

AIR FRANCE **KLM**

# Investor Day 2008

80°

150°W

120°W

90°W

60°W

30°W

0°

30°E

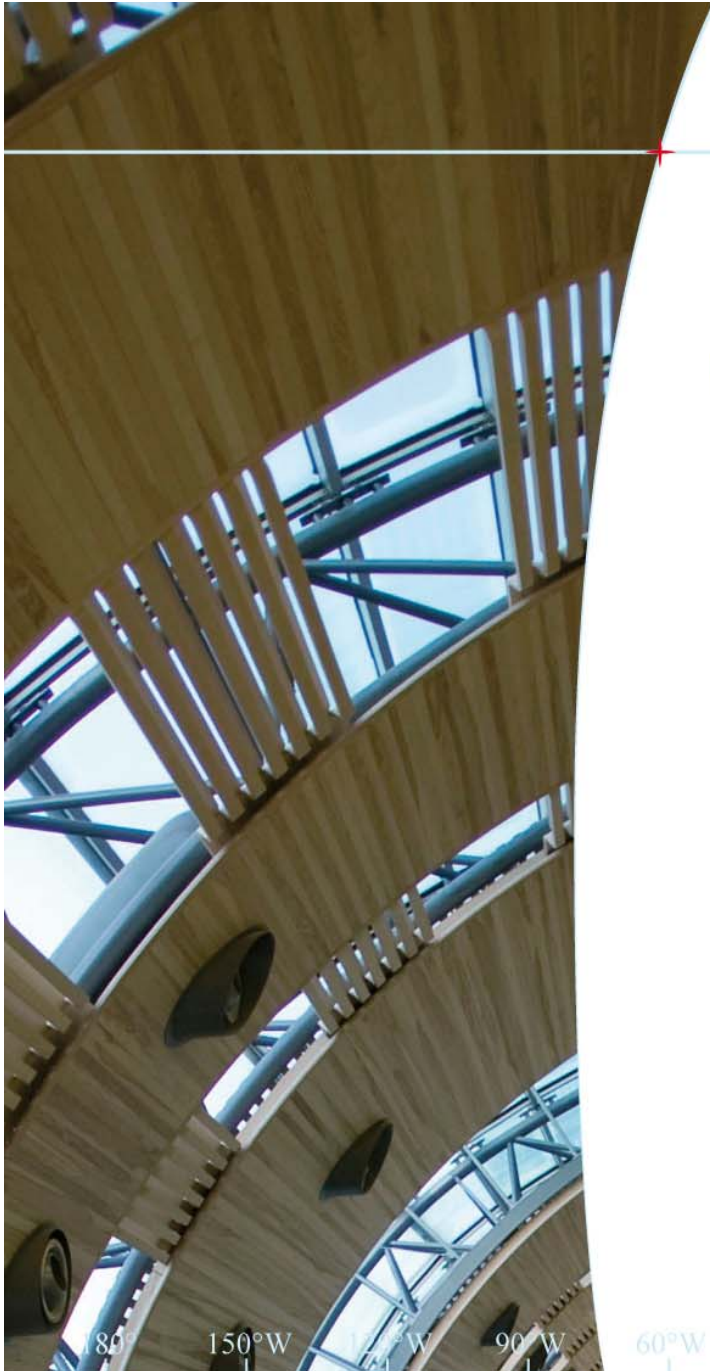
60°E

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AIR FRANCE **KLM**

23 October 2008

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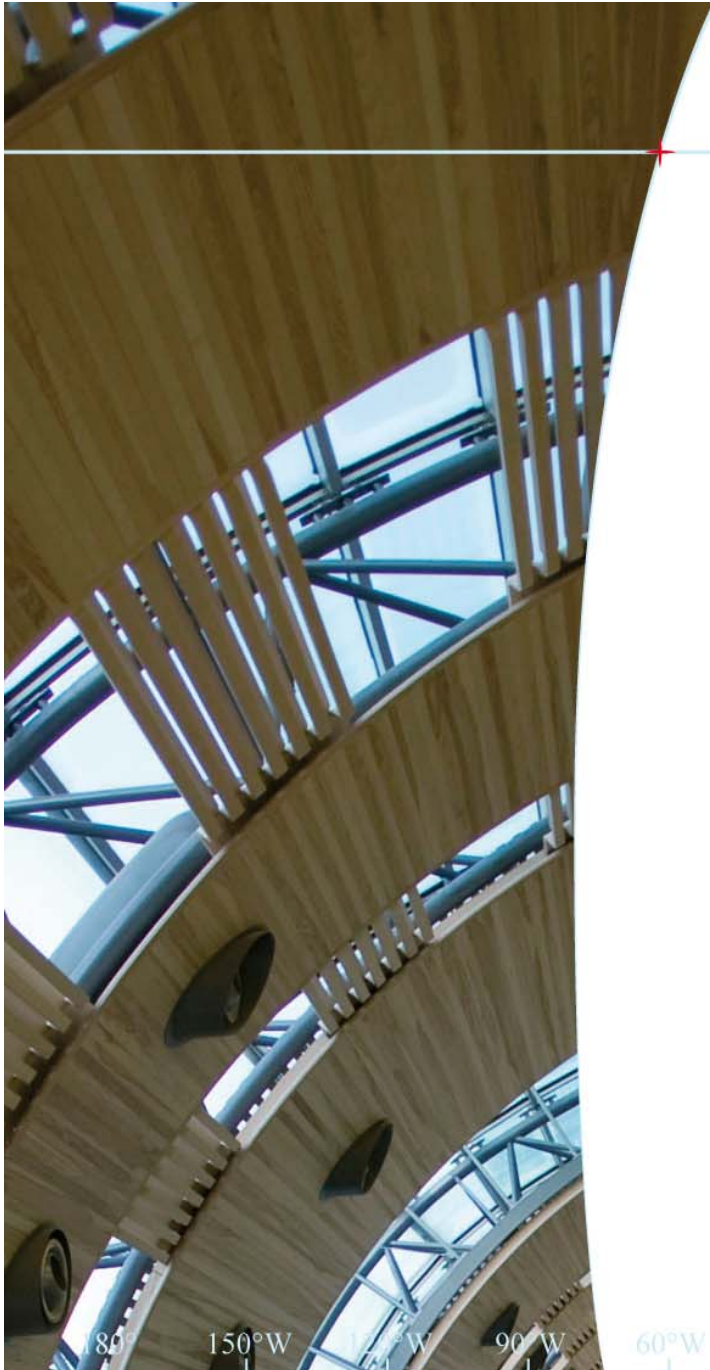
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**AIR FRANCE KLM**

## Development of the Air France hub at Paris-Charles de Gaulle

**Pascal de Izaguirre**

*EVP, Ground Operations, Air France*

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# A new era for the Air France hub

- ✦ 2004-2007: Four years of disruption following the T2E pier collapse
  - ▶ Substandard and inefficient temporary infrastructures during a period of growth
  - ▶ Degraded service levels which weighed on revenues
- ✦ 2007-2008: a new era for the Air France hub
  - ▶ Improved infrastructure in terms of capacity and quality leads to greater operational and financial efficiency
  - ▶ Improved customer service, based on the latest technological developments
  - ▶ Close co-operation between Air France and ADP
  - ▶ Better operating processes and ground handling service

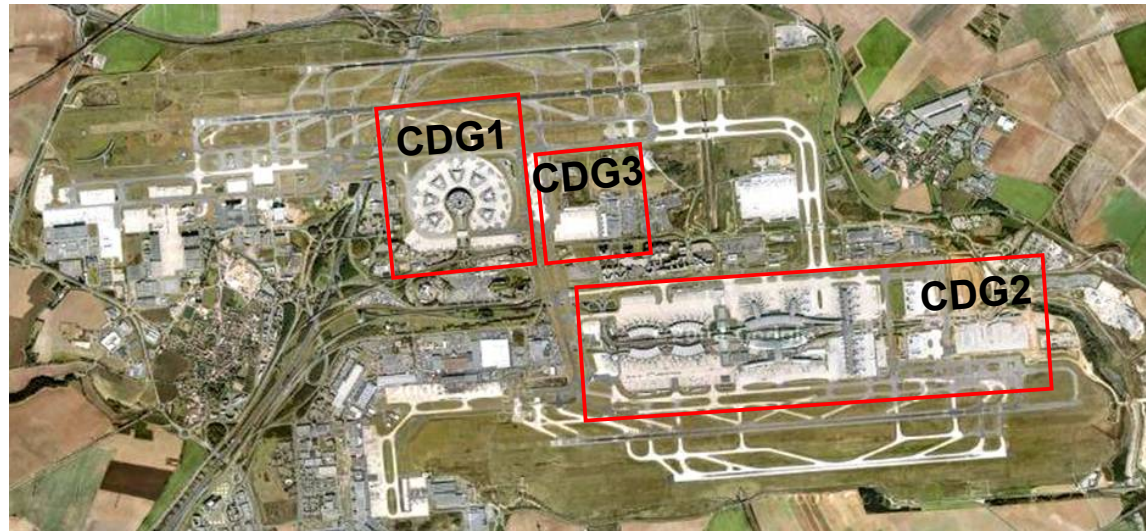


**Making the Air France hub a model  
of excellence in Europe**

# Paris-Charles de Gaulle Airport overview

## + CDG 2007:

- ▶ 3 terminals
- ▶ 4 runways
- ▶ 540,000 aircraft movements
- ▶ World's sixth largest airport
- ▶ 60 million passengers



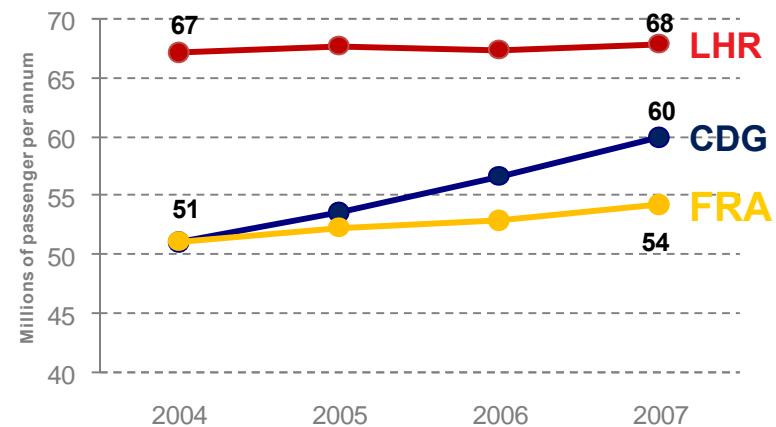
## + Air France at CDG:

- ▶ Activities based at CDG2 with SkyTeam members and other companies assisted by Air France
- ▶ 900 flights (arrivals and departures), 103,000 passengers, 110,000 baggage items per day

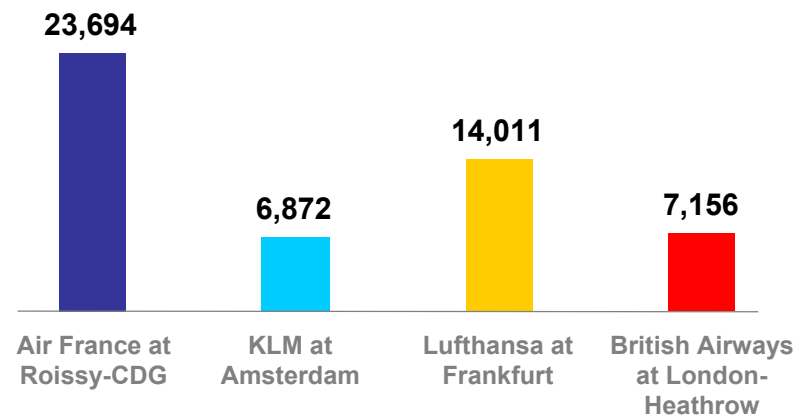
# CDG development outpaces its European competitors, driven by Air France

- ✦ Traffic: CDG breaks away from Frankfurt and closes the gap on Heathrow
  - ▶ CDG broke away from FRA decisively as of 2005
  - ▶ CDG is catching up with LHR which has grown three times less on average since 2004
  
- ✦ CDG development closely correlated with that of Air France
  - ▶ Air France at CDG:
    - ▶ 56% of CDG activity (63% including SkyTeam members)
    - ▶ the largest connecting offer in Europe

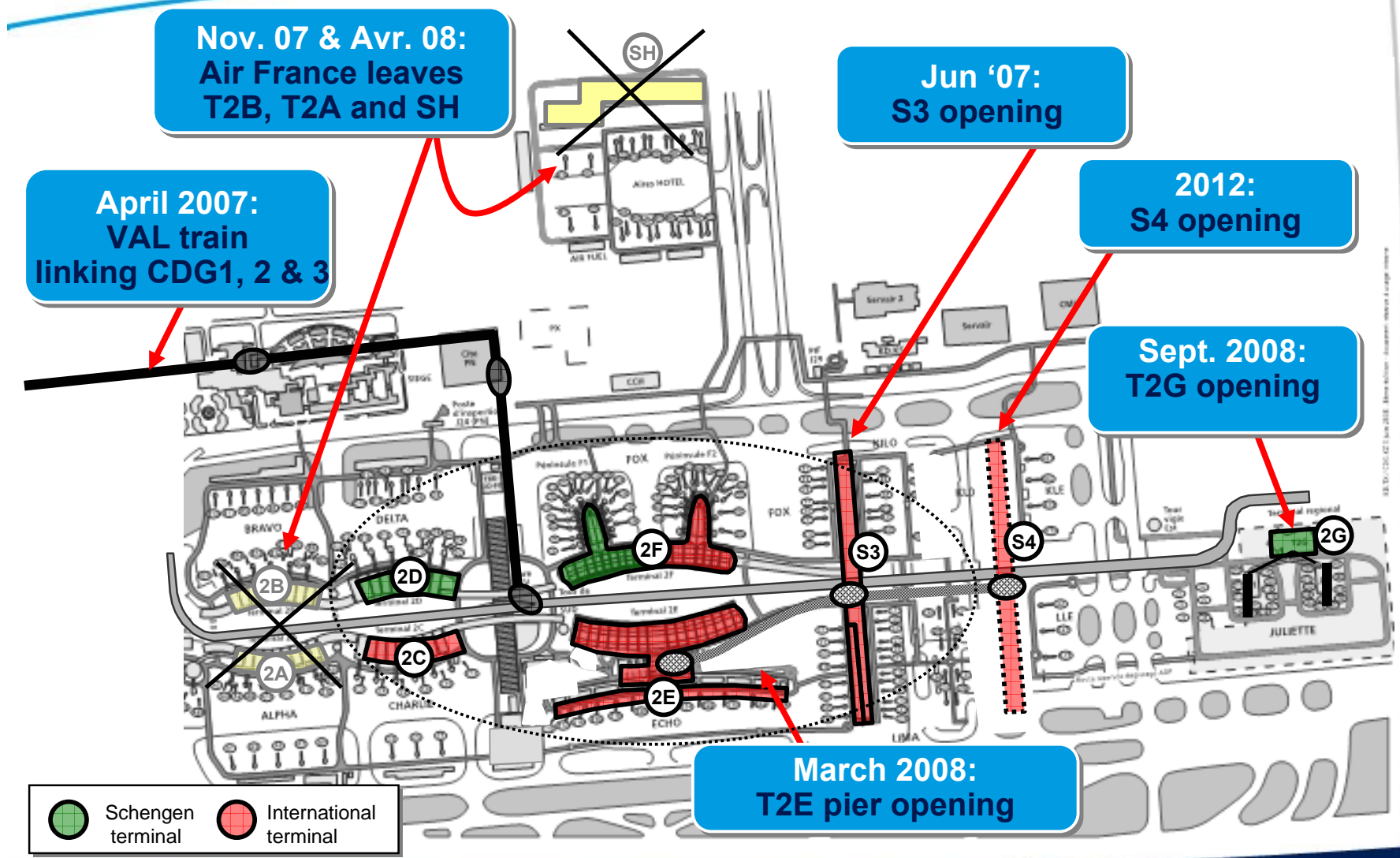
Traffic growth at CDG, LHR and FRA



Weekly connections (LH-MH) – Summer 2008



# Regrouping of the Air France hub at CDG



## Stage 1 - Jun-Dec 2007: Progressive opening of Satellite 3

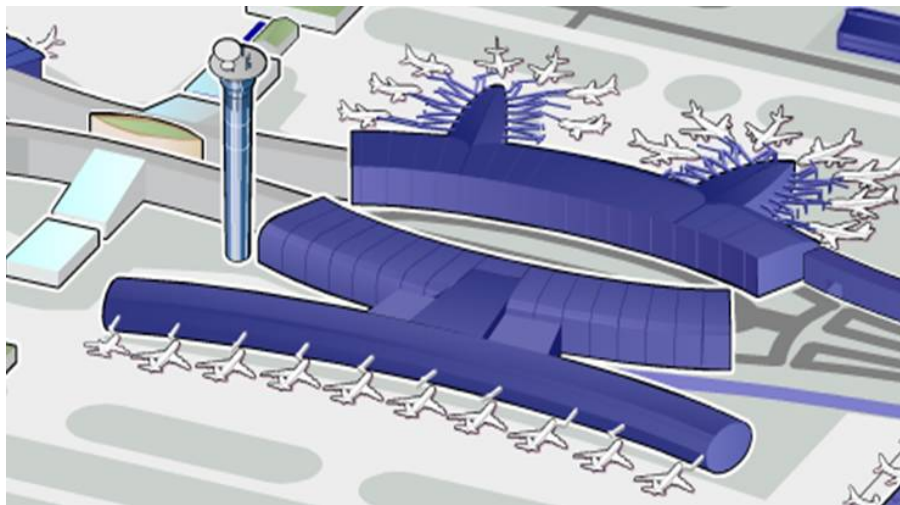
- + Boarding satellite of T2E dedicated to the international activities of SkyTeam with a capacity of 8.6m passengers
- + Operating flexibility between medium- and long-haul: 11 LH direct contact stands (o/w 6 for A380) + 8 MH, or 4 LH + 22 MH direct contact stands
- + 3,200m<sup>2</sup> of retail space and the largest Air France lounge (2,600m<sup>2</sup> or 700 seats)
- + Shuttle connection (LISA) with T2E and by travelator with T2F





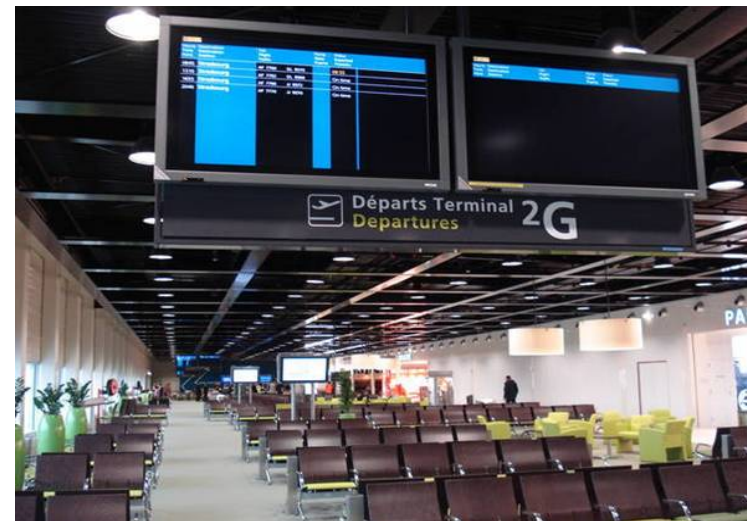
## Stage 2 - March 2008: Re-opening of T2E pier

- + Boarding pier of T2E dedicated to the international activities of SkyTeam with a capacity of 5.7m passengers
- + March '08: 9 LH + 1 MH direct contact stands
- + March '09: 1 additional LH + 3 MH direct contact stands, raising capacity to 7.4m passengers
- + 3,200m<sup>2</sup> of retail space, an enlarged business lounge (1,840m<sup>2</sup>) and a new 'Première' service (opening Feb '09)



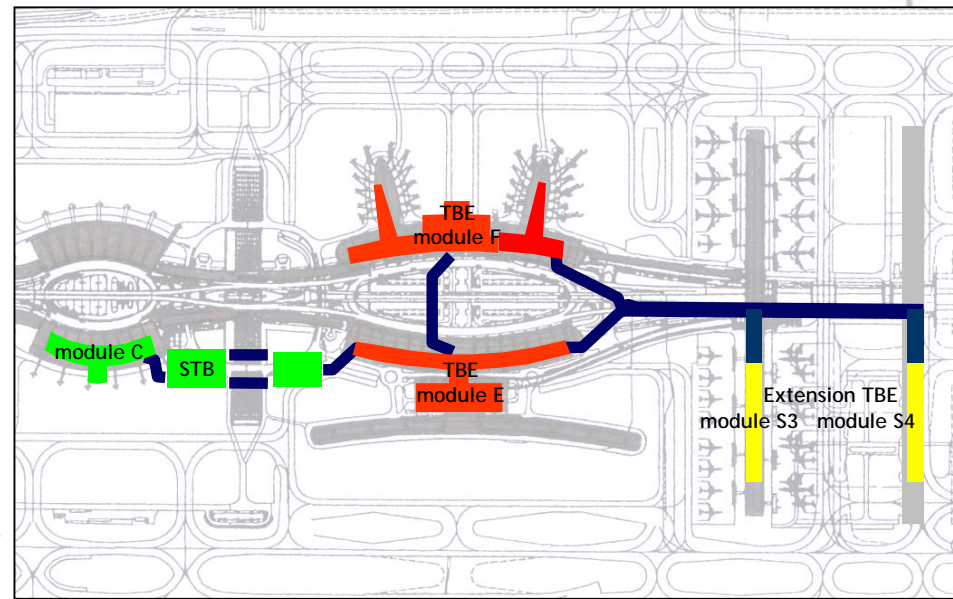
## Stage 3 - Sept 2008: Opening of regional terminal T2G

- ✦ Schengen terminal for Brit Air, City Jet and Régional
- ✦ Capacity of 3m passengers per annum with 20 direct contact stands
- ✦ Two piers offer direct contact stands for regional aircraft and A318, A319 and A320 aircraft



# Air France hub development accompanied by upgrade of baggage sorting system

- + Oct 2007: launch of 'Trieur Bagage Est' (TBE) to sort baggage from T2E and T2F and connect all CDG2 baggage handling installations
- + TBE comes on stream progressively:
  - ▶ Currently handles all local and a proportion of connecting baggage
- + Benefits:
  - ▶ Reduction in amount of lost luggage
  - ▶ Increase in baggage handling capacity
  - ▶ Reduction in baggage handling time
  - ▶ Improved productivity as inefficient stop-gap installations are taken out of service
- + End 2012: TBE to be extended to satellites S3 and S4



# New CDG infrastructures improve the performance of the hub

- + Capacity comensurate with Air France's current needs and future plans
  - ▶ Long-haul direct contact rate: **from 53% to 85%** in terms of flights
  - ▶ Regional direct contact rate: **from 0% to 65%** in terms of flights
  - ▶ Total direct contact rate: **from 52% to 72%** in terms of flights (80% in passenger terms)
  
- + Improved customer service
  - ▶ More fluid connections around the E-F-S3-G hub, representing some 80% of volume of Air France local passengers and 66% of connecting passengers
  - ▶ A 2 points improvement in successful connections (96%)
  
