Air France-KLM Group

CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Commission for use in the European Union

January 1, 2017 – December 31, 2017

Air France-KLM Group

Table of contents

CONSOLIDATED INCOME STATEMENT - 5 -
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES - 6 -
CONSOLIDATED BALANCE SHEET - 7 -
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - 9 -
CONSOLIDATED STATEMENT OF CASH FLOWS - 10 -
1. BUSINESS DESCRIPTION - 13 -
2. RESTATEMENT OF ACCOUNTS 2016 - 13 -
3. SIGNIFICANT EVENTS - 14 -
3.1. Events occurring during the period - 14 -
3.2. Subsequent events - 15 -
There have been no significant events since the closing of the financial year. - 15 -
4. ACCOUNTING POLICIES - 15 -
4.1. Accounting principles - 15 -
4.2. Use of estimates - 20 -
4.3. Consolidation principles - 21 -
4.4. Translation of foreign companies' financial statements and transactions in foreign currencies - 22 -
4.5. Business combinations - 22 -
4.6. Sales - 23 -
4.7. Loyalty programs - 23 -
4.8. Distinction between income from current operations and income from operating activities - 24 -
4.9. Aggregates used within the framework of financial communication - 24 -
4.10. Earnings per share - 24 -
4.11. Financial instruments, valuation of financial assets and liabilities - 24 -
4.12. Goodwill - 26 -
4.13. Intangible assets - 27 -
4.14. Property, plant and equipment - 27 -
4.15. Impairment test - 28 -
4.16. Inventories - 29 -
4.17. Treasury shares - 29 -
4.18. Employee benefits - 29 -
4.19. Provisions for restitution of aircraft under operating leases - 30 -
4.20. Other provisions - 30 -
4.21. Emission Trading Scheme - 30 -
4.22. Equity and debt issuance costs - 30 -
4.23. Deferred taxes - 30 -
4.24. Non-current assets held for sale and discontinued operations - 31 -
5. CHANGE IN THE CONSOLIDATION SCOPE - 32 -
6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA - 32 -
6.1. Information by business segment - 34 -
6.2. Information by geographical area - 36 -
7. EXTERNAL EXPENSES - 37 -
8. SALARIES AND NUMBER OF EMPLOYEES - 38 -
9. AMORTIZATION, DEPRECIATION AND PROVISIONS - 38 -
10. OTHER INCOME AND EXPENSES - 39 -
11. OTHER NON-CURRENT INCOME AND EXPENSES - 39 -
12. OTHER FINANCIAL INCOME AND EXPENSES - 41 -
13. INCOME TAXES - 42 -
13.1. Income tax charge - 42 -
13.2. Deferred tax recorded in equity (equity holders of Air France-KLM) - 43 -
13.3. Effective tax rate - 43 -
13.4. Variation in deferred tax recorded during the period - 44 -
13.5. Unrecognized deferred tax assets - 45 -
14. NET INCOME FROM DISCONTINUED OPERATIONS - 45 -
15. EARNINGS PER SHARE - 46 -
15.1 Income for the period – Equity holders of Air France-KLM per share - 46 -
15.2 Non-dilutive instruments - 47 -
15.3 Instruments issued after the closing date - 47 -
16. GOODWILL - 48 -

16.1 Detail of consolidated goodwill - 48 -
16.2 Movement in net book value of goodwill - 48 -
17. INTANGIBLE ASSETS - 49 -
18. IMPAIRMENT - 50 -
19. TANGIBLE ASSETS - 51 -
20. CAPITAL EXPENDITURES - 52 -
21. EQUITY AFFILIATES - 52 -
22. PENSION ASSETS - 54 -
23. OTHER FINANCIAL ASSETS - 55 -
24. INVENTORIES - 57 -
25. TRADE ACCOUNTS RECEIVABLES - 57 -
26. OTHER ASSETS - 58 -
27. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS - 58 -
28. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA - 58 -
28.1 Issued capital - 58 -
28.2 Additional paid-in capital - 60 -
28.3 Treasury shares - 60 -
28.4 Perpetual subordinated bond - 60 -
28.5 Reserves and retained earnings - 60 -
29. SHARE-BASED COMPENSATION - 61 -
30. RETIREMENT BENEFITS - 61 -
30.1 Characteristics of the main defined benefit plans - 62 -
30.2 Description of the actuarial assumptions and related sensitivities - 64 -
30.3 Evolution of commitments - 65 -
30.4 Asset allocation - 67 -
30.5 Expected cash flows and risks linked to the pension obligations - 67 -
31. OTHER PROVISIONS - 68 -
31.1 Provisions - 69 -
31.2 Contingent liabilities - 70 -
32. FINANCIAL DEBT - 71 -
32.1 Perpetual subordinated bond - 72 -
32.2 OCEANE - 72 -
32.3 Bonds - 73 -
32.4 Capital lease commitments - 73 -
32.5 Other debt - 75 -
32.6 Maturity analysis - 75 -
32.7 Currency analysis - 76 -
32.8 Credit lines - 76 -
33. NET DEBT - 77 -
34. OTHER LIABILITIES - 78 -
35. FINANCIAL INSTRUMENTS - 78 -
35.1 Risk management - 78 -
35.2 Derivative instruments - 82 -
35.3 Market value of financial instruments - 88 -
35.4 Valuation methods for financial assets and liabilities at their fair value - 89 -
36. LEASE COMMITMENTS - 90 -
36.1 Capital leases - 90 -
36.2 Operating leases - 90 -
37. FLIGHT EQUIPMENT ORDERS - 91 -
38. OTHER COMMITMENTS - 93 -
38.1 Commitments made - 93 -
38.2 Commitments received - 93 -
39. RELATED PARTIES - 94 -
39.1 Transactions with the principal executives - 94 -
39.2 Transactions with the other related parties - 94 -
40. CONSOLIDATED STATEMENT OF CASH FLOW - 96 -
40.1 Other non-monetary items and impairment - 96 -
40.2 Acquisitions of subsidiaries, of shares in non-controlled entities - 96 -
40.3 Disposal of subsidiaries, of shares in non-controlled entities - 96 -
40.4 Non cash transactions - 96 -
41. STATUTORY AUDITORS' FEES - 97 -
42. CONSOLIDATION SCOPE - 97 -
42.1 Consolidated entities - 98 -

42.2 Equity affiliates.......- 99 -

Air France-KLM Group

CONSOLIDATED INCOME STATEMENT

In € millions **Period from January 1 to December 31**	***Notes***	**2017**	**2016**
Sales	***6***	**25,781**	**24,844**
Other revenues		**3**	**2**
Revenues		**25,784**	**24,846**
External expenses	***7***	(14,285)	(14,263)
Salaries and related costs	***8***	(7,624)	(7,474)
Taxes other than income taxes		(158)	(164)
Other income and expenses	***10***	635	842
EBITDAR (*)		**4,352**	**3,787**
Aircraft operating lease costs		(1,088)	(1,073)
EBITDA (*)		**3,264**	**2,714**
Amortization, depreciation and provisions	***9***	(1,776)	(1,665)
Income from current operations		**1,488**	**1,049**
Sales of aircraft equipment		18	21
Other non-current income and expenses	***11***	(1,925)	46
Income from operating activities		**(419)**	**1,116**
Cost of financial debt	***12***	(249)	(309)
Income from cash and cash equivalents		35	49
Net cost of financial debt		***(214)***	***(260)***
Other financial income and expenses	***12***	116	(33)
Income before tax		**(517)**	**823**
Income taxes	***13***	229	(294)
Net income of consolidated companies		**(288)**	**529**
Share of profits (losses) of associates	***21***	21	(7)
Net income from continuing operations		**(267)**	**522**
Net income from discontinued operations	***14***	(8)	270
Net income for the period		**(275)**	**792**
Non-controlling interests		*(1)*	-
Net income - Group part		*(274)*	*792*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic	***15***	(0.81)	2.59
- diluted		(0.81)	2.25
Net income from continuing operations - Equity holders of Air France-KLM (in euros)			
- basic	***15***	(0.79)	1.68
- diluted		(0.79)	1.48
Net income from discontinued operations - Equity holders of Air France-KLM (in euros)			
- basic	***15***	(0.02)	0.91
- diluted		(0.02)	0.77

The accompanying notes are an integral part of these consolidated financial statements.

(*)See note 4.9 in notes to the consolidated financial statements.

Air France-KLM Group

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES

In € millions **Period from January 1 to December 31**	***Notes***	**2017**	**2016**
Net income for the period		**(275)**	**792**
Fair value adjustment on available-for-sale securities			
Change in fair value recognized directly in other comprehensive income		38	(101)
Change in fair value transferred to profit or loss		-	-
Cash flow hedges			
Effective portion of changes in fair value hedge recognized directly in other comprehensive income		192	429
Change in fair value transferred to profit or loss		(25)	731
Currency translation adjustment		**9**	**8**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	***13.2***	**(41)**	**(352)**
Total of other comprehensive income that will be reclassified to profit or loss		***173***	***715***
Remeasurements of defined benefit pension plans		**774**	**(547)**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	***13.2***	**(205)**	**114**
Total of other comprehensive income that will not be reclassified to profit or loss		***569***	***(433)***
Total of other comprehensive income, after tax		**742**	**282**
Recognized income and expenses		**467**	**1,074**
- Equity holders of Air France-KLM		**467**	**1,073**
- Non-controlling interests		-	1

The accompanying notes are an integral part of these consolidated financial statements.

Air France-KLM Group

CONSOLIDATED BALANCE SHEET

Assets *In € millions*	***Notes***	**December 31, 2017**	**December 31, 2016**
Goodwill	***16***	216	218
Intangible assets	***17***	1,122	1,066
Flight equipment	***19***	9,921	9,119
Other property, plant and equipment	***19***	1,492	1,480
Investments in equity associates	***21***	301	292
Pension assets	***22***	590	1,462
Other financial assets	***23***	1,242	1,064
Deferred tax assets	***13.4***	234	176
Other non-current assets	***26***	239	448
Total non-current assets		**15,357**	**15,325**
Other short-term financial assets	***23***	421	130
Inventories	***24***	557	566
Trade receivables	***25***	2,136	1,868
Other current assets	***26***	1,264	1,105
Cash and cash equivalents	***27***	4,673	3,938
Total current assets		**9,051**	**7,607**
Total assets		**24,408**	**22,932**

The accompanying notes are an integral part of these consolidated financial statements.

Air France-KLM Group

CONSOLIDATED BALANCE SHEET (continued)

Liabilities and equity *In € millions*	***Notes***	**December 31, 2017**	**December 31, 2016**
Issued capital	***28.1***	429	300
Additional paid-in capital	***28.2***	4,139	2,971
Treasury shares	***28.3***	(67)	(67)
Perpetual	***28.4***	600	600
Reserves and retained earnings	***28.5***	(2,099)	(2,520)
Equity attributable to equity holders of Air France-KLM		**3,002**	**1,284**
Non-controlling interests		13	12
Total equity		**3,015**	**1,296**
Pension provisions	***30***	2,202	2,119
Other provisions	***31***	1,710	1,673
Long-term debt	***32***	6,064	7,431
Deferred tax liabilities	***13.4***	11	(12)
Other non-current liabilities	***34***	361	284
Total non-current liabilities		**10,348**	**11,495**
Other provisions	***31***	488	654
Current portion of long-term debt	***32***	1,378	1,021
Trade payables		2,365	2,359
Deferred revenue on ticket sales		2,889	2,517
Frequent flyer programs		819	810
Other current liabilities	***34***	3,100	2,775
Bank overdrafts	***27***	6	5
Total current liabilities		**11,045**	**10,141**
Total liabilities		**21,393**	**21,636**
Total equity and liabilities		**24,408**	**22,932**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

In € millions	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Perpetual	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non-controlling interests	Total equity
December 31, 2015 - Restated	**300,219,278**	**300**	**2,971**	**(85)**	**600**	**(3,561)**	**225**	**48**	**273**
Fair value adjustment on available for sale securities	-	-	-	-	-	(126)	**(126)**	-	**(126)**
Gain / (loss) on cash flow hedges	-	-	-	-	-	833	**833**	-	**833**
Remeasurements of defined benefit pension plans (Including deferred tax on items of comprehensive income that will not be reclassified to profit or loss)	-	-	-	-	-	(434)	**(434)**	1	**(433)**
Currency translation adjustment	-	-	-	-	-	8	**8**	-	**8**
Other comprehensive income	-	-	-	-	-	***281***	***281***	***1***	***282***
Net result for the period	-	-	-	-	-	792	**792**	-	**792**
Total of income and expenses recognized	-	-	-	-	-	**1,073**	**1,073**	**1**	**1,074**
Change in scope	-	-	-	-	-	(7)	(7)	(36)	**(43)**
Treasury shares	-	-	-	18	-	-	18	-	**18**
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	(1)	**(26)**
December 31, 2016	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,520)**	**1,284**	**12**	**1,296**
December 31, 2016	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,520)**	**1,284**	**12**	**1,296**
Fair value adjustment on available for sale securities	-	-	-	-	-	36	**36**	-	**36**
Gain / (loss) on cash flow hedges	-	-	-	-	-	128	**128**	-	**128**
Remeasurements of defined benefit pension plans (Including deferred tax on items of comprehensive income that will not be reclassified to profit or loss)	-	-	-	-	-	568	**568**	1	**569**
Currency translation adjustment	-	-	-	-	-	9	**9**	-	**9**
Other comprehensive income	-	-	-	-	-	***741***	***741***	***1***	***742***
Net result for the period	-	-	-	-	-	(274)	**(274)**	**(1)**	**(275)**
Total of income and expenses recognized	-	-	-	-	-	**467**	**467**	-	**467**
Capital increase	-	129	1,168	-	-	**(18)**	**1,279**	-	**1,279**
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	**(25)**	-	**(25)**
Change in scope	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	(3)	**(3)**	1	**(2)**
December 31, 2017	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,081)**	**3,002**	**13**	**3,015**

The accompanying notes are an integral part of these consolidated financial statements.

Air France-KLM Group

CONSOLIDATED STATEMENT OF CASH FLOWS

Period from January 1 to December 31 *In € millions*	***Notes***	**2017**	**2016**
Net income from continuing operations		(267)	522
Net income from discontinued operations	***14***	(8)	270
Amortization, depreciation and operating provisions	***9***	1,776	1,665
Financial provisions	***12***	54	5
Loss (gain) on disposals of tangible and intangible assets	***11***	(34)	(86)
Loss (gain)on disposals of subsidiaries and associates	***11***	(31)	(312)
Derivatives – non monetary result		26	(179)
Unrealized foreign exchange gains and losses, net		(200)	89
Share of (profits) losses of associates	***21***	(21)	6
Deferred taxes	***13***	(261)	264
Impairment	***40.1***	-	2
Other non-monetary items	***40.1***	1,594	(64)
Financial capacity		**2,628**	**2,182**
Including discontinued operations (D)		*-*	***43***
(Increase) / decrease in inventories		5	(61)
(Increase) / decrease in trade receivables		(329)	(104)
Increase / (decrease) in trade payables		68	23
Change in other receivables and payables		526	209
Change in working capital requirement		**270**	**67**
Change in working capital from discontinued operations (D)		-	(10)
Net cash flow from operating activities (A)		**2,898**	**2,239**
Acquisition of subsidiaries, of shares in non-controlled entities	***40.2***	(9)	(18)
Purchase of property plant and equipment and intangible assets (B)	***20***	(2,312)	(2,072)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	***11***	8	364
Proceeds on disposal of property plant and equipment and intangible assets (C)	***11***	110	213
Dividends received		9	7
Decrease (increase) in net investments, more than 3 months		(262)	791
Net cash flow used in investing activities of discontinued operations		-	(12)
Net cash flow used in investing activities		**(2,456)**	**(727)**
Capital increase		747	-
Sale of minority interest without change in control		-	15
Issuance of debt	***32***	742	1,331
Repayment on debt	***32***	(332)	(1,430)
Payment of debt resulting from finance lease liabilities		(711)	(481)
New loans		(137)	(129)
Repayment on loans		54	43
Dividends and coupons on perpetual paid		(38)	(38)
Net cash flow used in financing activities of discontinued operations		-	22
Net cash flow from financing activities		**325**	**(667)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(33)	(13)
Change in cash and cash equivalents and bank overdrafts		**734**	**832**
Cash and cash equivalents and bank overdrafts at beginning of period (including cash of discontinued operations)	***27***	3,933	3,101
Cash and cash equivalents and bank overdrafts at end of period (including cash of discontinued operations)	***27***	4,667	3,933
Income tax (paid) / reimbursed (flow included in operating activities)		(11)	19
Interest paid (flow included in operating activities)		(228)	(273)
Interest received (flow included in operating activities)		14	31

The accompanying notes are an integral part of these consolidated financial statements.

Air France-KLM Group

Period from January 1 to December 31 *in € millions*	***Notes***	**2017**	**2016**
Net cash flow from operating activities	***A***	2,898	2,239
Purchase of property plant and equipment and intangible assets	***B***	(2,312)	(2,072)
Proceeds on disposal of property plant and equipment and intangible assets	***C***	110	213
Net cash flow from operating activities from discontinued operations	***D***	-	(33)
Operating free cash flow excluding discontinued activities (*)	***33***	**696**	**347**

The accompanying notes are an integral part of these consolidated financial statements.
(*) See note 4.9 in notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Air France-KLM Group

1. BUSINESS DESCRIPTION

As used herein, the term "Air France–KLM" refers to Air France-KLM SA, a limited liability company organized under French law. The term “Group” is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world. The Group’s core business is passenger transportation on scheduled flights (“passenger network”). The Group’s activities also include cargo, aeronautics maintenance, “low cost” passenger transportation (Transavia) and other air-transport-related activities.
The limited company Air France-KLM, domiciled at 2, rue Robert Esnault-Pelterie 75007 Paris, France, is the parent company of the Air France-KLM Group. Air France-KLM is listed for trading in Paris (Euronext) and Amsterdam (Euronext).
The presentation currency used in the Group’s financial statements is the euro, which is also Air France-KLM’s functional currency.

2. RESTATEMENT OF ACCOUNTS 2016

Introduction of the Network Business

As part of the strategic repositioning of the cargo business, the Group has progressively implemented a new business model aimed at optimizing the belly and combi capacity of the passenger aircraft and reducing the full freighter fleet. In 2017 the bellies of passenger aircraft should exceed 85 per cent of total cargo capacity. The full freighter fleet consists of two B777’s and four B747 freighters, representing a 24 per cent reduction in full freighter capacity in 2016 and a more than 50 per cent reduction since 2013.

Except for the full freighter fleet, the commercial interests of the passenger business are determining the utilization of aircraft in the Group’s network, particularly with regard to the choice of aircraft and the frequencies to destinations. In this context, cargo is considered to be an activity which is complementary to the passenger activities, contributing to the line profitability and performance of the routes. These two activities constituting a unique larger activity, called ‘Network’. It is the performance of this activity that is now tracked by the Group Executive Committee.

As a consequence, the Network business constitutes one unique operating segment. Note 6 “Information by activity and geographical area”, has been restated accordingly.

Air France-KLM Group

3. SIGNIFICANT EVENTS

3.1. Events occurring during the period

KLM pension schemes in The Netherlands

Cabin Crew pension scheme
In August 2017, KLM and the Cabin Crew unions agreed to modify the pension scheme for KLM Cabin Crew in the Netherlands. This pension scheme qualifies as a collective defined contribution scheme and led to the derecognition of the cabin crew pension asset.
The pension asset, based on actuarial assumptions as of August 1, 2017, amounted to €311 million and has been recorded as 'Other non-current income and expenses' in the consolidated income statement. Net of income tax, the impact amounted to € (233) million.

Cockpit Crew pension scheme
In December 2017, KLM and the KLM Cockpit Crew Union agreed to modify the Cockpit Crew pension plan. This modified plan qualifies as a collective defined contribution plan and led to the derecognition of the cockpit pension asset. This pension asset, based on specific actuarial assumptions for the Cockpit Crew plan as of December 15, 2017, amounted to €1,399 million. The agreement includes a dowry payment of 194 million to the pension fund of which €120 million has been paid in December 2017. Net of income tax, the impact amounted to € (1,196) million.

The modification of these two pension plans is a significant de-risking for the Group's risk profile, volatility in the balance sheet and avoid to be potentially forced to make substantial additional pension payments.

Litigation concerning anti-trust law in the air-freight industry

On March 17, 2017, the European Commission issued a new decision against eleven air cargo carriers, including Air France, KLM and Martinair, regarding practices in the air cargo sector deemed to be anti-competitive and relating to the period between December 1999 and February 2006. This new decision follows the December 16, 2015 annulment by the General Court of the European Union of the European Commission's initial decision of November 9, 2010, relating to these same practices and concerning the same carriers. This initial decision had been annulled in full because it contained a contradiction regarding the exact scope of the practices sanctioned.

The total amount of fines imposed on the Air France-KLM Group is €325 million. This amount has been slightly reduced as compared to the initial decision owing to a lower fine for Martinair due to technical reasons.
On May 29 and 30, 2017, the Group companies filed an appeal against this decision before the General Court of the European Union.

Capital increase reserved to China Eastern Airlines and Delta Air Lines and investment in share capital of Virgin Atlantic

On October 3, 2017, Air France-KLM announced the completion of the capital increases reserved to China Eastern Airlines and Delta Air Lines. The related 75,054,820 new shares were admitted to the regulated market of Euronext Paris and Amsterdam. These capital increases, announced on July 27, 2017, were approved by the General Shareholders Meeting of September 4, 2017. China Eastern Airlines and Delta Airlines both holds 8.8% of Air France-KLM's share capital as of December 31, 2017 and consequently each have one director representing the companies within Air France-KLM's Board of Directors.

The Group had already announced the reinforcement of its strategic partnerships with the creation of a global joint-venture between Air France-KLM, Delta Air Lines (Delta) and Virgin Atlantic. Air France-KLM will acquire a 31% stake in Virgin Atlantic's share capital for GBP 220 million. Delta holds 49% of Virgin Atlantic's share capital. The creation of the global joint-venture is subjected to the approval of the competent statutory authorities.

Early redemption of the OCEANEs maturing on February 15, 2023

On November 15, 2017 Air France-KLM exercised its early redemption option in respect of all its outstanding OCEANEs.

Air France-KLM received exercise notices for 53,359,937 OCEANEs, representing 99.96 per cent of the outstanding OCEANEs, giving right to the delivery of 53,359,937 ordinary shares, each with a nominal value of € 1.00. This transaction is presented in detail in note 32.2.

3.2. Subsequent events

There have been no significant events since the closing of the financial year.

4. ACCOUNTING POLICIES

4.1. Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2017 were established in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Commission on the date these consolidated financial statements were established.

IFRS, as adopted by the European Union, differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially if the Group had applied IFRS as published by the IASB.

The consolidated financial statements were approved by the Board of Directors on February 15, 2018.

