Air France-KLM Group

UNAUDITED INTERIM CONDENSED 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, 2018 – March 31, 2018

Air France-KLM Group

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Air France-KLM Group

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

In € millions **Period from January 1 to March 31**	***Notes***	**2018**	**2017 Restated(*)**
Sales	***6***	**5,806**	**5,705**
Revenues		**5,806**	**5,705**
External expenses	***7***	(3,519)	(3,465)
Salaries and related costs	***8***	(1,853)	(1,812)
Taxes other than income taxes		(49)	(45)
Other income and expenses	***9***	236	265
EBITDA		**621**	**648**
Amortization, depreciation and provisions		(739)	(681)
Income from current operations		**(118)**	**(33)**
Sales of aircraft equipment		(4)	9
Other non-current income and expenses	***10***	(43)	(7)
Income from operating activities		**(165)**	**(31)**
Cost of financial debt		(114)	(149)
Income from cash and cash equivalents		10	9
Net cost of financial debt		***(104)***	***(140)***
Other financial income and expenses	***11***	12	46
Income before tax		**(257)**	**(125)**
Income taxes		(6)	(21)
Net income of consolidated companies		**(263)**	**(146)**
Share of profits (losses) of associates		(6)	3
Net income from continuing operations		**(269)**	**(143)**
Net income for the period		**(269)**	**(143)**
Net income - Group part		*(269)*	*(143)*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic		(0.63)	(0.50)
- diluted		(0.63)	(0.50)
Net income from continuing operations - Equity holders of Air France-KLM (in euros)			
- basic		(0.63)	(0.50)
- diluted		(0.63)	(0.50)

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

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

Air France-KLM Group

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (UNAUDITED)

In € millions **Period from January 1 to March 31**	**2018**	**2017 Restated(*)**
Net income for the period	**(269)**	**(143)**
Cash flow hedges		
Effective portion of changes in fair value of hedges recognized directly in other comprehensive income	172	(189)
Change in fair value transferred to profit or loss	(98)	-
Currency translation adjustment	**1**	**-**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	**(20)**	**59**
Total of other comprehensive income that will be reclassified to profit or loss	***55***	***(130)***
Remeasurements of defined benefit pension plans	**88**	**1,075**
Fair value of equity instruments revalued through OCI	**(24)**	**6**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	**(10)**	**(262)**
Total of other comprehensive income that will not be reclassified to profit or loss	***54***	***819***
Total of other comprehensive income, after tax	**109**	**689**
Recognized income and expenses	**(160)**	**546**
- Equity holders of Air France-KLM	**(160)**	**543**
- Non-controlling interests	-	3

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

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

Air France-KLM Group

CONSOLIDATED BALANCE SHEET (UNAUDITED)

Assets *In € millions*	*Notes*	**March 31, 2018**	**December 31, 2017 Restated (*)**	**January 1, 2017 Restated (*)**
Goodwill		215	216	218
Intangible assets		1,147	1,122	1,066
Flight equipment		10,084	9,634	8,759
Other property, plant and equipment		1,446	1,418	1,400
Right-of-use assets		5,769	5,863	5,745
Investments in equity associates		290	301	292
Pension assets	***12***	602	590	1,462
Other financial assets		1,229	1,242	1,064
Deferred tax assets		430	479	611
Other non-current assets		207	239	448
Total non-current assets		**21,419**	**21,104**	**21,065**
Other short-term financial assets		399	421	130
Inventories		576	557	566
Trade receivables		2,452	2,165	1,895
Other current assets		1,325	1,242	1,080
Cash and cash equivalents	***13***	4,074	4,673	3,938
Total current assets		**8,826**	**9,058**	**7,609**
Total assets		**30,245**	**30,162**	**28,674**

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

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

Air France-KLM Group

CONSOLIDATED BALANCE SHEET (AUNAUDITED) (continued)

