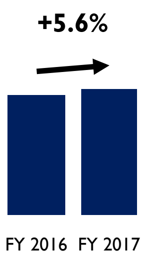
# Full Year 2017 RESULTS
# 16th of February 2018

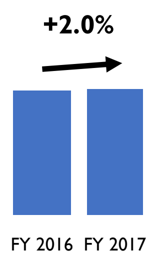

AIRFRANCE KLM

# FULL YEAR 2017 MAIN ACHIEVEMENTS

## Robust traffic statistics

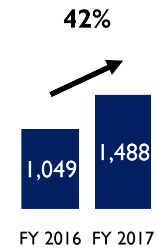



**Passengers**

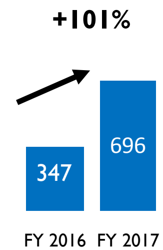



**RASK**(1)
At constant currency

## Strong Full Year results




**Operating income**




**Operating free cash flow**

## Key Messages

- **Regaining the offensive and growth: number one European airline in traffic (RPK)**
- **Building an unrivaled global network of alliances: North Atlantic joint-venture with Delta and Virgin Atlantic, in Asia with China Eastern, Jet Airways and Vietnam Airlines**
- **Major advances with Trust Together: successful launch of Joon, personalizing customer experience**



(1) Group Revenue per Available Seat Kilometer (RASK) Passenger + Transavia

# FINANCIAL REVIEW

# FOURTH QUARTER 2017: DELIVERING REVENUE GROWTH AND INCREASED OPERATING RESULT

| | Q4 2017 | Change | Change at constant currency |
|---|---|---|---|
| Revenues (€bn) | **6.24** | +2.4% | +5.1% |
| EBITDA (€m) | **594** | +4.0% | +7.1% |
| Operating result (€m) | **113** | +20.2% | +13.3% |
| Operating margin | **1.8%** | +0.3 pt | +0.1 pt |
| Lease adjusted operating result(1) (€m) | **200** | +7.5% | +1.1% |
| Lease adjusted operating margin(1) | **3.2%** | +0.2 pt | -0.1 pt |
| Net result, group share (€m) | **-977** | nm | |

*Net result, group share is €219M at Q4 2017 excluding non current expense impact of the de-recognition of KLM pilot pension plan*

(1) Operating result adjusted for the interest portion (1/3) of the operating leases

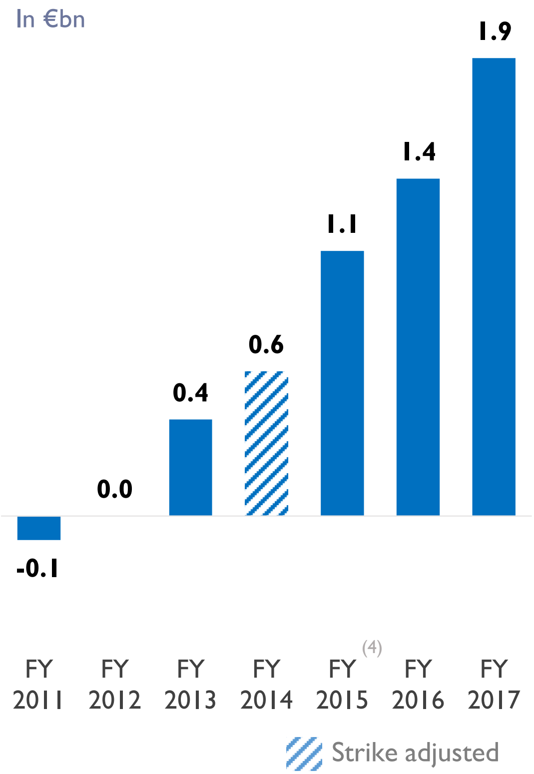
# 2017: STRONG OPERATING RESULT AND SIGNIFICANT STRENGTHENING OF THE FINANCIAL STRUCTURE

| | FY 2017 | Change | Change at constant currency |
|---|---|---|---|
| Revenues (€bn) | **25.78** | +3.8% | +4.3% |
| EBITDA (€m) | **3,264** | +20.3% | +26.8% |
| Operating result (€m) | **1,488** | +41.8% | +60.1% |
| Operating margin | **5.8%** | +1.5 pt | +2.0 pt |
| Lease adjusted operating result(1) (€m) | **1,851** | +31.6% | +43.4% |
| Lease adjusted operating margin(1) | **7.2%** | +1.5 pt | +2.0 pt |
| Net result, group share (€m) | **-274** | nm | |
| *Net result 2017 is €1,155M excluding non current impact of the de-recognition of KLM pilot and cabin pension plans* | | | |
| Operating free cash flow (€m) | **696** | +349 m | |
| ROCE | **11.1%** | +2.1 pt | |
| Net debt at end of period (€m) | **1,657** | -1,998 m | |
| Adjusted net debt (€m)(2) | **9,273** | -1,893 m | |
| Adjusted net debt/EBITDAR(2) | **2.1x** | -0.8x | |

(1) Operating result adjusted for the interest portion (1/3) of the operating leases
(2) Adjusted net debt = net debt + 7x yearly operational lease costs

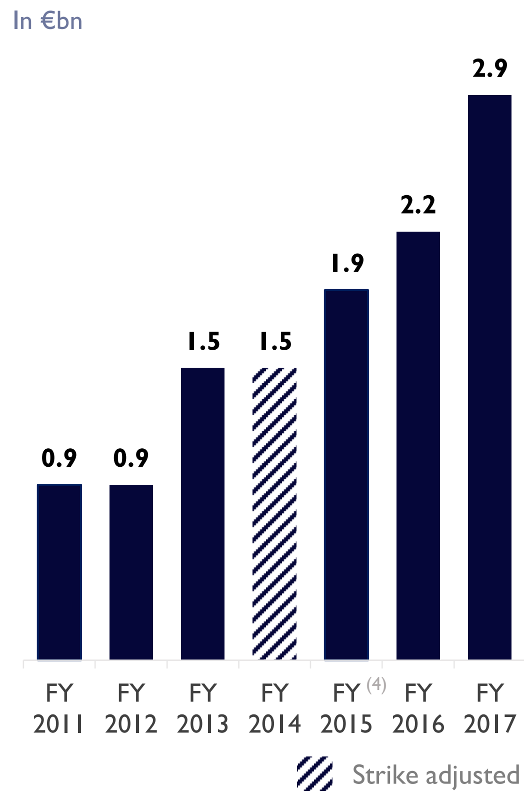
# SIGNIFICANT STRENGTHENING OF THE FINANCIAL STRUCTURE

## Lease adjusted operating result(1)



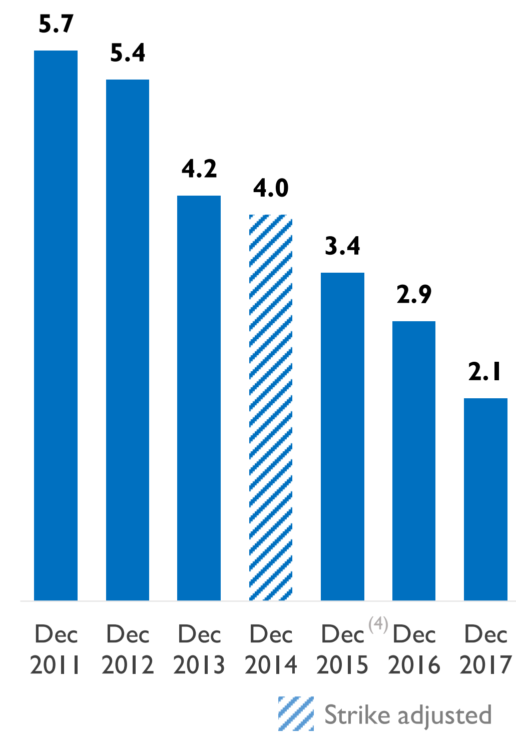

- **2017 vs 2011: +€2.0 bn**

## Operating cash flow(2)




- **2017 vs 2011: +€2.0 bn**

## Adjusted net debt / EBITDAR ratio(3)




- **2017 vs 2011: -3.6**

(1) Operating results adjusted for interest portion (1/3) of operating leases
(2) Operating cashflow including VDP and change in WCR, before investments
(3) Adjusted net debt = net debt + 7x yearly operational lease costs
(4) Reclassification of Servair as a discontinued operation

# INCREASED OPERATING RESULT DRIVEN BY NETWORK AND TRANSAVIA

| | Q4 2017 | | | | Full Year 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Revenues** (€bn) | Change | **Operating Result** (€m) | Change | **Revenues** (€bn) | Change | **Operating Result** (€m) | Change |
| **Network**[1] | 5.49 | 140m | 101 | 55m | 22.48 | 729m | 1,192 | 379m |
| **Transavia** | 0.28 | 31m | -40 | -23m | 1.44 | 218m | 81 | 81m |
| **Maintenance** | 0.46 | -25m | 51 | -15m | 1.82 | -11m | 215 | -23m |
| **Total** | 6.23 | 147m | 113 | 19m | 25.78 | 937m | 1,488 | 439m |

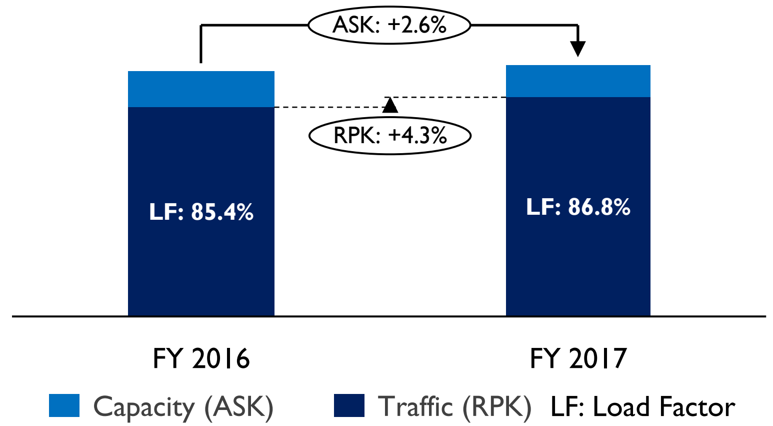


(1) As per Q1 2017, the Network segment consists of Passenger network (Air France, KLM and HOP!) and Cargo business

# NETWORK: SOLID GROWTH IN PASSENGER TRAFFIC AND UNIT REVENUE

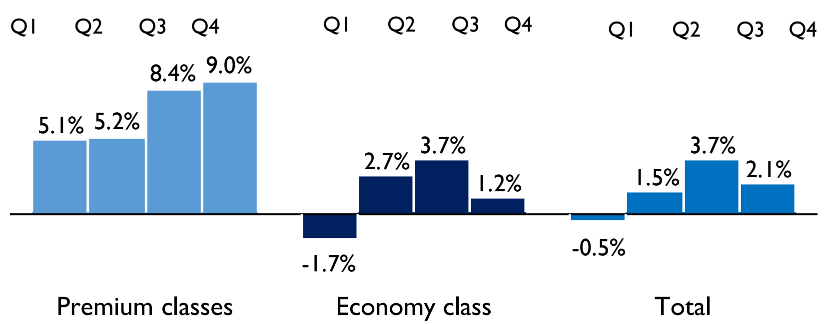
- **Traffic and Unit revenue up compared to last year:**
  > More favorable supply-demand balance
  > Unrivaled global network, innovative product offerings and targeted commercial initiatives
- **2017 Ancillary revenues €575m, up 13% versus last year**

