AIRFRANCEKLM
GROUP

AIRFRANCE-KLM GROUP

Air France-KLM

Results presentation

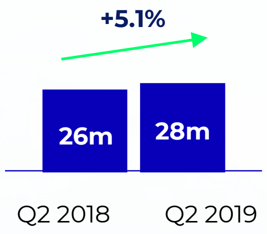
FIRST HALF 2019

31 JULY 2019

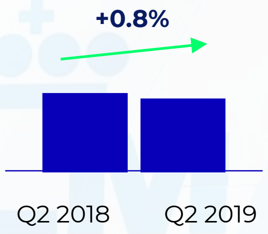
Increased operating result
and improved passenger unit revenue

- Long-haul driving the **improvement of unit revenue** as anticipated
- Operating result increase reflecting **unit cost improvement** partly offset by fuel bill increase
- Further **reduction in Group net debt**
- Next step in fleet strategy, **early phase-out of Airbus A380** and **Air France medium-haul fleet order**

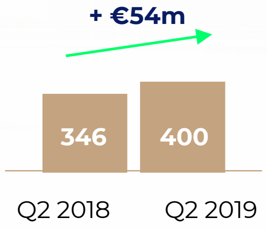
Passengers



Passenger unit revenue[1]



Operating result[2]



Net debt

(1) Passenger Unit Revenue (RASK) = (Network Passenger traffic revenues + Transavia traffic revenues) / (Network Passenger ASK +Transavia ASK), at constant currency
(2) The Air France strike had a -€260 million impact on the Q2 2018 operating result

AIRFRANCE KLM GROUP

Strategic orientations

Benjamin **Smith**

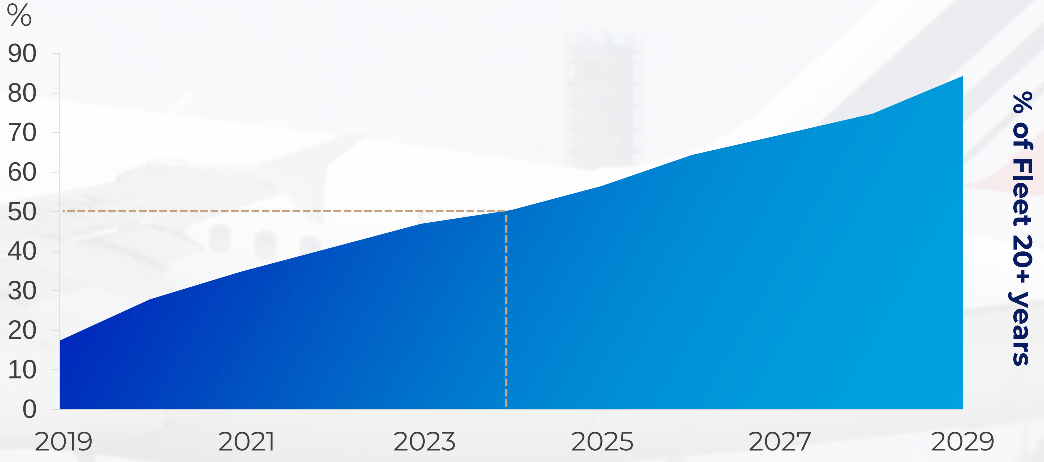
RESULTS AT **30 JUNE 2019**

Air France places firm orders **for 60 Airbus A220s**

Air France medium-haul fleet is ageing and is due for replacement:

20 24 By end of 2024, half of Air France medium-haul aircraft will be at least 20 years old

Medium-haul aircraft are reaching design limits and becoming uneconomic to operate



Opportunity to secure new, efficient, right-sized medium-haul aircraft

Airbus A220 **is ideal for Air France medium-haul fleet renewal**

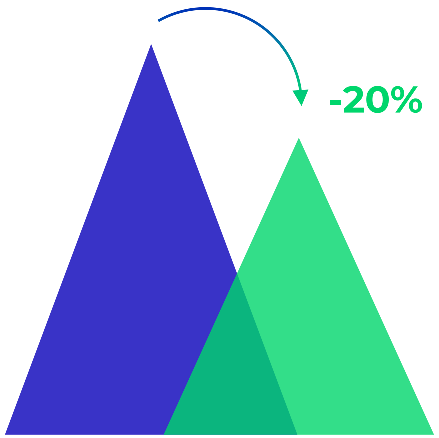
Airbus A220 is an opportunity for Air France **to secure cheaper, efficient, right-sized medium-haul aircraft**

Airbus A220, **cost-efficient** and **environmentally-friendly aircraft**

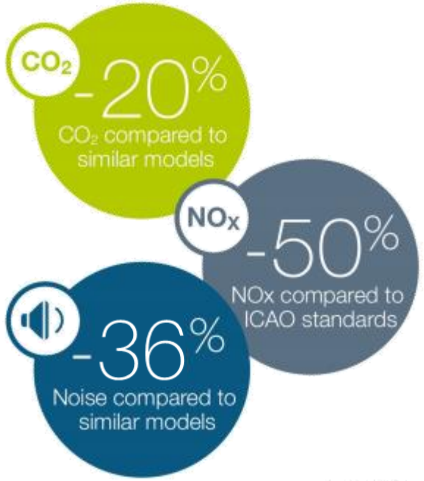
Lower aircraft and **trip costs** vs. Airbus A320neo

Airbus A220 versus previous generation narrow-body

Fuel Burn per Seat



Emissions and **Noise**



Airbus A220 all-new efficient design

Advanced materials and optimized aerodynamic efficiency

Advanced Aluminium
Fuselage

Advanced Composite
Wing, Wing Box, Empennage, Rear Fuselage, Stabilisers, Nacelle

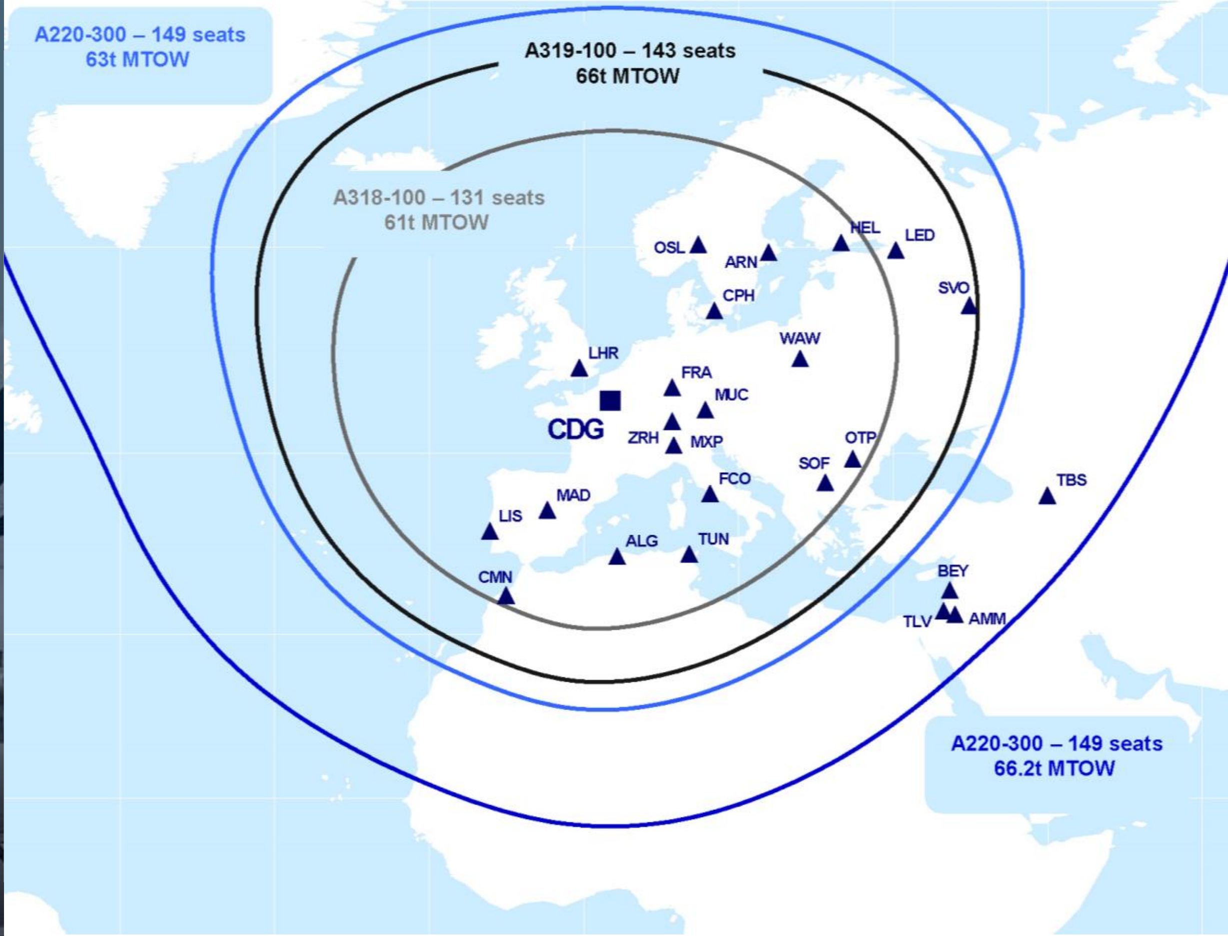
Titanium
Wing, Wing Box, Rear Fuselage, Horizontal Stabiliser