Liabilities and equity *In € millions*	***Notes***	**March 31, 2018**	**December 31, 2017 Restated (*)**	**January 1, 2017 Restated (*)**
Issued capital		429	429	300
Additional paid-in capital		4,139	4,139	2,971
Treasury shares		(67)	(67)	(67)
Perpetual		600	600	600
Reserves and retained earnings		(2,780)	(2,620)	(3,484)
Equity attributable to equity holders of Air France-KLM		**2,321**	**2,481**	**320**
Non-controlling interests		12	12	11
Total equity		**2,333**	**2,493**	**331**
Pension provisions	***12***	2,175	2,202	2,119
Return obligation liability and other provisions		2,971	2,927	2,686
Financial debt	***13***	5,766	5,919	7,253
Lease debt	***13***	3,831	4,148	4,611
Deferred tax liabilities		8	6	(17)
Other non-current liabilities		364	361	284
Total non-current liabilities		**15,115**	**15,563**	**16,936**
Return obligation liability and other provisions		279	284	627
Current portion of financial debt	***13***	774	1,378	1,021
Current portion of lease debt	***13***	1,151	993	1,032
Trade payables		2,428	2,366	2,359
Deferred revenue on ticket sales		4,042	3,017	2,639
Frequent flyer programs		816	819	810
Other current liabilities		3,301	3,243	2,914
Bank overdrafts	***13***	6	6	5
Total current liabilities		**12,797**	**12,106**	**11,407**
Total liabilities		**27,912**	**27,669**	**28,343**
Total equity and liabilities		**30,245**	**30,162**	**28,674**

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

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

Air France-KLM Group

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

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, 2016	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,520)**	**1,284**	**12**	**1,296**
First application of IFRS 9, IFRS 15 and IFRS 16						**(964)**	**(964)**	**(1)**	**(965)**
January 1, 2017- Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(3,484)**	**320**	**11**	**331**
Gain / (loss) on cash flow hedges	-	-	-	-	-	(130)	**(130)**	-	**(130)**
Fair value of equity instruments through OCI	-	-	-	-	-	6	**6**	-	**6**
Remeasurements of defined benefit pension plans	-	-	-	-	-	811	**811**	2	**813**
Currency translation adjustment	-	-	-	-	-	(1)	**(1)**	1	-
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	***686***	***686***	***3***	***689***
Net result for the period	-	-	-	-	-	(143)	**(143)**	-	**(143)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**543**	**543**	**3**	**546**
March 31, 2017 - Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,941)**	**863**	**14**	**877**
December 31, 2017 - Restated (*)	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,620)**	**2,481**	**12**	**2,493**
Gain / (loss) on cash flow hedges	-	-	-	-	-	54	**54**	-	**54**
Fair value of equity instruments through OCI	-	-	-	-	-	(20)	**(20)**	-	**(20)**
Remeasurements of defined benefit pension plans	-	-	-	-	-	74	**74**	-	**74**
Currency translation adjustment	-	-	-	-	-	1	**1**	-	**1**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	***109***	***109***	**-**	***109***
Net result for the period	-	-	-	-	-	(269)	**(269)**	**-**	**(269)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**(160)**	**(160)**	**-**	**(160)**
March 31, 2018	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,780)**	**2,321**	**12**	**2,333**

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

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

Air France-KLM Group

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Period from January 1 to March 31 *In € millions*	***Notes***	**2018**	**2017** **Restated(*)**
Net income from continuing operations		(269)	(143)
Amortization, depreciation and operating provisions		739	681
Financial provisions		26	30
Loss (gain) on disposals of tangible and intangible assets		4	(9)
Derivatives – non monetary result		13	16
Unrealized foreign exchange gains and losses, net		(24)	(56)
Share of (profits) losses of associates		6	(4)
Deferred taxes		1	13
Other non-monetary items		(6)	(4)
Financial capacity		**490**	**524**
(Increase) / decrease in inventories		(13)	(115)
(Increase) / decrease in trade receivables		(310)	(275)
Increase / (decrease) in trade payables		64	81
Change in other receivables and payables		1,066	991
Change in working capital requirement		**807**	**682**
Net cash flow from operating activities (A)		**1,297**	**1,206**
Acquisition of subsidiaries, of shares in non-controlled entities		(8)	(1)
Purchase of property plant and equipment and intangible assets (B)		(939)	(668)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		3	1
Proceeds on disposal of property plant and equipment and intangible assets (C)		26	43
Dividends received		3	1
Decrease (increase) in net investments, more than 3 months		(12)	(4)
Net cash flow used in investing activities		**(927)**	**(628)**
Issuance of debt		24	45
Repayment on debt		(781)	(234)
Payments on leases debt (D)		(242)	(257)
New loans		(8)	(6)
Repayment on loans		42	8
Net cash flow from financing activities		**(965)**	**(444)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(4)	(8)
Change in cash and cash equivalents and bank overdrafts		**(599)**	**126**
Cash and cash equivalents and bank overdrafts at beginning of period		4,667	3,933
Cash and cash equivalents and bank overdrafts at end of period		4,068	4,059

The accompanying notes are an integral part of these consolidated financial statements.
(*) See note 2 in notes to the consolidated financial statements.