## Full year 2017 Activity

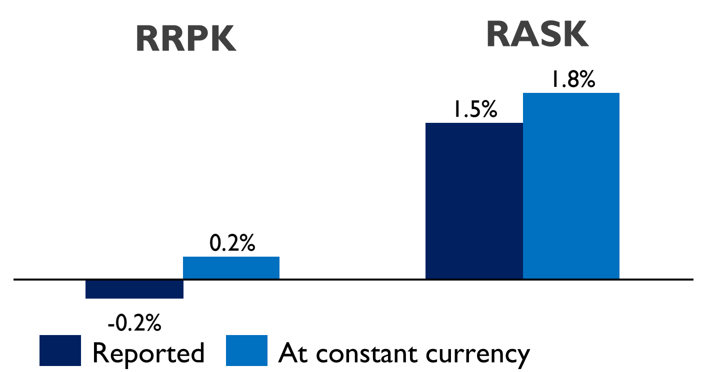



## 2017 Quarterly evolution Unit Revenue

at constant currency




## Full year 2017 Unit Revenue



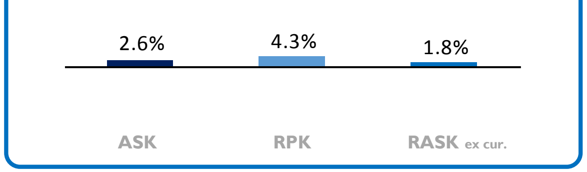




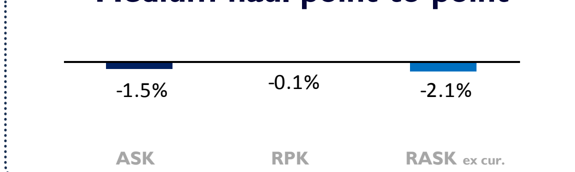

Passenger network: Air France, KLM and HOP!

# NETWORK: STRONG DEMAND IN 2017 ON NORTH AMERICAN ROUTES AND MEDIUM-HAUL HUBS, RECOVERY IN ASIA AND LATIN AMERICA

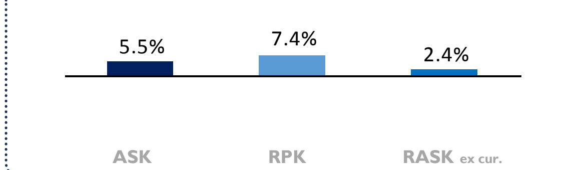
## Full year 2017 Total



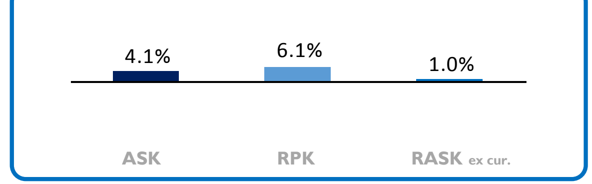

## Medium-haul point-to-point



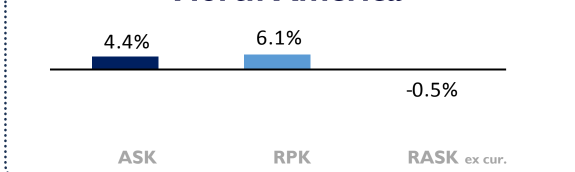

## Medium-haul hubs



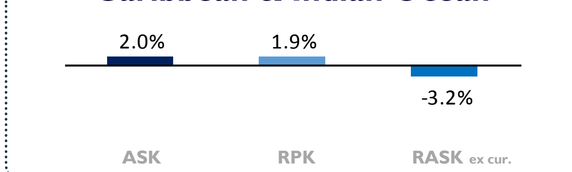

## Total medium-haul



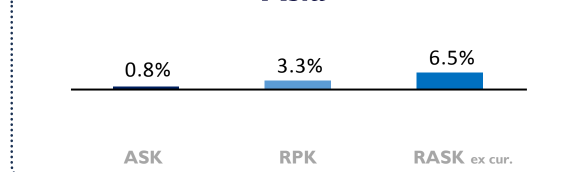

## North America



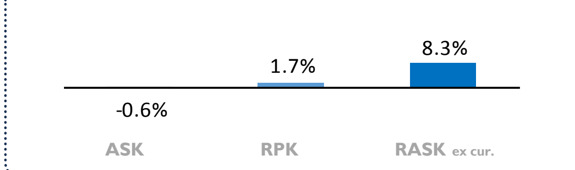

## Caribbean & Indian Ocean



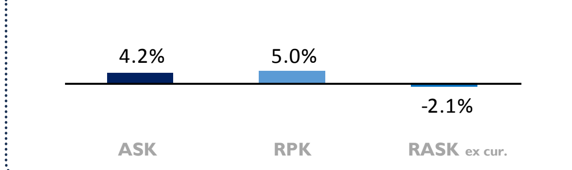

## Asia



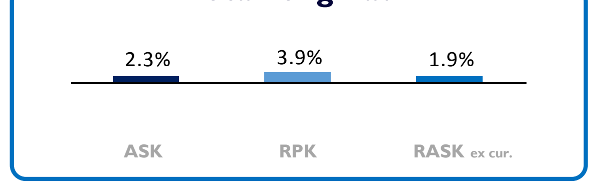

## Latin America




## Africa & Middle East




## Total long-haul



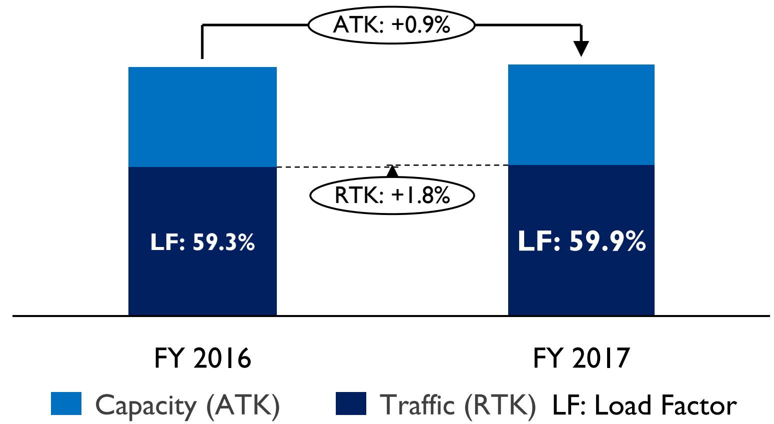



Passenger network: Air France, KLM and HOP!

# NETWORK: CARGO TURNAROUND CONFIRMATION IN 2ND HALF OF 2017

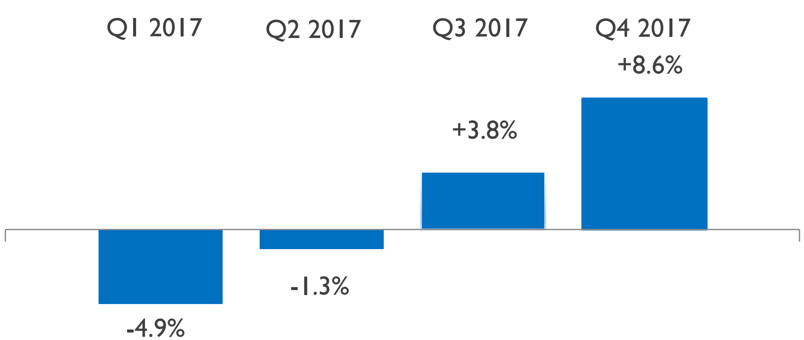
- **Full Freighter activity shows significantly improved performance**
- **Traffic and Unit Revenue up compared to last year:**
  - Market demand growth to and from Asia since start of 2017, and from Latin America starting in H2 2017
  - Optimizing revenue management steering

