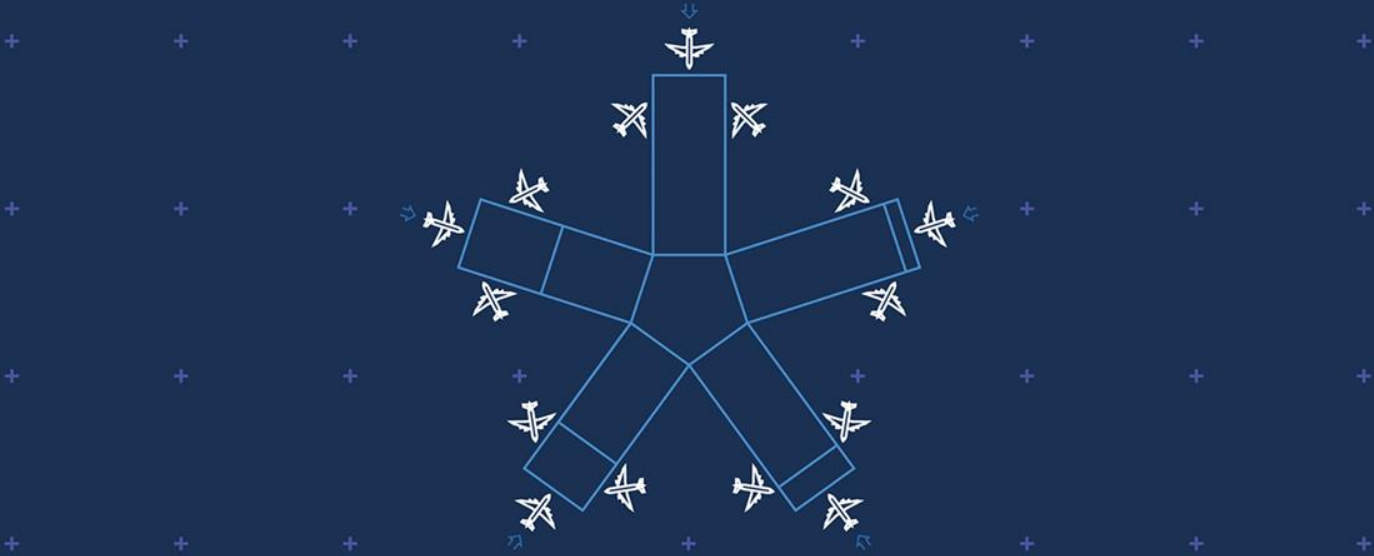


# FIRST HALF 2016 RESULTS

27 July 2016



AIRFRANCE KLM

# Highlights of the Second Quarter 2016

+++++

## Environment

- High level of geopolitical uncertainties, including Brexit
- Terrorist attacks in Europe
- Steep decrease in fuel bill compared to last year
- Strong increase in airline industry capacity
- Economic environment still weak in several key markets including Brazil and oil routes

## Operations

- Passenger network: strict capacity discipline, increasing pressure on unit revenues with clear deterioration during the quarter
- Cargo: continuing pressure on unit revenues; completing full freighter restructuring
- Maintenance: strong increase in external revenues
- Transavia: continuous development including opening Munich base

## Financial highlights

- Revenues decreased by 3.7% like-for-like
- Ex-fuel unit costs down 1.5% at constant currency
- Further improvement in main financial KPI's and increase in profitability
- Strong operating free cash flow

# Key data

In €m	Q2 2016	Q2 2015 <sup>(1)</sup>	Change		HI 2016	HI 2015 <sup>(1)</sup>	Change	
Revenues	<b>6,215</b>	6,558	-5.2%	↘	<b>11,820</b>	12,140	-2.6%	↘
<i>Change like-for-like<sup>(2)</sup></i>			-3.7%	↘			-2.6%	↘
EBITDAR <sup>(3)</sup>	<b>991</b>	812	+179m	↗	<b>1,522</b>	1,036	+486m	↗
<i>Change like-for-like<sup>(2)</sup></i>			+226m	↗			+597m	↗
EBITDA <sup>(3)</sup>	<b>728</b>	557	+171m	↗	<b>994</b>	531	+463m	↗
<i>Change like-for-like<sup>(2)</sup></i>			+211m	↗			+582m	↗
Operating result	<b>317</b>	179	+138m	↗	<b>218</b>	-238	+456m	↗
<i>Change like-for-like<sup>(2)</sup></i>			+183m	↗			+580m	↗
Net result, group share	<b>41</b>	-79	+120m	↗	<b>-114</b>	-638	+524m	↗
Adjusted net result <sup>(3)</sup>	<b>78</b>	75	+3m	=	<b>-24</b>	-431	+407m	↗
Operating free cash flow <sup>(3)</sup>	<b>177</b>	311	-134m	↘	<b>373</b>	265	+108m	↗
ROCE <sup>(3,4)</sup>					<b>11.7%</b>	5.4%	+6.3pt	↗
Net debt at end of period					<b>4,042</b>	4,307 <sup>(5)</sup>	-265	↘
Adjusted net debt / EBITDAR <sup>(3,4)</sup>					<b>2.9</b>	3.4x <sup>(5)</sup>	-0.5	↘

(1) Reclassification Servair as discontinued operations


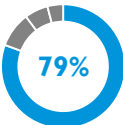

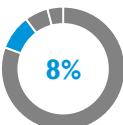

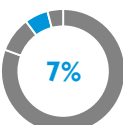

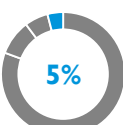
(2) Like-for-like: excluding currency. Same definition applies in rest of presentation unless otherwise stated

(3) See definition in press release

(4) Trailing 12 months; EBITDAR and ROCE excluding September 2014 pilot strike

(5) At 31 December 2015

# Contribution by business segment to Second Quarter 2016 results

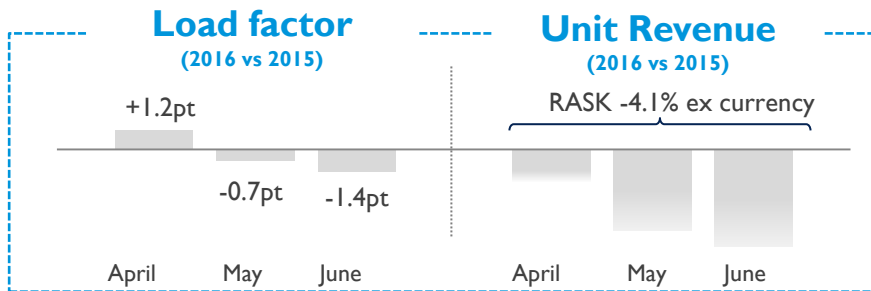
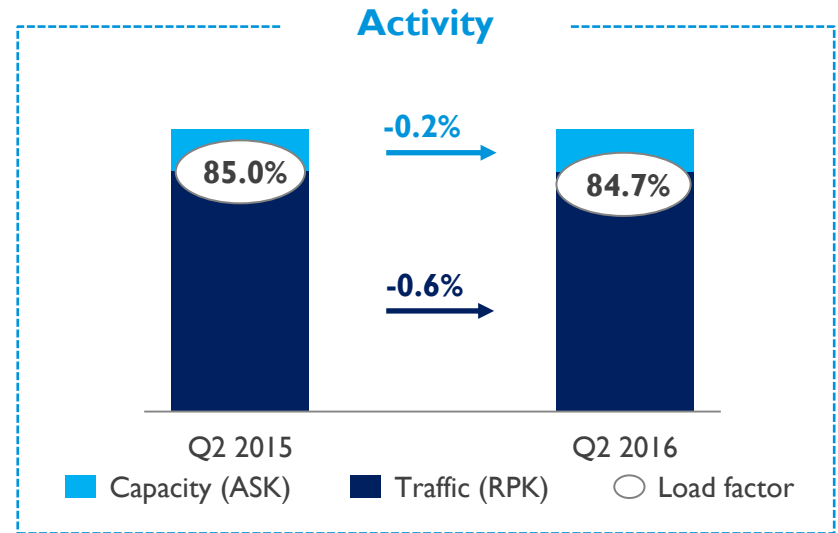
		Revenue (€bn)	Reported change <sup>(1)</sup> (%)	Change Like- for-like <sup>(1)</sup> (%)		Op. Result (€m)	Reported change <sup>(1)</sup> (%)	Change Like- for-like <sup>(1)</sup> (%)	
 Passenger network <sup>(2)</sup>		4.94	-5.8%	-4.3%	↓	337	+127	+156	↗
 Cargo		0.51	-16.1%	-14.0%	↓	-66	+12	+21	↗
 Maintenance		0.44	+9.8%	+12.9%	↗	57	+6	+9	↗
 Transavia		0.32	+6.3%	+6.3%	↗	-12	-6	0	=
Other						1	-2	-2	
<b>Total</b>		<b>6.21</b>	<b>-5.2%</b>	<b>-3.7%</b>	<b>↓</b>	<b>317</b>	<b>+138</b>	<b>+183</b>	<b>↗</b>

(1) 2015 reclassification Servair as discontinued operations

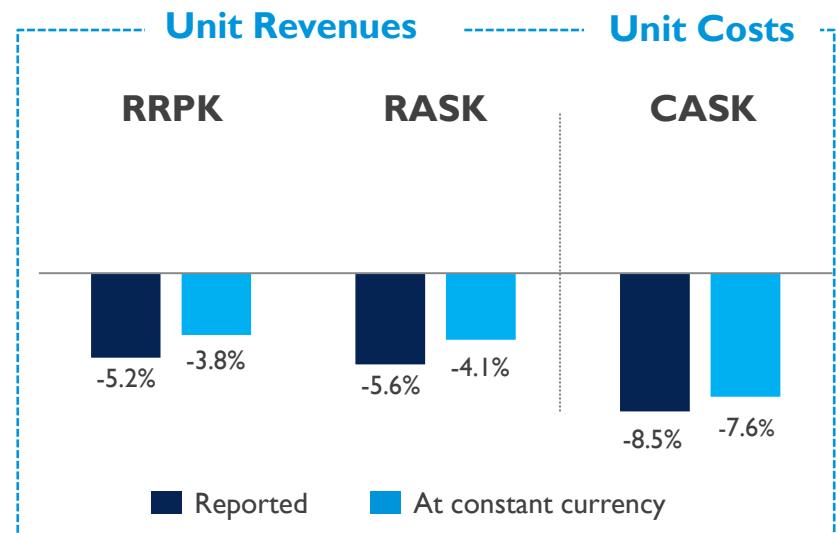
(2) Passenger network: Air France, KLM and HOP!

# Passenger network activity in Second Quarter 2016

- **Strict capacity discipline**
  - Capacity stable (-0.2%)
- **Continuous pressure on unit revenue**
  - Unit revenue down 4.1% at constant currency:
    - Long-haul down 4.7%
      - Premium: -2.0% / Economy: -5.5%
    - Medium-haul unit revenue: down 4.0%
  - Impact of Air France pilot strike estimated around € 40m
  - Increasing industry capacity leading to downward pressures during the quarter