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Period from January 1 to March 31 *in € millions*	***Notes***	**2018**	**2017** Restated(*)
Net cash flow from operating activities	***A***	1,297	1,206
Purchase of property plant and equipment and intangible assets	***B***	(939)	(668)
Proceeds on disposal of property plant and equipment and intangible assets	***C***	26	43
Operating free cash flow	***13***	**384**	**581**
Payments on lease debt	***D***	(242)	(257)
Operating free cash flow adjusted (**)		**142**	**324**

The accompanying notes are an integral part of these consolidated financial statements.
(*) See note 2 in notes to the consolidated financial statements.
(**) See note 4 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 network activities which includes passenger transportation on scheduled flights and cargo activities. The Group’s activities also include 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 2017

Since January 1, 2018, Air France-KLM Group applies the three following new standards:

- IFRS 9 “Financial Instruments”: this standard has to be applied starting January 1, 2018;
- IFRS 15 “Revenue Recognition from Contracts with Customers”: this standard has to applied starting January 1, 2018. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the standard is applied retrospectively to each previous period in which financial information is presented. Within this framework, none of the simplification measures proposed in the standard should be used;
- IFRS 16 “Leases”: the Group has opted for the early adoption of this standard starting January 1, 2018. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, it has been applied using the retrospective restatement to each prior reporting period presented applying. The two capitalization exemptions proposed by the standard – lease contracts with a duration of less than 12 months and lease contracts for which the underlying asset has a low value in new which has been defined by the Group to be below 5,000 € – have been used.

The main changes involved by IFRS 9 are the following:

- The change in time-value of call-options is now recognized in “other comprehensive income” whereas it was previously recorded in “other financial income and expenses”.
- 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 has been defined as follows:
    - If the capital instrument is considered to be a cash investment, its revaluations are recorded in “other financial income and expenses”
    - If the capital instrument is considered to be a business investment, its revaluations are recorded in “other comprehensive income”
- The designation of a risk component (ex: Brent or gasoil) as hedged item concerning the fuel derivatives (purchase of jet fuel). This change allows a decrease of the inefficiency of the hedge relationships
- The points-swap component of the forward currency contracts is treated as a cost of the hedge. The change in fair value of the points-swap are now recorded in “other comprehensive income” and recycled as a transaction cost when the hedge is settled.

The main changes involved by IFRS 15 are the following:

- Revenue recognized concerning unused tickets: revenue recognition, based on an historical statistical rate of the unused tickets which is regularly updated, at the theoretical date of the transport. Previously, this recognition was done at the date the ticket was issued;

- Issuing and change fees: revenue recognition at the transport date, not involving a different service bringing a profit to the passenger in the absence of transport. Previously, this recognition was done at the invoice date of change or issuing fee;
- Commissions and other distribution costs (credit card fees, booking fees) linked to the airline-ticket sales: Cost deferred when transport is made. Previously, they were recognized when incurred, being at the ticket issuance;
- Transport of goods on behalf of the Group, by another airline: the revenue charged to the customer is entirely recognized and a cost corresponding to the chartering is recorded. Previously, only the commission was recognized in revenues for the part operated by another airline;
- Power-by-the hour contracts (overhaul of aircraft equipment and engines): revenue recognition based on the costs incurred. Previously, revenue recognition was based on invoicing schedule, according to flight hours; a provision was made for expected costs;
- Purchase of spare parts on behalf of third parties: Each operation is analyzed to determine if the Group is acting as principal or as agent. Previously, the margin was recognize as revenue;
- Concerning the treatment of client compensations, the Group is currently working with the other airlines (through IATA) to determine how to present them. The position is under finalization.

The main changes involved by IFRS 16 are the following:

- Capitalization of aircraft lease contracts fulfilling the capitalization criteria defined by IFRS 16. The lease term corresponds to the non-cancellable period of each contract 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 value the lease debt corresponds, for each aircraft, to the implicit rate mainly involved by the contractual elements. Most of the aircraft lease contracts are denominated in USD. As from January 1, 2018 the Group has 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. Because the standard IFRS 9 cannot be retrospectively applied, the comparative information for 2017 includes foreign exchange impacts linked to the USD debt volatility. This impact is included on the line “other financial income and expenses”;
- Capitalization of real-estate lease contracts: Based on its analysis, the Group has identified lease contracts concerning surfaces rented in its hubs, building devoted to the maintenance business, lounges customized in airports other than hubs and office buildings. The lease term corresponds to the not terminable period completed, if necessary, by options of renewal which are reasonably certain. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the commencement of the contract.
- Accounting of the other-assets leases: Based on its analysis, the main lease contracts identified correspond to company car, pool of spare parts and engines. The lease term corresponds to the not terminable period completed, if necessary, by options of renewal which are reasonably certain. The discount rate used to calculate the right-of-use asset and the lease debt is determined, for each asset, according to the incremental borrowing rate at the commencement of the contract.
- 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 on leased aircraft is therefore recorded as follows:
    - A return obligation liability is made on delivery of the aircraft if the maintenance to be realized at redelivery to the lessor does not depend on aircraft use. The counterpart of this liability is recorded in the book value of the right-of-use asset at the origin. It is amortized over the lease term.
    - A return obligation liability for redelivery costs. It corresponds to the potential of flight hours that the potentials must have at the date of aircraft redelivery to the lessor according to the consumption of potentials. It also includes the estimated duration of the lease contract as defined by IFRS 16 and not anymore a statistical probability as previously done. The potential levels are dependent on the contract signed.

- Identification of components corresponding to the potentials of the leased aircraft. They are presented with the right-of-use asset of leased aircraft. The first component will be the counterpart of the return obligation liability recorded at the commencement date of the contract. When maintenance events will occur, costs incurred to reconstitute the potentials will be capitalized. These potentials are amortized over the life of the potential of flight hours. So, for the amortization of right-of-use assets, a component approach is applied, which allows to reflect better the fact than right-of-use assets include components which can have different useful lives.

For the purpose of comparison, consolidated accounts as of March 31, 2017 have been restated. The adjusted balance sheet as of January 1 and December 31, 2017 is also presented.

The impact of these three new standards are summarized hereafter:

Impact on the consolidated income statement

In € millions **Period from January 1 to March 31, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Sales	**5,709**	**-**	**(4)**	**-**	**-**	**5,705**
External expenses	(3,508)	-	(15)	49	9	(3,465)
Salaries and related costs	(1,812)	-	-	-	-	(1,812)
Taxes other than income taxes	(45)	-	-	-	-	(45)
Other income and expenses	210	-	-	-	55	265
EBITDAR	**554**	**-**	**(19)**	**49**	**64**	**648**
Aircraft operating lease costs	(285)	-	-	285	-	-
EBITDA	**269**	**-**	**(19)**	**334**	**64**	**648**
Amortization, depreciation and provisions	(412)	-	1	(220)	(50)	(681)
Income from current operations	**(143)**	**-**	**(18)**	**114**	**14**	**(33)**
Income from operating activities	**(142)**	**-**	**(18)**	**114**	**15**	**(31)**
Net cost of financial debt	(56)	-	-	(84)	-	(140)
Other financial income and expenses	(31)	29	-	59	(11)	46
Income before tax	**(229)**	**29**	**(18)**	**89**	**4**	**(125)**
Income taxes	9	(7)	6	(27)	(2)	(21)
Net income of consolidated companies	**(220)**	**22**	**(12)**	**62**	**2**	**(146)**
Net income	**(216)**	**22**	**(12)**	**62**	**1**	**(143)**
Earning per share (basic and diluted)	(0.74)	0.07	(0.04)	0.21	-	(0.50)

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Impact on the consolidated statement of recognized income and expenses

In € millions **Period from January 1 to March 31, 2017**	Published accounts	IFRS 9 impact	IFRS 15 & 16 impact	Restated accounts
Net income for the period	**(216)**	**22**	**51**	**(143)**
Fair value adjustment on available-for-sale securities	9	(9)	-	-
Cash flow hedges	(181)	(8)	-	(189)
Currency translation adjustment	1	-	(1)	1
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	56	3	-	59
Total of other comprehensive income that will be reclassified to profit or loss	**(115)**	**(14)**	**(1)**	**(130)**
Remeasurements of defined benefit pension plans	1,075	-	-	1,075
Fair value of equity instruments revalued through OCI	-	6	-	6
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	(262)	-	-	(262)
Total of other comprehensive income that will not be reclassified to profit or loss	**813**	**6**	**-**	**819**
Total of other comprehensive income, after tax	**698**	**(8)**	**(1)**	**689**
Recognized income and expenses	**482**	**14**	**50**	**546**
• **Equity holders of Air France-KLM**	**479**	**14**	**50**	**543**
• Non-controlling interests	3	-	-	3

Impact on the consolidated balance sheet

Only accounts impacted by IFRS 9, IFRS 15 and IFRS 16 are presented hereafter.

