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 – June 30, 2018

Air France-KLM Group

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Air France-KLM Group

CONSOLIDATED INCOME STATEMENT (unaudited)

In € millions **Period from January 1 to June 30**	***Notes***	**2018**	**2017 Restated (*)**
Sales	***6***	**12,432**	**12,332**
Revenues		**12,432**	**12,332**
External expenses	***7***	(7,299)	(7,088)
Salaries and related costs	***8***	(3,812)	(3,725)
Taxes other than income taxes		(87)	(83)
Other income and expenses	***10***	436	504
EBITDA		**1,670**	**1,940**
Amortization, depreciation and provisions	***9***	(1,442)	(1,387)
Income from current operations		**228**	**553**
Sales of aircraft equipment		(4)	19
Other non-current income and expenses	***11***	(23)	(11)
Income from operating activities		**201**	**561**
Cost of financial debt	***12***	(236)	(298)
Income from cash and cash equivalents	***12***	20	20
Net cost of financial debt		***(216)***	***(278)***
Other financial income and expenses	***12***	(74)	374
Income before tax		**(89)**	**657**
Income taxes	***13***	(68)	(205)
Net income of consolidated companies		**(157)**	**452**
Share of profits (losses) of associates		(1)	7
Net income from continuing operations		**(158)**	**459**
Net income from discontinued operations		-	(8)
Net income for the period		**(158)**	**451**
Non-controlling interests		*1*	*1*
Net income - Group part		*(159)*	*450*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic	***14***	(0.40)	1.46
- diluted		(0.40)	1.27
Net income from continuing operations - Equity holders of Air France-KLM (in euros)			
- basic	***14***	(0.40)	1.49
- diluted		(0.40)	1.29
Net income from discontinued operations - Equity holders of Air France-KLM (in euros)			
- basic	***14***	-	(0.03)
- diluted		-	(0.02)

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 June 30**	**2018**	**2017 Restated (*)**
Net income for the period	**(158)**	**451**
Cash flow hedges		
Effective portion of changes in fair value hedge recognized directly in other comprehensive income	629	(345)
Change in fair value transferred to profit or loss	(302)	(6)
Currency translation adjustment	**(1)**	**(1)**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	**(94)**	**117**
Total of other comprehensive income that will be reclassified to profit or loss	***232***	***(235)***
Remeasurements of defined benefit pension plans	**192**	**1,077**
Fair value of equity instruments revalued through OCI	**(38)**	**6**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	**(34)**	**(265)**
Total of other comprehensive income that will not be reclassified to profit or loss	***120***	***818***
Total of other comprehensive income, after tax	**352**	**583**
Recognized income and expenses	**194**	**1,034**
- Equity holders of Air France-KLM	**193**	**1,032**
- Non-controlling interests	1	2

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***	**June 30, 2018**	**December 31, 2017 Restated (*)**	**January 1, 2017 Restated (*)**
Goodwill		216	216	218
Intangible assets		1,162	1,122	1,066
Flight equipment	***15***	10,081	9,634	8,758
Other property, plant and equipment	***15***	1,443	1,418	1,400
Right-of-use assets		5,565	5,915	5,805
Investments in equity associates		294	301	292
Pension assets	***16***	688	590	1,462
Other financial assets		1,372	1,242	1,064
Deferred tax assets		258	422	589
Other non-current assets		301	239	448
Total non-current assets		**21,380**	**21,099**	**21,102**
Other short-term financial assets		376	421	130
Inventories		641	557	566
Trade receivables		2,680	2,164	1,894
Other current assets		1,728	1,242	1,080
Cash and cash equivalents	***20***	4,074	4,674	3,938
Total current assets		**9,499**	**9,058**	**7,608**
Total assets		**30,879**	**30,157**	**28,710**

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) (continued)

Liabilities and equity *In € millions*	***Notes***	**June 30, 2018**	**December 31, 2017** Restated (*)	January 1, **2017** Restated (*)
Issued capital	***17.1***	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	***17.1***	(2,520)	(2,713)	(3,542)
Equity attributable to equity holders of Air France-KLM		**2,581**	**2,388**	**262**
Non-controlling interests		13	12	11
Total equity		**2,594**	**2,400**	**273**
Pension provisions	***16***	2,141	2,202	2,119
Return obligation liability and other provisions	***18***	3,206	3,006	2,948
Financial debt	***19 &20***	5,951	5,919	7,271
Lease debt	***19 &20***	4,016	4,153	4,624
Deferred tax liabilities		42	11	(17)
Other non-current liabilities		235	361	284
Total non-current liabilities		**15,591**	**15,652**	**17,229**
Return obligation liability and other provisions	***18***	147	282	446
Financial debt	***19 &20***	688	1,378	1,002
Lease debt	***19 &20***	922	993	1,032
Trade payables		2,548	2,365	2,359
Deferred revenue on ticket sales		4,283	3,017	2,639
Frequent flyer programs		829	819	810
Other current liabilities		3,268	3,245	2,915
Bank overdrafts	***20***	9	6	5
Total current liabilities		**12,694**	**12,105**	**11,208**
Total liabilities		**28,285**	**27,757**	**28,437**
Total equity and liabilities		**30,879**	**30,157**	**28,710**