Airbus A220 **is ideal for Air France medium-haul fleet renewal**

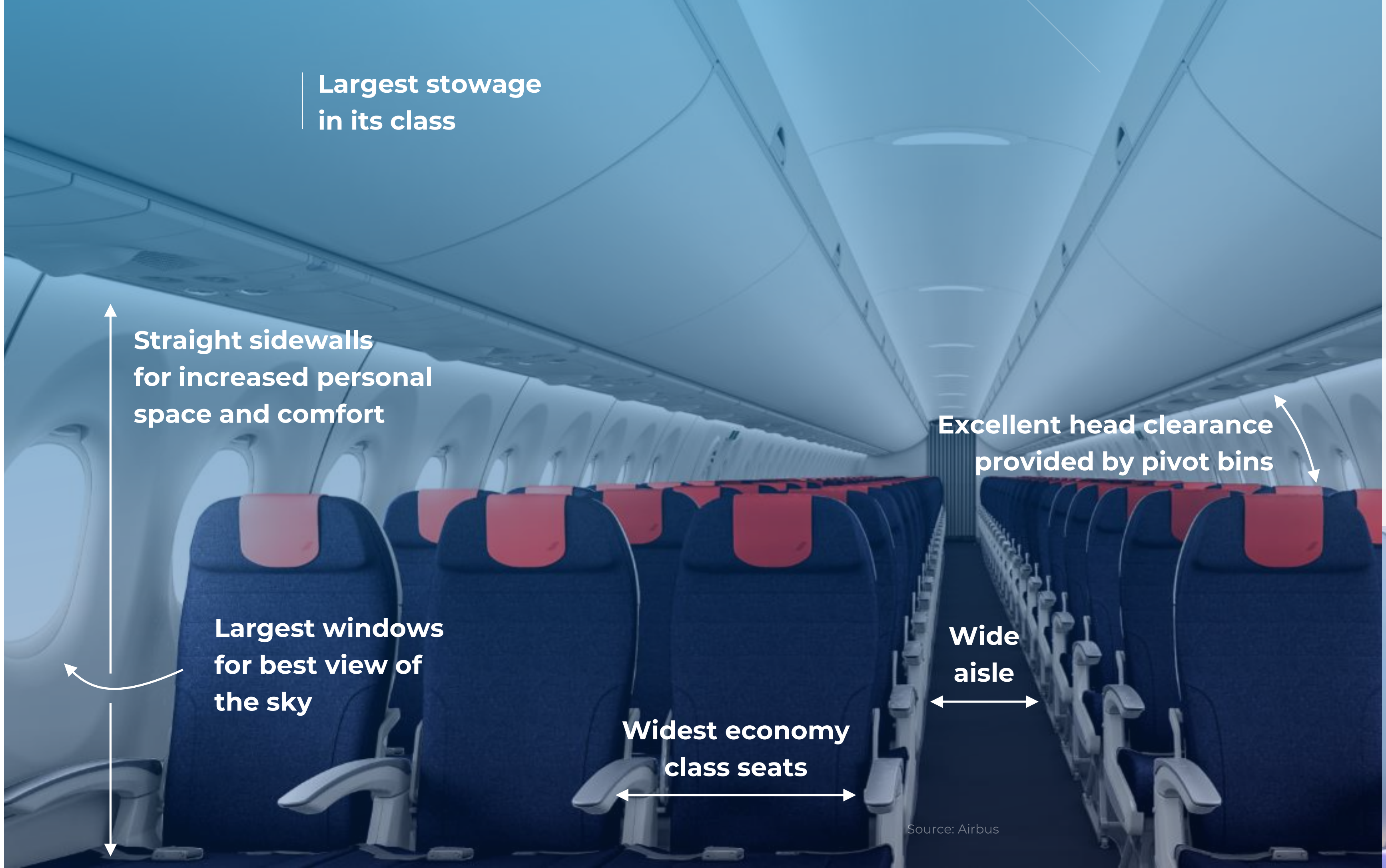
Airbus A220 is an opportunity for Air France **to secure cheaper, efficient, right-sized medium-haul aircraft**

Flexible and optimal aircraft for the **network, 149 passengers**

Range and **payload** to **operate all current routes**



Superior customer experience
More comfortable, faster turnarounds



Widest seats of any single-aisle aircraft

5-abreast configuration; 80% of seats aisle or window

Faster turnarounds possible with **wide aisles, large bins**

Largest windows of any narrow-body

Space for one roller bag for **every passenger**

Airbus A380 fleet has higher cost and lower operational performance compared to other widebody aircraft types

- **Competition is limiting markets** where the Airbus A380 can be profitably deployed
- **Fuel consumption per seat 20-25% higher** than new generation widebodies
- **Airbus A380 production has been cancelled;** major operators reducing Airbus A380 fleets
- A partial reduction of the current Airbus A380 fleet would make it subscale

- **Air France Airbus A380 fleet is due** for a major cabin refurbishment
- **Maintenance costs** and **downtime are increasing** with **major 12-year structural** checks coming due
- **Maintaining the Airbus A380 would imply around €400m**[(1)] **capex through to 2026** for cabin refurbishment, shop visits and airframe structural checks

Early phase-out of Air France Airbus A380 fleet will avoid escalating costs, downtime, limited deployment flexibility

(1) Capex savings estimate for remaining 7 A380 aircraft, scheduled departure unchanged for first 3 leased A380 aircraft

Early phase-out of **all Air France Airbus A380 until end of 2022**

- Capex savings due to early phase-out of Airbus A380 **estimated at €400m** for cabin refurbishment, shop visits and airframe structural checks
- **10 Airbus A380 aircraft will be replaced** by no more than 9 new generation aircraft (A330 neo, A350, B787):
  - ✔ Better fuel efficiency and profitability
  - ✔ Increased network deployment flexibility simplifies scheduling
  - ✔ Fewer seats and lower trip cost make it easier to capture premium segment business and fill seats during a cyclical downturn

- **Non-current result impact of early phase-out of Airbus A380 aircraft is estimated at around €400 million spread over period until 2022**, mainly due to acceleration in the depreciation of the aircraft
- **Limited cash-out impact**