In € millions **Balance sheet as of December 31, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
<u>Asset</u>						
Flight equipment	9,921	32	-	(294)	(25)	9,634
Other property, plant and equipment	1,492	-	-	(74)	-	1,418
Right-of-use assets	-	-	-	4,900	963	5,863
Deferred tax assets	234	(10)	32	164	59	479
Trade receivables	2,136	-	29	-	-	2,165
Other current assets	1,264	(1)	23	(52)	8	1,242
<u>Equity and liabilities</u>						
Return obligation liability and other provisions (current and non-current term)	2,198	-	(109)	-	1,122	3,211
Financial debt (current and non-current)	7,442	(4)	-	(141)	-	7,297
Lease debt (current and non-current)	-	-	-	5,141	-	5,141
Deferred tax liabilities	11	-	(5)	-	-	6
Deferred revenue on ticket sales	2,889	-	128	-	-	3,017
Other current liabilities	3,100	-	146	-	(3)	3,243
Equity	3,015	25	(76)	(356)	(115)	2,493
• Holders of Air France-KLM	3,002	25	(76)	(355)	(115)	2,481
• Non-controlling interests	13	-	-	(1)	-	12

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In € millions **Balance sheet as of January 1, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
<u>Asset</u>						
Flight equipment	9,119	(25)	-	(310)	(25)	8,759
Other property, plant and equipment	1,480	-	-	(80)	-	1,400
Right-of-use assets	-	-	-	4,828	917	5,745
Deferred tax assets	176	5	32	335	63	611
Trade receivables	1,868	-	27	-	-	1,895
Other current assets	1,105	(1)	23	(52)	5	1,080
<u>Equity and liabilities</u>						
Return obligation liability and other provisions (current and non-current term)	2,327	-	(106)	-	1,092	3,313
Financial debt (current and non-current)	8,452	(4)	-	(174)	-	8,274
Lease debt (current and non-current)	-	-	-	5,643	-	5,643
Deferred tax liabilities	(12)	-	(5)	-	-	(17)
Deferred revenue on ticket sales	2,517	-	122	-	-	2,639
Other current liabilities	2,775	-	146	-	(7)	2,914
Equity	1,296	(17)	(75)	(748)	(125)	331
• Holders of Air France-KLM	1,284	(17)	(75)	(747)	(125)	320
• Non-controlling interests	12	-	-	(1)	-	11

Impact on the consolidated statement of cash flows

In € millions **Period from January 1 to March 31, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Net income	(216)	22	(12)	62	1	(143)
Other items of the financial capacity	443	(22)	(7)	190	63	667
Financial capacity	**227**	**-**	**(19)**	**252**	**64**	**524**
Change in working capital requirement	661	-	19	-	2	682
Net cash flow from operating activities	**888**	**-**	**-**	**252**	**66**	**1,206**
Net cash flow used in investing activities	**(562)**	**-**	**-**	**-**	**(66)**	**(628)**
Net cash flow from financing activities	**(192)**	**-**	**-**	**(252)**	**-**	**(444)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(8)	-	-	-	-	(8)
Change in cash and cash equivalents and bank overdrafts	**126**	**-**	**-**	**-**	**-**	**126**
Cash and cash equivalents and bank overdrafts at beginning of period	3,933	-	-	-	-	3,933
Cash and cash equivalents and bank overdrafts at end of period	4,059	-	-	-	-	4,059

3. SIGNIFICANT EVENTS

3.1. Events that occurred in the period

Since February 22, 2018, ten unions of Air France have launched a strike movement. During the first quarter 2018, three days of strike have been made. The impact on the “income from current operations” of the first quarter 2018 is estimated at € (75) million.

3.2. Subsequent events

There have been no significant events since the closing of the period.

4. ACCOUNTING POLICIES

4.1. Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation n° 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.

The interim condensed consolidated financial statements as of March 31, 2018 are prepared in accordance with IFRS, as adopted by the European Union on the date these condensed consolidated financial statements were established, and are presented according to IAS 34 “Interim financial reporting” and must be read in connection with the annual consolidated financial statements for the year ended on December 31, 2017.

The interim condensed consolidated financial statements as of March 31, 2018 have been established in accordance with the accounting principles used by the Group for the consolidated financial statements 2017, except for standards and interpretations adopted by the European Union applicable as from January 1, 2018.

The condensed consolidated financial statements were approved by the Board of Directors on May 3, 2018.