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	**-**	**-**	**-**	**-**	**-**	**(1,022)**	**(1,022)**	**(2)**	**(1,024)**
January 1, 2017 - Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(3,542)**	**262**	**10**	**272**
Gain / (loss) on cash flow hedges	-	-	-	-	-	(234)	(234)	-	(234)
Fair value of equity instruments through OCI	-	-	-	-	-	6	6	-	6
Remeasurements of defined benefit pension plans	-	-	-	-	-	812	**812**	-	**812**
Currency translation adjustment	-	-	-	-	-	(2)	**(2)**	1	**(1)**
Other comprehensive income	-	-	-	-	-	***582***	***582***	***1***	***583***
Net result for the period	-	-	-	-	-	450	**450**	1	**451**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**1,032**	**1,032**	**2**	**1,034**
June 30, 2017 - Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,510)**	**1,294**	**12**	**1,306**
December 31, 2017 - Restated (*)	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,713)**	**2,388**	**12**	**2,400**
Gain / (loss) on cash flow hedges	-	-	-	-	-	233	233	-	233
Fair value of equity instruments through OCI	-	-	-	-	-	(38)	(38)	-	(38)
Remeasurements of defined benefit pension plans (Including deferred tax on items of comprehensive income that will not be reclassified to profit or loss)	-	-	-	-	-	158	**158**	-	**158**
Currency translation adjustment	-	-	-	-	-	(1)	**(1)**	-	**(1)**
Other comprehensive income	-	-	-	-	-	***352***	***352***	-	***352***
Net result for the period	-	-	-	-	-	(159)	**(159)**	**1**	**(158)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**193**	**193**	**1**	**194**
June 30, 2018	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,520)**	**2,581**	**13**	**2,594**

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 June 30 *In € millions*	***Notes***	**2018**	**2017** **Restated(*)**
Net income from continuing operations		(158)	459
Net income from discontinued operations		-	(8)
Amortization, depreciation and operating provisions		1,442	1,387
Financial provisions		57	56
Loss (gain) on disposals of tangible and intangible assets		7	(19)
Loss (gain) on disposals of subsidiaries and associates		-	(2)
Derivatives – non monetary result		(23)	28
Unrealized foreign exchange gains and losses, net		108	(461)
Share of (profits) losses of associates		1	(7)
Deferred taxes		61	190
Other non-monetary items		(182)	(40)
Financial capacity		**1,313**	**1,583**
(Increase) / decrease in inventories		(67)	(53)
(Increase) / decrease in trade receivables		(517)	(294)
Increase / (decrease) in trade payables		163	(31)
Change in other receivables and payables		1,254	1,224
Change in working capital requirement		**833**	**846**
Net cash flow from operating activities (A)		**2,146**	**2,429**
Acquisition of subsidiaries, of shares in non-controlled entities		(8)	-
Purchase of property plant and equipment and intangible assets (B)		(1,534)	(1,339)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		3	3
Proceeds on disposal of property plant and equipment and intangible assets (C)		46	73
Dividends received		3	1
Decrease (increase) in net investments, more than 3 months		5	(258)
Net cash flow used in investing activities		**(1,485)**	**(1,520)**
Issuance of debt		295	324
Repayment on debt		(998)	(382)
Payments on lease debts (D)		(517)	(505)
New loans		(115)	(75)
Repayment on loans		66	25
Dividends and coupons on perpetual paid		(1)	(1)
Net cash flow from financing activities		**(1,270)**	**(614)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		8	(22)
Change in cash and cash equivalents and bank overdrafts		**(601)**	**273**
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		4,066	4,206
Income tax (paid) / reimbursed (flow included in operating activities)		(20)	(9)
Interest paid (flow included in operating activities)		(256)	(317)
Interest received (flow included in operating activities)		7	9

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

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Period from January 1 to June 30 *in € millions*	*Notes*	2018	2017
Net cash flow from operating activities	***A***	2,146	2,429
Purchase of property plant and equipment and intangible assets	***B***	(1,534)	(1,339)
Proceeds on disposal of property plant and equipment and intangible assets	***C***	46	73
Operating free cash flow (**)	***20***	**658**	**1,163**
Payments on lease debts	***D***	**(517)**	**(505)**
Operating free cash flow adjusted (**)		**141**	**658**

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, the Air France-KLM Group has applied 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 be 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 have been 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 for each prior reporting period presented, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* 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 introduced by IFRS 9 are the following:

- The change in time-value on 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 (eg: Brent or gasoil) as hedged item concerning the fuel derivatives (purchase of jet fuel). This change allows a reduction in 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 introduced by IFRS 15 are the following:

- Revenue recognized concerning unused tickets: is based on an historical statistical rate for unused tickets which is regularly updated, at the theoretical date of the transport. Previously, this recognition had taken place on the date the ticket was issued;
- Issuance 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 had taken place at the invoice date for the change or issuance fee;
- Commissions and other direct distribution costs (credit card fees, booking fees) is linked to airline-ticket sales: Cost deferred until delivery on of the transport service. Previously, they had been recognized when incurred, i.e. on issuance of the ticket;
- 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 had been 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 had been 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 had been recognize as revenue;
- Client compensations is presented as a cost. This accounting position was determined by the airline industry (through IATA).

