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 – September 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 September 30**	***Notes***	**2018**	**2017 Restated (*)**
Sales	***6***	**19,976**	**19,588**
Other revenues		**1**	**1**
Revenues		**19,977**	**19,589**
External expenses	***7***	(11,310)	(10,712)
Salaries and related costs	***8***	(5,728)	(5,652)
Taxes other than income taxes		(127)	(122)
Other income and expenses	***9***	629	690
EBITDA		**3,441**	**3,793**
Amortization, depreciation and provisions		(2,149)	(2,098)
Income from current operations		**1,292**	**1,695**
Sales of aircraft equipment		(1)	19
Other non-current income and expenses	***10***	(5)	(326)
Income from operating activities		**1,286**	**1,388**
Cost of financial debt		(354)	(443)
Income from cash and cash equivalents		29	27
Net cost of financial debt		***(325)***	***(416)***
Other financial income and expenses	***11***	(135)	538
Income before tax		**826**	**1,510**
Income taxes		(203)	(425)
Net income of consolidated companies		**623**	**1,085**
Share of profits (losses) of associates		6	16
Net income from continuing operations		**629**	**1,101**
Net income from discontinued operations		-	(8)
Net income for the period		**629**	**1,093**
Non-controlling interests		*2*	*2*
Net income - Group part		*627*	*1,091*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic		1.42	3.59
- diluted		1.42	3.09
Net income from continuing operations - Equity holders of Air France-KLM (in euros)			
- basic		1.42	3.61
- diluted		1.42	3.11
Net income from discontinued operations - Equity holders of Air France-KLM (in euros)			
- basic		-	(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 September 30**	**2018**	**2017 Restated (*)**
Net income for the period	**629**	**1,093**
Cash flow hedges		
Change in fair value hedge recognized directly in other comprehensive income	920	(112)
Change in fair value hedge transferred to profit or loss	(503)	54
Currency translation adjustment	**1**	**(1)**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	**(119)**	**24**
Total of other comprehensive income that will be reclassified to profit or loss	***299***	***(35)***
Remeasurements of defined benefit pension plans	**293**	**1,359**
Fair value of equity instruments revalued through OCI	**(36)**	**9**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	**(58)**	**(343)**
Total of other comprehensive income that will not be reclassified to profit or loss	***199***	***1,025***
Total of other comprehensive income, after tax	**498**	**990**
Recognized income and expenses	**1,127**	**2,083**
- Equity holders of Air France-KLM	**1,125**	**2,081**
- Non-controlling interests	2	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***	**September 30, 2018**	**December 31, 2017 Restated (*)**	**January 1, 2017 Restated (*)**
Goodwill		217	216	218
Intangible assets		1,174	1,122	1,066
Flight equipment		10,187	9,634	8,758
Other property, plant and equipment		1,462	1,418	1,400
Right-of-use assets		5,361	5,915	5,805
Investments in equity associates		299	301	292
Pension assets	***12***	768	590	1,462
Other financial assets		1,499	1,242	1,064
Deferred tax assets		255	422	589
Other non-current assets		348	239	448
Total non-current assets		**21,570**	**21,099**	**21,102**
Other short-term financial assets		327	421	130
Inventories		676	557	566
Trade receivables		2,621	2,164	1,894
Other current assets		1,743	1,242	1,080
Cash and cash equivalents	***13***	3,891	4,674	3,938
Total current assets		**9,258**	**9,058**	**7,608**
Total assets		**30,828**	**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***	**September 30, 2018**	**December 31, 2017** **Restated (*)**	**January 1, 2017** **Restated (*)**
Issued capital		429	429	300
Additional paid-in capital		4,139	4,139	2,971
Treasury shares		(67)	(67)	(67)
Perpetual		403	600	600
Reserves and retained earnings		(1,626)	(2,713)	(3,542)
Equity attributable to equity holders of Air France-KLM		**3,278**	**2,388**	**262**
Non-controlling interests		14	12	11
Total equity		**3,292**	**2,400**	**273**
Pension provisions	***12***	2,090	2,202	2,119
Return obligation liability and other provisions		3,248	3,006	2,948
Financial debt	***13***	6,019	5,919	7,271
Lease debt		3,848	4,153	4,624
Deferred tax liabilities		196	11	(17)
Other non-current liabilities		228	361	284
Total non-current liabilities		**15,629**	**15,652**	**17,229**
Return obligation liability and other provisions		170	282	446
Financial debt	***13***	692	1,378	1,002
Lease debt		946	993	1,032
Trade payables		2,610	2,365	2,359
Deferred revenue on ticket sales		3,336	3,017	2,639
Frequent flyer programs		835	819	810
Other current liabilities		3,303	3,245	2,915
Bank overdrafts	***13***	15	6	5
Total current liabilities		**11,907**	**12,105**	**11,208**
Total liabilities		**27,536**	**27,757**	**28,437**
Total equity and liabilities		**30,828**	**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)**	**(1)**	**(1,023)**
January 1, 2017 - Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(3,542)**	**262**	**11**	**273**
Gain / (loss) on cash flow hedges	-	-	-	-	-	(34)	(34)	-	(34)
Fair value of equity instruments revalued through OCI	-	-	-	-	-	9	9	-	9
Remeasurements of defined benefit pension plans	-	-	-	-	-	1,016	**1,016**	-	**1,016**
Currency translation adjustment	-	-	-	-	-	(1)	**(1)**	-	**(1)**
Other comprehensive income	***-***	***-***	***-***	***-***	***-***	***990***	***990***	***-***	***990***
Net result for the period	-	-	-	-	-	1,091	**1,091**	2	**1,093**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**2,081**	**2,081**	**2**	**2,083**
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	**(25)**	-	**(25)**
Change in scope	-	-	-	-	-	(3)	**(3)**	-	**(3)**
September 30, 2017 - Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(1,489)**	**2,315**	**13**	**2,328**
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	-	-	-	-	-	298	298	-	298
Fair value of equity instruments revalued through OCI	-	-	-	-	-	(36)	(36)	-	(36)
Remeasurements of defined benefit pension plans (Including deferred tax on items of comprehensive income that will not be reclassified to profit or loss)	-	-	-	-	-	235	**235**	-	**235**
Currency translation adjustment	-	-	-	-	-	1	**1**	-	**1**
Other comprehensive income	***-***	***-***	***-***	***-***	***-***	***498***	***498***	***-***	***498***
Net result for the period	-	-	-	-	-	627	**627**	**2**	**629**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**1,125**	**1,125**	**2**	**1,127**
Change in consolidation scope	-	-	-	-	-	1	**1**	-	**1**
Perpetual	-	-	-	-	(197)	(14)	**(211)**	-	**(211)**
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	**(25)**	-	**(25)**
September 30, 2018	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(1,626)**	**3,278**	**14**	**3,292**