- + Further improvements to come as Air France works further to maximize the efficiency benefits of the new infrastructure

# Additional boarding capacity for the Air France hub by 2012

- ✦ Satellite 4: exclusive international (SkyTeam) long-haul boarding satellite linked to terminal 2E by LISA shuttle
- ✦ 16 LH direct contact stands including 7 for A380
- ✦ Capacity of 7.8m passengers per annum, 11,500m<sup>2</sup> of retail space and an Air France lounge of 3,235m<sup>2</sup>
- ✦ Long-haul direct contact rate: c95%



# Air France hub: towards a model of excellence in Europe (1/2)

## + Premium passengers receive special attention

- ▶ End 2007: **Dedicated fast-tracks for Premium passengers** at control points (security and customs) on departure, connection and arrival
- ▶ **Lounge development program** with upgrade of existing lounges and new openings aimed at increasing capacity by 85% by 2012
- ▶ Feb 2009: Launch of the **new Première service**: Dedicated check-in area, luxury lounge, connecting passengers fully accompanied, passengers greeted on arrival



## + Customer service at the heart of the business

- ▶ Intensive training program for all customer-facing staff, fully endorsed by senior management
- ▶ Development of multicultural assistance to serve our international customer base



# Air France hub: towards a model of excellence in Europe (2/2)

- ✦ Development of e-services at CDG2
  - ▶ Thanks to c170 automatic check-in kiosks and the internet, the rate of e-check-in has risen to 50% with an objective of 80% by end 2010
  - ▶ Roll-out of 63 automatic transfer kiosks for connecting flights by Jan 2009
  - ▶ Since Sept 08, tests carried out on check-in via mobile phone with paperless boarding pass on mobile phone on Amsterdam flights
  - ▶ In 2009, planned testing of an automatic baggage drop-off system
- ✦ New services
  - ▶ March 2010 opening of a service area dedicated to customers with long connections at S3
  - ▶ Signage: overhaul of signage by ADP completed in Jun 08, except T2A and T2B (Dec 08)



Before



After

# Improving aircraft handling processes

Fundamental review of ground handling processes to gain maximum benefit from new technologies

- + Reorganization of ground handling processes based on:
  - ▶ The hub control center opened in March 2007
  - ▶ Sophisticated information systems designed to manage the ever increasing complexity of our operations in real time
- + A more effective system at the cutting edge of industry standards...
- + ...with sustainable development benefits
  - ▶ Introduction of electrical runway material and equipment
  - ▶ New infrastructure complies with strict environmental rules defined in conjunction with ADP
  - ▶ Close monitoring of energy consumption and waste production





## To sum up

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- ✦ The Air France hub has overcome four difficult years following the collapse of the T2E pier, which forced it to fall back onto costly and inefficient temporary infrastructures, whose reduced quality ultimately weighed on revenues
- ✦ Following a successful program of modernization and expansion of the airport infrastructures, this chapter is now behind us
- ✦ The Air France hub currently benefits from modern and powerful infrastructures helping it to raise the quality of its customer service while also improving its operating and financial performance
- ✦ The close working relationship with ADP represents a further advantage in the increasingly competitive landscape of European airports



**“Succeeding Together”**: a major strategic challenge  
for **Aéroports de Paris** and **Air France**

# Crucial collaboration

## A very tight link between the two companies

- A significant number of connecting passengers at Paris-CDG:
  - 53% of Air France passengers are connecting passengers
  - 31% Aéroports de Paris passengers are connecting passengers
- Air France/KLM: 54.4% of Aéroports de Paris traffic
- Aéroports de Paris: 62.9% of Air France/KLM traffic

## Competition between hubs and impact of other transport modes

- hub's competitiveness hinges on:
  - Its offer of transfer flights
  - Its operational performance
  - The quality of its services
- Impact of high-speed rail links:
  - Competitive advantage at Paris-CDG in terms of feeding long-haul flights
  - Competition at Paris-Orly on short-haul flights



## Common objectives for Air France and Aéroports de Paris

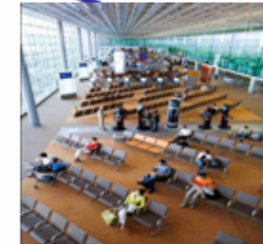


# “ Succeeding Together ” : a common response and concrete projects

## 1. A consistent and competitive offer of services



## 2. Adapted and high-quality facilities



- 250 employees involved
- 112 collaborative actions

## 4. Joint commitment in favour of sustainable development for Parisian airports



## 3. Optimised operating processes



# 1. A consistent and competitive offer of services



Objective ⇒ Increased revenues from highly competitive services fine-tuned to various client segments

Shared success stories:

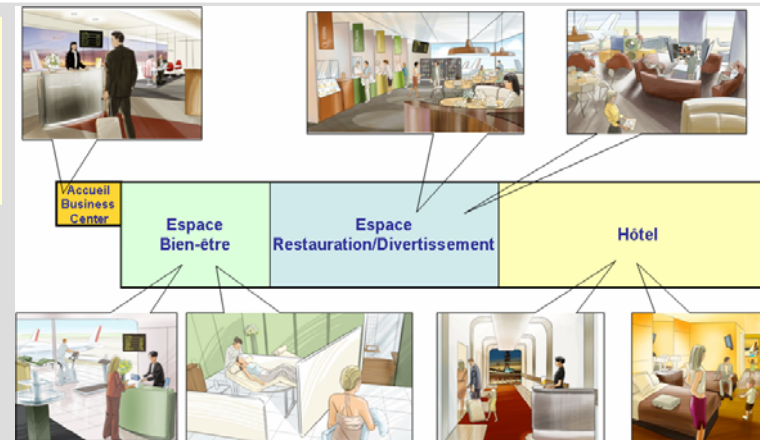


A service offered by Aéroports de Paris and marketed by Air France on its web site (Memorandum of Agreement for the marketing)



Area for long connections at the Air France hub at CDG (Creation of an area of services within "La Galerie Parisienne" dedicated to connecting clients)

According to the traffic trend from 2008 to 2010, Air France forecasts a 10% growth of connecting passengers staying over 3 hours at the airport



## 2. Adapted and high-quality facilities



Objective ⇒ **Act to provide improved solutions in answer to our common clients' priority expectations (*faster movements within airport, welcome, information, atmosphere*):**

- Facilitate and simplify clients' circuit and optimise the time they spend in the most profitable retail areas
- Get involved well upstream in the phases during which the hub's facilities are designed



**Introduction of improvements in services offered to clients after the opening of S3 (BLS connecting flights, e-boarding)**

**Reopening of the T2E boarding lounge in a very short delay**



**Innovative structure of project management for T2G**



**Memorandum of Agreement on satellite S4 covering the functional and technical features of the project and the constant inclusion of innovative developments**

### 3. Optimised operating processes



**2 central action plans to optimise the hub's performances:**

**1) Introduce a logistic analysis of clients' movements within the airport aimed at optimising upstream their circuit, in particular with respect to connecting passengers**

Objective ⇒ Anticipate and better plan flows upstream to improve the percentage of passengers catching connecting flights

**2) Optimise the operational real-time monitoring of the hub via the permanent presence of ADP employees in Air France's new Hub Control Centre**

Objective ⇒ Better allocation and optimisation of resources to ensure better control of costs

**In order to ultimately improve client satisfaction thanks to greater proactivity, reactivity and flexibility**

## 4. A joint commitment in favour of sustainable development of Parisian airports



### Objectives:

- ⇒ Define common positions promoting the development of our business
- ⇒ Bring other stakeholders in our collaborative projects

### Shared success stories:

#### Successful outcome of our joint approach with respect to security

(Joint lobbying, in coordination with ACI Europe and the AEA, with respect to the size of luggage)

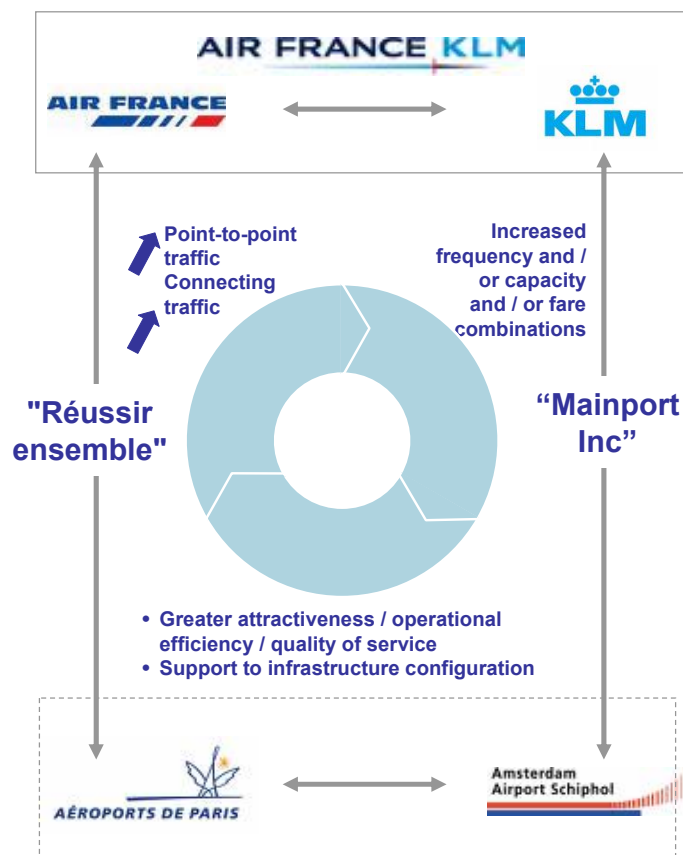
#### Integration of public services in our collaborative approach:

- CDM@CDG project with the DGAC (French Civil Aviation Authority)
- Tripartite working group set up with French Border Police to allow faster immigration checks



# Aéroports de Paris & Schiphol alliance is ideally fitting Air France – KLM dual hub strategy

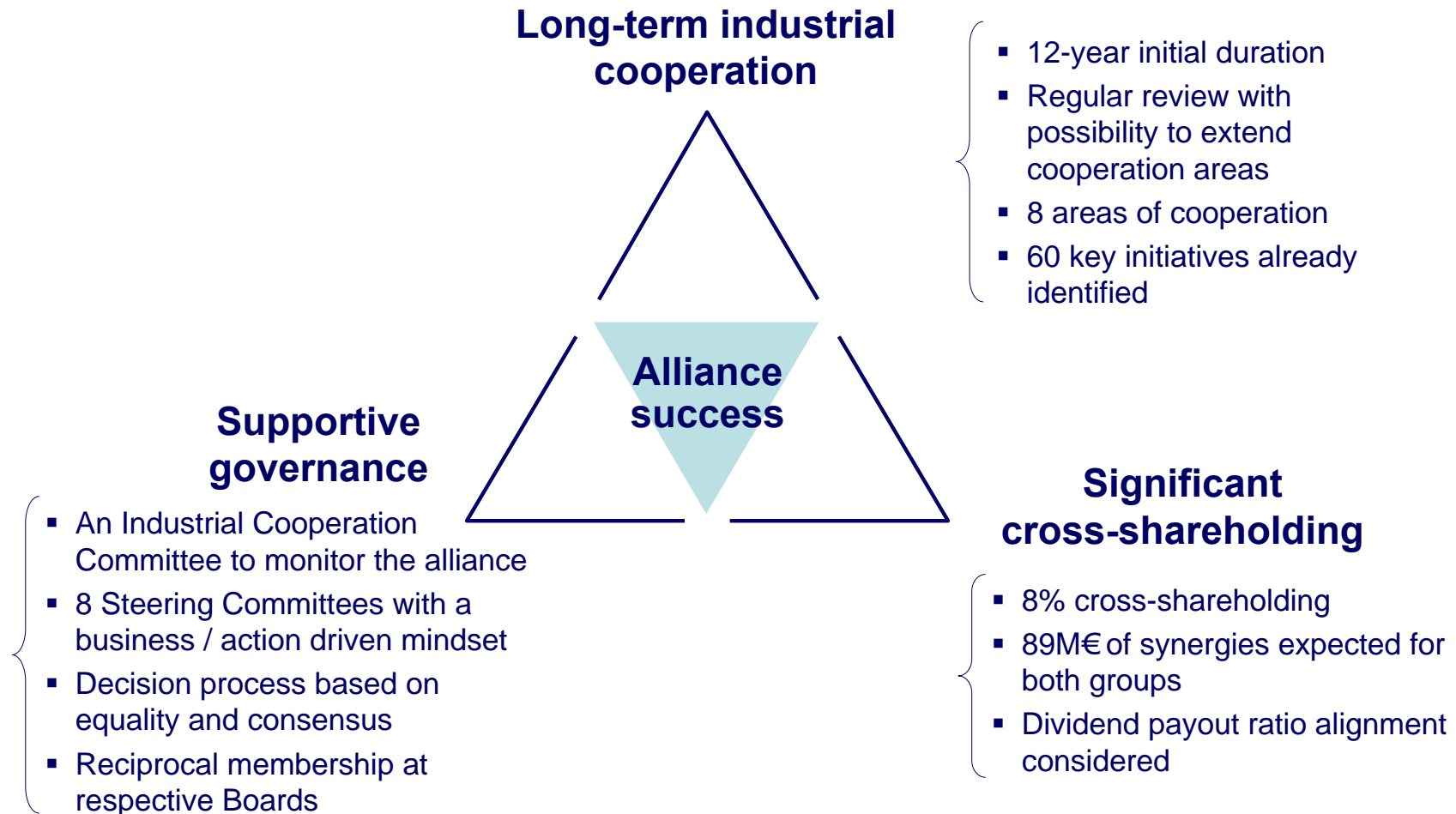
## Parallel collaborations already in place



## Implications of Aéroports de Paris / Schiphol alliance

- Development of a consistent customer experience on both airports
- Enhance product offering to passengers
- Opportunity to optimize the dual hub by improving processes and cooperation between all parties
  - Organization redesign through joint approach and best practices implementation
  - Ensure quick, reliable and simple transfers and further develop Paris-Amsterdam shuttle
- Implementation of common standards of Quality of Service

# Key transactions terms : three main pillars aimed at ensuring alliance success



# Cooperate to optimise creation of value



## ➤ Our success stories:

- ⇒ Client expectations are better met and thus customer loyalty has improved
- ⇒ Services that generate profits
- ⇒ Well dimensioned and adapted facilities
- ⇒ Optimised operating processes
- ⇒ Common position taken to promote the growth of our operations
- ⇒ Involvement of other stakeholders in our cooperation

## ➤ Our determination:

- ⇒ A common commitment to create value in both companies

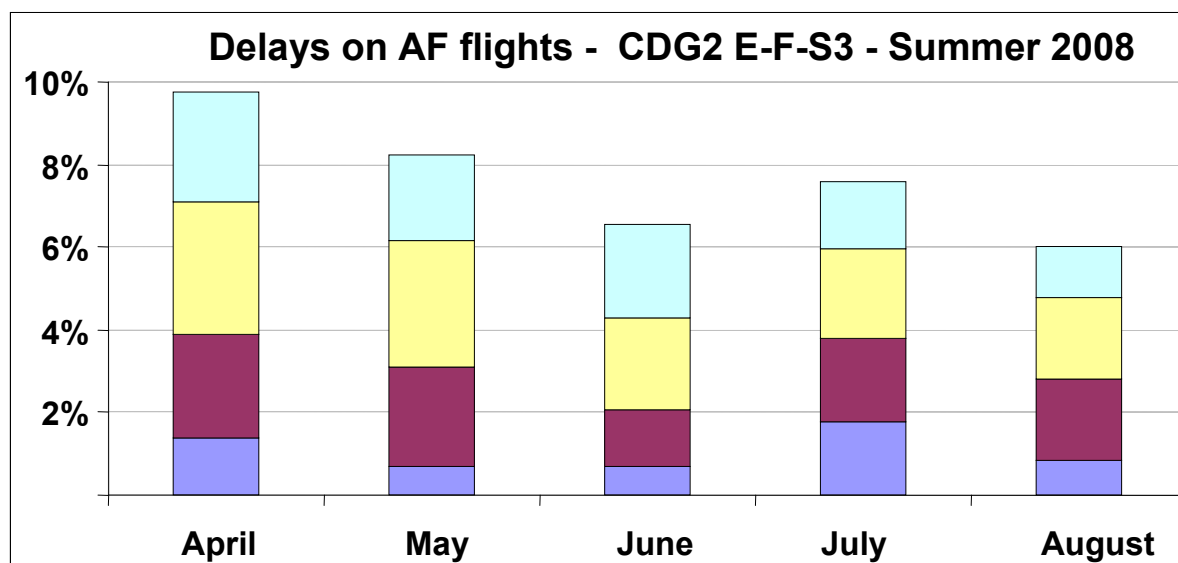
**Thank you for your attention**

# Appendix

# Improvement in punctuality



The Succeeding Together initiatives have led to a reduction in delays  
- caused by Aéroports de Paris - on Air France flights  
(Example on Terminals 2E and 2F)



- Queues at passport controls
- Congestion or unavailability of airport services
- Unavailability of boarding resources
- Saturation at security checkpoints

An aerial photograph of Schiphol Airport and the surrounding region. The image shows the airport's runways, taxiways, and terminal buildings, interspersed with green fields and urban areas. The sky is blue with some light clouds. The text is overlaid in the center-left of the image.

# Achieving Growth Opportunities using an Integrated Approach

Ad Rutten, Executive Vice President & COO, Schiphol Group  
Paul Elich, Executive Vice President Ground Services, KLM



Schiphol Group



## Facts & figures Schiphol 2007

▪ Passengers	47.8 million	(+3.8%)
▪ Local	28.0 million	(+ 4.3%)
▪ Transfer	19.7 million	(+ 3.2%)
▪ Air Transport Movements	435,973	(+3.0%)
▪ Cargo	1,610,282 tonnes	(+5.5%)
▪ Aircrafts stands + gates	63 + 94	
▪ Check-in by internet or self-service	80% of all KLM passengers	



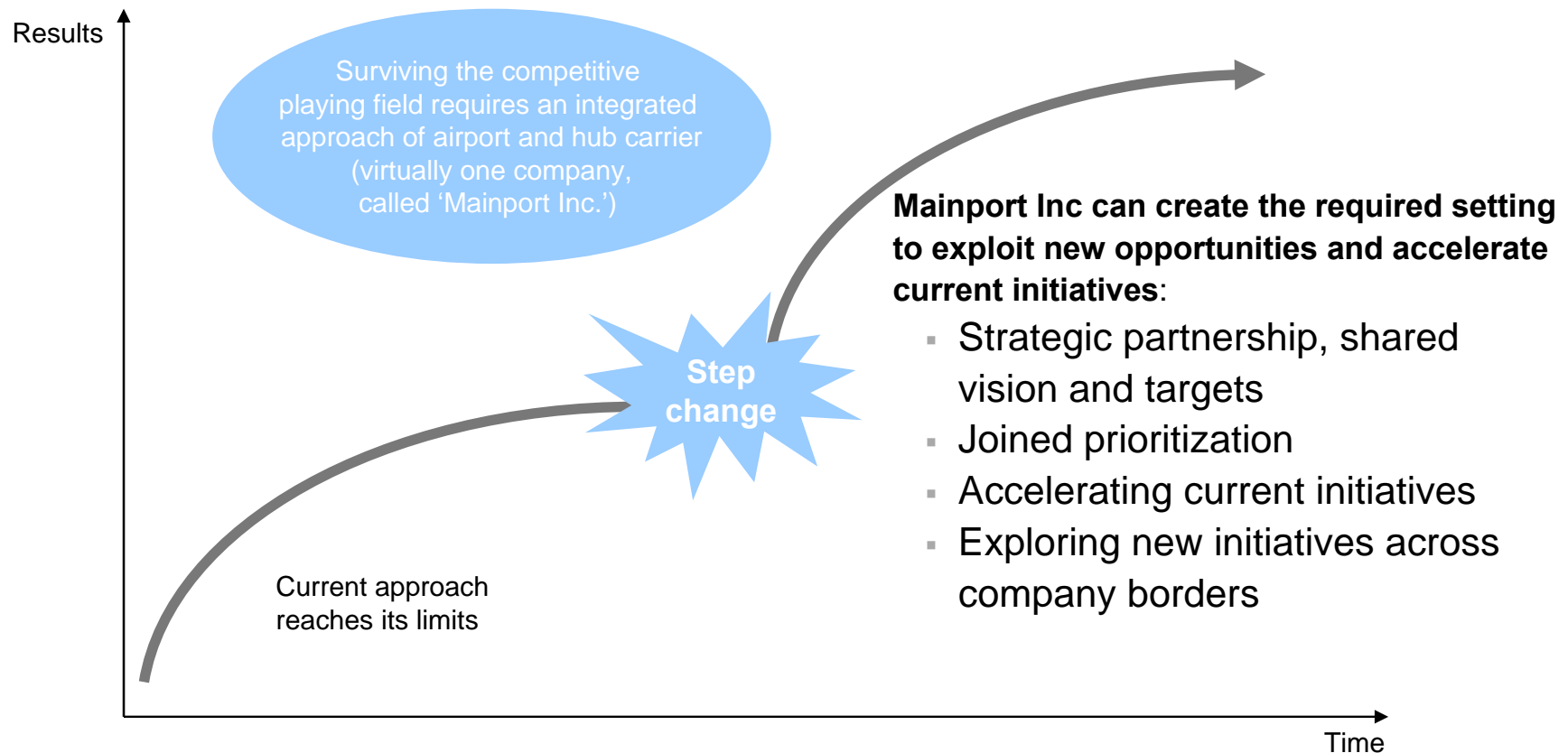
# Strategy of the Dutch Aviation Sector 'Connecting Cities'



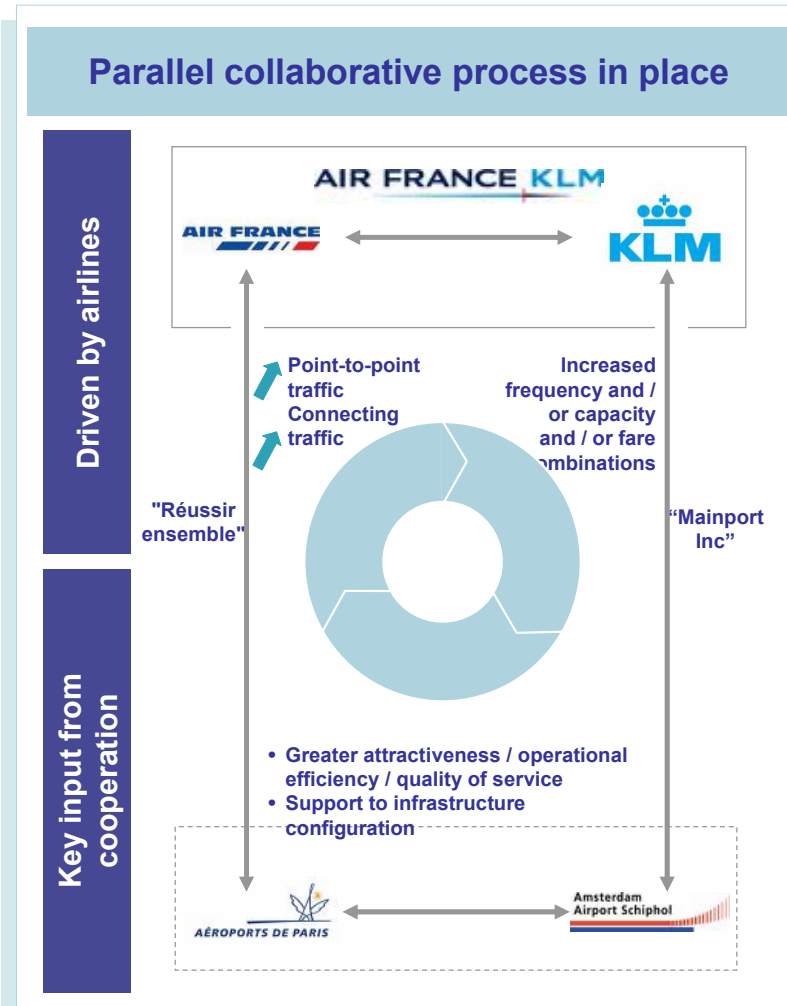
- Maintain primary hub
- # Intercontinental destinations and frequencies determines strength of network
- Focus on SkyTeam network
- “Best in Class” connectivity due to small home market
- Accommodate growth at a competitive cost level