## Full year 2017 Activity

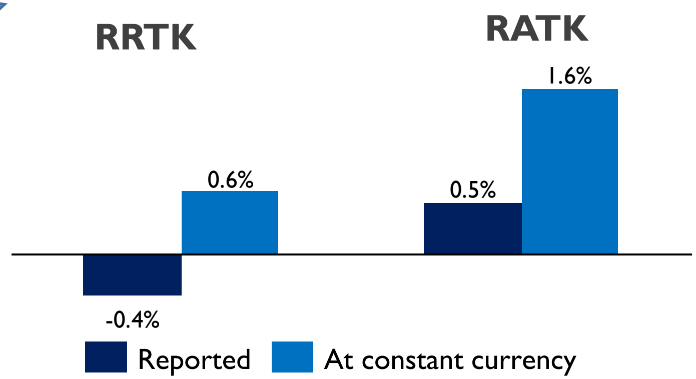



## Quarterly evolution Unit Revenue

at constant currency

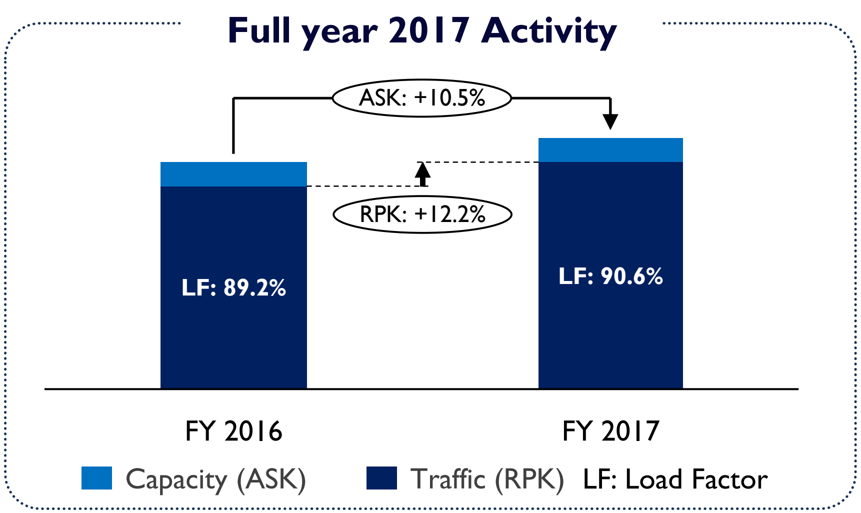


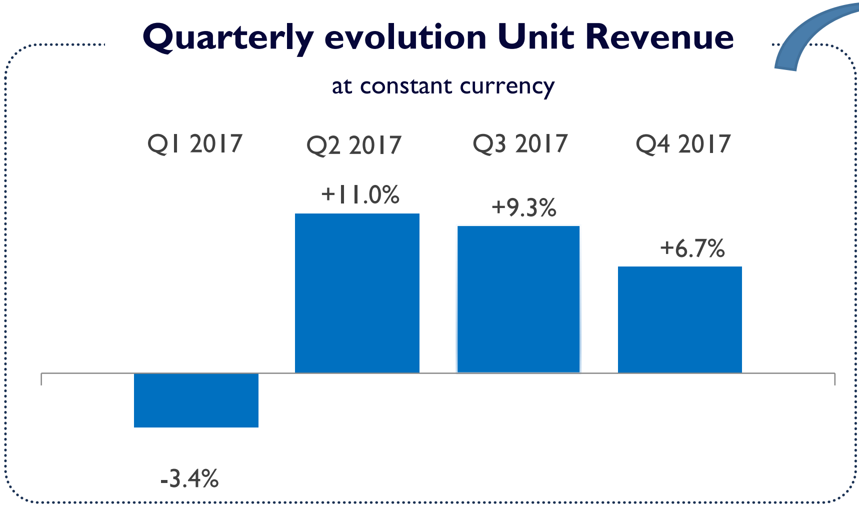

## Full year 2017 Unit Revenue

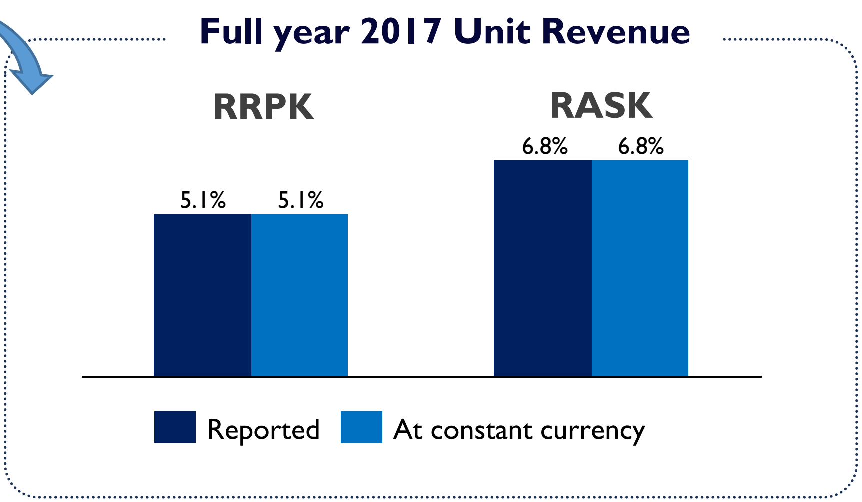


# TRANSAVIA: CLEARLY POSITIVE OPERATING RESULT IN 2017

- **14.8 million passengers, capacity growth 10.5% driven by entire network**
  - > Capacity France +12.1%
  - > Capacity Netherlands +9.6%
- **Operating result full year 2017 €81m with a margin of 5.6%, versus break-even in 2016:**
  - > Unit revenue improvement driven by enhanced commercial positioning and network rationalization
  - > Process and productivity improvements



# MAINTENANCE: MARGIN REMAINING AT SOLID LEVEL AND FUTURE ORDER BOOK INCREASE AHEAD OF TARGET

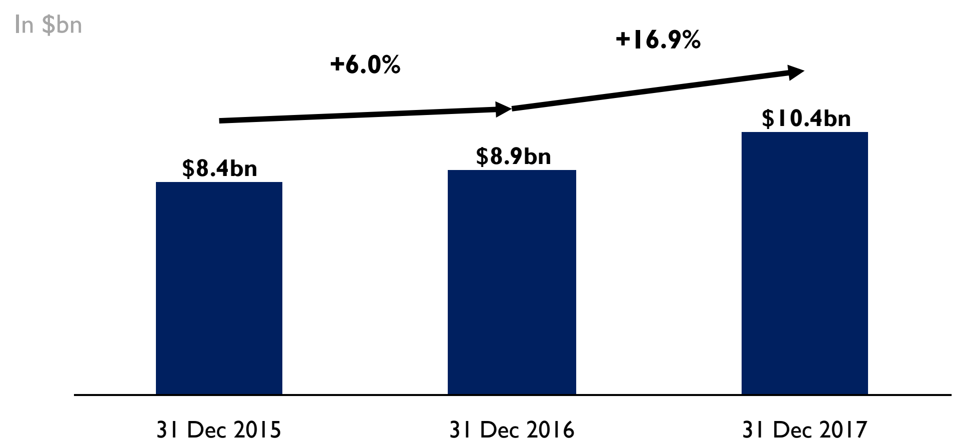
- **Solid margin level on third party revenues, reflecting:**
  - > Margin pressure on Components activity due to strong competitive landscape including OEMs
  - > Manufacturer supply chain pressure and impact of price escalation in the Engine business industry
  - > Better performance on Airframe activity

- **Strong increase in order book of $1.5bn versus last year, securing future growth**
  - > Largely ahead of target ~10% growth, driven by increase in both Engine and Component order book
  - > New contracts signed in the quarter, mainly large CFM56 engine deals and various "Next Gen" components

## Financials

| | Q4 2017 | | | Full Year 2017 | | |
|---|---|---|---|---|---|---|
| | Q4 2017 (€m) | Change | At constant currency | FY 2017 (€m) | Change | At constant currency |
| Total revenue | 1,086 | -3.9% | | 4,177 | -0.1% | |
| Third party revenue | 461 | -5.1% | +2.5% | 1,823 | -0.6% | +1.1% |
| Operating result | 51 | -15 m | -10 m | 215 | -23 m | -23 m |
| *Operating margin* (1) | *4.7%* | *-1.1 pt* | *-1.0 pt* | *5.1%* | *-0.5 pt* | *-0.6 pt* |

## Order book

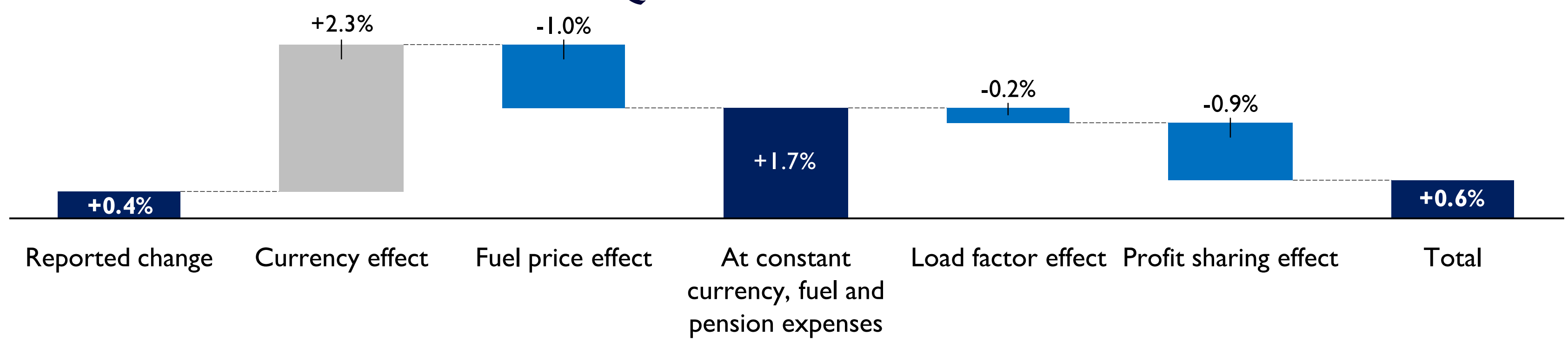




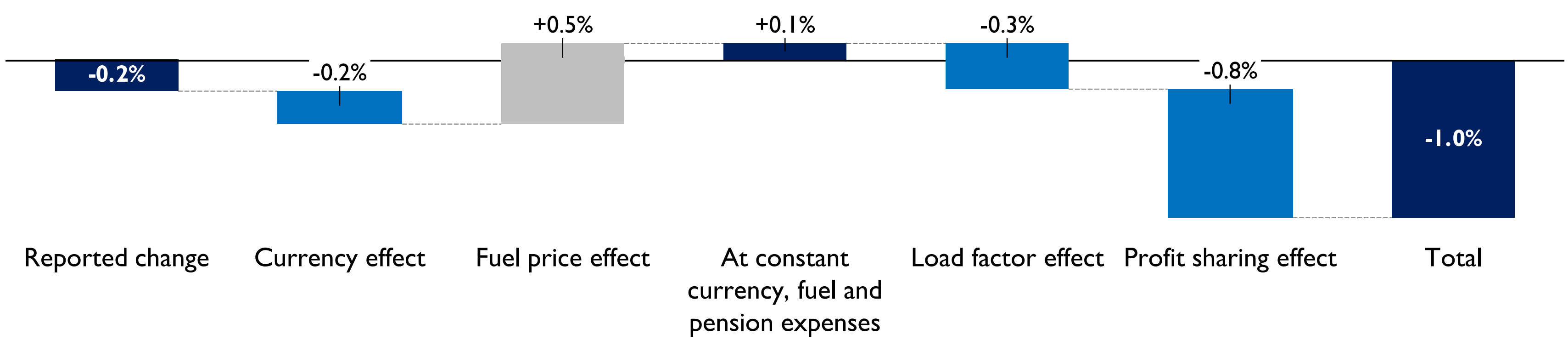

(1) Operating margin: operating result / total revenue

# FULL YEAR 2017: FLAT UNIT COST IN SPITE OF INCREASED PROFIT SHARING AND LOAD FACTOR EFFECTS

## Q4 unit cost evolution




## Full year unit cost evolution






NB: See unit cost definition in press release

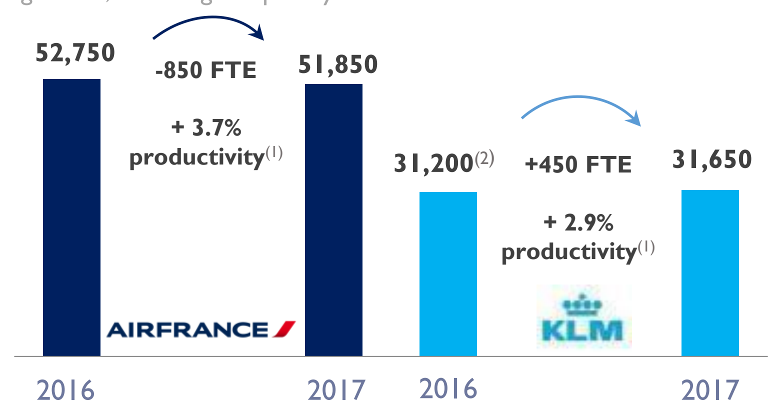
# EMPLOYEES DELIVERING PRODUCTIVITY AND SHARING THE BENEFITS

- **Continuous focus on productivity improvement:**
  - > FY 2017 average FTEs at 83,500, down 400 FTEs compared to FY 2016 average
    - -1,050 Ground staff FTEs
    - +650 Cabin and cockpit FTEs due to capacity growth
  - > Employee productivity [1] +3.5% in 2017 (capacity measured in EASK +3.0%) [1]