Change in accounting principles

- IFRS standards and amendments which are applicable on a mandatory basis to the 2017 financial statements

    - Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", effective for the period beginning January 1, 2017;
    - Amendment to IAS 7 "Disclosure Initiative", effective for the period beginning January 1, 2017.

These amendments had no significant impact on the Group's financial statements as of December 31, 2017.

- IFRS standards which are applicable on a mandatory basis and by anticipation to the 2018 financial statements

  The estimated impact of the adoption of these standards on the Group equity as of January 1, 2017 concerning IFRS 15 and IFRS 16 and as of January 1, 2018 concerning IFRS 9, is supported by valuations made as of today. Impact of the adoption of these standards as of January 1, 2018 might change because of the following reasons:

    - Analysis and / or the detailed impact-assessment will continue in 2018
    - The Group has not finished the whole set of testing and valuations of controls relating to its new IT systems; and
    - The new rules and accounting methods can change until the Group will present its financial statements concerning the year of the first application
    - The Group being an early adopter of IFRS 16, the positions taken could change in the view of new additional interpretations

▪ IFRS standards which are applicable on a mandatory basis to the 2018 financial statements

- Standard IFRS 9 "Financial Instruments"

This standard must be applied starting January 1, 2018. Dedicated working groups have been set up within the Air France and KLM head-accounting departments together with the Air France and KLM middle-office treasury departments.

This standard comprises new accounting principles for financial instruments (classification and valuation, impairment and hedge).
Two main impacts are expected following the application of this standard.

The first impact concerns the recognition of a change in call-option time-value in "other comprehensive income" whereas it is currently recorded in "other financial income and expenses".

The second impact is linked to the valuation of capital instruments either in fair value through the income statement or in fair value through other comprehensive income. The classification methodology for capital instruments will be defined as follows:

- When the capital instrument is considered to be a cash investment, its revaluations will be recorded in "other financial income and expenses"
- When the capital instrument is considered to be a business investment, its revaluations will be recorded in "other comprehensive income"

On the opening balance sheet (as of January 1, 2017), the impact of IFRS 9 will involve an decrease to "other comprehensive income" between €150 and 160 million and an increase of the same amount in "other reserves".

- Standard IFRS 15 "Revenue Recognition from Contracts with Customers"

This standard must be applied starting January 1, 2018. The Group has set up dedicated working groups within the relevant business segments and departments to establish an inventory of customer contract types across the Group and to analyze each contract type using the five-step approach outlined within IFRS 15.
In parallel, the Group has worked with other airlines through the IATA (International Air Transport Association) Industry Accounting Working Group (IAWG) in coordination with the Airlines Revenue Recognition Task Force of the AICPA (American Institute of Certified Public Accountants) to agree harmonized accounting treatments for issues requiring clarity under the new standard.
The amendment to IFRS 15 "Clarifications to IFRS 15 Revenue Recognition from Contracts with Customers" has been taken into account.

The group has chosen to apply IFRS 15 retrospectively to each previous period in which financial information is presented, according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Within this framework, none of the simplification measures proposed by the standard should be used.

The estimated impact of IFRS 15 on the opening balance sheet as of January 1, 2017 would lead in:

- An increase in the "trade receivables" for an amount between €25 and €35 million
- An increase in the "other current assets" for an amount between €15 and €25 million
- A decrease in the "other provisions" for an amount between €110 and €120 million
- An increase in the "other liabilities" for an amount between €160 and €170 million
- An increase in the "deferred revenue on ticket sales" for an amount between €115 and €125 million
- An increase in the deferred tax asset for an amount between €30 and €40 million
- A decrease in equity for an amount between €70 and €80 million

The main expected impacts are detailed hereafter:

Type of performance	Business segment	Current accounting treatment	IFRS 15 accounting treatment	Expected impacts
Revenue recognized concerning unused tickets	Network	Revenue recognition, based on a statistical rate, which is regularly updated on the date the ticket is issued	Revenue recognition, based on an historical statistical rate of the unused tickets which is regularly updated, at the theoretical date of the transport	Impact on the opening balance sheet (January 1, 2017) increasing the "deferred revenue on ticket sales", with an "equity" counterpart, translating the recording of revenues at the time of the transport. No significant impact on the yearly Group revenues if it remains constant, being a timing and recurring impact.
Change fees	Network	Revenue recognition at the date of change-fee issuance	Revenue recognition at the transport date, not involving a different service bringing a profit to the passenger in the absence of transport	
Issuing fees	Network	Revenue recognition at the date of issuance		
Commissions and other distribution costs linked to the airline-ticket sales	Network	Cost recognition when incurred, being at the ticket issuance	Capitalization and recognition when transport is made. The Group did not opt for the simplified option in order to translate the seasonality of its activity and the gap leads between sales and transport	Impact on the opening balance sheet (January 1, 2017) increasing the "other current assets", with an "equity" counterpart, translating the recording of costs at the time of the transport.. No significant impact on "commercial and distribution costs" if they remain constant, being a timing and recurring impact.
Transport of goods on behalf of the Group, by another airline	Network	Analysis as principal on the transport realized by the Group with recognition of the revenue. Analysis as agent on the part operated by another airline with recognition of the commission in revenues	The airline acts for its own account when it sells the service (principal) because it controls the promised service (the transport of the goods). The revenue charged to the customer is entirely recognized and a cost corresponding to the chartering is recorded	No impact on the opening balance sheet (January 1, 2017) being a presentation impact of the income statement. Concerning the income statement presentation, based on the year-2016 figures, revenues and chartering costs would have increased by around €90 million.
Power-by-the hour contracts (overhaul of aircraft equipment and engines)	Maintenance	Revenue recognition based on invoicing schedule, according to flight hours; booking of a provision for expected costs	Revenue recognition based on the costs incurred	Impacts on the opening balance sheet (January 1, 2017): decrease in provisions, increase in other liabilities which corresponds to services charged before the realization of the service and decrease of the equity due to the margin postponed in the date of realization of the service. No significant impact on the Group revenues.
Purchase of spare parts on behalf of third parties	Maintenance	Revenue recognition of the margin as revenue	Each operation will be analyzed to determine if the Group is acting as principal or as agent	No impact on the opening balance sheet (January 1, 2017). Concerning the presentation of the income statement, both revenues and maintenance costs will decrease compared with the current accounting.

Concerning the treatment of clients compensation, the Group is currently working with the airline industry (through IATA) to determine the way to present it. The position is under progress of finalization.
The accounting of the other revenue streams will not be significantly affected by the application of IFRS 15.

▪ IFRS standards which is applicable by anticipation to the 2018 financial statements

The Group has opted for the early adoption of IFRS 16 “Leases” starting January 1, 2018.

The Group has chosen to apply IFRS 16 using the retrospective restatement to each prior reporting period presented applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*
The Group has elected to use the two exemptions proposed by the standard on the following contracts:

- Lease contracts with a duration of less than 12 months
- Lease contracts for which the underlying asset has a value in new of below 5,000 €.

The estimated impact of IFRS 16 on the opening balance sheet as of January 1, 2017 would lead in:

- An increase in the fixed asset (mainly via the booking of a right-of-use asset) for an amount between €4.0 and €4.4 billion
- The booking of a lease debt for an amount between €5.1 and €5.5 billion
- An increase in the deferred tax asset for an amount between €0.1 and €0.5 billion
- A decrease in the equity for an amount between €0.6 and €0.9 billion

These figures do not include the impacts concerning the maintenance of leased aircraft which are under finalization.

Lease contracts adjustment has an impact of reclassification in the cash flow statements, the standard having no impact on the cash position of the Group:

- Improvement in “Net cash flow from operating activities” due to the cancellation of lease costs partially compensated by the cash-out attributing to financial costs in lease debt
- Integration of the reimbursement of the lease debt in “Net cash flow used in financing activities”

Impacts in the cash flow statements concerning the maintenance of leased aircraft are detailed hereafter.

The main aggregates used by the Group will present the following impacts:

- Increase in EBITDA
- Cancellation of the EBITDAR
- Increase in the “income from current operations” partially compensated by the increase in the “net cost of financial debt”
- Increase in the net debt
- Increase in the “operating cash flow excluding discontinued activities”

The main expected estimated impacts, including impacts in the income statements, are detailed hereafter.

Capitalization of aircraft lease contracts

For the aircraft lease contracts fulfilling the capitalization criteria defined by IFRS 16, the lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain of exercising renewal options contractually foreseen. For example, this may be the case if important cabin customization has taken place whereas the residual lease term is significantly shorter than the useful life of cabins.
The discount rate used to calculate the right-of-use asset and the lease debt will correspond, for each aircraft, to the implicit rate involved by the contractual elements.

The impacts on the income statement will be as follows:

- cancellation of lease costs included in “aircraft operating lease costs” involving the cancellation of the EBITDAR
- amortization of the right-of-use asset
- financial costs on the lease debt

Since most of the aircraft lease contracts are denominated in USDs, starting from January 1, 2018 the Group will put in place a natural hedge for its USD revenues by the lease debt in USD in order to limit the volatility of the foreign exchange result involved by the revaluation of its lease debt.

Capitalization of real-estate lease contracts

The Group has analyzed all the real-estate contracts to ensure that they fulfill the criteria to qualify as leases according to IFRS 16. In particular, the Group has taken into account that when it rents surfaces in airports other than its hubs (Paris and Amsterdam), an effective substitution right in the hand of the lessor leads not to consider the existence of a lease contract.
Based on its analysis, the Group has identified lease contracts according to the standard concerning surfaces rented in its hubs, lease contracts on building devoted to the maintenance business, lounges customized in airports other than hubs and lease contracts on office buildings.
The lease term will correspond to the not terminable period completed if necessary by options of renewal of which the use by the Group is reasonably certain.
The discount rate used to calculate the right-of-use asset and the lease debt will be determined, for each asset, according to the incremental borrowing rate at the signature debt.

The impacts on the income statement will be as follows:

- cancellation of the rents included in “external expenses” involving an increase in EBITDA
- amortization of the right-of-use asset
- financial costs on the lease debt

Accounting of the other-assets leases

The group has made the analysis of all the lease contracts on other assets to ensure that they fulfill the criteria to qualify and to account a lease according to IFRS 16.
After its analysis, the main lease contracts identified correspond to company car, pool of spare parts and engines.
The lease term will correspond to the not terminable period completed if necessary by options of renewal of which the use by the Group is reasonably certain.
The discount rate used to calculate the right-of-use asset and the lease debt will be determined, for each asset, according to the incremental borrowing rate at the signature debt.

The impacts on the income statement will be as follows:

- cancellation of the rents included in “external expenses” involving an increase in EBITDA
- amortization of the right-of-use asset
- financial costs on the lease debt

Accounting of the maintenance of leased aircraft

Within the framework of IFRS 16 deployment, the Group has reviewed the accounting of the maintenance costs and of the contractual maintenance obligations at redelivery of its leased aircraft.
Maintenance operations on leased aircraft will therefore be recorded as follows:

- Booking of a provision on delivery of the aircraft when works are not dependent on aircraft use for maintenance costs to realize when the aircraft must be redelivered to the lessor. The counterpart of the provision is recorded in the book value of the right-of-use asset at the origin.
- Booking of a provision for redelivery costs corresponding to the potential of flight hours that leased aircraft must have at the date of their redelivery to the lessor. The level of potentials is dependent from the contract signed. In addition, the probability of the aircraft redelivery at the end of the contract shall not be integrated in the calculation of this provision, as it is the case currently
- Identification of components corresponding to potentials included in the right-of-use asset of each leased aircraft. These components are amortized over the period between the date of acquisition and the next major overhaul.

The main impacts on the income statement will be as follows:

- decrease in operational costs due to the capitalization of maintenance costs for the rebuilding of potential of flight hours
- increase in “Amortization, depreciation and provisions”

The impacts on the cash flow statements are mainly a reclassification of flows linked to maintenance works. Currently, they are presented in “Net cash flow from operating activities”. Under IFRS 16, being associated to a fixed asset (right-of-use assets), they will be presented in “Purchase of property plant and equipment and intangible assets”.

- Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union

  - Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", effective for the period beginning January 1, 2018;
  - Amendment to IFRS 12 "Disclosure of Interests in Other Entities", effective for the period beginning January 1, 2017;
  - Amendment to IAS 28 "Long-term interests in an associate or joint venture", effective for the period beginning January 1, 2019;
  - Interpretation IFRIC 22 "Foreign Currency Transactions and Advance Consideration", effective for the period beginning January 1, 2018;
  - Interpretation IFRIC 23 "Uncertainty over Income Tax Treatments", effective for the period beginning January 1, 2019;
  - Amendment to IFRS 9 "Prepayment Features with Negative Compensation", effective for the period beginning January 1, 2019;
  - Amendment to IAS 12 "Income Tax Consequences of Payments on Instruments classified as Equity", effective for the period beginning January 1, 2019;
  - Amendment to IFRS 3 and IFRS 11 "Previously Held Interests in a Joint Operation", effective for the period beginning January 1, 2019;
  - Amendment to IAS 23 "Borrowing Costs Eligible for Capitalization", effective for the period beginning January 1, 2019.

The Group does not expect any significant impacts relating to the application of the amendment IFRS 2.

4.2. Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main areas of estimates are disclosed in the following notes:

- 4.6 Revenue recognition related to deferred revenue on ticket sales;
- 4.7 Flying Blue frequent flyer program;
- 4.11 Financial assets;
- 4.13/14 Tangible and intangible assets;
- 4.18 Pension assets and provisions;
- 4.19/20 Other provisions;
- 4.23 Deferred tax assets.

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

The consolidated financial statements for the financial year have thus been established on the basis of financial parameters available at the closing date. Concerning the non-current assets, the assumptions are based on a limited level of growth.
Actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.3. Consolidation principles

Subsidiaries

In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial figures for all entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated. An entity is controlled when the Group has power over it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken.
The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.
Non-controlling interests are presented within equity and on the income statement separately from Group stockholders' equity and the Group's net income, under the line "non-controlling interests".
The effects of a buyout of non-controlling interests in a subsidiary already controlled by the Group and divestment of a percentage interest without loss of control are recognized in equity. In a partial disposal resulting in loss of control, the retained equity interest is re-measured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this re-measurement and the gain or loss on the sale of the equity interest, including all the items initially recognized in equity and reclassified to profit and loss.

Interest in associates and joint ventures

In accordance with IFRS 11 "Join arrangements", the Group applies the equity method to partnerships over which it exercises control jointly with one or more partners (joint venture). Control is considered to be joint when decisions about the relevant activities of the partnership require the unanimous consent of the Group and the other parties with whom control is shared. In cases of a joint activity (joint operation), the Group recognizes assets and liabilities in proportion to its rights and obligations regarding the entity.

In accordance with IAS 28 "Investments in Associates and Joint Ventures", companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are also accounted for using the equity method. The ability to exercise significant influence is presumed to exist when the Group holds more than 20 per cent of the voting rights.

The consolidated financial statements include the Group's share of the total recognized global result of associates and joint ventures from the date the ability to exercise significant influence begins to the date it ceases, adjusted for any impairment loss.

The Group's share of losses of an associate exceeding the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity are not accounted for, unless the Group:
- has incurred contractual obligations, or
- has made payments on behalf of the associate.

Any surplus in investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

Investments in which the Group has ceased to exercise significant influence or joint control are no longer accounted for by the equity method and are valued at their fair value on the date of loss of significant influence or joint control.

Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits and losses resulting from intra-group transactions are also eliminated.
Gains and losses realized on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group's interest in the entity, providing there is no impairment.

4.4. Translation of foreign companies' financial statements and transactions in foreign currencies

Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

- Except for the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency exchange rates in effect at the closing date;
- The income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period;
- The resulting foreign currency exchange adjustment is recorded in the "Translation adjustments" item included within equity.

Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign exchange rate in effect at the closing date.

Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the closing date or at the rate of the related hedge, if any.

Non-monetary assets and liabilities denominated in foreign currencies assessed on an historical cost basis are translated using the rate in effect at the transaction date or using the hedged rate where necessary (see note 4.14).

The corresponding exchange rate differences are recorded in the Group's consolidated income statement. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in note 4.11. "Financial instruments, valuation of financial assets and liabilities".

4.5. Business combinations

Business combinations completed on or after April 1, 2010

Business combinations completed on or after April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 (2008) "Business Combinations". In accordance with this standard, all assets and liabilities assumed are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition, except for non-current assets classified as assets held for sale which are measured at fair value less costs to sell.

Goodwill corresponding, at the acquisition date, to the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable assets acquired and the liabilities assumed at the acquisition date, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Costs other than those related to the issuance of debt or equity securities are recognized immediately as an expense when incurred.
For each acquisition, the Group has the option of using the "full" goodwill method, where goodwill is calculated by taking into account the fair value of non-controlling interests at the acquisition date rather than their proportionate interest in the fair value of the assets and liabilities of the acquiree.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the consideration transferred, the resulting negative goodwill is recognized immediately in the income statement.

Contingent considerations or earn-outs are recorded in equity if contingent payment is settled by delivery of a fixed number of the acquirer's equity instruments (according to IAS 32). In all other cases, they are recognized in liabilities related to business combinations. Contingent payments or earn-outs are measured at fair value at the acquisition date. This initial measurement is subsequently adjusted through goodwill only when additional information is obtained after the acquisition date about facts and circumstances existing on that date. Such adjustments are made only during the 12-month measurement period that follows the acquisition date and insofar as the initial measurement had still been presented as provisional. Any other subsequent adjustments which do not meet these criteria are recorded as receivables or payables through the income statement.

In a step acquisition, the previously-held equity interest in the acquiree is remeasured at its acquisition-date fair value. The difference between the fair value and the net book value must be accounted in profit or loss as well as elements previously recognized in other comprehensive income.

Business combinations carried out before April 1, 2010

Business combinations carried out before April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 (2004) "Business Combinations". In accordance with this standard, all assets, liabilities assumed and contingent liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition.

Goodwill arising from the difference between the acquisition cost (which includes the potential equity instruments issued by the Group to gain control over the acquired entity and other costs potentially dedicated to the business combination), and the Group's interest in the fair value of the identifiable assets and liabilities acquired, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the cost of acquisition, the resulting negative goodwill is recognized immediately in the income statement.

4.6. Sales

Sales related to air transportation operations are recognized when the transportation service is provided, net of any discounts granted (see note 6). Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Both passenger tickets and freight awb's are consequently recorded as "Deferred revenue upon issuance date".

Nevertheless, sales relating to the value of tickets that have been issued but never been used are recognized as revenues at issuance. The amounts recognized are based on a statistical analysis, which is regularly updated.

Sales under third-party maintenance contracts are recorded on the basis of the percentage of completion method.

4.7. Loyalty programs

The airlines of the Group have a common frequent flyer program "Flying Blue". This program enables members to acquire Miles as they fly with Air France, KLM and airline partners and from transactions with non-airline partners (credit card companies, hotels, car rental agencies). These Miles entitle members to a range of benefits such as free flights with the two companies or other free services with non-airline partners.

In accordance with IFRIC 13 "Loyalty programs", these Miles are considered as distinct elements from a sale with multiple elements and one part of the price of the initial sale of the airfare is allocated to these Miles and deferred until the Group's commitments relating to these Miles have been met.

The deferred amount due in relation to the acquisition of Miles by members is estimated:

- According to the fair value of the Miles, defined as the amount at which the benefits can be sold separately;
- After taking into account the redemption rate, corresponding to the probability that the Miles will be used by members, using a statistical method.

With regards to the invoicing of other partners in the program, the margins realized on sales of Miles to other partners are recorded immediately in the income statement.

4.8. Distinction between income from current operations and income from operating activities

The Group considers it is relevant to the understanding of its financial performance to present in the income statement a subtotal within the income from operating activities. This subtotal, entitled “Income from current operations”, excludes unusual elements that do not have predictive value due to their nature, frequency and/or materiality, as defined in recommendation no. 2009-R.03 from the French National Accounting Council.

Such elements are as follows:

- Sales of aircraft equipment and disposals of other assets;
- Income from the disposal of subsidiaries and affiliates;
- Restructuring costs when they are significant;
- Significant and infrequent elements such as the recognition of badwill in the income statement, the recording of an impairment loss on goodwill and significant provisions for litigation.

4.9. Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization): by extracting the main line of the income statement which does not involve cash disbursement (“Amortization, depreciation and provision”) from income from current operations, EBITDA provides a simple indicator of the Group’s cash generation on current operational activities. It is thus commonly used for the calculation of the financial coverage and enterprise value ratios.

EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortization and Rents): this aggregate is adapted to sectors like the air transport industry which can finance a significant proportion of their assets using operating leases. It is obtained by subtracting aircraft operating lease costs from EBITDA (as defined above). It is also used to calculate the financial coverage and enterprise value ratios.

Operating free cash flow: this corresponds to the cash available after investment in flight equipment, other property, plant and equipment and intangible assets for solely operational purposes, net of proceeds on disposals. It does not include the other cash flows linked to investment operations, particularly investments in subsidiaries and other financial assets and net cash flow from the operating activities of discontinued operations.

4.10. Earnings per share

Earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM, adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially-dilutive ordinary shares.

4.11. Financial instruments, valuation of financial assets and liabilities

Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are recorded at fair value then, subsequently, using the amortized cost method less impairment losses, if any. Purchases and sales of financial assets are accounted for as of the transaction date.

Investments in equity securities

Investments in equity securities qualifying as assets available for sale are stated at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price at the closing date. For non-quoted securities, the valuation is made on the basis of the financial statements of the entity. For other securities, if the fair value cannot be reliably estimated, the Group uses the exception of accounting at costs (i.e. acquisition cost less impairment, if any).

Potential gains and losses, except for impairment charges, are recorded in a specific component of other comprehensive income entitled "Derivatives and available for sale securities reserves".

If there is an indication of impairment of the financial asset, the amount of the loss resulting from the impairment test is recorded in the income statement for the period. For securities quoted on an active market, a prolonged or significant decrease of the fair value below their acquisition cost is objective evidence of impairment.

Factors used by the Group to evaluate the prolonged or significant nature of a decrease in fair value are generally the following:
- The decrease in value is prolonged when the share price at the market close has been lower than the cost price of the share for more than 18 months;
- The decrease in value is significant when there is a decrease of more than 30 per cent relative to the cost price, at the closing date.

Derivative financial instruments

The Group uses various derivative financial instruments to hedge its exposure to the risks incurred on shares, exchange rates, changes in interest rates or fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39 "Financial instruments: recognition and measurement".

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value taken into account the market value of the Group's credit risk (DVA) and the credit risk of the counterpart (CVA). The calculation of the credit risk follows a common model based on default probabilities from CDS counterparts. The method of accounting for changes in fair value depends on the classification of the derivative instruments.