# Joining forces in Mainport Inc creates a major improvement potential for connectivity, punctuality and costs



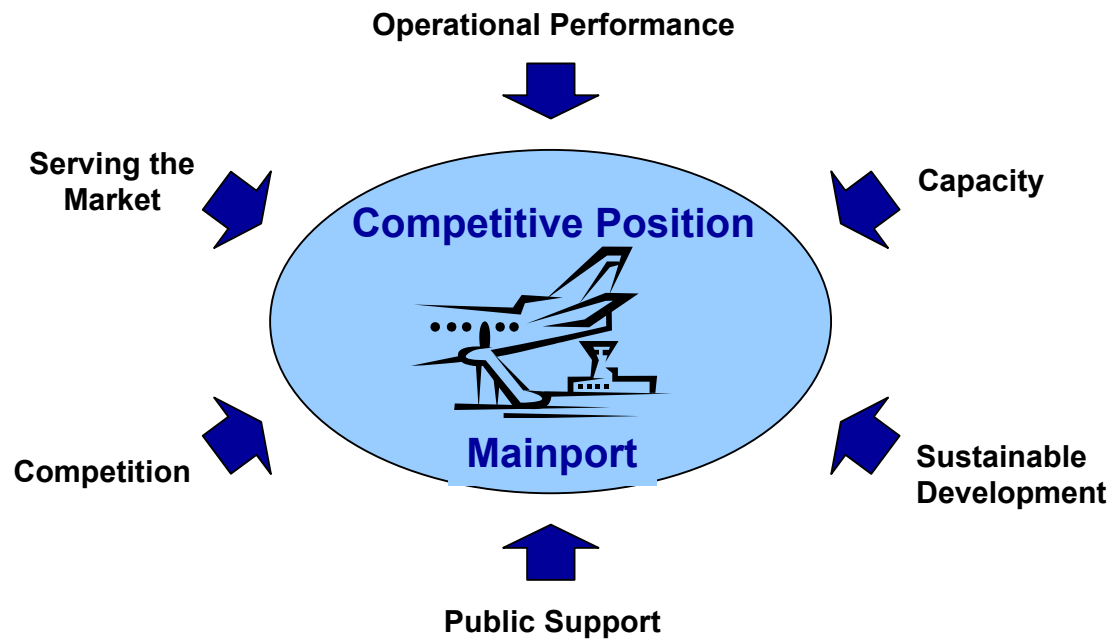
# Strengthen dual hub strategy



# First concept of dashboard has been prepared to jointly steer on measurable targets and results

- Mainport Inc initial targets
  - Connectivity: +50%
  - Visit Costs: -20%
  - Punctuality: stable

Translated into strategic and tactical KPIs



# Schiphol and KLM share a vision on network development, based on 'Connecting Cities'

## Approach

- Number of intercontinental destinations and frequencies determines strength of network
- Highest priority to those flights that increase *connectivity* → fully accommodate hub network
- Accommodate other (network) carriers based on *beyond networks* they can offer through their own hubs

## Destination based segmentation and prioritisation

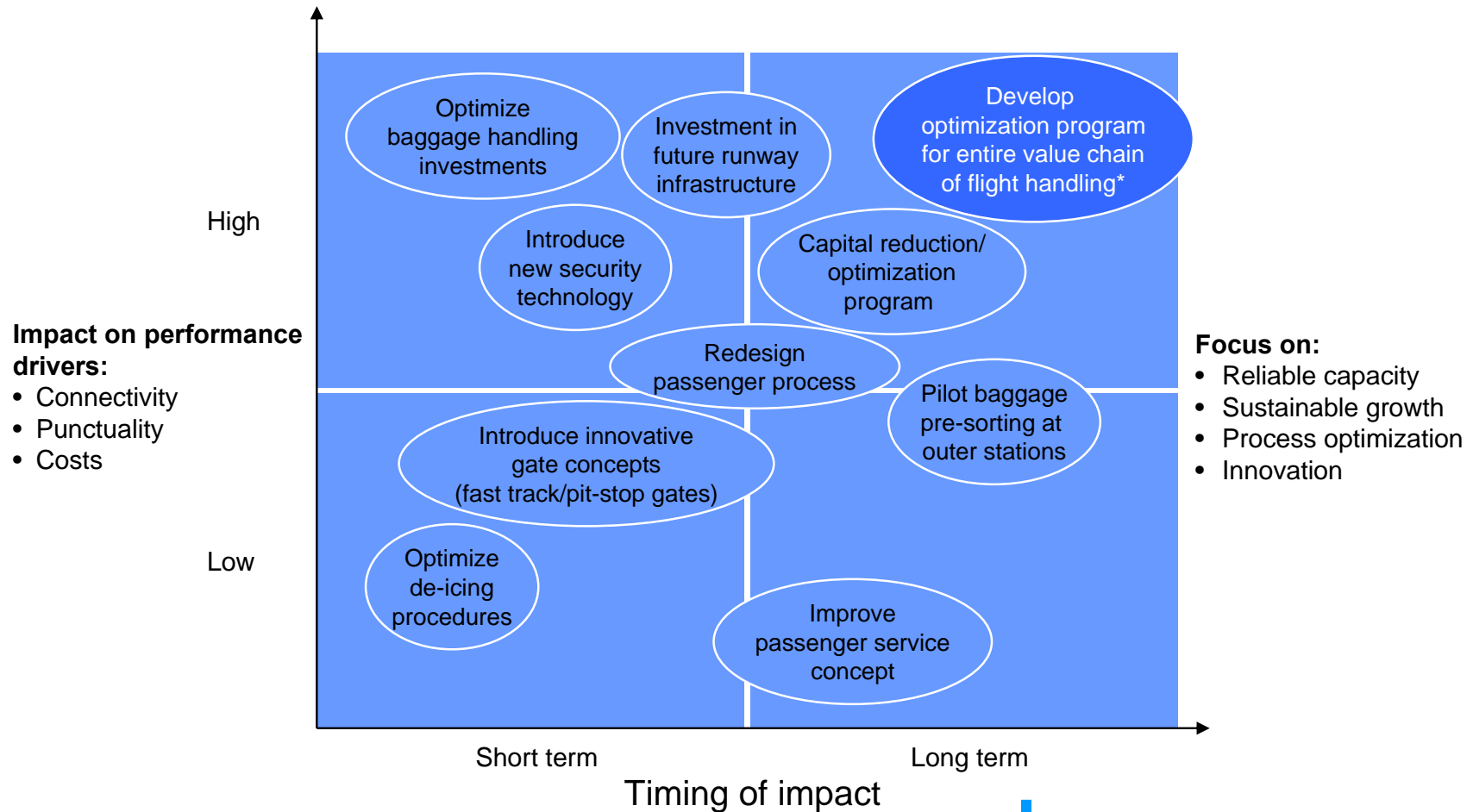
- 1 Hub network destinations (AF/KL and SkyTeam partners)  
- Strongly supported by AF/KL Hubway
- 2 Intercontinental business destinations, served by other intercontinental airlines
- 3 European business destinations served by other airlines
- 4 Full Freighter operations
- 5 Leisure-related destinations

# Efforts to improve connectivity, punctuality and costs will have consequences/benefits for Schiphol as well as KLM, and hence will have to be a joint effort

	KLM	Schiphol	ATC
<b>Investments in capacity increase</b>			
▪ New airport infrastructure		✓	
▪ New additional fleet	✓		
<b>Improvements in capacity utilization</b>			
▪ Optimizing schedule	✓	✓	✓
▪ Increasing hourly runway capacity		✓	✓
▪ Widening environmental restrictions	✓	✓	✓
<b>Process improvements</b>			
▪ Sequencing	✓	✓	✓
▪ Flight handling	✓	✓	✓
▪ Baggage	✓	✓	
▪ Passenger handling / security	✓	✓	

For most measures, more companies are involved

# KLM and Schiphol need to prioritize where the “Mainport Inc.” philosophy can accelerate and further initiate improvement initiatives in the line



## Reliable Capacity Aircraft Stands

- 2008/2009: Reconfiguration of B-pier south-side for handling of regionals
- 2010: Opening of satellite in G-area for handling of non-Hub wide-body aircraft
- >2012: Construction of new A-pier



# Process Optimization Collaborative Decision-Making



- Joint initiative of KLM, Schiphol Group, ATC NL
- Collaborative decision-making on an operational level
- Reliable operations in the event disruptions occur
- Share information
- Understand the processes



# Process Optimization '70 MB' Baggage System

- Increase baggage-handling capacity
- Improve quality:
  - IR-Rate KLM-AF
  - Decrease MCT
- Decrease costs
- Improve working conditions
- Greater efficiency
- Greater flexibility



# Process Optimization Redesign Passenger Process

- Self-service Check-in
- Self-service Transfer
- Self-service Drop-off Point (pilot)
- Premium lanes



24 October 2008



# Setting the scene

Pierre-Henri Gourgeon

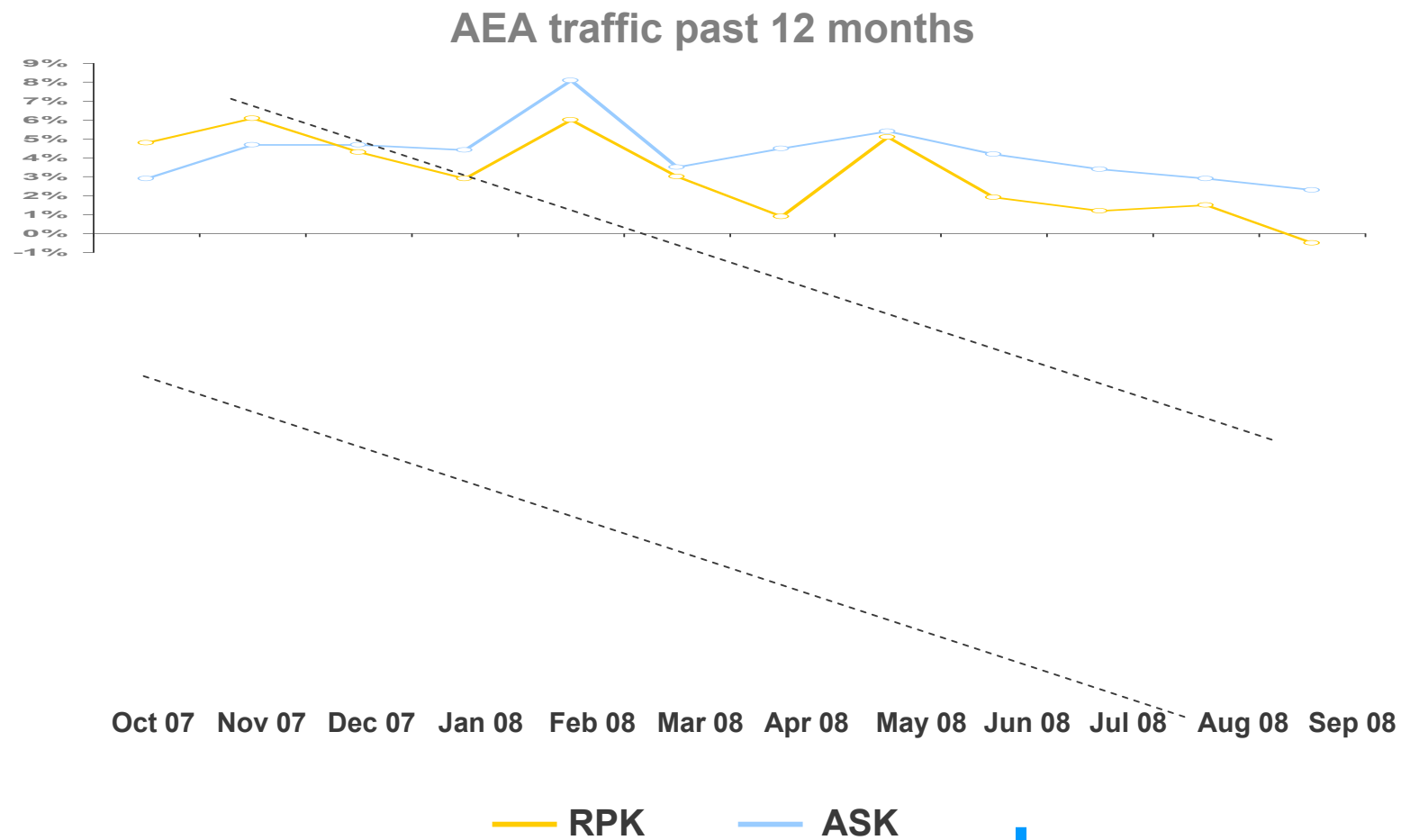
*Deputy CEO, Air France-KLM*



## Sharp reversal in operating environment in past 12 months...

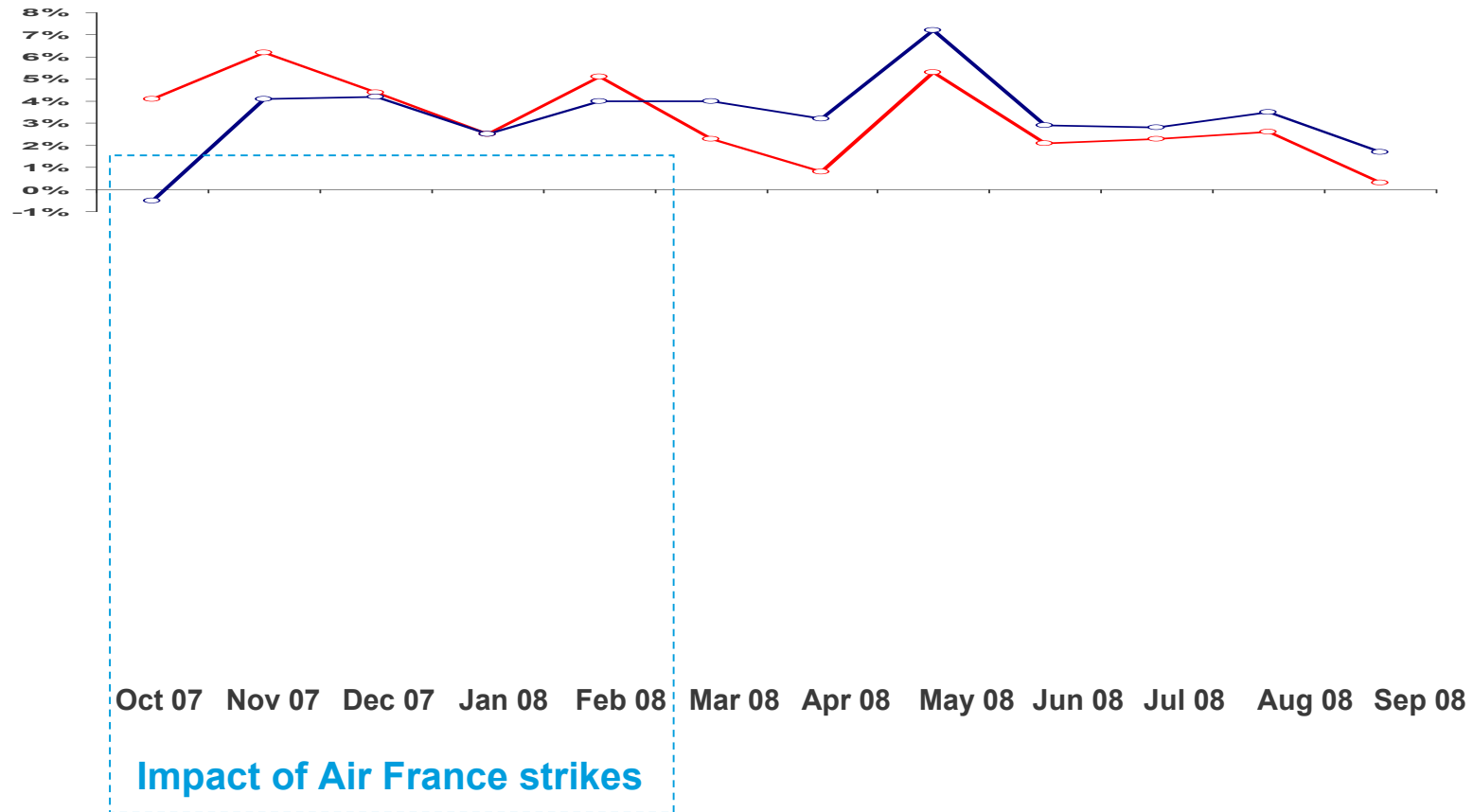
- The airline sector: pressure of high oil prices in the first half replaced by impact of economic crisis in the second
- Air France-KLM remains well positioned to weather the crisis
  - Competitive operating advantages which have already proven their worth in previous downturns
  - A strong balance sheet, prudent financial management and further scope to adapt our cost structure

## ...reflected in airline industry performance



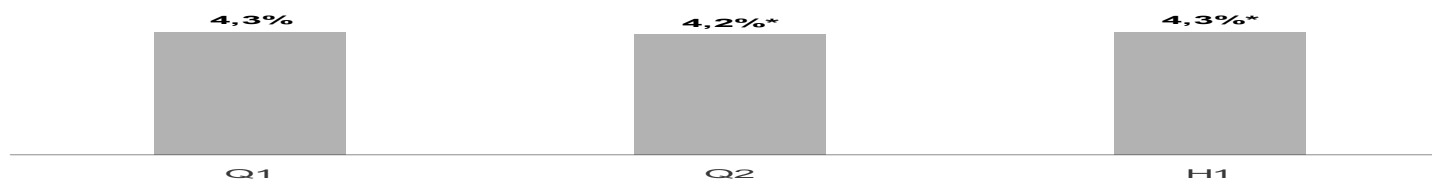
# Air France-KLM proves its resilience in terms of traffic...

Air France-KLM versus AEA long-haul traffic



... and yield...

### RRPK ex. currency in H1 2008-09



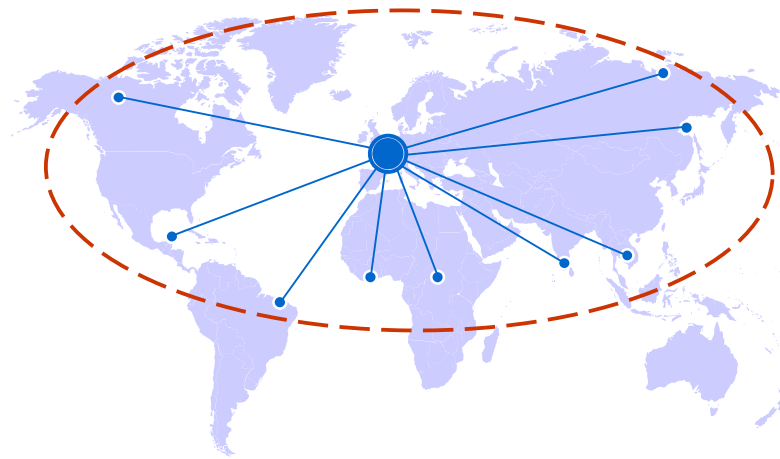


## ...thanks to its six key competitive advantages

- Largest international network centered on the most powerful European hub system
- A balanced network in terms of markets, traffic and customers
- A four-way joint-venture on North Atlantic
- A fuel-efficient and flexible fleet
- Synergy and cost-saving reserves thanks to the merger

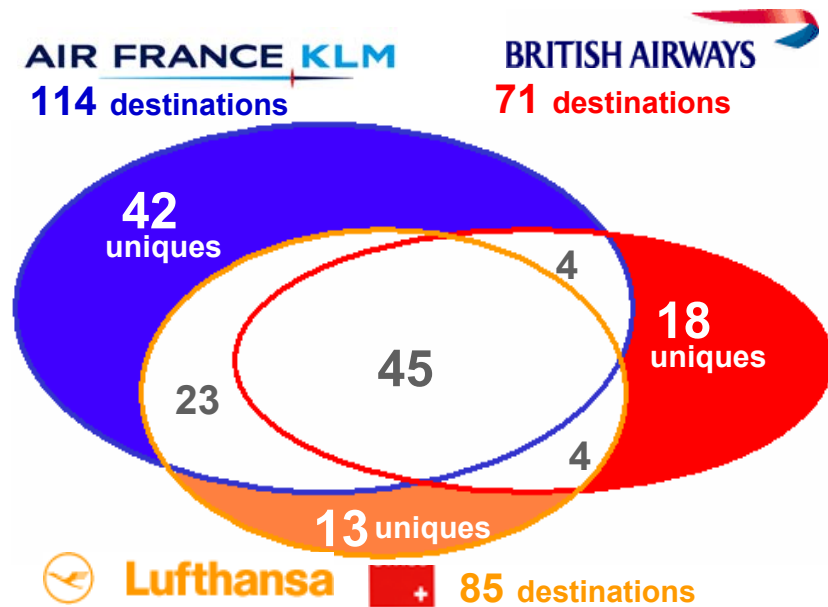
# Unique network in terms of destinations...

