

FINANCIAL YEAR 2010-11

POSITIVE THIRD QUARTER OPERATING RESULT DESPITE VARIOUS DISRUPTIONS, CONFIRMING THE RECOVERY OF THE GROUP

- ▶ Revenues up 13.9% to 5.92 billion euros
- ▶ Operating result of 81 million euros, an improvement of 326 million euros year-on-year
- ▶ Free cash flow of 72 million euros

NINE MONTHS TO DECEMBER 31, 2010

- ▶ Revenues up 14.5% to 18.29 billion euros
- ▶ Operating result of 525 million euros, an improvement of 1.3 billion euros
- ▶ Net income of 980 million euros
- ▶ Operating cash flow close to 1 billion euros

Passenger activity in the Third Quarter was strongly impacted by strike action in France in October, notably by air traffic control, followed by severe weather disruption in December. In total, the group was forced to cancel 6,900 flights. The negative impact of these events on revenues is estimated at 100 million euros of which 70 million for December alone. On the other hand, cargo continued its recovery of the past year while maintenance also enjoyed a good level of activity.

In total the Air France-KLM group generated a rise in revenues of some 14% after a positive currency effect of 3.7%, and recorded an operating profit of 81 million euros, versus a loss of 245 million euros a year earlier. The impact of the disruptions on the operating result is estimated at 80 million euros. The net result remained in loss at -46 million euros, but this represented a significant recovery from the previous year.

Key data

(In millions of euros, except per share data in euros)	Quarter to 31 st December			Nine months to 31 st December		
	2010	2009	change	2010	2009	change
Revenues	5,919	5,198	13.9%	18,289	15,973	14.5%
EBITDAR ¹	708	367	X1.9	2,424	1,034	X2.3
Operating income/ (loss)	81	(245)	+326	525	(788)	+1,313
Adjusted operating income/ (loss) ²	152	(186)	+338	737	(605)	+1,342
Net income/(loss) group share	(46)	(295)	+249	980	(868)	+1,848
Restated net income/(loss) ³	(32)	(241)	+209	72	(755)	+827
Earnings per share	(0.16)	(1.0)	nm	3.32	(2.95)	nm
Diluted earnings per share	(0.16)	(1.0)	nm	2.71	(2.95)	nm

Third Quarter: further improvement in results

Activity strongly impacted by external disruptions

The passenger business saw a 3.1% rise in traffic for capacity up by 1.6%. The load factor gained 1.2 points to 81.4%. Unit revenue per available seat kilometer (RASK) gained 11.0%. The cancellation of 6,800 medium-haul flights, which enjoy higher unit revenues than long-haul, shaved around half a point off this rise. Passenger revenues amounted to 4.54 billion euros, up 12.6%. The operating result stood at 12 million euros, an improvement of 196 million on the previous year.

Cargo continued to recover. Flight cancellations had little effect on this business which saw a rise in traffic of 4.9% for capacity up by 3.8%. The load factor gained almost a point to 70.4% (+0.7 points). Unit revenue per available tonne kilometer (RATK) rose 22%. Revenues rose by 27.7% after a positive currency impact of 6.7% to 830 million euros. The operating result stood at 60 million euros after a loss of 29 million euros at 31st December 2009.

¹ Before amortisation, provisions and operating leases

² Adjusted for the share of operating leases corresponding to financial costs (34%)

³ See definition in the Reference Document 2009-10, page 127. Reconciliation table available in the results presentation

Maintenance also achieved a good performance during the Third Quarter with revenues up by 11.4%, partly thanks to the rise in the dollar, to 264 million euros. Operating income amounted to 36 million euros against 12 million euros the previous year. Engines and components performed strongly during this quarter.

Good unit cost control

Operating costs rose 7.3% and by 2.2% excluding fuel. Unit cost per equivalent available seat kilometers (EASK), rose by 4.6% but declined by 1.7% on a constant fuel price and currency basis, while the rise in production measured in EASK was limited to 2.1%, impacted by the weather disruptions.

The main feature of the change in operating costs was the fuel bill which rose by 297 million euros to 1.35 billion euros (+28.2%) under the effect of a 3% rise in volumes, a negative currency effect of 10% and a rise in fuel prices after hedging of 14%. Employee costs fell 1.3% to 1.84 billion euros.

EBITDAR amounted to 708 million euros and the EBITDAR margin of 12.0% represented a five point gain on the previous year. Operating income stood at 81 million euros, an improvement of 326 million euros. Adjusted operating income stood at 152 million euros, giving an adjusted operating margin of 2.6%.