Change in accounting principles

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

  - Standard IFRS 9 “Financial Instruments”, effective for the period beginning January 1, 2018 and replacing the standard IAS 39 of the same name;
  - Standard IFRS 15 “Revenue from Contracts with Customers”, effective for the period beginning January 1, 2018 and replacing the standards IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programs”;
  - Amendment to IFRS 15 “Revenue from Contracts with Customers”, effective for the period beginning January 1, 2018. This amendment provides clarifications regarding the identification of the performance obligation, distinction between agent / principal, intellectual property licensing and transitional provisions;
  - Amendment to IFRS 2 “Classification and Measurement of Shared – based Payment Transactions”, effective for the period beginning January 1, 2018. This amendment outlines the classification and measurement of shared – based Payment transactions;
  - Amendment to IFRS 12 “Clarification of the scope of the disclosure requirements”, effective for the period beginning January 1, 2018. This amendment clarifies the scope of the disclosure requirements.

- IFRS standards which are applicable to the Group, by anticipation to the 2018 financial statements

  - Standard IFRS 16 “Leases”, effective for the period beginning January 1, 2019 and replacing the standard IAS 39 of the same name. The Group decided to adopt this standard for the period beginning January 1, 2018.

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

  - IFRIC 22 “Foreign currency transactions and advance consideration”, effective for the period beginning January 1, 2018. This interpretation of IAS 21 “Effects of Changes in Foreign Exchange Rates” clarifies the accounting of transactions in foreign currencies including payments or receipts in advance;
  - IFRIC 23 “Uncertainty over Income Tax Treatments”, effective for the period beginning January 1, 2019. This interpretation of IAS 12 “Income Taxes” clarifies the treatment of any uncertainty situation regarding the acceptability of a tax treatment related to income taxes;
  - Amendment to IAS 28 “Long-term interests in an associate or joint venture”, effective for the period beginning January 1, 2019. This amendment is related to the measurement of other interests in an associate or a joint venture which would not be recognized by the equity method;
  - Amendment to IFRS 9 “Financial instruments”, effective for the period beginning January 1, 2019. This amendment deals with prepayment features with negative compensation;
  - Amendment to IAS 12 “Income taxes”, effective for the period beginning January 1, 2019. This amendment outlines income tax consequences of payments on instruments classified as equity;
  - Amendment to IFRS 11 “Joint arrangements”, effective for the period beginning January 1, 2019. This amendment clarifies the accounting treatment of the interest’s acquisition in a joint operation;

- Amendment to IAS 23 "Borrowing costs", effective for the period beginning January 1, 2019. This amendment indicates borrowing costs eligible for capitalization;
- Amendment to IAS 19 "Employee benefits", effective for the period beginning January 1, 2019. This amendment relates to the consequences of a plan amendment, curtailment or settlement on the current service cost and the net interest.

4.2. Preparation of unaudited interim consolidated financial statements

Seasonality of the activity

Revenues and income from current operations are characterized by their seasonal nature related to a high level of activity from April 1 to September 30. This phenomenon varies in magnitude depending on the year. In accordance with IFRS, revenues and the related expenses are recognized over the period in which they are realized and incurred respectively.

Income taxes

For the interim financial statements, the tax charge (current and deferred) is calculated by applying to the income before tax of the period the estimated annual average tax rate for the current year for each entity or fiscal group.

Retirement benefits

The net obligations concerning the defined-benefits schemes are revalued based on the discount rates and the fair-value of assets at interim closing dates. The net impact of these revaluations is recorded in other comprehensive income. Low discount rates can lead the Group to review other actuarial assumptions in order to keep a global consistency of the assumptions set.

4.3. Use of estimates

The preparation of the condensed 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 significant areas of estimates described in the note 4 of the December 31, 2017 consolidated financial statements, concerned:

- Revenue recognition related to deferred revenue on ticket sales;
- Flying Blue frequent flyer program;
- Financial assets;
- Tangible and intangible assets;
- Pension assets and provisions;
- Other provisions;
- 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 period 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.

4.4. Aggregates used within the framework of financial communication

Adjusted operating free cash flow: this corresponds to the operating free cash flow decreased by the redemption on lease debts.

5. CHANGE IN THE CONSOLIDATION SCOPE

- **First quarter ended March 31, 2018**

No significant acquisition or disposal took place during the first quarter ended March 31, 2018

- **First quarter ended March 31, 2017**

No significant acquisition or disposal took place during the first quarter ended March 31, 2017

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 and transportation of shipment on behalf of the Group by another airline.