The main changes introduced 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 the renewal options contractually foreseen. For example, this may be the case if substantial cabin customization has taken place while the residual lease term is significantly shorter than the useful life of the cabins. The discount rate used to value the lease debt corresponds, for each aircraft, to the implicit rate mainly induced from 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 lease debt in USD in order to limit the volatility of the foreign exchange result involved in the revaluation of its lease debt. Because IFRS 9 cannot be applied retrospectively, the comparative information for 2017 includes foreign exchange impacts linked to USD debt volatility. This impact is included in 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 belonging to the maintenance business customized lounges in airports other than hubs and office buildings. The lease term corresponds to the non-terminable period completed, if necessary, by renewal options whose exercise by the Group are reasonably certain. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate on commencement of the contract.
- Accounting of the other-assets leases: Based on its analysis, the main lease contracts identified correspond to company cars, pools of spare parts and engines. The lease term corresponds to the non-terminable period completed, if necessary, by renewal options whose exercise by the Group 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 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 recorded 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 restitution costs: this corresponds to the flight hours that the potentials must have at the date of aircraft redelivery to the lessor. It also includes the estimated duration of the lease contract as defined by IFRS 16 and no longer a statistical probability as previously applied. For each aircraft, 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 occur, costs incurred to reconstitute the potentials are capitalized. These potentials are amortized over the life of the potential flight hours. This better reflect the fact that right-of-use assets include components which can have different useful lives.

For the purpose of comparison, the consolidated financial statements as of June 30, 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 June 30, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Sales	**12 314**	**-**	**18**	**-**	**-**	**12,332**
External expenses	(7,148)	-	(38)	95	3	(7,088)
Salaries and related costs	(3,727)	-	-	2	-	(3,725)
Taxes other than income taxes	(83)	-	-	-	-	(83)
Other income and expenses	388	-	-	(3)	119	504
EBITDAR	**1,744**	**-**	**(20)**	**94**	**122**	**1,940**
Aircraft operating lease costs	(562)	-	-	562	-	-
EBITDA	**1,182**	**-**	**(20)**	**656**	**122**	**1,940**
Amortization, depreciation and provisions	(829)	-	(3)	(443)	(112)	(1,387)
Income from current operations	**353**	**-**	**(23)**	**213**	**10**	**553**
Income from operating activities	**361**	**-**	**(23)**	**213**	**10**	**561**
Net cost of financial debt	(113)	-	-	(165)	-	(278)
Other financial income and expenses	1	44	-	316	13	374
Income before tax	**249**	**44**	**(23)**	**365**	**23**	**657**
Income taxes	(96)	1	7	(111)	(7)	(205)
Net income of consolidated companies	**153**	**45**	**(16)**	**254**	**16**	**452**
Net income from continuing operations	**160**	**45**	**(16)**	**254**	**16**	**459**
Net income from discontinued operations	**(8)**	**-**	**-**	**-**	**-**	**(8)**
Net income	**152**	**45**	**(16)**	**254**	**16**	**451**
Earning per share (basic)	0.46	0.15	(0.05)	0.85	0.05	1.46
Earning per share (diluted)	0.42	0.13	(0.05)	0.72	0.04	1.27

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Impact on the consolidated statement of recognized income and expenses

In € millions **Period from January 1 to June 30, 2017**	Published accounts	IFRS 9 impact	IFRS 15 & 16 impact	Restated accounts
Net income for the period	**152**	**45**	**254**	**451**
Fair value adjustment on available-for-sale securities	(1)	1	-	-
Cash flow hedges	(331)	(20)	-	(351)
Currency translation adjustment	-	(1)	-	(1)
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	115	2	-	117
Total of other comprehensive income that will be reclassified to profit or loss	**(217)**	**(18)**	**-**	**(235)**
Remeasurements of defined benefit pension plans	1,077	-	-	1 077
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	(264)	(1)	-	(265)
Total of other comprehensive income that will not be reclassified to profit or loss	**813**	**5**	**-**	**818**
Total of other comprehensive income, after tax	**596**	**(13)**	**-**	**583**
Recognized income and expenses	**748**	**32**	**254**	**1,034**
• **Equity holders of Air France-KLM**	**745**	**33**	**254**	**1,032**
• Non-controlling interests	3	(1)	-	2

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
Asset						
Flight equipment	9,921	32	-	(79)	(240)	9,634
Other property, plant and equipment	1,492	-	-	(74)	-	1,418
Right-of-use assets	-	-	-	4,717	1,198	5,915
Deferred tax assets	234	(10)	38	80	80	422
Trade receivables	2,136	-	28	-	-	2,164
Other current assets	1,263	(1)	23	(55)	12	1,242
Equity and liabilities						
Return obligation liability and other provisions (current and non-current term)	2,198	-	(109)	-	1,199	3,288
Financial debt (current and non-current)	7,442	(4)	-	(141)	-	7,297
Lease debt (current and non-current)	-	-	-	5,146	-	5,146
Deferred revenue on ticket sales	2,889	-	128	-	-	3,017
Other current liabilities	3,100	-	147	(2)	-	3,245
Equity	3,015	25	(77)	(414)	(149)	2,400
• Holders of Air France-KLM	3,002	25	(77)	(413)	(149)	2,388
• 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
Asset						
Flight equipment	9,119	(26)	-	(94)	(241)	8,758
Other property, plant and equipment	1,480	-	-	(80)	-	1,400
Right-of-use assets	-	-	-	4,651	1,154	5,805
Deferred tax assets	176	6	32	289	86	589
Trade receivables	1,868	-	26	-	-	1,894
Other current assets	1,105	(1)	23	(52)	5	1,080
Equity and liabilities						
Return obligation liability and other provisions (current and non-current term)	2,327	-	(106)	(1)	1,174	3,394
Financial debt (current and non-current)	8,452	(4)	-	(175)	-	8,273
Lease debt (current and non-current)	-	-	-	5,656	-	5,656
Deferred tax liabilities	(12)	-	(5)	-	-	(17)
Deferred revenue on ticket sales	2,517	-	122	-	-	2,639
Other current liabilities	2,775	-	146	1	(7)	2,915
Equity	1,296	(17)	(76)	(767)	(163)	273
• Holders of Air France-KLM	1,284	(17)	(76)	(766)	(163)	262
• Non-controlling interests	12	-	-	(1)	-	11