- **Stable staff costs excluding profit sharing**

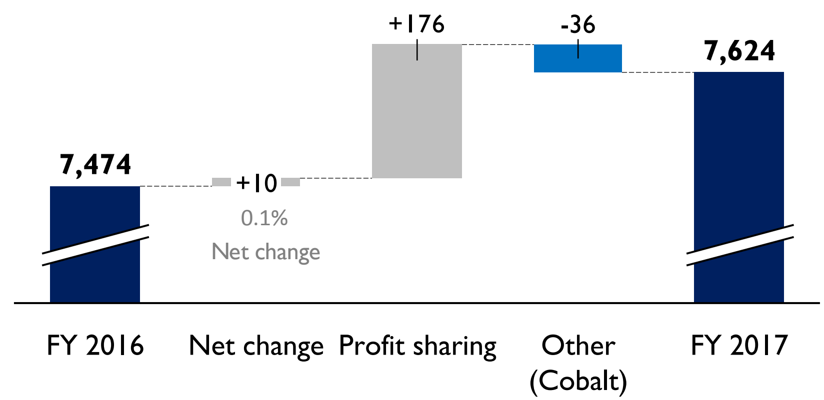
## Employee productivity

Average FTEs, including temporary staff



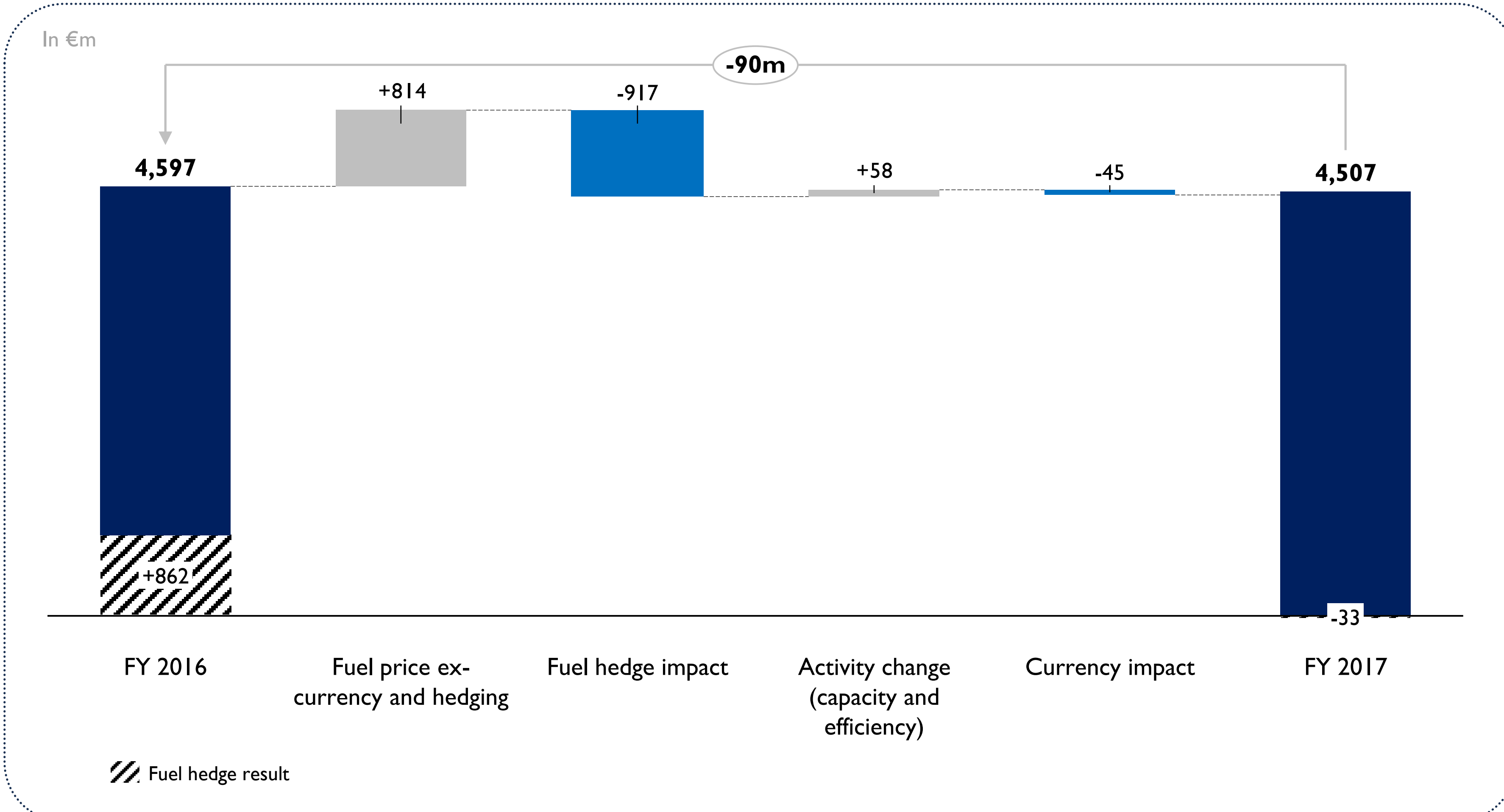

## Change in total staff costs

In €m, including temporary staff

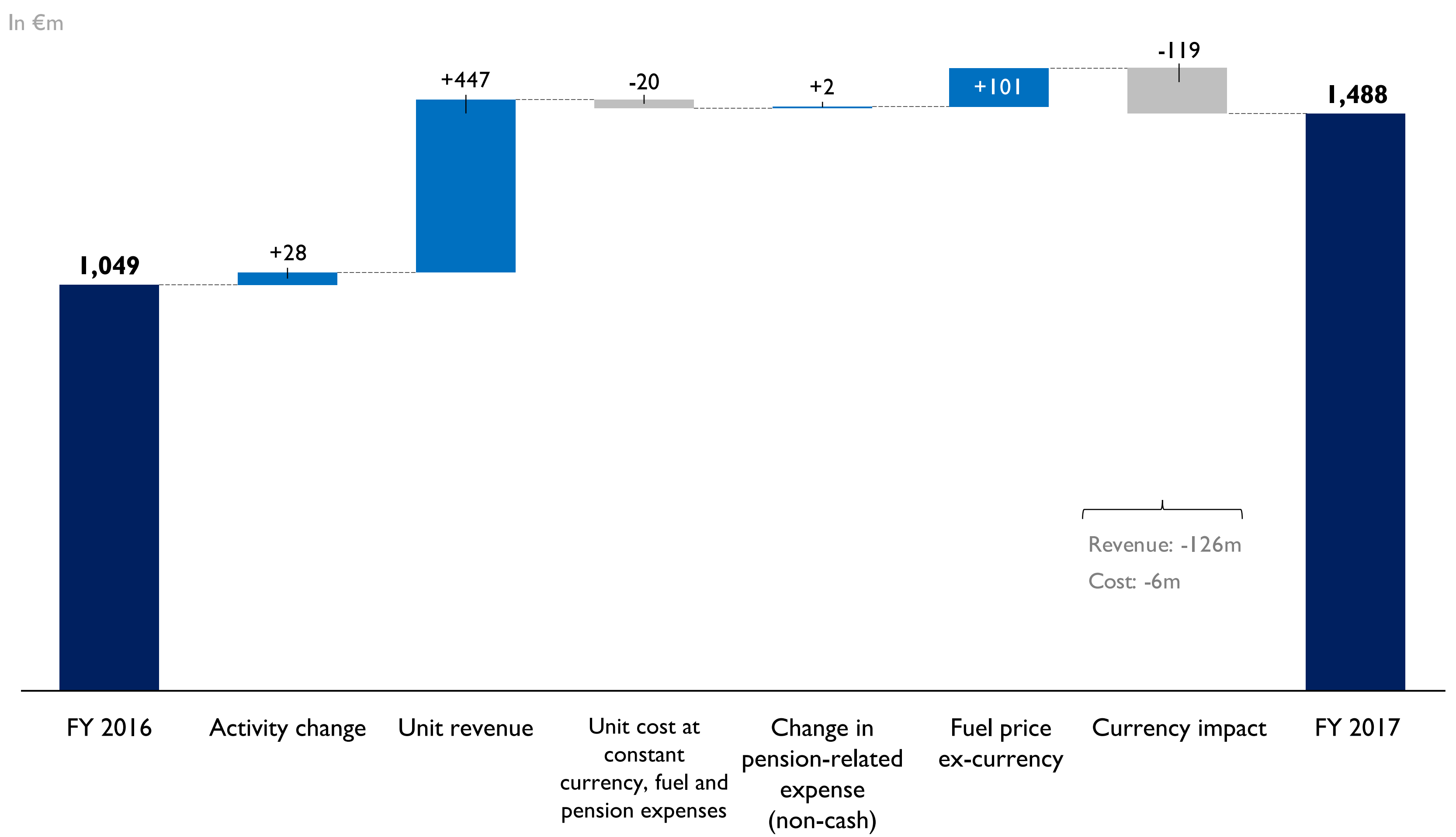



(1) Productivity measured by EASK/FTE
(2) 2016 FTE headcount restated for the sale of Cobalt Ground Solutions

# 2017 FUEL BILL DOWN 90M EUR



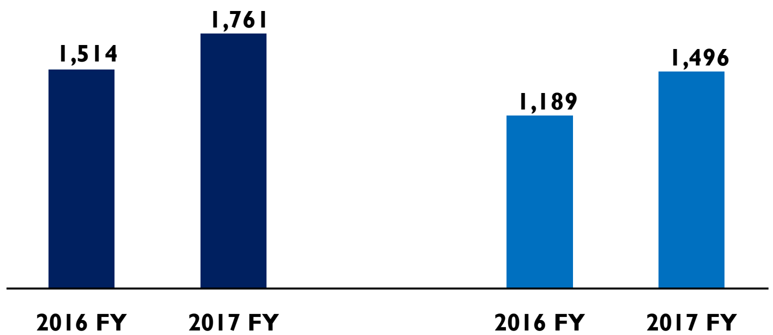
# IMPROVED OPERATING RESULT DRIVEN BY SOLID UNIT REVENUE PERFORMANCE



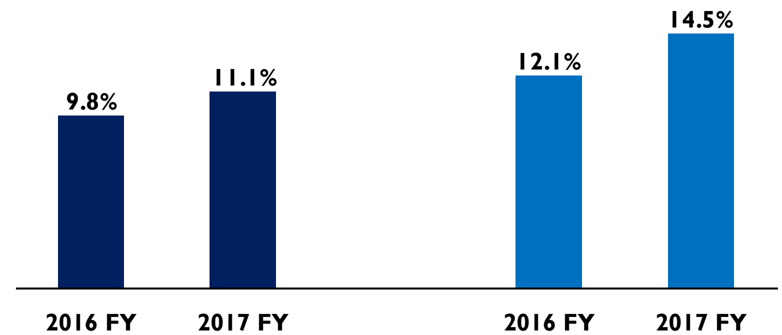
# CONTRIBUTION BY AIRLINE TO FULL YEAR RESULTS