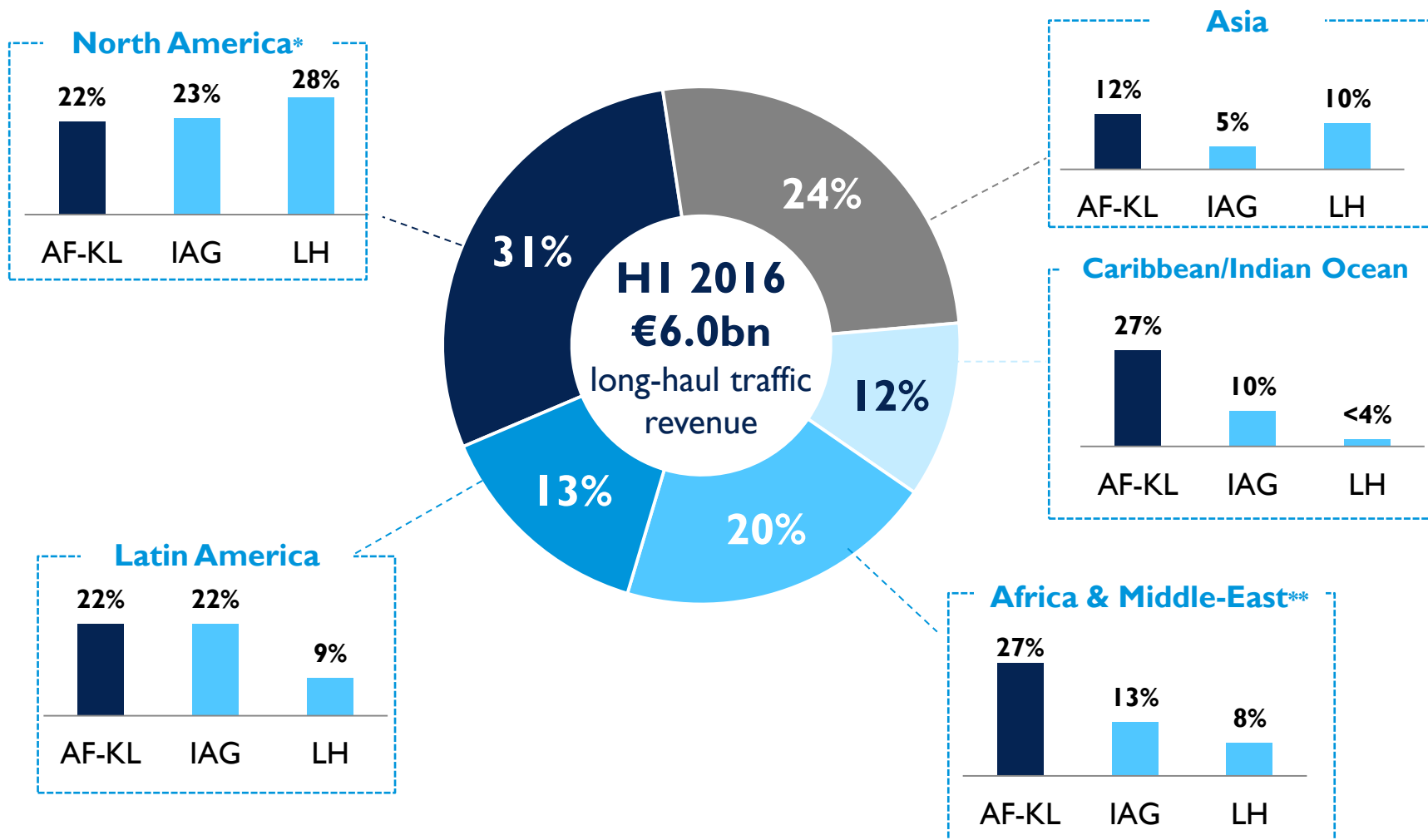


- **Strong improvement in operating result**
  - Up €156m like-for-like



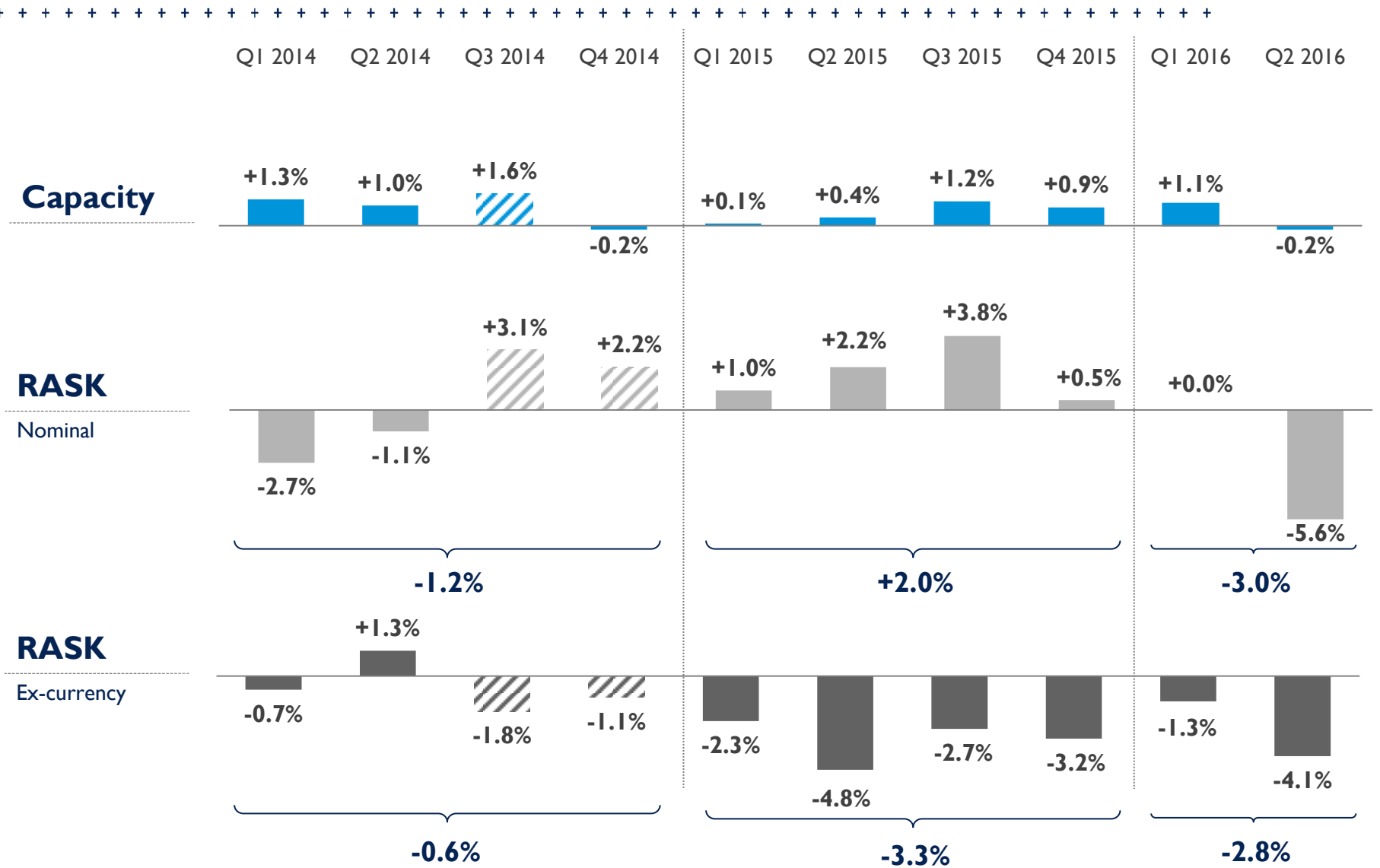
# European long-haul market leader, balanced network

HI 2016 long-haul revenue, Winter 2015 market share per long-haul region from OAG



\* Including respective US partners - \*\* Market share on Africa only

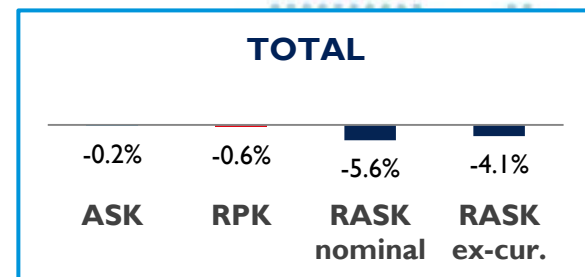
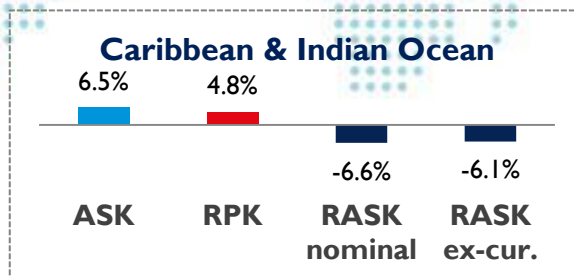
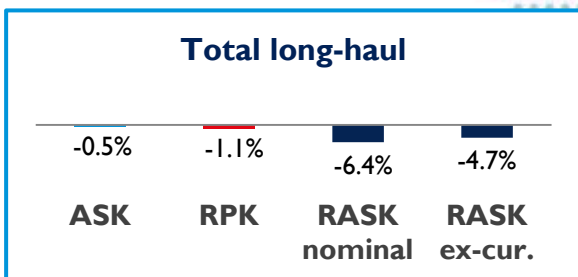
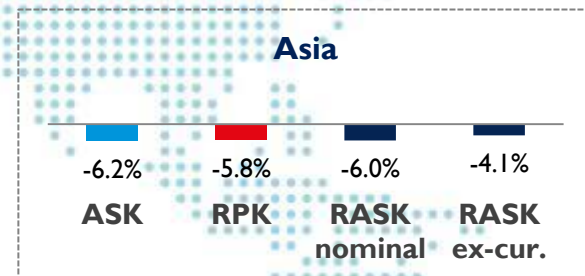
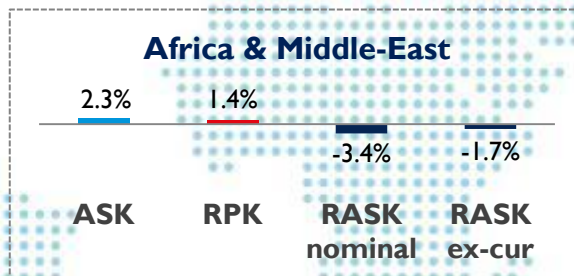
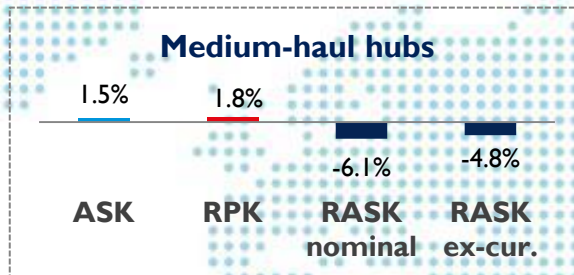
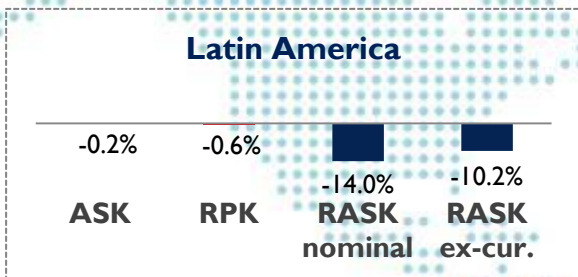
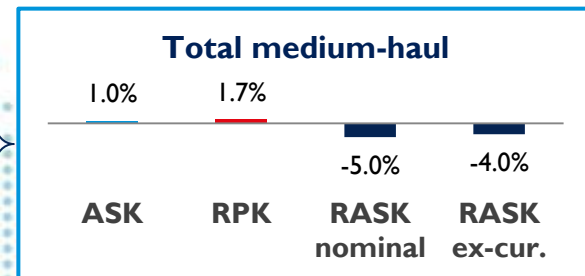
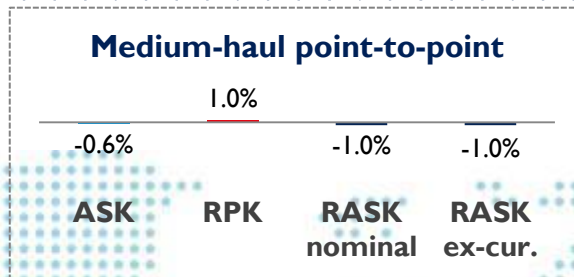
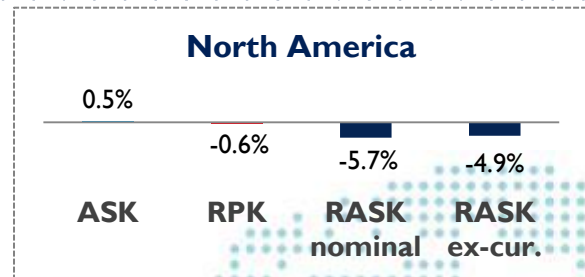
# Passenger network capacity and unit revenue by quarter



Excluding September 2014 pilot strike

NB: Passenger network only: Air France, KLM and HOP!

# Second Quarter 2016 Passenger network unit revenue by network



NB: Passenger network only: Air France, KLM and HOP!



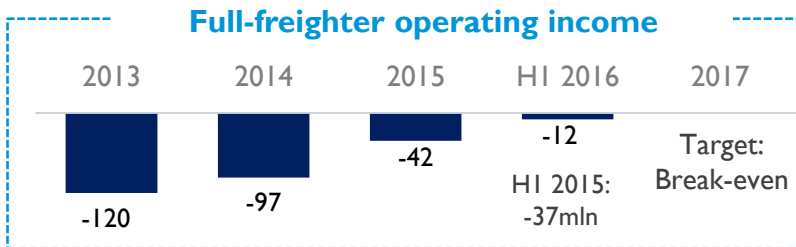
# Cargo activity in Second Quarter 2016

- Persistently weak demand

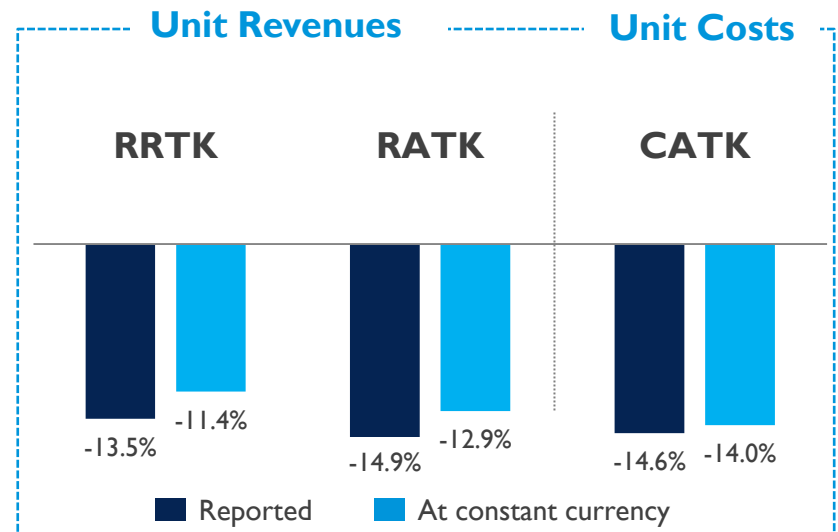
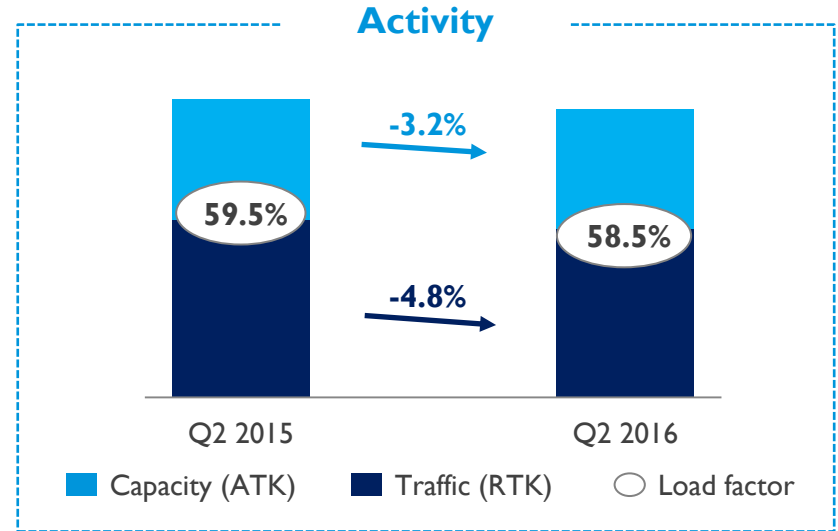
- Challenging economic environment, structural industry overcapacity
- RATK down 12.9% at constant currency