There are three classifications:
- *derivatives classified as fair value hedge*: changes in the derivative fair value are recorded through the income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized as earnings;
- *derivatives classified as cash flow hedge*: the changes in fair value are recorded in other comprehensive income for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or losses until the termination of the derivatives. When the termination occurs, the residual ineffective portion is recycled on the hedged item.
- *derivatives classified as trading*: changes in the derivative fair value are recorded as financial income or losses.

Convertible bonds

Convertible bonds are deemed to be financial instruments comprising two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all coupons due for the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Group's equity is calculated by the difference between this value and the bond's nominal value at issuance. The difference between the financial expense recorded and the amounts effectively paid out is added, at each closing date, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

Financial assets, cash and cash equivalents

Financial assets at fair value through profit and loss
Financial assets include financial assets at fair value through profit and loss (French mutual funds such as SICAVs and FCPs, certificates, etc.) that the Group intends to sell in the near term to realize a capital gain, or that are part of a portfolio of identified financial instruments managed collectively and for which there is evidence of a practice of short-term profit taking. They are classified in the balance sheet as current financial assets. Furthermore, the Group has opted not to designate any assets at fair value through the income statement.

Cash and cash equivalents
Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Long-term debt

Long-term debt is recognized initially at fair value. Subsequent to the initial measurement, long-term debt is recorded:
- at their net book value for bonds;
- based on amortized cost calculated using the effective interest rate for the other long-term debt. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, i.e. the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

Fair value hierarchy of the financial assets and liabilities

The table presenting a breakdown of financial assets and liabilities categorized by value (see note 36.4) meets the amended requirements of IFRS 7 "Financial instruments: Disclosures". The fair values are classified using a scale which reflects the nature of the market data used to make the valuations.

This scale has three levels of fair value:

Level 1: Fair value calculated from the exchange rate/price quoted on an active market for identical instruments;

Level 2: Fair value calculated from valuation methods based on observable data such as the prices of similar assets and liabilities or scopes quoted on an active market;

Level 3: Fair value calculated from valuation methods which rely completely or in part on non-observable data such as prices on an inactive market or the valuation on a multiples basis for non-quoted securities.

4.12. Goodwill

Goodwill corresponds, at the acquisition date, to the aggregation of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable amounts acquired and the liabilities assumed at the acquisition date.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations taking place prior to April 1, 2004 were not modified at the time international standards were adopted, on April 1, 2004, in accordance with IFRS 1 "First-time adoption of international financial reporting standards".

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset in the balance sheet.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. As discussed in note 4.15, once recorded the impairment may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired exceeds the consideration transferred, there is negative goodwill which is recognized and immediately reversed in the Group's income statement.

At the time of the sale of a subsidiary or an equity affiliate, the amount of the goodwill attributable to the entity sold is included in the calculation of the income from the sale.

4.13. Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.
Software development costs are capitalized and amortized over their useful lives. The Group has the tools required to enable the tracking by project of all the stages of development, and particularly the internal and external costs directly related to each project during its development phase.
Identifiable intangible assets acquired with a finite useful life are amortized over their useful lives from the date they are available for use.
Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, impairment as described in note 4.15 is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in note 4.21 and the "Risks on carbon credit" paragraph in note 36.1. As such, the Group is required to purchase CO_2 quotas to offset its emissions. The Group records the CO_2 quotas as intangible assets. These assets are not depreciable.

Intangible assets with a definite useful life are amortized on a straight-line basis over the following periods:

Software and Information Technology developments	1 to 5 years
Licences	Duration of contract
Customer files	5 to 12 years

Information Technology (IT) development is amortized over the same useful life as the underlying software. In some well documented cases, Information Technology (IT) development may be amortized over a longer period.

4.14. Property, plant and equipment

<u>Principles applicable</u>

Property, plant and equipment are recorded at their acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to advance payments made on account of investments in aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. As prepayments on investments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value for most of the aircraft in the fleet. This useful life can, however, be extended to 25 years for some aircraft.

During the operating cycle, and when establishing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major airframe and engine overhaul (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft spare parts (maintenance business) which enable the use of the fleet are recorded as fixed assets and are amortized on a straight-line basis over the estimated residual lifetime of the aircraft/engine type on the world market. The useful life is limited to a maximum of 30 years.

Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight-line method over their useful lives as follows:

Buildings	20 to 50 years
Fixtures and fittings	8 to 20 years
Flight simulators	10 to 20 years
Equipment and tooling	3 to 15 years

Leases

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long-term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related profits or losses are accounted for as follows:

- They are recognized immediately when it is clear that the transaction has been realized at fair value;
- If the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used;
- If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

In the context of sale and finance leaseback transactions, the asset remains in the Group's balance sheet with the same net book value. Such transactions are a means whereby the lessor provides finance to the lessee, with the asset as security.

4.15. Impairment test

In accordance with IAS 36 "Impairment of Assets", tangible fixed assets, intangible assets and goodwill are tested for depreciation if there is an indication of impairment, and those with an indefinite useful life are tested at least once a year on September 30.

For this test, the Group deems the recoverable value of the asset to be the higher of the market value less cost of disposal and its value in use. The latter is determined according to the discounted future cash flow method, estimated based on budgetary assumptions approved by management, using an actuarial rate which corresponds to the weighted average cost of the Group's capital and a growth rate which reflects the market hypotheses for the appropriate activity.

The depreciation tests are carried out individually for each asset, except for those assets to which it is not possible to attach independent cash flows. In this case, these assets are regrouped within the CGU to which they belong and it is this which is tested. The CGU's correspond to the Group's business segments: network, maintenance, leisure and others.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is recognized. The impairment of a CGU is charged in the first instance to goodwill, the remainder being charged to the other assets which comprise the CGU, prorated to their net book value.

4.16. Inventories

Inventories are measured at the lower of their cost and net realizable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

4.17. Treasury shares

Air-France-KLM shares held by the Group are recorded as a deduction from the Group's consolidated equity at the acquisition cost. Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group's income statement.

4.18. Employee benefits

The Group's obligations in respect of defined benefit pension plans, including termination indemnities, are calculated in accordance with IAS 19 Revised "Employee benefits", using the projected units of credit method based on actuarial assumptions and considering the specific economic conditions in each country concerned. The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.

The Group recognizes in other comprehensive income the actuarial gains or losses relating to post-employment plans, the differential between the actual return and the expected return on the pension assets and the impact of any plan curtailment.
The gains or losses relating to termination benefits (mainly jubilees) are recognized in the income statement.

The Group recognizes all the costs linked to pensions (defined benefit plans and net periodic pension costs) in the income from current operations (salaries and related costs).

Specific information related to the recognition of some pension plan assets:

Pension plans in The Netherlands are generally subject to minimum funding requirements ("MFR") that can involve the recognition of pension surpluses. These pension surpluses constituted by the KLM sub group are recognized in the balance sheet according to the IFRIC 14 interpretation (IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction").

4.19. Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft with a defined level of potential.

The Group provides for restitution costs related to aircraft under operating leases. This provision is based on the standard cost of a shop visit and is estimated using the phase-out costs indicated in the contract and taking into consideration the probability of the aircraft phase-out at the end of the contract.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess under “Flight equipment”. Such amounts are subsequently amortized on a straight-line basis over the period during which the potential exceeds the restitution condition. Any remaining capitalized excess potential upon termination of a lease is reimbursable by the lessor.

4.20. Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material. The effect of the time value of money is presented as a component of “Other financial income and expenses”.

Restructuring provisions are recognized once the Group has established a detailed and formalized restructuring plan which has been announced to the parties concerned.

4.21. Emission Trading Scheme

Since January 1, 2012, European airlines have been included in the scope of companies subject to the Emission Trading Scheme (ETS). In the absence of IFRS standards or interpretations governingETS accounting, the Group has adopted the accounting treatment known as the “netting approach”.

According to this approach, the quotas are recognized as intangible assets:

- Free quotas allocated by the State are valued at nil, and
- Quotas purchased on the market are accounted at their acquisition cost.

These intangible assets are not amortized.

If the allocated quotas are insufficient to cover the actual emissions then the Group recognizes a provision. This provision is assessed at the acquisition cost for the acquired rights and, for the non-hedged portion, with reference to the market price as of each closing date. At the date of the restitution to the State of the quotas corresponding to actual emissions, the provision is written-off in exchange for the intangible assets returned.

4.22. Equity and debt issuance costs

Debt issuance costs are mainly amortized as financial expenses over the term of the loans using the actuarial method.
Capital increase costs are deducted from paid-in capital.

4.23. Deferred taxes

The Group records deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the exceptions described in IAS 12 “Income taxes”.

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity’s tax position.

Deferred tax assets relating to temporary differences and tax losses carried forward are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

Deferred tax assets corresponding to fiscal losses are recognized as assets given the prospects of recoverability resulting from the budgets and medium-term plans prepared by the Group. The assumptions used are the same as those used for the impairment tests on assets (see note 4.15).

A deferred tax liability is also recognized for the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event recorded directly in other comprehensive income. In such a case, they are recorded directly in other comprehensive income.

Impact of the Territorial Economic Contribution

The 2010 Finance Law voted on December 30, 2009, removed the business tax liability for French fiscal entities as from January 1, 2010 and replaced it with the new TEC (Territorial Economic Contribution/Contribution Economique Territoriale – CET) comprising two contributions: the LDE (land tax of enterprises/Cotisation Foncière des Entreprises - CFE) and the CAVE (Contribution on Added Value of Enterprises/Cotisation sur la Valeur Ajoutée des Entreprises – CVAE). The latter is calculated by the application of a rate to the added value generated by the company during the year. As the added value is a net amount of income and expenses, the CAVE meets the definition of a tax on profits as set out in IAS 12.2. Consequently, the expense relating to the CAVE is presented under the line “tax”.

4.24. Non-current assets held for sale and discontinued operations

Assets or groups of assets held for sale meet the criteria for this classification if their carrying amount is recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets were classified as assets held for sale.

The Group determines on each closing date whether any assets or groups of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".
Any liabilities related to these assets are also presented on a separate line in liabilities on the balance sheet.

Assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented separately from the results from continuing operations in the income statement.

5. CHANGE IN THE CONSOLIDATION SCOPE

• Year ended December 31, 2017

JOON, a new airline within the Air France Group was created to operate in the low-cost segment of the network business. JOON launched its operations in November 2017.

In November 2017, Kenya Airways finalized its debt and equity restructuring. This resulted in a decrease of the Group's capital interest in Kenya Airways from 26.73 per cent to 7.76 per cent and the Group lost its significant influence over Kenya Airways. Consequently Kenya Airways is not an associate anymore and is presented as a financial asset.

• Year ended December 31, 2016

In 2016, the Group sold:

- 49.99% of the Servair share capital. On conclusion of this transaction, the operational control of Servair was transferred to gategroup in application of the governance planned in the agreements between Air France and gategroup. As a consequence, the Servair group has been consolidated according to the equity method since December 30, 2016. The impact of this operation is detailed in note 14.
- 100% of the Cobalt Ground Solutions Limited share capital. The impact of this operation is detailed in note 11.

6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

The segment information is prepared on the basis of internal management data communicated to the Executive Committee, the Group's principal operational decision-making body.

The Group is organized around the following segments:

Network: Passenger network and Cargo operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (excluding Transavia), including flights operated by other airlines under code-sharing agreements. As from the end of 2017, the activities of JOON contributes to the performances of Network. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third-party airlines and services linked to IT systems.
The revenues also including income from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties.

Maintenance: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers worldwide.

Transavia: The revenues from this segment come from the "low cost" activity realized by Transavia.

Other: The revenues from this segment come from various services provided by the Group and not covered by the four segments mentioned above.

The results of the business segments are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond to the EBITDAR, EBITDA, current operating income and to the income from operating activities. Other elements of the income statement are presented in the "non-allocated" column.

Inter-segment transactions are evaluated based on normal market conditions.

Air France-KLM Group

Geographical segments

• Activity by origin of sales area

Group activities by origin of sale are broken down into eight geographical areas:

- Metropolitan France
- Benelux
- Europe (excluding France and Benelux)
- Africa
- Middle East, Gulf, India (MEGI)
- Asia-Pacific
- North America
- Caribbean, West Indies, French Guyana, Indian Ocean, South America (CILA)

Only segment revenue is allocated by geographical sales area.

• Activity by destination

Group activities by destination are broken down into seven geographic areas:

- Metropolitan France
- Europe (excluding France) and North Africa
- Caribbean, West Indies, French Guyana and Indian Ocean
- Africa (excluding North Africa), Middle East
- North America, Mexico
- South America (excluding Mexico)
- Asia and New Caledonia

6.1. Information by business segment

• **Year ended December 31, 2017**

In € millions	Network (**)	Maintenance	Transavia	Other	Non allocated	Total
Total sales	22,522	4,177	1,438	250	-	28,387
Intersegment sales	(42)	(2,354)	(2)	(208)	-	(2,606)
External sales	**22,480**	**1,823**	**1,436**	**42**	**-**	**25,781**
EBITDAR (*)	3,605	410	320	17	-	4,352
EBITDA (*)	2,672	410	167	15	-	3,264
Income from current operations	1,192	215	81	-	-	1,488
Income from operating activities	(711)	214	78	-	-	(419)
Share of profits (losses) of associates	-	4	-	17	-	21
Net cost of financial debt and other financial income and expenses	-	-	-	-	(98)	(98)
Income taxes	-	-	-	-	229	229
Net income from continuing operations	**(711)**	**218**	**78**	**17**	**131**	**(267)**
Depreciation and amortization for the period	(1,316)	(225)	(56)	(16)	-	(1,613)
Other non-monetary items	(2,127)	24	(10)	469	177	(1,467)
Total assets	**12,593**	**3,509**	**857**	**16**	**7,433**	**24,408**
Segment liabilities	7,677	1,290	503	291	4,184	13,945
Financial debt, bank overdraft and equity	-	-	-	-	10,463	10,463
Total liabilities	**7,677**	**1,290**	**503**	**291**	**14,647**	**24,408**
Purchase of property, plant and equipment and intangible assets (continuing operations)	**1,543**	**357**	**268**	**143**	**1**	**2,312**

(*) See note 4.9 in notes to the consolidated financial statements.

(**) See note 2. in notes to the consolidated financial statements.

The non-allocated assets, amounting to €7.4 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €5 billion, pension assets of €0.6 billion, financial assets of €0.7 billion, deferred tax of €0.4 billion and derivatives of €0.7 billion.

The non-allocated segment liabilities, amounting to €4.2 billion, mainly comprise pension provisions for €2.2 billion, a portion of other provisions for €0.2 billion, tax and employee-related liabilities of €1.4 billion and derivatives of €0.4 billion.

Financial debts, bank overdrafts and equity are not allocated.

Air France-KLM Group

• Year ended December 31, 2016 (restated)

In € millions	Network(**)	Maintenance	Transavia	Other	Non allocated	Total
Total sales	21,797	4,182	1,218	664	-	27,861
Intersegment sales	(46)	(2,348)	-	(623)	-	(3,017)
External sales	**21,751**	**1,834**	**1,218**	**41**	**-**	**24,844**
EBITDAR (*)	3,138	439	197	13	-	3,787
EBITDA (*)	2,214	439	49	12	-	2,714
Income from current operations	813	238	-	(2)	-	1,049
Income from operating activities	869	253	(1)	(5)	-	1,116
Share of profits (losses) of associates	(2)	(2)	-	(3)	-	(7)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(293)	(293)
Income taxes	-	-	-	-	(294)	(294)
Net income from continuing operations	**867**	**251**	**(1)**	**(8)**	**(587)**	**522**
Depreciation and amortization for the period	(1,286)	(231)	(40)	(14)	-	(1,571)
Other non-monetary items	(466)	2	(300)	(505)	-	(1,269)
Total assets	**11,433**	**3,281**	**637**	**423**	**7,158**	**22,932**
Segment liabilities	7,613	1,280	435	24	3,834	13,186
Financial debt, bank overdraft and equity	-	-	-	-	9,746	9,746
Total liabilities	**7,613**	**1,280**	**435**	**24**	**13,580**	**22,932**
Purchase of property, plant and equipment and intangible assets (continuing operations)	**1,475**	**285**	**210**	**102**	**-**	**2,072**

(*) See note 4.9 in notes to the consolidated financial statements.

(**) See note 2. in notes to the consolidated financial statements.

The non-allocated assets, amounting to €7.2 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €3.9 billion, pension assets of €1.5 billion, financial assets of €0.6 billion, deferred tax of €0.3 billion and derivatives of €0.8 billion.

The non-allocated segment liabilities, amounting to €3.8 billion, mainly comprise pension provisions for €2.1 billion, a portion of other provisions for €0.3 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €0.2 billion.

Financial debts, bank overdrafts and equity are not allocated.

6.2. Information by geographical area

External sales by geographical area

- **Year ended December 31, 2017**

In € millions	**Metropolitan France**	**Benelux**	**Europe (except France and Benelux)**	**Africa**	**Middle-Eastern gulf India (MEGI)**	**Asia Pacific**	**North America**	**West Indies Caribbean Guyana Indian Ocean South America (CILA)**	**Total**
Network	6,188	2,274	4,733	1,111	579	2,069	3,142	1,465	21,561
Other Network sales	372	159	130	53	12	96	61	36	919
Total Network	**6,560**	**2,433**	**4,863**	**1,164**	**591**	**2,165**	**3,203**	**1,501**	**22,480**
Scheduled Transavia	567	722	111	2	10	3	5	2	1,422
Transavia-other sales	5	-	-	-	-	-	9	-	14
Total Transavia	**572**	**722**	**111**	**2**	**10**	**3**	**14**	**2**	**1,436**
Maintenance	1,017	694	23	-	-	-	89	-	1,823
Others	14	28	-	-	-	-	-	-	42
Total	**8,163**	**3,877**	**4,997**	**1,166**	**601**	**2,168**	**3,306**	**1,503**	**25,781**

- **Year ended December 31, 2016 (restated)**

In € millions	**Metropolitan France**	**Benelux**	**Europe (except France and Benelux)**	**Africa**	**Middle-Eastern gulf India (MEGI)**	**Asia Pacific**	**North America**	**West Indies Caribbean Guyana Indian Ocean South America (CILA)**	**Total**
Network (*)	6,012	2,150	4,660	1,127	565	1,962	3,012	1,265	20,753
Other Network sales	409	115	196	57	13	113	60	35	998
Total Network	**6,421**	**2,265**	**4,856**	**1,184**	**578**	**2,075**	**3,072**	**1,300**	**21,751**
Scheduled Transavia	454	645	89	-	8	2	7	1	1,206
Transavia-other sales	5	-	-	-	-	-	6	1	12
Total Transavia	**459**	**645**	**89**	**-**	**8**	**2**	**13**	**2**	**1,218**
Maintenance	1,072	637	23	-	-	1	101	-	1,834
Others	10	29	2	-	-	-	-	-	41
Total	**7,962**	**3,576**	**4,970**	**1,184**	**586**	**2,078**	**3,186**	**1,302**	**24,844**

(*) See note 2. in notes to the consolidated financial statements.

Traffic sales by geographical area of destination

- **Year ended December 31, 2017**

In € millions	**Metropolitan France**	**Europe (except France) North Africa**	**Caribbean, French Guyana, Indian Ocean**	**Africa (except North Africa) Middle East**	**North America, Mexico**	**South America, except Mexico**	**Asia, New Caledonia**	**Total**
Network	1,799	4,699	1,640	2,972	4,508	2,148	3,795	21,561
Scheduled Transavia	23	1,345	-	54	-	-	-	1,422
Total	**1,822**	**6,044**	**1,640**	**3,026**	**4,508**	**2,148**	**3,795**	**22,983**

- **Year ended December 31, 2016 (restated)**

In € millions	**Metropolitan France**	**Europe (except France) North Africa**	**Caribbean, French Guyana, Indian Ocean**	**Africa (except North Africa) Middle East**	**North America, Mexico**	**South America, except Mexico**	**Asia, New Caledonia**	**Total**
Network (*)	1,829	4,376	1,665	2,962	4,352	1,997	3,572	20,753
Scheduled Transavia	21	1,145	-	40	-	-	-	1,206
Total	**1,850**	**5,521**	**1,665**	**3,002**	**4,352**	**1,997**	**3,572**	**21,959**

(*) See note 2.in notes to the consolidated financial statements.

7. EXTERNAL EXPENSES

In € millions **Period from January 1 to December 31**	**2017**	**2016**
Aircraft fuel	4,507	4,597
Chartering costs	403	424
Landing fees and air route charges	1,905	1,900
Catering	784	445
Handling charges and other operating costs	1,753	1,565
Aircraft maintenance costs	2,424	2,469
Commercial and distribution costs	935	905
Other external expenses	1,574	1,958
Total	**14,285**	**14,263**
Excluding aircraft fuel	*9,778*	*9,666*

Following the acquisition of 49.9 per cent of Servair Group by Gategroup, the operational control was transferred to Gategroup. As a consequence, the Servair Group is consolidated according to the equity method since December 2016. The change in consolidation method is the main explanation of the variation in the catering expenses, handling charges and other operating costs and the other external expenses.

A portion of external expenses, mainly aircraft fuel and maintenance, is sensitive to fluctuations in the US dollar exchange rate. The hedges covering this currency exposure are presented in note 10

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions **Period from January 1 to December 31**	**2017**	**2016**
Wages and salaries	5,196	5,234
Pension costs linked to defined contribution plans	597	580
Net periodic pension cost of defined benefit plans	226	238
Social contributions	1,066	1,056
Cost of temporary employees	192	155
Profit sharing	324	148
Other expenses	23	63
Total	**7,624**	**7,474**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). This multi-employer plan being assimilated with a French State plan, it is accounted for as a defined contribution plan in “pension costs linked to defined contribution plans”.

As of December 31, 2017, the line “Other expenses” includes the share based compensation to KLM pilots amounting to €27 million. As of December 31, 2016, the respective amount was €54 million. The share based compensation for KLM pilots is described in detail in note 29.

Period from January 1 to December 31	**2017**	**2016**
Flight deck crew	7,746	7,673
Cabin crew	21,502	20,942
Ground staff	51,347	53,560
Temporary employees	2,927	2,427
Total	**83,522**	**84,602**

9. AMORTIZATION, DEPRECIATION AND PROVISIONS

In € millions **Period from January 1 to December 31**	**2017**	**2016**
Amortization		
Intangible assets	140	127
Flight equipment	1,273	1,234
Other property, plant and equipment	200	210
	1,613	**1,571**
Depreciation and provisions		
Inventories	9	(9)
Trade receivables	3	(9)
Risks and contingencies	151	112
	163	**94**
Total	**1,776**	**1,665**

The amortization changes for intangible and tangible assets are presented in notes 17 and 19.
The changes relating to inventories and trade receivables are presented in notes 24, 25 and 26.

The movements in provisions for risks and charges are detailed in note 31.