## EBITDA

In €m

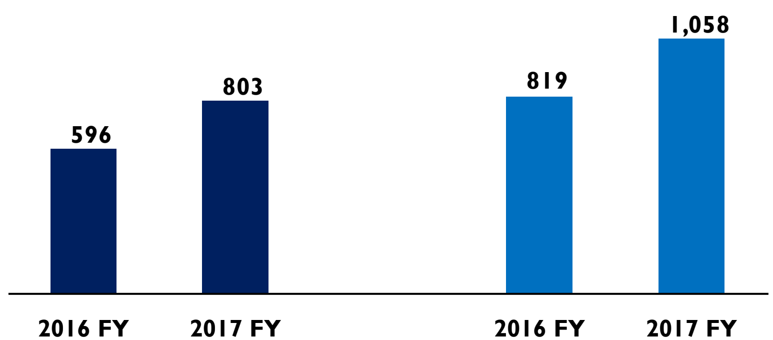



## EBITDA margin

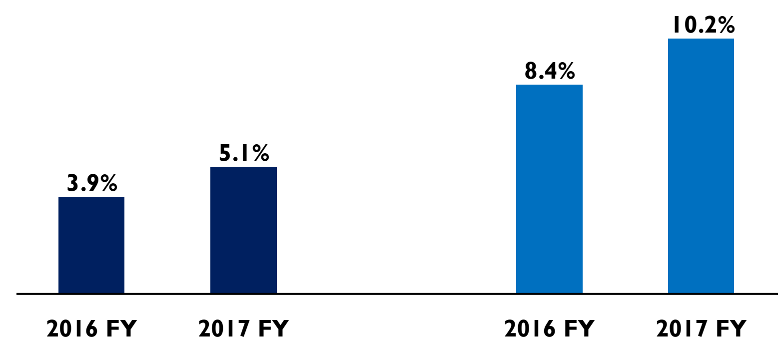



## Lease adjusted operating result[1]

In €m




## Lease adjusted operating margin[1]

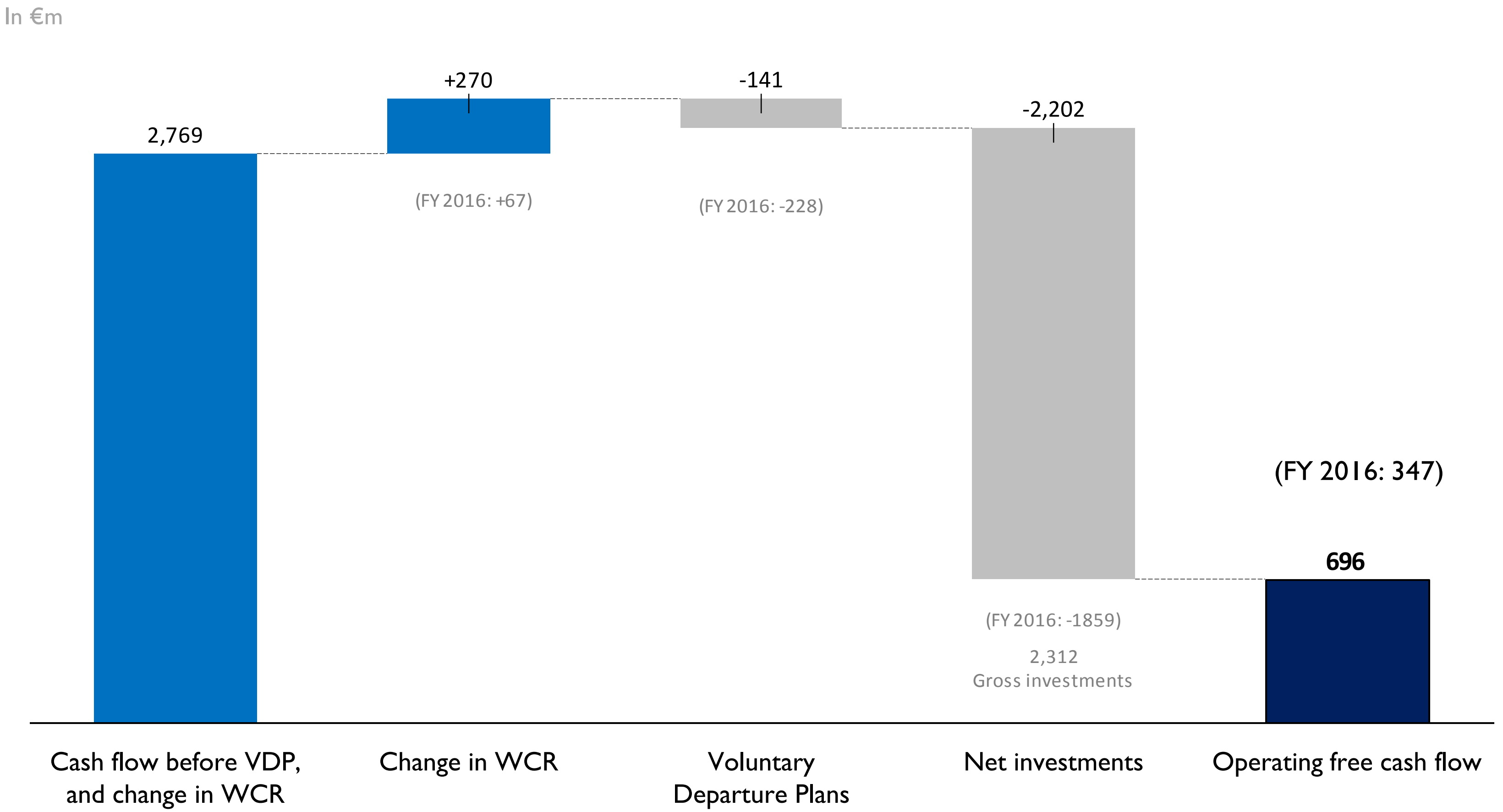





(1) Operating results adjusted for interest portion (1/3) operating leases

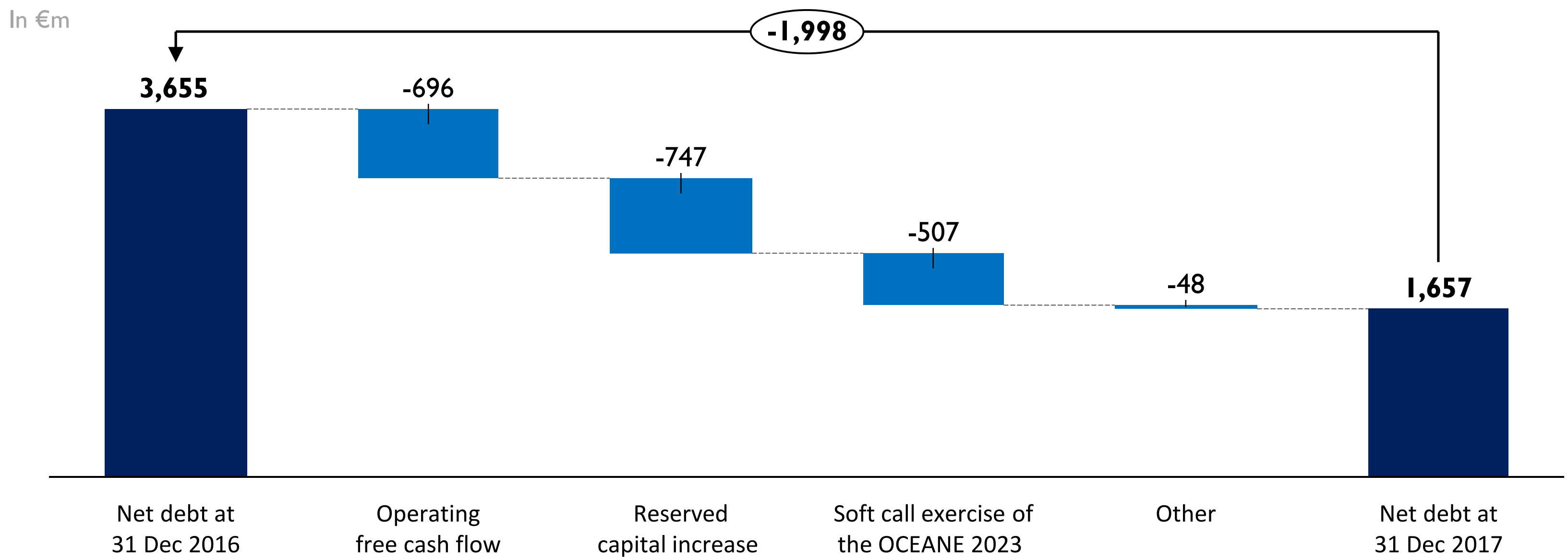
# STRONG OPERATING FREE CASH FLOW

## Operating free cash flow breakdown Full Year 2017

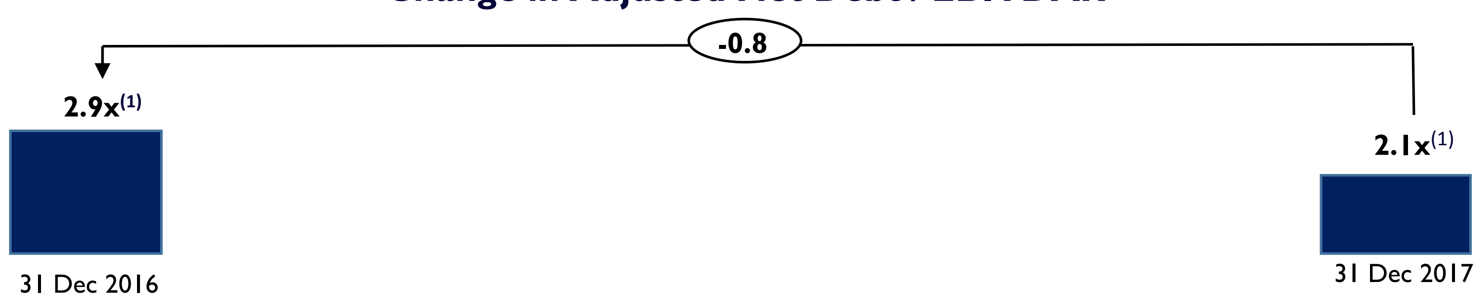


# REDUCTION IN NET DEBT OF 2 BILLION EUROS FROM OPERATING FREE CASH FLOW AND CAPITAL INCREASES

## Change in Net Debt




## Change in Adjusted Net Debt / EBITDAR








(1) Adjusted net debt = Net Debt + 7* Yearly Operating lease costs

# IFRS 16 IMPLEMENTATION PER JANUARY 2018: NET DEBT REDUCED BY 2.0 TO 2.4 BILLION EUROS COMPARED TO REPORTED ADJUSTED NET DEBT

## IFRS 16 impact on P&L and Balance sheet

| P&L impact 2018 and 2017 re-stated | |
|---|---|
| External expenses | ↓ |
| EBITDAR | ✕ |
| Operating leases | ✕ |
| EBITDA | ↑ |
| Amortizations and depreciation | ↑ |
| Income from operating activities | ↑ |
| Cost of financial debt | ↑ |
| Net result | ≈ |

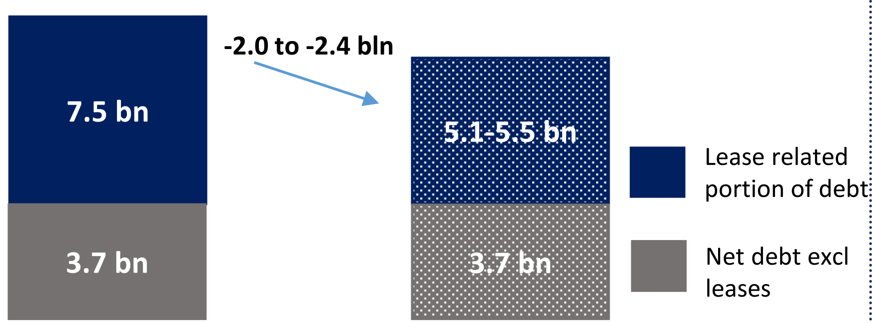
**Balance sheet restatement per 1st of Jan '17**
€ Bln

| Asset | ↑ | 4.1 <> 4.9 | Liabilities & Equity | ↑ | 4.1 <> 4.9 |
|---|---|---|---|---|---|
| Fixed Assets: right of use | ↑ | 4.0 <> 4.4 | Equity | ↓ | -0.6 <>-0.9 → -0.3 <> -0.6 |
| Deferred tax asset | ↑ | 0.1 <> 0.5 | Liabilities | ↑ | 5.1 <> 5.5 |
| | | | Lease debt | ↑ | 5.1 <> 5.5 |
| | | | Provision maintenance | | TBC |

**Re-valuation 2017 proforma input on result +€0.3 Bln**

## IFRS 16 Net debt evolution

**Former accounting rules** — Adjusted Net debt[1]
**IFRS 16** — Net debt
In €




At 31 Dec 2016

Lease debt assessment based on balance sheet restated at 1st Jan 2017

- **Debt related to lease contracts reduced by 2.0 to 2.4 billion euros under IFRS 16**
- **Limited volatility in the foreign exchange result involved by the revaluation of the USD lease debt from 2018 onwards: natural hedge for the USD revenues by the USD lease debt**



(1) Under former accounting rules, Adjusted Net debt amounts to Net Debt added to the annual of operating leases capitalized 7x. IFRS 16

# MINOR IMPACTS FROM IFRS 9 AND IFRS 15 IMPLEMENTATION

- IFRS 9 Financial Instruments
  > Minor impact on Current Operating Income

  > Reduced volatility on financial result

- IFRS 15 Revenue recognition
  > Airline revenues timing effect, but year-over-year neutral to P&L

