

FINANCIAL YEAR 2009-10
SECOND QUARTER

- ▶ Unit revenues continue to be impacted by the recession and the decline in business traffic
- ▶ Reduction in costs almost offsets decline in revenues
- ▶ Operating result close to break-even despite still significant negative impact of fuel hedges

FIRST HALF

- ▶ Revenues down 20%
- ▶ Negative impact of 430 million euros from fuel hedges
- ▶ Adjusted¹ operating loss of 419 million euros
- ▶ Operating loss of 543 million euros

The Board of Directors of Air France-KLM, chaired by Jean-Cyril Spinetta, convened on 18th November 2009 to examine the accounts for the First Half of Financial Year 2009-10.

Commenting on the activity, Pierre-Henri Gourgeon, Chief Executive Officer, said: *“Since the start of the crisis we have responded quickly and we are adapting more rapidly than expected to the environment. We have sharply reduced our capacity in both passenger and cargo. At the same time we have reduced our costs. Our cost-savings program is regularly updated and since the beginning of the financial year we have increased our objective by 100 million euros to around 700 million. All these measures are starting to have a positive impact on our results. After deep losses in the First Quarter, the Second was close to break-even despite the lack of recovery in unit revenues and a charge of 179 million euros relating to the pre-2009 fuel hedges. We are stabilizing our activity levels, and therefore reducing headcount within the group. We are proposing a voluntary redundancy program at Air France involving 1,700 jobs, which will be effective in 2010.*

Lack of visibility over the timing and strength of the economic recovery means we must pursue our efforts in terms of cost reduction. Our objective is to return to operating break-even, excluding the impact of the pre-2009 fuel hedges, by the beginning of the next financial year.”

Key data

€ millions (per share data in €)	Second Quarter to 30 September			First Half to 30 September		
	2009	2008 ²	Change	2009	2008 ²	Change
Revenues	5,606	6,940	(19.2)%	10,775	13,445	(19.9)%
EBITDAR	555	1,012	(45.0)%	667	1,826	(63.5)%
Operating income/(loss)	(47)	391	nm	(543)	592	nm
Adjusted ¹ operating income / (loss)	15	445	nm	(419)	701	nm
Net income/(loss), group share	(147)	27	nm	(573)	176	nm
Restated net income/(loss) ³	(95)	238	nm	(509)	359	nm
Earnings/(loss) per share	(0.50)	0.09	nm	(1.95)	0.61	nm
Diluted earnings/(loss) per share	(0.50)	0.09	nm	(1.95)	0.58	nm

¹ Operating income adjusted by the portion of financial costs of operating leases (34%). See calculation on p 117 of the 2008-09 Reference Document.

² Restated for the impact of the application of IFRIC 13 and proforma Martinair

³ Restated net income: see calculation on p117 of the Reference Document and p 6 of the Reference Document update 2008-09

Second Quarter close to break-even at the operating level

Ongoing reduction in capacity

Capacity reduction was pursued in the Second Quarter. Passenger capacity was reduced by 4.4%, exceeding the drop in traffic of 3.3% and leading to a 0.9 point improvement in load factor to 84.0%. The trend in unit revenues was similar to the First Quarter, with a still marked deterioration in premium. In total, unit revenues per available seat kilometer (RASK) declined by 13.6%. Passenger revenues amounted to 4.34 billion euros (-17.2%). An improvement in volumes combined with a significant reduction in operating costs helped the passenger business to achieve an operating result close to break-even (-15 million euros), and positive excluding the impact of pre-2009 fuel hedges.

The cargo load factor gained almost one point to 64.5% on the back of a 17.9% reduction in capacity and a 16.8% drop in traffic. The deterioration in unit revenues bottomed out, with a 27.8% drop in revenue ton kilometer versus -30.0% in the First Quarter. Revenues declined 40.5% to 571 million euros. Operating costs were strongly reduced, but not sufficiently to offset the decline in revenues. Cargo remained deeply in the red with an operating loss of 147 million euros in the Second Quarter.