10. OTHER INCOME AND EXPENSES

In € millions	**2017**	**2016**
Period from January 1 to December 31		
Capitalized production	696	767
Joint operation of routes	(108)	(89)
Operations-related currency hedges	10	155
Other	37	9
Other income and expenses	**635**	**842**

11. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions	**2017**	**2016**
Period from January 1 to December 31		
Restructuring costs	(24)	(157)
Modification on pensions plans in the Netherlands	(1,889)	-
Cargo claim	(60)	(2)
Disposal of slots	-	49
Disposal of shares available for sale	-	133
Disposals of subsidiaries and affiliates	3	28
Other	45	(5)
Other non-current income and expenses	**(1,925)**	**46**

- **Year ended December 31, 2017**

Restructuring costs

This line mainly includes an additional contribution to the Air France and KLM voluntary departure plans and the costs linked to the closure of the Munich base of Transavia The Netherlands as of October 2017.

Modification of KLM pension schemes in The Netherlands

The KLM Pilot Pension Fund Board decided in 2016 to convert the accrued spouse's pension into additional old age pension. In 2017, the Dutch Ministry of Finance has refused to validate the change without the formal approval of all the spouses. As a consequence, the accrual rate has been decreased from 1.28% to 1.11% as from July 1, 2017. The one-off financial impact of this scheme change is a €15 million profit.

In August 2017, KLM and the Cabin unions agreed to modify the pension scheme for KLM Cabin Crew in the Netherlands. This modified pension scheme qualifies as a collective defined contribution scheme and led to the derecognition of the cabin pension asset. The pension asset, based on actuarial assumptions as of August 1, 2017, amounted to €311 million. The impact of the derecognition of this asset is a €311 million loss.

In December 2017, KLM and the KLM Cockpit Crew Union agreed to modify the Cockpit Crew pension plan. This modified plan qualifies as a collective defined contribution plan and led to the derecognition of the cockpit pension asset. This pension asset, based on specific actuarial assumptions as of December 15, 2017, amounted to €1,399 million. Within the framework of the agreement, KLM agreed on a dowry payment of €194 million, to the pension fund, of which €120 million was paid in 2017. The impact of the derecognition of this asset and this additional contribution is a €1,593 million loss.

Cargo claim

The provision for the cargo claim has been adjusted by a net amount of € (60) million.

Other

As per November 16, 2017, Kenya Airways is not an equity affiliate anymore and has been reclassified to financial asset at fair value through income statement. The line “Other” mainly includes the revaluation of the 7.76 per cent of the shares in Kenya Airways at fair value, the recycling of the current translation adjustment reserve and the net book value of the pair of slot at Heathrow airport. The operation generates a one-off profit of € 43 million. Reference is made to note 21 for additional information on the accounting treatment of Kenya Airways.

- **Year ended December 31, 2016**

Restructuring costs

As of December 31, 2016, these included mainly:
- €137 million relating to the voluntary departure plans announced by Air France in February 2016;
- €8 million relating to several voluntary departure plans initiated in the other Air France establishments located abroad;
- €13 million relating to an additional provision for KLM’s restructuring plans.

Sale of slots

The Group transferred two pairs of slots at London Heathrow airport to two other airlines. An amount of €49 million was recorded in respect of this operation as of December 31, 2016.

Disposal of shares available for sale

On December 23, 2016, the Group sold a block of 4.95 million shares in the Spanish company Amadeus IT Holding S.A. ("Amadeus"), representing approximately 1.13 per cent of the company’s share capital. This transaction generated:
- A positive result on the disposal of the shares amounting to €133 million in the “Other non-current income and expenses” line of the income statement;
- Cash proceeds of €201 million.

After this operation, the Group still holds 4.95 million Amadeus shares. The value of these shares is completely covered by a hedging transaction.

Disposal of subsidiaries and affiliates

As of December 31, 2016, this included the impact of:
- the reclassification under “shares available for sales” of two affiliates previously accounted for under the equity method, amounting to a total of €8 million;
- the result on the disposal of the subsidiary Cobalt Ground Solutions Limited, amounting to €5 million. The cash proceeds on this disposal amounts to €15 million.

Other

As of December 31, 2016, this mainly included:
- the positive result relating to the disposal of two pieces of land for a total amount of €13 million;
- a provision of €7 million for onerous lease contracts on two Martinair Boeing B747 aircraft.

12. OTHER FINANCIAL INCOME AND EXPENSES

In € millions	2017	2016
Period from January 1 to December 31		
Income from marketable securities	6	12
Other financial income	29	37
Financial income	**35**	**49**
Loan interests	(143)	(183)
Lease interests	(56)	(57)
Capitalized interests	15	11
Other financial expenses	(65)	(80)
Gross cost of financial debt	**(249)**	**(309)**
Net cost of financial debt	**(214)**	**(260)**
Foreign exchange gains (losses), net	212	(105)
Change in fair value of financial instruments	(88)	60
Including fuel derivatives	*17*	*99*
Including currency derivatives	*(54)*	*(4)*
Including interest rates derivatives	*(11)*	*3*
Including other derivatives	*(40)*	*(38)*
Net (charge)/ release to provisions	3	55
Change in fair value of hedged shares	53	24
Other	(64)	(67)
Other financial income and expenses	**116**	**(33)**
Total	**(98)**	**(293)**

Net cost of financial debt

Financial income mainly consists of interest income and the result on the disposal of financial assets at fair value recorded in the income statement.
As of December 31, 2017 the gross cost of financial debt includes an amount of €16 million corresponding to the difference between the nominal and effective interest rates (after taking into account the equity component) on the OCEANE bonds (versus €22 million as of December 31, 2016).

Foreign exchange gains (losses)

As of December 31, 2017, the foreign exchange losses mainly include:
- An unrealized currency gain of €89 million on debt of which €78 million relates to the debt in Japanese Yen,
- An unrealized currency gain of €152 million linked to the revaluation of the US dollar portion of the maintenance provision.

As of December 31, 2016, the foreign exchange losses mainly included:
- Unrealized currency losses of €47 million on Japanese Yen debt and €21 million on USD debt.
- An unrealized currency loss of €17 million linked to the revaluation of the US dollar portion of the maintenance provision.

Net (charge) / release to provisions

As of December 31, 2016, as the European Commission had not appealed the decision taken by European Court by February 29, 2016, the Group released to the consolidated income statement the €41 million provision covering the accrued interest on the fine imposed concerning the litigation relating to anti-trust legislation in the air freight industry.

Change in fair value of hedged shares

This line presents the revaluation of the hedged Amadeus shares at fair value. (see note 36.1). The variation of the derivative instrument covering these shares, is included in line “Change in fair value of financial instruments”.

Others

As of December 31, 2017 and 2016, this line comprises the accretion effect on long-term provisions amounting to €56 million and €59 million respectively.

13. INCOME TAXES

13.1. Income tax charge

Current income tax expenses and deferred income tax are detailed as follows:

In € millions **Period from January 1 to December 31**	**2017**	**2016**
Current tax (expense) / income	**(32)**	**(31)**
Change in temporary differences	177	(99)
CAVE impact	3	3
(Use / de-recognition) / recognition of tax loss carry forwards	81	(167)
Deferred tax income / (expense) from continuing operations	**261**	**(263)**
Total	**229**	**(294)**

The current income tax charge relates to the amounts paid or payable in the short term to the tax authorities for the period, in accordance with the regulations prevailing in various countries and any applicable treaties.

- **French fiscal group**

In France, tax losses can be carried forward for an unlimited period. However, there is a limitation on the amount of fiscal loss recoverable each year to 50 per cent of the profit for the period beyond the first million euros. The recoverability of the deferred tax losses corresponds to a period of seven years, consistent with the Group’s operating visibility.

In 2017, the Finance Law initiated a gradual reduction in the French income tax rate to 25.83 per cent in 2022. The impact of this change in tax rate is reflected in a reduction in the deferred tax assets and creates a deferred tax charge of €15 million.

In 2016, the Group had already recorded the impact of this reduction by Finance Law in income tax rate from 34.43 per cent to 28.92 per cent applicable to the French fiscal group as from fiscal year 2020. This change resulted in a reduction in the deferred tax asset, and thus a deferred tax charge of €102 million.

- **Dutch fiscal group**

In The Netherlands, tax losses can be carried forward over a period of nine years without limitation in the amount of recovery allowed each year.

In 2015, some accounting principles in the KLM income tax fiscal unity were changed as a result of which the result for tax purposes increased by €730 million. This higher result was fully offset by tax losses carried forward. In 2017, these accounting principles have been fully reversed, by re-filing the 2015 corporate income tax return.

As at December 31, 2017, the recoverability of the deferred tax losses corresponds to a period of two years.

As of December 31, 2016, the income taxes of the Dutch fiscal group include a positive €70 million corresponding to the use of non-recognized fiscal losses. €65 million of this deferred tax asset on non-recognized fiscal losses concerns the Dutch fiscal group and €5 million concerns the company Martinair prior to its inclusion in the Dutch fiscal group.

13.2. Deferred tax recorded in equity (equity holders of Air France-KLM)

In € millions	**2017**	**2016**
Period from January 1 to December 31		
Treasury shares	**-**	**2**
Coupons on Perpetual	**13**	**13**
Other comprehensive income that will be reclassified to profit and loss	**(41)**	**(352)**
Assets available for sale	(3)	7
Derivatives	(38)	(359)
Other comprehensive income that will not be reclassified to profit and loss	**(205)**	**114**
Pensions	(205)	114
Total	**(233)**	**(223)**

13.3. Effective tax rate

The difference between the standard and effective tax rate applied in France is detailed as follows:

In € millions	**2017**	**2016**
Period from January 1 to December 31		
Income before tax	(517)	823
Standard tax rate in France	34.43%	34.43%
Theoretical tax calculated based on the standard tax rate in France	178	(283)
Differences in French / foreign tax rates	(92)	56
Non-deductible expenses or non-taxable income	(13)	68
Variation in unrecognized deferred tax assets	171	(20)
Impact of change in income-tax rate	(15)	(102)
CAVE impact	(15)	(18)
Other	15	5
Income tax expenses	**229**	**(294)**
Effective tax rate	44.3%	35.8%

In 2017, the applicable tax rate for the French fiscal group is 44.43%. This tax rate includes a one-time additional contribution of 10 per cent.
Deferred taxes have been calculated with a tax rate gradually decreasing to 25.83 per cent in 2022. The impact of this change in tax rate is presented in the line "impact of change in income-tax rate".

The current tax rate applicable in The Netherlands is 25 per cent.

13.4. Variation in deferred tax recorded during the period

In € millions	January 1, 2017	Amounts recorded in income statement	Amounts recorded in OCI	Reclassification and other	December 31, 2017
Flight equipment	(1,234)	(25)	-	-	(1,259)
Pension assets	(315)	438	(197)	(2)	(76)
Financial debt	849	(80)	-	22	791
Deferred revenue on ticket sales	209	(48)	-	-	161
Debtors and creditors	(95)	34	(39)	(7)	(107)
Provisions	237	(168)	(5)	(1)	63
Others	(301)	29	(5)	8	(269)
Deferred tax corresponding to fiscal losses	838	81	-	-	919
Deferred tax asset/ (liability) net	**188**	**261**	**(246)**	**20**	**223**

In € millions	January 1, 2016 (Restated)	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Reclassification and other	December 31, 2016
Flight equipment	(1,193)	(43)	-	-	2	(1,234)
Pension assets	(396)	(19)	101	-	(1)	(315)
Financial debt	845	(5)	-	13	(4)	849
Deferred revenue on ticket sales	214	(5)	-	-	-	209
Debtors and creditors	306	(42)	(359)	-	-	(95)
Provisions	248	(15)	13	-	(9)	237
Others	(346)	33	7	2	3	(301)
Deferred tax corresponding to fiscal losses	1,013	(167)	-	-	(8)	838
Deferred tax asset/ (liability) net	**691**	**(263)**	**(238)**	**15**	**(17)**	**188**

- **French fiscal group**

The deferred taxes recognized on fiscal losses for the French fiscal group amount to €668 million as of December 31, 2017 with a basis of €2,432 million. The results outlook for the coming seven years has allowed the Group partially to reverse the provision on deferred tax losses, amounting to €125 million. The total deferred-tax position of the French fiscal group is a net asset of €92 million.

As of December 31, 2016 the deferred taxes recognized on fiscal losses for the French fiscal group amounted to €600 million, with a basis of €2,036 million.

- **Dutch fiscal group**

The deferred taxes recognized on fiscal losses for the Dutch fiscal group amounts to €196 million as of December 31, 2017 versus €220 million as of December 31, 2016 with respective bases of €786 million and €882 million.

13.5. Unrecognized deferred tax assets

In € millions	December 31, 2017		December 31, 2016	
	Basis	**Tax**	**Basis**	**Tax**
Temporary differences	767	197	807	276
Tax losses	4,608	1,187	5,120	1,475
Total	**5,375**	**1,384**	**5,927**	**1,751**

- **French fiscal group**

As of December 31, 2017, the cumulative effect on the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €1,327 million (corresponding to a basis of €5,134 million), of which €1,106 million relating to tax losses and €221 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

As of December 31, 2016, the cumulative effect on the limitation of deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €1,667 million (corresponding to a basis of €5,615 million), of which €1,396 million relating to tax losses and €271 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

- **Dutch fiscal group**

As of December 31, 2017, the Dutch fiscal group has no non-recognized deferred tax assets.

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry forwards of the Air France and KLM subsidiaries not belonging to the fiscal groups, in particular in the United States of America and United Kingdom.

14. NET INCOME FROM DISCONTINUED OPERATIONS

In € millions **Period from January 1 to December 31**	**2017**	**2016**
Net result of Servair Group	-	13
Disposals of subsidiaries and affiliates	(4)	123
Revaluation of investments in equity associates	(4)	134
Net income from discontinued operations	**(8)**	**270**

- **As of December 31, 2017**

In 2016, Air France sold 49.99% of its stake in Servair Group to gategroup. The final disposal price was partly based on the 2016 closing accounts of Servair Group. Based on the conditions in the purchase agreement, Air France Group accounted for a price adjustment of € (4) million and also lowered the value of the Group’s remaining 50.01% shareholding in Servair Group. The total amount was recorded under "net income from discontinued operations" in December 2017.

- **As of December 31, 2016**

Net result of Servair Group

As of December 31, 2016, the breakdown of the Servair Group's results after intercompany eliminations is as follows:

In € millions	
Period from January 1 to December 31	**2016**
Revenues	402
EBITDAR	56
EBITDA	56
Income from current operations	*50*
Non current item	(7)
Income from operating activities	*43*
Financial income	2
Income before tax	*45*
Income taxes	(20)
Share of profits (losses) of associates	(11)
Net income from discontinued operations	**13**

Disposals of subsidiaries and affiliates

Following the acquisition of gategroup by HNA on December 22, 2016, Air France and gategroup finalized the agreement for the sale to gategroup of 49.99% of Servair's share capital. The gain realized amounted to €123 million and the cash proceeds to €218 million.

Revaluation of investments in equity associates

On conclusion of this transaction, the operational control of Servair was transferred to gategroup in application of the governance planned in the agreements between Air France and gategroup. As a consequence, the Servair group has been consolidated according to the equity method since December 30, 2016. In accordance with IFRS 10, the shares retained in Servair have been revalued at their fair value. The impact of this revaluation amounts to a € 134 million positive.

15. EARNINGS PER SHARE

15.1 Income for the period – Equity holders of Air France-KLM per share

Reconciliation of income used to calculate earnings per share

The results used to calculate earnings per share are as follows:

- **Results used for the calculation of basic earnings per share:**

In € millions	2017	2016
As of December 31		
Net income for the period – Equity holders of Air France-KLM	(274)	792
Net income from continuing operations – Equity holders of Air France – KLM	(266)	522
Net income from discontinued operations – Equity holders of Air France – KLM	(8)	270
Coupons on perpetual	(25)	(25)
Basic net income for the period – Equity holders of Air France-KLM	(299)	767
Basic net income from continuing operations – Equity holders of Air France – KLM	(291)	497
Basic net income from discontinued operations – Equity holders of Air France – KLM	(8)	270

- **Results used for the calculation of diluted earnings per share:**

In € millions **As of December 31**	**2017**	**2016**
Basic net income for the period – Equity holders of Air France-KLM	(299)	767
Basic net income for the period for continuing operations – Equity holders of Air France-KLM	(291)	497
Basic net income for the period for discontinued operations – Equity holders of Air France-KLM	(8)	270
Consequence of potential ordinary shares on net income: interests paid on convertible bonds (after tax)	-	20
Net income for the period – Equity holders of Air France-KLM (taken for calculation of diluted earnings per share)	**(299)**	**787**

Since the perpetual subordinated loan is considered to be preferred shares, the coupons are included in basic earnings per share.

<u>Reconciliation of the number of shares used to calculate earnings per share</u>

As of December 31	2017	2016
Weighted average number of:		
- Ordinary shares issued	371,734,062	300,219,278
- Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
- Other treasury stock	(31,678)	(2,877,251)
Number of shares used to calculate basic earnings per share	**370,585,964**	**296,225,607**
OCEANE conversion	-	53,386,532
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**370,585,964**	**349,612,139**

The change in the number of ordinary shares issued is disclosed in note 28.1.

15.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of December 31, 2017.

15.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

16. GOODWILL

16.1 Detail of consolidated goodwill

In € millions	2017			2016		
As of December 31	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Network	197	-	197	196	-	196
Maintenance	23	(4)	19	26	(5)	21
Other		-	-	1	-	1
Total	**220**	**(4)**	**216**	**223**	**(5)**	**218**

16.2 Movement in net book value of goodwill

In € millions **As of December 31**	**2017**	**2016**
Opening balance	**218**	**247**
Change in scope		(30)
Currency translation adjustment	(2)	1
Closing balance	**216**	**218**

17. INTANGIBLE ASSETS

In € millions	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of December 31, 2015	**280**	**109**	**1,368**	**1,757**
Additions	-	-	210	**210**
Change in scope	-	-	(29)	**(29)**
Disposals	-	-	(53)	**(53)**
Amount as of December 31, 2016	**280**	**109**	**1,496**	**1,885**
Additions	-	-	248	**248**
Disposals	-	-	(72)	**(72)**
Reclassification	-	-	(36)	**(36)**
Amount as of December 31, 2017	**280**	**109**	**1,636**	**2,025**
Depreciation				
Amount as of December 31, 2015	**(5)**	**(107)**	**(627)**	**(739)**
Charge to depreciation	(1)	(1)	(125)	**(127)**
Releases on disposals	-	-	32	**32**
Change in scope	-	-	19	**19**
Reclassification	-	-	(4)	**(4)**
Amount as of December 31, 2016	**(6)**	**(108)**	**(705)**	**(819)**
Charge to depreciation	-	(1)	(140)	**(141)**
Releases on disposals	-	-	21	**21**
Reclassification	-	-	36	**36**
Amount as of December 31, 2017	**(6)**	**(109)**	**(788)**	**(903)**
Net value				
As of December 31, 2016	274	1	791	**1,066**
As of December 31, 2017	274	-	848	**1,122**
Including:				
Network	*263*			
Other	*5*			
Maintenance	*5*			
Cargo	*1*			

The intangible assets mainly comprise:

- The KLM and Transavia brands and slots (takeoff and landing) acquired by the Group as part of the acquisition of KLM. These intangible assets have an indefinite useful life as the nature of the assets means that they have no time limit;
- Software and capitalized IT costs.

18. IMPAIRMENT

- **Year ended December 31, 2017**

Concerning the methodology followed for the impairment test, the Group has allocated each item of goodwill and each intangible fixed asset with an indefinite useful life to Cash Generating Units (CGUs), corresponding to its business segments (see “Accounting Policies”).

The recoverable value of the CGU assets has been determined by reference to their value in use as of December 31, 2017. The tests were realized for all the CGUs on the basis of a three-year Group plan, approved by the management.

The discount rate used for the test corresponds to the Group’s weighted average cost of capital (WACC). This stood at 7.5 per cent as at December 31, 2017 versus 7.0 per cent as at December 31, 2016.

After the aforementioned test, no impairments were recognized on the Group’s other CGUs.

A 50-basis point increase in the WACC would have no impact on the tests results per Group CGUs as of December 31, 2017. A 50-basis point decrease in the long-term growth rate would also have no impact on the value of the CGUs as of the same date. The same holds true for a 50-basis point decrease in the target operating margin.

- **Year ended December 31, 2016**

As of December 31, 2016, no impairment was recognized on the Group’s CGU’s.

19. TANGIBLE ASSETS

In € millions	Flight equipment					Other tangible assets					Total
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	
Gross value											
As of December 31, 2015	**8,869**	**6,739**	**513**	**2,357**	**18,478**	**2,889**	**1,310**	**83**	**1,056**	**5,338**	**23,816**
Acquisitions	225	8	1,375	118	1,726	5	42	117	28	192	**1,918**
Disposals	(1,184)	(158)	(1)	(242)	(1,585)	(33)	(111)	(1)	(41)	(186)	**(1,771)**
Change in scope	-	-	-	-	-	(159)	(60)	(4)	(127)	(350)	**(350)**
Fair value	-	-	(16)	-	(16)	-	-	-	-	-	**(16)**
Reclassification	963	67	(1,255)	158	(67)	21	31	(80)	5	(23)	**(90)**
Currency translation	-	-	-	-	-	(2)	-	-	-	(2)	**(2)**
As of December 31, 2016	**8,873**	**6,656**	**616**	**2,391**	**18,536**	**2,721**	**1,212**	**115**	**921**	**4,969**	**23,505**
Acquisitions	273	(3)	1,386	194	1,850	13	24	152	34	223	**2,073**
Disposals	(995)	(129)	-	(199)	(1,323)	(25)	(9)	1	(16)	(49)	**(1,372)**
Fair value	-	-	313	-	313	-	-	-	-	-	**313**
Reclassification	1,732	(537)	(1,359)	126	(38)	60	29	(113)	5	(19)	**(57)**
Currency translation	-	-	-	(1)	(1)	1	(5)	1	(2)	(5)	**(6)**
As of December 31, 2017	**9,883**	**5,987**	**956**	**2,511**	**19,337**	**2,770**	**1,251**	**156**	**942**	**5,119**	**24,456**
Depreciation											
As of December 31, 2015	**(5,864)**	**(2,847)**	**-**	**(1,024)**	**(9,735)**	**(1,826)**	**(972)**	**-**	**(870)**	**(3,668)**	**(13,403)**
Charge to depreciation	(572)	(460)	-	(144)	(1,176)	(110)	(67)	-	(33)	(210)	**(1,386)**
Releases on disposal	1,134	158	-	142	1,434	30	48	-	40	118	**1,552**
Change in scope	-	-	-	-	-	119	44	-	94	257	**257**
Reclassification	(505)	514	-	51	60	4	9	-	-	13	**73**
Currency translation	-	-	-	-	-	1	-	-	-	1	**1**
As of December 31, 2016	**(5,807)**	**(2,635)**	**-**	**(975)**	**(9,417)**	**(1,782)**	**(938)**	**-**	**(769)**	**(3,489)**	**(12,906)**
Charge to depreciation	(608)	(455)	-	(148)	(1,211)	(102)	(62)	-	(36)	(200)	**(1,411)**
Releases on disposal	953	128	-	127	1,208	23	8	-	16	47	**1,255**
Reclassification	(837)	847	-	(7)	3	(5)	11	-	6	12	**15**
Currency translation	-	-	-	1	1	(1)	4	-	-	3	**4**
As of December 31, 2017	**(6,299)**	**(2,115)**	**-**	**(1,002)**	**(9,416)**	**(1,867)**	**(977)**	**-**	**(783)**	**(3,627)**	**(13,043)**
Net value											
As of December 31, 2016	3,066	4,021	616	1,416	**9,119**	939	274	115	152	**1,480**	**10,599**
As of December 31, 2017	3,584	3,872	956	1,509	**9,921**	903	274	156	159	**1,492**	**11,413**

Aeronautical assets under construction mainly comprise advance payments, engine maintenance work in progress and aircraft modifications.