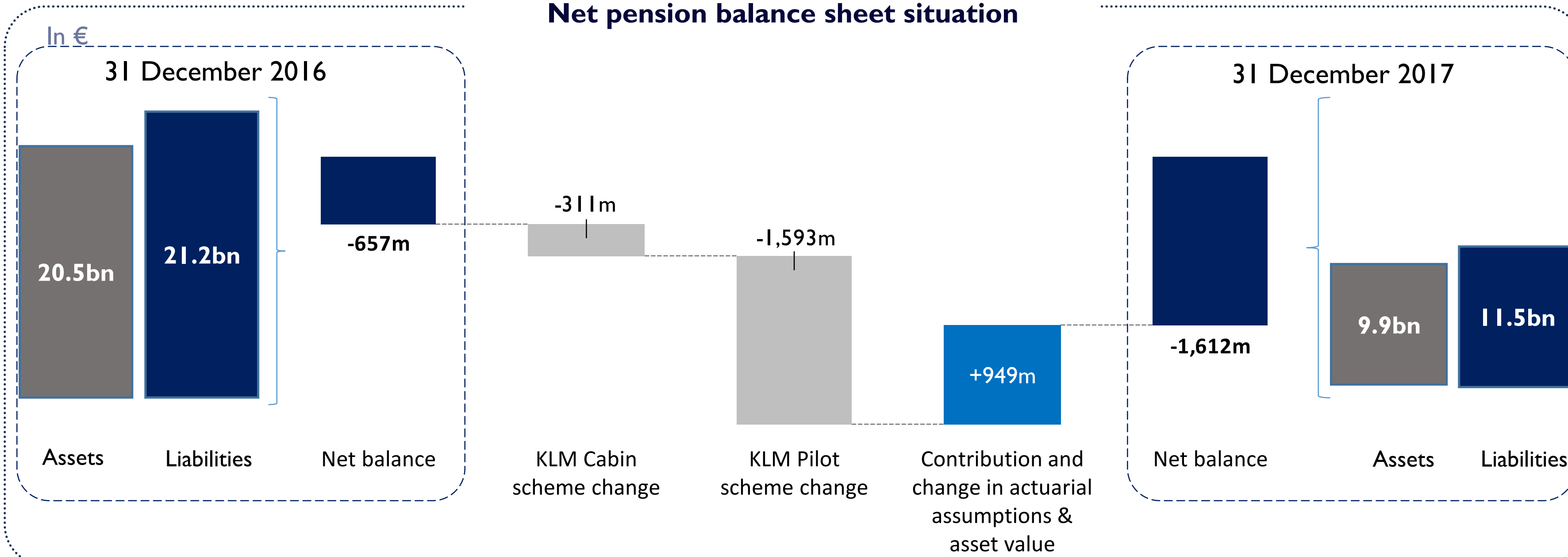
  > Timing effect impact for maintenance revenues as the revenue recognition of flight hour based contracts will be done on an expense incurred basis

# NET PENSION BALANCE SHEET SITUATION IMPACTED BY DE-RISKING OF KLM CABIN AND PILOT PENSION SCHEMES

## De-risking KLM pension schemes impact

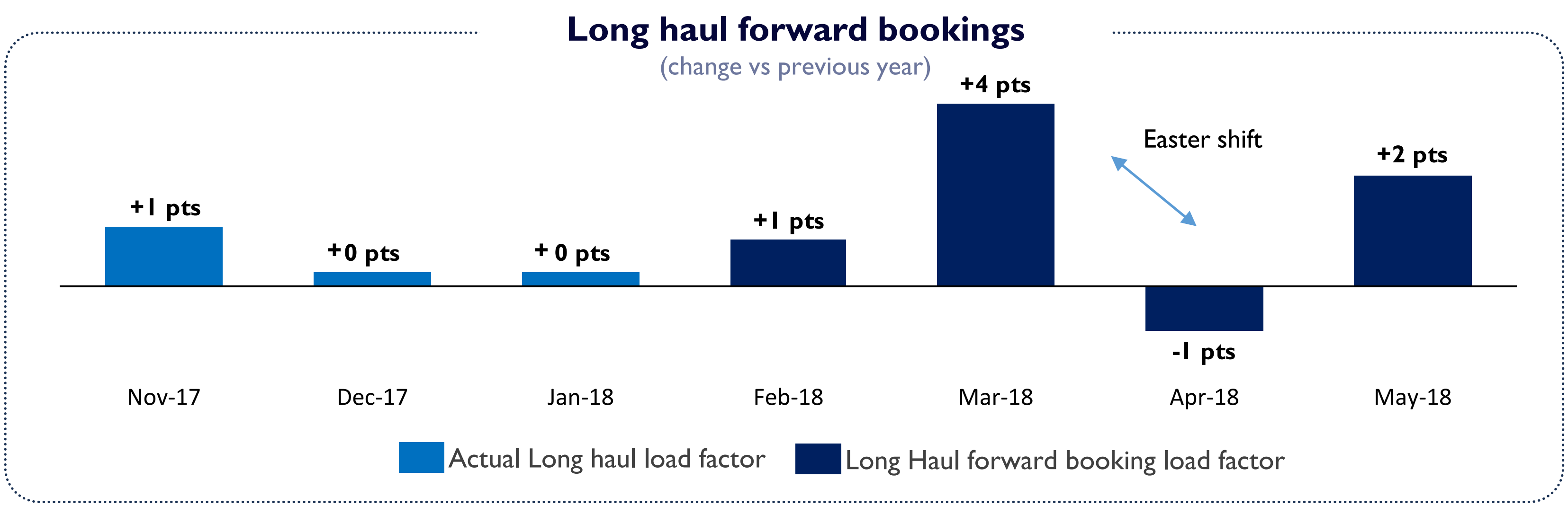
| Impact on balance sheet of change of schemes | De-recognition of pension asset (€m) | One-off lump sum to the pension fund (€m) | Gross contribution (€m) | Net contribution of pension asset to equity / Non-current P&L effect (€m) |
|---|---|---|---|---|
| KLM Cabin | -311 | 0 | -311 | -233 |
| KLM Pilot | -1,399 | -194 | -1,593 | -1,196 |
| | -1,710 | -194 | -1,904 | -1,429 |

## Net pension balance sheet situation



# OUTLOOK

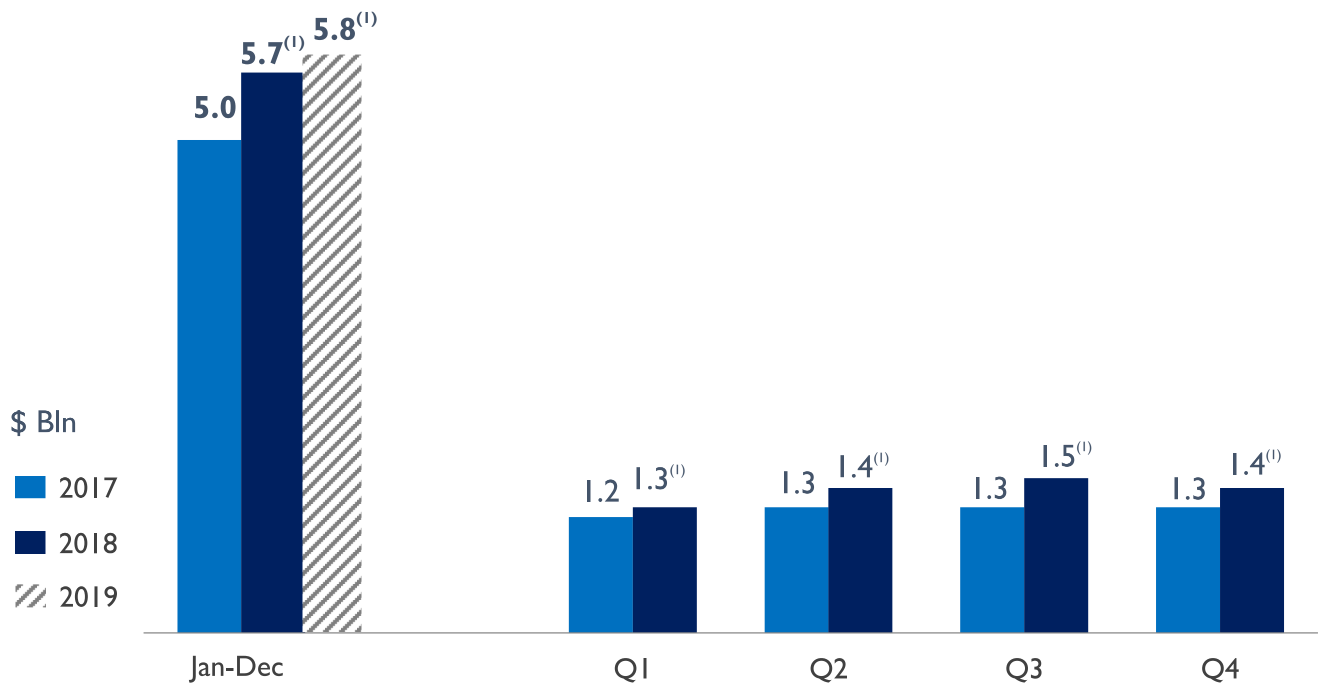
# EARLY 2018 OUTLOOK FOR PASSENGER NETWORK: CONTINUATION OF THE POSITIVE TREND




- Long haul forward booking load factors ahead of last year for the first months of 2018 with a strong March 2018 due to Easter shift
- Based on current outlook, Q1 2018 unit revenues are expected to be positive at constant currency versus last year

# 2018 OUTLOOK FUEL BILL: +650M USD, +150M EUR

2017:
fuel bill €4.5bn
2018:
fuel bill €4.7bn(2)
2019:
fuel bill €4.6bn(2)

