

July 27, 2010

FINANCIAL YEAR 2010-11

FIRST QUARTER

- ▶ Strong rise in unit revenues, especially in cargo
- ▶ Ongoing control of unit costs
- ▶ Significant improvement in operating result
- ▶ Free cash flow of 285 million euros, and 164 million euro reduction in net debt
- ▶ Net income of 736 million euros

Activity in the First Quarter saw a strong recovery in both passenger and cargo, in spite of the five day closure of European air space following the Icelandic volcano eruption.

Revenues grew 10.7% to 5.72 billion euros; without the impact of the air space closure they would have risen by 15.9%. The operating result recovered considerably, from -496 million euros to -132 million euros, a 364 million euro reduction in losses. Excluding the impact of the air space closure (estimated at 158 million euros), the group generated a positive result of 26 million euros, an improvement of 522 million euros.

Key data

In euro millions, except per share data in euros	Quarter to 30 th June		
	2010	2009	Change
Revenues	5,721	5,169	+10.7%
EBITDAR*	484	112	+372
Operating income / (loss)	(132)	(496)	+364
Operating income / (loss) – excluding air space closure	26	(496)	+522
Income / (loss) from operating activities	878	(496)	+1,374
Pre-tax income / (loss) of fully consolidated activities	669	(612)	+1,281
Net income / (loss), Group share	736	(426)	+1,162
Income / (loss) per share	2.50	(1.45)	nm
Fully diluted income / (loss) per share	2.00	(1.45)	nm

*EBITDAR: Operating result before amortization and depreciation, provisions and aircraft operating lease costs.

Activity

Strong rise in unit revenues

The closure of European air space in April masked the recovery in passenger air traffic. For the First Quarter as a whole, traffic declined by 2.3%, but was up by over 4% in May and June. Capacity was reduced by 4.9% leading to a 2.2 point gain in the load factor to 81.5%. This pick up in traffic was accompanied by a recovery in unit revenues to levels close to those of 2007-08. As a result, unit revenues per available seat kilometer (RASK) were up 14.8%. Revenues progressed by 8.8% to 4.37 billion euros. The operating result of the passenger business improved markedly, from -338 millions euros at 30th June 2009 to -142 million euros at 30th June 2010. Without the impact of the air space closure, it would have been at break-even (3 million euros).

Cargo was affected to a lesser degree by the air space closure. Traffic increased by 2.6% for capacity down by 6.8%. The load factor gained 6.4 points to 69.6%. Unit revenue per available tonne kilometer (RATK) rose sharply (+54.1%). Revenues were up by 42.3% to 774 million euros. The cargo business generated operating income of 11 million euros versus a loss of 197 million euros a year earlier. Without the impact of the air space closure, it would have generated income of 14 million euros.

Unit costs contained

For production measured in equivalent available seat kilometers (EASK) down by 4.9%, unit costs per EASK rose by 9.2%, but by only 1.3% on a constant fuel price and currency basis. The impact of the closure of European air space is estimated at 2.4 points. Operating costs rose 3.3%, affected by higher fuel costs. Excluding fuel, they declined by 2.6%. The group realized 131 million euros in savings from 'Challenge 12'. The objective of this savings plan for Full Year 2010-11 has been revised up from 510 to 540 million euros.

The main change in operating costs related to fuel, up 26.8%, or 305 million euros, under the combined effect of a 4% decline in volumes, a negative currency effect of 3% and a rise in fuel prices after hedging of 28%. The loss on pre-2009 fuel hedges amounted to 160 million euros. Labor costs amounted to 1,867 million euros, down 1.4%.

The operating loss amounted to 132 million euros after a loss of 496 million euros a year earlier. The adjusted* operating loss stood at 64 million euros. Income from operating activities amounted to 878 million euros after a 1.03 billion euro capital gain on Amadeus.

Net financial charges rose from 56 million to 96 million euros, while other financial income and costs amounted to -113 million euros, of which 100 million euros relating to foreign exchange.

Net income, group share stood at 736 million euros after the proceeds from Amadeus (compared with a loss of 426 million euros at 30th June 2009). Net loss, group share, restated** for non-recurrent and non-cash items linked to the fair value of hedging instruments stood at -252 million euros (-431 million euros at 30th June 2009).

Earnings per share stood at 2.50 euros and fully diluted earnings per share at 2.00 euros, against a loss and fully diluted loss of 1.45 euros at 30th June 2009.