Total group revenues amounted to 5.61 billion euros (-19.2%). Operating costs were reduced by 13.6% to 5.65 billion euros thanks to the 202 million euros in cost savings realized under the 'Challenge 12' program. Excluding fuel they declined by 9.5%.

Unit costs reduced

Although production measured in equivalent available seat kilometers (EASK) fell by 6.9%, unit cost per EASK was reduced by 8.2%.

All cost items contributed to the reduction:

- The fuel bill declined by 438 million euros to 1.30 billion euros (-25.3%) under the combined effect of a 9% drop in volume, a negative currency effect of 8% and a fuel price reduction limited at 23% by the effect of the hedges.
- Employee costs were down by 2.1% to 1.81 billion euros. Excluding the additional contribution of 44 million euros to the Air France and KLM pension funds, the decline would have been 4.4%.
- Marketing and distribution and other costs fell by 25.6% and 13.6% respectively.

The operating loss amounted to 47 million euros. Excluding the negative impact of fuel hedges of 179 million euros, the operating result would have been a profit of 132 million euros. Adjusted operating income amounted to 15 million euros at 30th September 2009, and 194 million euros excluding the negative impact of fuel hedges.

The operating income excluding fuel hedges was broken down as follows:

- Passenger business: +140 million euros (-15 million euros including fuel hedge impact);
- Cargo business: -127 million euros (-147 million euros including fuel hedge impact);
- Other businesses: +81 million euros (+77 million euros including fuel hedge impact);
- Maintenance: +38 million euros.

Net interest charges rose from 11 million euros at 30th September 2008 to 70 million euros at 30th September 2009 on the back of a drop in financial income linked to the lower yield on investments, while the gross interest charge remained stable. Other financial income and costs amounted to +9 million euros against -441 million euros a year earlier, mainly due to the change in the fair value of hedging instruments.

The pretax loss stood at 183 million euros (-37 million euros a year earlier) and net loss, group share at 147 million euros (versus income of 27 million euros at 30th September 2008). The loss per share (undiluted and diluted) stood at 0.5 euros against earnings per share (undiluted and diluted) of 0.09 euros at 30th September 2008.

First Half

Passenger traffic declined by 4.5% in line with capacity (-4.6%). The load factor remained high at 81.7% (+0.1 point). The decline in cargo traffic (-19.3%) was higher than the reduction in capacity (-17.3%), leading to a 1.6 drop in load factor to 63.9%. In both businesses, unit revenues were sharply down year-on-year.

Total revenues amounted to 10.77 billion euros (-19.9%). Production measured in EASK declined by 7.0%, while unit costs per EASK were down 6.1%. Savings realized under the 'Challenge 12' program amounted to 350 million euros.

The operating loss stood at 543 million euros and the adjusted operating loss was 419 million euros after a charge of 430 millions euros relating to the pre-2009 fuel hedges. The net loss, group share stood at 573 million euros against income of 176 million euros at 30th September 2008. Undiluted and diluted loss per share both stood at 1.95 euros against earnings and diluted earnings per share of 0.61 euros and 0.58 euros respectively at 30th September 2008.

Solid financial structure

Investments net of disposals amounted to 572 million euros at 30th September 2009 (versus 997 million euros at 30th September 2008). The group maintained a solid financial position with cash of 4.0 billion euros and available credit lines of 1.2 billion euros. In addition, the group undertook a successful 700 million euro bond issue in October 2009.

Shareholders' funds stood at 6.03 billion euros, 350 million euros higher than at 31 March 2009, with the negative impact of the fair value of hedging instruments down from 1.5 billion euros to 680 million euros during the period. Net debt stood at 5.62 billion euros versus 4.44 billion euros at 31st March 2009. The gearing ratio¹ stood at 0.93 and at 0.84 excluding hedging instruments.

Outlook for the remainder of the year

The group continues to adapt to the economic environment by reducing capacity. In the passenger business, capacity is down 2.0% for the Winter '09 season while cargo is also continuing to reduce. At the same time, Air France-KLM continued to adapt headcount accordingly.