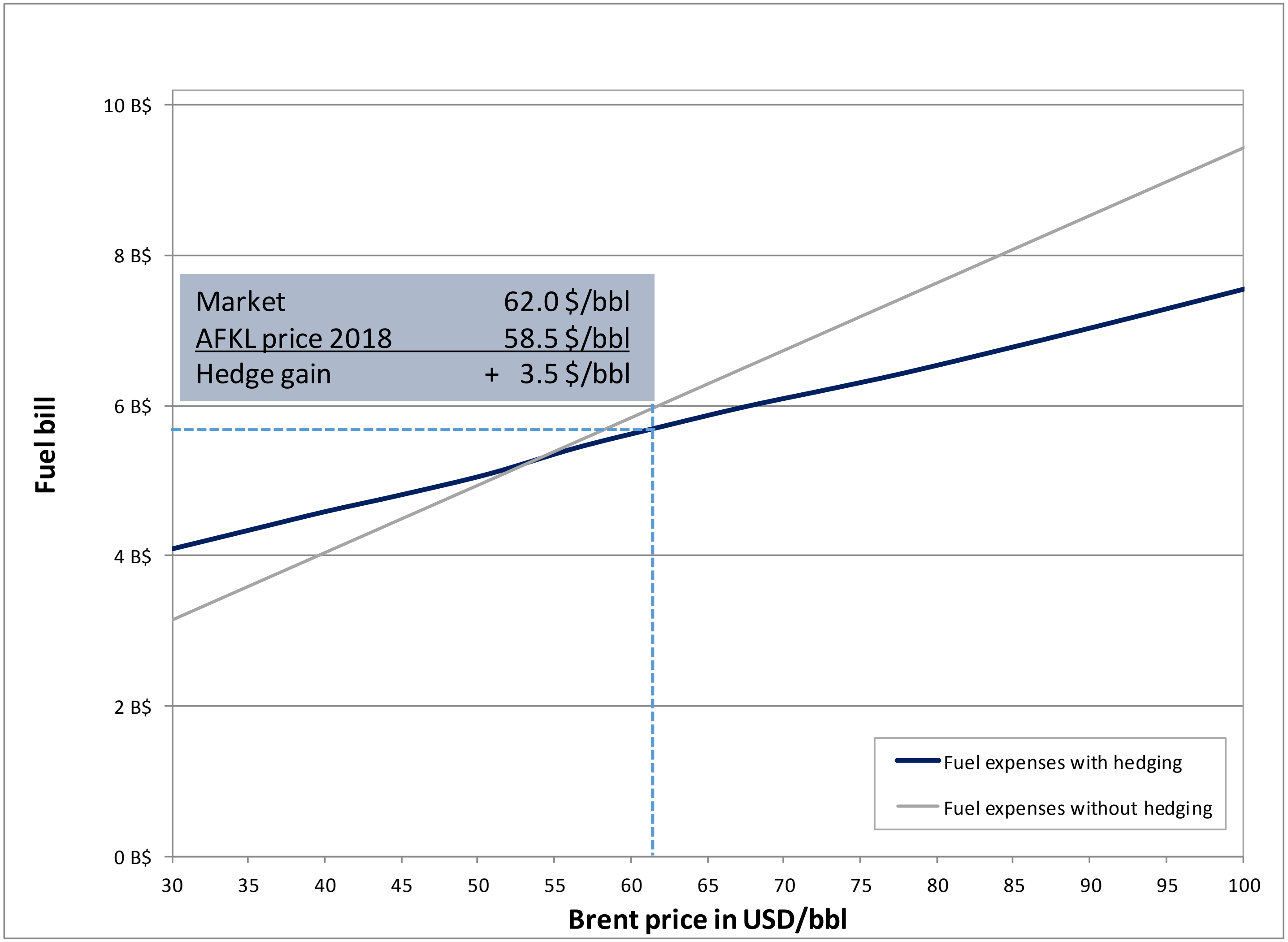



| | | Jan-Dec | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|
| MARKET PRICE | Brent ($ per bbl)(1) | 62 | 66 | 62 | 61 | 60 |
| | Jet fuel ($ per metric ton)(1) | 604 | 631 | 602 | 595 | 590 |
| | % of consumption already hedged | 55% | 60% | 60% | 52% | 50% |



(1) Based on forward curve at February 9th 2018. Sensitivity computation based on 2018 fuel price, assuming constant crack spread between Brent and Jet Fuel
(2) Assuming average exchange rate of US dollar per euro 1.22 for 2018 and 1.28 for 2019

# FUEL BILL 2018 SENSITIVITY



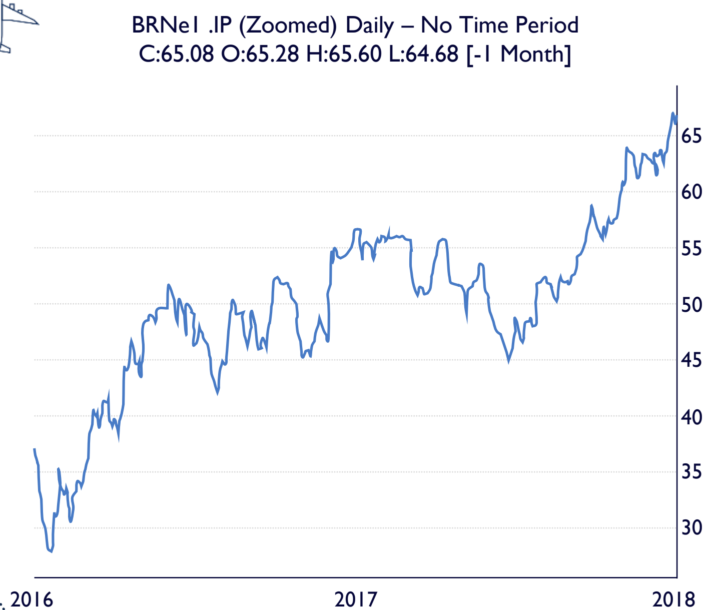
# 2018 OUTLOOK

- Full year 2018 capacity of Passenger Network +3-4% and Transavia +6-7%
- Unit cost reduction between -1.0% and -1.5% at constant currency, fuel and pension-expense
- 2018 capex to be managed in the long-term target range of €2.0bn to €2.5bn
- Positive operating free cash flow (before acquisitions and disposals)
- Adjusted net debt to EBITDA: new target to be defined taking into account IFRS16

# BUSINESS HIGHLIGHTS

# STARTING 2018 WITH A MORE CHALLENGING ENVIRONMENT

## Rising oil prices

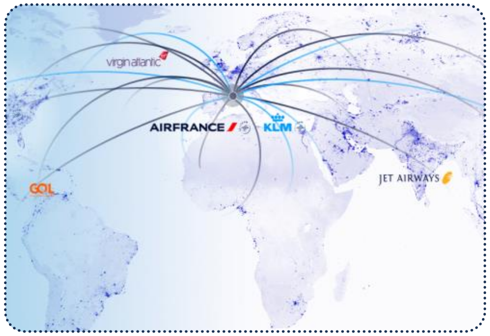



Source: ICE – Brent Crude Oil Future – APR18

## Intense competition

# PURSUE THE OFFENSIVE AND RESPOND TO COMPETITION

**Unrivaled network of alliances**




**Adapted cost structure to complement our hub operations**

joon

**Profitable point-to-point low-cost airline**


transavia

# COMMERCIAL INITIATIVES AND DIGITAL INNOVATION

## New distribution strategy

## Flying Blue


## Digital innovation

# PURSUE THE OFFENSIVE AND MAINTAIN PROFITABLE GROWTH MOMENTUM

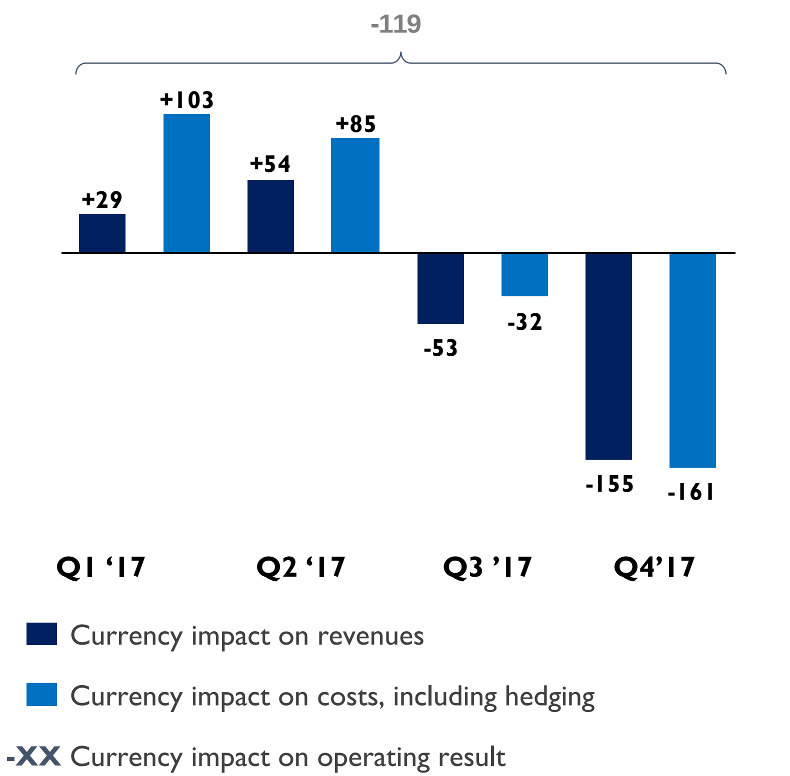
- **Leveraging 2017 achievements to maintain the offensive**
- **Priority roadmap for further cost reductions and to generate sustainable growth**
- **Pursue discipline to preserve a sound balance sheet**
- **Preparation of mid-term strategic plan**

# APPENDIX

# FLAT TO SLIGHTLY POSITIVE CURRENCY IMPACT ON THE OPERATING RESULT

## Currency impact on revenues and costs

In €m



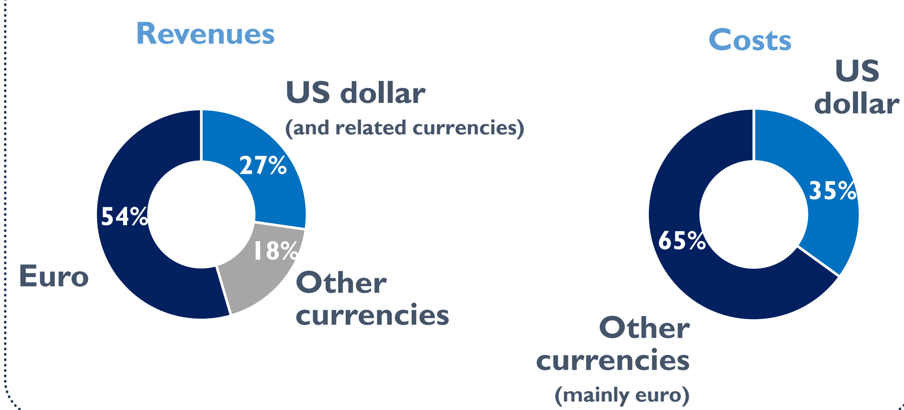

## FY 2018

FY 2018 guidance

- FX FY 2018 estimated flat to €50m tailwind based on spot €/$ 1.19
- Hedging policy on USD, GBP: ~60% and JPY ~40% net operational exposure 2018

