

# THIRD QUARTER 2016 RESULTS

3 November 2016



AIRFRANCE KLM

# Highlights of the Third Quarter 2016

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## Environment

- Strong increase in airline industry capacity
  - Terrorist attacks in Europe resulting in weak local flows to France
  - High level of geopolitical uncertainties
  - Economic environment not improving in several key markets
  - Steep decrease in fuel bill compared to last year
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## Operations

- Passenger network: strict capacity discipline, increasing pressure on unit revenues
  - Cargo: continuing pressure on unit revenues; completing full freighter restructuring
  - Maintenance: strong increase in external revenues
  - Transavia: continuous development, improvement in operating result
- 

## Financial highlights

- Revenues decreased by 4.1% like-for-like
- Impact Air France cabin crew strike estimated around 90 million euros
- Ex-fuel unit costs down 0.2% at constant currency and pension costs, down 1.0% excluding strike
- Fuel bill savings during the quarter more than offset by downward pressure on unit revenues and negative currency impacts

# Key data

In €m	Q3 2016	Q3 2015 <sup>(1)</sup>	Change		9M 2016	9M 2015 <sup>(1)</sup>	Change	
Revenues	<b>6,938</b>	7,308	-5.1%	↘	<b>18,758</b>	19,447	-3.5%	↘
<i>Change like-for-like<sup>(2)</sup></i>			-4.1%	↘			-3.1%	↘
EBITDAR <sup>(3)</sup>	<b>1,419</b>	1,581	-162m	↘	<b>2,941</b>	2,617	+324m	↗
<i>Change like-for-like<sup>(2)</sup></i>			-72m	↘			+526m	↗
EBITDA <sup>(3)</sup>	<b>1,149</b>	1,323	-174m	↘	<b>2,143</b>	1,855	+288m	↗
<i>Change like-for-like<sup>(2)</sup></i>			-84m	↘			+497m	↗
Operating result	<b>737</b>	880	-143m	↘	<b>955</b>	643	+312m	↗
<i>Change like-for-like<sup>(2)</sup></i>			-49m	↘			+531m	↗
Net result, group share	<b>544</b>	481	+63m	↗	<b>430</b>	-158	+588m	↗
Adjusted net result <sup>(3)</sup>	<b>521</b>	612	-91m	↘	<b>497</b>	181	+316m	↗
Operating free cash flow <sup>(3)</sup>	<b>-123</b>	257	-380m	↘	<b>250</b>	522	-272m	↘
ROCE <sup>(3,4)</sup>					<b>9.9%</b>	7.1%	+2.8pt	↗
Net debt at end of period					<b>4,163</b>	4,307 <sup>(5)</sup>	-144m	↘
Adjusted net debt / EBITDAR <sup>(3,4)</sup>					<b>3.1x</b>	3.4x <sup>(5)</sup>	-0.3	↘
<i>Strike impact on operating result</i>	<b>-90</b>				<b>-130</b>			

(1) Reclassification Servair as discontinued operations




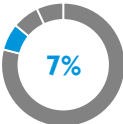

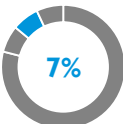

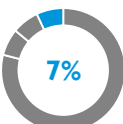
(2) Like-for-like: excluding currency. Same definition applies in rest of presentation unless otherwise stated

(3) See definition in press release

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

(5) At 31 December 2015

# Contribution by business segment to Third Quarter 2016 results

		Revenues (€bn)	Reported change <sup>(1)</sup> (%)	Change Like- for-like <sup>(1)</sup> (%)		Op. Result (€m)	Reported change <sup>(1)</sup> (€m)	Change Like- for-like <sup>(1)</sup> (€m)	
 Passenger network <sup>(2)</sup>		5.47	-7.2%	-6.1%	↘	664	-134	-55	↘
 Cargo		0.49	-16.6%	-16.1%	↘	-100	-19	-15	↘
 Maintenance		0.48	+29.6%	+30.3%	↗	77	-4	-4	=
 Transavia		0.49	+10.9%	+10.9%	↗	92	+15	+26	↗
Other						4	-1	-1	
<b>Total</b>		<b>6.94</b>	<b>-5.1%</b>	<b>-4.1%</b>	<b>↘</b>	<b>737</b>	<b>-143</b>	<b>-49</b>	<b>↘</b>

(1) 2015 reclassification Servair as discontinued operations

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

# Passenger network activity in Third Quarter 2016

- **Strict capacity discipline**

- Capacity stable (+0.6% excluding cabin crew strike)

- **Continuous pressure on unit revenue, resilient performance of premium cabin unit revenues**

- Unit revenue down 6.5% at constant currency:
    - Long-haul down 6.3%
      - Premium: -1.5% / Economy: -7.3%
    - Medium-haul unit revenue: down 6.7%

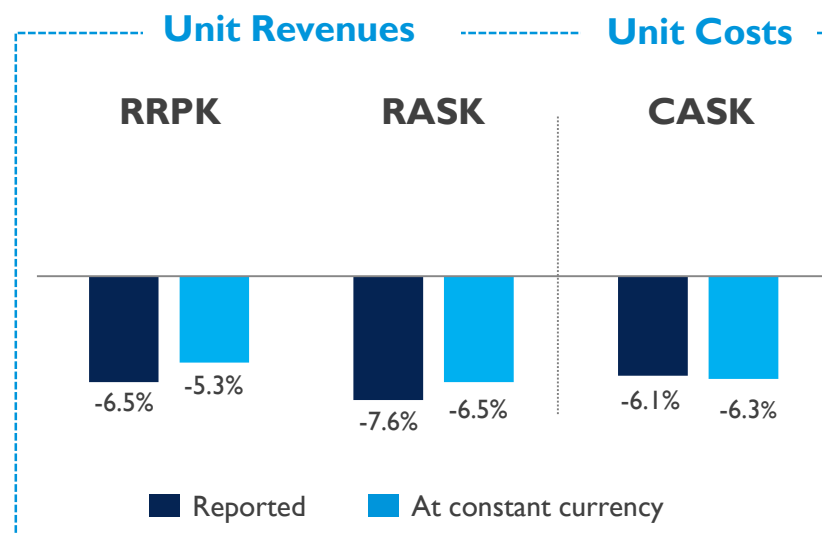
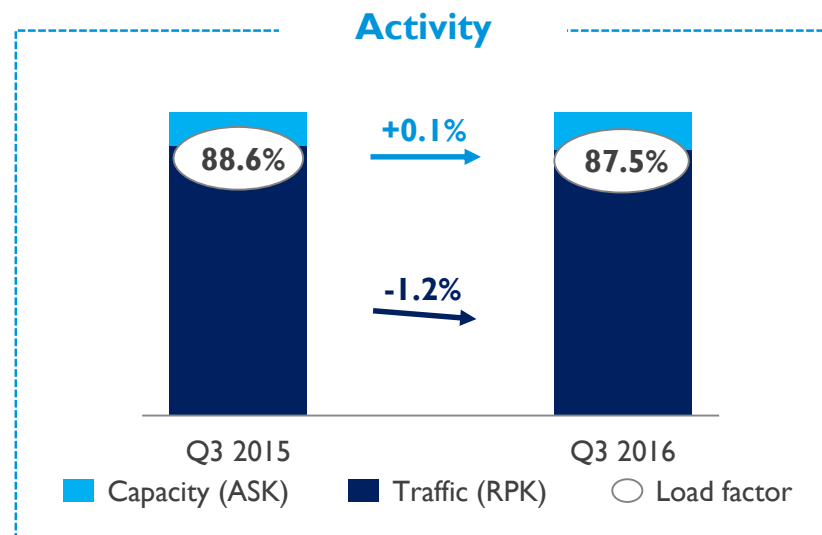
- Impact of Air France cabin crew strike estimated around € 90m

- Soft local flows towards France during the quarter

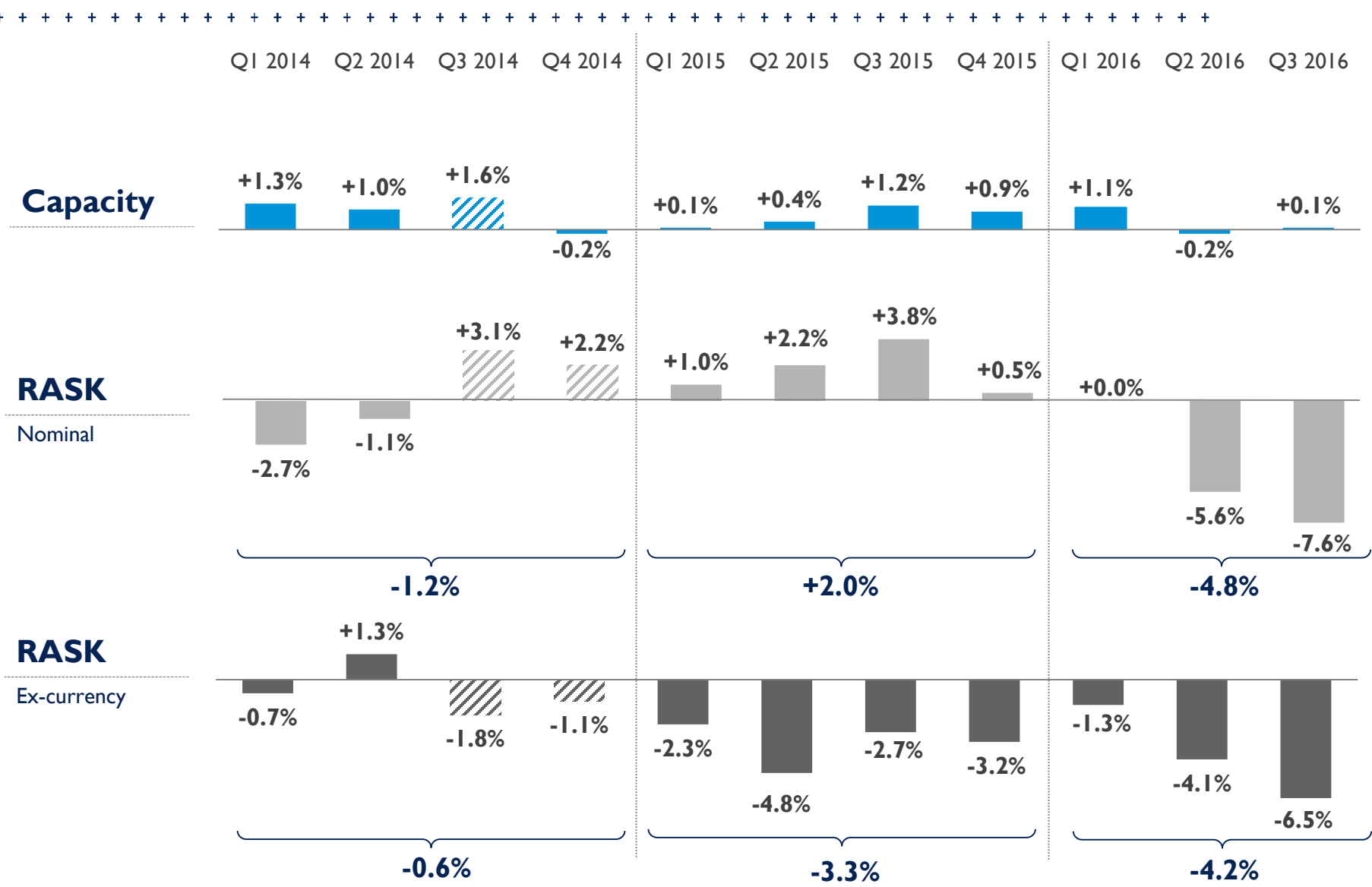
- Increasing industry capacity leading to downward pressures