The crisis has led to behavioural changes among our customers which are likely to persist beyond the recovery. The group is therefore adapting its air transportation businesses to the new environment. The new 'Premium Voyageur' class at Air France, and 'Economy Comfort' at KLM complement our long-haul offer with an intermediate product between the premium and economy classes. The overhaul of the medium-haul product is based on ensuring customer needs are better taken account of via the schedule of fares: a simpler and less expensive product for leisure travellers, and a product offering flexibility, time-saving and services at more competitive rates for business travellers. Finally, the cargo business is being restructured based on the optimisation of bellies in the passenger and combi aircraft, and the rationalization of the full freighter program.

All these measures are accompanied by the reorganisation of a number of processes which should lead to the turnaround of the medium-haul business and a return to break-even of the cargo activity during Financial Year 2011-12.

The group has also implemented a new fuel hedging policy, reducing the time span of the hedges from four to two years and the absolute level from two years' consumption to 80% of a single year of consumption. Based on the forward curve at 13th November 2009, the fuel bill is estimated at 1.8 billion dollars for the Third Quarter to 31st December 2009 and 1.6 billion dollars for the Fourth Quarter to 31st March 2009.

Lack of visibility over the timing and strength of the economic recovery means we must pursue our efforts in terms of cost reduction. Our objective is to return to operating break-even, excluding the impact of the pre-2009 fuel hedges, by the beginning of the next financial year.

¹ See calculation on p 118 of the 2008-09 Reference Document.

Information by business

Passenger

	Second Quarter to 30 th Sept			First Half to 30 th Sept		
	2009	2008*	Change	2009	2008*	Change
Traffic (RPK millions)	56,141	58,042	-3.3%	106,608	111,590	-4.5%
Capacity (ASK millions)	66,862	69,930	-4.4%	130,440	136,671	-4.6%
Load factor	84.0%	83.0%	0.9 pts	81.7%	81.6%	0.1 pt
Total passenger revenues (€ m)	4,343	5,247	(17.2)%	8,357	10,184	(17.9)%
Revenues from scheduled passenger business (€ m)	4,137	5,009	(17.4)%	7,952	9,708	(18.1)%
Unit revenue per RPK (€ cts)	7.37	8.63	(14.6)%	7.46	8.70	(14.3)%
Unit revenue per RPK ex currency (€ cts)	-	-	(16.2)%	-	-	(15.9)%
Unit revenue per ASK (€ cts)	6.19	7.16	(13.6)%	6.10	7.10	(14.2)%
Unit revenue per ASK ex currency (€ cts)	-	-	(15.3)%	-	-	(15.9)%
Unit cost per ASK (€ cts)	6.14	6.66	(7.8)%	6.30	6.70	(5.9)%
Unit cost per ASK at constant currency and fuel price (€ cts)	-	-	(3.7)%	-	-	(2.3)%
Operating income (€ m)	(15)	308	(95.1)%	(353)	473	nm

* Restated for the application of IFRIC 13

Cargo

	Second Quarter to 30 th Sept			First Half to 30 th Sept		
	2009	2008*	Change	2009	2008*	Change
Traffic (RTK millions)	2,800	3,365	(16.8)%	5,541	6,863	(19.3)%
Capacity (ATK millions)	4,339	5,288	(17.9)%	8,677	10,488	(17.3)%
Load factor	64.5%	63.6%	0.9 pts	63.9%	65.4%	(1.6)pts
Total cargo business revenues (€ m)	571	960	(40.5)%	1,115	1,890	(41.0)%
Revenues from the transportation of cargo (€ m)	540	915	(41.0)%	1,051	1,797	(41.5)%
Unit revenue per RTK (€ cts)	19.28	26.94	(28.4)%	18.97	25.89	(26.7)%
Unit revenue per RTK ex currency (€ cts)	-	-	(30.9)%	-	-	(30.2)%
Unit revenue per ATK (€ cts)	12.43	17.22	(27.8)%	12.11	17.03	(28.9)%
Unit revenue per ATK ex currency (€ cts)	-	-	(30.3)%	-	-	(32.2)%
Unit cost per ATK (€ cts)	15.58	16.89	(7.7)%	15.82	16.63	(4.9)%
Unit cost per ATK on constant currency and fuel price (€ cts)	-	-	3.7%	-	-	4.6%
Operating income (€ m)	(147)	10	nm	(344)	26	nm