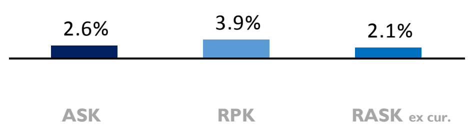
## Revenues and costs per currency

FY 2017

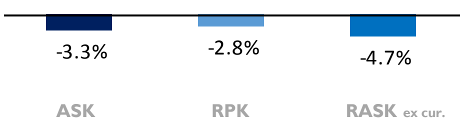


# NETWORK: Q4 2017 SOLID TRAFFIC AND UNIT REVENUES SUPPORTED BY STRONG MARKET DEMAND

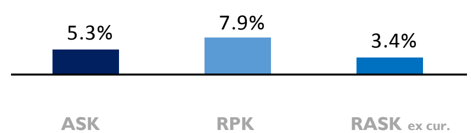
## Q4 2017 Total



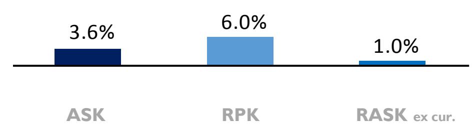

## Medium-haul point-to-point



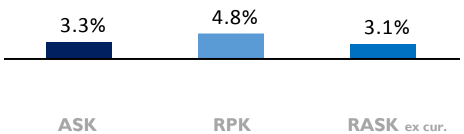

## Medium-haul hubs



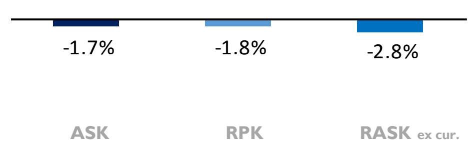

## Total medium-haul



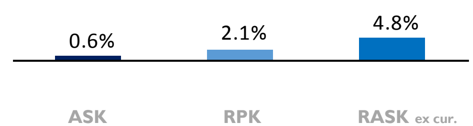

## North America



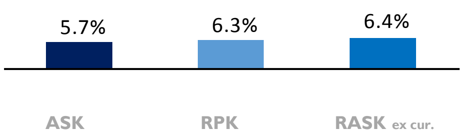

## Caribbean & Indian Ocean



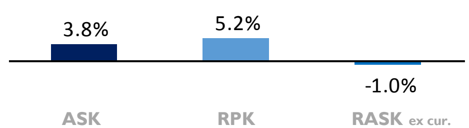

## Asia



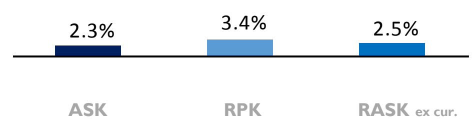

## Latin America




## Africa & Middle East



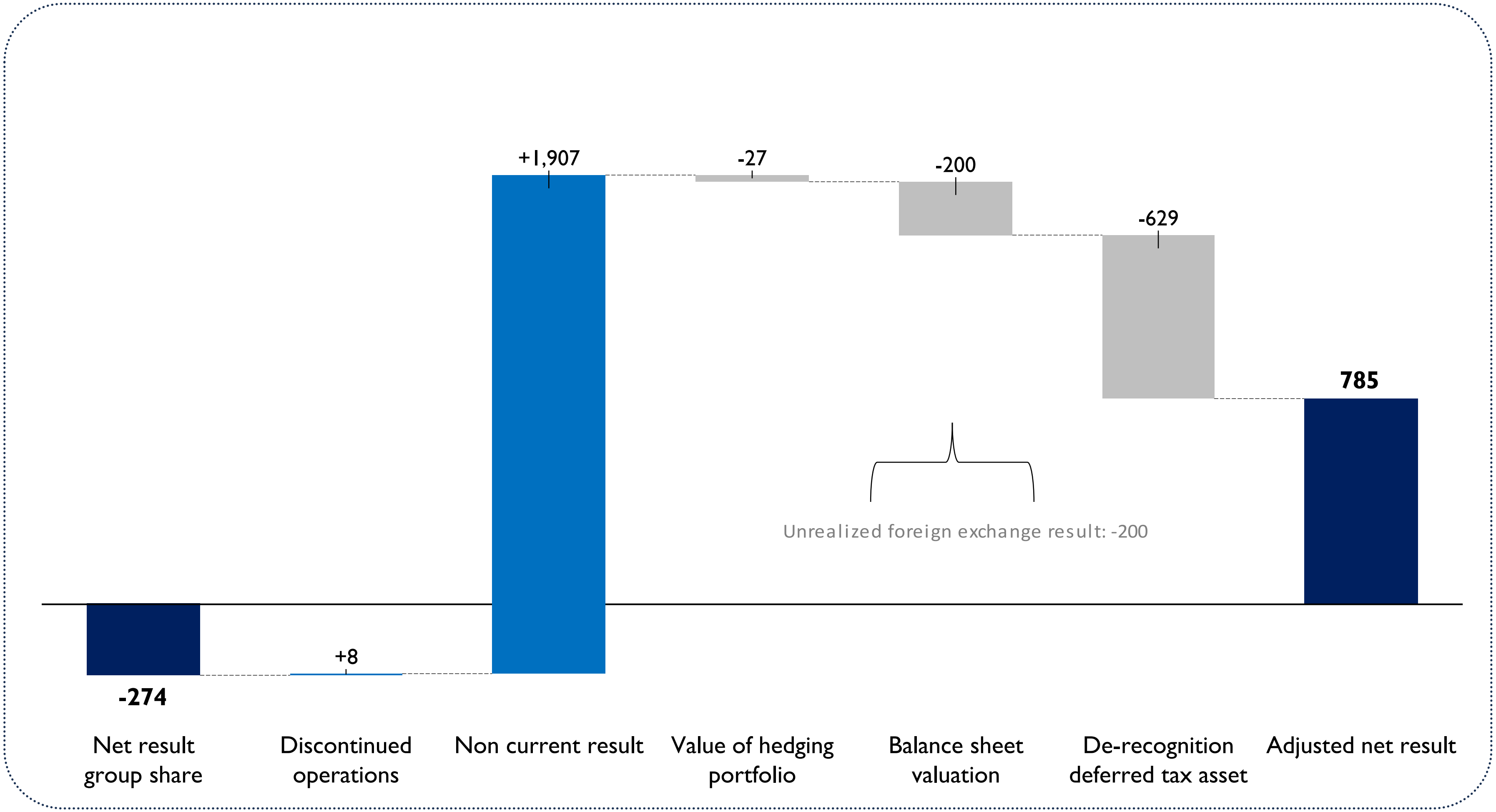

## Total long-haul



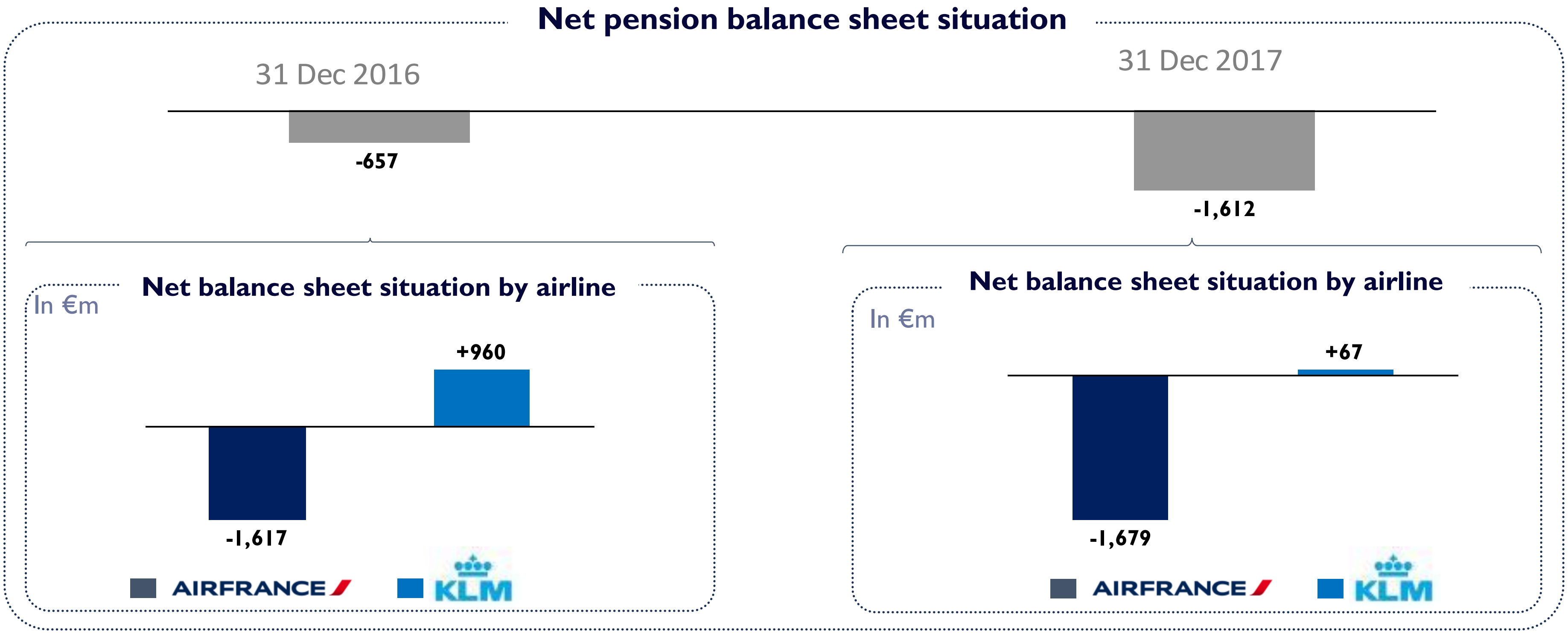



Passenger network: Air France, KLM and HOP!

# FULL YEAR 2017 ADJUSTED NET RESULT



# PENSION DETAILS AT 31 DECEMBER 2017




**Air France**

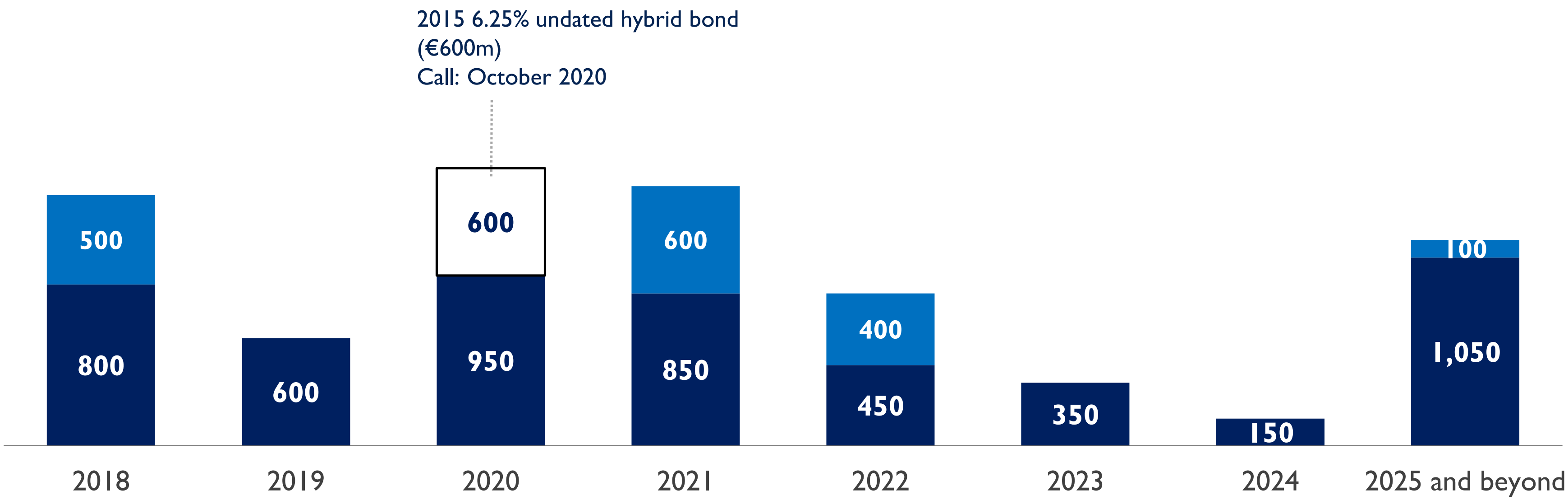
- Air France end of service benefit plan (ICS): pursuant to French regulations and the company agreement, every employee receives an end of service indemnity payment on retirement (no mandatory funding requirement). ICS represents the main part of the Air France position
- Air France pension plan (CRAF): related to ground staff affiliated to the CRAF until 31 December, 1992

**KLM**

- Defined benefit schemes for Ground Staff

# DEBT REIMBURSEMENT PROFILE AT 31 DECEMBER 2017

## Debt Reimbursement Profile[(1)]




Plain vanilla bonds
January 2018 (reimbursed): Air France-KLM 6.25% (€500m)
June 2021: Air France-KLM 3.875% (€600m)
October 2022: Air France-KLM 3.75% (€400m)
December 2026: Air-France KLM 4.35% ($145m)

Hybrid bond (recognized as equity)

Other long-term debt – mainly asset-backed (net of deposits)



(1) In € million, net of deposits on financial leases and excluding KLM perpetual debt (€m)