Free cash flow of 285 million euros

Investments amounted to 639 million euros at 30th June 2010 (649 million euros at 30th June 2009). Aircraft disposals generated 161 million euros (507 million euros a year earlier). Operating cash flow amounted to 570 million euros, thanks notably to an improvement in working capital of 482 million euros. Free cash flow was 285 million euros including the proceeds from the Amadeus operation (193 million euros). The group's financial position remained solid, with 4.68 billion euros in cash as well as available credit facilities of 1.1 billion euros.

At 30th June 2010, shareholders' funds stood at 6.21 billion euros, up 795 million euros compared with 31st March 2010, on the back of the net profit, the market value of the holding in Amadeus and the change in the fair value of hedging instruments. Net debt stood at 6.06 billion euros (6.22 billion euros at 31st March 2010). The gearing ratio** stood at 0.98 versus 1.15 at 31st March 2010.

Outlook for the full year

The First Quarter saw an acceleration in the recovery in activity levels, particularly in business travel and cargo. Forward bookings for the second quarter are solid, but uncertainty surrounding the economic environment and the fuel price leads us to remain prudent for the second half of the year.

Nevertheless, in view of the positive indications from the medium-haul transformation and the quicker than expected turnaround of the cargo business, our objective for Full Year 2010-11 is of operating break-even, excluding the impact of the air space closure in April.

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

** Definition in the 2009-10 'Reference Document', p 127 and 128. Reconciliation tables in the results presentation

The results presentation will be available on www.airfranceklm-finance.com on 28th July 2010 from 9.00h CET.

Practical information

- ▶ Conference call on 28th July 2010 at 10.00h CET
To connect, dial +44 (0)20 7162 0125 (password: AKH)
- ▶ For the recording, dial +44 (0)20 7031 4064 (code: 861537)

Contact

Dominique Barbarin
SVP Investor Relations
Tel: +33 1 41 56 88 60
email: do barbarin@airfrance.fr

Bertrand Delcaire
VP Investor Relations
Tel: +33 1 41 56 72 59
email: bedelcaire@airfrance.fr

Sector information

Passenger business

	Quarter to 30 th June		
	2010	2009	Change
Traffic (RPK millions)	49,282	50,467	(2.3)%
Capacity (ASK millions)	60,435	63,578	(4.9)%
Load factor	81.5%	79.4%	2.2 pts
Total passenger revenues (€ m)	4,368	4,014	8.8%
Revenues from scheduled passenger business (€ m)	4,164	3,815	9.1%
Unit revenue per RPK (€ cts)	8.45	7.56	11.8%
Unit revenue per RPK ex currency (€ cts)	-	-	10.1%
Unit revenue per ASK (€ cts)	6.89	6.00	14.8%
Unit revenue per ASK ex currency (€ cts)	-	-	13.1%
Unit cost per ASK (€ cts)	7.04	6.46	8.9%
Unit cost per ASK at constant currency and fuel price (€ cts)	-	-	1.1%
Operating income (€ m)	(142)	(338)	nm

Cargo business

	Quarter to 30 th June		
	2010	2009	Change
Traffic (RTK millions)	2,812	2,741	2.6%
Capacity (ATK millions)	4,041	4,338	(6.8)%
Load factor	69.6%	63.2%	6.4 pts
Total cargo business revenues (€ m)	774	544	42.3%
Revenues from the transportation of cargo (€ m)	734	511	43.6%
Unit revenue per RTK (€ cts)	26.09	18.64	39.9%
Unit revenue per RTK ex currency (€ cts)	-	-	35.9%
Unit revenue per ATK (€ cts)	18.15	11.78	54.1%
Unit revenue per ATK ex currency (€ cts)	-	-	49.7%
Unit cost per ATK (€ cts)	17.62	16.05	9.8%
Unit cost per ATK on constant currency and fuel price (€ cts)	-	-	0.9%
Operating income (€ m)	11	(197)	nm



Maintenance activity

Maintenance revenues amounted to 244 million euros in the First Quarter of 2010-11 (246 million euros a year earlier). Operating income was 20 million euros (30 million euros a year earlier). The business was also affected by the air space closure, notably engines.

Other Activities

Revenues from other activities stood at 335 million euros (365 million euros at 30th June 2009), down 8.2%. Both leisure and catering were affected by the air space closure. Leisure saw revenues decline by 6% to 241 million euros and recorded an operating loss of 20 million euros (1 million euros a year earlier). Catering saw third party revenues drop by 13% to 81 million euros with an operating loss of 1 million euros versus a profit of 8 million euros at 30th June 2009.