Note 38 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in notes 37 and 38.

The net book value of tangible assets financed under capital lease amounts to €4,170 million as of December 31, 2017 versus €4,356 million as of December 31, 2016.

20. CAPITAL EXPENDITURES

The detail of capital expenditures on tangible and intangible assets presented in the consolidated cash flow statements is as follows:

In € millions	**2017**	**2016**
As of December 31		
Acquisition of tangible assets	2,055	1,915
Acquisition of intangible assets	248	210
Accounts payable on acquisitions and capitalized interest	9	(53)
Subtotal	**2,312**	**2,072**
Total	**2,312**	**2,072**

21. EQUITY AFFILIATES

Movements over the period

The table below presents the movement in investments in associates and joint ventures:

In € millions	**Network**	**Maintenance**	**Servair Group**	**Other**	**Total**
Carrying value of share in investment as of December 31, 2015	**(3)**	**48**	**45**	**28**	**118**
Share in net income of equity affiliates	(5)	(1)	-	4	(2)
Distributions	-	-	-	(5)	(5)
Change in consolidation scope	-	-	(44)	-	(44)
Other variations	7	2	218	(5)	222
Currency translation adjustment	1	-	(1)	-	-
Carrying value of share in investment as of December 31, 2016	**-**	**49**	**218**	**25**	**292**
Share in net income of equity affiliates	-	4	10	(4)	10
Distributions	-	-	-	(6)	(6)
Change in consolidation scope	-	1	-	1	2
Other variations	-	2	(4)	5	3
Capital increase	-	-	-	2	2
Currency translation adjustment	-	-	-	(2)	(2)
Carrying value of share in investment as of December 31, 2017	**-**	**56**	**224**	**21**	**301**

Network

On November 16, 2017, Kenya Airways Ltd. announced that its debt and equity restructuring had been finalized. Among others things, this resulted in the Group's equity interest in its associate decreasing from 26.73 per cent to 7.76 per cent and the Group losing its ability to exercise a significant influence over Kenya Airways. Consequently Kenya Airways is no longer an equity affiliate and has been reclassified as a financial asset at fair value through income statement. Reference is made to notes 11 and 23.

Maintenance

As of December 31, 2017 and 2016, the equity affiliates in the maintenance business mainly comprise joint venture partnerships entered into by the Group to develop its maintenance activities worldwide. These partnerships, for which the country localizations and percentages of interest are presented in note 42.2, have been concluded either with airlines or with independent players in the maintenance market.

Servair Group

The Servair Group is the French number one in aviation catering. With about 45 establishments in 26 countries and approximately 10,000 employees, Servair has a leading position in Paris and Africa. Servair numbers approximately 120 air carrier customers worldwide and proposes a set of services grouped around three core businesses: the catering during flight and collective, the airport services and additional services like engineering and the integration of services.
In 2017, within the framework of the agreement with Burger King, an acceleration in the fast food activities has been realized in Ivory Coast, Kenya and Ghana.

As of December 31 2016, the Servair company being controlled by Air France, the investments in equity associates corresponded to joint-ventures partnerships concluded within the framework of the world development of the catering activity of the Servair Group.

In March 2016, Air France was engaged in a process of share capital opening of the Servair Group. Since this date, Servair and its subsidiaries were presented as discontinued activities according to IFRS 5 standard "Non-current Assets Held for Sale and Discontinued Operations".
Following the acquisition of gategroup by HNA on December 22, 2016, Air France and gategroup finalized the agreement for the sale to gategroup of 49.99% of the Servair share capital. At the conclusion of this transaction, the operational control of Servair was transferred to gategroup in application of the governance planned in the agreements between Air France and gategroup. As a consequence, the Servair group is consolidated according to the equity method since December 30, 2016.

Movements of the investments in equity associates occurred during the year 2016 correspond:

- On one hand to the exit of the investments in equity associates directly or indirectly held by Servair at the time of the classification in discontinued activities for an amount of €(44) million
- On the other hand to the reclassification of the kept shares by the Group in the capital of Servair at the time of the transfer of the control to gategroup. According to the standard IFRS 10, the Servair shares were revalued at their fair value. This one was determined on the basis of the value of the transaction. It amounts to €218 million.

The simplified financial statements of the Servair Group as of December 31 2017 are as follows:

Simplified income statement

In € millions **Period from January 1 to December 31**	**2017**	**2016**
Sales	869	824
Income from current operations	*48*	*34*
Non-current items	(15)	(8)
Income from operating activities	*33*	*26*
Financial result	(1)	2
Income before tax	*32*	*28*
Income taxes	(17)	(21)
Share of profits (losses) of associates	4	-
Net result	**19**	**7**

Simplified balance sheet

Asset *In € millions*	**December 31, 2017**	**December 31, 2016**
Non-current asset	192	200
Current asset	288	250
Total asset	**480**	**450**

Liabilities and equity *In € millions*	**December 31, 2017**	**December 31, 2016**
Equity	192	192
Non-current liability	90	78
Current liability	198	180
Total liabilities and equity	**480**	**450**

Other

As of December 31, 2017 and 2016, the equity affiliates linked to the Group's other businesses are mainly joint venture partnerships entered into by the Group in the airport business. The localizations of the activities and the percentages of interest in these partnerships are presented in note 42.2.

22. PENSION ASSETS

In € millions **As of December 31,**	**2017**	**2016**
Opening balance	**1,462**	**1,773**
Net periodic pension (cost) / income for the period	(1,789)	(111)
Contributions paid to the funds	128	170
Fair value revaluation	789	(370)
Closing balance	**590**	**1,462**

The analysis on the pensions assets is presented in note 30.

23. OTHER FINANCIAL ASSETS

In € millions **As of December 31**	**2017**		**2016**	
	Current	**Non-current**	**Current**	**Non-current**
Financial assets available for sale				
Available shares	-	102	-	29
Shares secured	-	298	-	214
Assets at fair value through profit and loss				
Marketable securities	41	32	38	15
Cash secured	269	-	50	-
Loans and receivables				
Financial lease deposit (bonds)	93	286	19	279
Financial lease deposit (others)	9	333	8	327
Loans and receivables	9	216	15	222
Gross value	**421**	**1,267**	**130**	**1,086**
Impairment at opening date	**-**	**(22)**	**-**	**(23)**
New impairment charge	-	(6)	-	(9)
Reversal	-	10	-	5
Change in scope	-	1	-	4
Other	-	(8)	-	1
Impairment at closing date	**-**	**(25)**	**-**	**(22)**
Total	**421**	**1,242**	**130**	**1,064**

Financial assets available for sale

In € millions	**Fair Value**	**% interest**	**Stockholder's equity**	**Net income**	**Stock price (in €)**	**Closing date**
As of December 31, 2017						
Amadeus (*)	298	1,11%	ND(**)	ND(**)	60,11	December 2017
Alitalia CAI	-	1,00%	ND(**)	ND(**)	NA(***)	December 2017
Kenya Airways (*)	61	7.76%	ND(**)	ND(**)	0.13	December 2017
Other	41	-	-	-	-	-
Total	**400**					
As of December 31, 2016						
Amadeus (*)	214	1.11%	NA(**)	NA(**)	43.17	December 2016
Alitalia CAI	-	1.00%	NA(**)	NA(**)	NA(***)	December 2016
Other	29	-	-	-	-	-
Total	**243**					

(*) Listed company
(**) Not-available
(***) Not-applicable

- **Year ended December 31, 2017**

Following a debt and equity restructuring within Kenya Airways Ltd., the Group's capital interest decreased from 26.73 per cent as at December 31, 2016 to 7.76 per cent as at December 31, 2017. The Group lost its ability to exercise significant influence over Kenya Airways in November 2017. Consequently, Kenya Airways is now accounted as financial asset at fair value through income statement. Reference is made to notes 11 and 21.

- **Year ended December 31, 2016**

On December 23, 2016, the Group sold a block of 4.95 million shares in the Spanish company Amadeus IT Holding S.A. ("Amadeus"), representing approximately 1.13 per cent of the capital of the company.
After this transaction, the Group still holds 4.95 million Amadeus shares. The value of these shares is fully covered by a hedging transaction concluded in May and June 2016 (see note 35.1).

Assets at fair value through profit and loss

The assets at fair value through profit and loss mainly comprise shares in mutual funds that are not classified as "cash equivalents" and cash pledged.

Loans and receivables

Loans and receivables mainly include deposits on flight equipment made within the framework of operational and capital leases.

Transfer of financial assets that are not derecognized in their entirety

Transfer of receivables agreement

The Group entered into a loan agreement secured by Air France's 1 per cent housing loans. For each of the CILs (Comités Interprofessionnels du Logement), Air France and the bank concluded, in July 2012, a tripartite receivables delegation agreement with reference to the loan agreement. Through this agreement, the CILs commit to repaying the bank directly on each payment date. These are imperfect delegations: in the event of non-repayment by the CILs, Air France remains liable to the bank for repayments of the loan and interest.
As of December 31, 2017, the amount of transferred receivables stood at €104 million (versus €106 million as of December 31, 2016). The associated loan stood at €81 million as of December 31, 2017 and 2016).

Loan of shares agreement

In May and June 2016, the Group entered into a loan of shares agreement on Amadeus shares. This loan was linked to the hedging transaction to protect the value of Amadeus shares. The entire 1.11 per cent of Amadeus shares is covered by this hedge contract.

Transfer of financial assets that are derecognized in their entirety

Since 2011, the Group has established non-recourse factoring agreements concerning passenger, cargo and airline trade receivables. These agreements apply to receivables originating in France and other European countries for a total transferred amount of €190 million as of December 31, 2017, against €193 million as of December 31, 2016.
The Group retains the risk of dilution regarding these transferred assets for which guarantees have been secured for €13 million as of December 31, 2017 versus €15 million as of 2016.

24. INVENTORIES

In € millions As of December 31	2017	2016
Aeronautical spare parts	587	591
Other supplies	122	117
Production work in progress	7	11
Gross value	**716**	**719**
Opening valuation allowance	**(153)**	**(162)**
Charge to allowance	(14)	(9)
Use of allowance	5	18
Currency translation adjustment	1	-
Reclassification	2	-
Closing valuation allowance	**(159)**	**(153)**
Net value of inventory	**557**	**566**

25. TRADE ACCOUNTS RECEIVABLES

In € millions As of December 31	2017	2016
Airlines	391	354
Other clients:		
* Network	1,122	942
* Maintenance	628	598
* Other	109	59
Gross value	**2,250**	**1,953**
Opening valuation allowance	**(85)**	**(105)**
Charge to allowance	(66)	(9)
Use of allowance	23	18
Change of scope	-	10
Currency translation adjustment	2	(1)
Reclassification	12	2
Closing valuation allowance	**(114)**	**(85)**
Net value	**2,136**	**1,868**

26. OTHER ASSETS

In € millions **As of December 31**	2017		2016	
	Current	**Non-current**	**Current**	**Non-current**
Suppliers with debit balances	159	-	143	-
State receivables (including income tax)	157	-	115	-
Derivative instruments	491	206	396	404
Prepaid expenses	172	-	173	-
Other debtors	286	33	279	44
Gross value	**1,265**	**239**	**1,106**	**448**
Opening valuation allowance	**(1)**	**-**	**(3)**	**-**
Change in scope	-	-	2	-
Closing valuation allowance	**(1)**	**-**	**(1)**	**-**
Other	**1,264**	**239**	**1,105**	**448**

As of December 31, 2017, non-current derivatives include €19 million relating to currency hedges on financial debt, against €54 million as of December 31, 2016.

As of December 31, 2017, current derivatives include €4 million relating to currency hedges on financial debt, against €3 million as of December 31, 2016.

27. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

In € millions **As of December 31**	**2017**	**2016**
Liquidity funds (SICAV) (assets at fair value through profit and loss)	2,261	1,856
Bank deposits and term accounts (assets at fair value through profit and loss)	1,772	1,349
Cash in hand	640	733
Total cash and cash equivalents	**4,673**	**3,938**
Bank overdrafts	(6)	(5)
Cash, cash equivalents and bank overdrafts	**4,667**	**3,933**

28. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA

28.1 Issued capital

As of December 31, 2017, the issued capital of Air France-KLM comprised 428,634,035 fully paid-up shares. Each share with a nominal value of one euro is entitled to one vote. However, since April 3, 2016, shareholders who have owned their shares for at least two years have benefited from double voting rights.

The number of issued shares held is as follows:

In number of shares	2017	2016
As of December 31		
At the beginning of the period	**300,219,278**	**300,219,278**
French State	61,241,325	52,763,693
Delta Air Lines	37,527,410	-
China Eastern Airlines	37,527,410	-
Employees and former employees	16,781,090	18,981,625
Treasury shares	1,146,376	1,149,203
Others	274,410,424	227,324,757
At the end of the period	**428,634,035**	**300,219,278**
Of which: - number of shares issued and paid up	428,634,035	300,219,278
- number of shares issued and not paid up	-	-

On October 3, 2017, within the framework of the reserved capital increase, 37.527.410 new shares were issued due to the capital participation of Delta Airlines and 37.527.410 new shares were issued due to the capital participation of China Eastern Airlines. These shares were issued with a €338 million share premium.

By decision published October 16, 2017, Air France KLM proceeded to the early redemption of the OCEANE with due date February 15, 2023. Almost all the holders converted their securities in shares. Consequently 53.359.937 new shares were issued in November 2017, with a share premium of €496 million.

After deducting the issuing costs, the net increase of the share premium, for these two transactions, is established in 1,168 million euros.

The shares comprising the issued capital of Air France-KLM are subject to no restrictions or priorities concerning dividend distribution or reimbursement of the issued capital.

Authorized stock

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, outside the context of public tender offers, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital limited to a total maximum nominal amount of €150 million.

Breakdown of the share capital and voting rights

The breakdown of the share capital and voting rights is as follows:

	% of capital		% of voting rights	
As of December 31	**2017**	**2016**	**2017**	**2016**
French State	14	18	23	27
Delta Air Lines	9	-	7	-
China Eastern Airlines	9	-	7	-
Employees and former employees	4	6	7	10
Other	64	76	56	63
Total	**100**	**100**	**100**	**100**

The line "Employees and former employees" includes the shares held by employees and former employees identified in the "Fonds Communs de Placement d'Entreprise (FCPE)".

Other securities giving access to common stock

OCEANE

See note 32.2.

28.2 Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

28.3 Treasury shares

	Treasury shares	
	Number	In € millions
December 31, 2015	**4,149,595**	**(85)**
Change in the period	(3,000,392)	18
December 31, 2016	**1,149,203**	**(67)**
Change in the period	(2,827)	-
December 31, 2017	**1,146,376**	**(67)**

All the treasury shares are classified as a reduction of equity.

28.4 Perpetual subordinated bond

In order to consolidate its financial structure during the Perform 2020 implementation period, in early April 2015 the Group issued a perpetual subordinated bond for a total amount of €600 million. These securities, which have no maturity date and bear an annual coupon of 6.25 per cent, have a first repayment option in October 2020, at the issuer's discretion. They are classified as equity, in accordance with the IFRS rules. The loan is subordinated to all other existing and future Air France-KLM debt.
In October, 3rd 2017 and 2016, Air France-KLM disbursed coupons of €38 million relating to this instrument.

28.5 Reserves and retained earnings

In € millions	**December 31, 2017**	**December 31, 2016**
Legal reserve	70	70
Distributable reserves	15	176
Pension defined benefit reserves	(1,386)	(3,094)
Derivatives reserves	175	102
Available for sale securities reserves	249	161
Other reserves	(948)	(727)
Net income (loss) – Group share	(274)	792
Total	**(2,099)**	**(2,520)**

As of December 31, 2017, the legal reserve of €70 million represents 16 per cent of Air France-KLM's issued capital. French company law requires that a limited company (*société anonyme*) allocates 5 per cent of its unconsolidated statutory net income each year to this legal reserve until it reaches 10 per cent of the Group's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year.
The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

29. SHARE-BASED COMPENSATION

The Air France-KLM Group has no significant stock option plans or share-based plans with settlement in cash (Phantom Performance Shares) index-linked to the change in the Air France-KLM share price as of December 31, 2017 and December 31, 2016 (see section 1 of the Registration Document).

Following the CLA agreement concluded in August 2015 between KLM and the pilot union VNV, Air France-KLM and KLM reached an agreement on December 8, 2016 with the VNV and the independent foundation for KLM pilots created by the VNV. As of December 31, 2017 within the framework of this agreement, the Group recorded a €27 million cost in "Other expenses" in note 8. In 2016 these expenses amounted to €54 million and related to the years 2015 and 2016.

Under this agreement, and in consideration for the August 2015 agreement, on December 12, 2016 KLM financed the acquisition related to 2015 and 2016 by the foundation and at the market price of three million of Air France-KLM treasury shares, representing around 1 per cent of Air France-KLM's share capital, and paid a cash amount of about €12 million to the foundation enabling the latter to acquire Air France-KLM shares in the market. For 2017, the share based compensation has not been yet settled.

30. RETIREMENT BENEFITS

In € millions	**Retirement benefits**
Amount as of December 31, 2015	**1,995**
Of which: Non-current	*1,995*
New provision	126
Use of provision	(68)
Fair value revaluation	178
Currency translation adjustment	(21)
Reclassification	(47)
Amount as of December 31, 2016	**2,119**
Of which: Non-current	*2,119*
New provision	331
Use of provision	(248)
Fair value revaluation	12
Currency translation adjustment	(12)
Amount as of December 31, 2017	**2,202**
Of which: Non-current	*2,202*

Pension costs are recorded in the line "salaries costs", except for plans amendments and curtailments with a significant impact, which are recorded under 'Other non-current income and expense".
In addition curtailments of pension plans due to restructuring are recorded under 'Other non-current income and expense".

The plan amendments, curtailments and settlements in 2016 and 2017 are presented in note 30.3.

30.1 Characteristics of the main defined benefit plans

The Group has a large number of retirement and other long-term benefit plans for its employees, several of which are defined benefit plans. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular countries in which the employees are located.

Pension plan related to KLM ground staff – The Netherlands

The pension plan related for the ground staff of the KLM entity is a defined benefit plan based on average salary with reversion to the spouse on the beneficiary's death. The age of retirement defined in the plan increased from 67 years to 68 years as per January 1, 2018.

The Board of the pension fund is composed of members appointed by the employer and employees. The Board is fully responsible for the execution of the plan. KLM can only control the financing agreement between KLM and the pension fund.

To satisfy the requirements of Dutch regulations and the rules set between the employer and the Board of the pension fund, the plan imposes a mandatory funding level of approximately 125 per cent of the projected long-term obligation. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) in force from as of January 1, 2015. One impact of the nFTK is a requirement for higher minimum solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment.

Based on the criteria under Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Ground Staff pension fund is 115.3 per cent as of December 31, 2017 versus 103.4 per cent as of December 31, 2016.

If the coverage ratio is under the funding ratio detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the 125 per cent threshold within 10 years and includes projected future returns on investment. As a consequence the existing recovery plan for the Ground Staff plan was updated as of April 1, 2017. If the threshold cannot be realized within 10 years, additional contributions are payable by the company and the employee. The amount of regular and additional employer contributions is not limited. Any additional employee contributions are limited to 2 per cent of the pensionable contribution basis.
A reduction in contributions is possible if the pension indexation is fully funded. Besides Dutch Pension Law, this reduction is not limited and can be performed either by a reimbursement in contributions, or a reduction in future contributions. Since 2015, the new Dutch fiscal rules have foreseen a maximum pensionable salary of EUR 100,000 (increased to EUR 105,075 as per January 1, 2018) and a lower future accrual rate for pensions.

The return on plan assets, the discount rate used to value the obligations and the longevity and characteristics of the active population are the main factors impacting both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions are limited to 22 per cent of the pension base.

The funds, fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most of the assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks. For example, to reduce the sensitivity to a decline in interest rates, a substantial part of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Pension plan related to KLM flight deck crew – The Netherlands

In December 2017, KLM and the KLM Cockpit Crew union agreed to modify the pension plan for the KLM Cockpit Crew in the Netherlands. This modified pension plan qualifies as a collective defined contribution scheme and led to the derecognition of the KLM Cockpit Crew pension asset.

The pension asset, based on actuarial assumptions on the date of the plan's transformation (December 15, 2017), amounted to €1,399 million. In addition, KLM agreed to a dowry payment of € 194 million. The total derecognition amounting to € 1,593 million has been recorded under "Other non-current income and expenses" as described in note 11.

Pension plan related to Cabin Crew – The Netherlands

In August 2017, KLM and the KLM Cabin Crew union agreed to modify the pension plan for the KLM Cabin Crew in the Netherlands. This modified pension plan qualifies as a collective defined contribution scheme and led to the derecognition of the KLM Cabin Crew pension asset.

The pension asset, based on actuarial assumptions, on the date of the plan's transformation (August 1, 2017), amounted to €311 million. The derecognition has been recorded under "Other non-current income and expenses" as described in note 11.