Air France-KLM Group

Impact on the consolidated statement of cash flows

In € millions **Period from January 1 to June 30, 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	152	45	(16)	254	16	451
Other items of the financial capacity	834	(45)	(4)	237	110	1,132
Financial capacity	**986**	**-**	**(20)**	**491**	**126**	**1,583**
Change in working capital requirement	826	-	20	5	(5)	846
Net cash flow from operating activities	**1,812**	**-**	**-**	**496**	**121**	**2,429**
Net cash flow used in investing activities	**(1,399)**	**-**	**-**	**-**	**(121)**	**(1,520)**
Net cash flow from financing activities	**(119)**	**-**	**-**	**(495)**	**-**	**(614)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(21)	-	-	(1)	-	(22)
Change in cash and cash equivalents and bank overdrafts	**273**	**-**	**-**	**-**	**-**	**273**
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	4,206	-	-	-	-	4,206

3. SIGNIFICANT EVENTS

3.1. Events occurring during the period

Since February 22, 2018, ten Air France unions have launched strike action. During the first semester 2018, there were 15 days of strike. The impact on “income from current operations” for the first semester 2018 is estimated at € (335) 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 No. 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 June 30, 2018 have been established 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 June 30, 2018 have been established in accordance with the accounting principles used by the Group for the 2017 consolidated financial statements, 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 July 31, 2018.

Change in accounting principles

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

    - IFRS 9 “Financial Instruments”, effective for the period beginning January 1, 2018 and replacing the standard IAS 39 of the same name;
    - 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 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;
    - 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.

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

    - IFRS 16 “Leases”, effective for the period beginning January 1, 2019 and replacing the IAS 17 of the same name. The Group decided to adopt this standard for the period beginning January 1, 2018.

- IFRS standards which are applicable on a mandatory basis to the 2019 financial statements

    - Amendment to IFRS 9 “Financial instruments”, effective for the period beginning January 1, 2019. This amendment deals with prepayment features with negative compensation.

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

    - 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 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 the 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 maintain the overall consistency of the assumptions set.

4.3. Use of estimates

The preparation of the condensed consolidated financial statements in conformity with IFRS requires the 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;
- Return obligation liability and other provisions;
- Deferred tax assets.

The application of IFRS 16 “Leases” leads the Group to make assumptions and estimations in order to determine the value of the right-of-use assets and the lease debt which mainly relates to the implicit interest rate for aircraft and the incremental borrowing rate for real estate and other lease contracts. The Group also exercises its judgement to qualify or not renewal options as reasonable certain.

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 the 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 of the lease financial debts.

5. CHANGE IN THE CONSOLIDATION SCOPE

- **First semester ended June 30, 2018**

No significant acquisition or disposal took place during the first semester ended June 30, 2018

- **First semester ended June 30, 2017**

No significant acquisition or disposal took place during the first semester ended June 30, 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 freight come 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 the sales of cargo capacity to third parties and the transportation of shipments on behalf of the Group by other airlines.

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 EBITDA, current operating income and 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

• First semester ended June 30, 2018

In € millions	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	10,806	2,082	689	120	-	13,697
Intersegment sales	(20)	(1,141)	(1)	(103)	-	(1,265)
External sales	**10,786**	**941**	**688**	**17**	**-**	**12,432**
EBITDA	1,301	235	116	18	-	1,670
Income from current operations	150	72	3	3	-	228
Income from operating activities	120	76	3	2	-	201
Share of profits (losses) of associates	1	2	-	(4)	-	(1)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(290)	(290)
Income taxes	-	-	-	-	(68)	(68)
Net income from continuing operations	**121**	**78**	**3**	**(2)**	**(358)**	**(158)**

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• First semester ended June 30, 2017 (Restated)

In € millions	**Network**	**Maintenance**	**Transavia**	**Other**	**Non allocated**	**Total**
Total sales	10,840	2,031	606	119	-	13,596
Intersegment sales	(22)	(1,141)	(1)	(100)	-	(1,264)
External sales	**10,818**	**890**	**605**	**19**	**-**	**12,332**
EBITDA	1,629	214	83	14	-	1,940
Income from current operations	469	106	(20)	(2)	-	553
Income from operating activities	479	106	(23)	(1)	-	561
Share of profits (losses) of associates	-	1	-	6	-	7
Net cost of financial debt and other financial income and expenses	-	-	-	-	96	96
Income taxes	-	-	-	-	(205)	(205)
Net income from continuing operations	**479**	**107**	**(23)**	**5**	**(109)**	**459**