Air France-KLM fleet as of 30 June 2010

Aircraft	AIRFRANCE 						KLM 				Owned	Finance lease	Operating lease	Total	In operation	Change/3/31/10
	AF	Brit Air	City Jet	Régional	VLM	Transavia	KLM	KLM Cityhop.	Transavia	Martinair						
B747-400	13						22				17	6	12	35	32	1
B777-300	30						4				17	6	11	34	34	
B777-200	25						15				15	8	17	40	40	
B767-300									4				4	4	4	
A380-800	3										2		1	3	3	1
A340-300	18										11	2	5	18	18	
A330-200	15						10				3	8	14	25	25	
MD11							10				8		2	10	10	
Total long haul	104						61		4		73	30	66	169	166	2
B747-400 cargo	7						4		4		4	3	8	15	9	
B747-200 cargo																
B777- cargo	2											2		2	2	
MD-11-CF									4		3		1	4	4	
MD-11-F									3		2		1	3	3	
Total freighter	9						4		11		9	5	10	24	18	
B737 900							5					2	3	5	5	
B737-800						9	21		21		5	17	29	51	51	4
B737-700							7		10		1	11	5	17	17	1
B737-400							9				6		3	9	9	
B737-300							7				7			7	7	
A321	24										11	1	12	24	24	1
A320	61										32	2	27	61	58	
A319	45										21	4	20	45	45	
A318	18										18			18	18	
Total medium haul	148					9	49		31		101	37	99	237	234	6
AVRO RJ 85			27								15		12	27	24	1
Canadair Jet 900		2											2	2	2	
Canadair Jet 700		15									6	9		15	15	
Canadair Jet 100		15									9	4	2	15	15	1
Embraer 190				10			15				4	11	10	25	25	2
Embraer 170				10							9	1		10	10	3
Embraer 145				28							8	14	6	28	28	
Embraer 135				8							4	3	1	8	7	-1
Embraer 120				3							3			3		
Fokker 100		10		4					5		8		11	19	19	-4
Fokker 70									26		23	3		26	26	
Fokker 50					15				4		17		2	19	15	
Total Regional		42	27	63	15		50		31		106	45	46	197	186	2

Aircraft	AF	Brit Air	City Jet	Régional	VLM	Transavia	KLM	KLM Cityhop.	Transavia	Martinair	Owned	Finance lease	Operating lease	Total	In operation	Change/3/31/10
TOTAL	261	42	27	63	15	9	114	50	31	15	289	117	221	627	604	10

Income statement as of 30th June 2010

In euro millions

	First Quarter (April to June)		
	2010-11	2009-10	Variation
SALES	5,721	5,169	10.7%
Other revenues	-	1	nm
EXTERNAL EXPENSES	-3,609	-3,332	8.3%
Aircraft fuel	-1,441	-1,136	26.8%
Chartering costs	-118	-125	-5.6%
Aircraft operating lease costs	-201	-182	10.4%
Landing fees and en route charges	-426	-450	-5.3%
Catering	-135	-147	-8.2%
Handling charges and other operating costs	-322	-331	-2.7%
Aircraft maintenance costs	-285	-266	7.1%
Commercial and distribution costs	-239	-231	3.5%
Other external expenses	-442	-464	-4.7%
Salaries and related costs	-1,867	-1,893	-1.4%
Taxes other than income taxes	-45	-63	-28.6%
Amortization and depreciation	-399	-423	-5.7%
Provisions	-16	-3	nm
Other income and expenses	83	48	72.9%
INCOME FROM CURRENT OPERATIONS	-132	-496	73.4%
Sales of aircraft equipment	11	1	nm
Sales of subsidiaries	-	-	nm
Other non-current income and expenses	999	-1	nm
INCOME FROM OPERATING ACTIVITIES	878	-496	nm
Income from cash and cash equivalents	23	31	-25.8%
Cost of financial debt	-119	-87	36.8%
<i>Net cost of financial debt</i>	<i>-96</i>	<i>-56</i>	<i>71.4%</i>
Foreign exchange gains (losses), net	-100	43	nm
Change in fair value of financial assets and liabilities	-18	-98	nm
Other financial income and expenses	5	-5	nm
INCOME BEFORE TAX	669	-612	nm
Income taxes	93	195	-52.3%
NET INCOME OF CONSOLIDATED COMPANIES	762	-417	nm
Share of profits (losses) of associates	-31	-10	nm
INCOME FROM CONTINUING OPERATIONS	731	-427	nm
Net income from discontinued operations	-	-	
NET INCOME FOR THE PERIOD	731	-427	nm
Minority interest	5	1	nm
NET INCOME FOR THE PERIOD - GROUP	736	-426	nm