Of the 181 long-haul destinations\* operated from Europe by AEA members



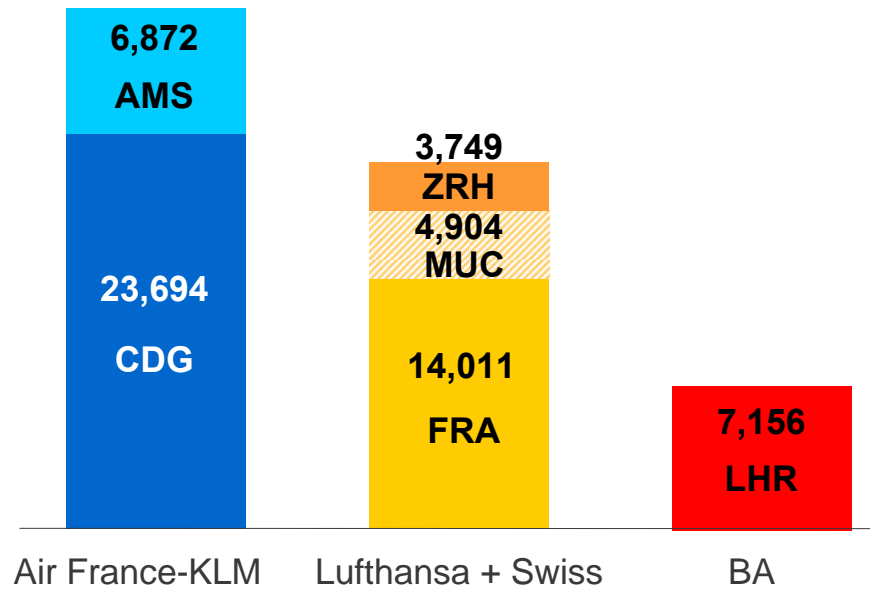
British Airways:	71 destinations	i.e 39%
Lufthansa + Swiss:	85 destinations	i.e 47%
Air France:	80 destinations	i.e 44%
KLM:	62 destinations	i.e 34%
<b>AF+KLM = 114 destinations i.e 63%</b>		

The highest number of unique destinations

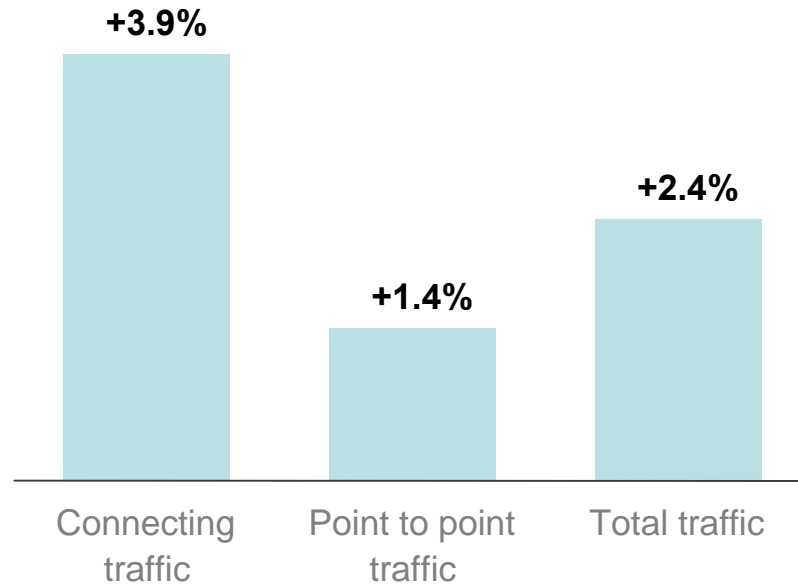


# ...with Europe as our catchment area

The highest number of connection opportunities



Long-haul premium revenue growth from CDG (H1 08 versus H1 07)

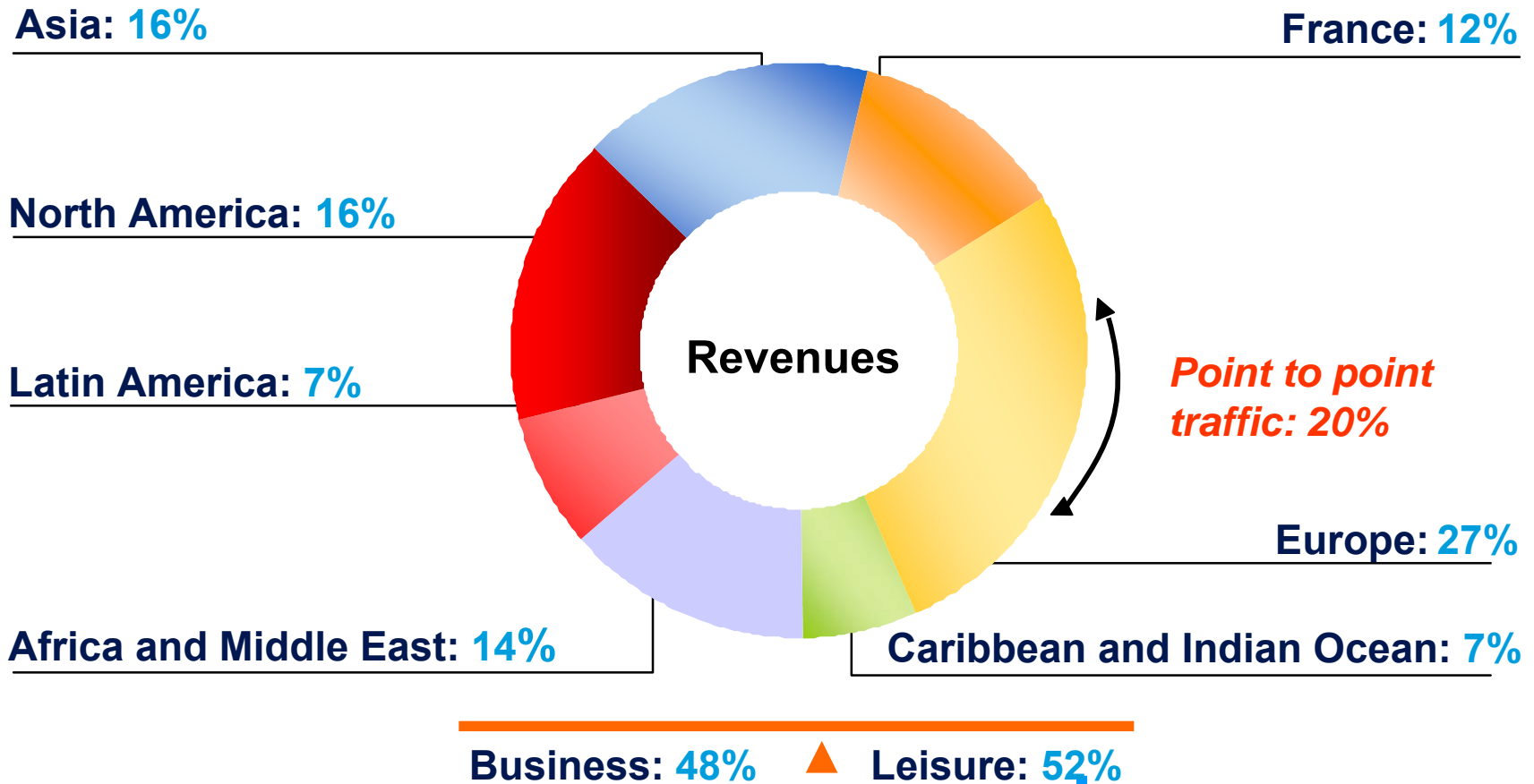


Long-haul/medium-haul connection opportunities in under 2 hours (Summer 2008)

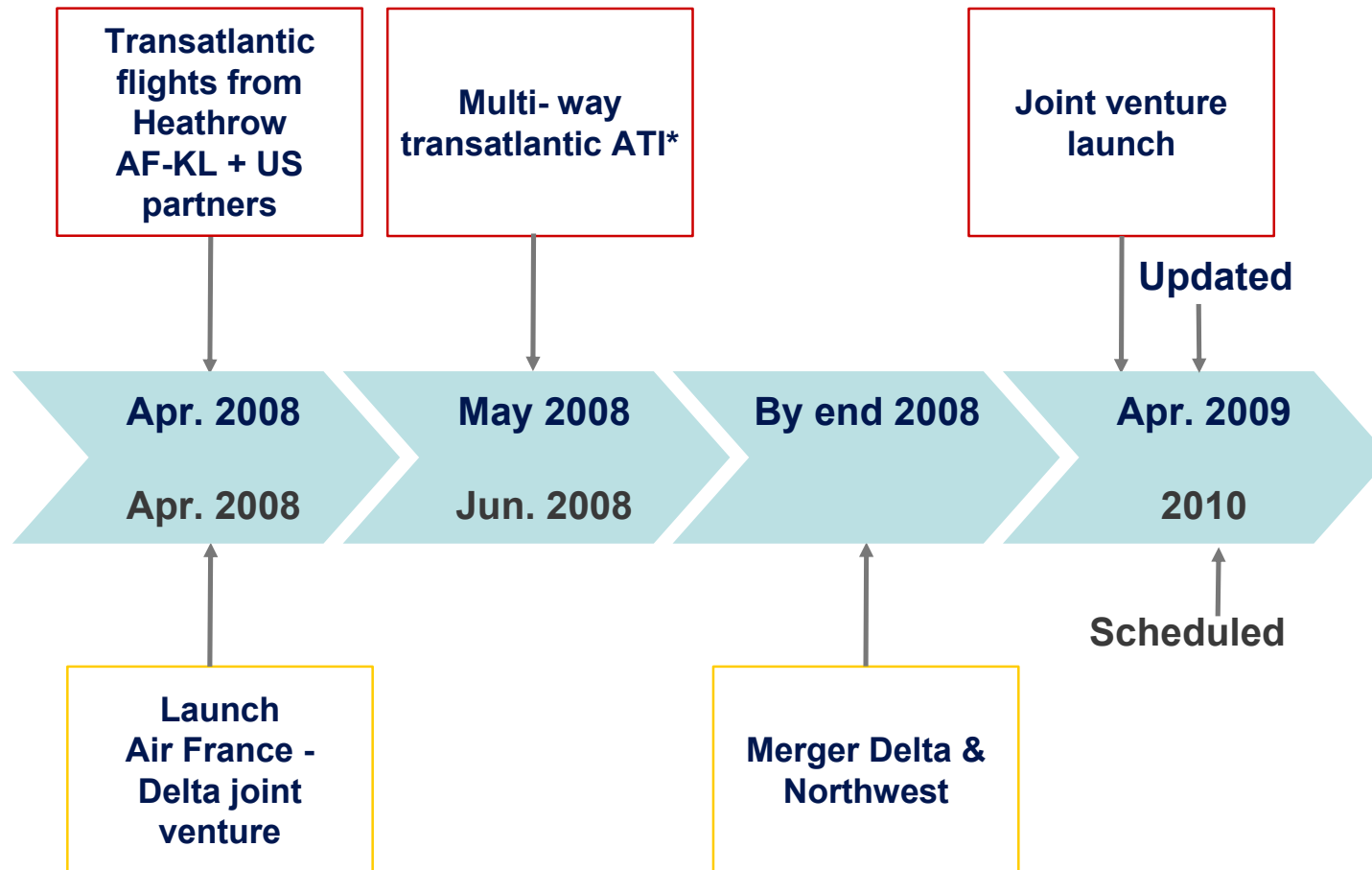
\* Connecting rate measured in revenues



# A balanced network in terms of markets, traffic and customers

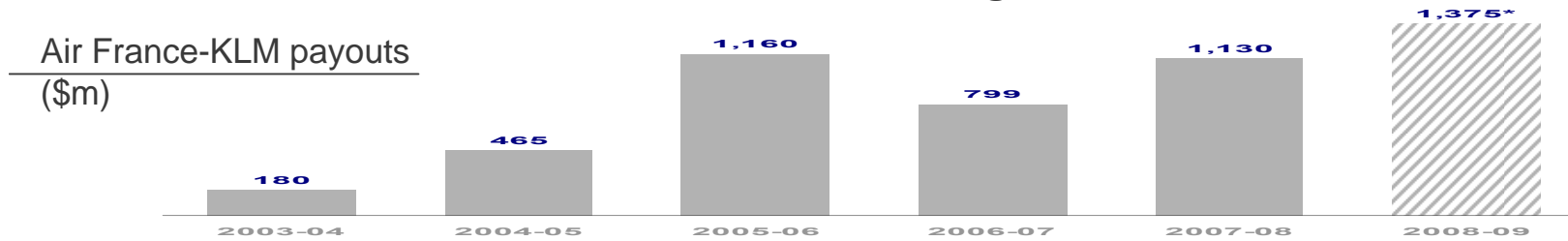


# North American JV: a year gained in implementing our new organisation



# Oil hedges: a short term expedient transformed into a long term competitive advantage...

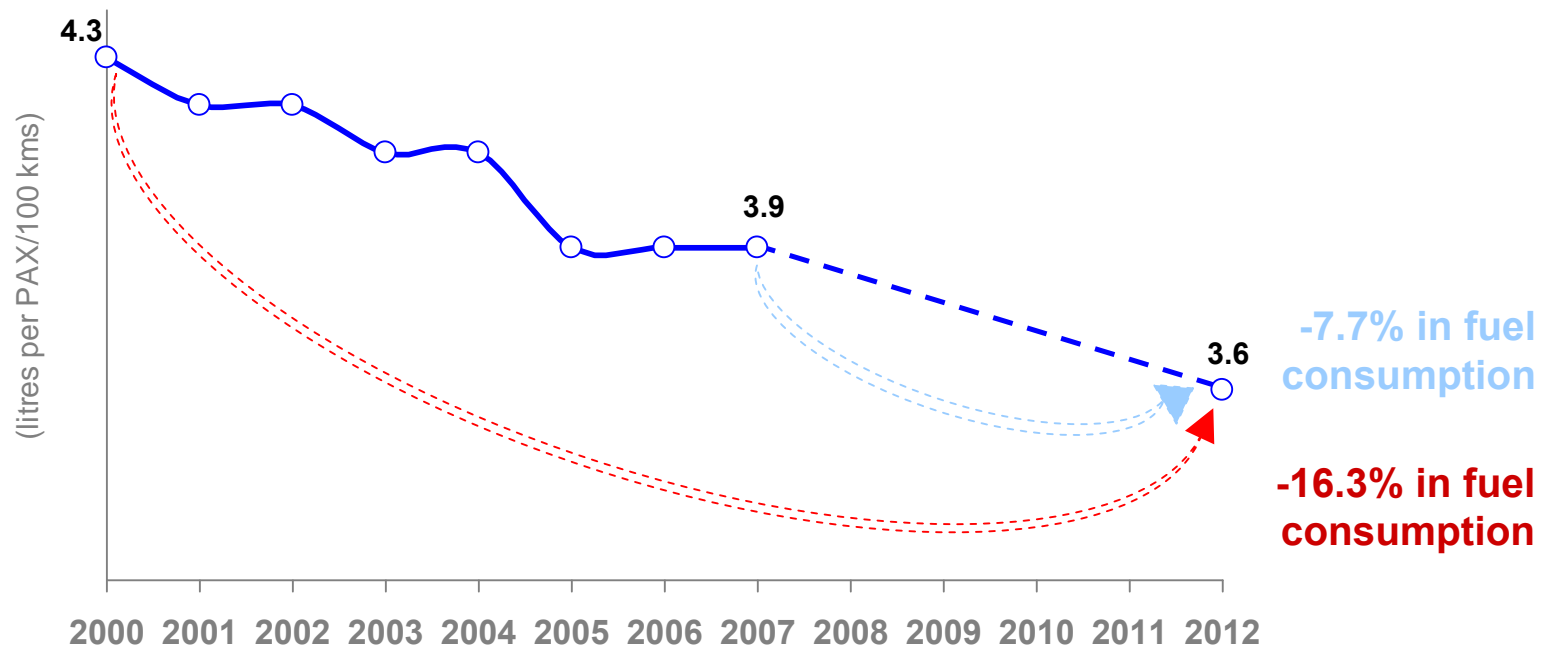
2003-09: cash saving of \$5.1bn



...through investment in fleet modernization....

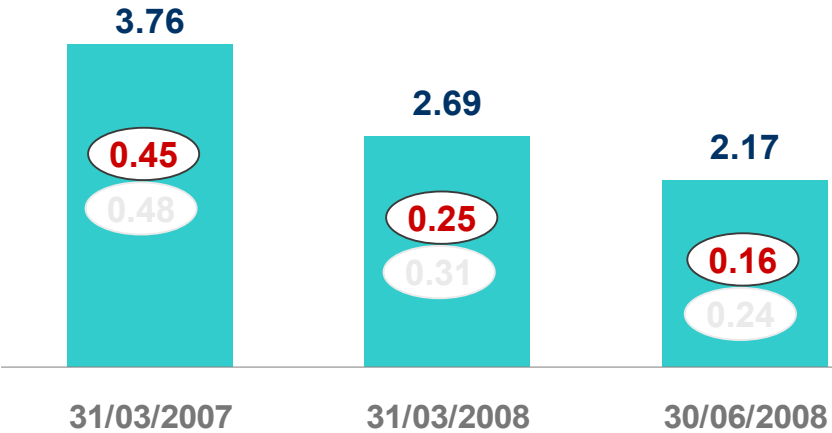
### Air France-KLM fleet

16.3% reduction over 12 years, equates to c2 years of consumption

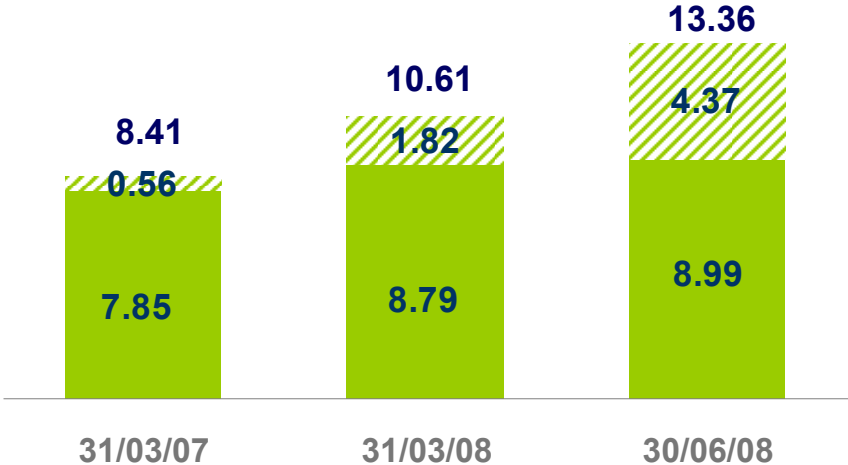


# ...while reinforcing of our balance sheet

**Net financial debt**  
(billion Euros)



**Shareholders' funds**  
(billion euros)



- Net debt
- x Gearing ratio
- x Gearing ratio ex derivatives

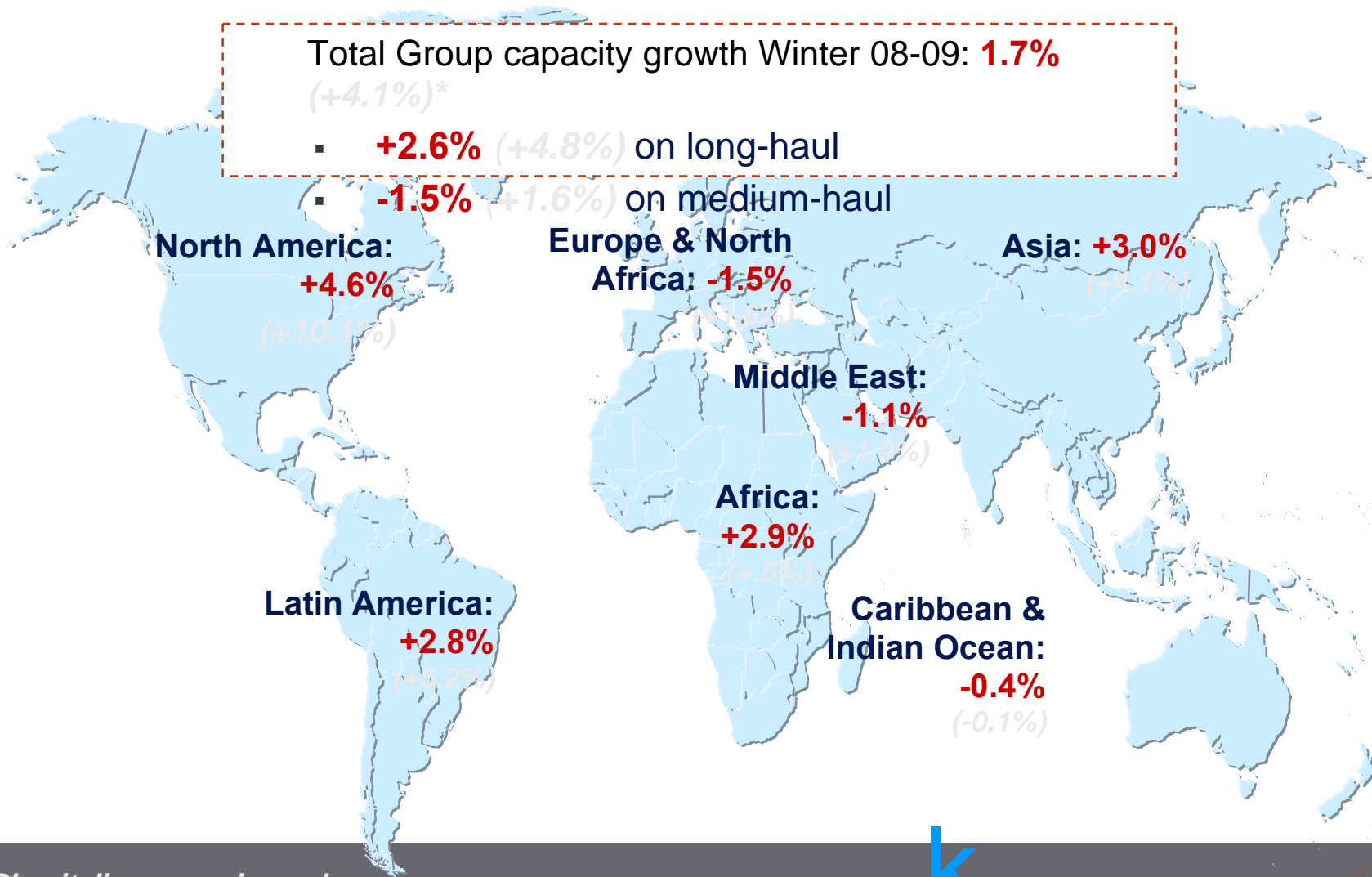
- Shareholders' funds
- Derivative instruments



## Capacity discipline: pre-empting the changing landscape

- Downward adjustment of our capacity plans with a focus on higher growth emerging zones
- Exploit our North Atlantic joint venture
- Continue to adapt our offer on our European and domestic networks in response to the development of the TGV and low cost carriers