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6.2. Information by geographical area

External sales by geographical area

- **First semester ended June 30, 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	3,012	1,144	2,306	469	263	932	1,434	670	10,230
Other network sales	201	87	100	31	9	67	38	23	556
Total network	**3,213**	**1,231**	**2,406**	**500**	**272**	**999**	**1,472**	**693**	**10,786**
Scheduled Transavia	290	337	40	1	4	1	2	1	676
Transavia - other sales	5	-	-	-	-	-	7	-	12
Total Transavia	**295**	**337**	**40**	**1**	**4**	**1**	**9**	**1**	**688**
Maintenance	505	377	13	-	-	1	45	-	941
Others	4	13	-	-	-	-	-	-	17
Total	**4,017**	**1,958**	**2,459**	**501**	**276**	**1,001**	**1,526**	**694**	**12,432**

- **First semester ended June 30, 2017 (Restated)**

In € millions	Metropolitan France	Benelux	Europe (except France and Benelux)	Africa	Middle-Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Network	2,903	1,100	2,286	533	279	1,004	1,538	667	10,310
Other network sales	188	101	79	19	18	50	32	21	508
Total network	**3,091**	**1,201**	**2,365**	**552**	**297**	**1,054**	**1,570**	**688**	**10,818**
Scheduled Transavia	230	303	53	1	4	1	3	1	596
Transavia - other sales	4	-	-	-	-	-	5	-	9
Total Transavia	**234**	**303**	**53**	**1**	**4**	**1**	**8**	**1**	**605**
Maintenance	491	337	13	-	-	-	49	-	890
Others	4	15	-	-	-	-	-	-	19
Total	**3,820**	**1,856**	**2,431**	**553**	**301**	**1,055**	**1,627**	**689**	**12,332**

Traffic sales by geographical area of destination

- **First semester ended June 30, 2018**

In € millions	**Metropolitan France**	**Europe (except France) North Africa**	**Caribbean, French Guyana, Indian Ocean**	**Africa (except North Africa) Middle East**	**North America, Mexico**	**South America, except Mexico**	**Asia, New Caledonia**	**Total**
Network	865	2,273	788	1,332	2,110	1,058	1,804	10,230
Scheduled Transavia	10	616	-	50	-	-	-	676
Total	**875**	**2,889**	**788**	**1,382**	**2,110**	**1,058**	**1,804**	**10,906**

- **First semester ended June 30, 2017 (Restated)**

In € millions	**Metropolitan France**	**Europe (except France) North Africa**	**Caribbean, French Guyana, Indian Ocean**	**Africa (except North Africa) Middle East**	**North America, Mexico**	**South America, except Mexico**	**Asia, New Caledonia**	**Total**
Network	927	2,230	804	1,410	2,126	992	1,821	10,310
Scheduled Transavia	10	562	-	24	-	-	-	596
Total	**937**	**2,792**	**804**	**1,434**	**2,126**	**992**	**1,821**	**10,906**

7. EXTERNAL EXPENSES

In € millions **Period from January 1 to June 30**	**2018**	**2017** **Restated**
Aircraft fuel	2,245	2,280
Chartering costs	276	256
Landing fees and air route charges	906	932
Catering	375	388
Handling charges and other operating costs	980	856
Aircraft maintenance costs	1,183	1,185
Commercial and distribution costs	510	466
Other external expenses	824	725
Total	**7,299**	**7,088**
Excluding aircraft fuel	*5,054*	*4,808*

The line “handling charges and other operating costs” includes client compensations. This position has been determined by the airline industry (through IATA).

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions **Period from January 1 to June 30**	**2018**	**2017**
Wages and salaries	2,608	2,550
Social contributions	525	526
Pension costs linked to defined contribution plans	319	290
Net periodic pension cost of defined benefit plans	119	132
Cost of temporary employees	115	88
Profit sharing	94	79
Other expenses	32	60
Total	**3,812**	**3,725**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). Since this multi-employer plan is 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 June 30	**2018**	**2017**
Flight deck crew	7,870	7,719
Cabin crew	21,897	21,154
Ground staff	51,377	51,637
Temporary employees	3,125	2,683
Total	**84,269**	**83,193**

9. AMORTIZATION, DEPRECIATION AND PROVISIONS

In € millions **Period from January 1 to June 30**	**2018**	**2017**
Amortization		
Intangible assets	79	68
Flight equipment	585	615
Other property, plant and equipment	95	96
Right-of-Use assets	615	582
	1,374	**1,361**
Depreciation and provisions		
Inventories	(3)	4
Trade receivables	22	-
Risks and contingencies	49	22
	68	**26**
Total	**1,442**	**1,387**

10. OTHER INCOME AND EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to June 30		
Capitalized production	460	510
Joint operation of routes	(21)	(39)
Operations-related currency hedges	(25)	27
Other	22	6
Other income and expenses	**436**	**504**

11. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to June 30		
Sale of Cobalt	-	2
Restructuring costs	(22)	(16)
Modification on pensions plans in the Netherlands	-	15
Cargo penalty	(1)	(12)
Other non-current income and expenses	**(23)**	**(11)**

- **Six-month period ended June 30, 2018**

<u>Restructuring costs</u>

This mainly includes the new provision relating to the voluntary departure plan for KLM cabin crew.