Profitability (EBITDA) uplift

Earlier transition to cleaner, quieter aircraft

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Financial Review

Frédéric **Gagey**

RESULTS AT **30 JUNE 2019**

Operating result at €400 million
with passenger unit revenue and unit cost improvement

	Q2 2019	Q2 2018	Change	Change at constant currency
Revenues (€ bn)	**7.05**	6.63	+6.4%	+4.5%
Fuel expenses (€ bn)	**1.40**	1.18	+18.6%	+10.3%
EBITDA (€ m)	**1,147**	1,049	+9.3%	+11.6%
Operating result (€ m)	**400**	346	+54m	+72m
Operating margin	**5.7%**	5.2%	+0.5 pt	+0.8 pt
Net income – Group part (€ m)	**80**	110	-30m	
Adjusted operating free cash flow (€ m)	**110**	-1	+111m	
ROCE 12 months sliding	**9.3%**	12.4%	-3.1 pt	

	30 Jun 2019	31 Dec 2018	Change
Net debt (€ m)	**5,698**	6,164	-466m
Net debt/EBITDA 12 months sliding	**1.4x**	1.5x	-0.1 pt

Positive unit revenue trend in Passenger airlines and Maintenance drive margin improvement at Group level

Q2 2019		Capacity (1)	Unit Revenue Constant Curr.(2)	Revenues (€ m)	Change	Operating Result (€ m)	Change	Operating Margin	Change
Network	AIRFRANCE KLM / AIRFRANCE HOP	+3.9%	+0.9%	6,016	+5.6%	291	+55m	4.8%	+0.7 pt
	AIRFRANCE KLM Martinair CARGO	+2.8%	-7.5%						
Transavia	transavia	+9.2%	+1.3%	500	+10.4%	52	-9m	10.4%	-3.1 pt
Maintenance	AIRFRANCE INDUSTRIES / KLM Engineering & Maintenance			527	+11.9%	55	+9m	4.9%	+0.3 pt
Group	AIRFRANCEKLM GROUP	+4.5%	+0.0%	7,050	+6.4%	400	+54m	5.7%	+0.5 pt

(1).Capacity is defined as Available Seat Kilometers (ASK), except for Network Cargo capacity which is Available Ton Kilometers (ATK). Group capacity is defined as Passenger ASK (Network Passenger ASK + Transavia ASK)

(2).Unit revenues = revenue per ASK, Cargo unit revenues = Cargo revenue per ATK, Group unit revenue = (Network passenger traffic revenues + Transavia traffic revenues) / (Network Passenger ASK + Transavia ASK).

Long-haul driving the improvement of unit revenue as anticipated

Q2 2019	Unit revenue ex-currency		Revenue share long-haul
	Q2 2019	H1 2019	
North America	+2.6%	+0.4%	32%
Latin America	-10.2%	-8.7%	13%
Asia	+3.9%	+2.9%	25%
Africa & Middle East	+8.7%	+4.1%	18%
Caribbean & Indian Ocean	+4.7%	+4.4%	12%
Long Haul	**+2.3%**	**+0.8%**	**100%**
Medium-haul hubs	+0.2%	-0.7%	
Medium-haul point-to-point	-9.1%	-6.2%	
Total Medium-Haul	**-1.9%**	**-2.1%**	
Total	**+0.9%**	**-0.2%**	

Yields and load factors for all long haul networks, except Latin American:

- ✓ North American network positive unit revenues driven in particular from US point of sale
- ✓ Latin American network pressure is continuing

Medium-haul hubs positive thanks to increased load-factors

Point-to-point decrease as anticipated

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Unit revenue growth
in both premium and economy

Q2 2019

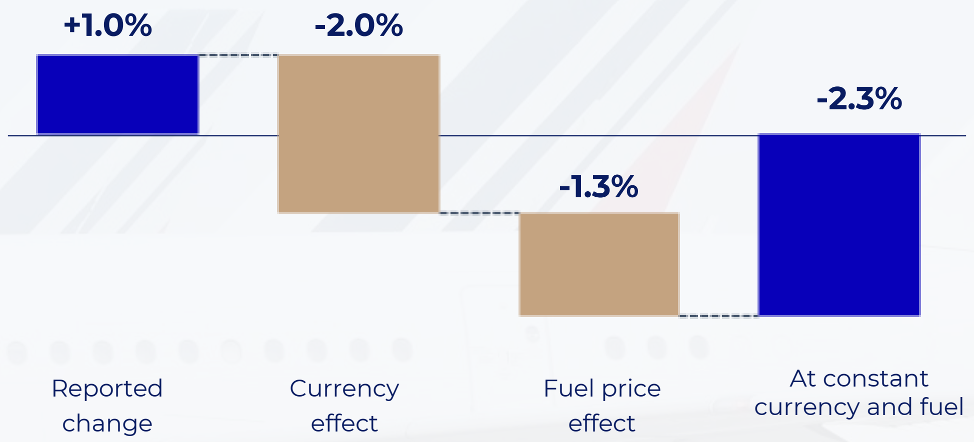
	ASK	RPK	RASK ex cur.
Total	3.9%	5.7%	0.9%
Medium-haul point-to-point	-2.5%	-5.9%	-9.1%
Medium-haul hubs	6.1%	8.2%	0.2%
Total medium-haul	4.6%	5.8%	-1.9%
North America	6.7%	7.8%	2.6%
Caribbean & Indian Ocean	1.6%	4.2%	4.7%
Asia	4.0%	6.4%	3.9%
Latin America	7.8%	7.0%	-10.2%
Africa & Middle East	-4.6%	-0.7%	8.7%
Total long-haul	3.8%	5.6%	2.3%

RASK ex currency

Premium	Economy
1.8%	0.7%

Unit cost down **in line with the full year guidance**

Q2 2019 underlying unit cost



- **Lower customer compensation,** notably linked to a high base because of last year strike in Air France
- **New cost reduction actions for Air France,** following external consultation study
- **Staff costs up 4.6%, explained by:**
  - ✓ Additional hiring for the capacity growth (+4.5%)
  - ✓ Implemented wage agreements for Air France and KLM staff
  - ✓ **Labor productivity improvement 3.1%** (in ASK per FTE)