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 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.

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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

• Three-month period ended March 31, 2018

In € millions	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	5,099	1,076	236	60	-	6,471
Intersegment sales	(9)	(605)	(1)	(50)	-	(665)
External sales	**5,090**	**471**	**235**	**10**	**-**	**5,806**
EBITDA	505	112	(4)	8	-	621
Income from current operations	(86)	27	(58)	(1)	-	(118)
Income from operating activities	(132)	27	(59)	(1)	-	(165)
Share of profits (losses) of associates	-	-	-	(6)	-	(6)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(92)	(92)
Income taxes	-	-	-	-	(6)	(6)
Net income from continuing operations	**(132)**	**27**	**(59)**	**(7)**	**(98)**	**(269)**

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• Three-month period ended March 31, 2017

In € millions	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	5,059	1,037	198	59	-	6,353
Intersegment sales	(9)	(589)	(1)	(49)	-	(648)
External sales	**5,050**	**448**	**197**	**10**	**-**	**5,705**
EBITDA	565	94	(17)	6	-	648
Income from current operations	(10)	44	(65)	(2)	-	(33)
Income from operating activities	(9)	44	(67)	1	-	(31)
Share of profits (losses) of associates	-	1	-	2	-	3
Net cost of financial debt and other financial income and expenses	-	-	-	-	(94)	(94)
Income taxes	-	-	-	-	(21)	(21)
Net income from continuing operations	**(9)**	**45**	**(67)**	**3**	**(115)**	**(143)**

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6.2. Information by geographical area

External sales by geographical area

- **Three-month period ended March 31, 2018**

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	1,462	554	1,161	225	124	419	586	305	4,836
Other network sales	95	36	49	14	4	29	17	10	254
Total network	**1,557**	**590**	**1,210**	**239**	**128**	**448**	**603**	**315**	**5,090**
Scheduled Transavia	92	113	17	-	2	-	1	-	225
Transavia - other sales	4	-	-	-	-	-	6	-	10
Total Transavia	**96**	**113**	**17**	**-**	**2**	**-**	**7**	**-**	**235**
Maintenance	252	193	4	-	-	-	22	-	471
Others	3	7	-	-	-	-	-	-	10
Total	**1,908**	**903**	**1,231**	**239**	**130**	**448**	**632**	**315**	**5,806**

- **Three-month period ended March 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	1,407	504	1,095	254	128	457	659	292	4,796
Other network sales	97	43	42	10	9	23	17	13	254
Total network	**1,504**	**547**	**1,137**	**264**	**137**	**480**	**676**	**305**	**5,050**
Scheduled Transavia	69	96	20	-	2	-	1	-	188
Transavia - other sales	4	-	-	-	-	-	5	-	9
Total Transavia	**73**	**96**	**20**	**-**	**2**	**-**	**6**	**-**	**197**
Maintenance	272	145	6	-	-	-	25	-	448
Others	4	6	-	-	-	-	-	-	10
Total	**1,853**	**794**	**1,163**	**264**	**139**	**480**	**707**	**305**	**5,705**

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Traffic sales by geographical area of destination

- **Year ended March 31, 2018**

In € millions	Metropolitan France	Europe (except France) and 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	385	991	445	686	915	538	876	4,836
Scheduled Transavia	3	185	-	37	-	-	-	225
Total	**388**	**1,176**	**445**	**723**	**915**	**538**	**876**	**5,061**

- **Year ended March 31, 2017**

In € millions	Metropolitan France	Europe (except France) and 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	431	951	449	711	907	483	864	4,796
Scheduled Transavia	3	174	-	11	-	-	-	188
Total	**434**	**1,125**	**449**	**722**	**907**	**483**	**864**	**4,984**

7. EXTERNAL EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to March 31		**Restated**
Aircraft fuel	1,061	1,120
Chartering costs	130	126
Landing fees and air route charges	427	437
Catering	182	185
Handling charges and other operating costs	476	419
Aircraft maintenance costs	617	592
Commercial and distribution costs	232	228
Other external expenses	394	358
Total	**3,519**	**3,465**
Excluding aircraft fuel	*2,458*	*2,345*

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions **Period from January 1 to March 31**	**2018**	**2017**
Wages and salaries	1,280	1,264
Pension costs linked to defined contribution plans	148	137
Net periodic pension cost of defined benefit plans	55	66
Social contributions	265	263
Cost of tempory employees	56	41
Profit sharing	49	24
Other expenses	-	17
Total	**1,853**	**1,812**

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”.