- **Decrease in operating result**

- Down €55m like-for-like

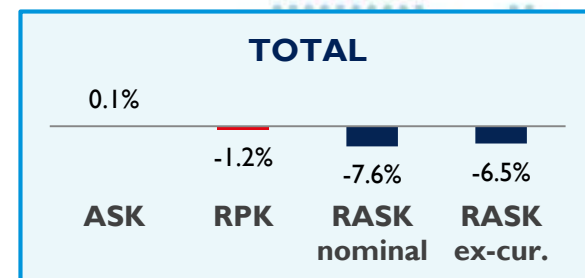
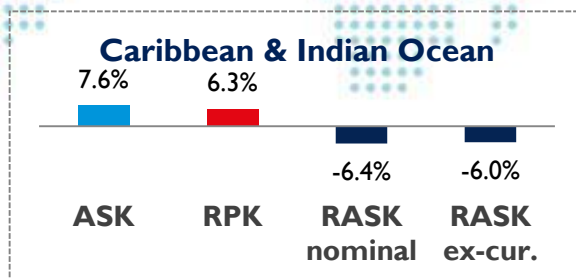
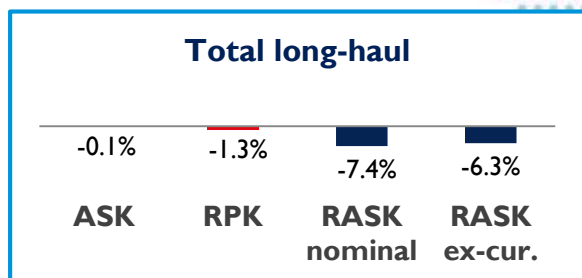
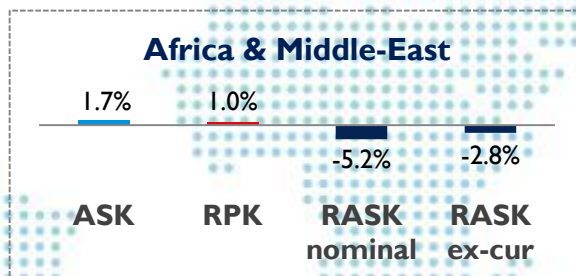
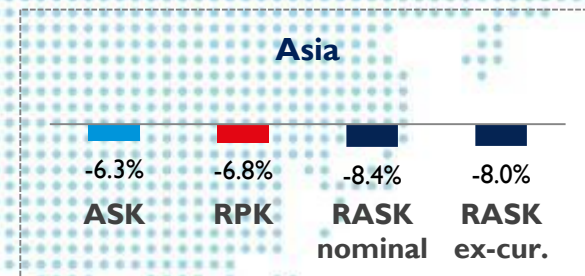
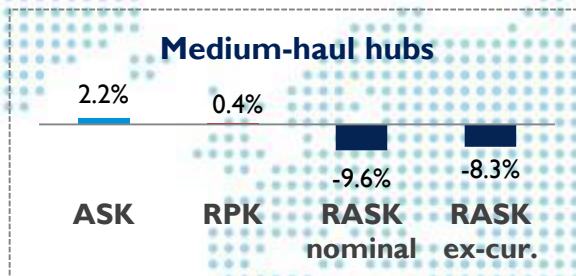
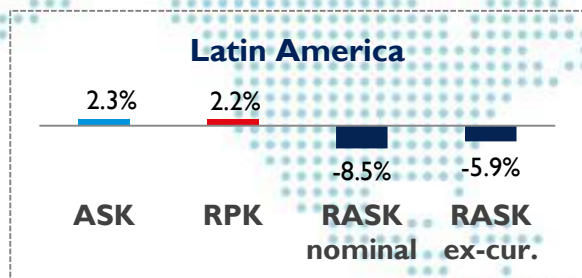
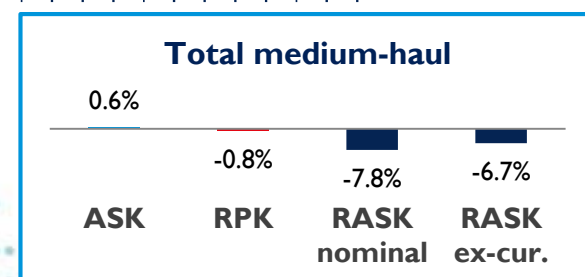
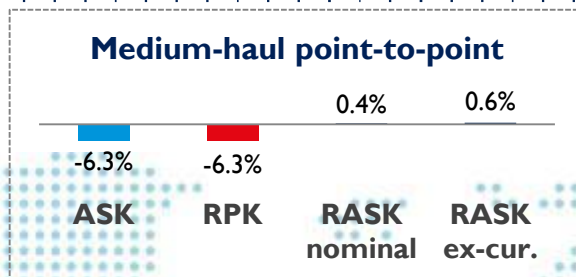
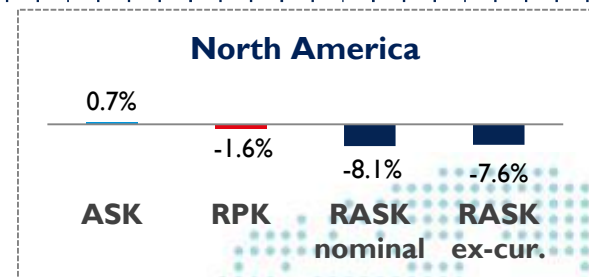


# Passenger network capacity and unit revenue by quarter



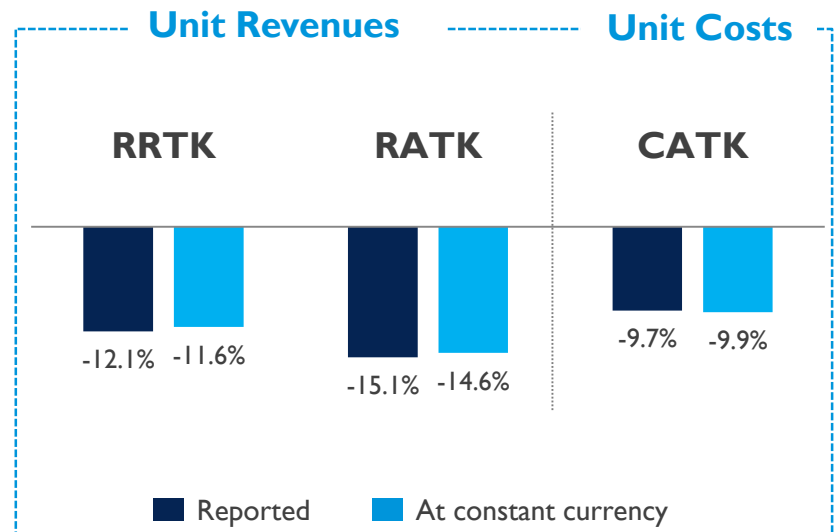
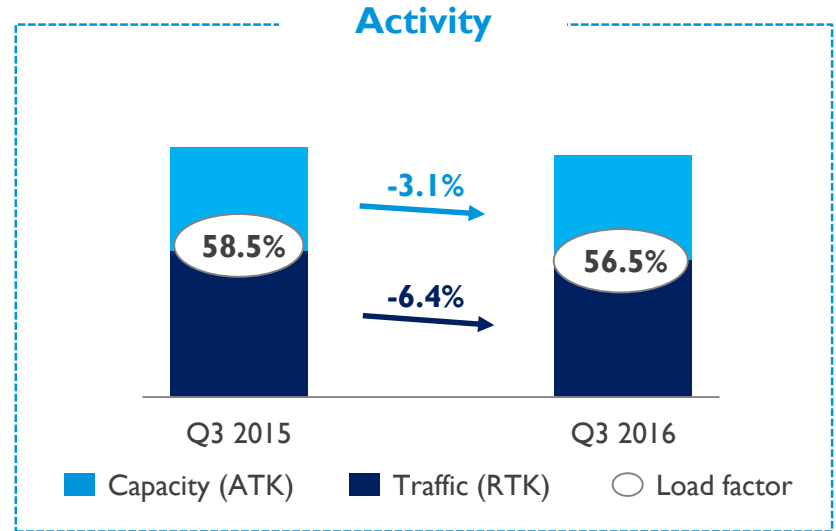
Excluding September 2014 strike  
 NB: Passenger network only: Air France, KLM and HOP!

# Third Quarter 2016 Passenger network unit revenue by network



# Cargo activity in Third Quarter 2016

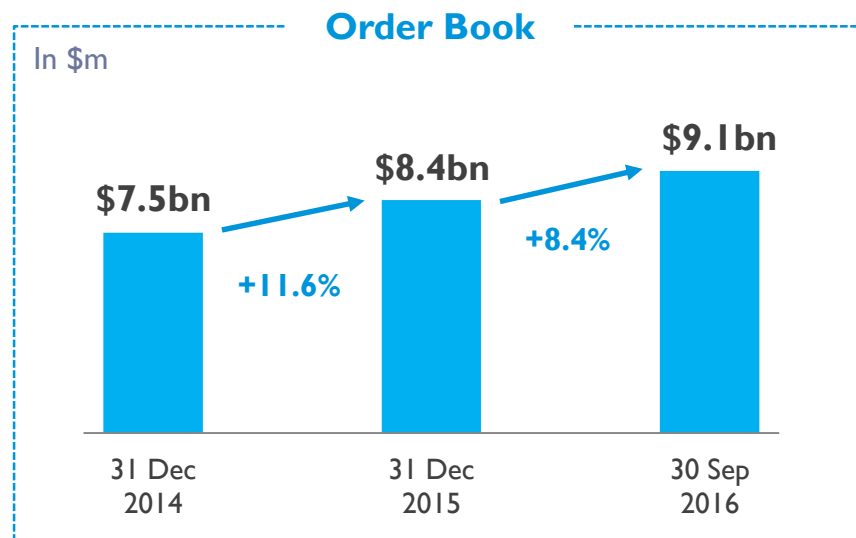
- Persistently weak demand
  - Challenging economic environment, structural industry overcapacity
  - RATK down 14.6% at constant currency
- Ongoing restructuring on track
  - Ex-fuel unit costs down 2.3% at constant currency
    - Full-freighter capacity reduction finalized in July 2016, down to 6 freighters in operation; capacity down 22% compared to Q3 2015
    - On track to reach full freighter breakeven in 2017
- Operating result decreased by €15m like-for-like





# Maintenance activity in Third Quarter 2016

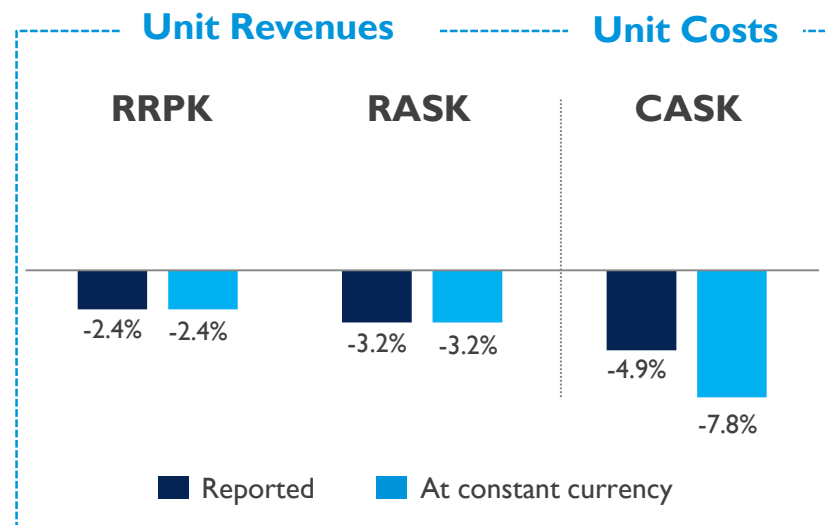
- Third party revenue up 30%
- Further increase in the order book
  - New component contract for Thai Airways fleet of A350
- Operating margin down 1.1pt
  - Change in product mix and business mix from mature contracts to new growth
  - OEM supply chain under pressure in engine business







In €m	Q3 2016	Q3 2015	Change	Like-for-like
Total revenue	<b>1,046</b>	953	+9.8%	
Third party revenue	<b>482</b>	372	+29.6%	+30.3%
Operating result	<b>77</b>	81	-4	-4
Operating margin	<b>7.4%</b>	8.5%	-1.1pt	-1.2pt

# Transavia activity in Third Quarter 2016

- 4.8 million passengers, up 23%, serving more than 100 destinations
  - Number 1 Low Cost Carrier in the Netherlands and number 2 at Paris
- Negative impact on revenues due to intensified competition and geopolitical unrest
- Accelerated ramp-up in France on track
  - Capacity up 19%
- Munich base operational since 25th March 2016
  - 4 aircraft in operation
- Operating result increased by €26m like-for-like