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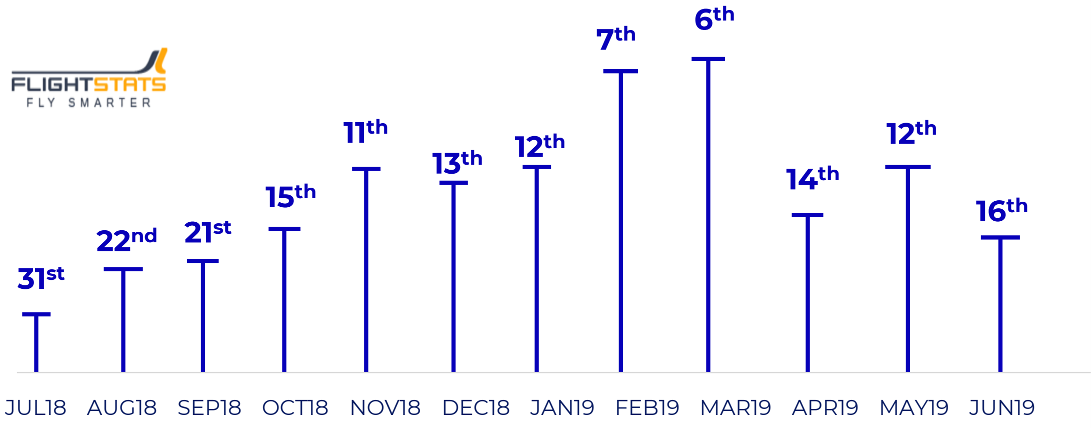
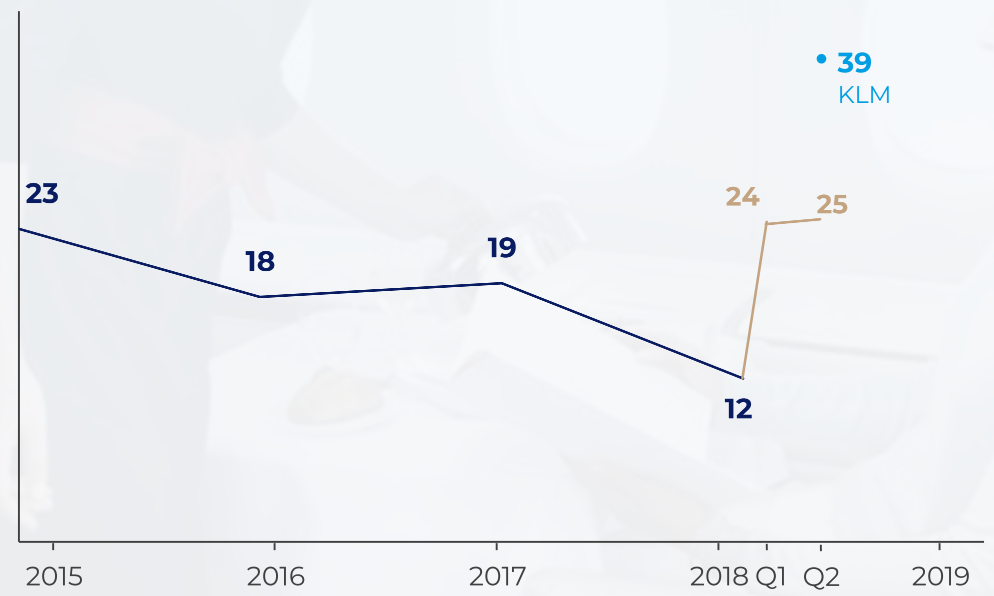
Air France operational performance improvement continuing

Air France On Time Performance (A14) ranking



A top 3 European legacy carrier
in May and June 2019

Air France Net Promoter Score trend



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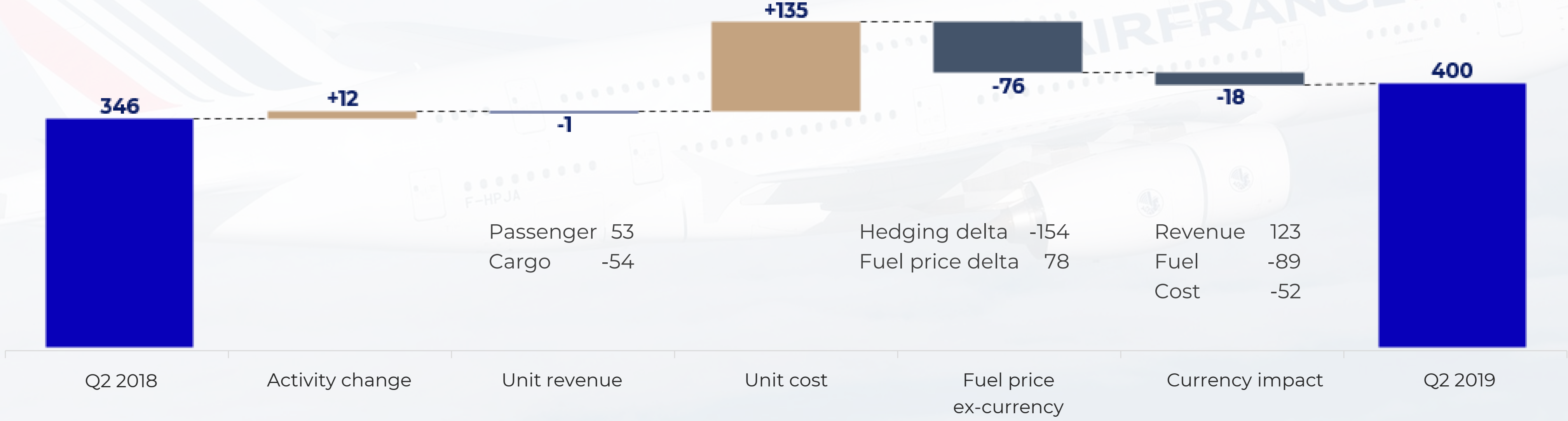
Non-fuel unit cost improvement partly offset by fuel bill increase

Q2 2019

Operating result development

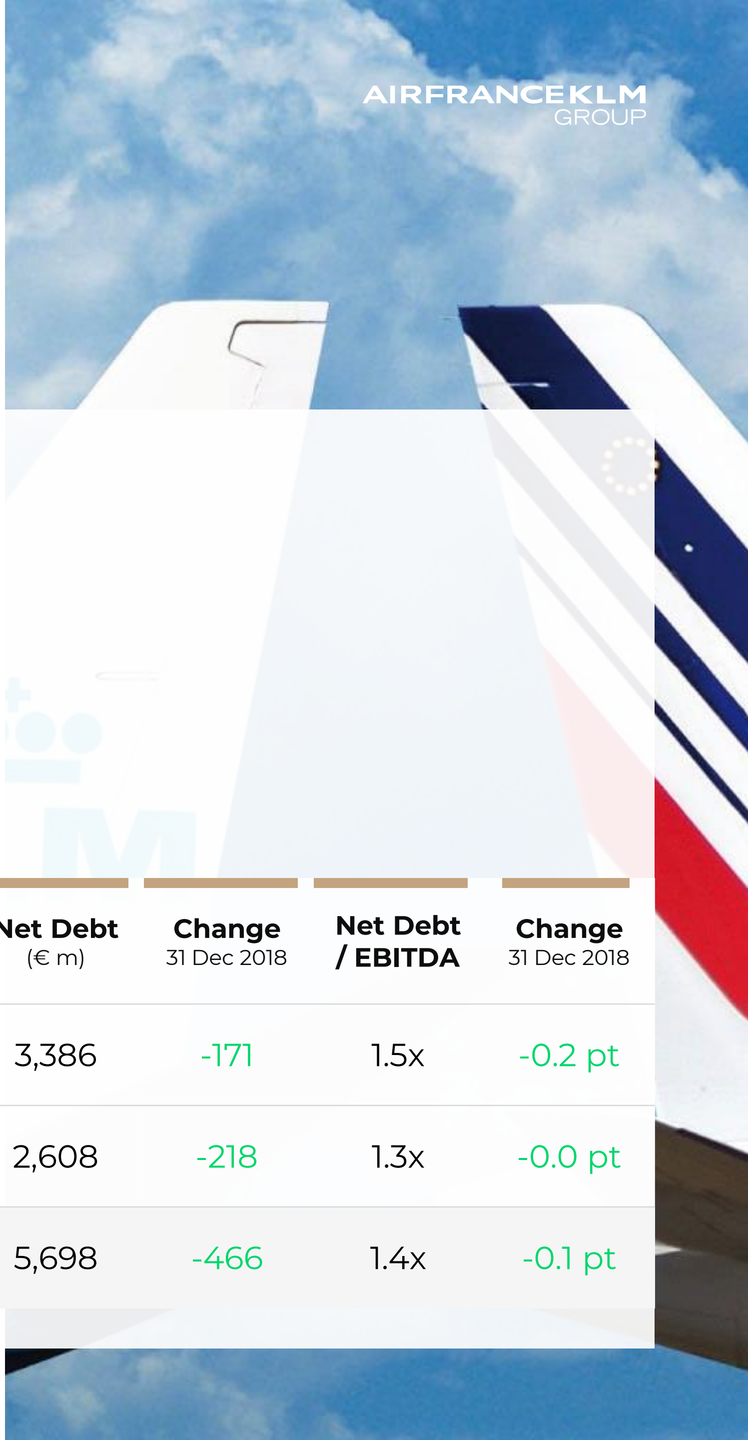
in € m



Air France improvement explained by last year strike, **KLM impacted by fuel**

Q2 2019	Capacity change	Revenues (€ m)	Change YoY	Operating Result (€ m)	Change YoY	Operating Margin	Change YoY
AIRFRANCE	+6.4%	4,284	+9.1%	143	+130	3.3%	+3.0 pt
KLM	+2.1%	2,899	+3.7%	258	-70	8.9%	-2.8 pt
AIRFRANCE KLM GROUP	+4.5%	7,050	+6.4%	400	+54	5.7%	+0.5 pt