Net interest costs were virtually stable (91 million euros at 31st December 2010 against 87 million a year earlier). Financial income and costs amounted to -73 million euros (-48 million euros at 31st December 2009) including a 49 million euro negative currency result.

The pre-tax result stood at -99 million euros (-391 million euros at 31st December 2009). Net result, group share stood at -46 million euros (versus -295 million euros at 31st December 2009). The net result restated for non-recurrent items was -32 million euros versus -241 million euros at 31st December 2009. The net result per share, both undiluted and diluted stood at 0.16 euros against -1.0 euro a year earlier.

Nine months to December 2010: Operating result of 525 million euros

Results for the first nine months were impacted by the European air space closure in April and by the disruptions in Q3, which generated an operating loss of 238 million euros.

The passenger business saw a slight rise in traffic (+0.4%) with a reduction in capacity of 1.3%. The load factor gained 1.4 points to 82.6%. Cargo traffic progressed by 3.4% with capacity down 1.2%, leading to a 3 point rise in load factor to 68.6%. In both businesses, unit revenues progressed strongly (+15.1% per ASK and +37.0% per ATK).

Total revenues amounted to 18.29 billion euros (+14.5%). Operating costs increased by 6% to 17.76 billion euros, but by just 1.5% excluding fuel. Production measured in EASK declined by 1.0%, while unit cost per EASK rose 6.7% but was stable on a constant fuel price and currency basis.

The operating result improved by 1.31 billion euros on the previous year to 525 million euros against a loss of 788 million euros at 31st December 2009. Adjusted operating income amounted to 737 million euros and the adjusted operating margin stood at 4.0%.

Net income, group share, stood at 980 million euros after a 1.03 billion euro capital gain on Amadeus (-868 million euros at 31st December 2009). Net income restated for non-recurrent items, of which the Amadeus capital gain, stood at 72 million euros against a loss of 755 million euros a year earlier. Net income per share stood at 3.32 euros and net diluted income per share at 2.71 euros (-2.95 euros at 31st December 2009 both diluted and undiluted).

Operating cash flow close to 1 billion euros

Investments net of disposals amounted to 890 million euros at 31st December 2010 (961 million at 31st December 2009). Operating cash flow was positive at 974 million euros and free cash flow stood at 277 million euros of which 193 million euros in cash from the Amadeus operation. The group has cash of 4 billion euros as well as credit lines of 1.3 billion euros.

Shareholders' funds amounted to 7.03 billion euros, up 1.61 billion euros on 31st March 2010 under the effect of the net result at 31st December 2010 and the revaluation of the group's stake in Amadeus. Net debt stood at 6.06 billion euros (6.22 billion euros at 31st March 2010). The gearing ratio¹ stood at 0.86 (1.15 at 31st March 2010).

Outlook for the Full Year

The Third Quarter was strongly disrupted by numerous air traffic control strikes in France as well as heavy snowfall. Since Christmas, the adverse weather conditions in North America have led to the closure of several airports on the East coast. Finally we are seeing the emergence of security issues in a number of Air France-KLM destinations, notably the Sahel Region (Niger, Mauritania, Mali) for a number of months, Ivory Coast since mid-November, and more recently, Tunisia and Egypt. As in the Third Quarter, the combination of these circumstances will have negative repercussions on the quality of unit revenues in the Fourth. Moreover, January and February unit revenues have been affected by the overcapacity situation created by the increase in offer by our competitors during the Winter season.

In this context, we maintain an objective of a positive operating result for Full Year 2010-11, but it will be below our previous target of over 300 million euros.

The numerous one-off events which have affected the current year (volcano, weather disruptions, air traffic control stoppages and geopolitical events) do not call into question the structural recovery achieved by the group in 2010; the improvement in ex-fuel cost is in line with our forecasts, our ability to adapt the network to geopolitical constraints remains, and current forward bookings from mid-March and subsequent months are of good quality.

¹ See calculation method on p 128 of the Reference Document 2009-10. Reconciliation table available in the results presentation

Sector information

Passenger business

	Quarter to 31 st December			9 months to 31 st December		
	2010	2009	Change	2010	2009	Change
Traffic (RPK millions)	50,753	49,220	3.1%	156,492	155,828	0.4%
Capacity (ASK millions)	62,379	61,407	1.6%	189,370	191,847	(1.3)%
Load factor	81.4%	80.2%	1.2 pts	82.6	81.2%	1.4 pts
Total passenger revenues (€ m)	4,538	4,031	12.6%	14,031	12,388	13.3%
Revenues from scheduled passenger business (€m)	4,333	3,841	12.8%	13,394	11,793	13.6%
Unit revenue per RPK (€ cts)	8.53	7.80	9.4%	8.56	7.57	13.1%
Unit revenue per RPK ex currency	-	-	5.9%	-	-	9.8%
Unit revenue per ASK (€ cts)	6.94	6.25	11.0	7.07	6.15	15.1%
Unit revenue per ASK ex currency	-	-	7.5%	-	-	11.7%
Unit cost per ASK (€ cts)	6.84	6.48	5.5%	6.82	6.36	7.2%
Unit cost per ASK at constant currency and fuel price	-	-	(0.6)%	-	-	0.8%
Operating income (€m)	12	(184)	nm	323	(537)	nm