* Pro forma Martinair

Maintenance business

Maintenance achieved revenues of 240 million euros in the second quarter of 2009-10 against pro-forma revenues of 234 million euros at 30th September 2008. Operating income amounted to 38 million euros (22 million euros pro-forma at 30th September 2008). For the first half, revenues stood at 486 million euros versus 477 million euros pro-forma a year earlier (+1.9%) while operating income rose 79%, from 38 million euros at 30th September 2008, to 68 million euros at 30th September 2009. The engines and components businesses were dynamic during the first half.



Other activities

Other activities mainly include the leisure business of Transavia and the catering business of Servair. Revenues amounted to 452 million euros in the second quarter versus pro-forma revenues of 499 million euros at 30th September 2008, a decline of 9.4%, mainly due to the leisure business, where Martinair reduced its leisure capacity by 39.4%. Operating income stood at 64 million euros (49 million euros pro-forma at 30th September 2008). For the first half, revenues amounted to 817 million euros against 894 million euros pro-forma a year earlier. Operating income rose 56% to 86 millions euros, of which 64 million euros for leisure (78 million euros excluding the impact of pre-2009 fuel hedges) and 18.5 million euros for the catering business.

Reconciliation table for Second Quarter and First Half 2008-09 results

<i>(in millions of euros)</i>	Q2 2008-09	H1 2008-09
Published revenues	6,695	12,983
Impact of IFRIC 13	(10)	(24)
Impact of Martinair	255	486
Restated pro-forma revenues	6,940	13,445
Published operating costs	6,290	12,344
Impact of Martinair	259	509
Proforma operating costs	6,549	12,853
Published operating income	405	639
Impact of IFRIC 13	(10)	(24)
Impact of Martinair	(4)	(23)
Restated pro-forma operating income	391	592
Published pretax income of consol companies	(37)	214
Impact of IFRIC 13	(10)	(24)
Impact of Martinair	10	(16)
Restated pro-forma pretax income of consolidated companies	(37)	174
Published income tax	56	(19)
Impact of IFRIC 13	3	7
Impact of Martinair	3	10
Restated pro-forma income tax	62	(2)
Published net income, group share	28	196
Impact of IFRIC 13	(7)	(17)
Impact of Martinair	6	(3)
Restated pro-forma net income, group share	27	176

AIR FRANCE-KLM GROUP

Aircraft											Fleet as of 30 September 2009					
	AF	Brit Air	City Jet	Régional	VLM	Transavia	KLM	KLM Cityhop.	Transavia	Martinair	Owned	Finance lease	Operating lease	Total	In operation	Change / 3/31/09
B747-400	13						22			21	7	7	35	34	-1	
B777-300	30						4			17	6	11	34	34	6	
B777-200	25						15			15	8	17	40	40		
B767-300									4	3		1	4	4	-2	
A340-300	19									10	3	6	19	19		
A330-200	15						10			5	7	13	25	25	-1	
MD11							10			8		2	10	10		
Total long haul	102						61		4	79	31	57	167	166	2	
B747-400 cargo	9						2		6	5	3	9	17	9	-5	
B747-200 cargo	3									3			3			
B777- cargo	2										2		2	2		
MD-11-CF									4	3		1	4	4		
MD-11-F									3	2		1	3	3		
Total freighter	14						2		13	13	5	11	29	18	-5	
B737 900							5				2	3	5	5		
B737-800						7	21		20	1	20	27	48	48	2	
B737-700							4		10		9	5	14	14		
B737-400							10			6		4	10	9	-3	
B737-300							10			7		3	10	9	-1	
A321	23									12		11	23	23	2	
A320	61									42	1	18	61	61	-4	
A319	45									22	4	19	45	45		
A318	18									18			18	18		
Total medium haul	147					7	50		30	108	36	90	234	232	-4	
AVRO RJ 85			27							15		12	27	23	-2	
BAE146-200/300			1							1			1			
Canadair Jet 700		15								6	9		15	15		
Canadair Jet 100		15								5	8	2	15	14	-1	
Embraer 190				10			7			6	4	7	17	17	6	
Embraer 170				6						5	1		6	6	3	
Embraer 145				28						8	14	6	28	28		
Embraer 135				9						4	3	2	9	9		
Embraer 120				4						4			4			
Fokker 100		13		8					20	27		14	41	32	-5	
Fokker 70									25	22	3		25	25		
Fokker 50					18				10	18		10	28	26	-4	
Total Regional		43	28	65	18		62			121	42	53	216	195	-3	
TOTAL	263	43	28	65	18	7	113	62	30	17	321	114	211	646	611	-10