# Winter 2008-09: Responding promptly to adjust capacity...

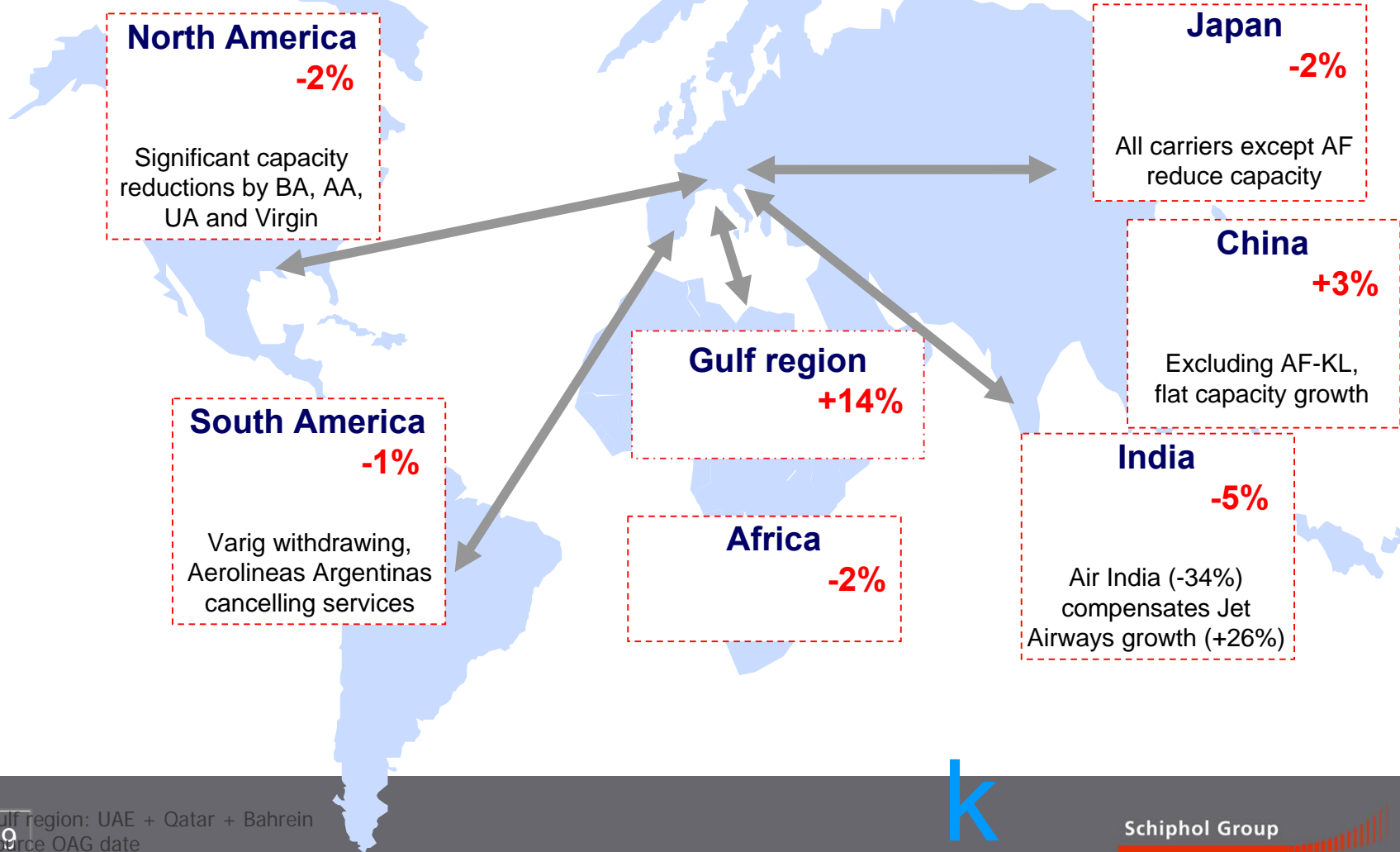


\* *Blue italics = previous plan*  
58

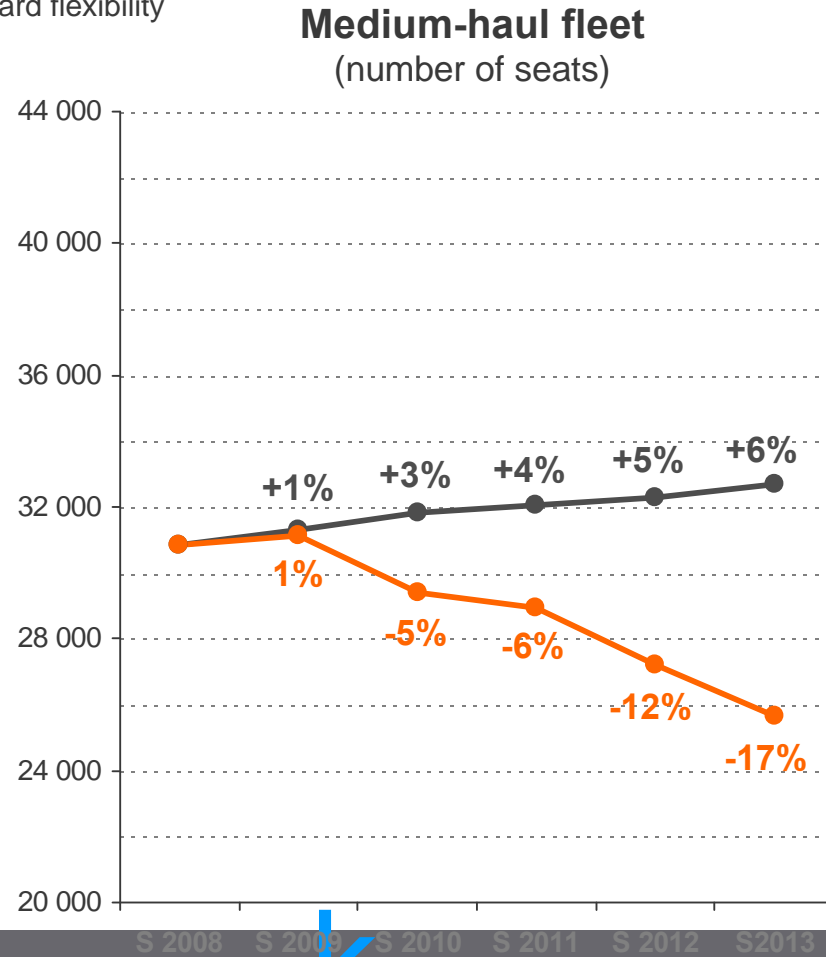
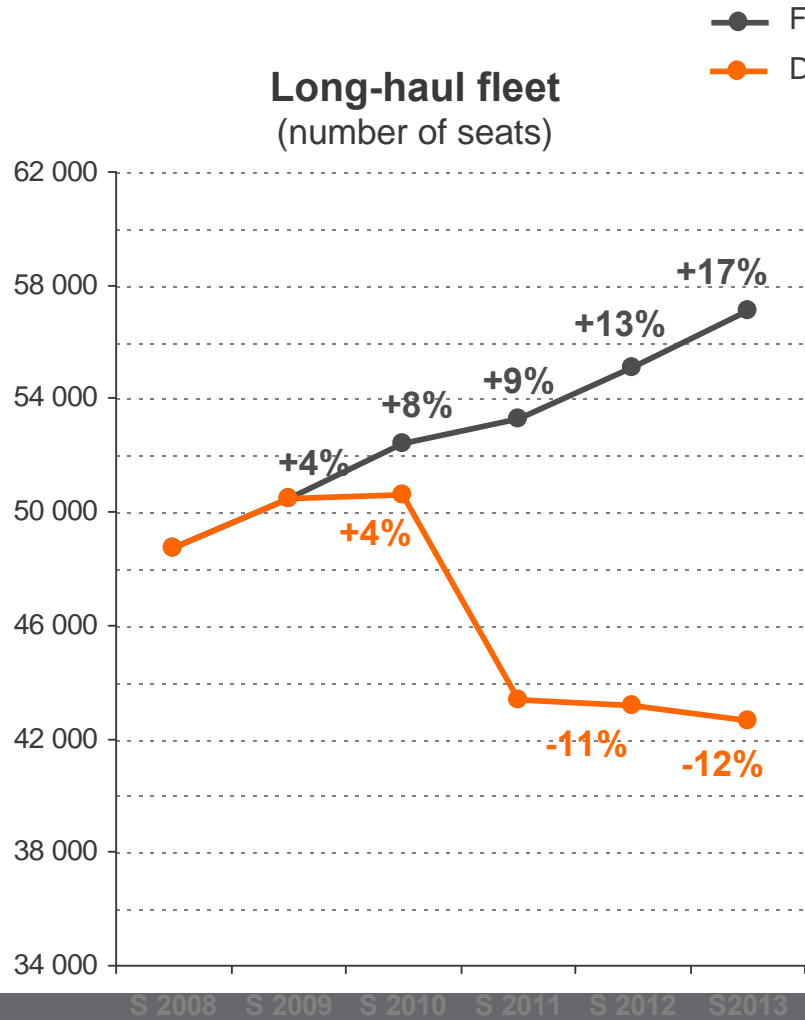


# ...in a context of greater capacity discipline by most major players

Winter capacity growth reduced from **+5%** in Winter '07 to **+1.3%** in Winter '08



# Our operating lease policy: significant flexibility to adjust capacity



## Responsiveness is key in the current environment

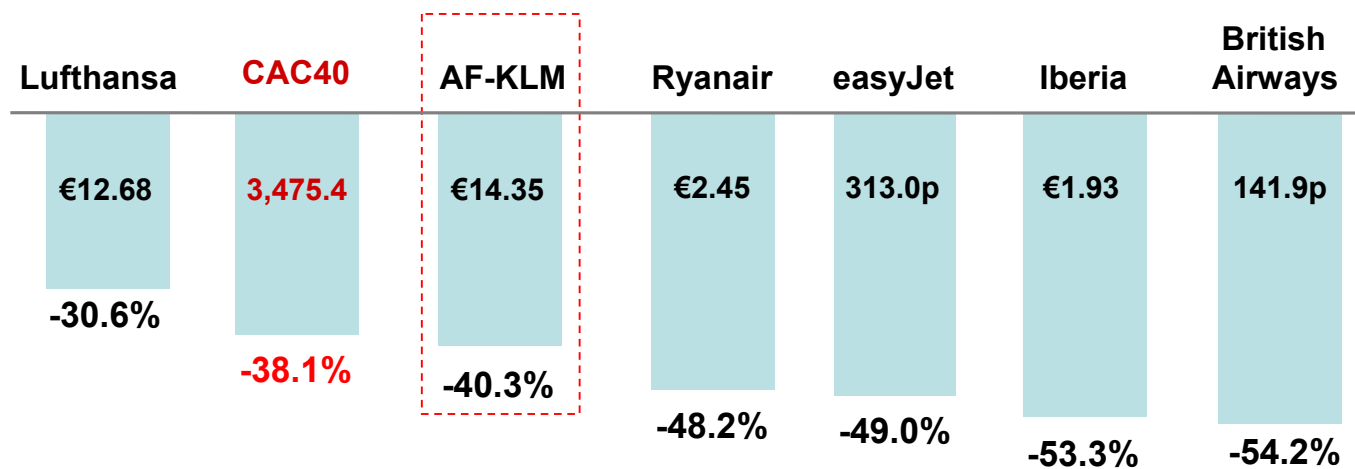
- Boosting the group synergy program
- Extending the scope of our cost reduction program
- Adapting our capex program to our operating cash flow and financing capacity
- Examining all consolidation opportunities arising from the crisis

## To sum up: Air France-KLM well placed to weather the crisis

- Our financial assets enable us to weather the financial crisis
- Our operating advantages have already proven their worth in previous downturns
- Our flexibility gives us the capacity to adapt to the new market conditions
- We will reduce the impact of lower capacity growth on unit costs, by digging deeper into our cost structure

## Share performance since January 1st, 2008

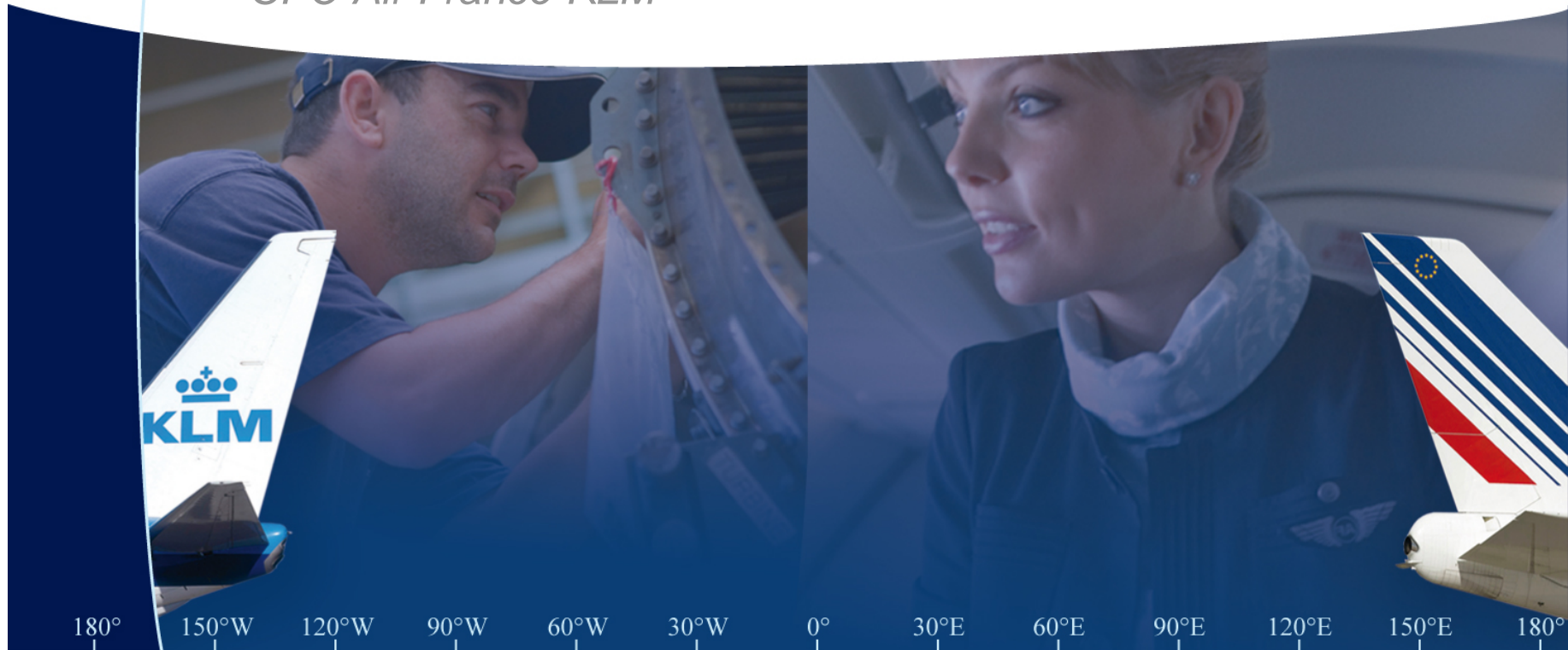
Closing prices at October 21<sup>st</sup>, 2008  
Variation since January 1<sup>st</sup> 2008



# Air France-KLM and the new environment

Philippe Calavia

*CFO Air France-KLM*





## **Air France-KLM: responding to the risks of the financial crisis**

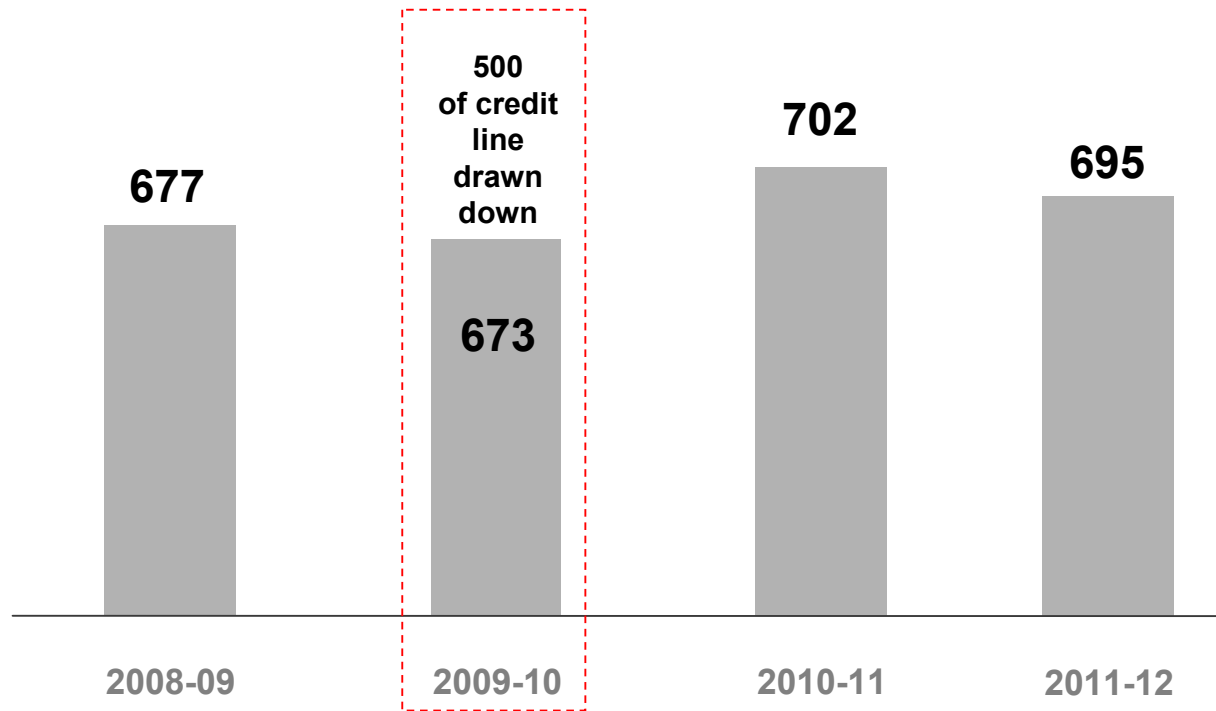
- Liquidity: a comfortable cash position
- Cash investment counterparties: zero to low risk
- Hedge portfolio counterparties: risk under control
- Asset financing: accessible market
- Pension funds: currently limited risk

## A comfortable cash position, closely monitored

- Cash of €5.15bn\* at 17<sup>th</sup> October 2008
- Available credit lines: €1.99 bn
  - Air France: €1.2bn\* with 24 banks to July 2012
  - KLM: €540 million with 11 banks to July 2010
  - Air France-KLM: €250 million to October 2017
- Covenants comfortably respected

# Debt repayment: No peaks in schedule

as at September 08  
(in €m)



## Monitoring of counterparties: internal rules reinforced since Summer '07

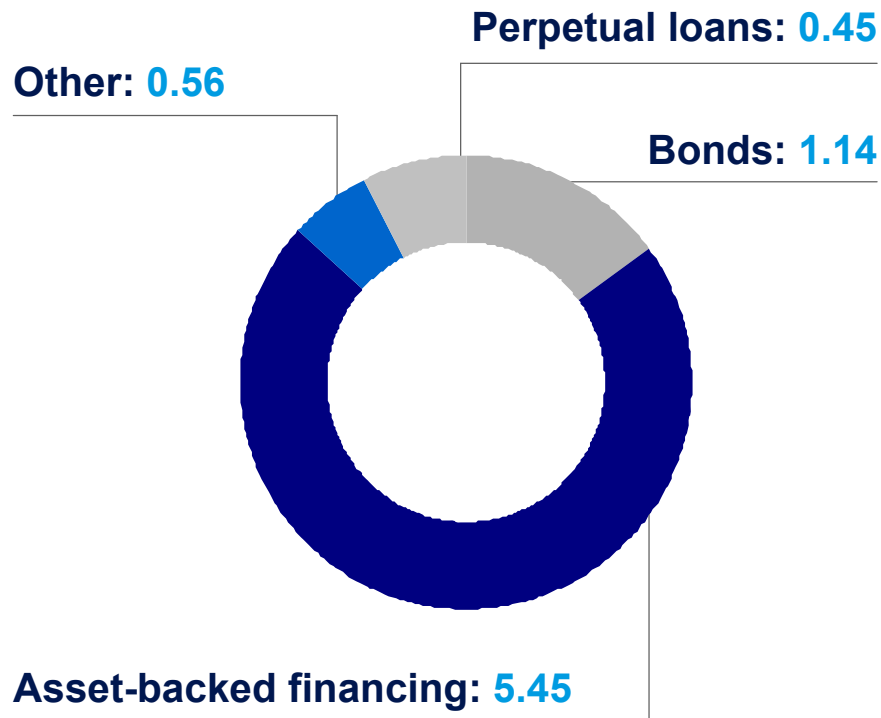
- Fully centralized cash and risk management
- Proactive Risk Management Committee (RMC) reviews counterparty risk and guidelines quarterly
  - Counterparties monitored on a weekly or daily basis if needed
  - Selected counterparties must have a minimum rating
  - Exposure limited to 15% per name with an exposure limit per counterparty
  - Internal allocation within the Air France-KLM group
- Cash invested conservatively
  - 2/3 in government and AAA rated bonds and 1/3 in bank deposit certificates with high rated European banks
  - Yield reflects this conservative approach: EONIA +50bp to EONIA –15bp

- Exposure to counterparty risk directly correlated to hedging volume

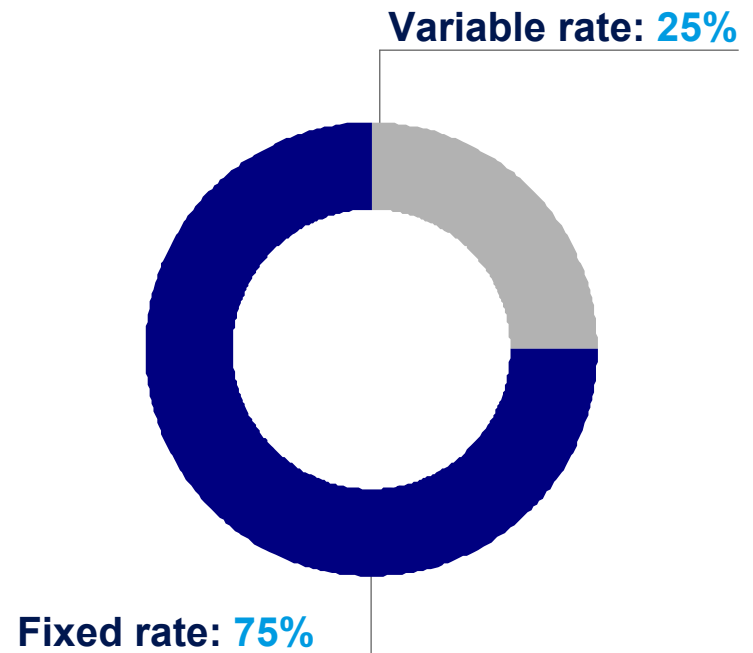
# A debt structure...