# Third Quarter 2016: change in operating costs

	In €m	Reported change <sup>(1)</sup>	Change at constant currency
 <b>Total employee costs</b>	<b>1,837</b>	-0.1%	+0.2%
 <b>Supplier costs<sup>(2)</sup> excluding fuel and purchasing of maintenance services and parts</b>	<b>1,824</b>	+2.3%	+3.4%
 <b>Aircraft costs<sup>(3)</sup></b>	<b>791</b>	-2.1%	-2.5%
 <b>Purchasing of maintenance services and parts</b>	<b>601</b>	+20.9%	+21.2%
 <b>Other income and expenses including capitalized production</b>	<b>-96</b>	-45.8%	-26.9%
<b>Operating costs ex-fuel</b>	<b>4,957</b>	<b>+4.4%</b>	<b>+3.8%</b>
 <b>Fuel</b>	<b>1,244</b>	-25.9%	-25.6%
<b>Grand total of operating costs</b>	<b>6,201</b>	<b>-3.5%</b>	<b>-3.8%</b>
<i>Capacity (EASK)</i>			+1.0%

(1) 2015 reclassification Servair as discontinued operations

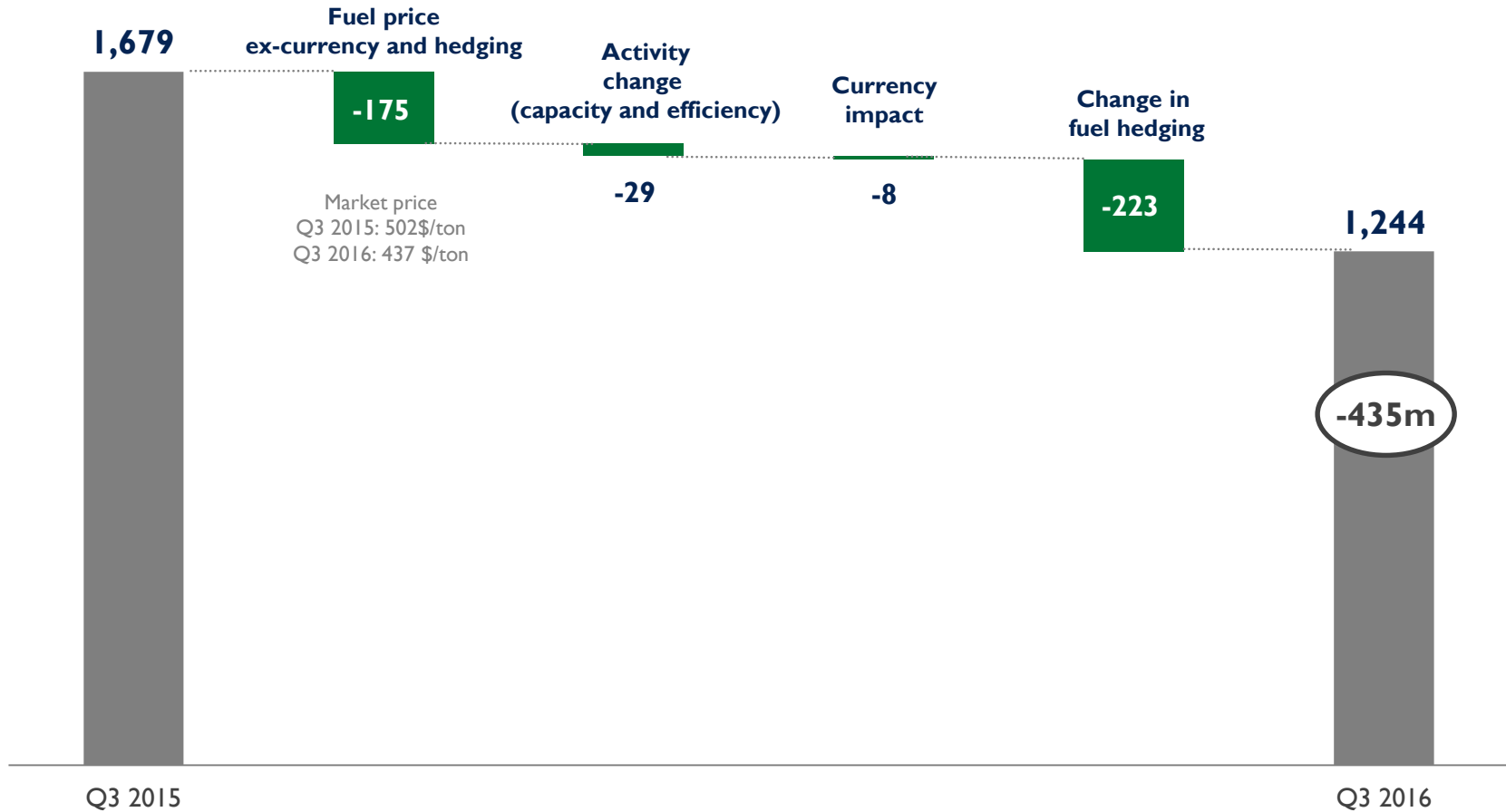
(2) Catering, handling, commercial and distribution charges, landing fees and air-route charges, other external expenses, excluding temps

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

# Third Quarter 2016 fuel bill

## Fuel bill

In €m



# Update on fuel bill

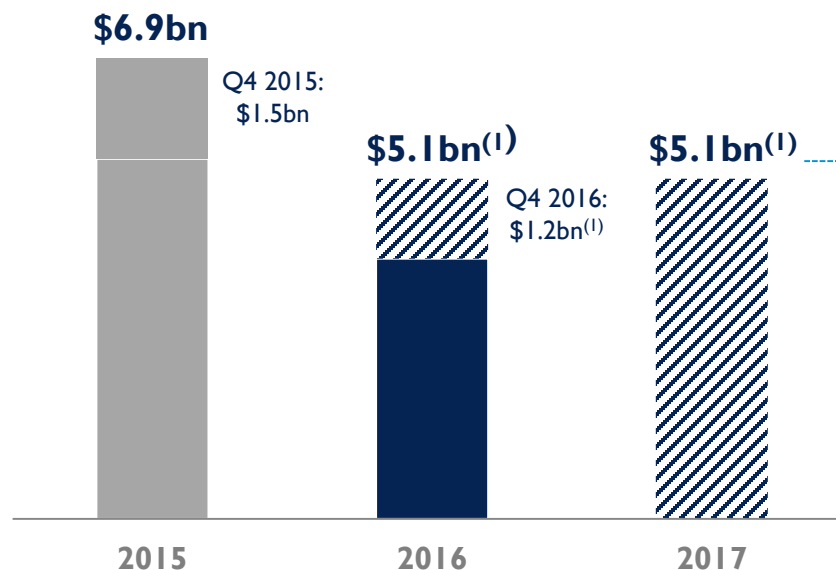
## Fuel bill after hedging

In \$bn

2015:  
fuel bill \$6.9bn/€6.2bn

2016:  
fuel bill \$5.1bn/€4.6bn<sup>(2)</sup>

2017:  
fuel bill \$5.1bn/€4.6bn<sup>(2)</sup>



### 2017 sensitivity

% change in \$ per bbl

+100%	8.1
+75%	7.3
+50%	6.6
+30%	5.9
+10%	5.4
-10%	4.8
-20%	4.4
-30%	4.1

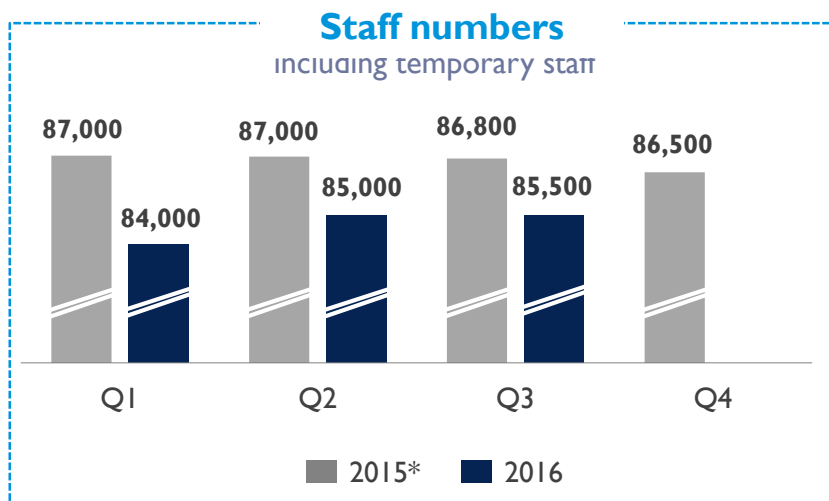
Market price - Brent (\$ per bbl) <sup>(1)</sup>	54	45	56
Jet fuel (\$ per metric ton) <sup>(1)</sup>	527	427	519
% of consumption already hedged		Q4: 80%	50%

(1) Based on forward curve at October 21<sup>st</sup> 2016. Sensitivity computation based on October-December 2016 fuel price, assuming constant crack spread between Brent and Jet Fuel

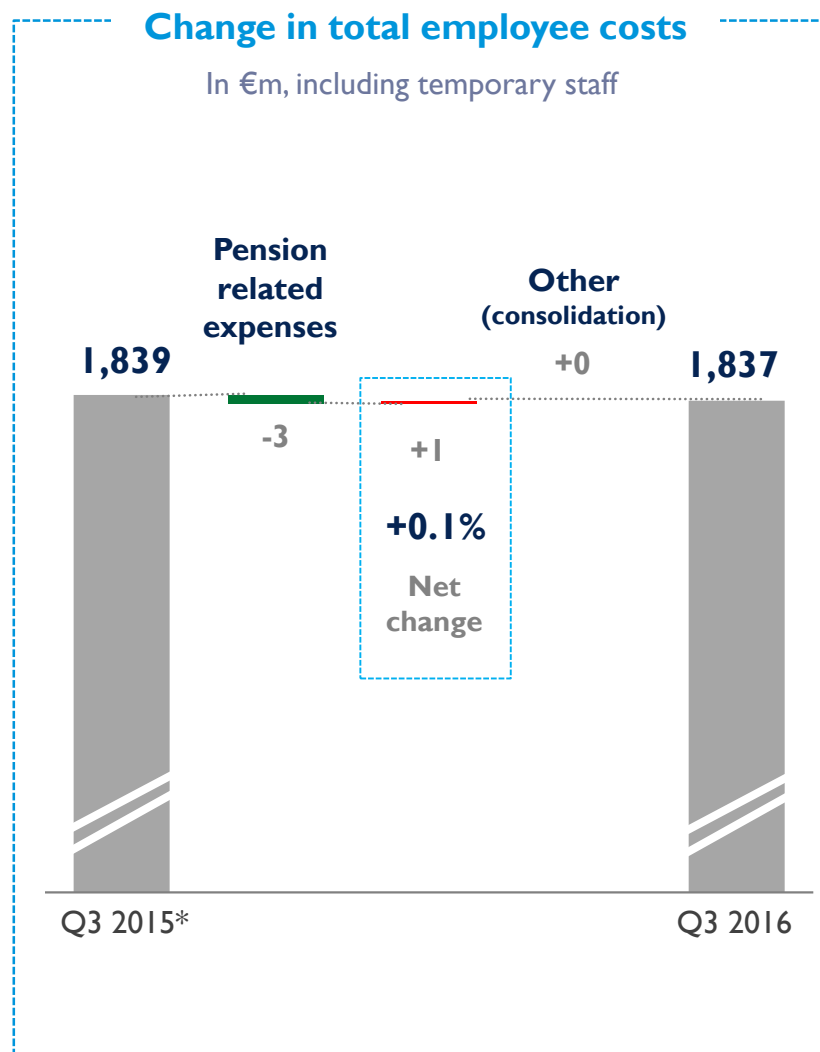
(2) Assuming average exchange rate of 1.10 US dollar per euro for Q4 (October-December) 2016 and Full Year 2017

# Update on employee costs

- Headcount down 1,300 FTE's



- ▶ Decrease FTE's as result of restructuring in both Air France and KLM
- ▶ Employee costs down 0.1%
  - ▶ Net change excluding profit sharing: -3.5%