INCOME STATEMENT FOR THE FIRST SEMESTER 2009-10

In € millions

	2 nd quarter (July to September)			Semester (April to September)		
	2009-10	2008-09 (adjusted and pro forma)	Variation	2009-10	2008-09 (adjusted and pro forma)	Variation
SALES	5 606	6 940	-19,2%	10 775	13 445	-19,9%
Other revenues	2	2	0,0%	3	2	50,0%
EXTERNAL EXPENSES	-3 449	-4 178	-17,4%	-6 794	-8 057	-15,7%
Aircraft fuel	-1 296	-1 734	-25,3%	-2 432	-3 199	-24,0%
Chartering costs	-127	-179	-29,1%	-252	-351	-28,2%
Aircraft operating lease costs	-182	-160	13,8%	-364	-321	13,4%
Landing fees and en route charges	-454	-489	-7,2%	-904	-957	-5,5%
Catering	-124	-129	-3,9%	-248	-255	-2,7%
Handling charges and other operating costs	-327	-365	-10,4%	-658	-722	-8,9%
Aircraft maintenance costs	-267	-288	-7,3%	-531	-561	-5,3%
Commercial and distribution costs	-206	-277	-25,6%	-437	-564	-22,5%
Other external expenses	-466	-557	-16,3%	-968	-1 127	-14,1%
Salaries and related costs	-1 811	-1 849	-2,1%	-3 691	-3 754	-1,7%
Taxes other than income taxes	-61	-65	-6,2%	-124	-129	-3,9%
Amortization and depreciation	-410	-417	-1,7%	-833	-847	-1,7%
Provisions	-10	-44	-77,3%	-13	-66	-80,3%
Other income and expenses	86	2	na	134	-2	na
INCOME FROM CURRENT OPERATIONS	-47	391	na	-543	592	na
Sales of aircraft equipment	1	2	na	2	6	-66,7%
Sales of subsidiaries	1	5	na	1	8	na
Negative goodwill		16	na		16	na
Other non-current income and expenses	-77	1	na	-78	10	na
INCOME FROM OPERATING ACTIVITIES	-122	415	na	-618	632	na
Income from cash and cash equivalents	29	88	-67,0%	60	166	-63,9%
Cost of financial debt	-99	-99	0,0%	-186	-188	-1,1%
<i>Net cost of financial debt</i>	<i>-70</i>	<i>-11</i>	<i>na</i>	<i>-126</i>	<i>-22</i>	<i>na</i>
Foreign exchange gains (losses), net	13	-65	na	56	-63	na
Change in fair value of financial assets and liabilities	-1	-363	na	-99	-356	na
Other financial income and expenses	-3	-13	na	-8	-17	-52,9%
INCOME BEFORE TAX	-183	-37	na	-795	174	na
Income taxes	46	62	-25,8%	241	-2	na
NET INCOME OF CONSOLIDATED COMPANIES	-137	25	na	-554	172	na
Share of profits (losses) of associates	-9	3	na	-19	7	na
INCOME FROM CONTINUING OPERATIONS	-146	28	na	-573	179	na
Net income from discontinued operations						
NET INCOME FOR THE PERIOD	-146	28	na	-573	179	na
Minority interest	-1	-1	na		-3	na
NET INCOME FOR THE PERIOD - GROUP	-147	27	na	-573	176	na

CONSOLIDATED BALANCE SHEET (unaudited)