## Long term debt structure

By type in €bn



By rate



**... designed to fund our ongoing operations**

- Around 80% of debt secured by aircraft, meaning it is:
  - Less expensive
  - Longer term
  - No covenants
- A moderate average cost of debt: 4.6%
- Asset-backed funding less at risk than unsecured debt

## Asset-backed financing remains accessible

- 'Flight to quality' favours Air France-KLM with its solid financing ratios
  - High level of interest cover: 14.2x at end-March '08
  - Favorable ratio of encumbered to free assets: 42%
- KLM
  - Access to a favorable export credit system for both Boeing and Airbus aircraft in any circumstances
- Air France
  - Financing of four aircraft in Summer '08 at less than 90bp
  - Drawing down of €500 million at 21bp from its credit line to be in a good position to negotiate long term financing

## Pension funds: risk currently limited

- Air France
  - Employee pensions covered by the French national scheme
  - €1bn attributable to residual rights under pension scheme closed in 1993, and employee severance plan
- KLM
  - Pension fund currently over-funded

Value and type of asset at 30 <sup>th</sup> September 08	Air France €1bn	KLM €10.8 bn
Equity	35%	33%
Fixed Income	59%	55%
Real Estate	6%	13%
Cash and other	-	(1)%

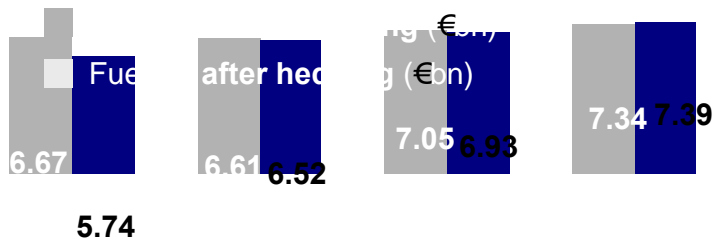


## Fuel hedging policy

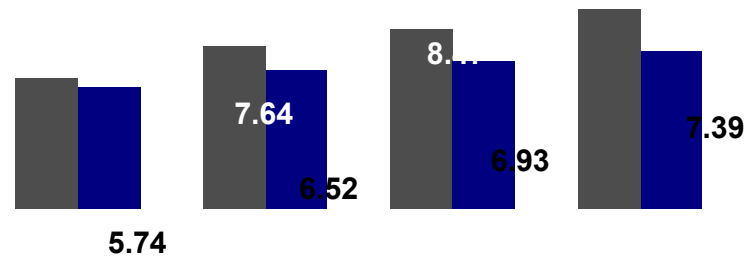
- The fuel hedging policy continues to provide protection
- We will continue to pursue a consistent fuel hedging policy
  - Consensus view suggests the oil prices likely to go back up
  - Current situation gives us opportunities to lower our average hedged price for the coming years

# Update on the fuel bill

Fuel hedging continues to provide protection



The drop in the fuel price is positive

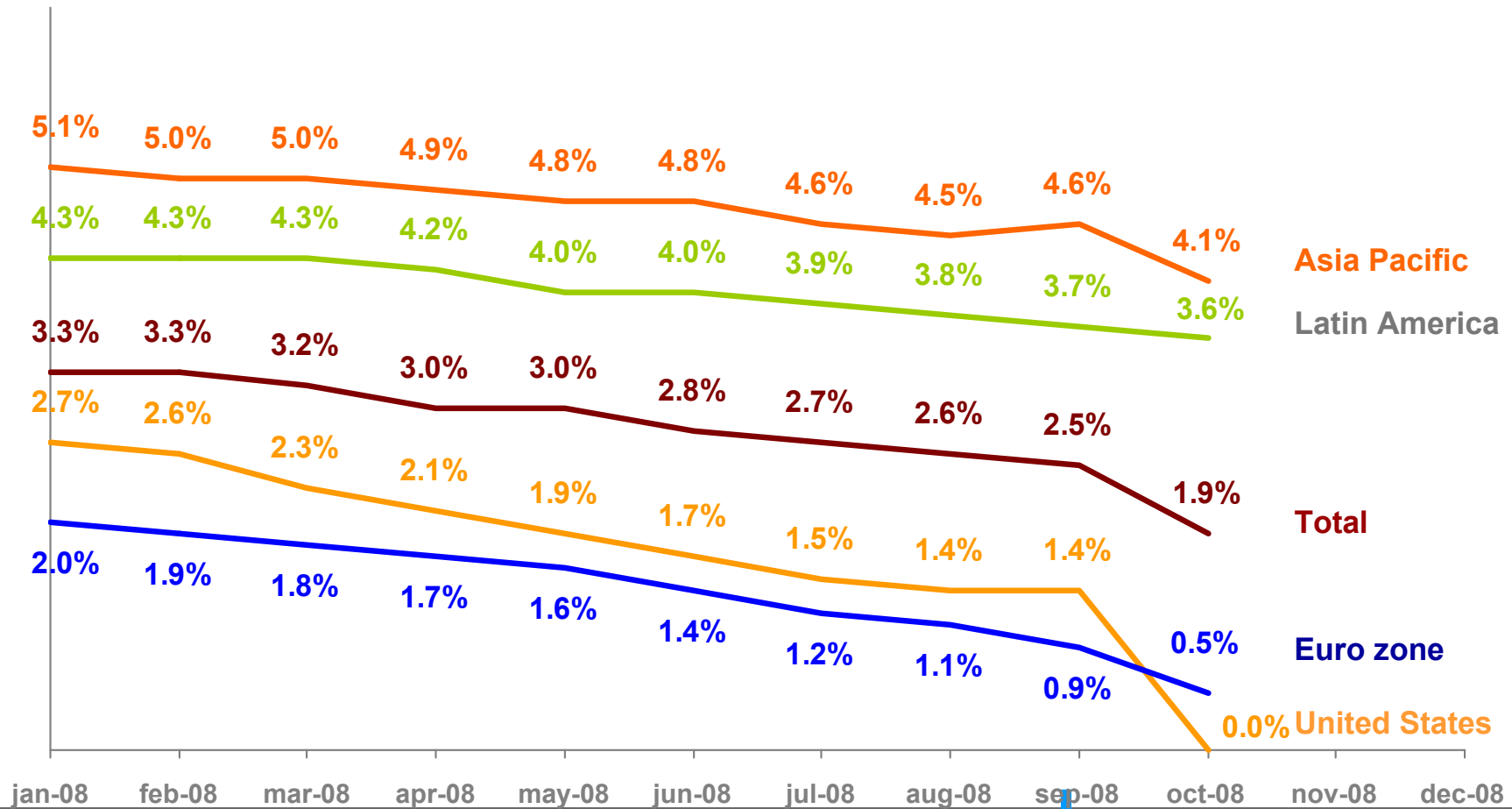


2008-09	2009-10	2010-11	2011-12
96.69\$/bl	79.53\$/bl	85.19\$/bl	87.97\$/bl
€1=\$1.51	€1=\$1.34	€1=\$1.34	€1=\$1.34
94%	69%	48%	29%
83.8 \$/bl	78.3 \$/bl	83.6 \$/bl	88.6 \$/bl

2008-09	2009-10	2010-11	2010-12
€1=\$1.51	€1=\$1.34	€1=\$1.34	€1=\$1.34
■		€	
■ Fuel bill after hedging (€bn) at 17 October 2008			



# GDP growth: change in consensus forecasts for 2009



## Air France-KLM and the new operating environment

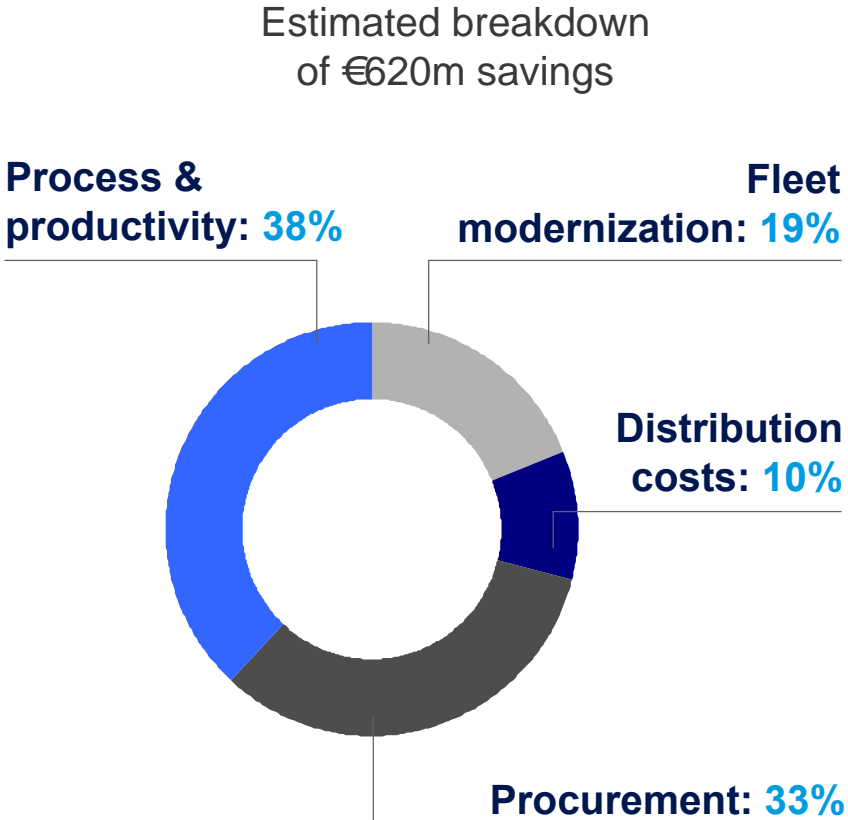
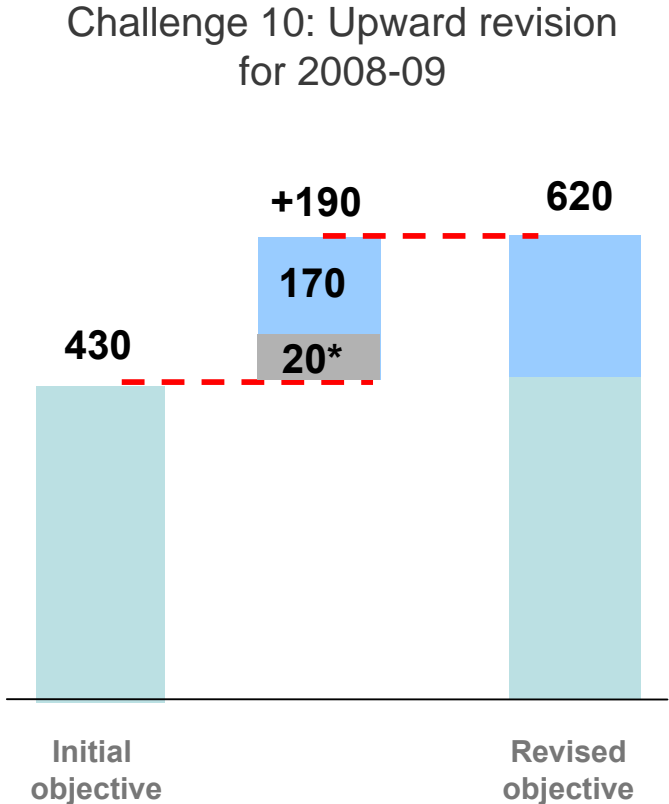
- In response to the deterioration of the economic environment we will
  - reinforce our cost saving program
  - review our capital expenditure program



Our aim is to secure our balance sheet  
and to remain profitable

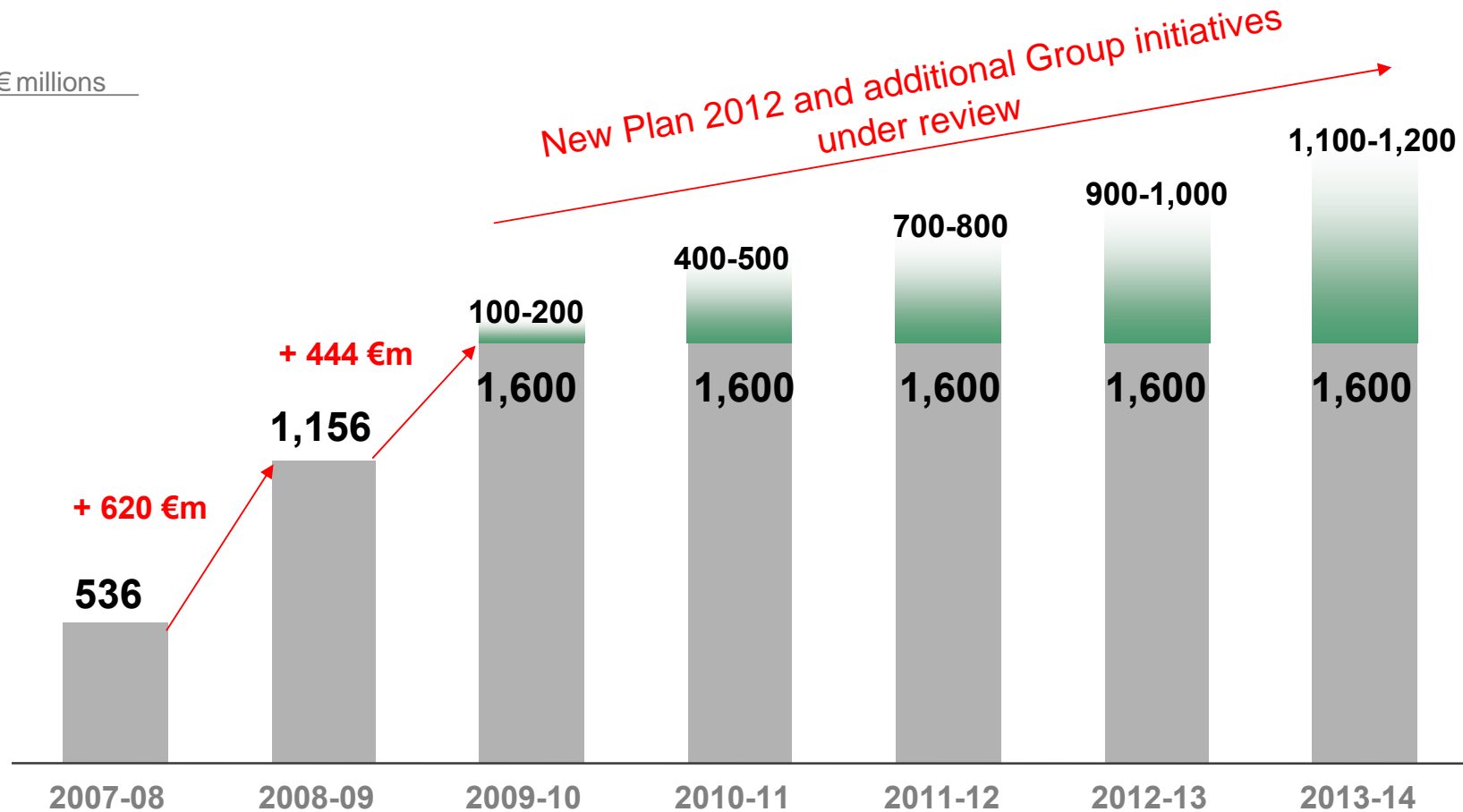
# 'Challenge 10' increased by €190m in 2008-09

€ millions



# “Challenge 10” to be relayed by “Challenge 12 and additional revenue & cost efficiencies

€ millions



■ “Challenge 10” cost savings plan (in €m)

■ “Challenge 12” & additional revenue & cost initiatives (in €m)

# Efficiency initiatives relating to all Air France-KLM common activities

## Cross functional

- North Atlantic JV
- Combined IT organizations
- Fuel consumption & cost
- Procurement synergies
- Passenger sales revenue accounting
- Worldwide one ticket stock
- Accounting and controlling process, tools and metrics
- Sales & services entity
- Departure control system

## E&M

- + Wide body airframe (Facility, AF plant, KL plant)
- + E&M supply chain logistics

## Commercial - Passenger

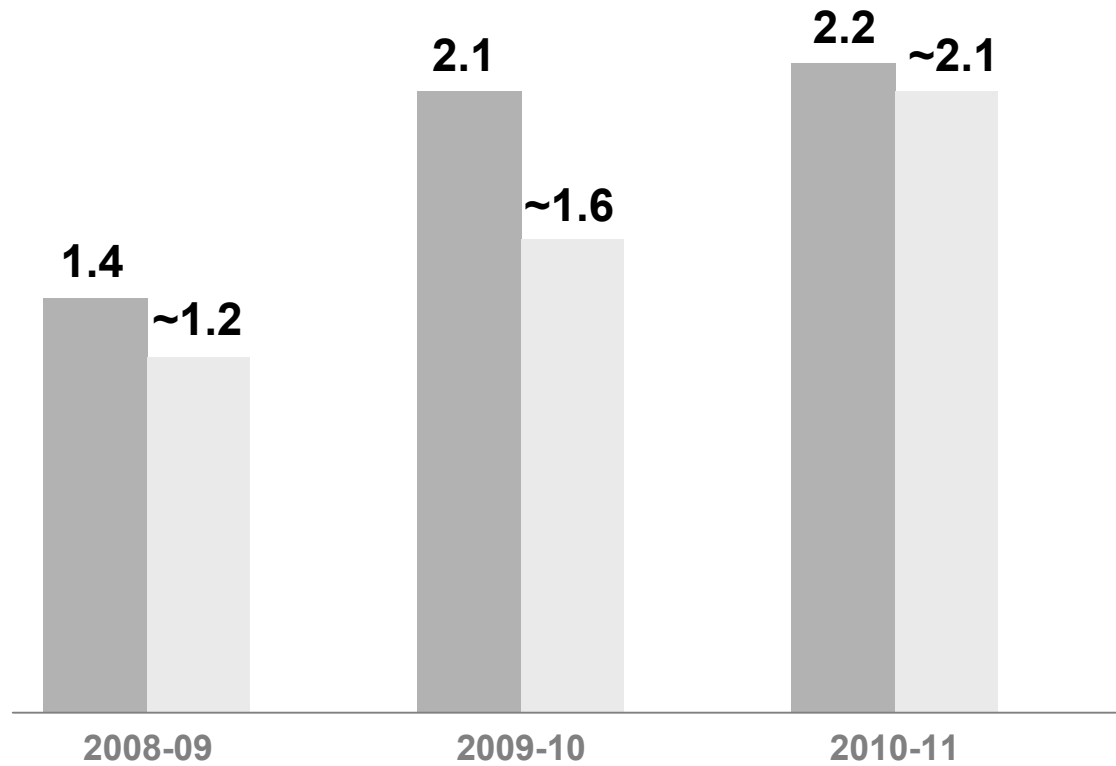
- + New passenger class
- + London Positioning
- + New revenue management system
- + Outstation Blue Print
- + European call centers
- + E-Acceleration

## Cargo

- + China JV
- + IT phase 2
- + CDG belly optimization

# Current fleet investment plan under review

€ billions



■ Fleet investment plan

■ Initial review (before operating lease, sales & lease back,...)



## To sum up

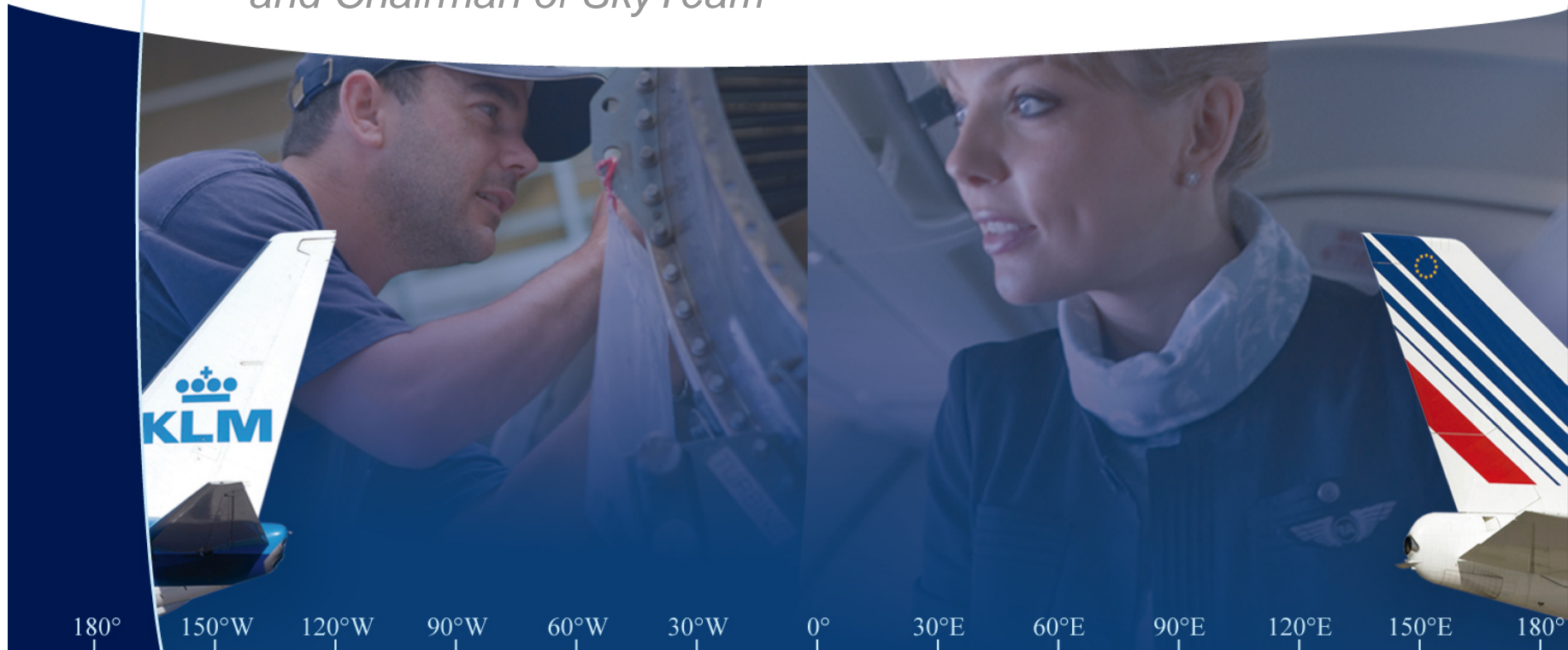
- We have a low risk profile which will continue to give us priority access to funding
- We have a strong balance sheet with fair valued assets (fleet and pension funds) and a non recognized asset in Amadeus
- Our hedging policy continues to offer protection, but with declining efficiency in the future