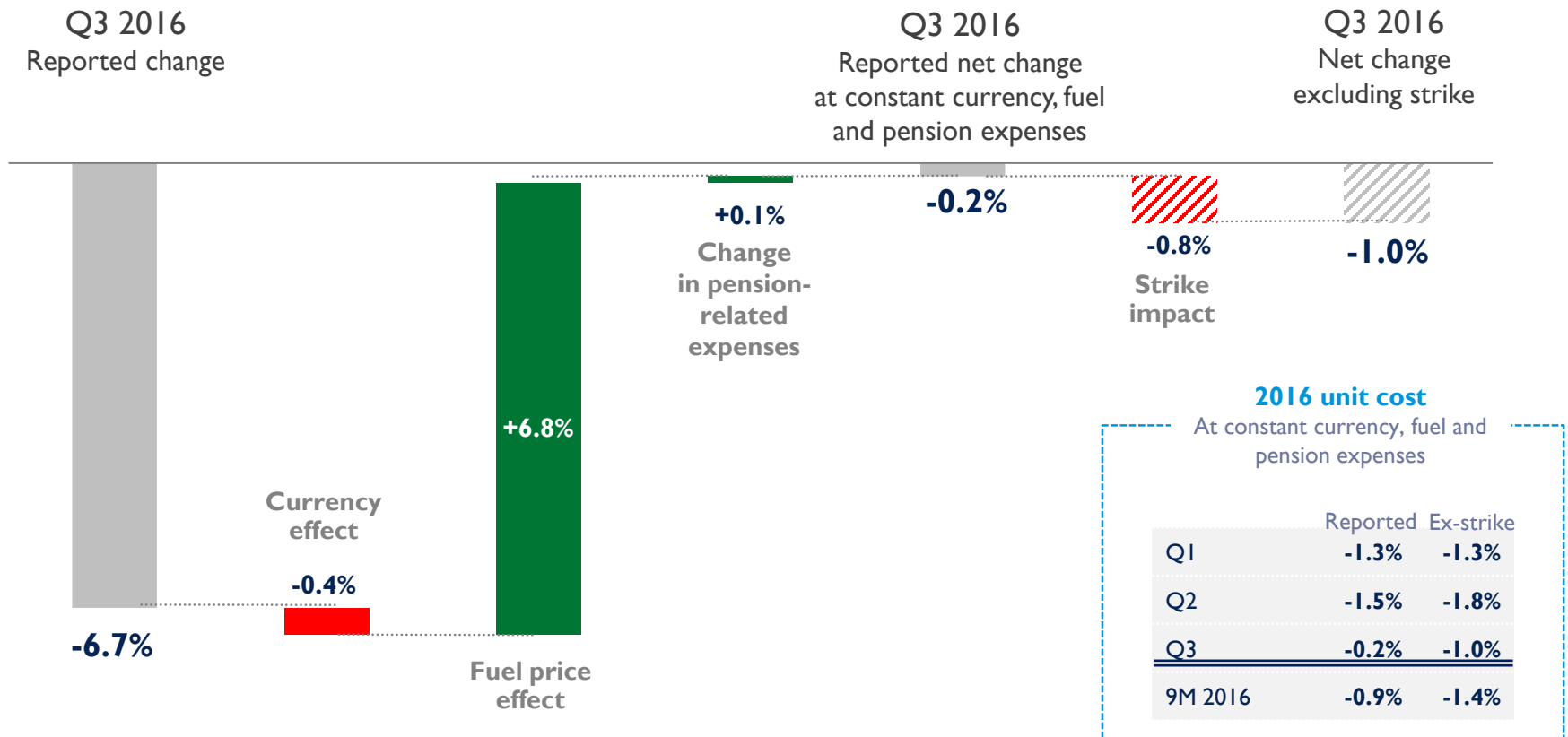
\* 2015 reclassification Servair as discontinued operations

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

Net Costs: €5,443m (-5.8%)

Capacity in EASK: 94,081m (+1.0%)

Unit cost per Equivalent Available-Seat Kilometer (EASK): 5.79 euro cents

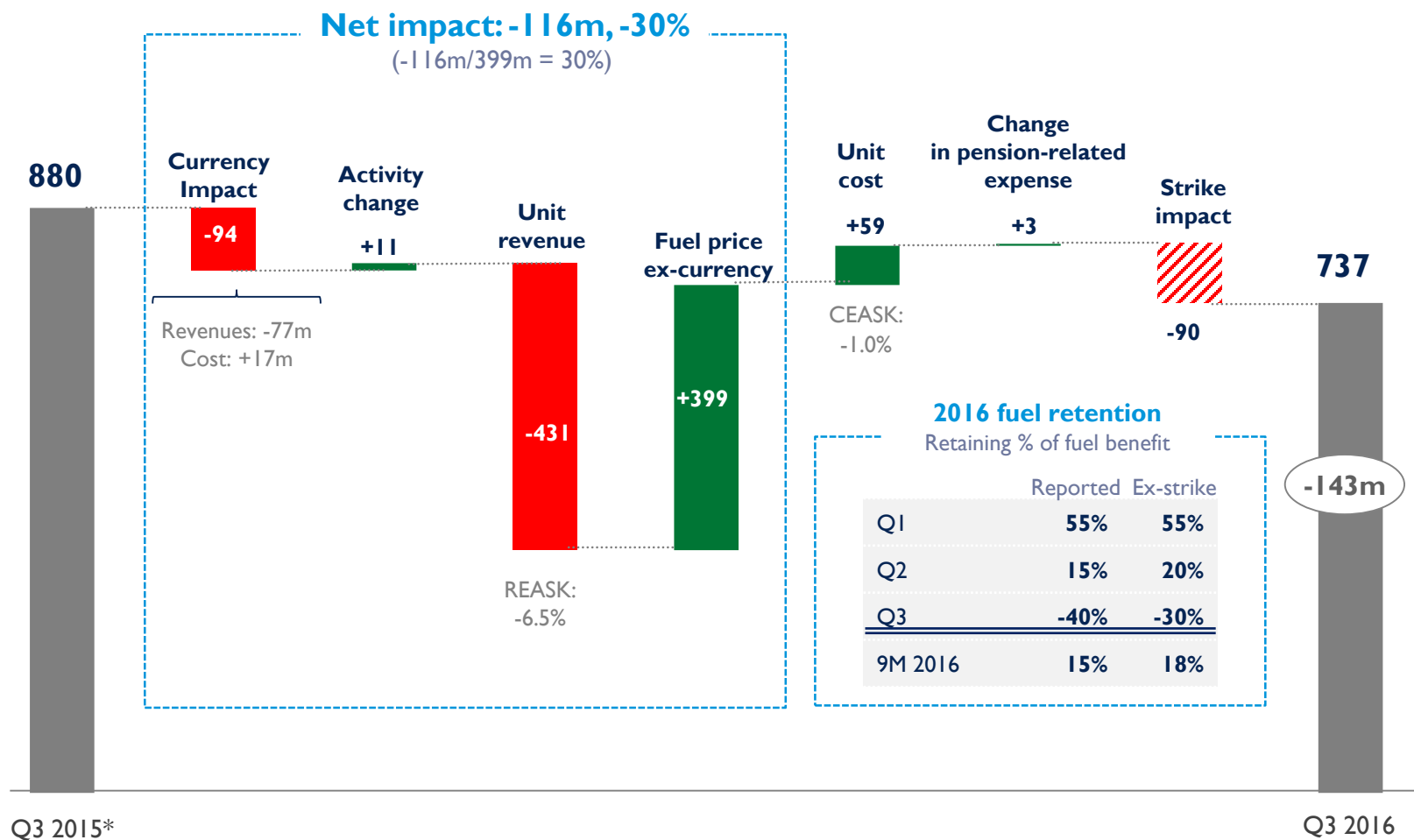


- Third quarter 2016 unit costs down 0.2% at constant currency, fuel and pension expenses and down 1.0% corrected for the cabin crew strike

# Third Quarter 2016 Operating result: no more fuel benefit retention

## Change in operating result

In €m



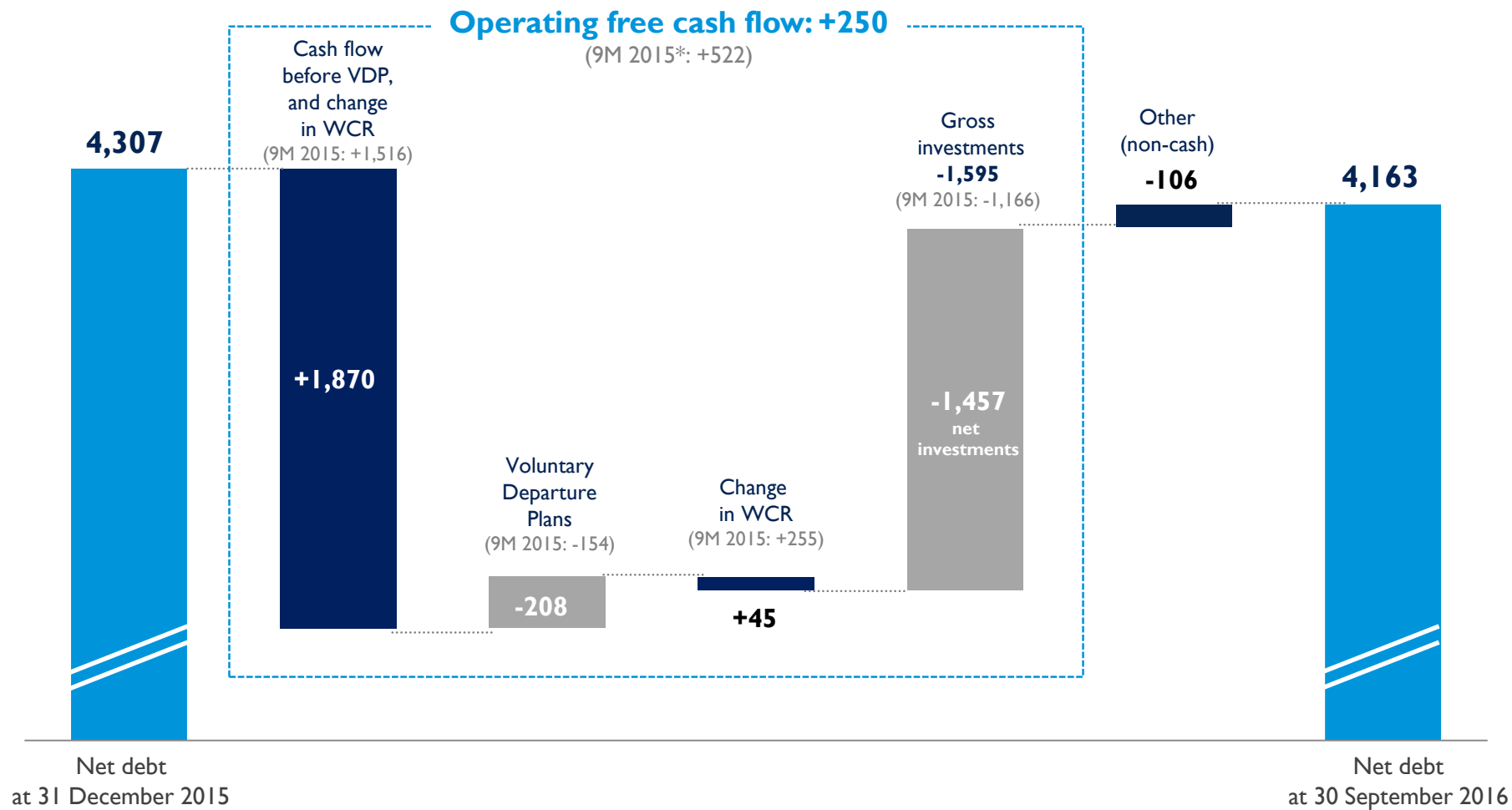
\* 2015 reclassification Servair as discontinued operations