Air France pension plan (CRAF) – France

The employees covered by this plan are the Air France ground staff affiliated to the CRAF until December 31, 1992.
The participants receive, or will receive on retirement, an additional pension paid monthly or a lump sum on the based on the monthly annuity and definitively calculated based on the data known as of December 31, 1992 and expressed in the form of points. The value of each point is reevaluated every year based on the weighted increases seen in the CNAV and ARRCO schemes over the last twelve months.
Until 2009, the CRAF had the legal form of a supplementary pension institution (pursuant to the "Sécurité Sociale" Code). With this status, the CRAF was responsible, on behalf of the Air France ground staff employed in France, for managing the pension plan resulting from the merging of the Air France ground staff plan with the mandatory pension plan for the private sector.
Following the 2003 law on pension reform foreseeing the disappearance of supplementary pension institutions as of December 31, 2009, the CRAF's Board of Directors opted to transform it into an institution managing supplementary pensions. The CRAF is now responsible for the administrative functions linked to the plan.
The pension rights were not amended by this reform. Air France is directly responsible for the pension obligations.
As of December 31, 2009, all the funds managed by the CRAF had been transferred to two insurance companies. On December 31, 2012, one of the insurance contracts was terminated and its funds were transferred to the other, which thus became the only insurer. This guarantees a capital of 17 per cent equal to the amount of capital invested in units of account in its collective fund, this percentage being automatically set to increase over time.
The annual payments made by Air France to the insurance company are governed by the agreement signed with the employee representative bodies on December 14, 2009. The minimum annual payment defined by this agreement amounts to €32.5 million as long as life annuity guaranteed by insurers doesn't reach 85 per cent of the benefits payments for this plan without future revaluations. If the value of the funds falls below 50 per cent of the total obligations calculated for funding purposes, Air France is required to make an additional payment to achieve a minimum 50 per cent coverage rate.
The funds are invested in bonds, equities and general assets of the insurance company. Studies of assets/liabilities allocation are carried out regularly, to verify the relevance of the investment strategy.

Air France end of service benefit plan (ICS) - France

Pursuant to French regulations and the company agreements, every employee receives an end of service indemnity on retirement.
In France, this indemnity depends on the number of years of service, the professional category of the employee (flight deck crew, cabin crew, ground staff, agent, technician and executive) and, in some cases, on the age of the employee at retirement.
On retirement, employees consequently receive an end of service indemnity based on their final salaries over the last twelve-months and on their seniority. The indemnity is only payable to employees on their retirement date.

There is no mandatory minimum funding requirement for this scheme. Air France has nevertheless signed contracts with three insurance companies to partly pre-finance the plan. Air France has sole responsibility for payment of the indemnities, but remains free to make payments to these insurance companies.
The relevant outsourced funds are invested in bonds and equities.
As of December 31, 2017, the KLM ground staff pension plan and the two French plans presented above represented a respective 71 per cent and 19 per cent of the Group's pension liabilities and 88 per cent and 6 per cent of the Group's pension assets.

30.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation were made as of December 31, 2017 and December 31, 2016. These calculations include:

- assumptions on staff turnover and life expectancy of the beneficiaries of the plan;
- assumptions on salary and pension increases;
- assumptions on retirement ages varying from 55 to 68 years depending on the localization and the applicable laws;
- inflation rates determined with reference to the inflation swaps applied to the Group's cash-flows and based on the duration of the schemes:

As of December 31	2017	2016
Euro zone – Duration 10 to 15 years	1.65%	1.50%
Euro zone – Duration 15 years and more	1.80%	1.75%

- Discount rates used to determine the actuarial present value of the projected benefit obligations.

  The discount rates for the different geographical areas are thus determined based on the duration of each plan, taking into account the average trend in interest rates on high quality bonds, observed on the main available indices. In some countries, where the market regarding this type of bond is not sufficiently broad, the discount rate is determined with reference to government bonds. Most of the Group's benefit obligations are located in the Euro zone, where the discount rates used are as follows:

As of December 31	2017	2016
Euro zone - Duration 10 to 15 years	1.25%	1.50%
Euro zone - Duration 15 years and more	1.90%	1.90%

The duration of between 10 and 15 years mainly concerns the plans located in France while the duration of 15 years and beyond mainly concerns the KLM ground staff plan located in The Netherlands.

- Discount rates used to determine the actuarial present value of the service cost.

  Since January 1, 2016, by using adequate flows, the Group has refined its calculations on the discount rate used for the service-cost calculation. In the Euro zone, this implies using a discount rate for the service-cost calculation upper of 15bp with regard to the one used for the discount of the obligation.

- On an average basis, the main assumptions used to value the liabilities are summarized below:

The rate of salary increase (excluding inflation) is 1.20 per cent for the Group as of December 31, 2017 against 1.18 per cent as of December 31, 2016.

The rate of pension increase (excluding inflation) is 1.06 per cent for the Group as of December 31, 2017 against 1.14 per cent as of December 31, 2016.

- The sensitivity of the pension obligations to a change in assumptions, based on actuarial calculations, is as follows:

Sensitivity to changes in the inflation rate

In € millions	Sensitivity of the assumptions for the year ended December 31, 2017	Sensitivity of the assumptions for the year ended December 31, 2016
25 bp increase in the inflation rate	250	252
25 bp decrease in the inflation rate	(238)	(233)

Sensitivity to changes in the discount rate

In € millions	**Sensitivity of the assumptions for the year ended December 31, 2017**	**Sensitivity of the assumptions for the year ended December 31, 2016**
100 bp increase in the discount rate	(1,793)	(3,526)
100 bp decrease in the discount rate	2,356	4,677

Sensitivity to changes in salary increase (excluding inflation)

In € millions	**Sensitivity of the assumptions for the year ended December 31, 2017**	**Sensitivity of the assumptions for the year ended December 31, 2016**
25 bp increase in the salary increase rate	73	114
25 bp decrease in the salary increase rate	(66)	(99)

Sensitivity to changes in pension increase

In € millions	**Sensitivity of the assumptions for the year ended December 31, 2017**	**Sensitivity of the assumptions for the year ended December 31, 2016**
25 bp increase in the pension increase rate	451	934
25 bp decrease in the pension increase rate	(352)	(739)

30.3 Evolution of commitments

The following table details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended December 31, 2017 and December 31, 2017.

Air France-KLM Group

In € millions	As of December 31, 2017			As of December 31, 2016		
	Netherlands	**France**	**Others**	**Netherlands**	**France**	**Others**
Benefit obligation at beginning of year	**17,994**	**2,211**	**950**	**16,220**	**2,226**	**892**
Service cost	123	67	24	128	64	12
Interest cost	309	31	25	377	38	29
Employees' contribution	162	-	1	100	-	-
Plan amendments and curtailment	(5)	6	(2)	38	(48)	-
Change in consolidation scope	-	-	-	-	(45)	(6)
Settlements (mainly transformation of Cockpit and Cabin pension plans)	(9,875)	-	-	-	-	-
Benefits paid	(390)	(115)	(41)	(406)	(96)	(44)
Actuarial loss / (gain) demographic assumptions	-	(36)	(11)	8	4	2
Actuarial loss / (gain) financial assumptions	163	105	9	1,513	65	186
Actuarial loss / (gain) experience gap	(135)	7	(27)	16	3	(27)
Change in currency exchange rates	-	1	(39)	-	-	(94)
Benefit obligation at end of year	**8,346**	**2,277**	**889**	**17,994**	**2,211**	**950**
Including benefit obligation resulting from schemes totally or partly funded	*8,151*	*2,199*	*788*	*17,797*	*2,142*	*846*
Including unfunded benefit obligation	*195*	*78*	*101*	*197*	*69*	*104*
Fair value of plan assets at beginning of year	**19,259**	**657**	**582**	**17,806**	**712**	**598**
Actual return on plan assets	1,155	23	37	1,577	16	78
Employers' contributions	247	39	17	170	28	16
Employees' contributions	162	-	1	100	-	-
Change in consolidation scope	-	-	-	-	(7)	-
Settlements (mainly transformation of Cockpit and Cabin pension plans)	(11,779)	-	(1)	-	-	-
Benefits paid	(376)	(68)	(29)	(394)	(92)	(37)
Change in currency exchange rates	(1)	(1)	(24)	-	-	(73)
Fair value of plan assets at end of year	**8,667**	**650**	**583**	**19,259**	**657**	**582**
Amounts recorded in the balance sheet(*) :						
Pension asset	590	-	-	1,462	-	-
Provision for retirement benefits	(269)	(1,627)	(306)	(197)	(1,554)	(368)
Net amount recognized	**321**	**(1,627)**	**(306)**	**1,265**	**(1,554)**	**(368)**
Net periodic cost:						
Service cost	123	67	24	128	64	12
Interest cost	(27)	22	9	(41)	26	8
Plan amendments, curtailment and settlement	1,899	6	(1)	38	(48)	-
Actuarial losses/ (gain) recognized in income statement	(3)	1	-	3	-	-
Net periodic cost	**1,992**	**96**	**32**	**128**	**42**	**20**

(*) All the obligations are recorded as non-current liabilities, except for the pension plans for which the balance is a net asset fully recorded as a non-current asset.

Amendments, curtailment and settlement of pension plans

- **As of December 31, 2017**

After the amendments to the KLM Cockpit Crew pension plan relating to the reversion, the accrual rate has been decreased from 1.28% to 1.11% as per July 1, 2017. The impact of this change is a €15 million profit.

The KLM Cabin Crew and Cockpit Crew pension plan were changed to collective defined contribution schemes as of August 1, 2017 and December 15, 2017. This change led to the derecognition of the pension assets of the two plans. This charge amounted to € 1,904 million and has been recorded under "Other non current income and expenses" (see note 11).

- **As of December 31, 2016**

As of December 31, 2016, a curtailment of the pension plan at Air France and its regional subsidiaries was made, amounting to a €46 million gain, within the framework of the voluntary departure plan.

As of December 31, 2016, a plan amendment amounting to €38 million had been recorded concerning the KLM pension schemes for ground staff and cabin crew. This plan amendment corresponded to additional pension benefits linked to an increase in the employee's contribution offset by an increase in their salaries. All these operations were cash neutral.

Change in consolidation scope

As of December 31, 2016, the change in consolidation scope represents the removal of commitments and hedging assets concerning Servair pension plan.

30.4 Asset allocation

The weighted average allocation of the funds invested in the Group's pension and other long-term benefit plans is as follows:

	Funds invested as of December 31, 2017		Funds invested as of December 31, 2016	
	France	**The Netherlands**	**France**	**The Netherlands**
Equities	33%	40%	35%	38%
Bonds	47%	47%	46%	50%
Real estate	-	9%	-	12%
Others	20%	4%	19%	-
Total	**100%**	**100%**	**100%**	**100%**

The equity portion is mainly invested in active markets in Europe, the United States and the emerging countries. The bonds primarily comprise government bonds, rated at least BBB, and invested in Europe, the United States and the emerging countries. The real estate assets are mainly located in Europe and the United States.

The Group's pension assets do not include assets occupied or used by the Group.

30.5 Expected cash flows and risks linked to the pension obligations

The expected cash flows relating to the defined benefit pension plans amount to € 136 million for the year ending December 31, 2018. The weighted average duration of the obligation is 18 years.

The funding, capitalization and matching strategies implemented by the Group are presented in note 30.1.

As indicated in this description, the fiscal rules for accruing pensions and the new Financial Assessment Framework, as part of the Dutch pension law, in The Netherlands changed as of January 1, 2015. Amongst other this results in a requirement for higher minimum solvency levels. For the Group, the risk could be that, in the event of a long term shortage of KLM ground staff, based on existing or future financing agreements, KLM could be required to make additional cash payments (actual funding ratios are presented in note 30.1). On the other hand, as from 2015, pension funds now have more time to recover from immediate and material shortages through a rolling ten-year recovery plan. Nevertheless, in the event of unconditional indexation and of a coverage under the funding ratio, no extension of time is given to reach the required funding ratio.

For 2017, this additional payment risk concerning the pension plan related to ground staff is mitigated by the solvency levels and the rolling 10 year recovery plan noted since December 31, 2017.

31. OTHER PROVISIONS

In € millions	**Maintenance and restitution of aircraft**	**Restructuring**	**Litigation**	**Others**	**Total**
Amount as of December 31, 2015	**1,270**	**310**	**474**	**201**	**2,255**
Of which: Non-current	*895*	*-*	*464*	*154*	***1,513***
Current	*375*	*310*	*10*	*47*	***742***
New provision	368	173	24	151	**716**
Use of provision	(256)	(238)	(8)	(151)	**(653)**
Reversal of unnecessary provisions	(32)	(13)	(53)	(1)	**(99)**
Currency translation adjustment	18	(1)	-	1	**18**
Change in scope	-	-	(5)	(2)	**(7)**
Accretion impact	55	-	-	5	**60**
Reclassification	(34)	46	-	25	**37**
Amount as of December 31, 2016	**1,389**	**277**	**432**	**229**	**2,327**
Of which: Non-current	*1,073*	*-*	*424*	*176*	***1,673***
Current	*316*	*277*	*8*	*53*	***654***
New provision	388	19	79	80	**566**
Use of provision	(250)	(133)	(74)	(93)	**(550)**
Reversal of unnecessary provisions	(6)	(2)	(30)	(2)	**(40)**
Currency translation adjustment	(144)	-	-	(1)	**(145)**
Accretion impact	53	-	-	2	**55**
Reclassification	(16)	(2)	-	3	**(15)**
Amount as of December 31, 2017	**1,414**	**159**	**407**	**218**	**2,198**
Of which: Non-current	*1,139*	*-*	*384*	*187*	***1,710***
Current	*275*	*159*	*23*	*31*	***488***

The movements in restructuring provision with a significant impact on the income statement are charged to “Other non-current income and expenses” (see note 11).

The movements in maintenance and restitution provisions relating to operational leased aircraft with a significant impact on the income statement are charged to “Amortization, depreciation and provisions”. Only the effect of accretion is recognized in “Other financial income and expenses” (see note 12).
The discount rate used to calculate these maintenance and restitution provisions relating to operational leased aircraft, based on a short term risk-free increased by a spread on risky debt (used for companies with high financial leverage), is 4.6 per cent as of December 31, 2017 versus 5.2 per cent as of December 31, 2016.

The Group is exposed to the risk of variation in the discount rate mentioned above. A 25 basis point variation (increase or decrease) in this discount rate would have an impact of €6 million on the line "Amortization, depreciation and provisions" on the income statement.

The movements in provisions for litigation and other risks and charges with an impact on the income statement are charged to the lines of the income statement corresponding to the nature of the expenses.

31.1 Provisions

31.1.1 Restructuring provisions

As of December 31, 2017 and 2016, restructuring provisions mainly concern the voluntary departure plans of Air France and its regional subsidiaries and KLM.

31.1.2 Litigation

An assessment of litigation risks with third parties has been carried out with the Group's attorneys and provisions have been recorded whenever circumstances require.
Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities, in case of a tax audit, could reasonably challenge a tax position adopted by the Group or one of its subsidiaries.

In the normal course of its activities, the Air France-KLM Group, its subsidiaries Air France and KLM and their subsidiaries are involved in litigation cases, some of which may be significant.

31.1.3 Litigation concerning anti-trust laws in the air-freight industry

Air France, KLM and Martinair, a wholly-owned subsidiary of KLM since January 1, 2009, have been involved, since February 2006, with up to twenty-five other airlines in investigations initiated by the antitrust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air freight industry.

As of December 31, 2017, most of these investigations have been terminated following the entry into plea agreements between Air France, KLM and Martinair and the appropriate competition authorities providing for the payment of settlement amounts or fines, with the exception of the proceedings initiated by the European Commission, and by the Swiss antitrust authority, which are still pending.

In Europe, the decision of the European Commission of 2010 against eleven air cargo carriers, including the companies of the Group, Air France, KLM and Martinair, was annulled by the General Court of the European Union on 16 December 2015. On 17 March 2017, the European Commission issued a new decision against eleven air cargo carriers, including Air France, KLM and Martinair. The total amount of fines imposed on the Air France-KLM Group is €325 million. This amount has been reduced by €15 million as compared to the initial decision owing to a lower fine for Martinair due to technical reasons. On 29 and 30 May 2017 the Group companies filed an appeal against this decision before the General Court of the European Union. The Group has maintained a provision covering these fines.

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court. The Group has provisioned the totality of this fine.

As of December 31, 2017, the total amount of provisions in connection with the anti-trust cases amounts to €328 million.

31.1.4 Other provisions

Other provisions relate principally to power-by-the-hour contracts (maintenance activity of the Group), provisions for onerous leases, provisions for the portion of CO_2 emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

31.2 Contingent liabilities

The Group is involved in several governmental, judicial and arbitration procedures for which in most cases provisions have not been recorded in the financial statements in accordance with applicable accounting rules. Indeed, with respect to most cases the Group is not in a position at this stage of these procedures to give a reliable estimate of the potential loss that would be incurred in connection with these disputes.

31.2.1 Litigations concerning anti-trust laws in the air-freight industry

Following the initiation of various investigations by the competition authorities in 2006 and the European Commission decision in 2010, several collective and individual actions were brought by forwarders and air-freight shippers in the civil courts against Air France, KLM and Martinair, and the other airlines, in a number of jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming damages to compensate alleged higher prices due to the alleged competition law infringement.

Air France, KLM and/or Martinair remain defendants, either as main defendants (in particular in The Netherlands, Norway and South Korea or as third party interveners brought in these cases by other main defendants under “contribution proceedings” (in the UK for example). Where Air France, KLM and/or Martinair are the main defendants, they have also initiated contribution proceedings against other airlines.

Although significant amounts have been reported by the media, plaintiffs are mostly claiming for unspecified and/or insufficiently substantiated damages against defendants taken as a whole (and not individually) and the EU decision to which the plaintiffs refer to is still not definitive.

The Group companies and the other airlines involved in these lawsuits continue to vigorously oppose all such civil claims.

31.2.2 Litigations concerning anti-trust laws in the passenger sector

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including Air France and KLM. The plaintiffs allege that the defendants participated in a conspiracy in the passenger air transport service from Canada on the cross-Atlantic routes, for which they are claiming damages. Air France and KLM strongly deny any participation in such a conspiracy.

31.2.3 Other litigations

Rio-Paris AF447 flight

Following to the crash in the South Atlantic Ocean of the Rio-Paris AF447 flight, a number of legal actions for damages have been brought by heirs of the victims in the United States and Brazil and, more recently, in France. Damages to heirs of the victims are covered by third-party liability insurance subscribed by Air France.

In 2011, Air France and Airbus were indicted as legal entities for unintentional manslaughter and therefore are exposed to applicable fines under the French criminal code. Air France is challenging its implication in this criminal case.

US Department of Justice investigation related to United States Postal Service

In March 2016, the US Department of Justice (DOJ) informed Air France and KLM of a civil inquiry regarding contracts with the United States Postal Service for the international transportation of mail by air. In September 2016, a Civil Information Demand from the DOJ has been received seeking certain information relating to these contracts. The DOJ has indicated it is investigating potential violations of the False Claims Act. Air France and KLM are cooperating with the DOJ investigation.

Except for the matters specified under the paragraphs 31.1 and 31.2, the Group is not aware of any governmental, judicial and arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

32. FINANCIAL DEBT

In € millions **As of December 31**	**2017**	**2016**
Non-current financial debt		
Perpetual subordinated loan stock in Yen	229	251
Perpetual subordinated loan stock in Swiss francs	315	349
OCEANE (convertible bonds)	-	507
Bonds	1,128	1,646
Capital lease obligations	3,274	3,567
Other debt	1,118	1,111
Total	**6,064**	**7,431**
Current financial debt		
Bonds	500	-
Capital lease obligations	649	696
Other debt	154	236
Accrued interest	75	89
Total	**1,378**	**1,021**

Change in financial debt

In € millions	**December 31 2016**	**New financial debt**	**Non monetary change in financial lease**	**Reimbursment of financial debt**	**Currency translation adjustment**	**Other**	**December 31 2017**
Perpetual subordinated loan stock	600	-	-	-	(56)	-	544
OCEANE & Bonds	2,153	16	-	-	-	(541)	1,628
Capital lease obligations	4,263	589	8	(711)	(82)	(144)	3,923
Other long-term debt	1,347	187	6	(332)	(11)	75	1,272
Accrued interest	89	-	-	-	-	(14)	75
Total	**8,452**	**792**	**14**	**(1,043)**	**(149)**	**(624)**	**7,442**

32.1 Perpetual subordinated bond

32.1.1 Perpetual subordinated loan in Japanese Yen

The perpetual subordinated loan in Japanese Yen was executed by KLM in 1999 for a total amount of JPY 30 billion, i.e. €229 million as of December 31, 2017. Until 2019, this perpetual subordinated loan is subject to the payment of a coupon of 5.28 per cent on a notional of USD 248 million.
The loan can be early redeemed at the Group's discretion as of August 28, 2019 or every ten-year thereafter.

This debt is subordinated to all other existing and future KLM debts.

32.1.2 Perpetual subordinated loan in Swiss francs

The perpetual subordinated debt in Swiss francs was issued by KLM in two tranches, one in 1985 and one in 1986 in a total original nominal amount of CHF 500 million. In 2015, this loan was subject to a partial redemption by mutual agreement amounting to CHF 44 million. Following the repurchases made by KLM, the total outstanding amount is CHF 375 million, i.e. €315 million as of December 31, 2017.

This bond is reimbursable on certain specific dates, at the Group's discretion, at a price situated between its nominal value and 101.25% (as a function of the bond and the anticipated reimbursement date).
This bond is subject to the payment of a coupon deemed to be fixed rate (5.75% on CHF 270 million and of 0.75% on an amount of CHF 105 million).

This debt is subordinated to all other existing and future KLM debts.

32.2 OCEANE

32.2.1. OCEANE issued in 2005

On April 1, 2016, the Group redeemed the OCEANE issued in 2005. The relating swap expired on this same date.

32.2.2 OCEANE issued in 2013

On March 28, 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at February 15, 2023 for a total nominal amount of €550 million. Each bond has a nominal value of €10.30. The annual coupon amounts to 2.03 per cent.

On October 16, 2017, Air France-KLM informed the holders of the OCEANEs of its decision to exercise its early redemption option on November 15, 2017, in respect of all the outstanding OCEANEs. Air France-KLM was entitled to this option right, provided the share price would exceed 130 percent of the nominal, amounting to €13.39.

Following the exercise by Air France-KLM of this early redemption option, nearly all the holders of OCEANEs have exercised their right to convert their OCEANEs into shares.

Exercise notices for 53,359,937 OCEANEs have been received, representing 99.96% of the outstanding OCEANEs as of October 16, 2017, giving right to the delivery of 53,359,937 ordinary shares with a nominal value of EUR 1,00 each.

53,359,937 new shares have been delivered to the holders of OCEANEs having exercised their conversion rights, and have been admitted to trading on the regulated market of Euronext Paris between October 31, and November 17, 2017.

A total amount of approximately €249,000 has been paid in cash on November 15, 2017 to the holders of the 23,768 OCEANEs which have not exercised their conversion right.

Following this conversion, the share capital of Air France-KLM is increased by an amount of €53,359,937 and will amount to €428,634,035 comprising 428,634,035 ordinary shares with a nominal value of €1.00 each.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €443 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. As of December 31, 2017, no OCEANE is any longer recorded on the balance sheet.