Average number of employees

Period from January 1 to March 31	**2018**	**2017**
Flight deck crew	7,828	7,699
Cabin crew	21,684	20,576
Ground staff	51,178	52,062
Temporary employees	3,072	2,504
Total	**83,762**	**82,841**

9. OTHER INCOME AND EXPENSES

In € millions **Period from January 1 to March 31**	**2018**	**2017**
Capitalized production	249	267
Joint operation of routes	(5)	(24)
Operations-related currency hedges	(19)	16
Other	11	6
Other income and expenses	**236**	**265**

10. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to March 31		
Restructuring costs	(43)	(8)
Other disposals of assets	-	1
Other non-current income and expenses	**(43)**	**(7)**

- **Three-month period ended March 31, 2018**

Restructuring costs

This mainly includes a voluntary departure plan for KLM Cabin Crew.

- **Three-month period ended March 31, 2017**

Restructuring costs

This included some restructuring activities in the Air France and KLM organizations abroad, among others the closure of the Munich base of Transavia Netherlands as of October 2017.

11. OTHER FINANCIAL INCOME AND EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to March 31		**Restated**
Foreign exchange gains (losses), net	54	71
Financial instruments	(13)	(15)
Net (charge)/ release to provisions	(3)	-
Accretion	(24)	(32)
Change in fair value of hedged shares	(1)	22
Others	(1)	-
Other financial income and expenses	**12**	**46**

Foreign exchange gains (losses)

As of March 31, 2018 and 2017, the foreign exchange losses mainly include an unrealized foreign exchange gain on the debt, receivables and provisions in US Dollar, partly compensated by a foreign exchange loss on the debt in Yen.

Change in fair value of financial instruments

The change in fair value of financial instruments is mainly due to:

- Currency derivatives for €(15) million as of March 31, 2018, against €(4) million as of as of March 31, 2017.
- Fuel derivatives had a minor impact as of March 31, against €(5) as of March 31, 2017
- The Collar Amadeus for €(1) million as of March 31, 2018, against €(11) million as March 31, 2017.

Net (charge) / release to provisions

As of March 31, 2018, the charge mainly includes accrued interest related to the Cargo fine and a fee for the availability of the bank credit line.

12. PENSION ASSETS AND PROVISIONS

As of March 31, 2018, the discount rates used by companies to calculate the defined benefit obligations are the following:

	March 31, 2018	**December 31, 2017**
Euro zone – duration 10 to 15 years	1.40%	1.25%
Euro zone – duration 15 years and more	2.00%	1.90%

The impact in variations of discount rates on the defined benefit obligation has been calculated using sensitivity analysis of the pension defined benefit obligation. The sensitivity analysis is mentioned in note 30.2 of the annual financial statements as of December 31, 2017.
Over the same period, the fair value of the plan assets of the pension funds decreased.

All these items have a cumulative impact resulting in:

- An increase of €45 million of the "pension assets" on the balance sheet (schemes with a net asset position) and
- A decrease of €44 million of the "pension provisions" on the balance sheet (schemes with a net liability position).

13. NET DEBT

In € millions	March 31, 2018	December 31, 2017
Financial debt	6,540	7,297
Lease debt	4,982	5,141
Accrued interest	(71)	(76)
Lease deposit [(1)]	(422)	(428)
Derivatives impact on debt	19	19
Gross financial debt (I)	**11,048**	**11,953**
Cash and cash equivalents	4,074	4,673
Marketable securities [(1)]	84	73
Cash secured	269	269
Triple A bonds [(1)]	346	379
Others	(1)	(2)
Bank overdrafts	(6)	(6)
Net cash (II)	**4,766**	**5,386**
Net cash (I-II)	**6,282**	**6,567**

(1) Included in "others financial assets"

In € millions	March 31, 2018	December 31, 2017
Opening net debt	**6,567**	**9,032**
Operating free cash, cash flow [(1)]	(384)	(581)
Disposal of subsidiaries, of shares in non-controlled entities	3	1
Acquisition of subsidiaries, of shares in non-controlled entities [(2)]	(8)	(1)
New lease debts (new and renewed contracts)	162	176
Unrealised exchange gains and losses on lease financial debts through OCI	(78)	-
Currency translation adjustment	19	(22)
Amortization of OCEANE optional part	-	6
Other	1	(9)
Closing net debt	**6,282**	**8,602**

(1) Cash flows statement : operating free cash flow

(2) Cash flows statement : acquisition of subsidiaries, of shares in non-controlled entities