# Operating free cash flow in 9 months 2016

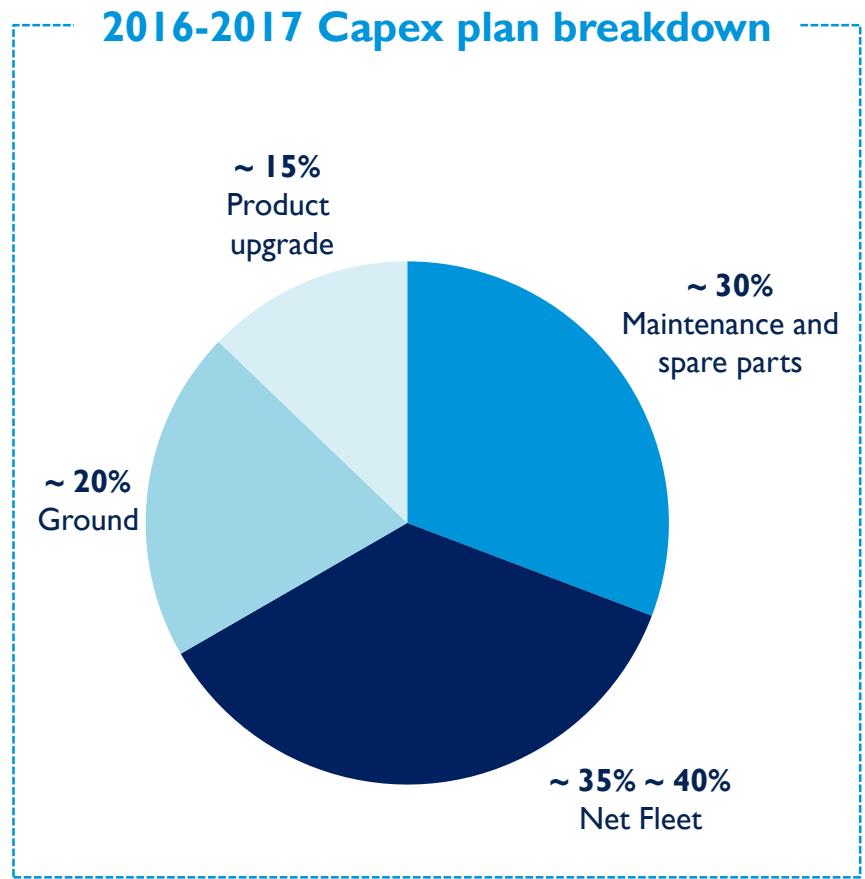
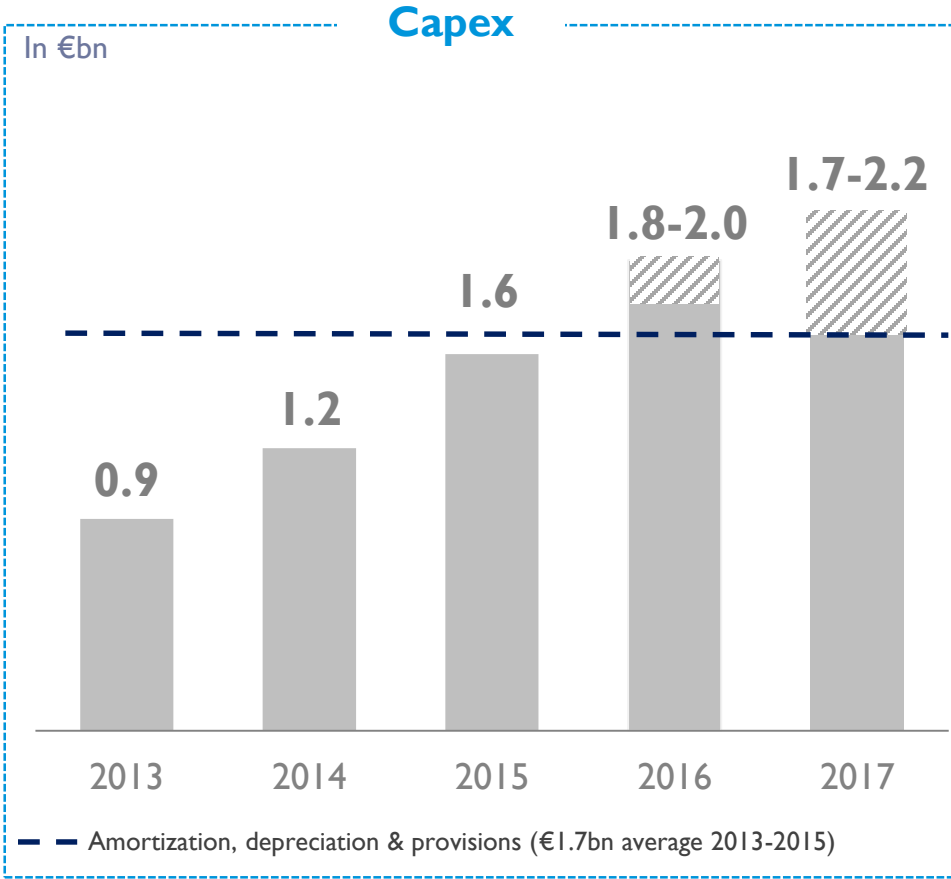
## Analysis of change in net debt

In €m



\* 2015 reclassification Servair as discontinued operations

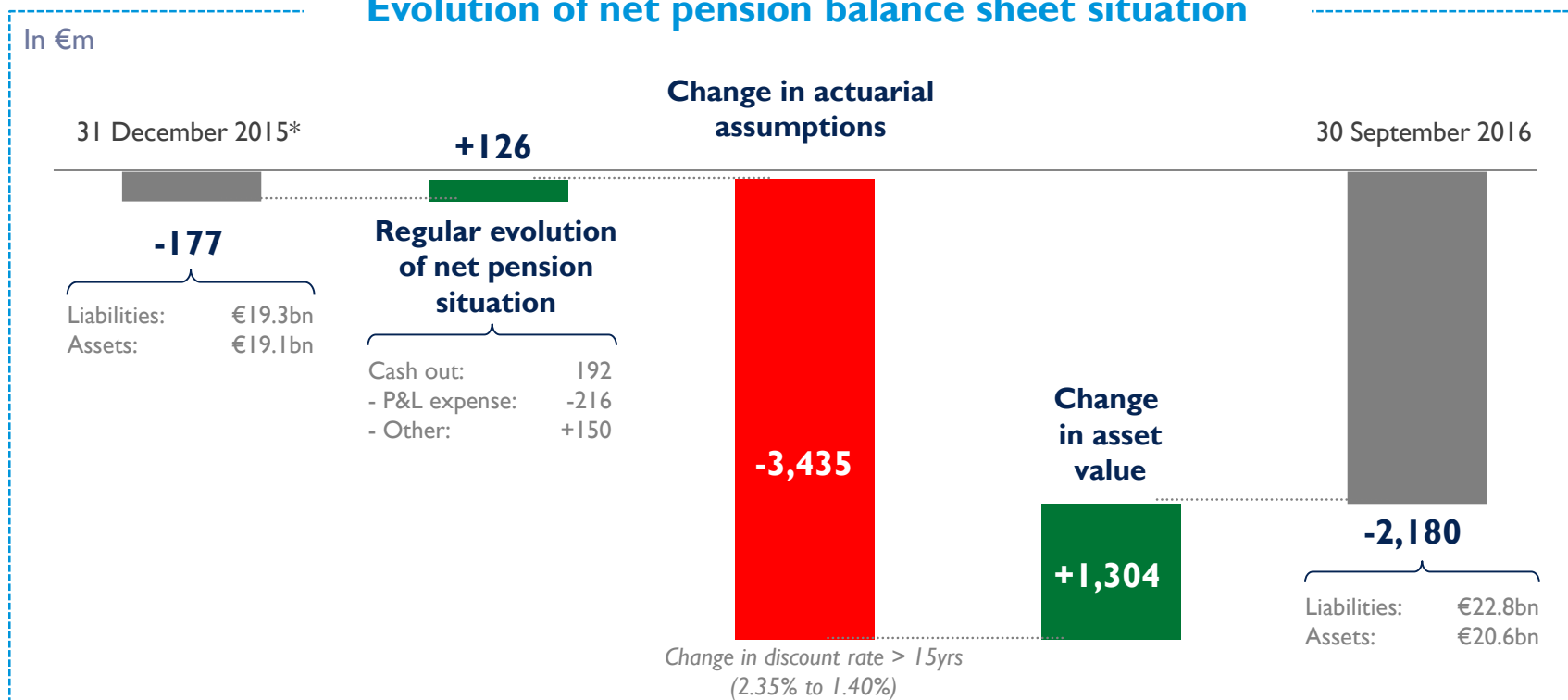
# Disciplined investment growth



- **Guidance 2016:** operating free cash flow generation after disposals narrowed between €0.6bn and €0.8bn
  - Flexibility: capex (between €1.8bn-€2.0bn including buying back of aircraft under operating lease) and disposals (between €0.4bn-€0.6bn)

# Pension update

## Evolution of net pension balance sheet situation

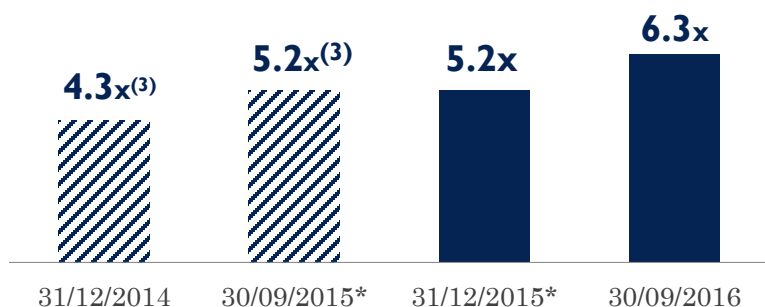


- Financing agreement regarding KLM pilots pension scheme

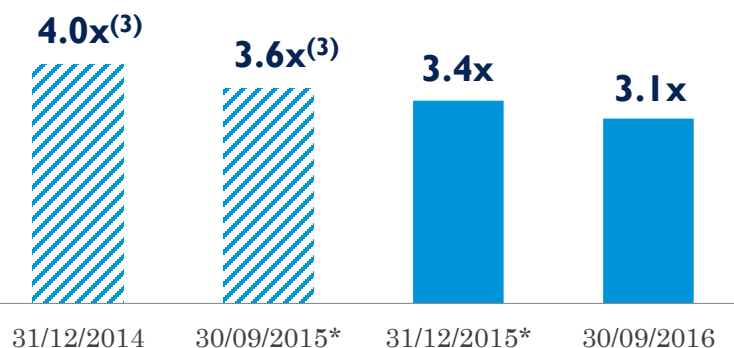
- ▶ Current funding agreement could result in a significant additional contribution to reach required coverage ratio to be able to grant indexation
- ▶ Discussions with the KLM Flight Deck Crew Union have been initiated to renegotiate the current funding agreement. In parallel, the Group has decided to terminate this funding agreement on a unilateral way. A court ruling on September 27<sup>th</sup> 2016 confirmed that KLM is entitled to cancel the agreement.
- ▶ KLM aims to reach a mutual acceptable new funding agreement with the KLM Flight Deck Crew Union and the pension fund

# Financial ratios at 30 September 2016

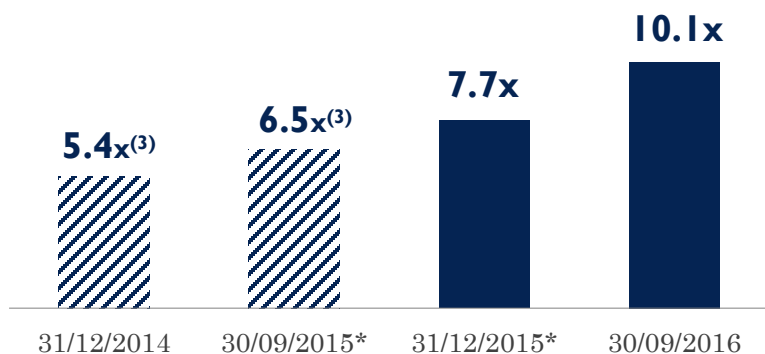
## EBITDAR/adjusted net interest costs<sup>(1)</sup>



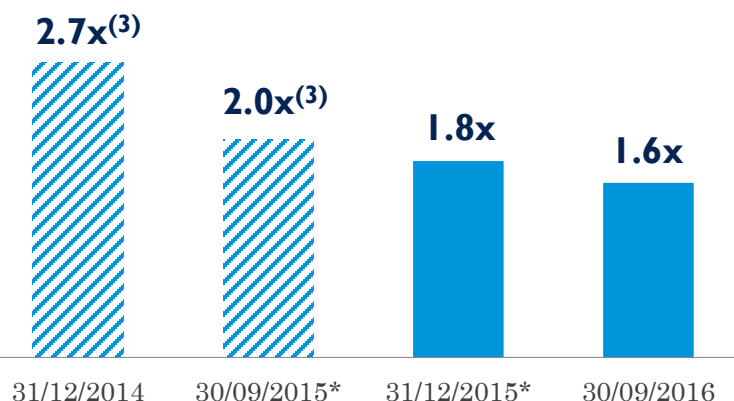
## Adjusted net debt<sup>(2)</sup>/EBITDAR