First Half 2019	Capacity change	Revenues (€ m)	Change YoY	Operating Result (€ m)	Change YoY	Operating Margin	Change YoY	Net Debt (€ m)	Change 31 Dec 2018	Net Debt / EBITDA	Change 31 Dec 2018
AIRFRANCE	+5.7%	7,982	+6.7%	-113	+51	-1.4%	+0.8 pt	3,386	-171	1.5x	-0.2 pt
KLM	+1.3%	5,284	+2.0%	202	-186	3.8%	-3.7 pt	2,608	-218	1.3x	-0.0 pt
AIRFRANCE KLM GROUP	+3.8%	13,036	+4.9%	97	-131	0.7%	-1.1 pt	5,698	-466	1.4x	-0.1 pt



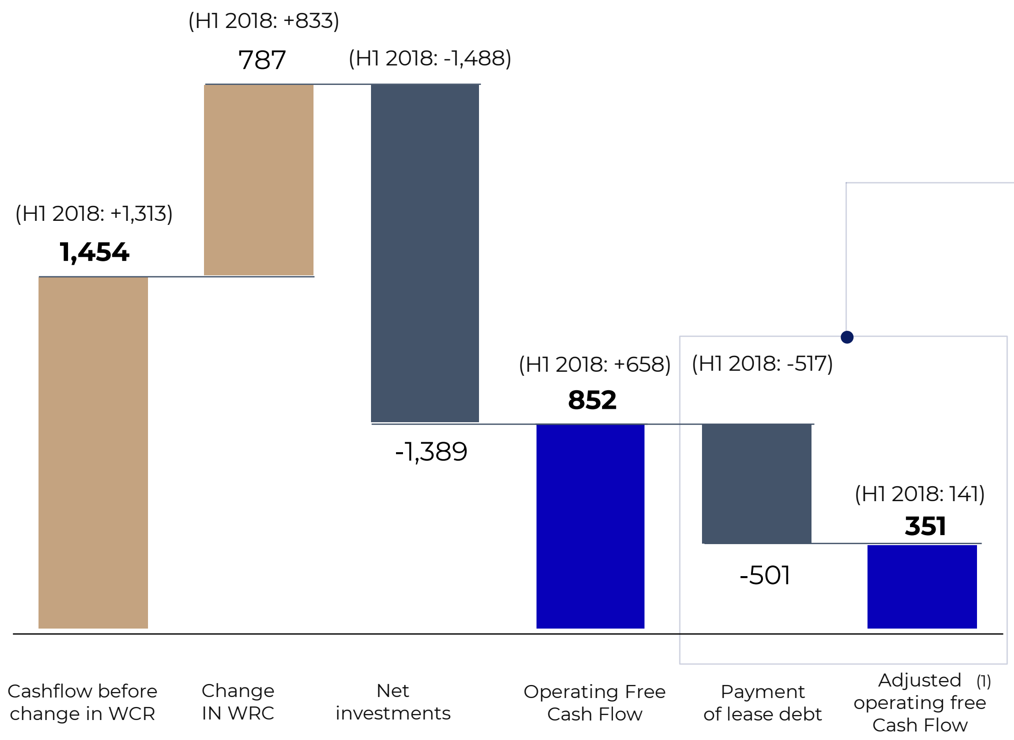
(1) Net Debt / EBITDA: 12 months sliding, see calculation in press release

Net debt down, leverage ratio improved slightly further, on track for full year guidance of below 1.5x

First half 2019

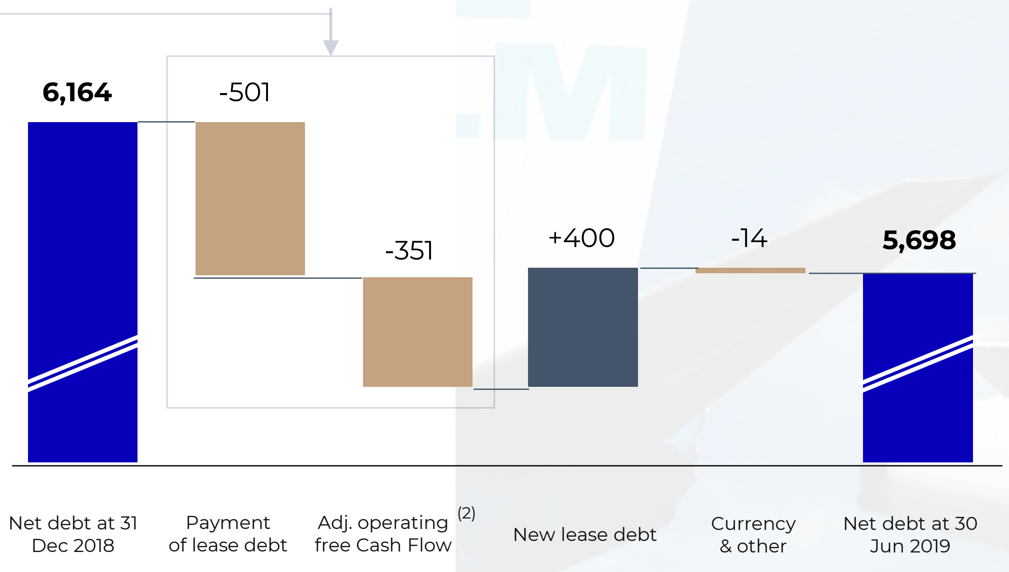
Free cash flow evolution

In € m



Net Debt evolution

In € m



Net debt/EBITDA[2]

31 Dec 2018	30 Jun 2019
1.5x	1.4x

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(1) Adjusted operating free cash flow = Operating free cash flow with deduction of repayment of lease debt

(2) Net Debt / EBITDA: 12 months sliding, see calculation in press release

Outlook

Results at **30 june 2019**

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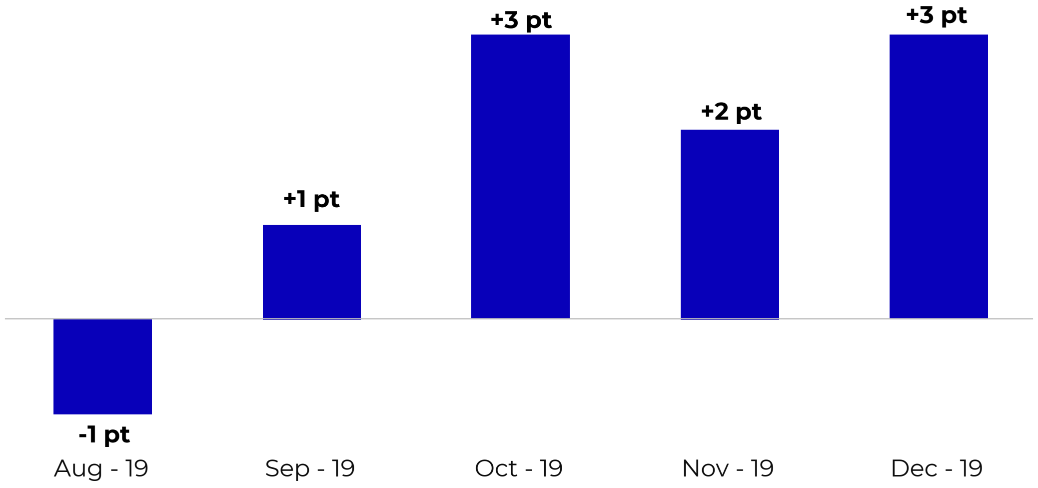
Revenue **Outlook**