32.3 Bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Reimbursement date	Coupon
Bond issued in 2012	14 Dec. 2012	€ 500	18 Jan. 2018	-	6.25%
Bond issued in 2014	4 June 2014	€ 600	18 June 2021	-	3.875%
€ Bond issued in 2016	5 Oct. 2016	€ 400	5 Oct. 2022	-	3.75%
$ Bond issued in 2016(*)	12 Dec. 2016	$ 145	15 Dec. 2026	-	4.35%

(*) issuance bonds with Asian institutional investors by way of unlisted private placement

32.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

In € millions **As of December 31**	**2017**	**2016**
Aircraft		
Future minimum lease payments – due dates		
Y+1	629	682
Y+2	629	619
Y+3	489	622
Y+4	492	477
Y+5	290	478
Over 5 years	1,296	1,286
Total	**3,825**	**4,164**
Including: - Principal	*3,644*	*3,937*
- Interest	*181*	*227*
Buildings		
Future minimum lease payments – due dates		
Y+1	61	58
Y+2	38	61
Y+3	39	38
Y+4	39	39
Y+5	40	39
Over 5 years	158	197
Total	**375**	**432**
Including: - Principal	*274*	*320*
- Interest	*101*	*112*
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	1	1
Y+2	1	1
Y+3	1	1
Y+4	1	1
Y+5	1	1
Over 5 years	-	2
Total	**5**	**7**
Including: - Principal	*5*	*6*
- Interest	-	*1*

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in note 23.

32.5 Other debt

Other debt breaks down as follows:

In € millions **As of December 31**	2017	2016
Reservation of ownership clause and mortgage debt	768	963
Other debt	504	384
Total	**1,272**	**1,347**

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgagee a right to enforce the security (by order of a judge), the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

Other debt mainly corresponds to bank borrowings. It also includes €22million related to debt issuing expenses on financial debt.

32.6 Maturity analysis

The financial debt maturities break down as follows:

In € millions **As of December 31**	2017	2016
Maturities in		
Y+1	1,543	1,227
Y+2	866	1,577
Y+3	900	1,495
Y+4	1,519	855
Y+5	940	1,420
Over 5 years	2,428	2,915
Total	**8,196**	**9,489**
Including: - Principal	7,442	8,452
- Interest	754	1,037

As of December 31, 2017, the expected financial costs amount to €173 million for the 2018 financial year, €388 million for the 2019 to 2022 financial years, and €193 million thereafter.

As of December 31, 2017, it has been considered that the perpetual subordinated loan stocks would be reimbursed according to their most probable maturities:

- probable exercise date of the issuer call for the perpetual subordinated loans;

Repayable bonds issued in 2012, 2014 and 2016 will be reimbursed on their contractual maturity date (see notes 32.3).

32.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

In € millions	**2017**	**2016**
As of December 31		
Euro	5,570	6,211
US Dollar	775	1,015
Swiss franc	329	359
Yen	768	867
Total	**7,442**	**8,452**

32.8 Credit lines

As of December 31, 2017, the Group holds undrawn credit lines amounting to €1,735 million. The two main undrawn credit lines amount, respectively, to €1,160 million for the holding Air France-KLM and Air France and €575 million for KLM.

On November 6, 2017, Air France-KLM and Air France signed with 18 international banks the early renewal of their 1.1 billion euro joint syndicated revolving credit facility executed in April 2015, of which the first tranche was due to mature in April 2018. The new credit facility is composed of two tranches of €550 million each, the first for an initial period of three years (with two one-year extension options) and the second for a duration of five years.

This credit facility is subject to financial covenants calculated based on the Air France-KLM Group's consolidated financial accounts. These financial covenants were respected as of December 31, 2017.

On July 2, 2015, KLM signed a €575 million revolving credit facility with 10 international banks, finalizing the early refinancing of its credit facility which had been due to mature in July 2016. This new credit facility has a duration of five years.
The financial covenant ratios are calculated based on the KLM Group's consolidated financial statements and are respected as of December 31, 2017.

33. NET DEBT

In € millions As of December 31	*Note*	2017	2016
Current and non-current financial debt	*32*	7,442	8,452
Financial lease deposits (others)	*23*	(342)	(336)
Currency hedge on financial debt	*26 and 34*	19	(49)
Accrued interest	*32*	(76)	(89)
Gross financial debt (I)		**7,043**	**7,978**
Cash and cash equivalents	*27*	4,673	3,938
Marketable securities	*23*	73	53
Cash secured (*)		269	50
Financial lease deposit (bonds)	*23*	379	298
Other		(2)	(11)
Bank overdrafts	*27*	(6)	(5)
Net cash (II)		**5,386**	**4,323**
Net debt (I-II)		**1,657**	**3,655**
(*) Cash secured	*23*	269	50

In € millions As of December 31	*Note*	2017	2016
Opening net debt		**3,655**	**4,307**
Operating free cash, cash flow excluding discontinued activities		(696)	(347)
Operating free cash, cash flow of discontinued activities		-	(33)
Disposal of subsidiaries, of shares in non-controlled entities	*11 and 14*	(8)	(364)
Acquisition of subsidiaries, of shares in non-controlled entities	*40.2*	9	18
Non monetary variation of the debt	*40.4*	-	(64)
Currency translation adjustment		(81)	73
Capital increase		(747)	-
Amortization of OCEANE optional part		16	21
Reclassification		(525)	2
Change in scope		-	(19)
Other		34	61
Closing net debt		**1,657**	**3,655**

As at December 31, 2017, the line “Reclassification” relates to the early redemption of the OCEANE and the conversion of the securities in shares. Both transactions are presented in note 28.

34. OTHER LIABILITIES

In € millions	2017		2016	
As of December 31	**Current**	**Non-current**	**Current**	**Non-current**
Tax liabilities	809	-	828	-
Employee-related liabilities	1,233	-	1,000	-
Non current assets' payables	79	-	111	-
Derivative instruments	174	228	109	129
Deferred income	398	22	288	27
Other	407	111	439	128
Total	**3,100**	**361**	**2,775**	**284**

As of December 31, 2017, the non-current derivatives used to cover the debts in foreign currencies amount to €34 million versus €26 million as of December 31, 2016.

As of December 31, 2017 and 2016, there were no current derivative instruments used to cover the debts in foreign currencies.

35. FINANCIAL INSTRUMENTS

35.1 Risk management

- **Market risk management**

The aim of the Air France –KLM Group's risk management strategy is to reduce its exposure to these risks. Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which is composed of the Chief Financial Officer and Senior Vice President Financial Operations of Air France-KLM and the Chief Financial Officers of Air France and of KLM.
The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, the principal currency exchange rates and counterparties. During these meetings, it decides on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the Treasury Management s within each company. In compliance with the procedures governing the delegation of powers.
Each company centralizes the management of the market risks of its subsidiaries.
Regular meetings are organized between the Treasury Management departments of the two companies on the hedging instruments used, strategies planned and counterparties.
In order to implement the strategy most appropriate to each circumstance, any type of instrument may be used provided it qualifies as hedging within IFRS. Any exception to this rule must be approved by the Risk Management Committee. As a general rule, no trading or speculation is allowed.
The treasury management departments of each company circulate information on the level of cash and cash equivalents to their respective General Managements. The level of the Group's consolidated cash is communicated every week and the end on the month to the Group's General Management.
Every month, a detailed report including, amongst other information, the interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is send to the General Managements.
The hedging strategy on fuel and emission permits is henceforth fully under the responsibility of the Treasury departments. The General Managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of the positions, the percentages hedged as well as the breakdown of the instruments and underlying used, the average hedge levels and the resulting net prices. All this data covers rolling 24 months. Furthermore, a weekly Air France- KLM Group report (known as the Fuel Hedge report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update.

- **Currency risk**

Most of the Air France – KLM Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The management of the currency risk for the subsidiaries of the two companies is centralized by each company. The principal exposure relates to the US dollar. Since expenditure on items such as fuel and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollar. As the result, any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.
Inversely Air France – KLM Group is a net seller of other currencies, the level of revenues in these currencies exceeding its expenditure. This exposure is far less significant than with the US dollar. As a result, any significant decline in these currencies against the euro would have a negative effect on the Group's financial results.
The management of the Group's exchange rate risk is carried out on the basis of the forecast net exposure for each currency. Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.
For each currency hedged, the time span of the hedging is a rolling 24-month period, the first four quarters having more hedging than the following four. The RMC sets the hedging targets for the dollar, sterling and the yen.
Aircraft are purchased in US dollars, meaning that the Group is exposed to an appreciation in the dollar relative to the euro in terms of its investment in flight equipment.
The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.
The exchange rate risk on the Group's financial debt is limited. At December 31, 2017, 80 per cent of the Group's debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt. The exchange rate risk on debt denominated in other currencies mostly concerns the Yen (10%), the US dollar (6%) and the Swiss franc (4%).
As of January 1er 2018, the Group applies IFRS16 in that respect the aircraft operating lease mostly denominated in USD, will be accounted for in the debt of the Group. The revaluation of these USD denominated debts will be neutralized from an accounting point of view since designated as hedging instrument of the USD revenues of the Group. For both Transavia and KLM Cytihopper which have no USD revenues, specific hedging programs of these commitments to be recorded in debt have been defined.

- **Interest rate risk**

A portion of the debt is contracted at floating rates. However, to limit its volatility Air France and KLM have used option and swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates; after swap, the Air France-KLM Group's debt contracted at fixed rates represents 70 per cent of the overall total. The interest rate on the Group's gross debt after swap stood at 3.09 per cent at December 31, 2017 versus 3.60 per cent at December 31, 2016.

- **Fuel price risk**

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC for the whole of the Air France-KLM Group.
The decision was made by the RMC to reinstate as of 2018 the volumes related to Freight activities within the exposure the hedged.
The hedging strategy, approved by the Board of Directors, sets the time span of the hedges at two years (a rolling 24 months) and the target hedging ratio at 60 per cent. Furthermore, the hedging is based on the use of simple futures or option-based instruments. These hedging instruments must also be compatible with IAS 39

As the result of IFRS 9 application as of January 1, 2018, the hedging policy will move to a hedge by component approach (Brent component of Jet Fuel volumes).

Main characteristics of the hedge strategy

Hedge horizon: 2 years

Minimum hedge percentage, to reach at the end of the current quarter:
- quarter underway: 60% of the volumes consumed;
- quarter 1 to quarter 3: 60% of the volumes consumed;
- quarter 4: 50% of the volumes consumed;
- quarter 5: 40% of the volumes consumed;
- quarter 6: 30% of the volumes consumed;
- quarter 7: 20% of the volumes consumed;
- quarter 8: 10% of the volumes consumed.

Increment of coverage ratios: 10% by quarter

The decision was made by the RMC to reinstate as of 2018 the volumes related to Freight activities within the exposure to be hedged.

Underlyings: Brent, Gasoil and Jet Fuel

Instruments:
Swap, call, call spread, three ways, four ways and collar.

IAS 39 rule:
The instruments used within the framework of the strategy must be compliant with IAS 39.

Implementation of monitoring indicators on positions:
To ensure more effective monitoring of the marked-to-market positions and a dynamic management of its exposure, the Group uses the VAR (value at risk) metric to help measure the risk incurred by its portfolio. This monitoring is also reinforced by taking into account the maximum loss and maximum gain which limit the scale of variation of this same portfolio and enable the appropriate reaction.

- **Risks on carbon credit**

To meet its regulatory obligations, the CO2 emission quota acquisition strategy has been monitored and reviewed during every RMC meeting since October 2011. Its implementation led to the progressive hedging of the future requirement through the use of forwards contracts. So, all the needs of the year 2018 as well as a part of the needs for the year 2019 are hedged.

Underlyings: EUA, EUAA and CER quotas.

Instruments: Forwards, delivery and payment during the quarter preceding the compliance application date.

- **Investment risks**

The cash resources of Air France, KLM and Air France-KLM are currently invested in short term, primarily deposits, money market mutual funds and certificates mainly rated A1/P1, the other lines being rated A2/P2.
Lastly, in order to reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in high-quality foreign-currency denominated bonds.

- **Equity risks**

The Air France-KLM Group holds a limited number of shares which are listed for trading. The value of these investments may vary during their period of ownership. These investments are accounted for using either the equity method (associates) if the Group has the ability to exercise significant influence, or at their fair value. If the fair value cannot be determined from a practical point of view, the value of the investment is measured at its acquisition cost.

On December 31, 2017, the Group still owns 4.95 million shares. The value of these shares is completely covered by a hedging transaction. This hedge transaction (collar) enables the Group to protect the value of these shares. The Group has thus only limited exposure to the risk of a significant variation in the fair value of these shares. In November 2017 Air France-KLM rolled over a hedging transaction in the form of a collar maturing in November 2018, to protect the value of the totality of these shares.

In December 2016, the Group sold 4.95 million shares in the Spanish company Amadeus IT Holding S.A. (Amadeus), representing approximately 1.13 per cent of Amadeus share capital by terminating the associated hedge on these shares. The net result from the sale amounts to €133 million, for cash proceeds of €201 million (see note 11).

The treasury shares held by Air France-KLM are not deemed to be investments. Furthermore, the treasury shares are not deemed to be exposed to risk, since any variation in the value of these shares is only recognized directly in equity when they are sold in the market, with no impact on the net result.

- **Counterparty risk management**

The rules concerning the management of counterparty risk are established by the RMC and applied by the companies.
Except in the event of express dispensation from RMC, counterparties must benefit from a minimum rating of BBB+(S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their rating. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the Air France-KLM parent company, are taken into account in the assessment of the overall exposure. A monthly report is established and circulated to the members of the General Management in the two companies. It is supplemented by real time information in the event of any real risk of a rating downgrade for counterparties.

The transactions involving potential counterparty risk are as follows:

- financial investments;
- derivative instruments;
- trade receivables.

- Counterparty risk linked to financial investments and derivative instruments is managed by the Risk Management Committee which establishes limits by counterparty, for all instruments except investments in money market funds (OPCVM) for which the counterparty risk is deemed not to be significant. The Group’s counterparty-risk reporting is circulated each month to the executive managements, the risk being measured at the fair market value of the various instruments. Any exceeding of a limit immediately results in the implementation of corrective measures.

- The counterparty risk linked to derivative instruments is taken into account in the valuation of their market value as described in note 4.11. Derivative instruments are governed by the ISDA and FBF compensation master agreements. Within the framework of these agreements, compensation (in the event of default) must be made by counterparty for all the derivatives governed by each type of agreement.

- Counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of the customers comprising the trade receivables portfolio.

The Group has identified the following exposure to counterparty risk:

LT Rating (Standard & Poors)	**Total exposure in € millions**	
	As of December 31, 2017	**As of December 31, 2016**
AA	247	208
A	2,076	1 ,712
BBB	130	77
Total	**2,453**	**1, 997**

This presentation does not include money market funds (OPCVM) and current accounts.

- **Liquidity risk**

The liquidity risk relates to the credit lines held by the Group, as described in note 32.8.

35.2 Derivative instruments

As of December 31, 2017, the fair value of the Group's derivative instruments and their expected maturities are as follows:

In € millions		**Total**	**Y+1**	**Y+2**	**Y+3**	**Y+4**	**Y+5**	**> Y+5**
Commodities derivative instruments	Asset	504	412	92	-	-	-	-
	Liability	(25)	(24)	(1)	-	-	-	-
Interest rate derivative instruments	Asset	22	1	1	-	10	-	10
	Liability	(45)	(2)	(4)	(5)	(11)	(7)	(16)
Currency exchange derivative instruments	Asset	153	65	15	15	16	28	14
	Liability	(332)	(148)	(81)	(29)	(26)	(15)	(33)
AMADEUS instrument	Asset	5	5	-	-	-	-	-
	Liability	-	-	-	-	-	-	-
Carbon credit derivative instruments	Asset	13	8	5	-	-	-	-
	Liability	-	-	-	-	-	-	-
Total	**Asset**	**697**	**491**	**113**	**15**	**26**	**28**	**24**
	Liability	**(402)**	**(174)**	**(86)**	**(34)**	**(37)**	**(22)**	**(49)**

* see note 32.2.1

As of December 31, 2016, the fair value of the Group's derivative instruments and their expected maturities were as follows:

In € millions		**Total**	**Y+1**	**Y+2**	**Y+3**	**Y+4**	**Y+5**	**> Y+5**
Commodities derivative instruments	Asset	276	209	67	-	-	-	-
	Liability	(64)	(63)	(1)	-	-	-	-
Interest rate derivative instruments	Asset	58	1	1	1	1	23	31
	Liability	(65)	(3)	(6)	(13)	(6)	(14)	(23)
Currency exchange derivative instruments	Asset	462	185	111	39	33	27	67
	Liability	(97)	(32)	(24)	(4)	(7)	(3)	(27)
Amadeus shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(9)	(9)	-	-	-	-	-
Carbon credit derivative instruments	Asset	4	1	3	-	-	-	-
	Liability	(3)	(2)	(1)	-	-	-	-
Total	**Asset**	**800**	**396**	**182**	**40**	**34**	**50**	**98**
	Liability	**(238)**	**(109)**	**(32)**	**(17)**	**(13)**	**(17)**	**(50)**

* see note 32.2.1

35.2.1 Commodity risk linked to fuel prices

The Group's commitments on Brent, Diesel and Jet CIF are presented below, at their nominal value:

• As of December 31, 2017

In € millions	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	Fair value
Commodity risk (cash flow hedging operating flows)								
Swap	1,118	900	218	-	-	-	-	192
Options	2,611	1,753	858	-	-	-	-	287
Total	**3,729**	**2,653**	**1,076**	**-**	**-**	**-**	**-**	**479**

Further to the significant increase in the Brent price over the period, the fair value is positive.

• As of December 31, 2016

In € millions	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	Fair value
Commodity risk (cash flow hedging operating flows)								
Swap	706	521	185	-	-	-	-	51
Options	2,625	1,862	763	-	-	-	-	161
Total	**3,331**	**2,383**	**948**	**-**	**-**	**-**	**-**	**212**

Fuel hedge sensitivity

The impact on “income before tax” and on “gains/(losses) taken to equity” of a variation in the fair value of the fuel hedges following a +/- USD 10 variation in the price of a barrel of Brent is as follows:

In € millions	**2017**		**2016**	
As of December 31	**Increase of USD 10 per barrel of Brent**	**Decrease of USD 10 per barrel of Brent**	**Increase of USD 10 per barrel of Brent**	**Decrease of USD 10 per barrel of Brent**
Income before tax	(70)	(53)	(54)	(46)
Gains / (losses) taken to equity	595	(444)	469	(377)

35.2.2 Exposure to interest rate risk

To manage the interest rate risk on its short and long-term borrowings, the Group uses instruments with the following nominal values:

• As of December 31, 2017

In € millions	Nominal	Maturity	Maturities between 1 and 5 years					Fair value
		below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging	**1,115**	**101**	**73**	**39**	**190**	**78**	**634**	**(32)**
Interest rate swaps	965	101	73	39	190	78	484	(32)
Options	150	-	-	-	-	-	150	-
Operations qualified as fair value hedging	**379**	**-**	**-**	**-**	**226**	**-**	**153**	**10**
Interest rate swaps	379	-	-	-	226	-	153	10
Operations qualified as fair value through profit and loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Other	-	-	-	-	-	-	-	(1)
Total	**1,494**	**101**	**73**	**39**	**416**	**78**	**787**	**(23)**

• As of December 31, 2016

In € millions	Nominal	Maturity	Maturities between 1 and 5 years					Fair value
		below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging	**1,395**	**275**	**158**	**89**	**52**	**187**	**634**	**(41)**
Interest rate swaps	1,207	187	158	89	52	187	534	(43)
Options	188	88	-	-	-	-	100	2
Operations qualified as fair value hedging	**500**	**-**	**-**	**-**	**-**	**295**	**205**	**44**
Interest rate swaps	500	-	-	-	-	295	205	44
Operations qualified as fair value through profit and loss	**281**	**-**	**-**	**81**	**-**	**200**	**-**	**(10)**
Interest rate swaps	81	-	-	81	-	-	-	(6)
Options	200	-	-	-	-	200	-	(2)
Other	-	-	-	-	-	-	-	(2)
Total	**2,176**	**275**	**158**	**170**	**52**	**682**	**839**	**(7)**

Taking into account the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

In € millions	2017				2016			
As of December 31	**Before hedging**		**After hedging**		**Before hedging**		**After hedging**	
	Base	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	2,367	0.2%	2,367	0.2%	1,878	2.0%	1,878	2.0%
Fixed-rate financial liabilities	4,161	3.5%	4,707	3.5%	4,762	4.0%	5,637	3.8%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	2,571	0.2%	2,571	0.2%	2,054	0.3%	2,054	0.3%
Floating-rate financial liabilities	3,317	1.5%	2,770	1.6%	3,733	1.5%	2,858	1.7%
Without-rate financial assets	1,382	-	1,382	-	1,191	-	1,191	-
Without-rate financial liabilities	16	-	16	-	20	-	20	-

As of December 31, 2017 and December 31, 2016, without-rate financial assets mainly include cash and the revaluation of Amadeus shares at their fair value.

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. A 100 basis point variation (increase or decrease) in interest rates would have an impact of €2 million on the financial income for the year ended December 31, 2017 versus €8 million for the year ended December 31, 2016.

35.2.3 Exposure to exchange rate risk

The nominal amounts of futures and options linked to exchange rates are detailed below given the nature of the hedging operations:

• As of December 31, 2017

In € millions	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	**3,188**	**2,130**	**937**	**-**	**-**	**-**	**121**	**(109)**
Exchange rate options	1,627	1,057	570	-	-	-	-	(40)
Forward purchases	1,020	720	300	-	-	-	-	(59)
Forward sales	420	353	67	-	-	-	-	15
Debt	121	-	-	-	-	-	121	(25)
Exchange risk (fair value hedging of flight equipment acquisition	**6,205**	**3,590**	**708**	**626**	**475**	**488**	**318**	**(70)**
Exchange rate options	136				**14**	**107**	**15**	**9**
Forward purchases	5,689	3,511	678	557	405	314	224	(111)
Forward sales	380	79	30	69	56	67	79	32
Exchange risk (trading)	**238**	**126**	**30**	**58**	**24**	**-**	**-**	**-**
Forward purchases	119	63	15	29	12	-	-	15
Forward sales	119	63	15	29	12	-	-	(15)
Total	**9,631**	**5,846**	**1,675**	**684**	**499**	**488**	**439**	**(179)**

• As of December 31, 2016

In € millions	Nominal	Maturity	Maturities between 1 and 5 years					Fair value
		below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	**2,643**	**1,710**	**796**	**-**	**-**	**-**	**137**	**79**
Exchange rate options	1,270	830	440	-	-	-	-	33
Forward purchases	875	578	297	-	-	-	-	41
Forward sales	361	302	59	-	-	-	-	12
Debt	137	-	-	-	-	-	137	(7)
Exchange risk (fair value hedging of flight equipment acquisition	**3,891**	**1,263**	**725**	**426**	**450**	**331**	**696**	**287**
Forward purchases	121					**14**	**107**	**23**
Forward sales	3,163	1,060	644	392	372	253	442	280
Forward sales	607	203	81	34	78	64	147	(16)
Exchange risk (trading)	**400**	**128**	**144**	**34**	**66**	**28**	**-**	**(1)**
Forward purchases	200	64	72	17	33	14	-	44
Forward sales	200	64	72	17	33	14	-	(45)
Total	**6,934**	**3,101**	**1,665**	**460**	**516**	**359**	**833**	**365**

Currency hedge sensitivity

The value in euros of the monetary assets and liabilities is presented below:

In € millions	**Monetary assets**		**Monetary liabilities**	
As of December 31	**2017**	**2016**	**2017**	**2016**
US dollar	943	841	1,188	1,131
Pound sterling	44	37	37	33
Yen	18	13	770	952
Swiss francs	13	11	327	355
Autres	237	260	86	89

The amounts of monetary assets and liabilities disclosed above do not include the effect of the revaluation of assets and liabilities documented in fair value hedge.

