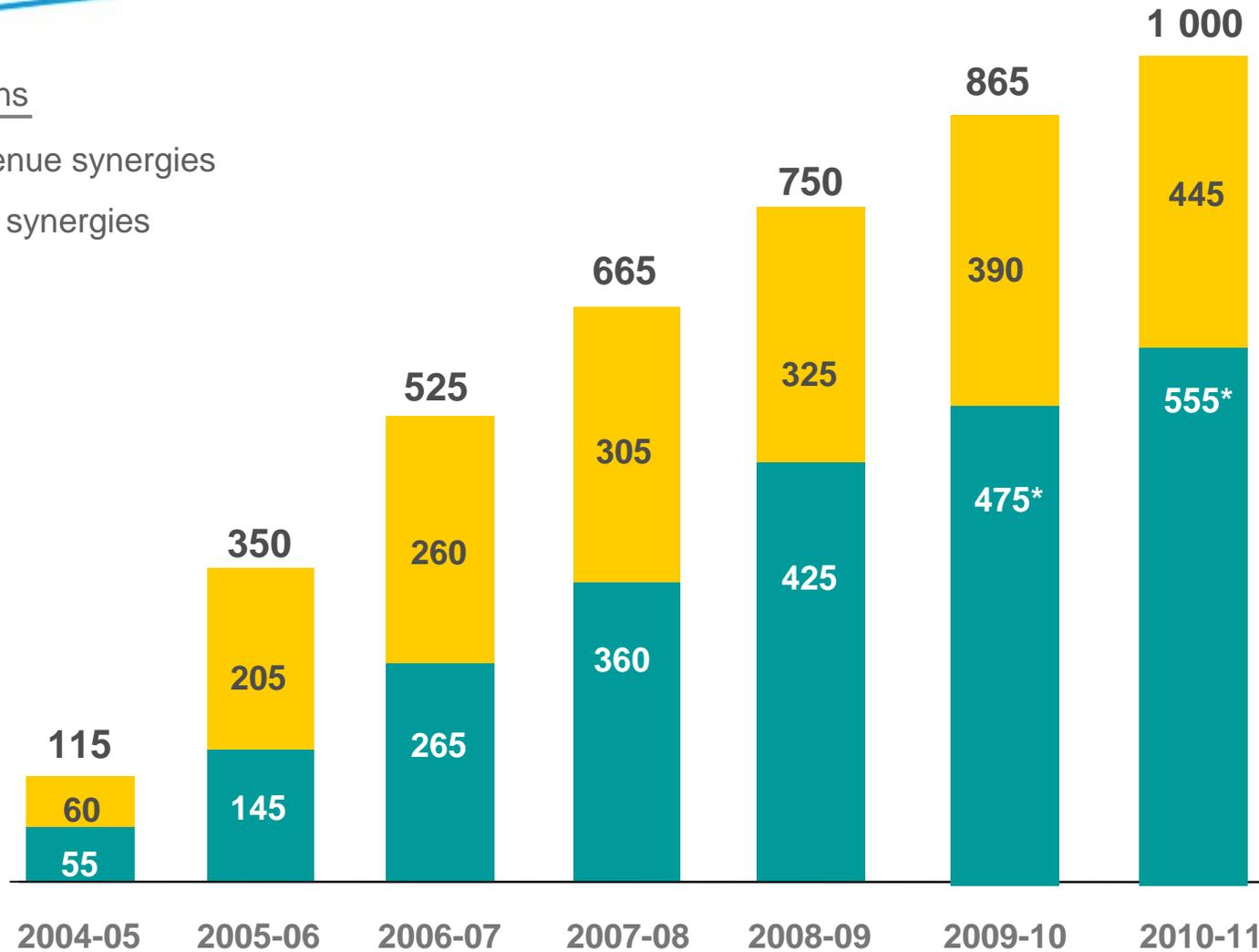
## Production In EASK



# Integration of IT and revenue management systems will create new sources of synergies

In € millions

- Revenue synergies
- Cost synergies

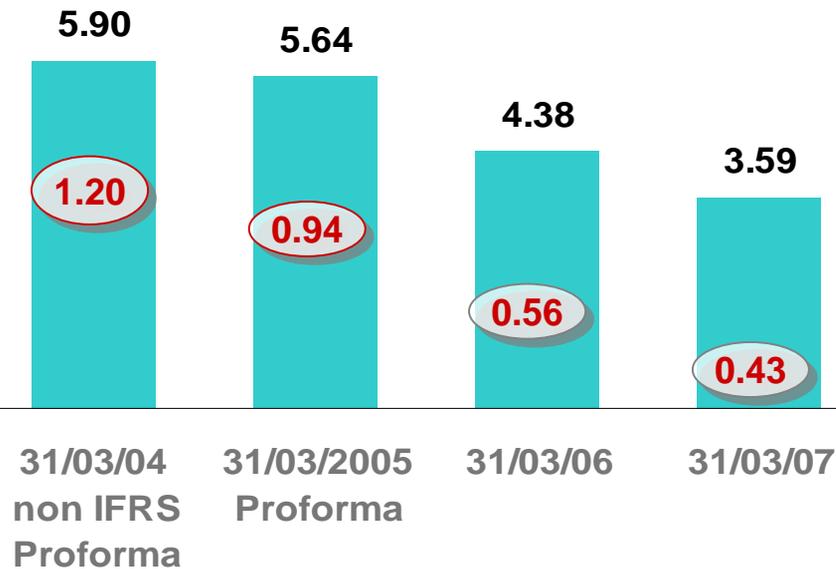


\* Of which €12m including in Challenge 10

# Balance sheet significantly reinforced

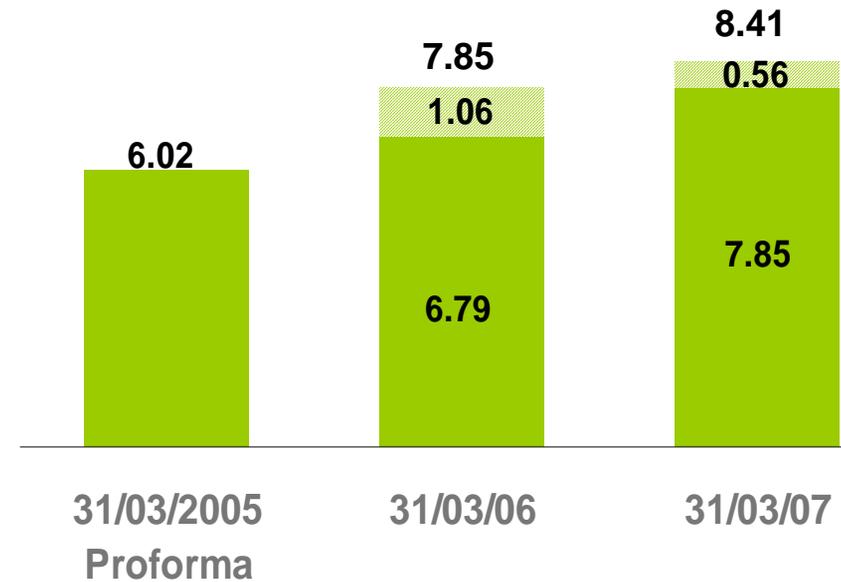
## Net debt (in billions of euros)

■ Net debt  
⊗ Gearing ratio



## Shareholders' equity (in billions of euros)

■ Shareholders' funds  
▨ Derivative instruments



# To conclude

## A favourable operating environment

- + Structural growth in demand
- + Greater capacity discipline on the part of the main players
- + Sector developments creating new opportunities

## Actions to increase our profitability

- + Deeper integration of Air France and KLM
- + An ambitious cost-savings plan
- + A modern fleet and top quality airport facilities



**Target RoCE  
of 8.5% by 2009-10**

# First quarter results in line with our expectations

- ✦ Despite a Q1 activity impacted by unfavourable calendar effects and elections in France...
- ✦ ...Revenues up 2.5% to €5.9 billion
  - ▶ In spite of a negative currency impact of 2.5%
- ✦ ...Operating income up slightly to €415 million (+1%)
  - ▶ With a stable adjusted operating margin at 7.8%
- ✦ ...Net profit of €415 million
  - ▶ After the record of a capital gain of €40 million and additional gain of €82 million on Amadeus

# An objective of a further increase in operating income for the Full Year 2007-08

- ✦ Good performance in passenger activity continues both in terms of traffic and unit revenue exc. change
- ✦ Cargo activity is recovering from the last three months including an improvement in the unit revenue exc. change
- ✦ Unit cost under control, reflecting the efficiency of « Challenge 10 »



On the basis of the Q1 results and subsequent activity levels, Air France-KLM is very confident in its FY 2007-08 objective