Long-haul forward booking load factor
(change vs previous year)



Based on the current data for Passenger network:

- July 2019 load factor stable
- Long-haul forward booking load factors from August to December are on average higher compared to last year
- Passenger network unit revenues at constant currency expected to be stable compared to last year for the third quarter 2019

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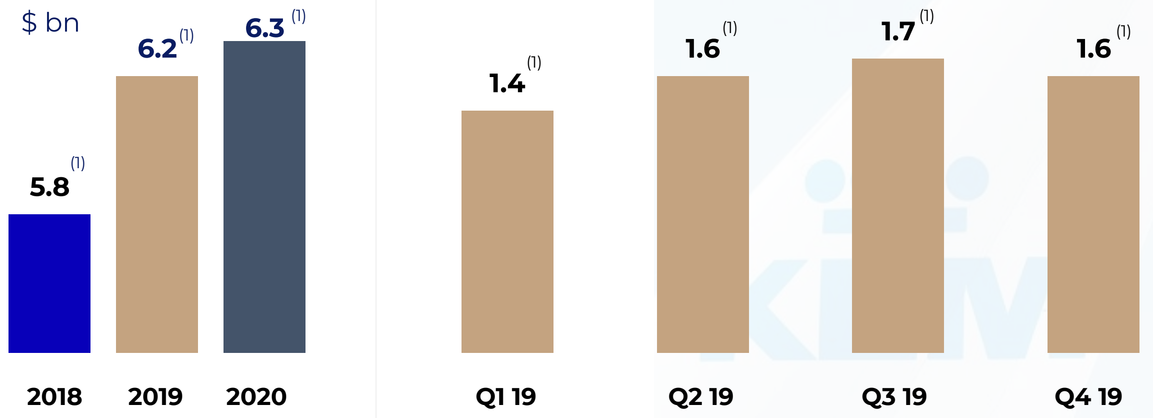
Fuel bill increase by €550 million in 2019, explained by lower positive hedge impact compared to 2018

2018:
Fuel bill €4.9bn[2]

2019:
Fuel bill €5.5bn[2]

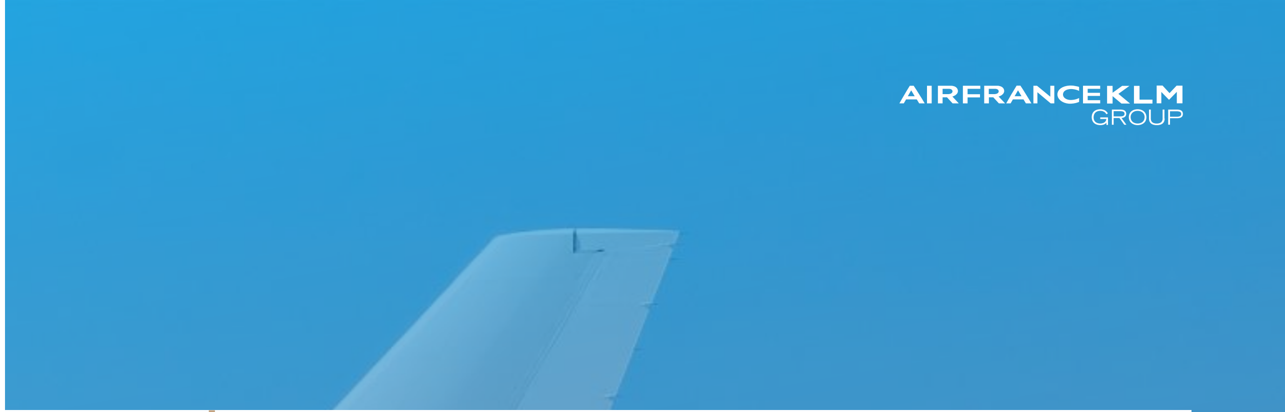
2020:
Fuel bill €5.5bn[2]



		2018	2019	2020	Q1 19	Q2 19	Q3 19	Q4 19
Market price	**Brent ($ per bbl)[1]**	72	65	61	64	68	64	62
	Jet fuel ($ per metric ton)[1]	738	684	672	669	702	685	678
Price after hedge	**Jet fuel ($ per metric ton)[1]**	651	678	684	650	675	692	692
	% of consumption already hedged	60%	61%	48%	61%	62%	62%	60%
	Hedge result (in $ m)	800	50	-100	50	50	0	-50

(1) Based on forward curve at 26 July 2019. Sensitivity computation based on 2019 fuel price, assuming constant crack spread between Brent and Jet Fuel. Jet fuel price including into plane cost

(2) Assuming average exchange rate on US dollar/Euro of 1.13 for 2019 and 1.14 for 2020



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Full year **guidance update**

		Previous guidance	Guidance 2019
Capacity growth	**Passenger**	+2.0% to +3.0%	+2.0% to +3.0%
	Transavia	+9% to +11%	**+7% to +9%**
Fuel		+€650m	**+€550m**
Currency		Neutral effect	Neutral effect
Unit cost Ex-currency at constant fuel price		-1% to 0%	-1% to 0% (1)
Capex		€3.2bn	€3.2bn
Net Debt / EBITDA		Below 1.5x	Below 1.5x

(1) To align with industry practice, the EASK metric will no longer be used as of 2019. New Unit Cost definition will be: Net cost per Available Seat Kilometer at constant currency and fuel The impact of this change should be approximately -0.1pt for 2019

Q&A

Results at **30 june 2019**

Appendix

Results at **30 june 2019**

Operating result at €97 million, further net debt reduction thanks to positive free cash flow €351 million

	H1 2019	H1 2018	Change	Change at constant currency
Revenue (€ bn)	**13.04**	12.43	+4.9%	+3.3%
Fuel expenses (€ bn)	**2.61**	2.25	+16.0%	+8.2%
EBITDA (€ bn)	**1,571**	1,670	-5.9%	-2.0%
Operating result (€ m)	**97**	228	-131m	-69m
Operating margin	**0,7%**	1.8%	-1.1 pt	-0.6 pt
Net income – group part (€ m)	**-240**	-159	-81m	
Adjusted operating free cash flow (€ m)	**351**	141	+149%	
ROCE 12 month sliding	**9.3%**	12.4%	-3.1 pt	
	30 Jun 2019	**31 Dec 2018**	**Change**	
Net debt (€ m)	**5,698**	6.164	-466m	
Net debt /EBITDA 12 month sliding	**1.4x**	1.5x	-0.1 pt	

Revenue growth for all businesses **in first half 2019**

H1 2019		Capacity[1]	Unit Revenue Constant Curr. [2]	Revenues (€ m)	Change	Operating result (€ m)	Change	Operating margin	Change
Network	AIRFRANCE KLM / AIRFRANCE HOP	+3.2%	-0.2%	11,191	+3.8%	12	-138m	0.1%	-1.3 pt
	AIRFRANCE KLM Martinair CARGO	+2.1%	-5.7%						
Transavia	transavia	+10.0%	-0.4%	748	+8.7%	-19	-22m	-2.5%	-3.0 pt
Maintenance	AIRFRANCE INDUSTRIES KLM Engineering & Maintenance			1,081	+14.9%	102	+30m	4.9%	+0.3 pt
Group	AIRFRANCEKLM GROUP	+3.8%	-1.0%	13,036	+4.9%	97	-131m	0.7%	-1.1 pt

(1). To align with industry practice, the Equivalent Available Seat Kilometers (EASK) metric is no longer used. Capacity is defined as Available Seat Kilometers (ASK), except for Network Cargo capacity which is Available Ton Kilometers (ATK). Group capacity is defined as Passenger ASK (Network Passenger ASK + Transavia ASK)

(2). Unit revenues = revenue per ASK, Cargo unit revenues = Cargo revenue per ATK, Group unit revenue = (Network passenger traffic revenues + Transavia traffic revenues) / (Network Passenger ASK + Transavia ASK).