# Why joint-ventures?

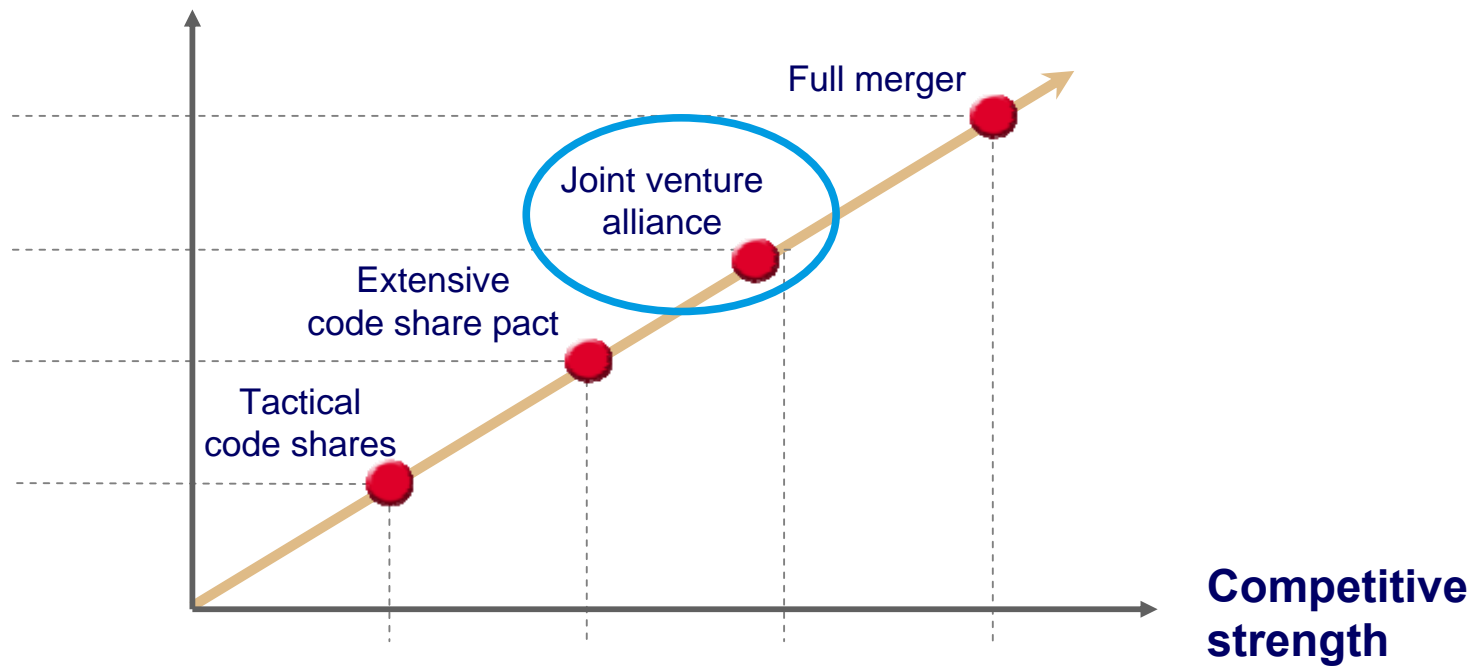
Leo Van Wijk

*Vice Chairman of the Board of Directors  
and Chairman of SkyTeam*

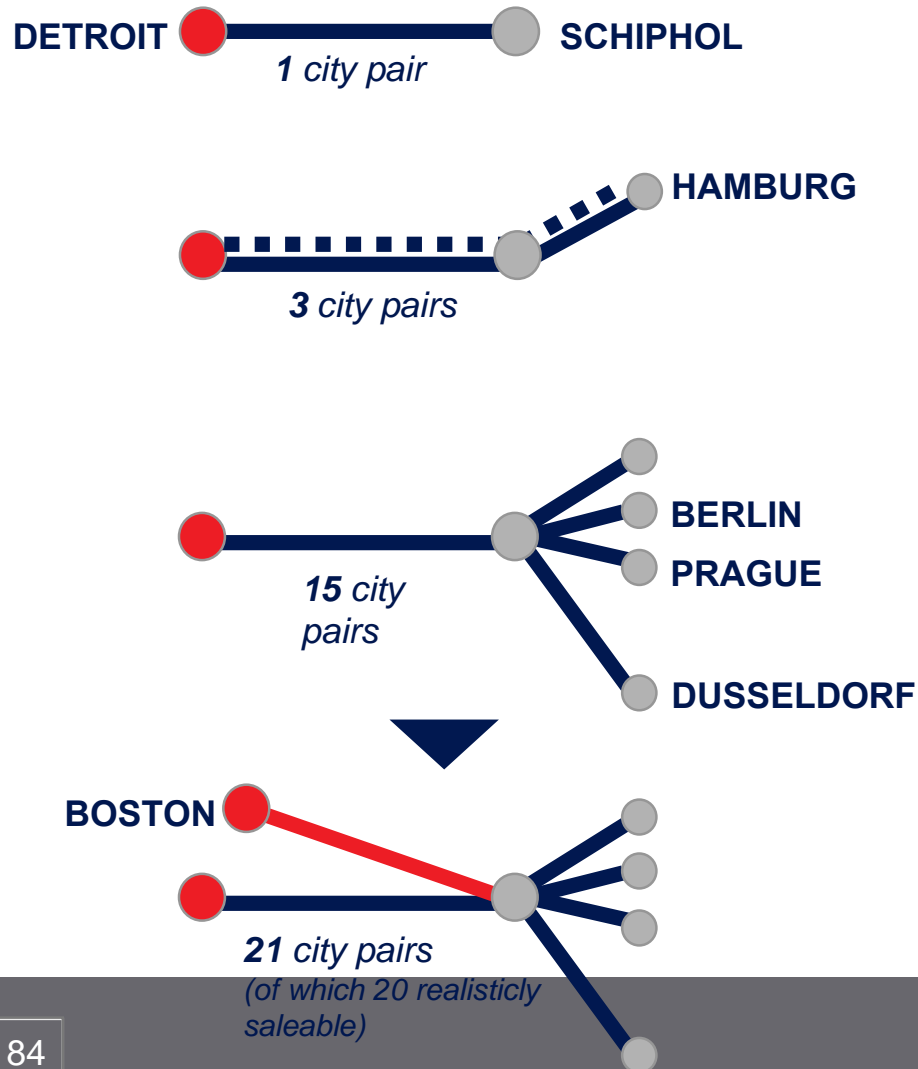


# Business models driven by competitive environment and opportunities

## Co-operation strategy



# Conventional code-share cooperation



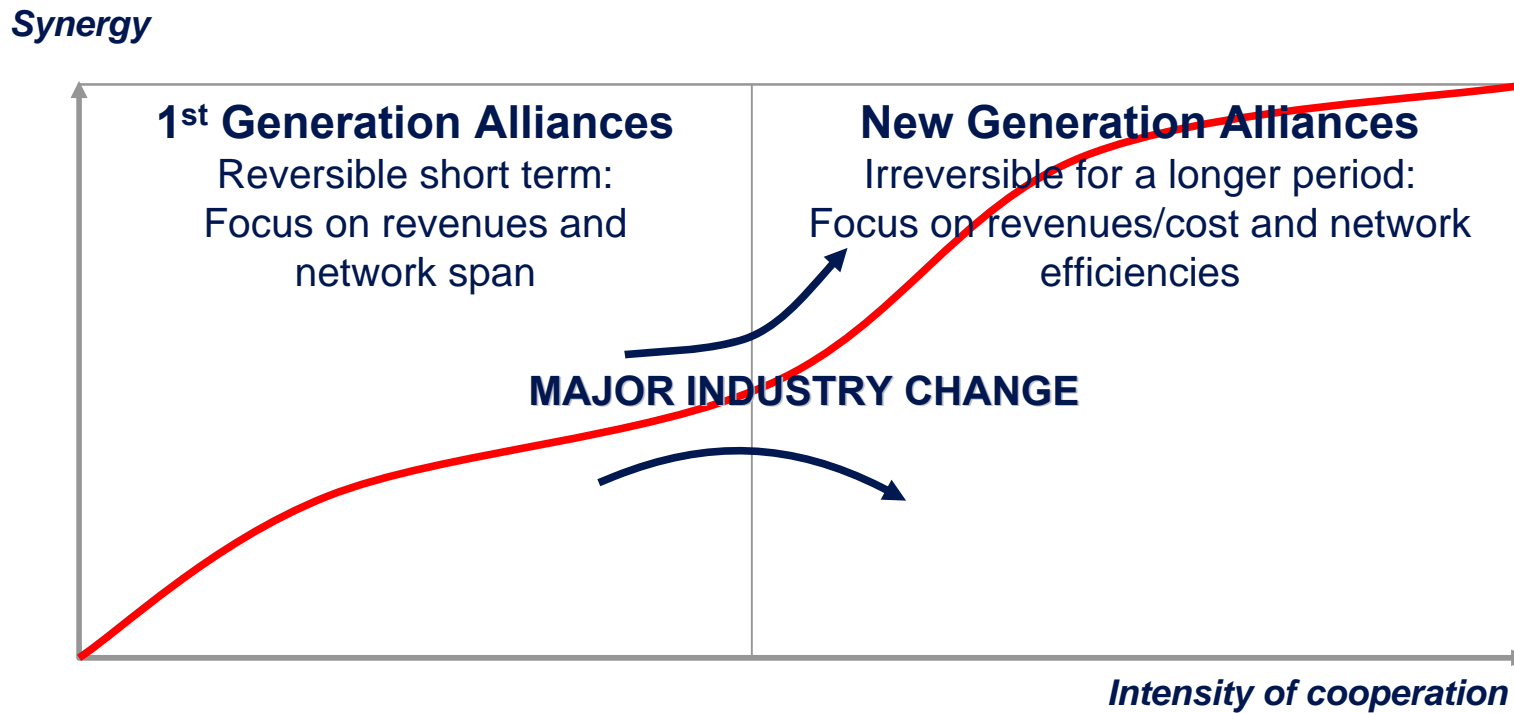
## + Benefits:

- ▶ Exponential growth city in pairs
- ▶ More markets and frequencies
- ▶ Mileage benefits for passengers
- ▶ Lounge facilities

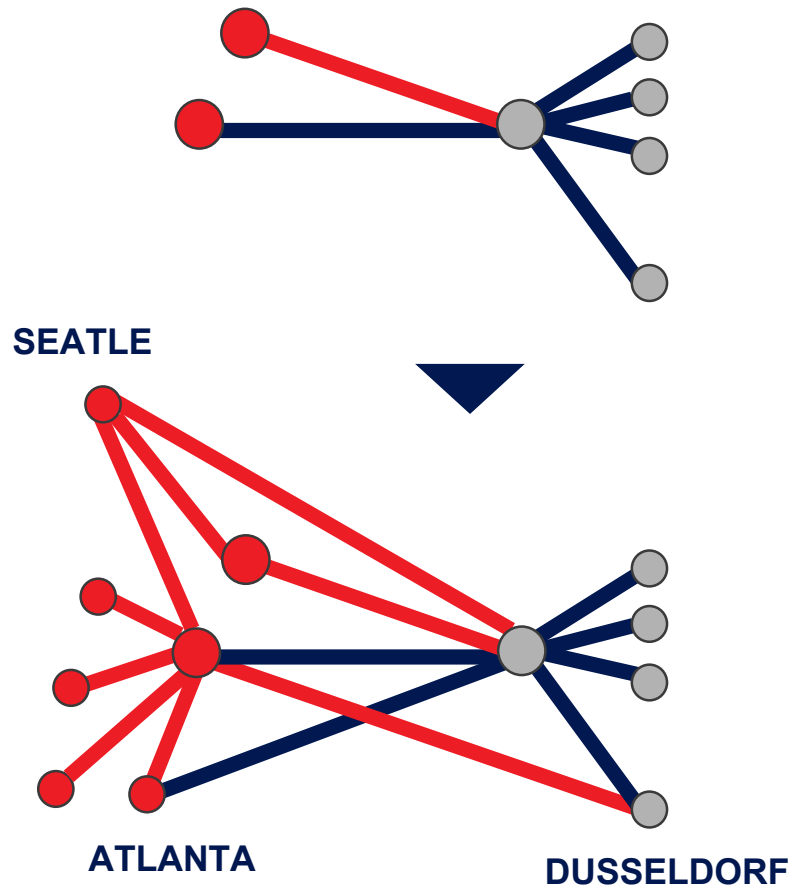
## + However, competition and in-efficiencies remain:

- ▶ No pricing/capacity coordination
- ▶ Two voices in the markets
- ▶ Separate handling contracts
- ▶ Settlement challenges hub-to-hub
- ▶ Disparity in network growth
- ▶ Own sales protection/organization
- ▶ Shorter term agreements

# From conventional to joint-venture alliances



# Joint-venture co-operation model



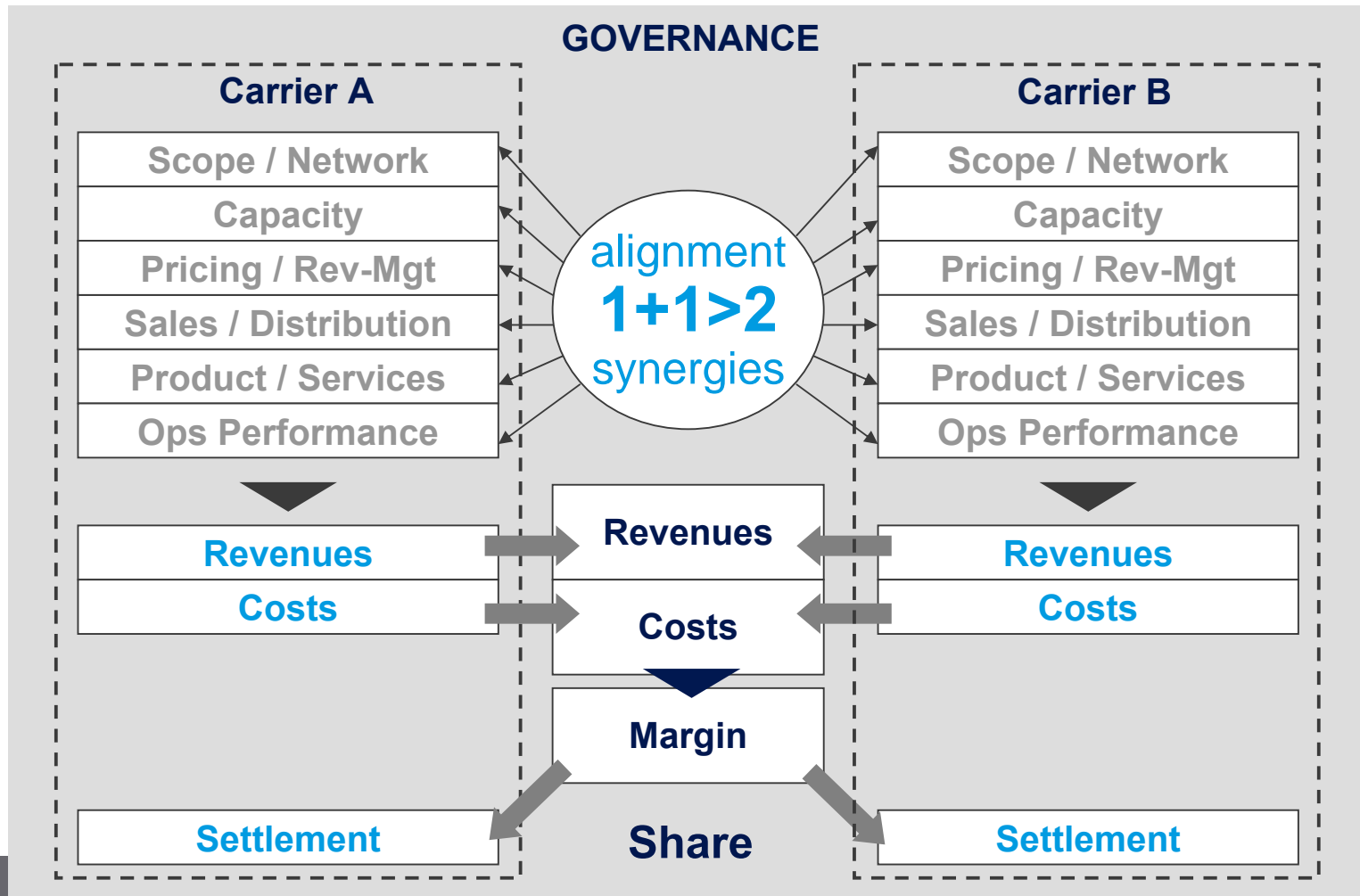
## + Benefits:

- ▶ Exponential growth in city pairs; multiple paths
- ▶ More markets and frequencies
- ▶ Benefits of two mileage programs
- ▶ Lounge facilities

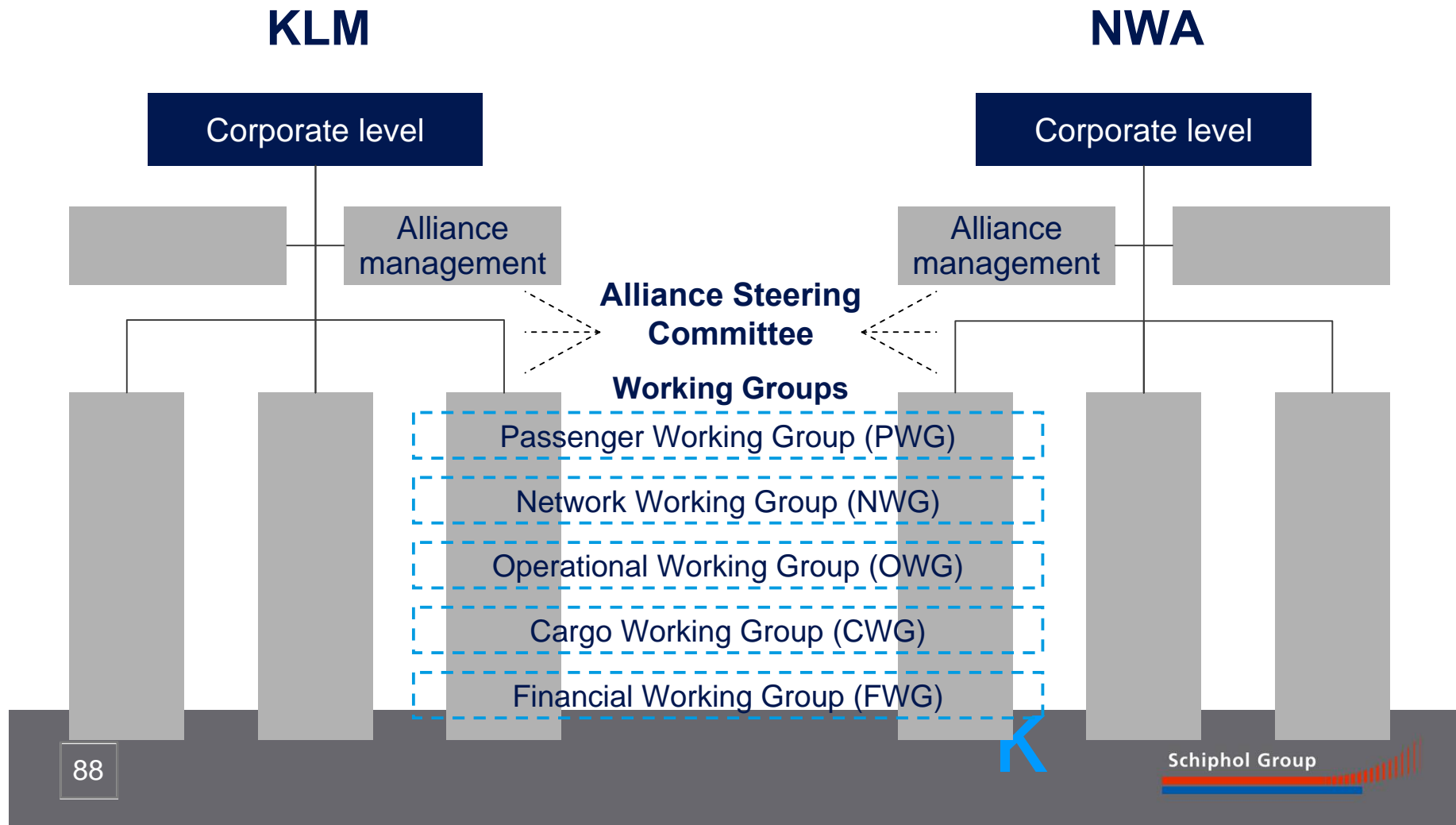
## + But also (with regulatory clearance):

- ▶ Full delegation pricing, and capacity management (more competitive fares)
- ▶ Delegated handling hubs and spokes per continent (cost saving & efficient)
- ▶ Sharing costs and revenues (no competition)
- ▶ Margin sharing (joint incentive)
- ▶ Only jointly agreed network development
- ▶ Fully integrated sales per continent

# The virtual joint-venture business model



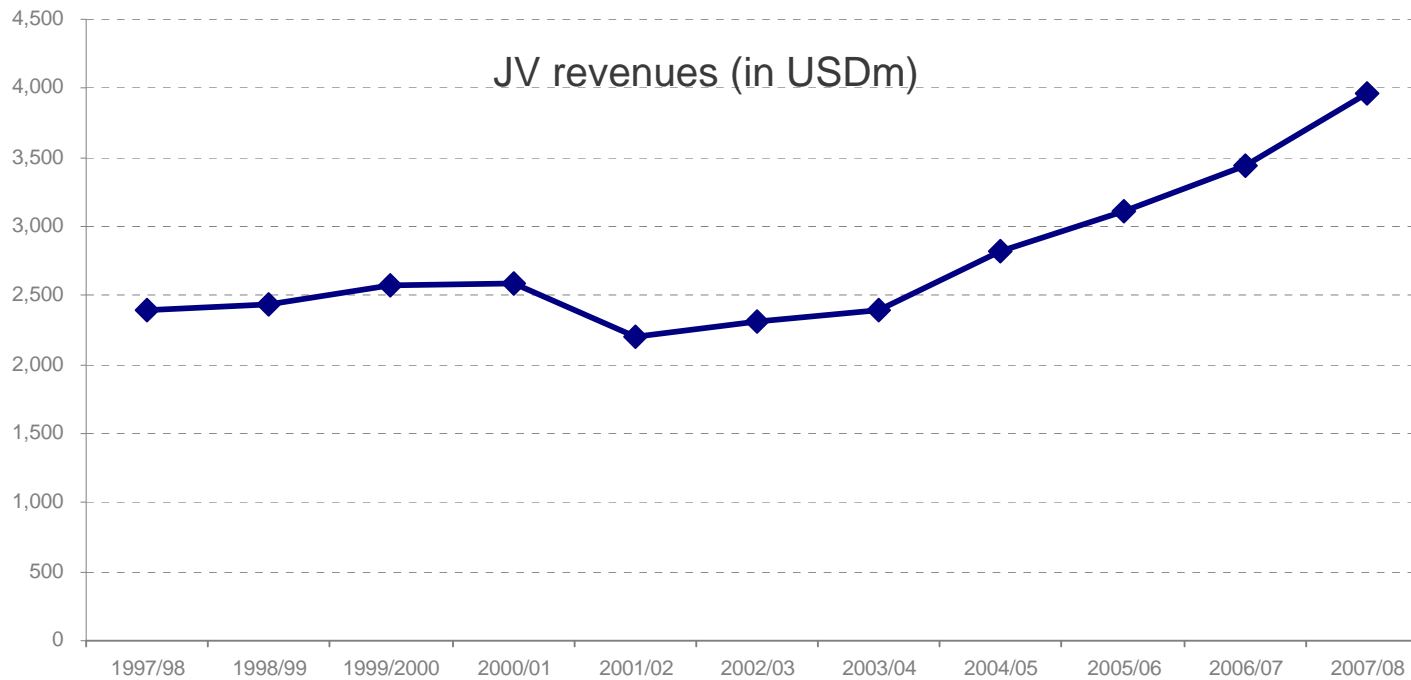
# The virtual joint-venture governance model





## The KL/NW Experience (1/3)

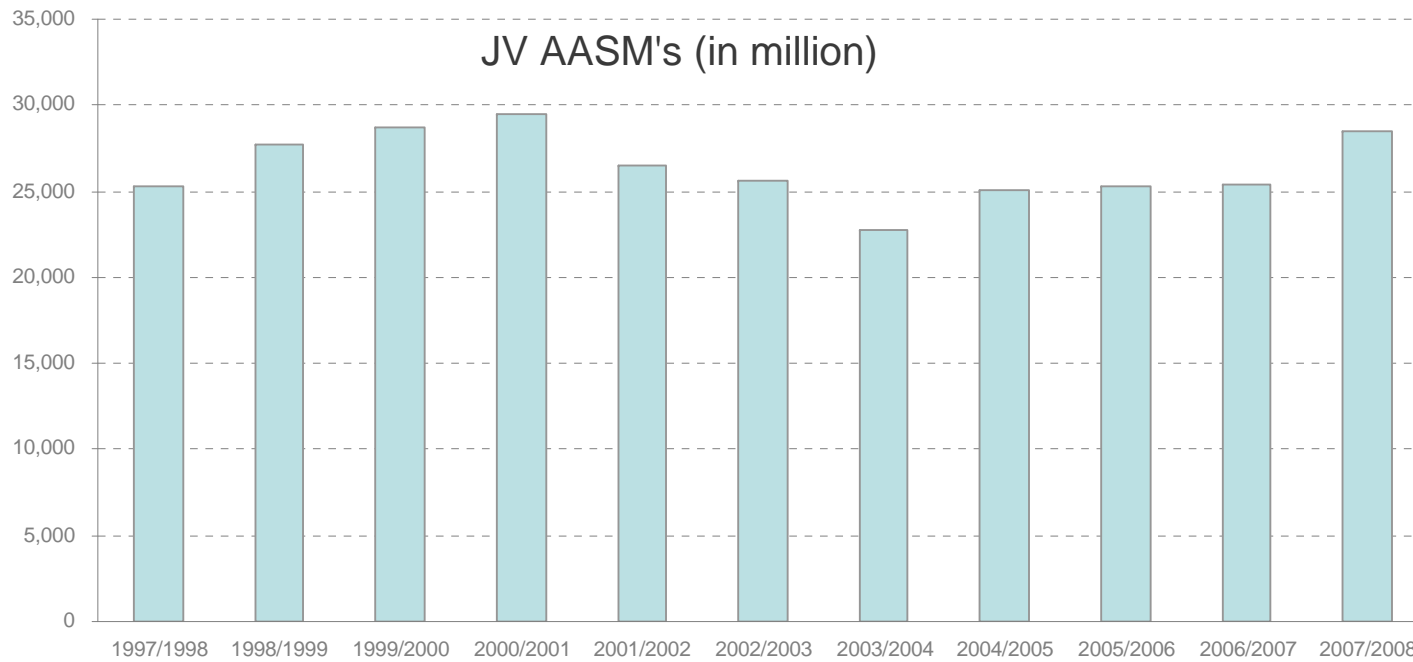
JV revenue up 65% from \$2.4bn at the start to almost \$4.0bn...