- **Six-month period ended June 30, 2017**

<u>Restructuring costs</u>

This mainly included an addition to the voluntary departure plan by Air France and the closure of the Munich base of Transavia The Netherlands as of October 2017.

<u>Modification on pension plans The Netherlands</u>

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

<u>Cargo penalty</u>

The provision for the cargo claim has been adjusted by a net amount of € (12) million.

12. NET COST OF FINANCIAL DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

In € millions **Period from January 1 to June 30**	**2018**	**2017**
Income from marketable securities	2	6
Other financial income	18	14
Income from cash and cash equivalents	**20**	**20**
Interest on financial debt	(73)	(101)
Interest on lease debt	(146)	(169)
Capitalized interests and other non-monetary items	7	7
Other financial expenses	(24)	(35)
Gross cost of financial debt	**(236)**	**(298)**
Net cost of financial debt	**(216)**	**(278)**
Foreign exchange gains (losses), net	(78)	467
Financial instruments and change in fair value of hedges shares	64	(32)
Net (charge) release to provisions	(3)	9
Other	(57)	(70)
Other financial income and expenses	**(74)**	**374**

Foreign exchange gain (losses)

As of June 30, 2018, the foreign exchange loss mainly included €55 million non-realized loss on return obligation liability on aircraft in US Dollar and €36 million non-realized loss on Japanese Yen debt.

As of June 30, 2017, the foreign exchange gain mainly included €447 million non-realized gain on US Dollar of which €312 million on lease debts and €135 million on return obligation liability on aircraft and €30 million non-realized gain on Japanese Yen debt.

Financial instruments and change in fair value of hedged shares

As of June 30, 2018, it mainly includes a gain on the hedged Amadeus shares of € 16 million and a gain on the financial instrument of €48 million, of which a variation of the change derivatives for €31 million.

As of June 30, 2017, it mainly includes a net financial charge of financial instrument of €29 million explain by the variation of the financial instrument due to fuel derivative for €(17) million and change derivative for €(25) million.

Other financial income and expenses

As of June 30, 2018 and 2017, the line “other” comprises mainly the effect of accretion on long-term provisions for € (56) million and € (63) million.

13. INCOME TAXES

13.1. Income tax charge

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

In € millions **Period from January 1 to June 30**	**2018**	**2017**
Current tax (expense) / income	**(7)**	**(16)**
Change in temporary differences	-	(96)
CVAE impact	2	2
(Use / de-recognition) / recognition of tax loss carry forwards	(63)	(95)
Deferred tax income / (expense) from continuing operations	**(61)**	**(189)**
Total	**(68)**	**(205)**

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

- **French fiscal group**

In France, tax losses can be carried forward for an unlimited period. However, there is a limitation on the amount of fiscal loss recoverable each year to 50 per cent of the profit for the period beyond the first million euros. The recoverability of the deferred tax losses corresponds to a period of seven years, consistent with the Group's operating visibility.
In 2017, the Finance Law initiated a gradual reduction in the French income tax rate from 34.43% to 25.83% applicable to the French fiscal group as from fiscal year 2022.

- **Dutch fiscal group**

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

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

In € millions **Period from January 1 to June 30**	**2018**	**2017**
Other comprehensive income that will be reclassified to profit and loss	**(94)**	**117**
Fair value adjustment on available for sale securities	-	(2)
Gain and loss on cash flow hedge	(94)	119
Other comprehensive income that will not be reclassified to profit and loss	**(34)**	**(265)**
Pensions	(34)	(265)
Total	**(128)**	**(148)**

14. EARNINGS PER SHARE

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

Reconciliation of income used to calculate earnings per share

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

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

In € millions **As of June 30**	**2018**	**2017**
Net income for the period – Equity holders of Air France-KLM	(159)	450
Net income from continuing operations – Equity holders of Air France – KLM	(159)	458
Net income from discontinued operations – Equity holders of Air France – KLM	-	(8)
Coupons on perpetual	(12)	(12)
Basic net income for the period – Equity holders of Air France-KLM	(171)	438
Basic net income from continuing operations – Equity holders of Air France – KLM	(171)	446
Basic net income from discontinued operations – Equity holders of Air France – KLM	-	(8)

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

Reconciliation of the number of shares used to calculate earnings per share

As of June 30	**2018**	**2017**
Weighted average number of:		
- Ordinary shares issued	428,634,035	300,219,278
- Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
- Other treasury stock	(29,956)	(32,783)
Number of shares used to calculate basic earnings per share	**427,487,659**	**299,070,075**
OCEANE conversion	-	53,386,532
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**427,487,659**	**352,456,607**

14.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of June 30, 2018.