Assets <i>In € millions</i>	September 30, 2009	March 31, 2009
Goodwill	400	400
Intangible assets	582	559
Flight equipment	11 947	12 125
Other property, plant and equipment	2 286	2 313
Investments in equity associates	446	446
Pension assets	2 609	2 499
Other financial assets (including € 679 million of deposits related to financial leases as of September 30, 2009 and € 740 million as of March 31, 2009)	875	938
Deferred tax assets	748	811
Other non-current assets	489	629
Total non-current assets	20 382	20 720
Assets held for sale	103	93
Other short term financial assets (including € 302 million of deposits related to financial leases and investments between 3 months and 1 year as of September 30, 2008 and € 538 million as of March 31, 2009)	338	580
Inventories	574	527
Trade accounts receivable	2 115	2 038
Income tax receivables	-	2
Other current assets	835	1 065
Cash and cash equivalents	3 615	3 748
Total current assets	7 580	8 053
Total assets	27 962	28 773

Liabilities and equity <i>In € millions</i>	September 30, 2009	March 31, 2009
Issued capital	2 552	2 552
Additional paid-in capital	765	765
Treasury shares	(110)	(124)
Reserves and retained earnings	2 767	2 429
Equity attributable to equity holders of Air France-KLM	5 974	5 622
Minority interest	56	54
Total Equity	6 030	5 676
Provisions and retirement benefits	1 326	1 334
Long-term debt	8 448	7 864
Deferred tax	418	339
Other non-current liabilities	1 464	2 170
Total non-current liabilities	11 656	11 707
Liability related to assets held for sale	3	7
Provisions	550	480
Current portion of long-term debt	1 687	1 353
Trade accounts payable	1 911	1 887
Deferred revenue on ticket sales	2 011	2 131
Frequent flyer programs	867	917
Current tax liabilities	12	11
Other current liabilities	3 121	4 322
Bank overdrafts	114	282
Total current liabilities	10 276	11 390
Total liabilities	21 932	23 097
Total liabilities and equity	27 962	28 773

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

<i>In € millions</i>		
Period from April 1 to September 30,	2009	2008 (adjusted)
Net income for the period – Group	(573)	179
Minority interest	-	3
Amortization, depreciation and operating provisions	846	872
Financial provisions	7	16
Gain on disposals of tangible and intangible assets	-	(23)
Loss / (gain) on disposals of subsidiaries and associates	(1)	(8)
Reversal of provision for cargo investigation	-	(225)
Derivatives – non monetary results	(14)	361
Unrealized foreign exchange gains and losses, net	(48)	(3)
Negative goodwill	-	(16)
Share of (profits) losses of associates	19	(4)
Deferred taxes	(239)	(5)
Other non-monetary items	(24)	(91)
Subtotal	(27)	1 056
(Increase) / decrease in inventories	(62)	(58)
(Increase) / decrease in trade receivables	(106)	(66)
Increase / (decrease) in trade payables	63	136
Change in other receivables and payables	(613)	98
Net cash flow from operating activities	(745)	1 166
Acquisitions of subsidiaries and investments in associates, net of cash acquired	(15)	(11)
Purchase of property, plant and equipment and intangible assets	(1 095)	(1 120)
Proceeds on disposal of subsidiaries and investments in associates	-	4
Proceeds on disposal of property, plant and equipment and intangible assets	523	123
Dividends received	3	3
Decrease (increase) in investments, net between 3 months and 1 year	241	(297)
Net cash used in investing activities	(343)	(1 298)
Issuance of long-term debt	1 449	496
Repayments on long-term debt	(110)	(203)
Payment of debt resulting from finance lease liabilities	(234)	(357)
New loans	(31)	(22)
Repayments on loans	54	74
Dividends paid	(1)	(174)
Net cash flow from financing activities	1 127	(186)
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(4)	2
Change in cash and cash equivalents and bank overdrafts	35	(316)
Cash and cash equivalents and bank overdrafts at beginning of period	3 466	4 209
Cash and cash equivalents and bank overdrafts at end of period	3 501	3 893

Calendar

Thursday 19th November 2009
Investor Day 2009 at Pavillon Gabriel in Paris

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