Consolidated balance sheet

Assets	<i>In euro millions</i>	June 30, 2010	March 31, 2010
Goodwill		403	401
Intangible assets		628	612
Flight equipment		11,375	11,349
Other property, plant and equipment		2,214	2,252
Investments in equity associates		424	446
Pension assets		2,806	2,733
Other financial assets <i>(including € 622 million of deposits related to financial leases as of June 30, 2010 and € 630 million as of March 31, 2010)</i>		1,717	840
Deferred tax assets		1,030	942
Other non-current assets		230	180
Total non-current assets		20,827	19,755
Assets held for sale		66	93
Other short-term financial assets <i>(including € 563 million of deposits related to financial leases and investments between 3 months and 1 year as of June 30, 2010, € 482 million as of March 31, 2010)</i>		603	517
Inventories		554	537
Trade accounts receivable		2,404	2,142
Income tax receivables		1	1
Other current assets		1,005	979
Cash and cash equivalents		4,092	3,751
Total current assets		8,725	8,020
Total assets		29,552	27,775

Liabilities and equity	<i>In euro millions</i>	June 30, 2010	March 31, 2010
Issued capital		2,552	2,552
Additional paid-in capital		719	719
Treasury shares		(106)	(106)
Reserves and retained earnings		2,998	2,198
Equity attributable to equity holders of Air France-KLM		6,163	5,363
Minority interests		50	55
Total Equity		6,213	5,418
Provisions and retirement benefits		1,480	1,432
Long-term debt		9,683	9,222
Deferred tax		373	418
Other non-current liabilities		698	818
Total non-current liabilities		12,234	11,890
Liability related to assets held for sale		6	10
Provisions		692	696
Current portion of long-term debt		1,644	1,825
Trade accounts payable		2,254	2,032
Deferred revenue on ticket sales		2,825	2,340
Frequent flyer programs		825	840
Current tax liabilities		9	11
Other current liabilities		2,747	2,597
Bank overdrafts		103	116
Total current liabilities		11,105	10,467
Total liabilities		23,339	22,357
Total liabilities and equity		29,552	27,775

Consolidated statement of cash flows

Period from April 1 to June 30,	<i>In euro millions</i>	2010	2009
Net income for the period – Group		736	(426)
Minority interests		(5)	(1)
Amortization, depreciation and operating provisions		415	426
Financial provisions		(4)	5
Gain on disposals of tangible and intangible assets		(11)	(1)
Gain on WAM (ex Amadeus) operation		(1,030)	-
Derivatives – non monetary result		(5)	(5)
Unrealized foreign exchange gains and losses, net		113	(47)
Share of (profits) losses of associates		31	10
Deferred taxes		(100)	(194)
Other non-monetary items		(52)	(38)
Subtotal		88	(271)
(Increase) / decrease in inventories		(16)	(18)
(Increase) / decrease in trade receivables		(226)	(112)
Increase / (decrease) in trade payables		190	55
Change in other receivables and payables		534	(27)
Net cash flow from operating activities		570	(373)
Acquisitions of subsidiaries and investments in associates, net of cash acquired		(3)	(9)
Purchase of property, plant and equipment and intangible assets		(636)	(640)
Proceeds on WAM (ex Amadeus) transaction		193	-
Proceeds on disposal of property, plant and equipment and intangible assets		161	507
Dividends received		-	1
Decrease (increase) in investments, net between 3 months and 1 year		(30)	192
Net cash used in investing activities		(315)	51
Issuance of long-term debt		245	995
Repayments on long-term debt		(93)	(51)
Payment of debt resulting from finance lease liabilities		(77)	(145)
New loans		(17)	(19)
Repayments on loans		28	36
Net cash flow from financing activities		86	816
Effect of exchange rate on cash and cash equivalents and bank overdrafts		13	(1)
Change in cash and cash equivalents and bank overdrafts		354	493
Cash and cash equivalents and bank overdrafts at beginning of period		3,635	3,466
Cash and cash equivalents and bank overdrafts at end of period		3,989	3,959