- Ongoing restructuring on track

- Ex-fuel unit costs down 5.4% at constant currency
  - Full-freighter capacity reduced by 25% vs HI 2015, down to 6 full-freighters in July 2016
  - FTE down 8.1% compared to HI 2015
  - On track to reach full freighter breakeven in 2017

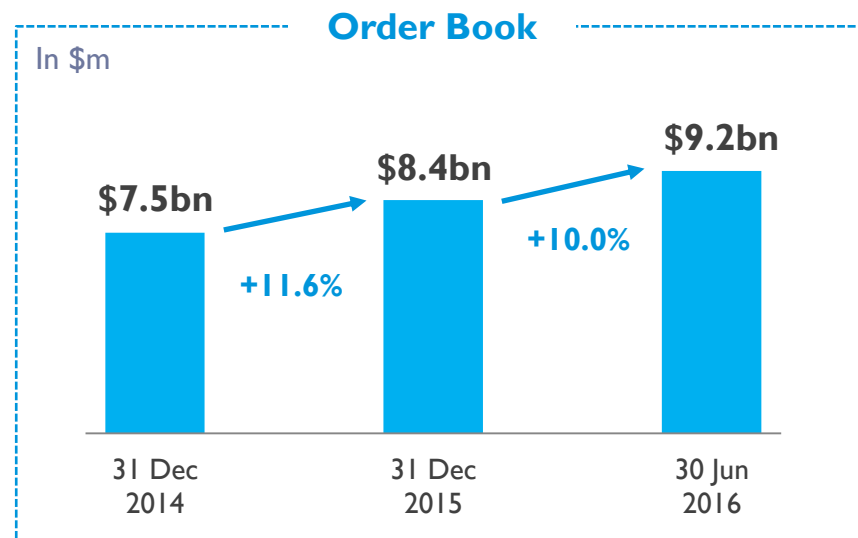


- Operating result improved by €21 m like-for-like



# Maintenance activity in Second Quarter 2016

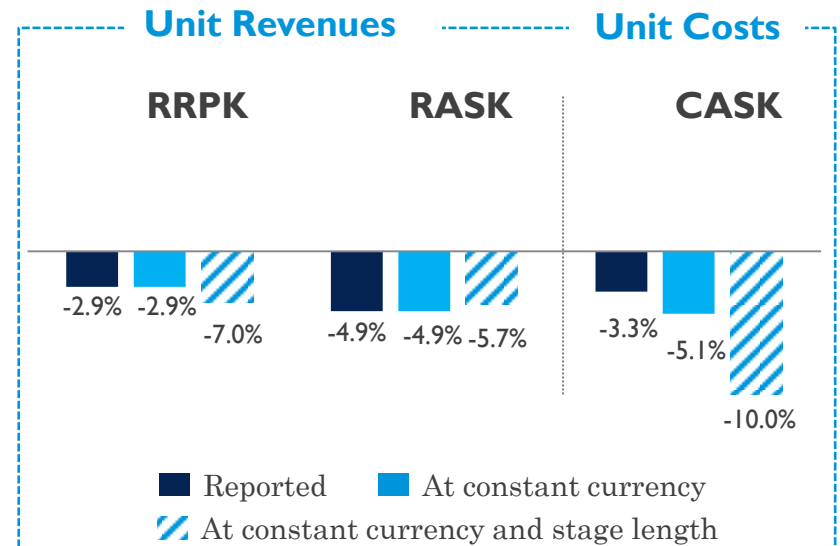
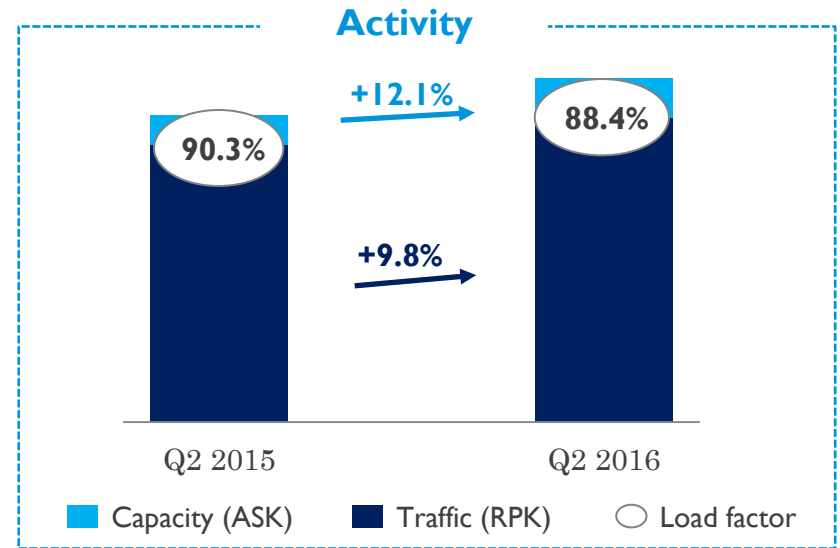
- Third party revenue up 10%, and up 12.9% like-for-like
- Further increase in the order book
  - New engine support contracts for CFM and GEnx as well as components support contracts for A350 and B777
- Operating margin above 5%
  - Change in business mix from mature contracts to new growth
  - OEM supply chain under pressure in engine business



In €m	Q2 2016	Q2 2015	Change	Like-for-like
Total revenue	<b>1,000</b>	999	+0.1%	
Third party revenue	<b>435</b>	395	+9.8%	+12.9%
Operating result	<b>57</b>	51	+6	+9
Operating margin	<b>5.7%</b>	5.1%	+0.6pt	+0.9pt

# Transavia activity in Second Quarter 2016

- 3.8 million passengers, up 22%, serving more than 100 destinations
  - Number 1 Low Cost Carrier in the Netherlands and number 2 at Paris
- Negative impact on revenues due to geopolitical unrest and intensified competition
- Accelerated ramp-up in France on track
  - Capacity up 30%
- Munich base operational since 25th March 2016
  - 4 aircraft in operation
- Operating result stable like-for-like



# Second Quarter 2016: change in operating costs

	In €m	Reported change <sup>(1)</sup>	Change at constant currency
<b>Total employee costs</b>	<b>1,862</b>	-2.7%	-2.5%
<b>Supplier costs<sup>(2)</sup> excluding fuel and purchasing of maintenance services and parts</b>	<b>1,687</b>	-3.7%	-2.1%
<b>Aircraft costs<sup>(3)</sup></b>	<b>787</b>	+5.9%	+6.4%
<b>Purchasing of maintenance services and parts</b>	<b>604</b>	+4.0%	+6.2%
<b>Other income and expenses including capitalized production</b>	<b>-209</b>	-23.7%	-10.4%
<b>Operating costs ex-fuel</b>	<b>4,730</b>	<b>+0.3%</b>	<b>+0.5%</b>
<b>Fuel</b>	<b>1,167</b>	-29.7%	-27.6%
<b>Grand total of operating costs</b>	<b>5,897</b>	<b>-7.5%</b>	<b>-6.7%</b>
<i>Capacity (EASK)</i>			+0.3%

(1) 2015 reclassification Servair as discontinued operations

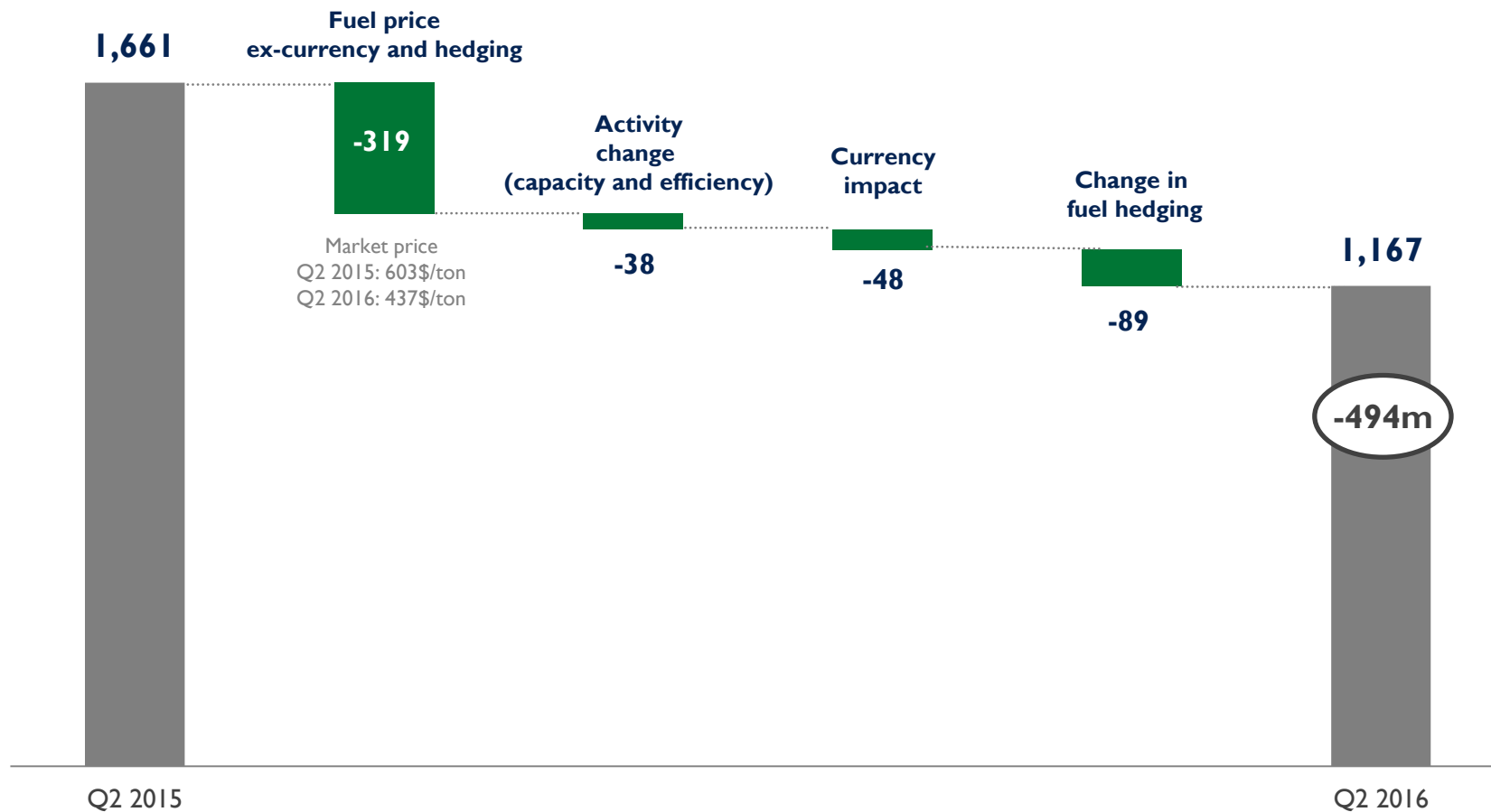
(2) Catering, handling, commercial and distribution charges, landing fees and air-route charges, other external expenses, excluding temps

(3) Chartering (capacity purchases), aircraft operating leases, amortization, depreciation and provisions