14.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

15. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

In € millions	As of June 30, 2018			As of December 31, 2017		
	Gross value	**Depreciation**	**Net Value**	**Gross value**	**Depreciation**	**Net Value**
Owned aircraft	10,420	(6,284)	4,136	9,881	(6,295)	3,586
Leased aircraft	5,524	(1,817)	3,707	5,858	(2,065)	3,793
Assets in progress	929	-	929	989	-	989
Other	2,110	(801)	1,309	2,021	(755)	1,266
Flight equipment	**18,983**	**(8,902)**	**10,081**	**18,749**	**(9,115)**	**9,634**
Land and buildings	2,647	(1,856)	791	2,639	(1,811)	828
Equipment and machinery	1,264	(993)	271	1,251	(977)	274
Assets in progress	216	-	216	156	-	156
Other	957	(792)	165	943	(783)	160
Other tangible assets	**5,084**	**(3,641)**	**1,443**	**4,989**	**(3,571)**	**1,418**
Total	**24,067**	**(12,543)**	**11,524**	**23,738**	**(12,686)**	**11,052**
Aircraft including cabin modifications			4,656			4,990
Real estate			685			682
Other			224			243
Total right-of-use assets			**5,565**			**5,915**

As of January 1, 2018 Air France extended the useful life of its B777-200 fleet to 25 years. Previously the useful life was 20 years. This decision decreases the depreciation cost of €33 million in the first semester 2018.

16. PENSION ASSETS AND PROVISIONS

As of June 30, 2018, the discount rates used by companies to calculate the defined benefit obligations are the following:

	June 30, 2018	**December 31, 2017**
Euro zone – duration 10 to 15 years	1.45%	1.25%
Euro zone – duration 15 years and more	2.00%	1.90%

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

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 increased.

All these items have a cumulative impact resulting in:

- A €98 million increase in the "pension assets" on the balance sheet (schemes with a net asset position) and
- A €61 million decrease in the "pension provisions" on the balance sheet (schemes with a net liability position).

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

17.1 Breakdown of stock and voting rights

As of June 30, 2018, the issued capital of Air France-KLM comprised 428,634,035 fully paid-up shares with a nominal value of €1. Each share is entitled to one vote. However since April 3, 2016, shareholders who have owned their shares for at least two years benefit from double voting rights.

The breakdown of stock and voting rights is as follows:

In percentage(%)	**June 30, 2018**		**December 31, 2017**	
	Capital	Voting rights	Capital	Voting rights
French State	14	23	14	23
Delta Airlines	9	7	9	7
China Eastern Airlines	9	7	9	7
Employees and former employees	4	7	4	7
Other	64	56	64	56
Total	**100**	**100**	**100**	**100**

The item “Employees and former employees” includes shares held by employees and former employees identified in funds or by a Sicovam code.

17.2 Reserves and retained earnings

In € millions	***Notes***	**June 30, 2018**	**December 31, 2017 Restated**
Legal reserve		70	70
Defined benefit pensions reserves		(1,227)	(1,386)
Derivatives reserves		531	227
Available for sale securities reserves		(29)	56
Other reserves		(1,706)	(1,807)
Net income (loss) – Equity holders of Air France-KLM		(159)	127
Total		**(2,520)**	**(2,713)**

18. RETURN OBLIGATION LIABILITY AND OTHER PROVISIONS

In € millions	June 30, 2018			December 31, 2017		
	Non current	**Current**	**Total**	**Non current**	**Current**	**Total**
Return obligation liability on aircraft	2,748	19	2,767	2,542	72	2,614
Restructuring	-	61	61	-	159	159
Litigation	379	44	423	384	23	407
Other	79	23	102	80	28	108
Total	**3,206**	**147**	**3,353**	**3,006**	**282**	**3,288**

18.1. Return obligation liability and other provisions

18.1.1. Return obligation liability on aircraft

The return obligation liability on aircraft are recorded at aircraft delivery. They cover:
- The costs of maintenance not dependent on aircraft use. They have to be realized at redelivery to the lessor
- The valuation of the flight hours that the potentials must have at the date of aircraft redelivery to the lessor. It also includes the estimated duration of the lease contract as defined by IFRS 16. For each aircraft, the potential levels are dependent on the contract signed.

18.1.2. Restructuring provisions

As of June 30 2018 and December 31 2017, the restructuring provisions mainly concern the voluntary departure plans for Air France and its regional subsidiaries, KLM and Martinair.

18.1.3. Litigation

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

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

18.1.4. Litigation concerning antitrust laws in the airfreight industry

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

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

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

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

18.1.5. Other provisions

Other provisions relate principally to power-by-the-hour contracts (maintenance activity of the Group), provisions for onerous leases, provisions for the portion of CO2 emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

18.2 Contingent liabilities

The Group is involved in several governmental, judicial and arbitration procedures for which, in most cases, provisions have not been recorded in the financial statements in accordance with applicable accounting rules. Indeed, with respect to most cases the Group is not in a position at this stage of these procedures to give a reliable estimate of the potential loss that would be incurred in connection with these disputes. The provisions that have been recorded by Air France, KLM and Martinair are described in paragraph 18.2.1.