Cargo business

	Quarter to 31 st December			9 months to 31 st December		
	2010	2009	Change	2010	2009	Change
Traffic (RTK millions)	2,989	2,849	4.9%	8,673	8,390	3.4%
Capacity (ATK millions)	4,244	4,070	3.8%	12,636	12,791	(1.2)%
Load factor	70.4%	69.7%	0.7 pts	68.6%	65.6%	3.1 pts
Total cargo business revenues (€m)	830	650	27.7%	2,390	1,765	35.4%
Revenues from the transportation of cargo (€m)	790	623	26.8%	2,265	1,674	35.3%
Unit revenue per RTK (€ cts)	26.40	21.87	20.7%	26.11	19.95	30.9%
Unit revenue per RTK ex currency	-	-	13.2%	-	-	23.8%
Unit revenue per ATK (€ cts)	18.60	15.25	22.0%	17.92	13.09	37.0%
Unit revenue per ATK ex currency	-	-	14.3%	-	-	29.6%
Unit cost per ATK (€ cts)	16.92	15.72	7.7%	17.04	15.75	8.2%
Unit cost per ATK on constant currency and fuel price	-	-	(1.8)%	-	-	(0.9)%
Operating income (€m)	60	(29)	nm	78	(373)	nm

Maintenance business

Maintenance generated revenues of 264 million euros in the Third Quarter of 2010-11 against 237 million euros a year earlier, up 11.4% partly due to dollar appreciation. The operating result stood at 36 million euros (12 million euros at 31st December 2009). For the first nine months, revenues amounted to 796 million euros against 723 million euros a year earlier (+10.1%) while the operating result increased by 46% from 80 million euros at 31st December 2009 to 117 million euros at 31st December 2010, driven by engines and components.

Other activities

Other activities consist mainly of the leisure businesses of Transavia and Martinair and the catering activity of Servair. These businesses were impacted by the weather disruptions of December. Revenues amounted to 287 million euros in the Third Quarter versus 280 million euros a year earlier (+2.5%). The operating loss was reduced by one thirds, from -44 to -27 million euros. For the first nine months, revenues stood at 1.07 billion euros against 1.10 billion euros a year earlier. The operating result declined from 42 million euros at 31st December 2009 to 7 million euros at 31st December 2010.

Additional information

The Third Quarter accounts are not audited by the Statutory Auditors.

Practical information

Conference call on 10th February 2011 at 10.00h CET
To connect, dial +44 (0)20 7162 0125 (password: AKH)

For the recording, dial +44 (0)20 7031 4064 (code: 885999)

The results presentation will be available on www.airfranceklm-finance.com on 10th February 2011 from 9.00h CET.

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Air France-KLM fleet as of December 31, 2010

Air France fleet

Aircraft	AF	Brit Air	City Jet	Régional	VLM	Transavia	Owned	Finance lease	Operat. lease	Total	In operation	Ecart / 033110
B747-400	10						3		7	10	10	1
B777-300	31						17	2	12	31	31	1
B777-200	25						15	2	8	25	25	
B767-300												
A380-800	4						2		2	4	4	2
A340-300	17						11	2	4	17	17	-1
A330-200	15						3	2	10	15	15	
MD11												
Long haul	102						51	8	43	102	102	3
B747-400 cargo	5						2		3	5	3	-1
B777- cargo	2							2		2	2	
MD-11-CF												
MD-11-F												
Freighter	7						2	2	3	7	5	-1
B737 900												
B737-800						9			9	9	9	2
B737-700												
B737-400												
B737-300												
A321	24						11	1	12	24	24	1
A320	56						26	3	27	56	54	-4
A319	45						21	4	20	45	44	-1
A318	18						17	1		18	18	
Medium haul	143					9	75	9	68	152	149	-2
AVRO RJ 85			27				15		12	27	22	-1
Canadair Jet 1000		1					1			1	1	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			4		6	10	10	
Embraer 170				10			8	2		10	10	3
Embraer 145				27			8	14	5	27	27	-1
Embraer 135				7			4	3		7	6	-2
Embraer 120				1			1			1		
Fokker 100		8					3		5	8	7	-11
Fokker 70												
Fokker 50					15		13		2	15	15	
Regional		41	27	55	15	9	72	32	34	138	130	-10