# Second Quarter 2016 fuel bill

## Fuel bill

In €m



# Update on 2016 fuel bill

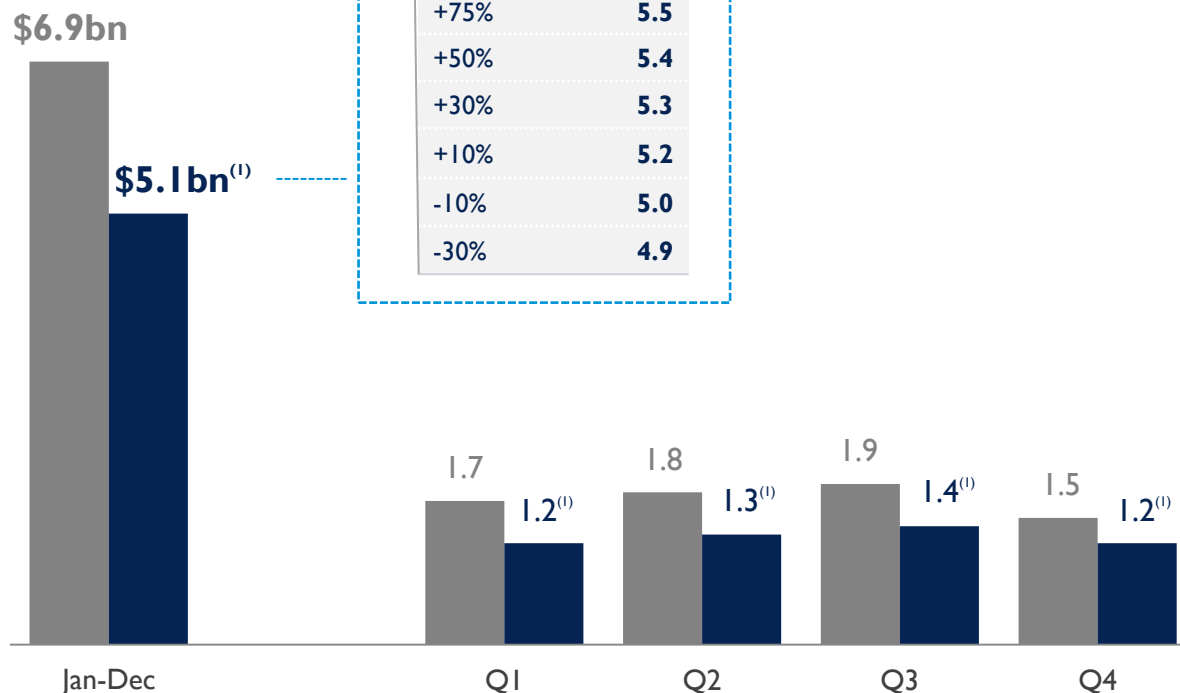
## Fuel bill after hedging

In \$bn

2015:  
fuel bill \$6.9bn/€6.2bn

2016:  
fuel bill \$5.1bn/€4.6bn<sup>(1)</sup>

2017:  
fuel bill \$4.9bn/€4.4bn<sup>(2)</sup>



### 2016 sensitivity

% change in \$ per bbl

+100%	5.7
+75%	5.5
+50%	5.4
+30%	5.3
+10%	5.2
-10%	5.0
-30%	4.9

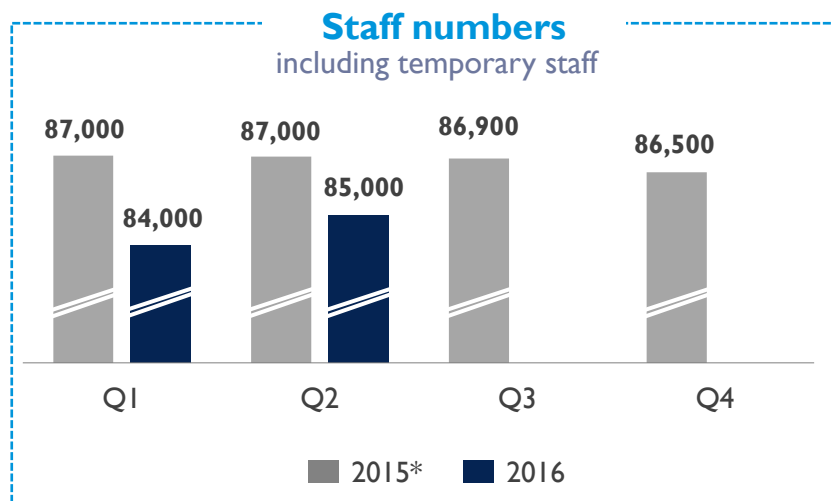
2016 MARKET PRICE	Brent (\$ per bbl) <sup>(1)</sup>	45	35	44	48	50
	Jet fuel (\$ per metric ton) <sup>(1)</sup>	422	341	413	448	462
% of consumption already hedged		75%			80%	81%

(1) Based on forward curve at July 15<sup>th</sup> 2016. Sensitivity computation based on July-December 2016 fuel price, assuming constant crack spread between Brent and Jet Fuel

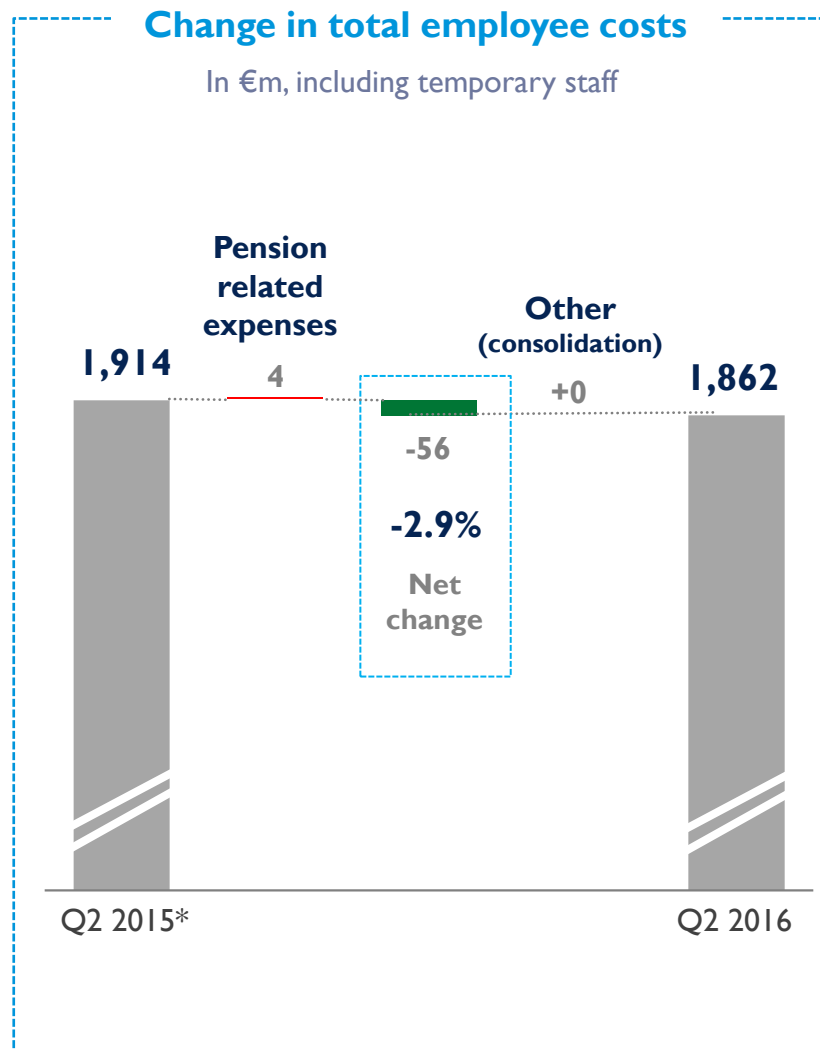
(2) Assuming average exchange rate of 1.11 US dollar per euro for Jul-December year 2016 and Full Year 2017

# Update on employee costs

- Headcount down 2,000 FTE's



- ▶ Decrease as result of restructuring in both Air France and KLM
- ▶ Employee costs down 2.7%
- ▶ Net change excluding profit sharing: -3.6%



\* 2015 reclassification Servair as discontinued operations

# Social agenda

## ● Air France

- ▶ Voluntary departure plans (VDP): reduction target of 1,405 positions for Ground staff between Sep. 2016 and March 2017, and 200 positions for Cabin crew in the 4th Quarter 2016
- ▶ Current CLA negotiations
  - Cabin: Strike notice by two unions from July 27 to August 2 despite management new proposals about the CLA renewal (current CLA expires on 31 October 2016). Negotiations will continue.
  - Cockpit: Agreement to suspend Transform measures until 1 November 2016. Relaunching the negotiation process in early November for an agreement improving competitiveness and enabling growth.

## ● KLM

- ▶ Perform 2020: new CLA's and implementation of High Performance Organization in 2016
- ▶ Current CLA negotiations
  - Ground: Final and integral proposal by KLM have not led to a deal yet. Announcement to take industrial action by one union not supported by other unions. Negotiations will continue.
  - Cabin: Discussion with cabin unions regarding adjustment of the pension scheme. CLA negotiations will start after this has been solved. Discussion on plan for crew composition launched.
  - Cockpit: current CLA negotiated in 2015 and valid until January 1, 2018. Discussion with cockpit union regarding the funding agreement of the pension scheme.

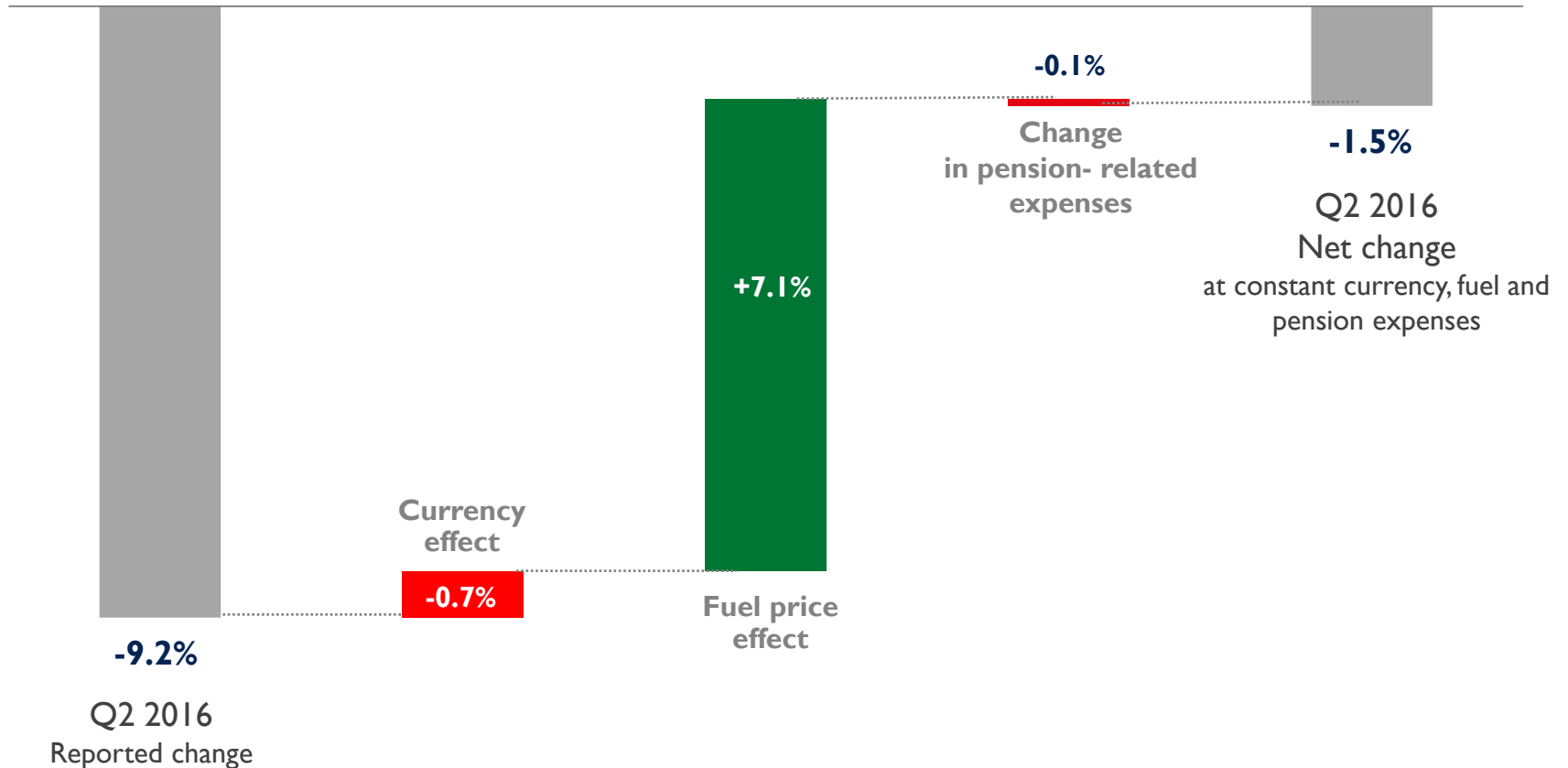


# Second Quarter 2016 unit cost at constant currency, fuel and pension expenses

Net Costs: €5,203m (-8.8%)

Capacity in EASK: 86,234m (+0.3%)

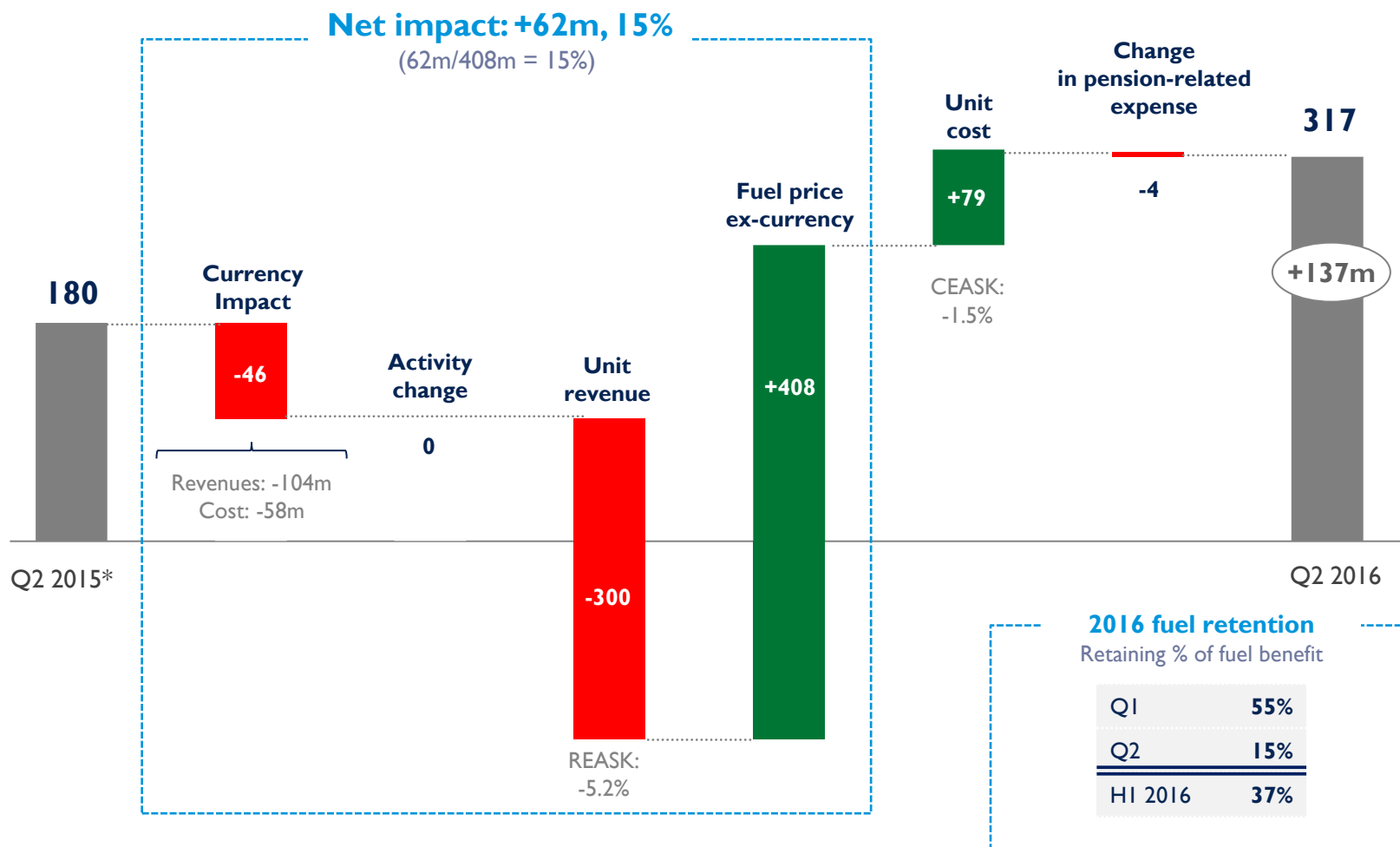
Unit cost per Equivalent Available-Seat Kilometer (EASK): 6.03 euro cents