18.2.1. Litigations concerning antitrust laws in the airfreight industry

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

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

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

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

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

18.2.2. Litigations concerning antitrust laws in the passenger sector

Canada

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

18.2.3. Other litigations

Rio-Paris AF447 flight

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

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

US Department of Justice investigation related to United States Postal Service

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

Except for the matters specified under the paragraphs 18.1 and 18.2, the Group is not aware of any governmental, judicial and arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

19. FINANCIAL DEBT AND LEASE FINANCIAL

In € millions	**June 30, 2018**			**December 31, 2017**		
	Non current	**Current**	**Total**	**Non current**	**Current**	**Total**
Perpetual subordinated loan stock	558	-	558	544	-	544
Bonds	1,124	-	1,124	1,124	500	1,624
Capital lease obligations	3,201	523	3,724	3,133	648	3,781
Other long-term debt	1,068	132	1,200	1,118	154	1,272
Accrued interest	-	33	33	-	76	76
Total - Financial debt	**5,951**	**688**	**6,639**	**5,919**	**1,378**	**7,297**
Lease debt - Aircraft	3,020	784	3,804	3,177	822	3,999
Lease debt - Real estate	787	99	886	761	123	884
Lease debt - Other	208	22	230	215	48	263
Accrued interest	1	17	18	-	-	-
Total - Financial lease	**4,016**	**922**	**4,938**	**4,153**	**993**	**5,146**

Air France-KLM Group

Market value

The financial liabilities with fair values significantly different from their book values are the following:

In € millions	**June 30, 2018**		**December 31, 2017**	
	Net book value	**Estimated market value**	**Net book value**	**Estimated market value**
Perpetual subordinated loan stock	558	521	544	521
Bonds	1,124	1,595	1,628	1,701
Total	**1,682**	**2,116**	**2,172**	**2,222**

20. NET DEBT

In € millions	**June 30, 2018**	**December 31, 2017**
Financial debt	6,639	7,297
Lease debt	4,938	5,146
Accrued interest	(50)	(76)
Lease deposits	(428)	(428)
Derivatives impact on debt	10	19
Gross financial debt (I)	**11,109**	**11,958**
Cash and cash equivalents	4,074	4,674
Marketable securities (1)	73	73
Cash secured (1)	265	269
Triple A bonds (1)	450	379
Others	-	(2)
Bank overdrafts	(9)	(6)
Net cash (II)	**4,853**	**5,387**
Net debt (I-II)	**6,256**	**6,571**

(1) Included in "others financial assets"

In € millions	**June 30, 2018**	**December 31, 2017**
Opening net debt	**6,571**	**9,044**
Operating free cash, cash flow	(658)	(1,639)
Disposal of subsidiaries, of shares in non-controlled entities	3	8
Acquisition of subsidiaries, of shares in non-controlled entities	(9)	(9)
New lease debts (new and renewed contracts)	194	991
Unrealised exchange gains and losses on lease financial debts through OCI	74	-
Currency translation adjustment	66	(575)
Capital increase	-	(747)
Amortization of OCEANE optional part	-	16
Reclassification	-	(524)
Other	15	6
Closing net debt	**6,256**	**6,571**

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21. FLIGHT EQUIPMENT ORDERS

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

In € millions	**June 30, 2018**	**December 31, 2017**
2nd semester year Y (6 months)	310	-
Year Y+1	1,193	966
Year Y+2	817	968
Year Y+3	1,433	950
Year Y+4	832	1,401
> Year Y+4	1,276	2,057
Total	**5,861**	**6,342**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.

The number of aircraft under firm order (excluding operational lease) as of June 30, 2018 decreased by 14 units compared with December 31, 2017 and stood at 49 aircraft. These changes are explained by the delivery of 16 aircraft over the period and by the order of 2 aircraft.

Long-haul fleet (passenger)

The Group took delivery of 3 Boeing B787.

Medium-haul fleet

The Group took delivery of 5 Boeing B737s and 1 Airbus A320.
The Group signed a firm order for two B737 aircraft.

Regional fleet

The Group took delivery of 5 Embraer E175s and 2 Embraer E190s.

The Group's commitments concern the following aircraft:

Aircraft type	To be delivered in	2nd semester Y (6 months)	Y+1	Y+2	Y+3	Y+4	Beyond Y+4	Total
Long-haul fleet – passenger								
A350	As of June 30, 2018	-	3	3	7	5	10	**28**
	As of December 31, 2017	-	-	3	3	7	15	**28**
B787	As of June 30, 2018	2	6	2	6	2	1	**19**
	As of December 31, 2017	-	5	4	4	6	3	**22**
B777	As of June 30, 2018	-	-	-	-	-	-	-
	As of December 31, 2017	-	-	-	-	-	-	-
Medium-haul fleet								
A320	As of June 30, 2018	-	-	-	-	-	-	-
	As of December 31, 2017	-	1	-	-	-	-	**1**
B737	As of June 30, 2018	-	2	-	-	-	-	**2**
	As of December 31, 2017	-	5	-	-	-	-	**5**
Regional fleet								
EMB 175	As of June 30, 2018	-	-	-	-	-	-	-
	As of December 31, 2017	-	5	-	-	-	-	**5**
EMB 170	As of June 30, 2018	-	-	-	-	-	-	-
	As of December 31, 2017	-	-	-	-	-	-	-
EMB 190	As of June 30, 2018	-	-	-	-	-	-	-
	As of December 31, 2017	-	2	-	-	-	-	**2**
Total	**As of June 30, 2018**	**2**	**11**	**5**	**13**	**7**	**11**	**49**
	As of December 31, 2017	**-**	**18**	**7**	**7**	**13**	**18**	**63**

22. RELATED PARTIES

The Group's relationships with its related parties did not change significantly in terms of amounts and/or scope.