TOTAL	252	41	27	55	15	9	200	51	148	399	386	-10
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KLM fleet

Type d'appareil	KLM	KLM Cityhopper	Transavia	Martinair	Owned	Finance lease	Operat. lease	Total	In operation	Ecart / 033110
B747-400	22				11	6	5	22	22	
B777-300	4					4		4	4	
B777-200	15					6	9	15	15	
B767-300				4			4	4	4	
A380-800										
A340-300										
A330-200	11					6	5	11	11	1
MD11	10				8		2	10	10	
Long haul	62			4	19	22	25	66	66	1
B747-400 cargo	4			4		3	5	8	5	
B777- cargo										
MD-11-CF				4	3		1	4	4	
MD-11-F				3	2		1	3	3	
Freighter	4			11	5	3	7	15	12	
B737 900	5					2	3	5	5	
B737-800	22		20		9	11	22	42	42	2
B737-700	8		10			11	7	18	18	2
B737-400	8				6		2	8	8	-1
B737-300	4				4			4	3	-4
A321										
A320										
A319										
A318										
Medium haul	47		30		19	24	34	77	76	-1
AVRO RJ 85										
Canadair Jet 1000										
Canadair Jet 900										
Canadair Jet 700										
Canadair Jet 100										
Embraer 190		17				13	4	17	17	4
Embraer 170										
Embraer 145										
Embraer 135										
Embraer 120										
Fokker 100		5			5			5	5	
Fokker 70		26			23	3		26	26	
Fokker 50		4			4			4		
Regional		52			32	16	4	52	48	4

TOTAL	113	52	30	15	75	65	70	210	202	4
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TOTAL Air France-KLM Group					275	116	218	609	588	-6
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Income statement as of December 31, 2010 (9 months)

<i>In euro millions</i>	Q3 (October to December)			9 months (April to december)		
	2009-10	2009-10	Variation	2 010	2009	Variation
SALES	5,919	5,198	13.9%	18,289	15,973	14.5%
Other revenues	1	1	0.0%	6	4	50.0%
EXTERNAL EXPENSES	-3,558	-3,110	14.4%	-10,989	-9,880	11.2%
Aircraft fuel	-1,350	-1,053	28.2%	-4,294	-3,485	23.2%
Chartering costs	-138	-119	16.0%	-383	-371	3.2%
Aircraft operating lease costs	-208	-175	18.9%	-624	-539	15.8%
Landing fees and en route charges	-427	-409	4.4%	-1,328	-1,313	1.1%
Catering	-138	-139	-0.7%	-423	-435	-2.8%
Handling charges and other operating costs	-324	-312	3.8%	-989	-970	2.0%
Aircraft maintenance costs	-279	-255	9.4%	-874	-791	10.5%
Commercial and distribution costs	-223	-214	4.2%	-719	-651	10.4%
Other external expenses	-471	-434	8.5%	-1,355	-1,325	2.3%
Salaries and related costs	-1,841	-1,865	-1.3%	-5,531	-5,580	-0.9%
Taxes other than income taxes	-47	-54	-13.0%	-137	-178	-23.0%
Amortization and depreciation	-403	-408	-1.2%	-1,215	-1,241	-2.1%
Provisions	-16	-29	-44.8%	-60	-42	42.9%
Other income and expenses	26	22	18.2%	162	156	3.8%
INCOME FROM CURRENT OPERATIONS	81	-245	nm	525	-788	nm
Sales of aircraft equipment	5	-2	nm	11	-	nm
Sales of subsidiaries	12	-	nm	12	1	nm
Other non-current income and expenses	-33	-9	nm	844	-87	nm
INCOME FROM OPERATING ACTIVITIES	65	-256	nm	1,392	-874	nm
Income from cash and cash equivalents	21	25	-16.0%	63	85	-25.9%
Cost of financial debt	-112	-112	0.0%	-343	-298	15.1%
Net cost of financial debt	-91	-87	4.6%	-280	-213	31.5%
Foreign exchange gains (losses), net	-49	6	nm	-103	62	nm
Change in fair value of financial assets and liabilities	-20	-54	nm	-46	-153	nm
Other financial income and expenses	-4	-	nm	4	-8	nm
INCOME BEFORE TAX	-99	-391	74.7%	967	-1,186	nm
Income taxes	36	96	-62.5%	26	337	nm
NET INCOME OF CONSOLIDATED COMPANIES	-63	-295	78.6%	993	-849	nm
Share of profits (losses) of associates	18	1	nm	-14	-18	nm
INCOME FROM CONTINUING OPERATIONS	-45	-294	84.7%	979	-867	nm
Net income from discontinued operations						
NET INCOME FOR THE PERIOD	-45	-294	84.7%	979	-867	nm
Minority interest	-1	-1	nm	1	-1	nm
NET INCOME FOR THE PERIOD - GROUP	-46	-295	84.4%	980	-868	nm