## EBITDA/net interest costs



## Net debt/EBITDA



\* Servair reclassified as discontinued operation

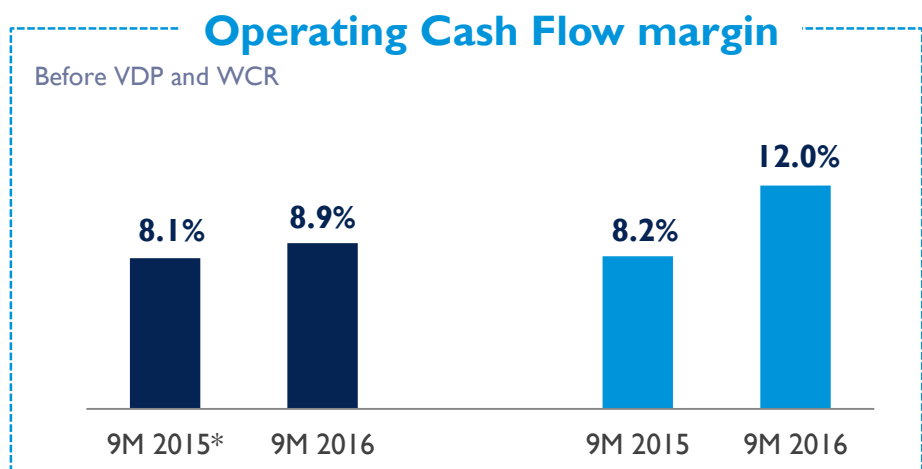
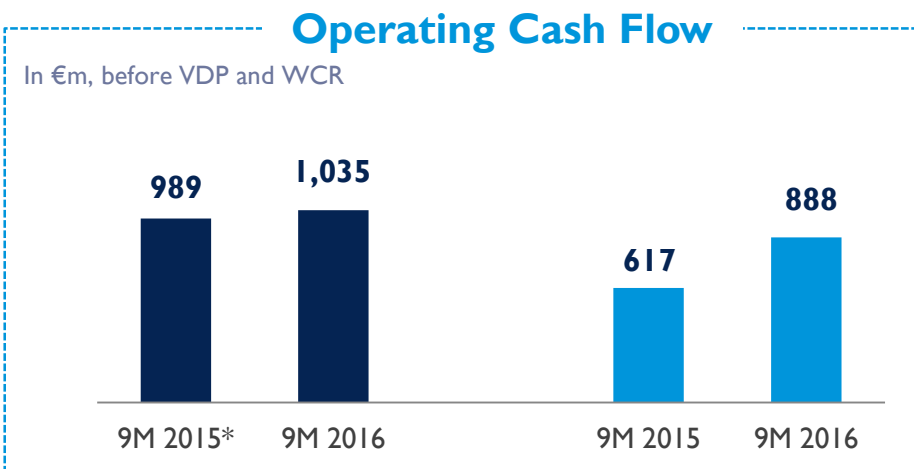
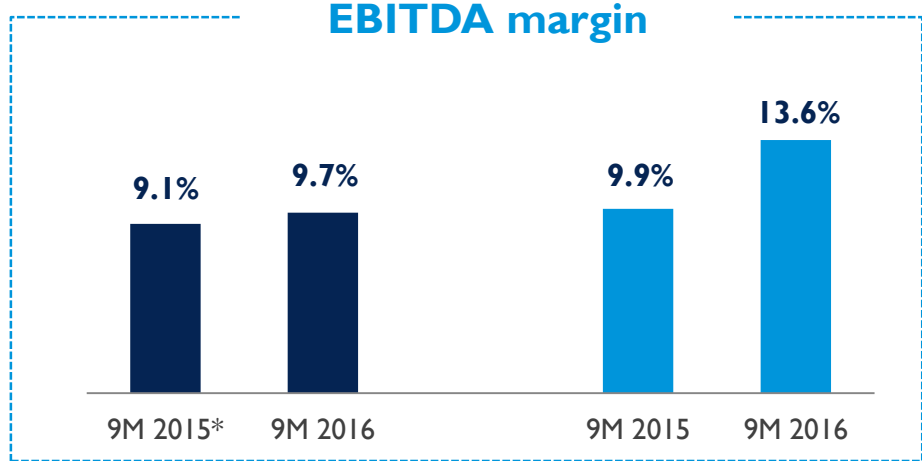
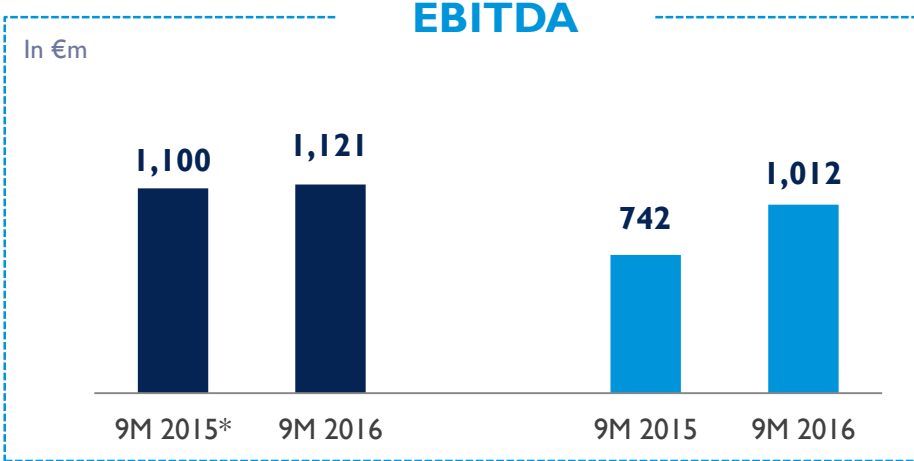
(1) Adjusted by the portion of financial costs within operating leases (34%)

(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 3.5x at 30 September 2015.  
Reported net debt / EBITDA of 3.4x at 31 December 2014 and 2.0x at 30 September 2015

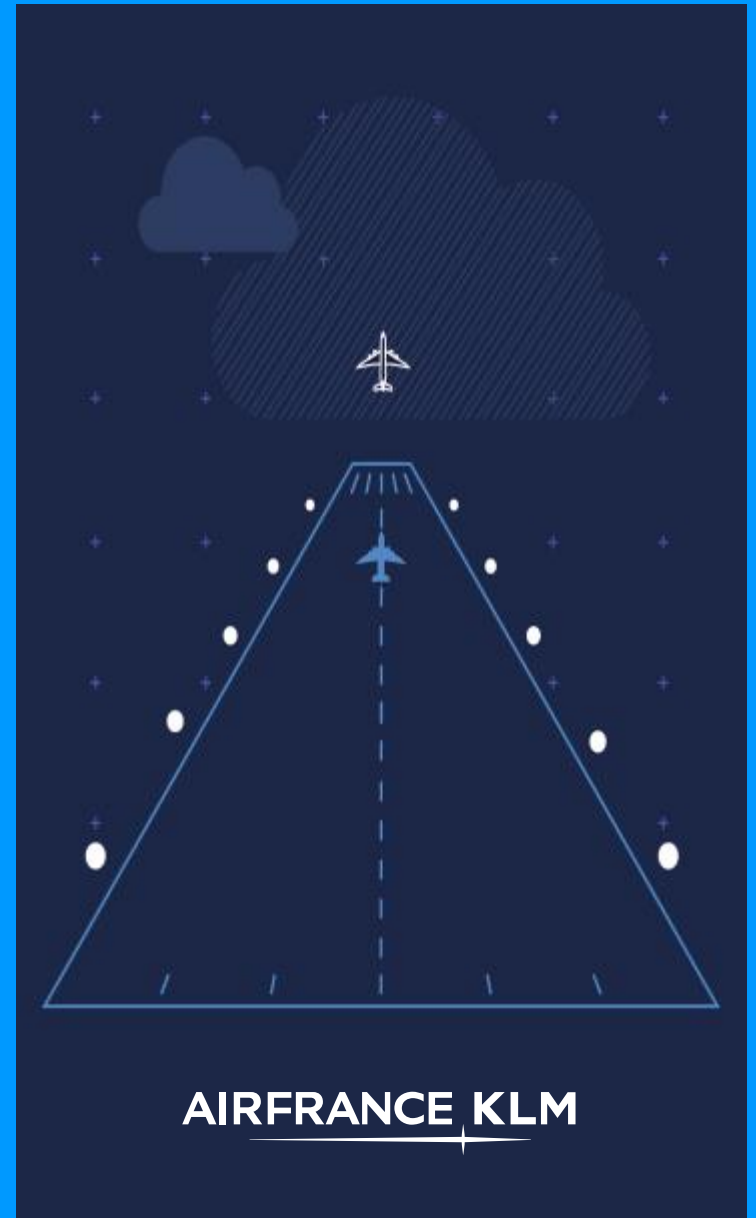
 Excluding 2014 strike

# 9 months 2016: EBITDA and operating cash flow by airline



\* 2015 reclassification Servair as discontinued operations

# 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 quarter 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
- Capacity discipline<sup>(2)</sup> maintained
  - Passenger network: around +1%
  - Transavia: around +15%
  - Cargo: around -4%
- Free operating cash flow generation after disposals narrowed between €0.6bn and €0.8bn
  - 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 €0.4- € 0.6bn) will be adjusted accordingly
- Further significant net debt reduction

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

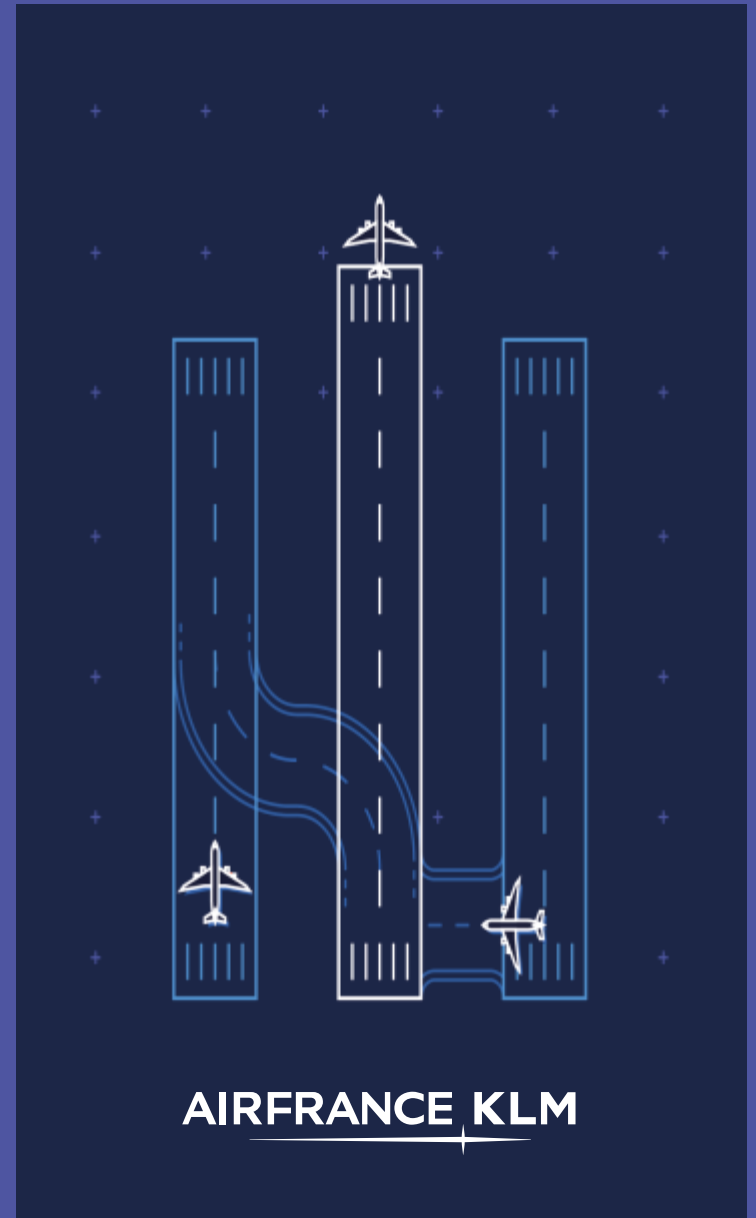
(2) Capacity growth in % ASK Full Year 2016 vs Full Year 2015