Long-haul offsetting the negative performance in medium-haul

H1 **2019**

Total

ASK	RPK	RASK ex cur.
3.2%	3.8%	-0.2%

RASK ex cur.

Premium	Economy
+0,6%	-0,5%

Medium-haul point-to-point

ASK	RPK	RASK ex cur.
-2.7%	-4.0%	-6.2%

Medium-haul hubs

ASK	RPK	RASK ex cur.
4.4%	5.9%	-0.7%

Total medium-haul

ASK	RPK	RASK ex cur.
3.1%	4.3%	-2.1%

North America

ASK	RPK	RASK ex cur.
6.1%	6.1%	0.4%

Caribbean & Indian Ocean

ASK	RPK	RASK ex cur.
-0.9%	0.5%	4.4%

Asia

ASK	RPK	RASK ex cur.
2.9%	3.9%	2.9%

Latin America

ASK	RPK	RASK ex cur.
8.8%	7.3%	-8.7%

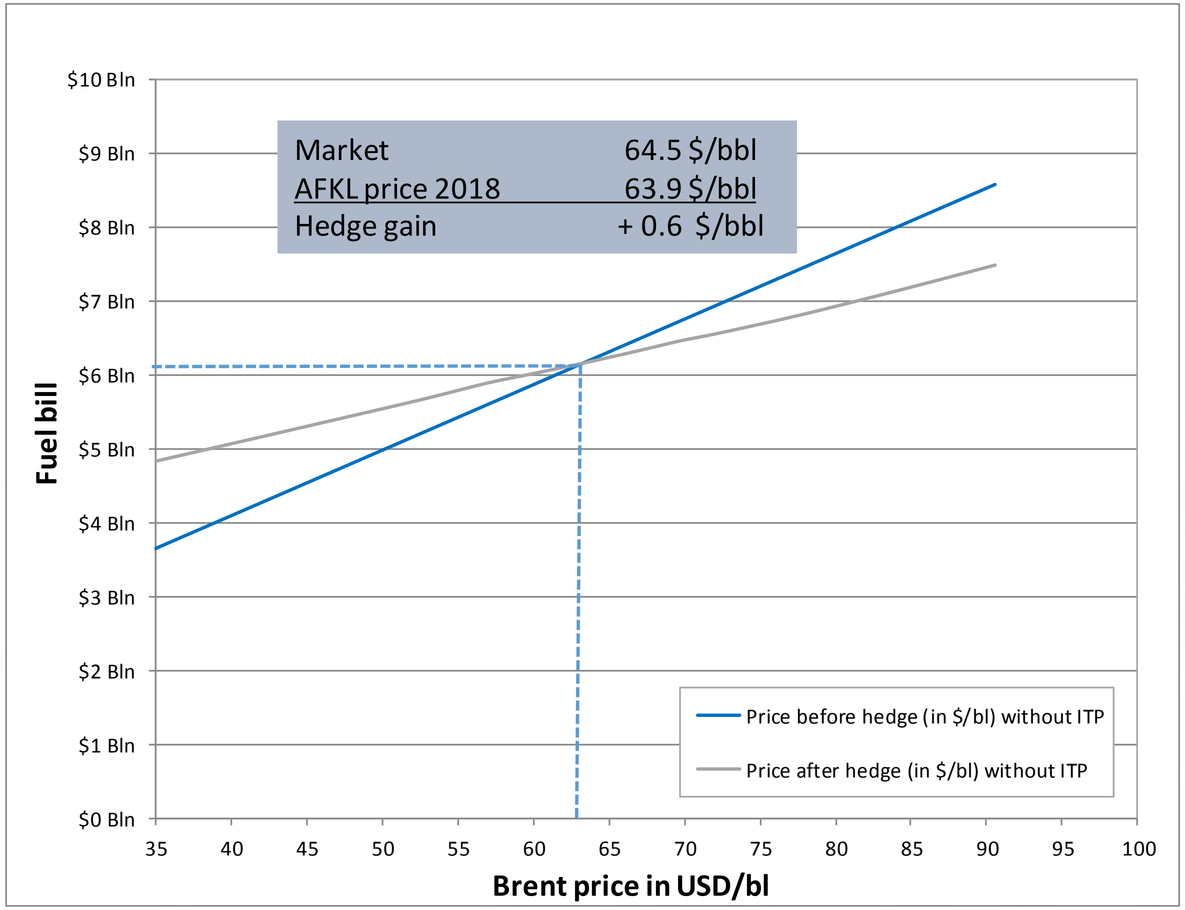
Africa & Middle East

ASK	RPK	RASK ex cur.
-3.2%	-1.4%	4.1%

Total long-haul

ASK	RPK	RASK ex cur.
3.2%	3.7%	0.8%

Fuel bill sensitivity
for full year 2019



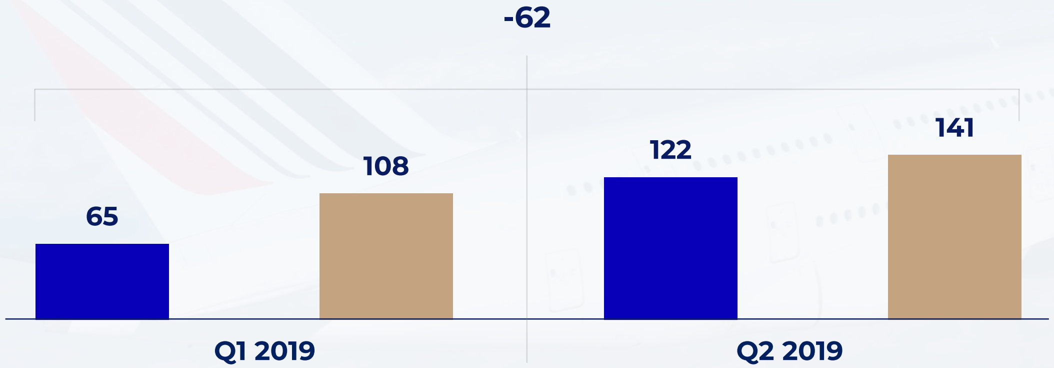
Based on forward curve at 26 July 2019. Sensitivity computation based on 2019 fuel price, assuming constant crack spread between Brent and Jet Fuel. Jet fuel price including into plane cost
Assuming average exchange rate on US dollar/Euro of 1.13 for 2019 and 1.14 for 2020

Currency impact **on operating result**

Currency impact

on revenues and costs

In € m



Currency impact on revenues

Currency impact on costs, including hedging

-XX Currency impact on operating result

FY 2019 guidance

Currency impact **FY 2019:** no effect, based on spot €/$ 1.13

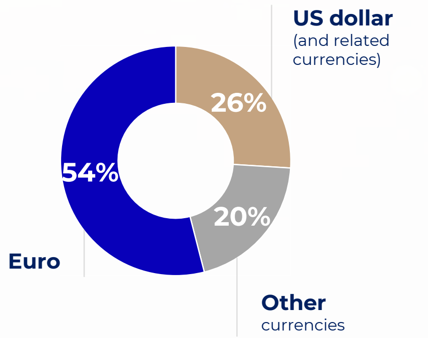
Net operational exposure hedging **for 2019:**