# Operating result: retaining 15% of Q2 2016 fuel benefit

## Change in operating result

In €m

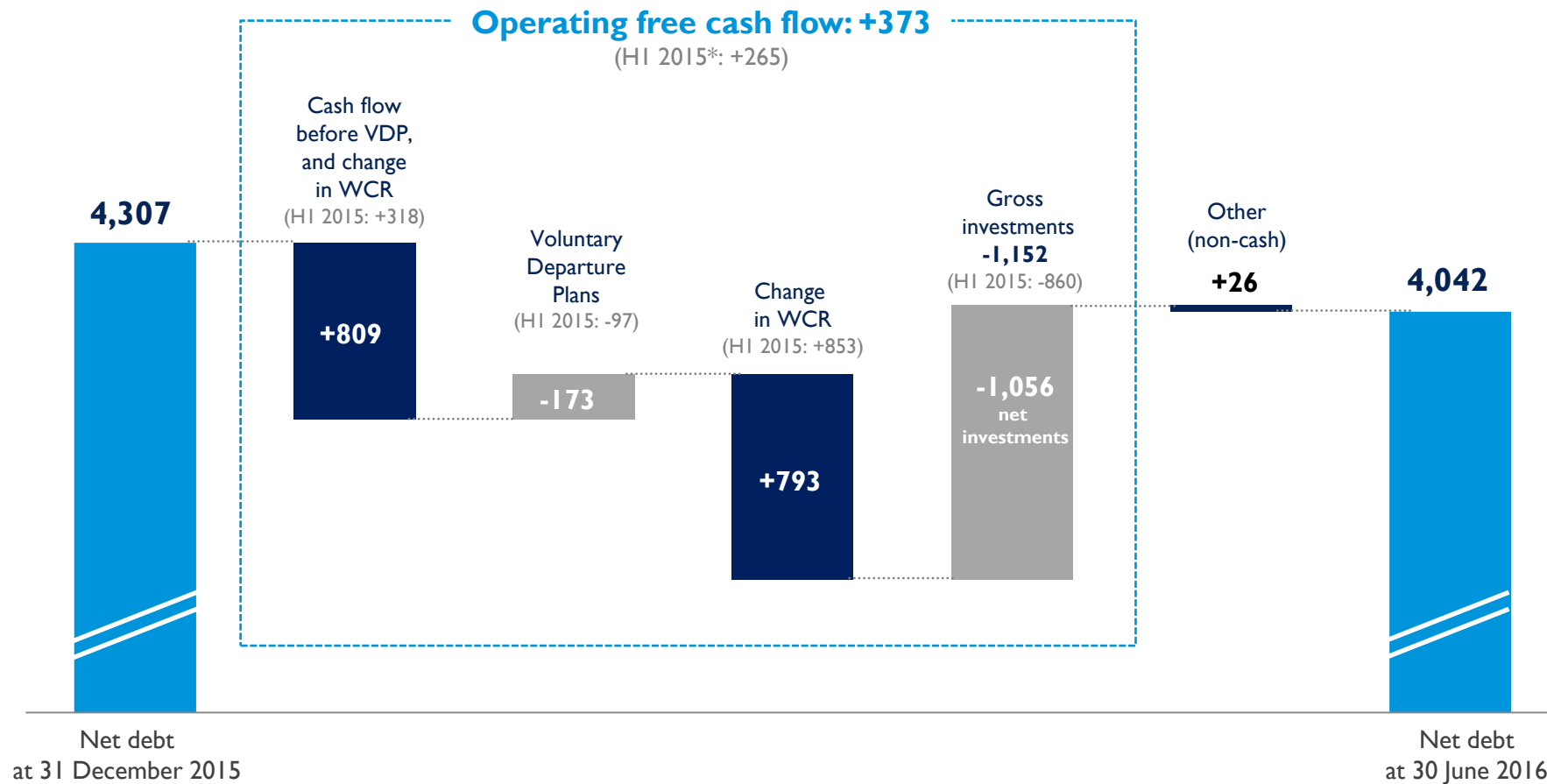


\* 2015 reclassification Servair as discontinued operations

# First Half 2016: further reduction in net debt

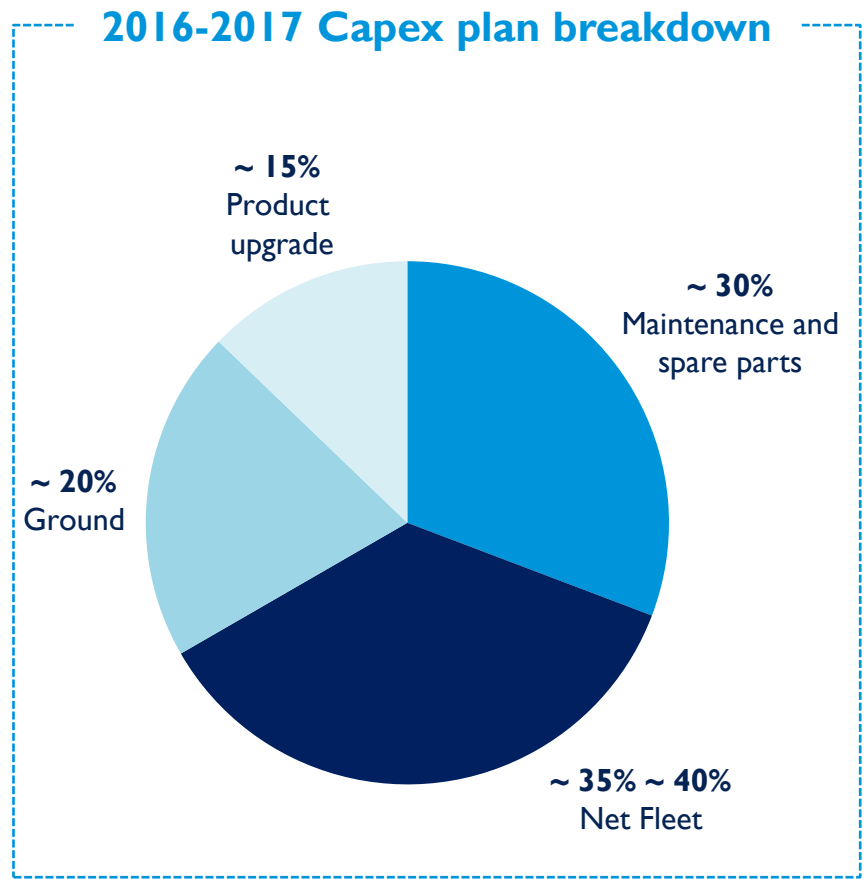
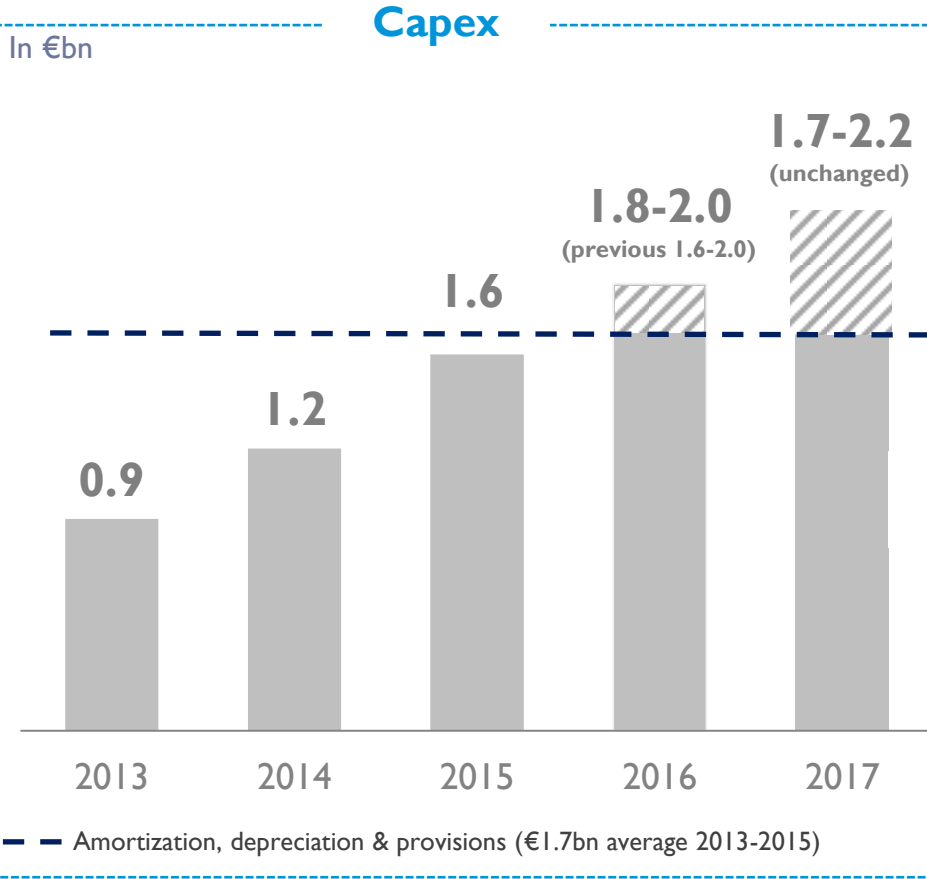
## Analysis of change in net debt

In €m



\* 2015 reclassification Servair as discontinued operations

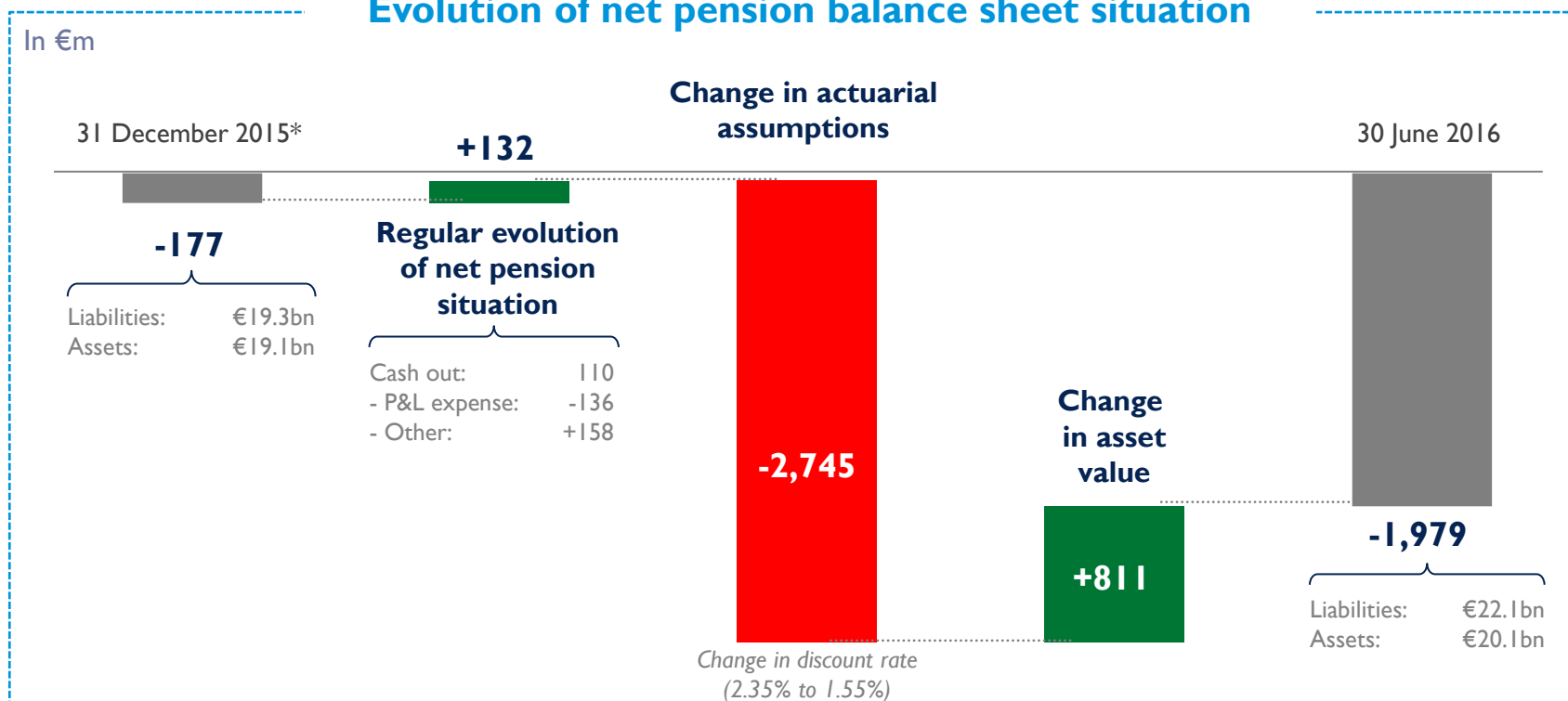
# Disciplined investment growth



- **Guidance 2016:** free operating cash flow generation after disposals maintained between €0.6bn and €1.0bn.
  - Flexibility: capex (between €1.8bn-€2.0bn including buying back of aircraft under operating lease) and disposals (between €0.3bn-€0.6bn)