# Q & A session



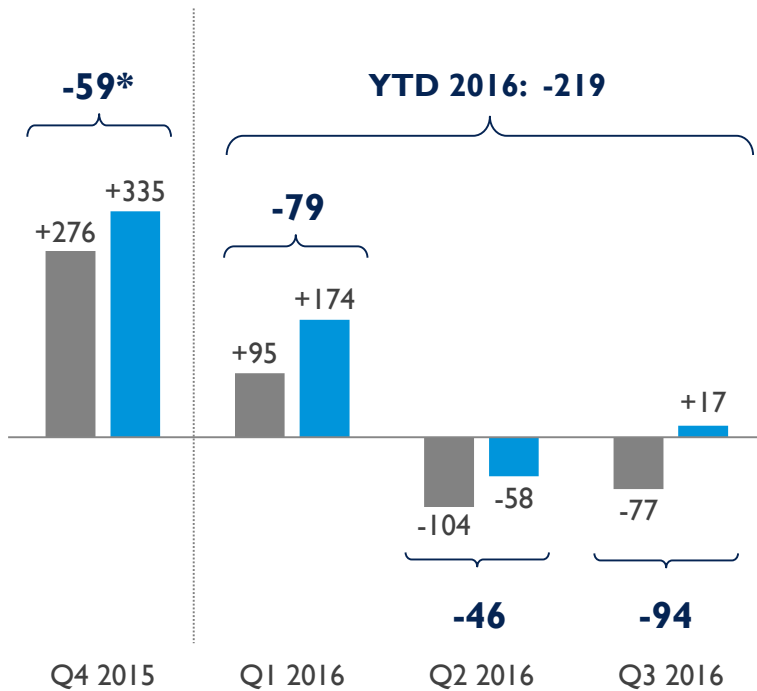
# APPENDIX



# Third 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

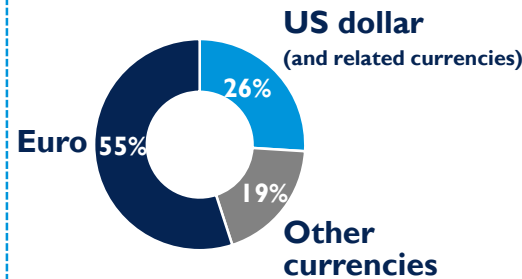
FY 2016 exposure

- Group exposure GBP
  - Long approximately GBP 600m (revenues only)
  - Hedging one-year rolling 40%
- Estimated negative FX impact post-Brexit around EUR 20m for Q4 2016

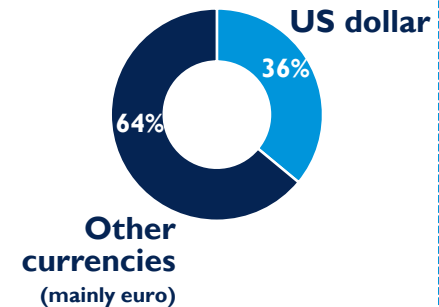
## Revenues and costs per currency

FY 2015

### Revenues



### Costs



\* Currency impact calculated on a strike adjusted base

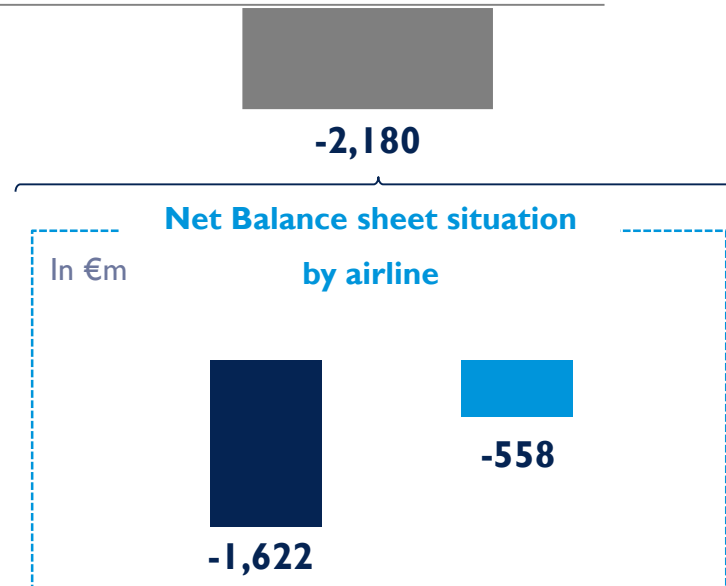
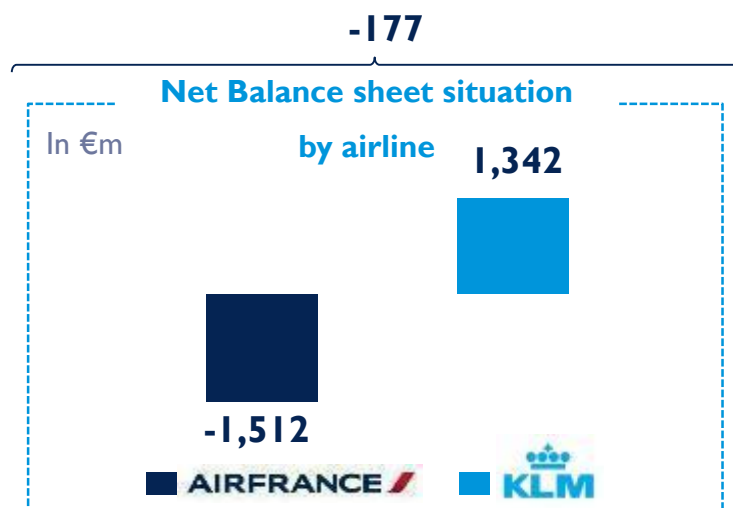
# Pension details 30 September 2016

## Evolution of net pension balance sheet situation

In €m

31 December 2015\*

30 September 2016



- Air France

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

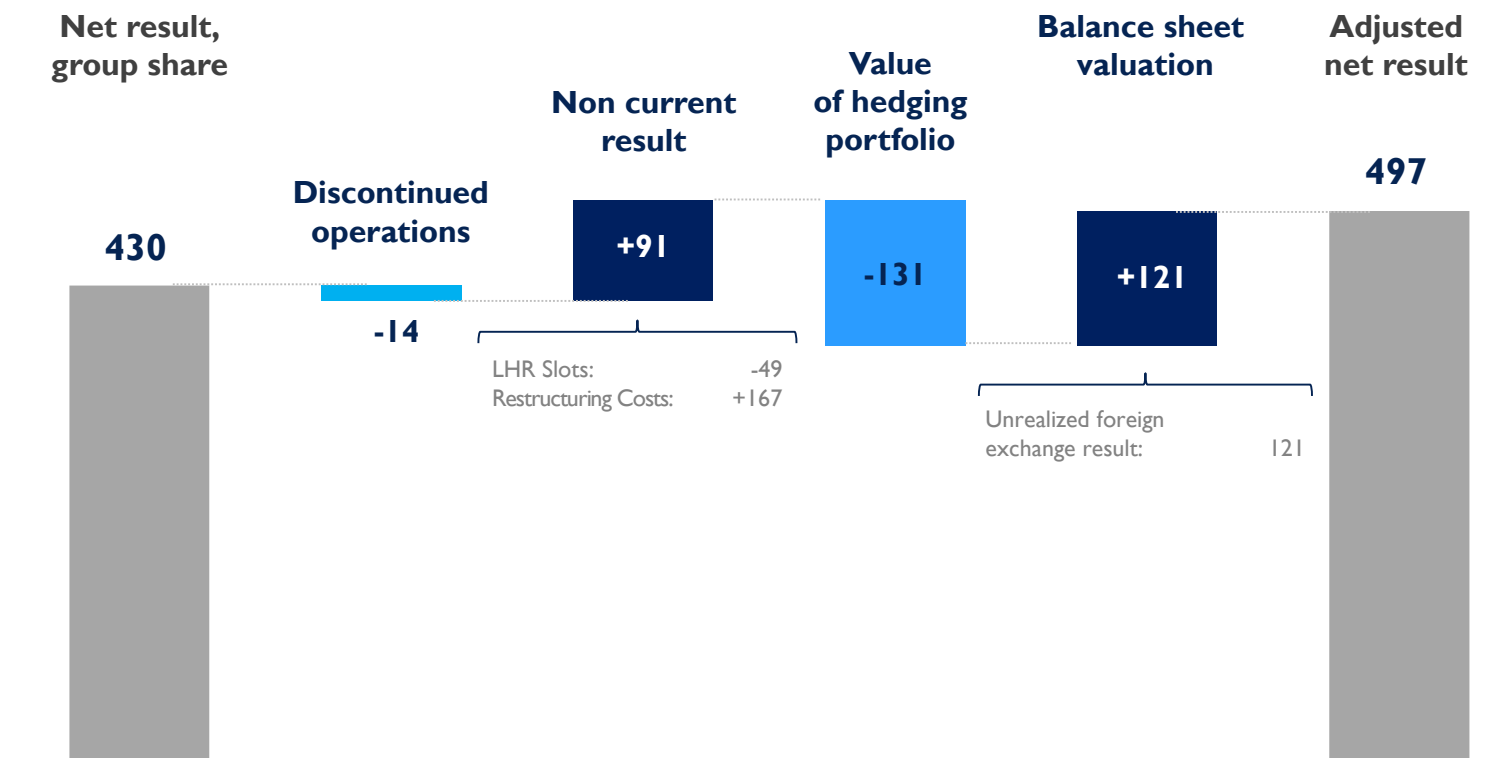
- KLM

- ▶ Defined benefit schemes for Pilot crew, Cabin crew and Ground staff




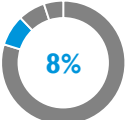

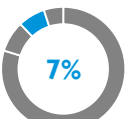

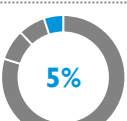
# 9 months 2016: adjusted net result

## Calculation of first nine months 2016 adjusted net result

In €m

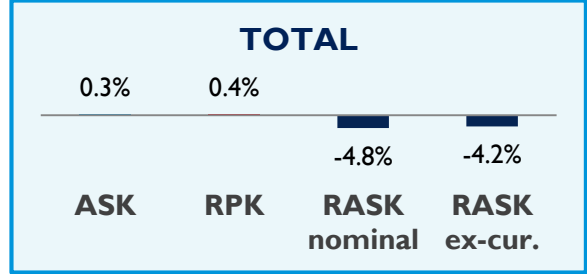
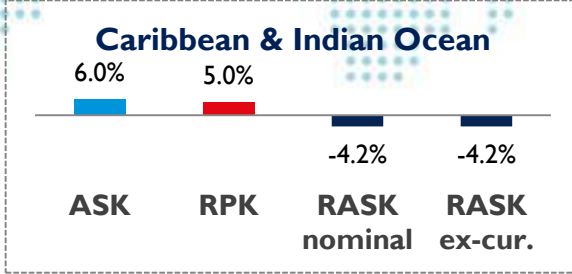
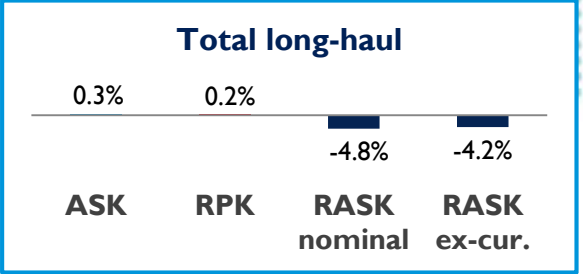
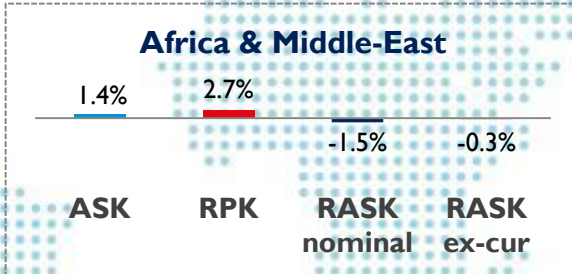
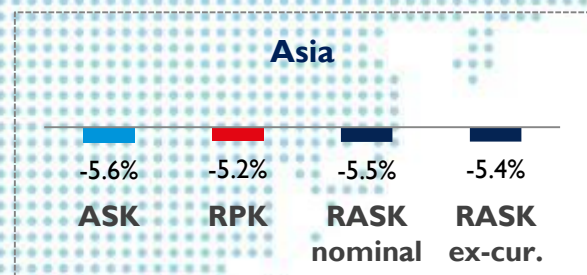
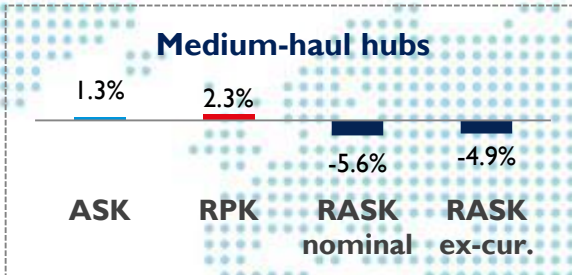
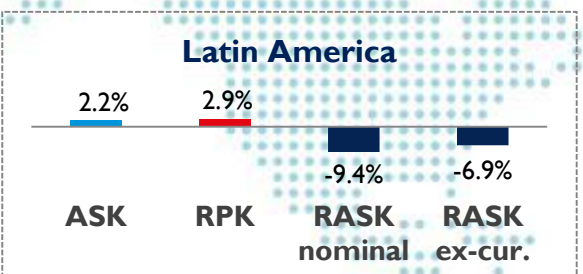
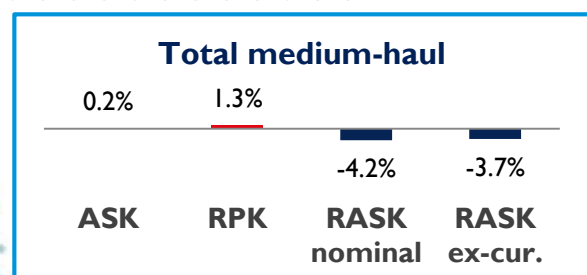
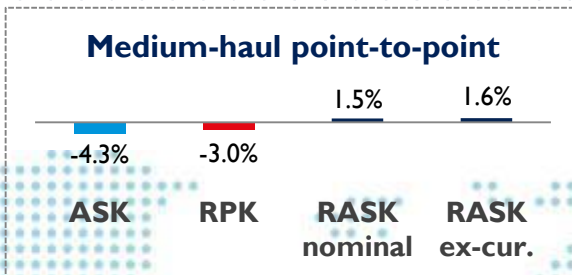
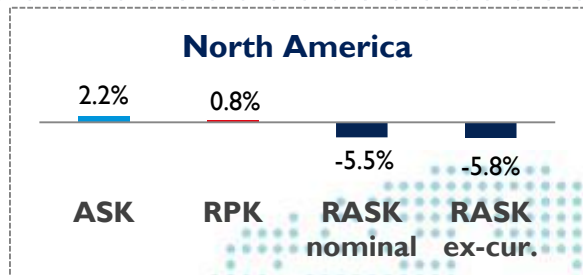