Consolidated balance sheet

Assets <i>In € millions</i>	December 31, 2010	March 31, 2010
Goodwill	401	401
Intangible assets	662	612
Flight equipment	11,163	11,349
Other property, plant and equipment	2,131	2,252
Investments in equity associates	431	446
Pension assets	2,944	2,733
Other financial assets <i>(including € 527 million of deposits related to financial leases as of December 31, 2010 and € 630 million as of March 31, 2010)</i>	1,836	840
Deferred tax assets	886	942
Other non-current assets	127	180
Total non-current assets	20,581	19,755
Assets held for sale	2	93
Other short term financial assets <i>(including € 596 million of deposits related to financial leases and investments between 3 months and 1 year as of December 31, 2010 and € 482 million as of March 31, 2010)</i>	628	517
Inventories	579	537
Trade accounts receivable	1,779	2,142
Income tax receivables	1	1
Other current assets	1,113	979
Cash and cash equivalents	3,496	3,751
Total current assets	7,598	8,020
Total assets	28,179	27,775

Liabilities and equity <i>In € millions</i>	December 31, 2010	March 31, 2010
Issued capital	300	2,552
Additional paid-in capital	2,971	719
Treasury shares	(93)	(106)
Reserves and retained earnings	3,802	2,198
Equity attributable to equity holders of Air France-KLM	6,980	5,363
Minority interest	52	55
Total Equity	7,032	5,418
Provisions and retirement benefits	1,566	1,432
Long-term debt	8,836	9,222
Deferred tax	468	418
Other non-current liabilities	430	818
Total non-current liabilities	11,300	11,890
Liability related to assets held for sale	-	10
Provisions	679	696
Current portion of long-term debt	1,811	1,825
Trade accounts payable	1,928	2,032
Deferred revenue on ticket sales	1,857	2,340
Frequent flyer programs	820	840
Current tax liabilities	12	11
Other current liabilities	2,595	2,597
Bank overdrafts	145	116
Total current liabilities	9,847	10,467
Total liabilities	21,147	22,357
Total liabilities and equity	28,179	27,775

Consolidated statement of cash flows

<i>In € millions</i>		
Period from April 1 to December 31,	2010	2009
Net income for the period – Group	980	(868)
Minority interest	(1)	1
Amortization, depreciation and operating provisions	1,275	1,283
Financial provisions	(4)	8
Gain on disposals of tangible and intangible assets	(12)	3
Loss / (gain) on disposals of subsidiaries and associates	(11)	(1)
Gain on WAM (ex Amadeus) operation	(1,030)	-
Derivatives – non monetary results	(5)	11
Unrealized foreign exchange gains and losses, net	107	(39)
Share of (profits) losses of associates	14	18
Deferred taxes	(49)	(335)
Other non-monetary items	(136)	(39)
Subtotal	1,128	42
(Increase) / decrease in inventories	(38)	(91)
(Increase) / decrease in trade receivables	362	152
Increase / (decrease) in trade payables	(102)	65
Change in other receivables and payables	(376)	(1,035)
Net cash flow from operating activities	974	(867)
Acquisitions of subsidiaries and investments in associates, net of cash acquired	(13)	(17)
Purchase of property, plant and equipment and intangible assets	(1,561)	(1,621)
Proceeds on WAM (ex Amadeus) transaction	193	-
Proceeds on disposal of subsidiaries and investments in associates	19	2
Proceeds on disposal of property, plant and equipment and intangible assets	671	670
Dividends received	8	5
Decrease (increase) in investments, net between 3 months and 1 year	(79)	52
Net cash used in investing activities	(762)	(909)
Issuance of long-term debt	354	2,526
Repayments on long-term debt	(530)	(216)
Payment of debt resulting from finance lease liabilities	(401)	(305)
New loans	(67)	(62)
Repayments on loans	151	78
Dividends paid	(2)	(2)
Net cash flow from financing activities	(495)	2,019
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(1)	(3)
Change in cash and cash equivalents and bank overdrafts	(284)	240
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	3,351	3,706