# Pension update

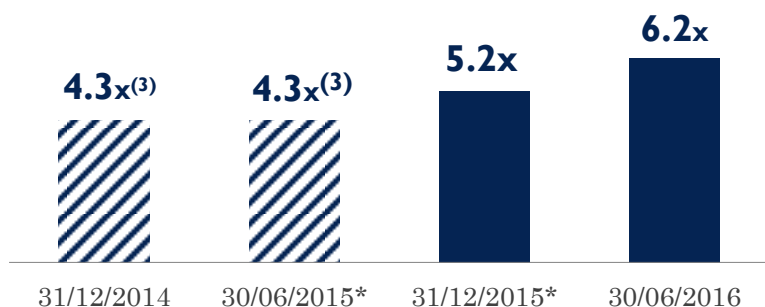
## Evolution of net pension balance sheet situation



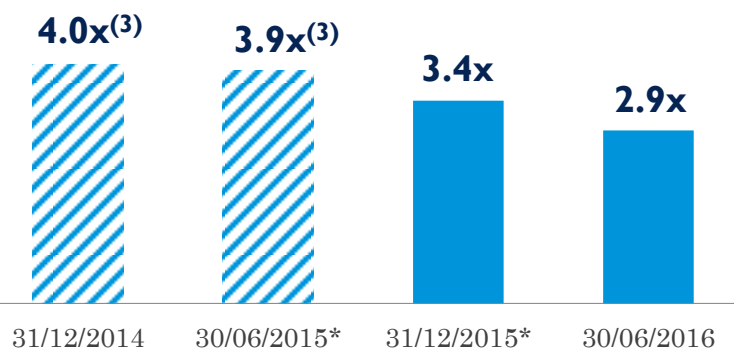
- Financing agreement regarding KLM pilots pension scheme
  - Current funding agreement could result in a significant additional contribution to reach required coverage ratio to be able to grant indexation
  - Intention of the Group is to modify this funding agreement

# Financial ratios at 30 June 2016

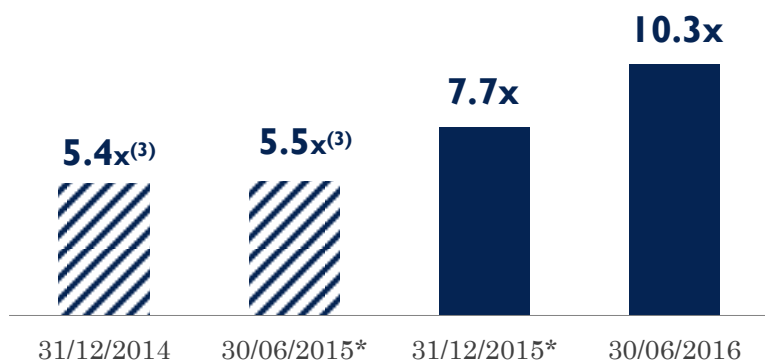
## EBITDAR/adjusted net interest costs<sup>(1)</sup>



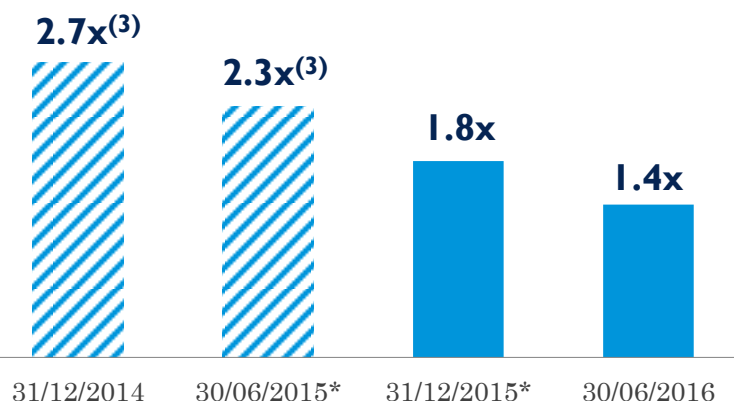
## Adjusted net debt<sup>(2)</sup>/EBITDAR



## EBITDA/net interest costs



## Net debt/EBITDA




\* Servair reclassified as discontinued operation

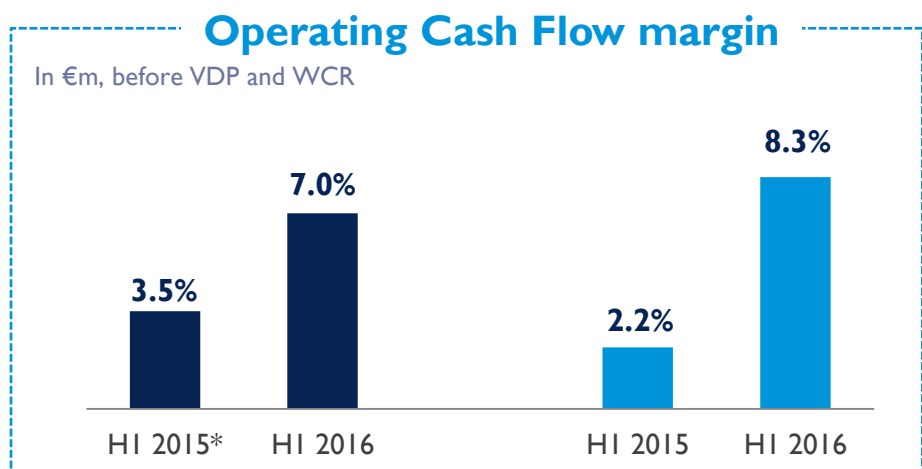
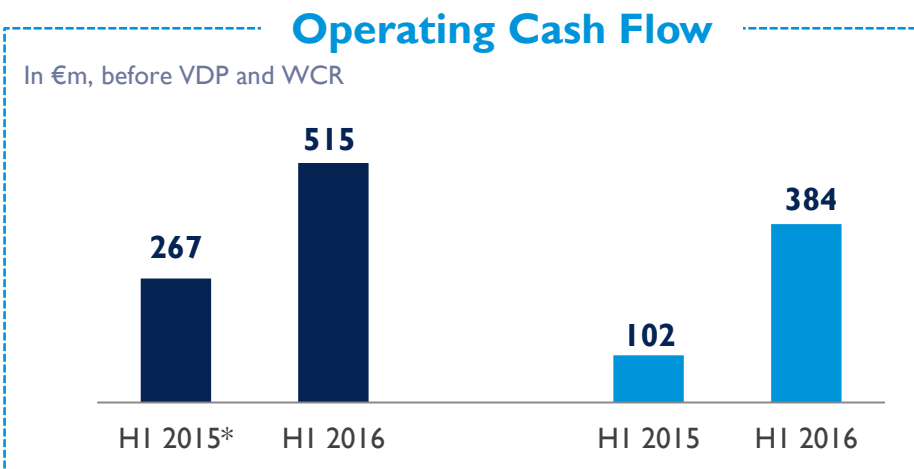
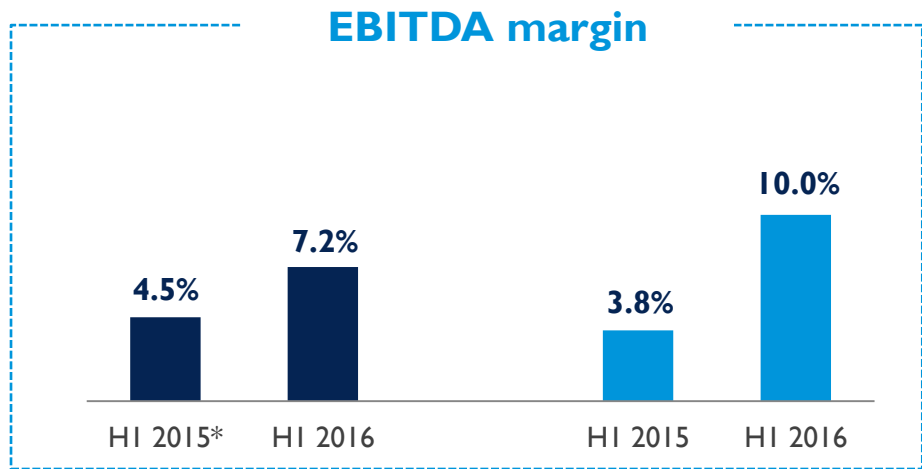
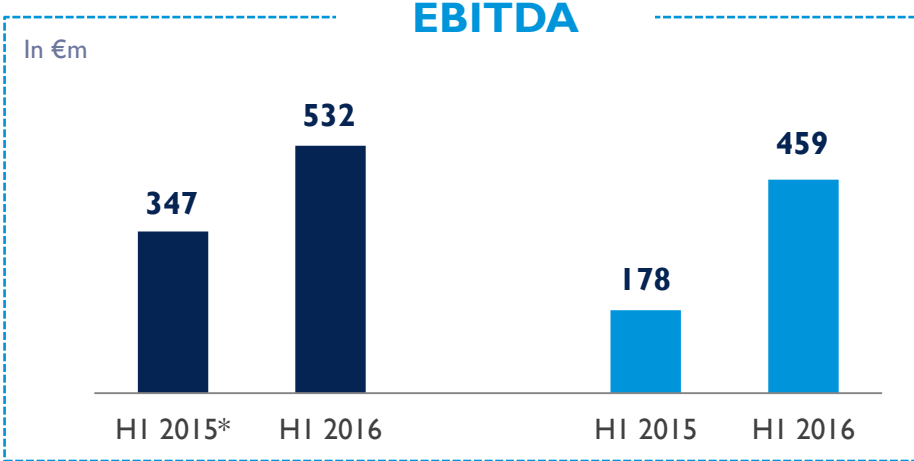
(1) Adjusted by the portion of financial costs within operating leases (34%)

(2) Adjusted for the capitalization of operating leases (7x yearly expense)

(3) Excluding 2014 strike impact on EBITDA(R). Reported adjusted net debt / EBITDAR of 4.7x at 31 December 2014 and 4.5x at 30 June 2015. Reported net debt / EBITDA of 3.4x at 31 December 2014 and 2.9x at 30 June 2015

 Excluding 2014 strike

# First Half 2016 EBITDA and operating cash flow by airline



\* 2015 reclassification Servair as discontinued operations

# Perform 2020: ongoing progress on Perform 2020

## PERFORM 2020

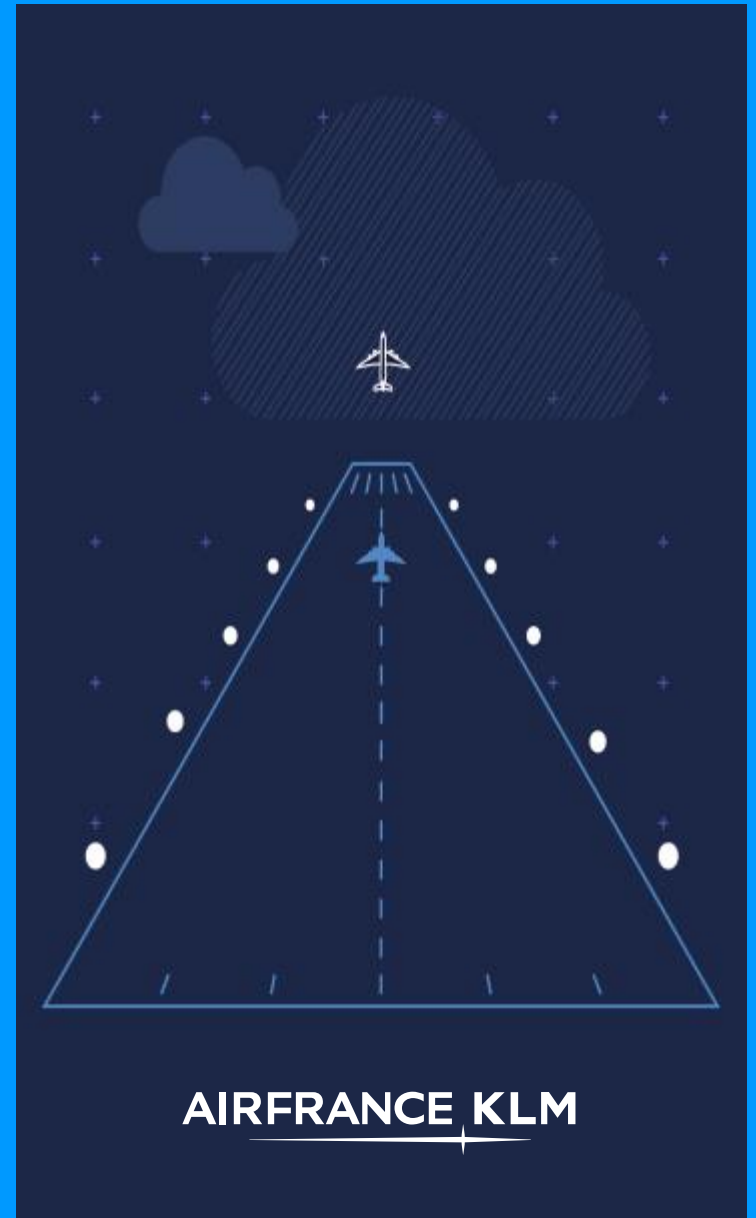


- Continuation of product and service upgrade
- Profitable growth of maintenance activity
- Ongoing strong development of Transavia

- Strict capacity discipline
- Restructuring of point to point and cargo full-freighter activities
- Unit cost reduction around 1.0% in 2016
- Strong free cash flow generation and deleveraging