JV revenue growth of 5.1% YoY since beginning of JV

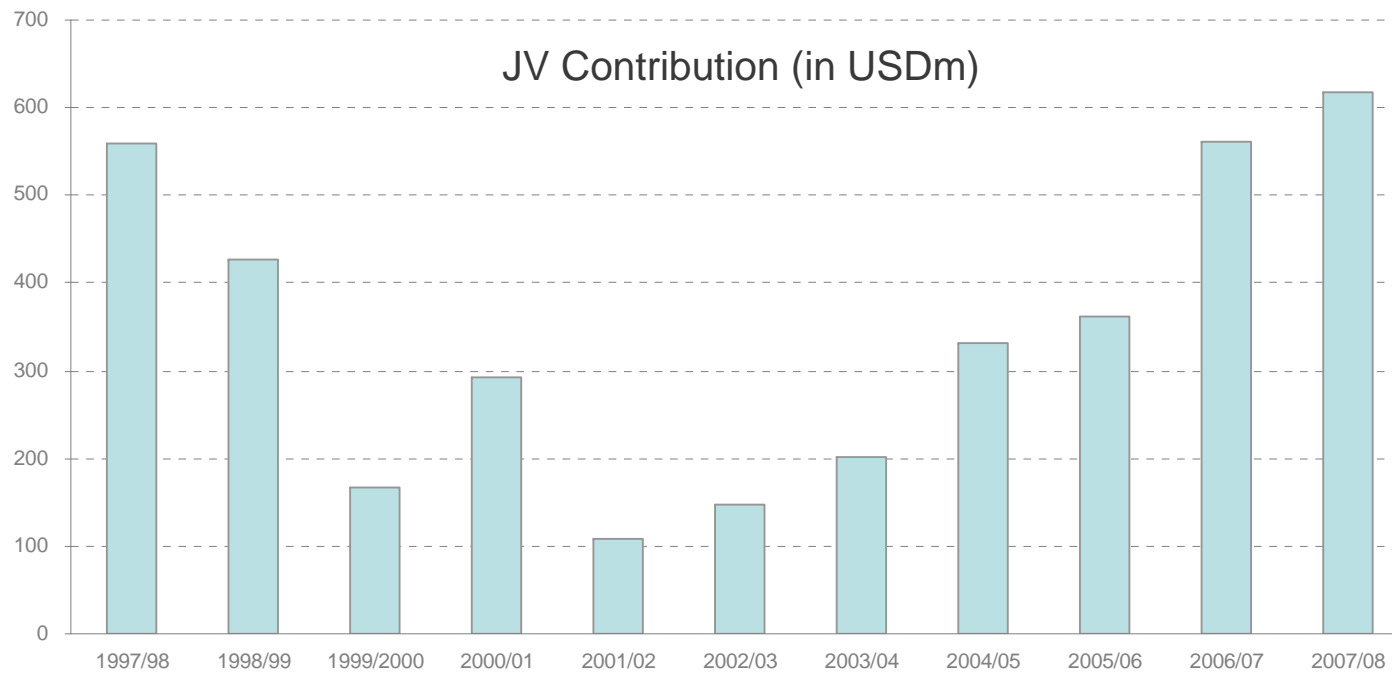
# The KL/NW Experience (2/3)

...on capacity up just 13%



# The KL/NW Experience (3/3)

## JV contribution 2007-08 at record level



JV margin has risen to level of 16% for 2007-08



## Benefits of joint venture

- Improved margins
- Higher market share
- Better asset utilization
- Reduced marketing/sales costs

# Focus on Asia and Latin America networks

Erik Varwijk

*EVP International & the Netherlands, Air France-KLM*



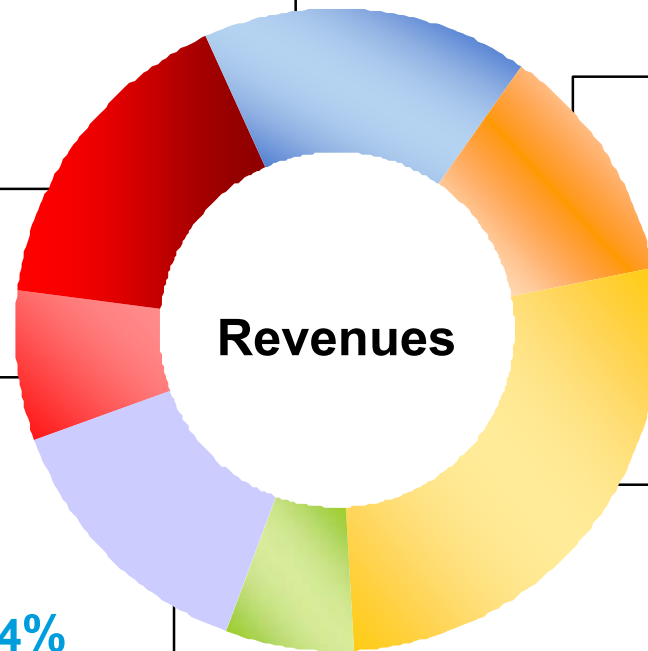
## Asia and Latin America: almost 25% of revenues

Asia: 16%

North America: 16%

Latin America: 7%

Africa and Middle East: 14%

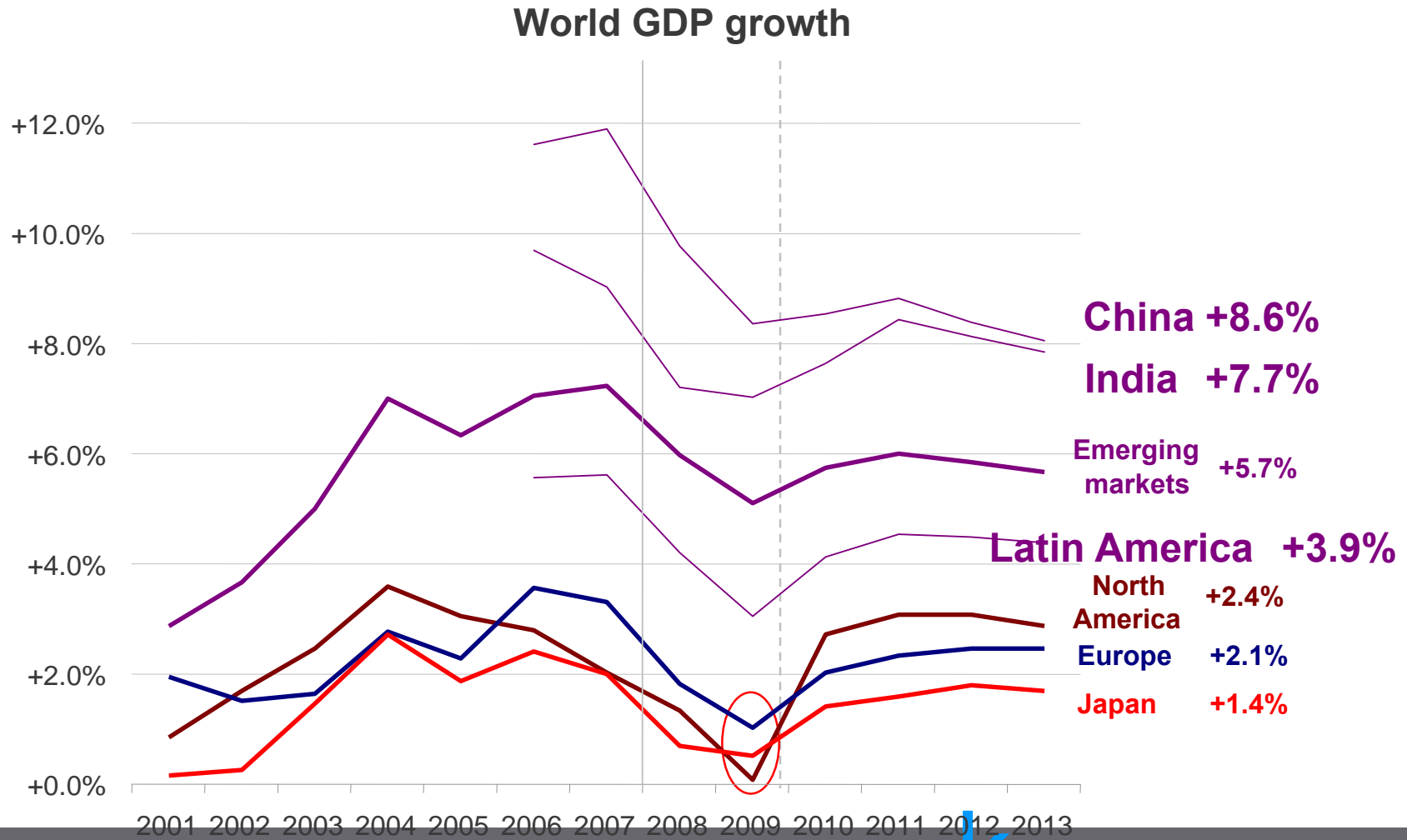


France: 12%

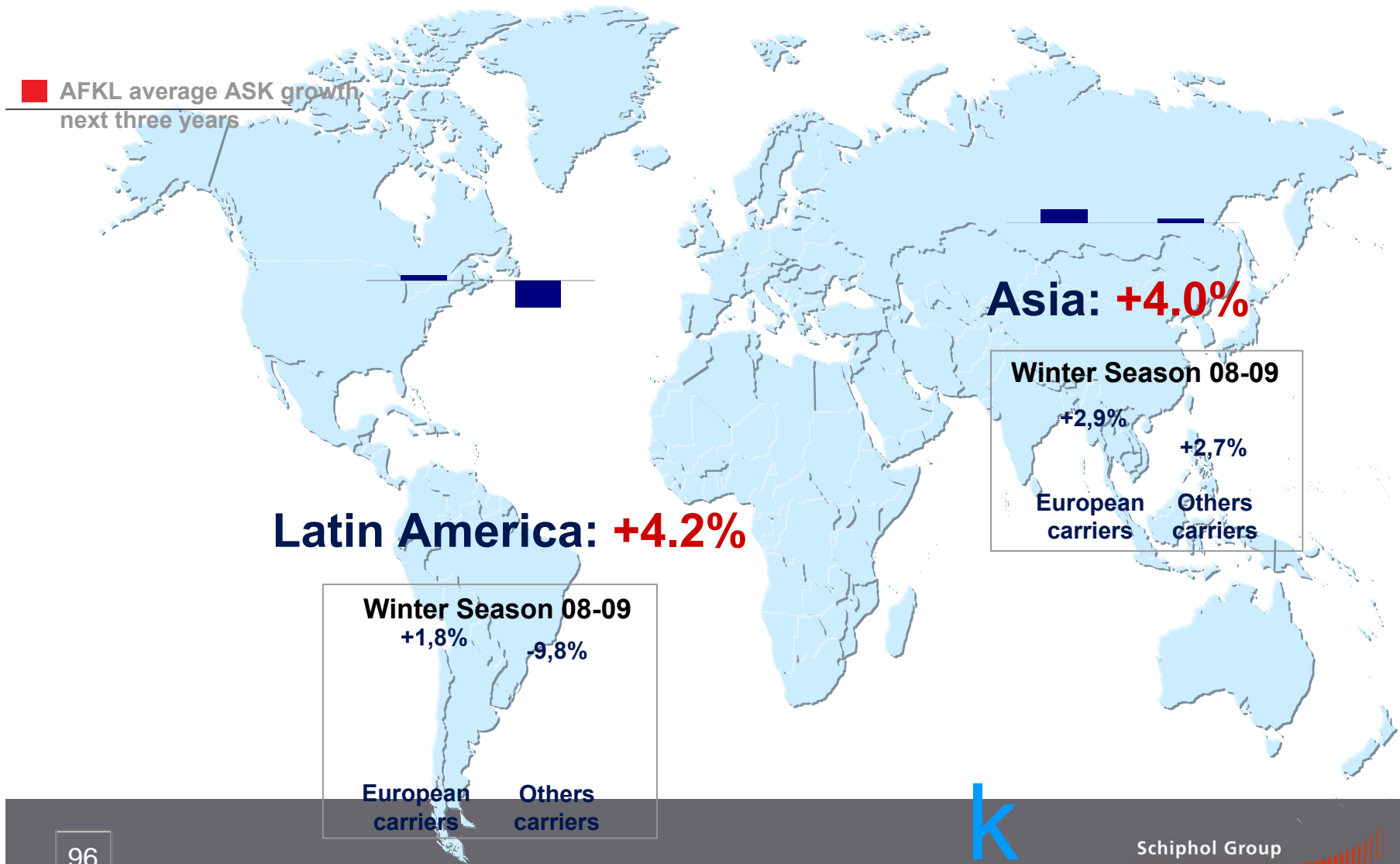
Europe: 27%

Caribbean and Indian Ocean: 7%

# The emerging countries remain dynamic



# Air France-KLM capacity focused on highest growth markets

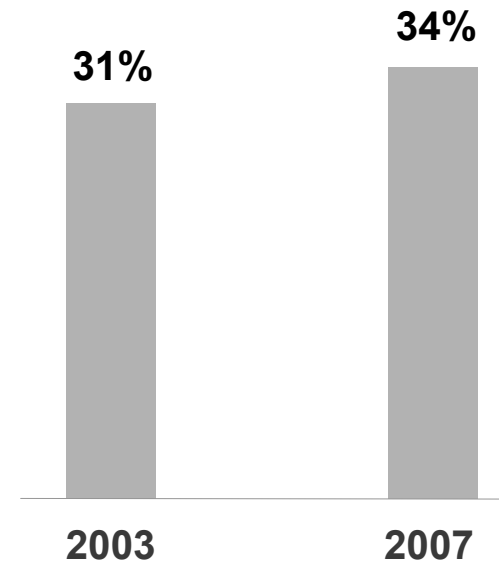




## Our market position (1/2)

- Asia
  - Number one European carrier
  - 12% of Europe to Asia total flows\* and 34% of the AEA airlines'
  - 23 destinations in 11 countries

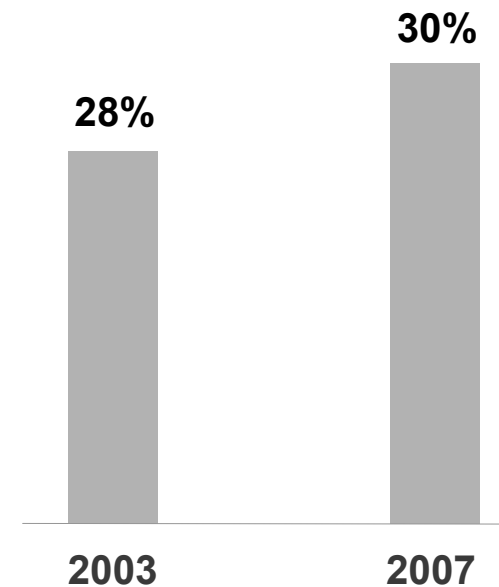
A long-term strategy, independent of intermittent crises



## Our market position (2/2)

- Latin America
  - Equal first European carrier (with Iberia)
  - 21% of Europe to Latin America flows\* and 30% of the AEA airlines'
  - 16 destinations in 13 countries
  - Leader in business travel

A long-term strategy, independent of intermittent crises



# China: Number one European carrier

The Chinese economic arc



Air France-KLM

- + Presence on all 4 key cities in the strongly developed coastal area as well as Chengdu in the center
- + Air France and KLM operate complementary schedules to main cities (triple daily)
- + Partnerships with China Southern and China Eastern

# Japan: Number one European carrier

## The Japan economic centers



## Air France-KLM

- + Present on the 3 major cities in Japan
- + Largest offer from Japan to Europe with 4 daily operations to Tokyo and 2 daily flights to Osaka
- + Long-standing partnership with JL, offering additional direct marketing flights from Paris to Nagoya

## India: Number three European carrier

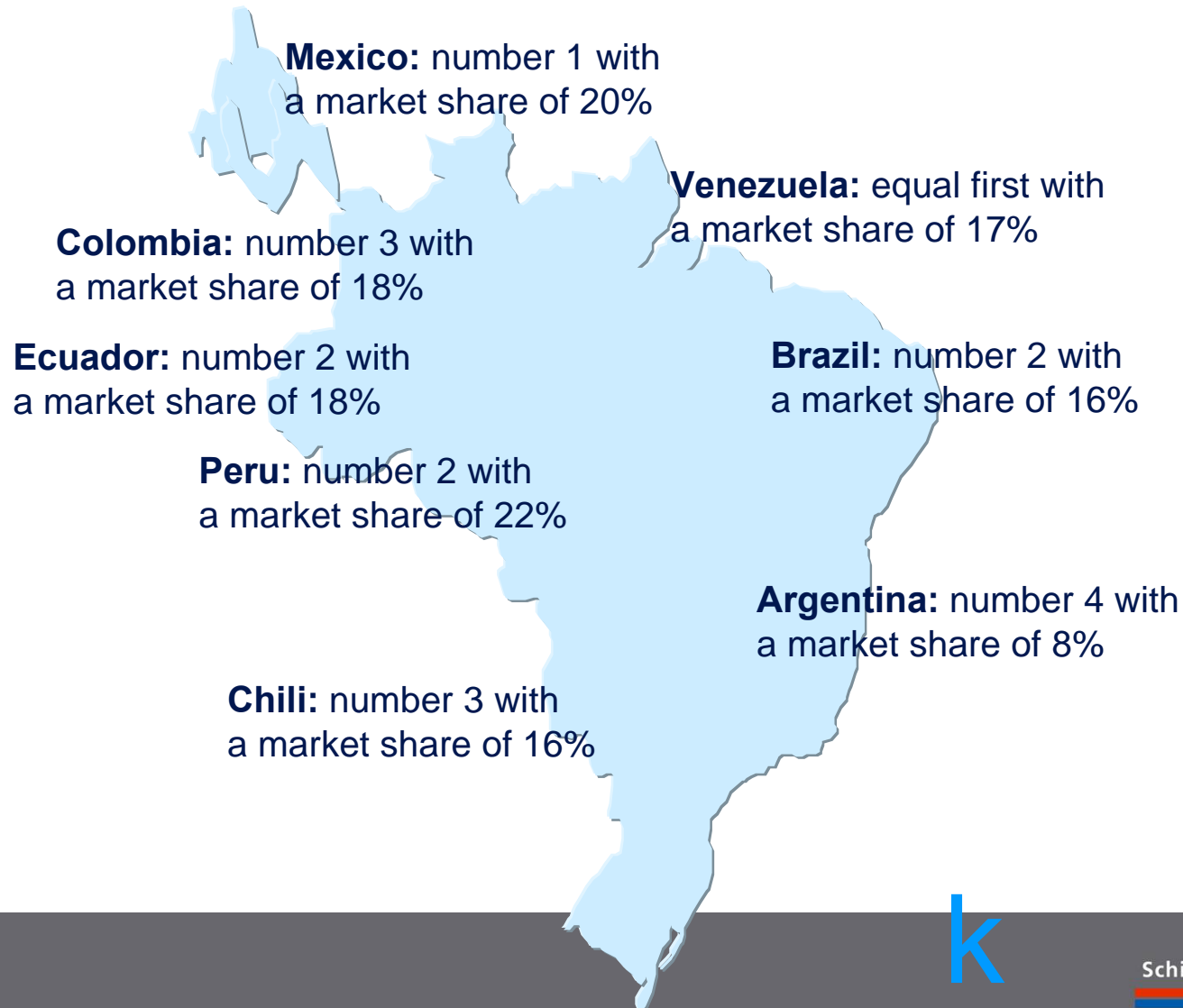
### The Indian economic arc



### Air France-KLM

- + Presence on all 4 key cities in the most important Indian economic zone (Indian arc)
- + A daily frequency operated by each of Air France and KLM on Delhi, Mumbai, and Air France Bangalore and Chennai
- + Discussions with Kingfisher and Jet Airways for domestic connections

## Our position by major country in Latin America



## Our strategy in Latin America

- Focus on key countries
  - Mexico, Brazil, Argentina, Peru, Chile
- Extensive coverage thanks to our partners' hubs
  - Brazil: interline Gol/Varig
  - Mexico: 8 routes with Aeromexico
  - Panama: code-sharing with Copa
- Additional strength: our local network
  - Caribbean network recently doubled
  - ABC countries (Aruba, Bonaire, Curacao)
  - ...



## A word on the competition

- Asia:
  - Lufthansa benefits from strong commercial flows between Germany and Asia
  - British Airways has historical links with Hong Kong, Australia and India
  - Gulf carriers well positioned on the India/Europe and China/Africa flows
  - Singapore Airlines well positioned in South-East Asia
- Latin America:
  - Neck and neck with Iberia
  - Lufthansa and British Airways have a combined market share below 10%
  - Local players are weak



## Our future development

- Capacity growth will be via use of larger aircraft (B777- 300 et A 380), leading to a reduction in unit costs
- Maximise the benefits of the complementarity between Air France and KLM
- Continue to develop local partnerships
- In Asia:
  - Grow the proportion of sales originating in Asia from 30 to 40% to tap into more dynamic demand growth
- In Latin America:
  - Working on integrating a local carrier with SkyTeam
  - Dual strategy between Air France-KLM and Delta

## To sum up

- We have a strong presence in what are currently the most dynamic markets
- Our development in these regions is based on a consistent, long-term strategy, independent of the intermittent crises
- We continue to grow in these regions by building on the combined strengths of both Air France and KLM and through partnerships with key local players

# Conclusion and Q&A session

Jean-Cyril Spinetta

*Chairman and CEO, Air France-KLM*

Peter Hartman

*President and CEO, KLM*



180°

150°W

120°W

90°W

60°W

30°W

0°

30°E

60°E

90°E

120°E

150°E

180°