# 9 months 2016: Contribution by business segment

		Revenues (€bn)	Reported change <sup>(1)</sup> (%)	Change Like- for-like <sup>(1)</sup> (%)		Op. Result (€m)	Reported change <sup>(1)</sup> (€m)	Change Like- for-like <sup>(1)</sup> (€m)	
 Passenger network <sup>(1)</sup>		14.88	-4.3%	-3.8%	↘	983	+297	+476	↗
 Cargo		1.52	-16.0%	-15.7%	↘	-216	+6	+23	↗
 Maintenance		1.35	+17.4%	+16.4%	↗	172	+5	+4	=
 Transavia		0.97	+9.1%	+9.1%	↗	17	+15	+38	↗
Other						-1	-11	-9	
<b>Total</b>		<b>18.76</b>	<b>-3.5%</b>	<b>-3.1%</b>	<b>↘</b>	<b>955</b>	<b>+312</b>	<b>+531</b>	<b>↗</b>

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

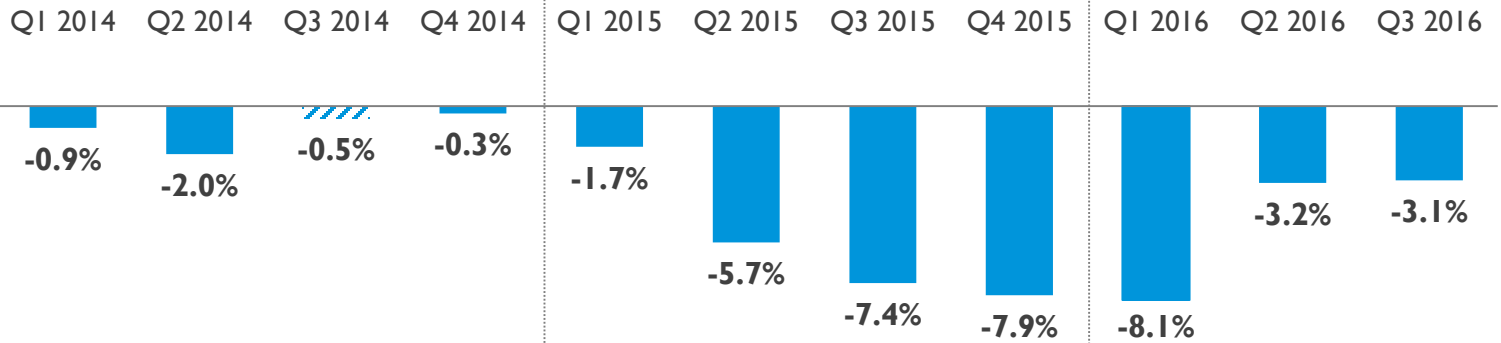
# 9 months 2016: Passenger network unit revenue by network



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

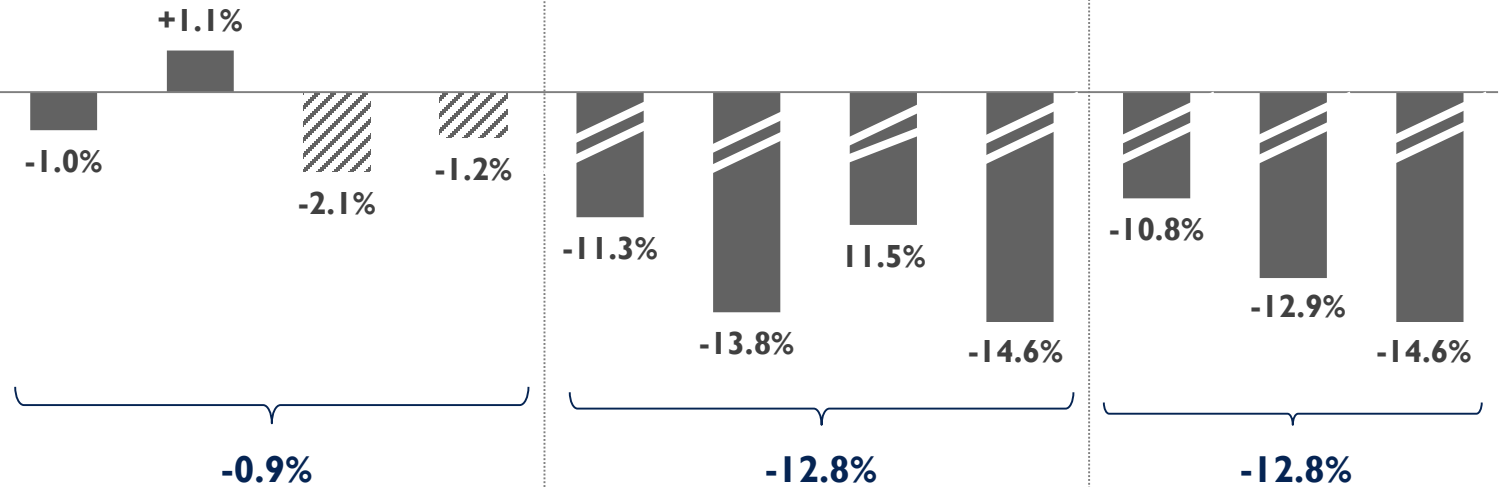
# Cargo capacity and unit revenue by quarter

## Capacity





## RATK

Ex-currency



Excluding September 2014 strike

# 9 months 2016: change in operating costs

	In €m	Reported change <sup>(1)</sup>	Change at constant currency
 <b>Total employee costs</b>	<b>5,543</b>	-0.7%	-0.5%
 <b>Supplier costs<sup>(2)</sup> excluding fuel and purchasing of maintenance services and parts</b>	<b>5,119</b>	-0.4%	+0.4%
 <b>Aircraft costs<sup>(3)</sup></b>	<b>2,310</b>	+0.5%	-0.3%
 <b>Purchasing of maintenance services and parts</b>	<b>1,847</b>	+11.5%	+10.6%
 <b>Other income and expenses including capitalized production</b>	<b>-523</b>	-24.6%	-10.5%
<b>Operating costs ex-fuel</b>	<b>14,296</b>	<b>+2.2%</b>	<b>+1.6%</b>
 <b>Fuel</b>	<b>3,507</b>	-27.2%	-27.9%
<b>Grand total of operating costs</b>	<b>17,803</b>	<b>-5.3%</b>	<b>-6.0%</b>
<i>Capacity (EASK)</i>			+0.5%

(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

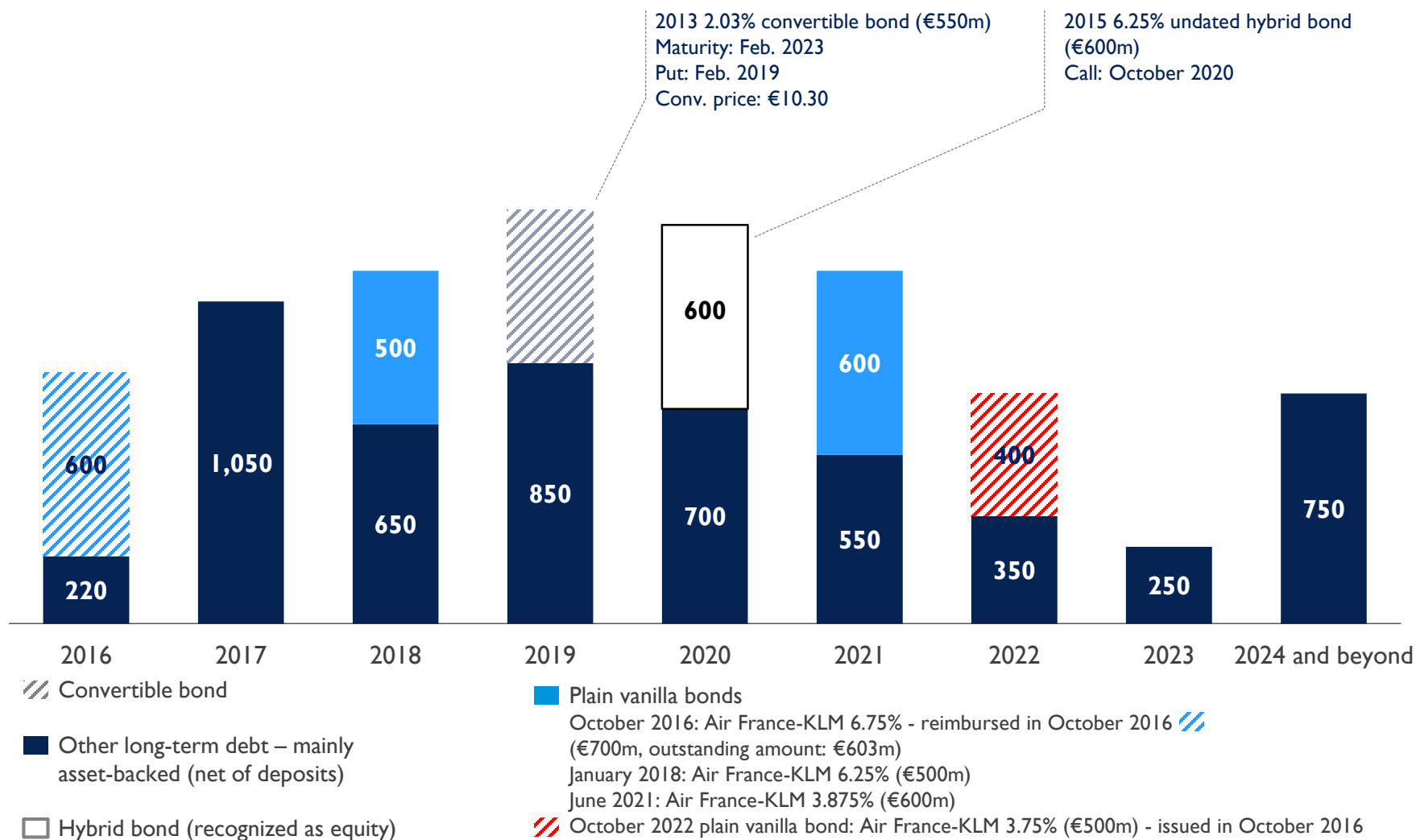
- Air France has entered into exclusive discussions with HNA for the sale of 49.99% of Servair and the transfer of the latter's operational control, for an enterprise value of 475 million euros (on a 100% basis)
- The deal is subject to HNA's acquisition of gategroup and is expected to be finalized before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



Servair	9M 2016	9M 2015	Variation
Total revenue	<b>617</b>	591	+4.5%
Third party revenue	<b>298</b>	266	+12.0%
EBITDA	<b>39</b>	41	-4.8%
Operating result	<b>26</b>	24	+2

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 September 2016<sup>(1)</sup>



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