# OUTLOOK



# Outlook for 2016

- High level of uncertainty regarding unit revenue and fuel price due to geopolitical, economical and airline industry capacity environment, and special concern about France as a destination
- Fuel bill savings in the coming quarters expected to be more than offset by downward pressure on unit revenue and negative currency impacts
- Continued unit cost<sup>(1)</sup> reduction, around 1% in 2016
- Strong capacity discipline<sup>(2)</sup> maintained
  - Passenger network: around +1%
  - Transavia: around +15%
  - Cargo: around -4%
- Free operating cash flow generation after disposals maintained between €0.6bn and €1.0bn
  - Operating cash flow depending on unit revenue development
  - Capex plan (between €1.8- € 2.0bn, including buying back aircraft under operating lease) and disposals (between €0.3- € 0.6bn) will be adjusted accordingly
- Further significant net debt reduction

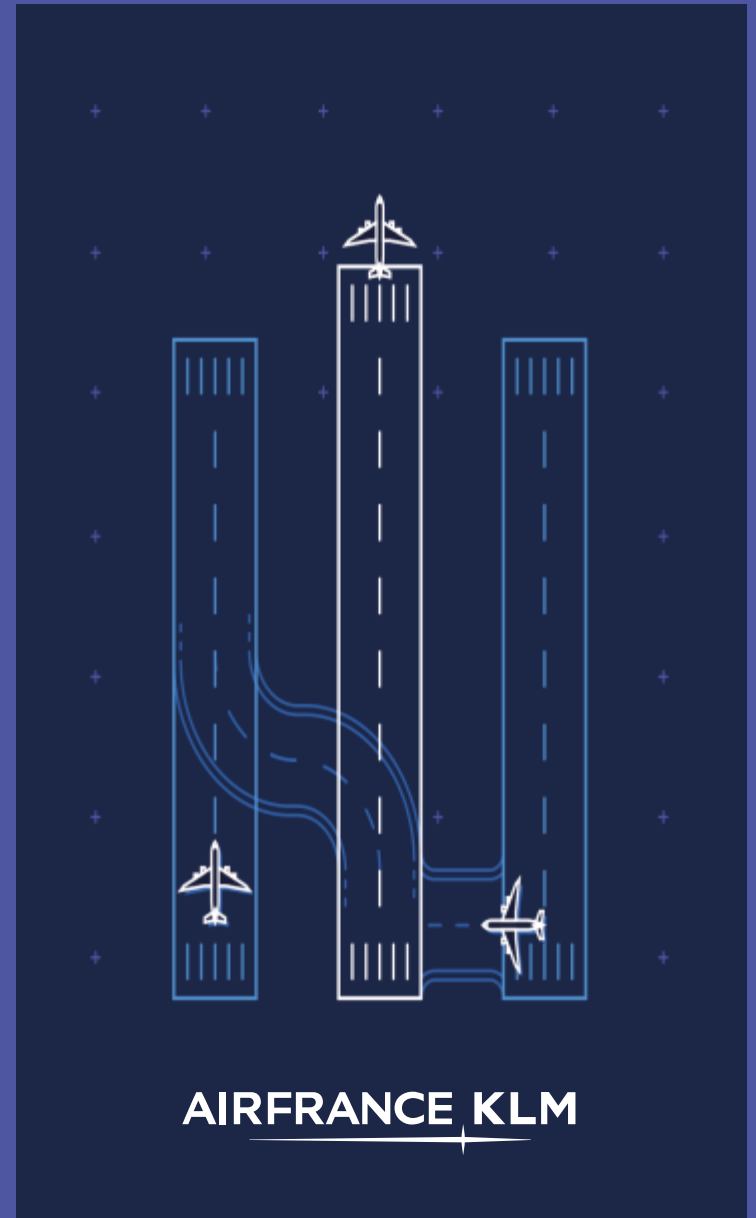
(1) On a constant currency, fuel price and pension costs

(2) Capacity growth in % ASK Full Year 2016 vs Full Year 2015



# Q & A session

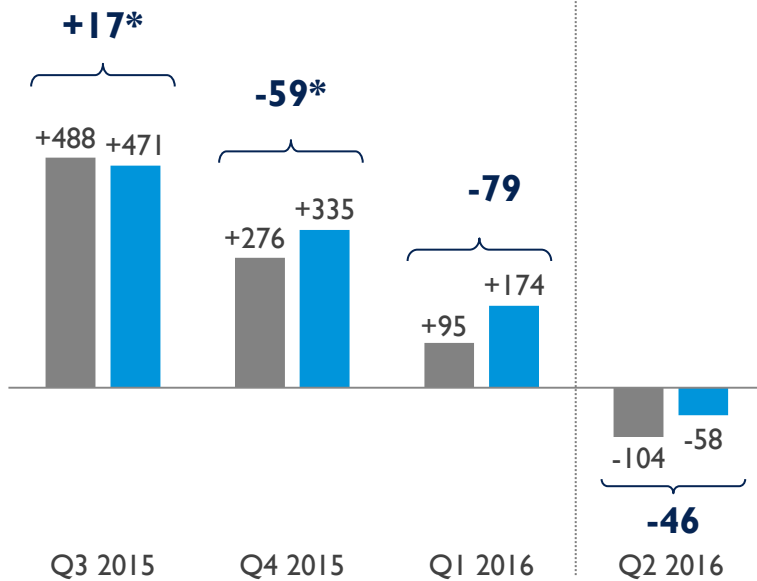
# APPENDIX



# Second Quarter: negative currency impact on the operating result

## Currency impact on revenues and costs

In €m



■ Currency impact on revenues

■ Currency impact on costs, including hedging

-XX Currency impact on operating result

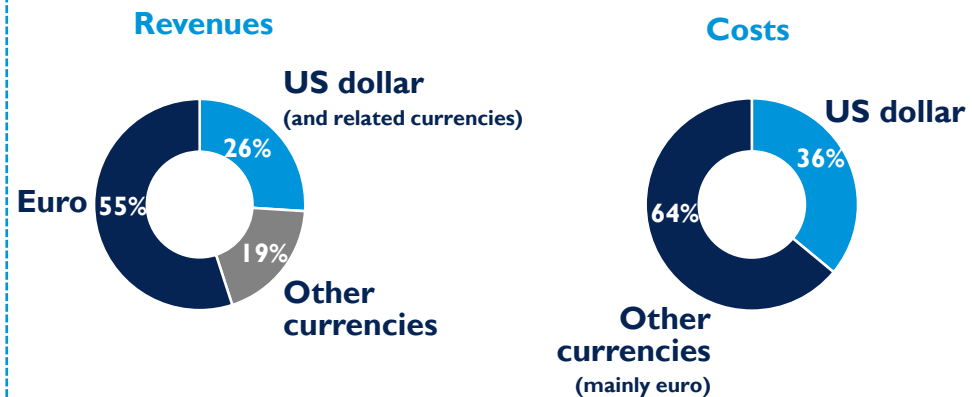
## GBP exposure

FY 2016 exposure

- Group exposure GBP
  - Long approximately GBP 600m (revenues only)
  - Hedging one-year rolling 40%
- Estimated negative FX impacted post-Brexit around EUR 25m for FY 2016

## Revenues and costs per currency

FY 2015

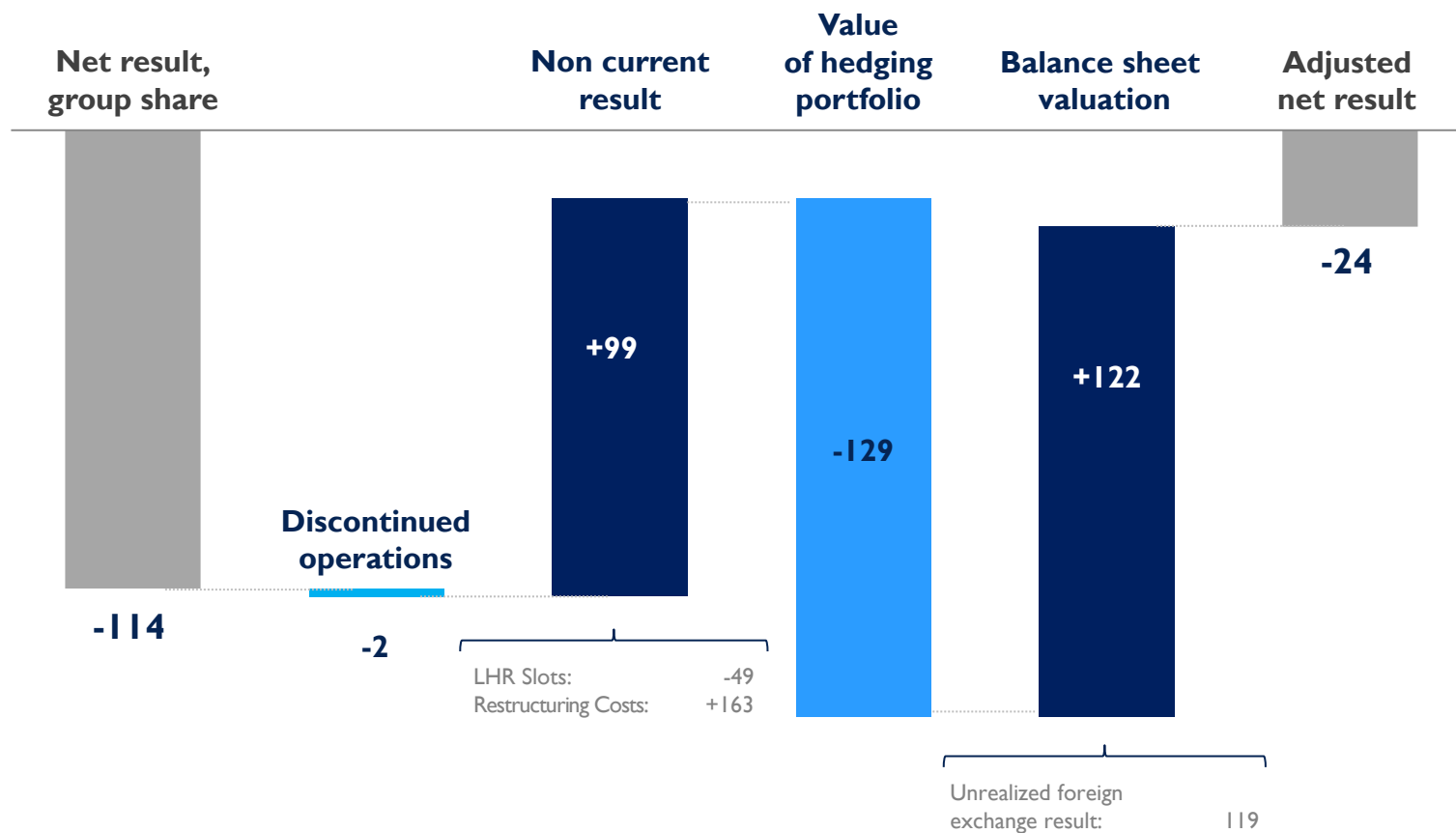


\* Currency impact calculated on a strike adjusted base




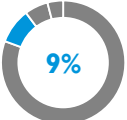

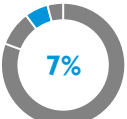

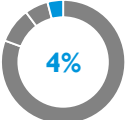
# First Half 2016: adjusted net result

## Calculation of First Half 2016 adjusted net result

In €m

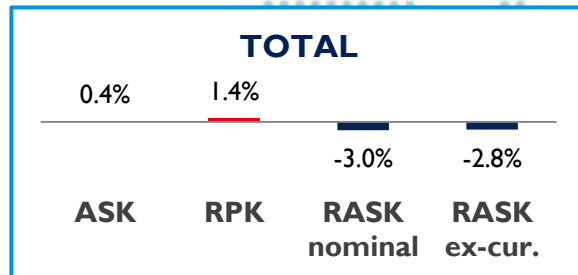
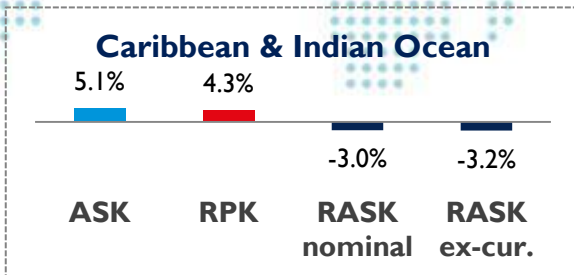
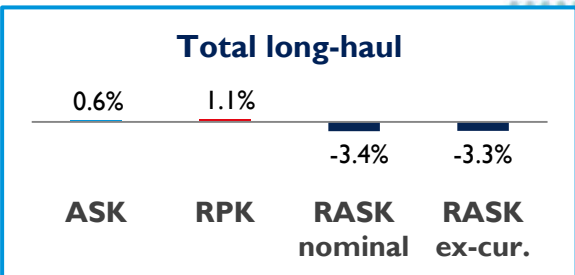
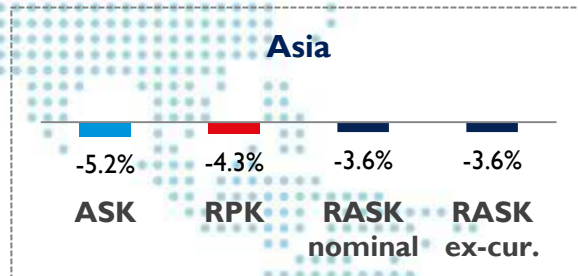
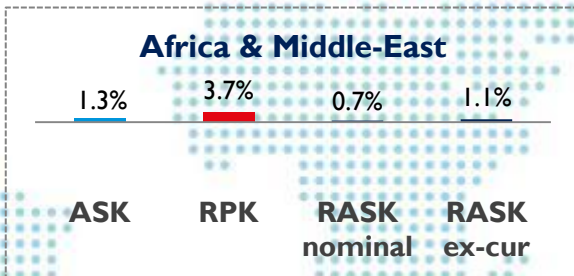
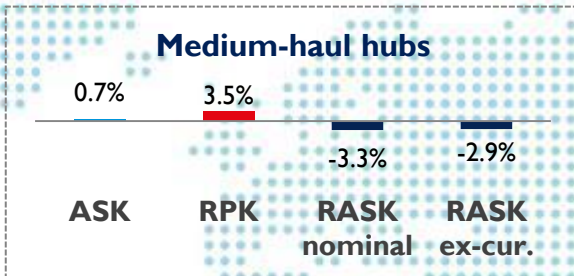
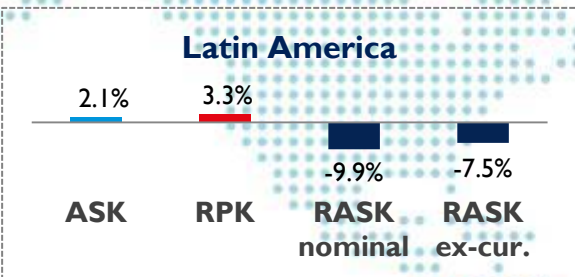
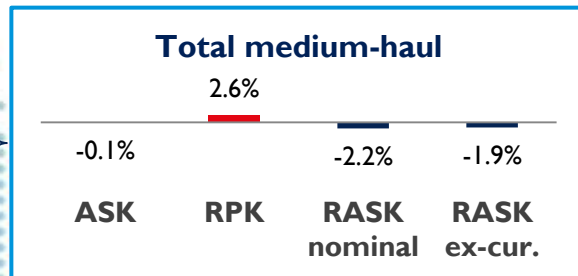
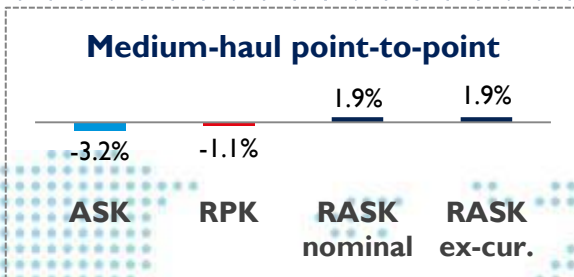
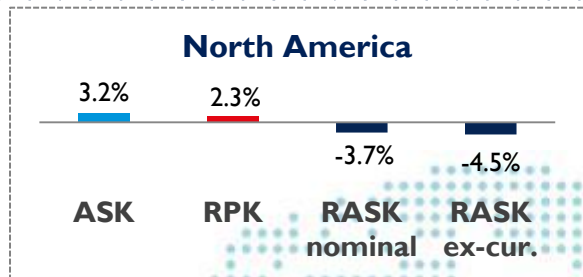