The impact on “income before tax” and on “gains/(losses) taken to equity” of a 10 per cent appreciation in foreign currencies relative to the euro is presented below:

In € millions	**US dollar**		**Pound Sterling**		**Yen**	
As of December 31	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Income before tax	62	(13)	(17)	(9)	(82)	(97)
Gains / (losses) taken to equity	129	171	(28)	(30)	(8)	(9)

The impact of the change in fair value of currency derivatives on “income before tax” and on “gains/ (losses) taken to equity” of a 10 per cent depreciation in foreign currencies relative to the euro is presented below:

In € millions	US dollar		Pound Sterling		Yen	
As of December 31	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Income before tax	(108)	(25)	-	1	73	85
Gains / (losses) taken to equity	(89)	(92)	37	34	14	11

35.2.4 Carbon credit risk

As of December 31, 2017, the Group has hedged its future purchases of CO2 quotas via forward purchase for a nominal of €52 million with a fair value of €13 million, versus a nominal of €48 million with a nil fair value as of December 31, 2016.

These contracts mostly expire within three years.

35.3 Market value of financial instruments

Market values are estimated for most of the Group’s financial instruments using a variety of valuation methods. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They include the following inherent limitations:
* The estimated market values of financial instruments are estimated on the basis of the market price as of December 31, 2017 and 2016,
* The estimated amounts as of December 31, 2017 and 2016 are not indicative of gains and/or losses potentially arising on maturity or in the event of cancellation of a financial instrument.

The application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values.

The methods used are as follows:

* *Cash, trade receivables, other receivables, short-term bank facilities, trade payables and other payables:*
The Group considers that, due to their short-term nature, net book value can be deemed a reasonable approximation of their market value.

* *Marketable securities, investments and other securities:*
The market value of securities is determined based mainly on the market price or the prices available on other similar securities. Securities classified under assets available for sale are recorded at their stock market value.
Where no market comparable exists, the Group uses their book value, which is deemed a reasonable approximation of their market value in this instance.

* *Borrowings, other financial debts and loans:*
The market value of fixed and floating-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features.

* *Derivative instruments:*
The market value of derivative instruments corresponds to the amounts that would be payable or receivable were the positions to be closed out as of December 31, 2017 and 2016, calculated using the year-end market rate.

Only the financial assets and liabilities whose fair values differs from their net book values are presented in the following table:

In € millions	2017		2016	
As of December 31	**Net book value**	**Estimated market value**	**Net book value**	**Estimated market value**
Financial assets				
Loans	459	479	357	361
Financial liabilities				
Bonds	1,628	1,702	2,153	2,245
OCEANE 2013	-	-	*507*	*559*
Bond 2012	*500*	*502*	*500*	*530*
Bond 2014	*607*	*647*	*609*	*624*
Bond € 2016	*400*	*432*	*400*	*404*
Bond $ 2016	*121*	*121*	*137*	*128*
Perpetual subordinated loans	544	251	600	289
Other borrowings and financial debt	1,955	1,808	1,976	2,032

35.4 Valuation methods for financial assets and liabilities at their fair value

The breakdown of the Group’s financial assets and liabilities is as follows based on the three classification levels (see note 4.11):

In € millions	Level 1		Level 2		Level 3		Total	
As of December 31	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial assets available for sale								
Shares	400	243	-	-	-	-	**400**	**243**
Assets at fair value through profit and loss								
Marketable securities and cash secured	15	17	327	86	-	-	**342**	**103**
Cash equivalents	2,240	1,835	1,793	1,370	-	-	**4,033**	**3,205**
Derivative instruments assets								
Interest rate derivatives	-	-	22	58	-	-	**22**	**58**
Currency exchange derivatives	-	-	153	462	-	-	**153**	**462**
Commodity derivatives	-	-	504	276	-	-	**504**	**276**
ETS derivatives	-	-	13	4	-	-	**13**	**4**
Others	-	-	5	-	-	-	**5**	-

Financial liabilities at fair value comprise the fair value of interest rate, foreign exchange, commodity and Amadeus shares derivative instruments. These valuations are classified as level 2.

36. LEASE COMMITMENTS

36.1 Capital leases

The debt related to capital leases is presented in note 32.4.

36.2 Operating leases

The minimum future payments on operating leases are as follows:

In € millions **As of December 31**	**Minimum lease payments**	
	2017	**2016**
Flight equipment		
Due dates		
Y+1	1,010	1,246
Y+2	917	1,122
Y+3	731	951
Y+4	587	727
Y+5	421	584
Over 5 years	434	929
Total	**4,100**	**5,559**
Buildings		
Due dates		
Y+1	182	204
Y+2	135	134
Y+3	110	117
Y+4	94	97
Y+5	84	82
Over 5 years	506	689
Total	**1,111**	**1,323**

The commitments relating to operational leased aircraft are denominated in US dollars.

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

37. FLIGHT EQUIPMENT ORDERS

Due dates for commitments to firm orders with a view to the purchase of flight equipment are as follows:

In € millions **As of December 31**	**2017**	**2016**
Y+1	966	1,053
Y+2	968	1,134
Y+3	950	1,151
Y+4	1,401	1,362
Y+5	812	1,337
> Year Y+5	1,245	2,065
Total	**6,342**	**8,102**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.
As of December 31 2017, the total amount of commitments relating to flight equipment orders is USD 7 606 million, against USD 8,540 million as of December 31, 2016.

The number of aircraft under firm order (excluding operational lease) as of December 31, 2017 decreased by 19 units compared with December 31, 2016 and stood at 63 aircraft.
This change is explained by the delivery of 21 aircraft and 2 aircraft on order.

Long-haul fleet (passenger)

The Group took delivery of two Boeing B787 and one Boeing 777.

Medium-haul fleet

The Group took delivery of eight Boeing B737 and two Airbus A320.

Regional fleet

The Group took delivery of eight Embraer 175.

Air France-KLM Group

Aircraft type	To be delivered in	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger								
A350	As of December 31, 2017	-	3	3	7	5	10	**28**
	As of December 31, 2016	-	-	3	6	6	13	**28**
B787	As of December 31, 2017	5	4	4	6	2	1	**22**
	As of December 31, 2016	2	5	5	4	5	3	**24**
B777	As of December 31, 2017	-	-	-	-	-	-	**-**
	As of December 31, 2016	1	-	-	-	-	-	**1**
Medium-haul fleet								
A320	As of December 31, 2017	1	-	-	-	-	-	**1**
	As of December 31, 2016	2	1	-	-	-	-	**3**
B737	As of December 31, 2017	5	-	-	-	-	-	**5**
	As of December 31, 2016	8	5	-	-	-	-	**13**
Regional fleet								
EMB 175	As of December 31, 2017	5	-	-	-	-	-	**5**
	As of December 31, 2016	8	5	-	-	-	-	**13**
EMB 190	As of December 31, 2017	2	-	-	-	-	-	**2**
	As of December 31, 2016	-	-	-	-	-	-	**-**
Total	**As of December 31, 2017**	**18**	**7**	**7**	**13**	**7**	**11**	**63**
	As of December 31, 2016	**21**	**16**	**8**	**10**	**11**	**16**	**82**

38. OTHER COMMITMENTS

38.1 Commitments made

In € millions **As of December 31**	**2017**	**2016**
Warranties, sureties and guarantees	287	333
Secured debts	4,713	5,177
Other purchase commitments	376	134

The line "other purchase commitments" includes the Group's acquirement of a 31% stake in Virgin Atlantic's share capital for GBP 220 million (€ 248 million).

The restrictions and pledges as of December 31, 2017 are as follows:

In € millions	**Starting date of pledge**	**End of pledge**	**Amount pledged**	**NBV of balance sheet entry concerned**	**Corresponding %**
Intangible assets	-	-	-	1,122	-
Tangible assets	July 2004	November 2021	5,244	11,414	45.9%
Other financial assets	July 2004	May 2027	723	1,662	43.5%
Total			**5,967**	**14,198**	

38.2 Commitments received

In € millions **As of December 31**	**2017**	**2016**
Warranties, sureties and guarantees	228	219
Put on shares (*)	130	130

(*) estimation based on the price of transfer of 49.99 % of Servair at the end of 2016

Warranties, sureties and guarantees principally comprise letters of credit from financial institutions.

The Group disposes of the following put options on Servair's shares:

- On December 28, 2018 and on December 28, 2019: put option of a number of shares allowing gategroup to reach between 80% and 100% of Servair's share capital (initial option)
- Yearly between December 28, 2020 and December 28, 2023 (or in specific cases of blocking in governance): put option on all the shares still held by the Group

If the Group does not exercise the initial option, gategroup disposes of the following call options on Servair's shares:

- Call option on a number of shares allowing in gategroup to reach between 80 % and 100 % of the Servair capital
- In the event of a transfer by the Group of its interests to a third party and in specific cases of blocking in governance: call option on a number of shares enabling gategroup to reach 50% of Servair share capital plus one share.

39. RELATED PARTIES

39.1 Transactions with the principal executives

The total compensation recorded as costs for the members of the Group Executive Committee in respect of their as their functions within the Group breaks down as follows:

In € millions	**2017**	**2016**
Period from January 1 to December 31		
Short-term employee benefits	8.5	8.3
Post-employment benefits	0.7	0.7
Termination benefits	0.5	0.5
Share-based payment	0.3	0.2
Total	**10.0**	**9.7**

As of December 31, 2017, directors and their relatives held less than 0.03 per cent of the voting rights.

Directors fees booked in expenses amount to €0.7 million as of December 31, 2017, versus €0.7 million as of December 31, 2016.

39.2 Transactions with the other related parties

The total amounts of transactions with related parties are as follows:

In € millions	**2017**	**2016**
As of December 31		
Assets		
Net trade accounts receivable	189	62
Other current assets	9	15
Other non-current assets	9	9
Total	**207**	**86**
Liabilities		
Trade accounts payable	191	68
Other current liabilities	154	43
Other long-term liabilities	63	66
Total	**408**	**177**

In € millions	**2017**	**2016**
As of December 31		
Net sales	268	157
Landing fees and other rents	(441)	(434)
Other selling expenses	(27)	(25)
Passenger service	(443)	(28)
Other	(115)	(34)
Total	**(758)**	**(364)**

As a part of its normal business, the Group enters into transactions with related parties including transactions with State-owned and governmental entities such as the French Defense Ministry, the Paris Airport Authority ("Aéroports de Paris", or "ADP") and the French civil aviation regulator ("DGAC"). Air France-KLM considers that such transactions are concluded on terms equivalent to those on transactions with third parties. The most significant transactions are described below:

Aéroports De Paris (ADP)

- Land and property rental agreements,
- Airport and passenger-related fee arrangements.

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Group in connection with the afore-mentioned arrangements amounted to a respective €350 million and €357 million for the periods ended December 31, 2017 and 2016.

Defense Ministry

Air France-KLM has entered into contracts with the French Defense Ministry concerning the maintenance of aircraft in the French Air Force. The net revenue derived from this activity amounts to €81 million for the year ended December 31, 2017 versus €41 million as of December 31, 2016.

Direction Générale de l'Aviation Civile (DGAC)

This civil aviation regulator is under the authority of the French Ministry of Transport, which manages security and safety in the French air space and at airports. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services which amounts to €98 million as of December 31, 2017 versus €104 million for the year ended December 31, 2016.

Amadeus

Since 2016 financial year, Amadeus no longer fulfilled the characteristics of a related party.

Servair

For the financial year ended December 31, 2017, total expenses incurred from this activity amounts to €452 million. The transactions until December 30, 2016 with Servair and its subsidiaries have been eliminated, the Group having controlled Servair until this date.

Servair

For the financial year ended December 31, 2017, total expenses incurred from this activity amounts to €452 million. The transactions until December 30, 2016 with Servair and its subsidiaries have been eliminated, the Group having controlled Servair until this date.

China Eastern Airlines and Delta Air Lines

On October 3, 2017, Air France-KLM announced the completion of the capital increases reserved to China Eastern Airlines and Delta Air Lines. As from that date, the Group consider these two airlines as related parties.

40. CONSOLIDATED STATEMENT OF CASH FLOW

40.1 Other non-monetary items and impairment

Other non-monetary items and impairment can be analyzed as follows:

In € millions **As of December 31**	**2017**	**2016**
Variation of provisions relating to restructuring plan	(117)	(69)
Variation of provisions relating to pension	(23)	16
Impairment	-	2
Changes of pension plan KLM (see note 11)	1,769	-
Other	(35)	(11)
Total	**1,594**	**(62)**

Changes of KLM Cockpit crew and Cabin crew pension plans

The line “Changes of KLM pension plans” includes the impact of the modification of the Cabin Crew pension plan and the Cockpit Crew pension plan. Both plans qualifies as a collective defined contribution scheme and led to the derecognition of the pension assets. The transactions are presented in detail in the notes 3 and 30.

40.2 Acquisitions of subsidiaries, of shares in non-controlled entities

Net cash disbursements related to the acquisition of subsidiaries and investments in associates were as follows:

In € millions ***As of December 31***	**2017**	**2016**
Cash disbursement for acquisitions	(9)	(18)
Cash from acquired subsidiaries	-	-
Net cash disbursement	**(9)**	**(18)**

40.3 Disposal of subsidiaries, of shares in non-controlled entities

As of December 31, 2017, the proceeds from disposal of subsidiaries and shares in non-controlled entities consists of the following:

In € millions **As of December 31**	*Notes*	**2017**	**2016**
Proceeds from the sale of Amadeus shares	*11*	-	201
Proceeds from the sale of 49.9% of the Servair shares	*14*	-	218
Expenses relating to the sale of the Servair shares		-	(5)
Cash disbursement on the sale of Servair shares		-	(71)
Proceeds from the sale of the Cobalt shares		1	15
Proceeds from the sale of the Aérolis shares		1	-
Other disposals		6	6
Total		**8**	**364**

40.4 Non cash transactions

During financial year 2016, the Group transformed a financial lease contract into a service contract. This had the effect a non-monetary decrease of the other property plant and equipment and the financial debt for an amount of €64 million.

These operations have no impact on the cash flow statement.

41. STATUTORY AUDITORS' FEES

KPMG:

In € millions	2017				2016			
As of December 31	**Statutory auditor**		**Network**		**Statutory auditor**		**Réseau**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit, certification, review of stand-alone and consolidated accounts	2.2	88%	0.9	90%	2.1	91%	0.9	69%
- Air France-KLM SA	*0.6*		-		*0.6*		-	
- Consolidated subsidiaries	*1.6*		*0.9*		*1.5*		*0.9*	
Other services	0.3	12%	0.1	10%	0.2	9%	0.4	31%
- Air France-KLM SA	*0.3*		-		*0.2*		-	
- Consolidated subsidiaries	-		*0.1*		-		*0.4*	
Total Air France-KLM	**2.5**		**1.0**		**2.3**		**1.3**	

Deloitte & Associés:

In € millions	2017				2016			
As of December 31	**Statutory auditor**		**Network**		**Statutory auditor**		**Réseau**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit, certification, review of stand-alone and consolidated accounts	2.0	91%	0.9	100%	2.0	95%	0.9	100%
- Air France-KLM SA	*0.6*		-		*0.6*		-	
- Consolidated subsidiaries	*1.4*		*0.9*		*1.4*		*0.9*	
Other services	0.2	9%	-	0%	0.1	5%	-	0%
- Air France-KLM SA	*0.2*		-		*0.1*		-	
- Consolidated subsidiaries	-		-		-		-	
Total Air France-KLM	**2.2**		**0.9**		**2.1**		**0.9**	

42. CONSOLIDATION SCOPE

As of December 31, 2017, the scope includes 78 fully-consolidated entities and 19 equity affiliates.

Based on the Air France-KLM ownership in terms of both voting rights and equity interest and on the functioning mode of the Group's Executive Committee, Air France-KLM has the power to manage the KLM Group's financial and operational strategies and controls KLM. As a result, KLM is fully consolidated in Air France-KLM's consolidated financial statements.

The interest percentage in KLM is calculated based on the ordinary shares.

Air France-KLM Group

42.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V.	Netherlands	Multisegment	100	49
BLUE CONNECT	Mauritius	Passenger	70	70
BLUELINK	France	Passenger	100	100
BLUELINK INTERNATIONAL	France	Passenger	100	100
BLUELINK INTERNATIONAL AUSTRALIA	Australia	Passenger	100	100
BLUELINK INTERNATIONAL CZ S.R.O.	Czech Rep.	Passenger	100	100
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	Passenger	100	100
BLUELINK INTERNATIONAL STRASBOURG	France	Passenger	100	100
CONSTELLATION FINANCE LIMITED	Ireland	Passenger	100	100
CYGNIFIC B.V.	Netherlands	Passenger	100	49
HOP!	France	Passenger	100	100
HOP! TRAINING	France	Passenger	100	100
IAS ASIA INCORPORATED	Philippines	Passenger	100	49
IASA INCORPORATED	Philippines	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
JOON SAS	France	Passenger	100	100
KLM CITYHOPPER B.V.	Netherlands	Passenger	100	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	100	49
KLM EQUIPMENT SERVICES B.V.	Netherlands	Passenger	100	49
KLM LUCHTVAARTSCHOOL B.V.	Netherlands	Passenger	100	49
STICHTING STUDENTENHUISVESTINGVLIEGVELD EELDE	Netherlands	Passenger	100	49
BLUE CROWN B.V.	Netherlands	Cargo	100	49
MARTINAIR HOLLAND N.V.	Netherlands	Cargo	100	49
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
SODEXI	France	Cargo	65	65
AFI KLM E&M TEARDOWN MANAGEMENT SAS	France	Maintenance	100	100
AFI KLM E&M-BGAC Line Maintenance Co.LTD	China	Maintenance	60	60
AIR FRANCE INDUSTRIE US	United States	Maintenance	100	100
AIR France KLM COMPONENT SERVICES CO LTD	China	Maintenance	100	100
AIR ORIENT SERVICES	France	Maintenance	100	100
BARFIELD INC	United States	Maintenance	100	100
BARFIELD USA LLC	United States	Maintenance	100	100
CRMA	France	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V.	Netherlands	Maintenance	100	49
KLM E&M MALAYSIA SDN BHD	Malaysia	Maintenance	100	49
KLM UK ENGINEERING LIMITED	United Kingdom	Maintenance	100	49
REGIONAL JET CENTER B.V.	Netherlands	Maintenance	100	49
BLUE TEAM III SAS	France	Transavia	100	100
TRANSAVIA AIRLINES B.V.	Netherlands	Transavia	100	49
TRANSAVIA AIRLINES C.V.	Netherlands	Transavia	100	49
TRANSAVIA COMPANY SAS	France	Transavia	100	100
TRANSAVIA France SAS	France	Transavia	100	100
TRANSAVIA SERVICES GmbH	Netherlands	Transavia	100	49
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE FINANCE SAS	France	Other	100	100
AIR France KLM E&M PARTICIPATIONS SAS	France	Other	100	100
AIR France KLM FINANCE SAS	France	Other	100	100
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	80	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	80	39
AMSTERDAM SCHIPHOL PIJPLEIDING BEHEER B.V.	Netherlands	Other	60	49

AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	76	49
BLUE TEAM IV SAS	France	Other	100	100
BLUE TEAM V SAS	France	Other	100	100
BLUE YONDER IX B.V.	Netherlands	Other	100	49
BLUE YONDER XIV B.V.	Netherlands	Other	100	49
BV KANTOORGEBOUWEN MARTINAIR	Netherlands	Other	100	49
CELL K16 INSURANCE COMPANY	United Kingdom	Other	100	0
EXECUTIVE HEALTH MANAGEMENT B,V,	Netherlands	Other	45	45
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Netherlands	Other	100	49
KLM AIR CHARTER B.V.	Netherlands	Other	100	49
KLM CATERING SERVICES SCHIPHOL B.V.	Netherlands	Other	100	49
KLM HEALTH SERVICES B.V.	Netherlands	Other	100	49
KLM INTERNATIONAL CHARTER B.V.	Netherlands	Other	100	49
KLM OLIEMAATSCHAPPIJ B.V.	Netherlands	Other	100	49
MARTINAIR VLIEGSCHOOL VLIEGVELD LELYSTAD BV	Netherlands	Other	100	49
ORION-STAETE B.V.	Netherlands	Other	100	49
PELICAN	Luxemburg	Other	100	100
PYRHELIO-STAETE B.V.	Netherlands	Other	100	49
QUASAR-STAETE B.V.	Netherlands	Other	100	49
RIGEL-STAETE B.V.	Netherlands	Other	100	49
SPICA-STAETE B.V.	Netherlands	Other	100	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	100	49
TRAVEL INDUSTRY SYSTEMS B.V.	Netherlands	Other	100	49
TREASURY SERVICES KLM B.V.	Netherlands	Other	100	49
WEBLOK B.V.	Netherlands	Other	100	49

42.2 Equity affiliates

Entity	Country	Segment	% interest	% control
HEATHROW CARGO HANDLING	United Kingdom	Cargo	50	50
AAF SPARES	Ireland	Maintenance	50	50
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
AIRFOILS ADVANCES SOLUTIONS SAS	France	Maintenance	49	49
IGO SOLUTIONS SAS	France	Maintenance	40	40
MAX MRO SERVICE	India	Maintenance	26	26
SHS TECHNICS	Senegal	Maintenance	49	50
SINGAPOUR COMPONENT SOLUTIONS PTE	Singapore	Maintenance	50	50
SPAIRLINERS	Germany	Maintenance	50	50
TRADEWINDS ENGINE SERVICES LLC	United States	Maintenance	50	50
TURBINE SUPPORT INTERNATIONAL LLC	United States	Maintenance	50	50
AIRCRAFT CAPITAL LTD	United Kingdom	Other	40	40
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
MAINPORT INNOVATION FUND B.V.	Netherlands	Other	25	25
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	53	45
SERVAIR	France	Other	50	50
SKYNRG B.V.	Netherlands	Other	24	24
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25