USD ~60% **JPY** ~50% **GBP** ~75%

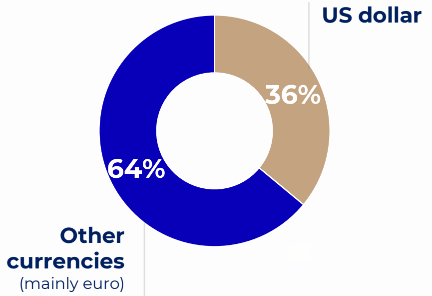
Revenues and costs per currency

FY 2018

REVENUES

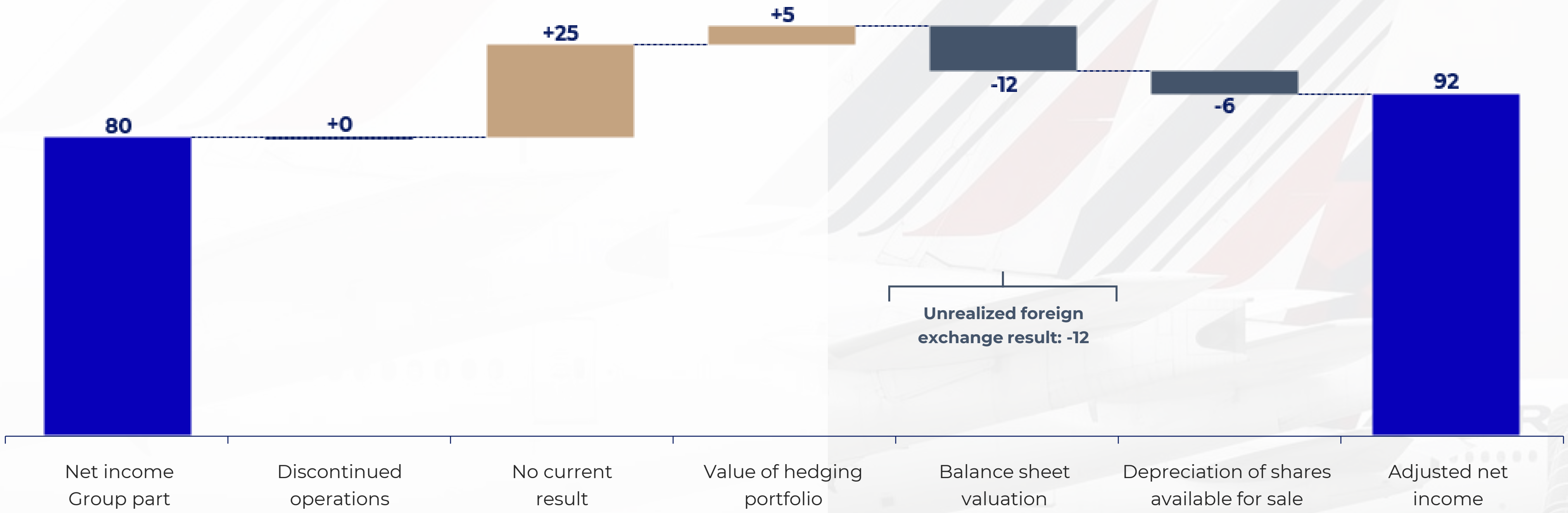


COSTS



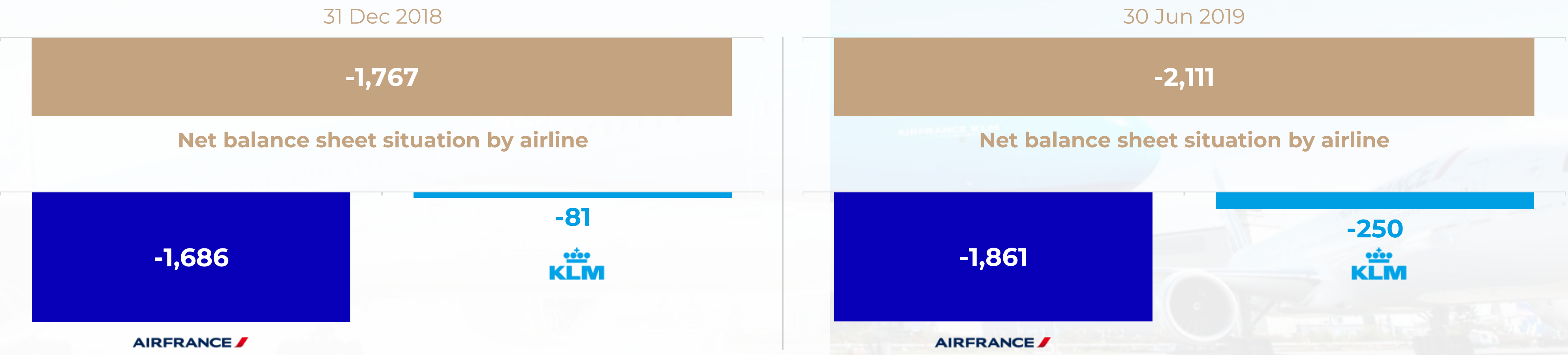
Adjusted net income
of the Group

Q2 2019
In € m



Pension details
at 30 June 2019

In € m



Air France

Air France end of service benefit plan (ICS): pursuant to French regulations and the company agreement, every employee receives an end of service indemnity payment on retirement (no mandatory funding requirement). ICS represents the main part of the Air France position

Air France pension plan (CRAF): related to ground staff affiliated to the CRAF until 31 December 1992

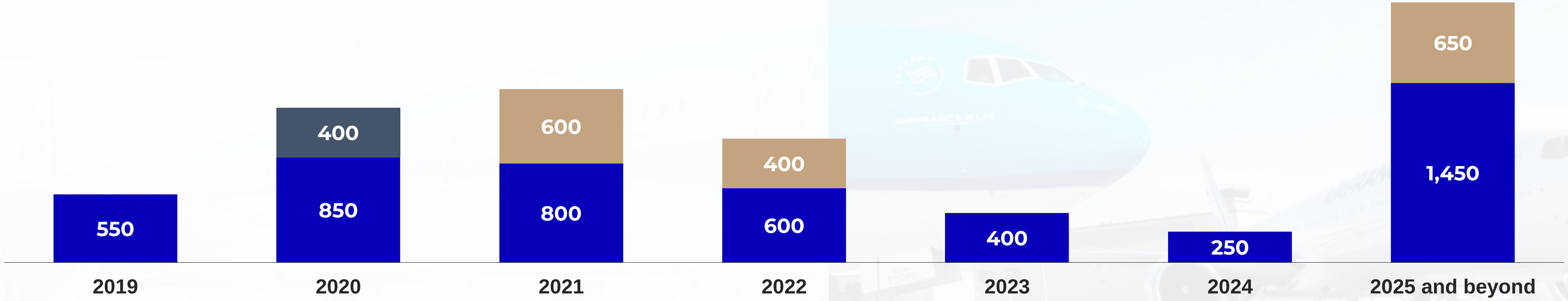
KLM

Defined benefit schemes for Ground Staff

Debt reimbursement **profile at 30 June 2019**

Debt reimbursement profile(1)

In € m



Bonds issued by Air France-KLM

June 2021:
AFKL 3.875% (€600m)

October 2022:
AFKL 3.75% (€400m)

March 2026:
AFKL 0.125% (€500m, Convertible « Océane »)

December 2026:
AFKL 4.35% ($145m)

Air-France KLM Hybrid Unsecured Bond :

AFKL 6.25% Perp Call 2020 (€403m)

Other Long-term Debt : AF and KLM Secured Debt, mainly "Asset-backed" (Net Deposits)

(1). Excluding operating lease debt payments and KLM perpetual debt