# Contribution by business segment to First Half 2016 results

		Revenue (€bn)	Reported change <sup>(1)</sup> (%)	Change Like- for-like <sup>(1)</sup> (%)		Op. Result (€m)	Reported change <sup>(1)</sup> (%)	Change Like- for-like <sup>(1)</sup> (%)	
 Passenger network <sup>(1)</sup>		9.41	-2.6%	-2.4%	↘	319	+431	+531	↗
 Cargo		1.04	-15.7%	-15.5%	↘	-116	+25	+38	↗
 Maintenance		0.87	+11.6%	+9.9%	↗	95	+9	+9	↗
 Transavia		0.48	+7.3%	+7.3%	↗	-75	+0	+11	↗
Other						-5	-10	-8	
<b>Total</b>		<b>11.82</b>	<b>-2.6%</b>	<b>-2.6%</b>	↘	<b>218</b>	<b>+456</b>	<b>+580</b>	↗

(1) 2015 reclassification Servair as discontinued operations  
 (2) Passenger network: Air France, KLM and HOP!

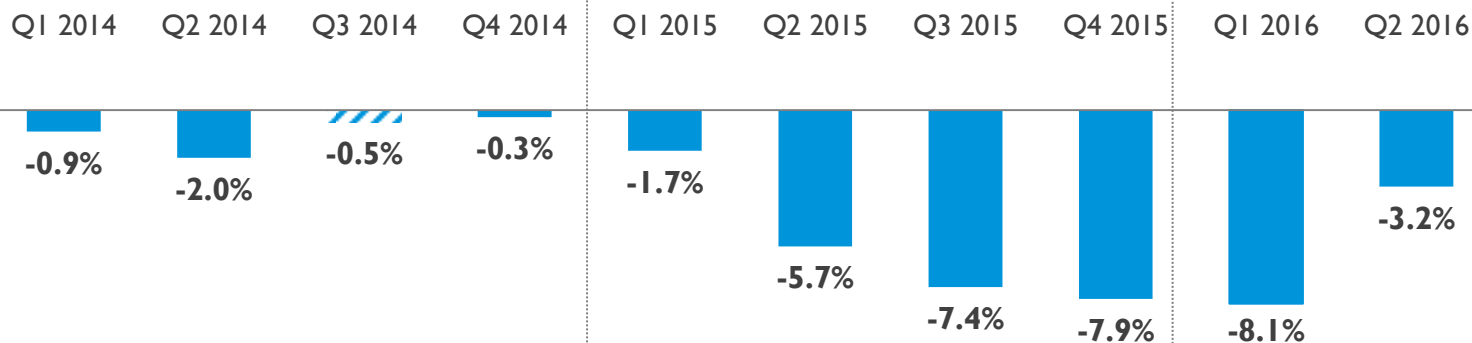
# First Half 2016 Passenger network unit revenue by network





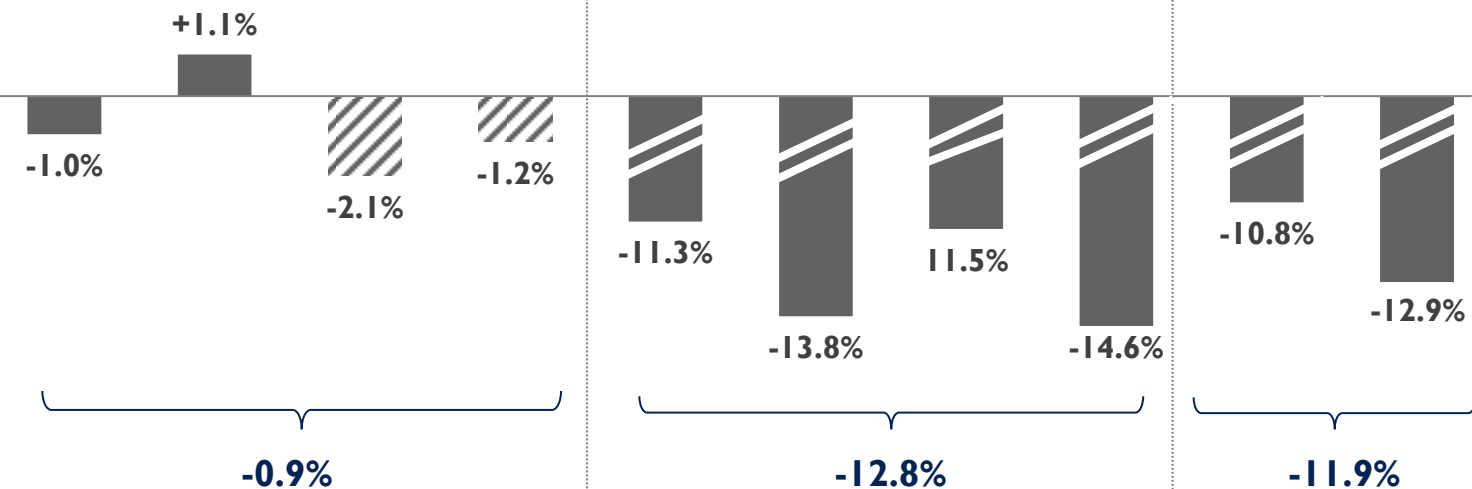
# Cargo capacity and unit revenue by quarter

## Capacity



## RATK

Ex-currency



Excluding September 2014 pilot strike

# First Half 2016: change in operating costs

	In €m	Reported change <sup>(1)</sup>	Change at constant currency
 <b>Total employee costs</b>	<b>3,705</b>	-1.0%	-0.9%
 <b>Supplier costs<sup>(2)</sup> excluding fuel and purchasing of maintenance services and parts</b>	<b>3,295</b>	-1.8%	-1.2%
 <b>Aircraft costs<sup>(3)</sup></b>	<b>1,519</b>	+1.9%	+0.8%
 <b>Purchasing of maintenance services and parts</b>	<b>1,246</b>	+7.4%	+6.1%
 <b>Other income and expenses including capitalized production</b>	<b>-427</b>	-17.4%	-5.8%
<b>Operating costs ex-fuel</b>	<b>9,338</b>	<b>+1.1%</b>	<b>+0.4%</b>
 <b>Fuel</b>	<b>2,263</b>	-28.0%	-29.1%
<b>Grand total of operating costs</b>	<b>11,601</b>	<b>-6.3%</b>	<b>-7.1%</b>
<i>Capacity (EASK)</i>			+0.3%

(1) 2015 reclassification Servair as discontinued operations

(2) Catering, handling, commercial and distribution charges, landing fees and air-route charges, other external expenses, excluding temps

(3) Chartering (capacity purchases), aircraft operating leases, amortization, depreciation and provisions

# Other Businesses: Servair

## Reclassified as discontinued operations as at 1 January 2016 according to IFRS 5

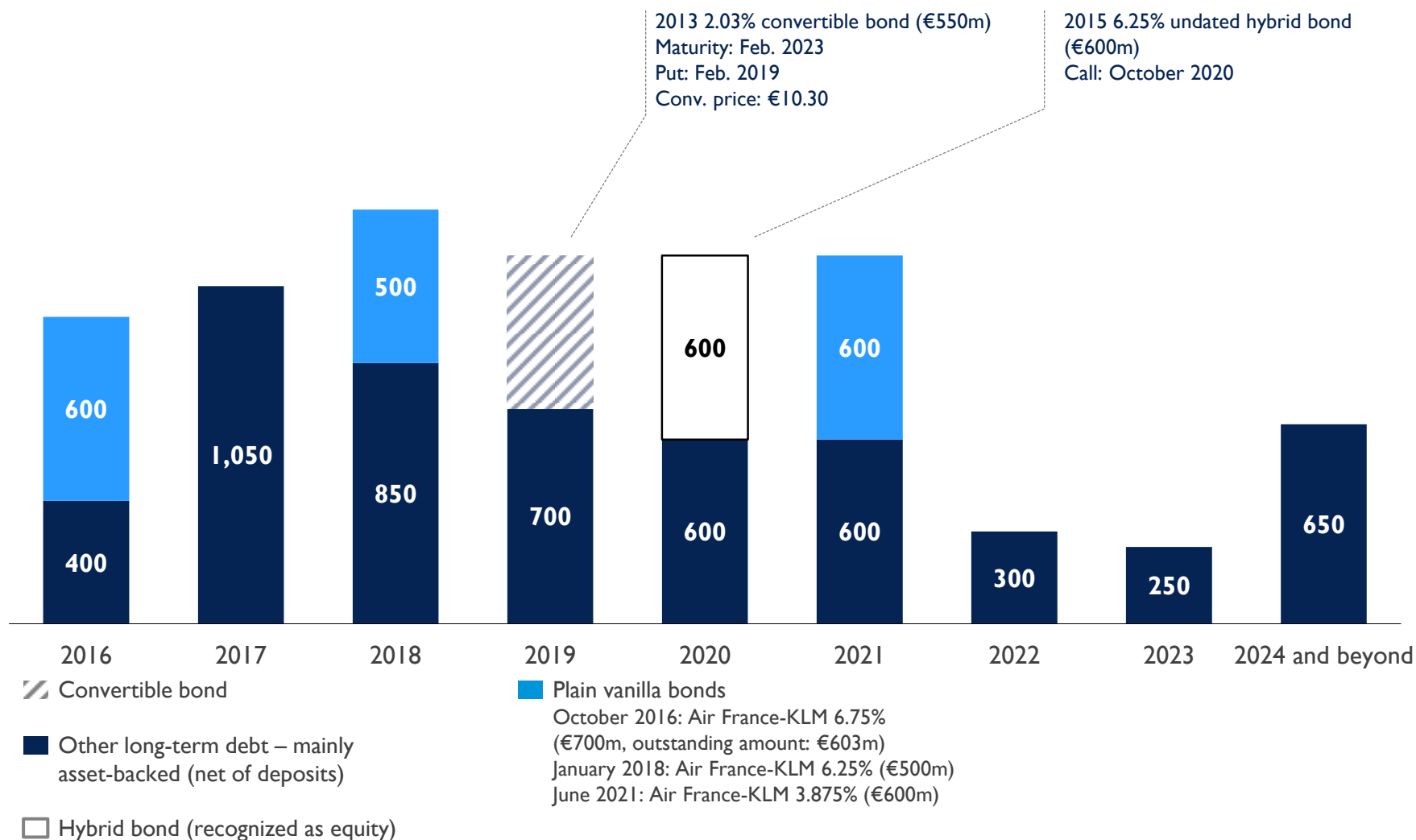
- Air France has entered into exclusive discussions with HNA for the sale of 49.99% of Servair and the transfer of the latter's operational control, for an enterprise value of 475 million euros (on a 100% basis)
- The deal is subject to HNA's acquisition of gategroup and is expected to be finalized before fiscal year end 2016



Servair	HI 2016	HI 2015	Variation
Total revenue	<b>398</b>	364	+9.3%
Third party revenue	<b>195</b>	158	+23.4%
EBITDA	<b>15</b>	17	-2
Operating result	<b>10</b>	6	+4

Servair	FY 2015	FY 2014	Variation
Total revenue	<b>797</b>	723	+10.2%
Third party revenue	<b>370</b>	306	+20.9%
EBITDA	<b>60</b>	41	+19
Operating result	<b>36</b>	19	+17

# Debt reimbursement profile at 30 June 2016<sup>(1)</sup>



(1) In € million, net of deposits on financial leases and excluding KLM perpetual debt (€617m)