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 September 30 *In € millions*	***Notes***	**2018**	**2017** **Restated (*)**
Net income from continuing operations		629	1,101
Net income from discontinued operations		-	(8)
Amortization, depreciation and operating provisions		2,149	2,098
Financial provisions		93	91
Loss (gain) on disposals of tangible and intangible assets		(18)	(17)
Loss (gain) on disposals of subsidiaries and associates		1	(2)
Derivatives – non monetary result		25	44
Unrealized foreign exchange gains and losses, net		118	(675)
Share of (profits) losses of associates		(6)	(16)
Deferred taxes		187	368
Other non-monetary items		(283)	213
Financial capacity		**2,895**	**3,197**
(Increase) / decrease in inventories		(102)	(15)
(Increase) / decrease in trade receivables		(471)	(486)
Increase / (decrease) in trade payables		222	62
Change in other receivables and payables		361	630
Change in working capital requirement		**10**	**191**
Net cash flow from operating activities (A)		**2,905**	**3,388**
Acquisition of subsidiaries, of shares in non-controlled entities		(9)	(7)
Purchase of property plant and equipment and intangible assets (B)		(2,138)	(1,947)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		5	3
Proceeds on disposal of property plant and equipment and intangible assets (C)		96	84
Dividends received		4	2
Decrease (increase) in net investments, more than 3 months		5	(276)
Net cash flow used in investing activities		**(2,037)**	**(2,141)**
Repayment on perpetual		(197)	-
Issuance of debt		532	560
Repayment on debt		(1,182)	(801)
Payments on lease debts (D)		(736)	(746)
New loans		(127)	(108)
Repayment on loans		75	34
Premium on perpetual		(14)	-
Dividends and coupons on perpetual paid		(12)	(1)
Net cash flow from financing activities		**(1,661)**	**(1,062)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		2	(26)
Change in cash and cash equivalents and bank overdrafts		**(791)**	**159**
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		3,876	4,092

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

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Period from January 1 to September 30 *in € millions*	*Notes*	2018	2017
Net cash flow from operating activities	***A***	2,905	3,388
Purchase of property plant and equipment and intangible assets	***B***	(2,138)	(1,947)
Proceeds on disposal of property plant and equipment and intangible assets	***C***	96	84
Operating free cash flow (**)		**863**	**1,525**
Payments on lease debts	***D***	**(736)**	**(746)**
Operating free cash flow adjusted (**)		**127**	**779**

The accompanying notes are an integral part of these 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 1st, 2018 Air France-KLM Group applies the three following new standards:

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

The main changes involved by IFRS 9 are the following:

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

The main changes involved by IFRS 15 are the following:

- Revenue recognized concerning unused tickets: is based on an historical statistical rate of the unused tickets which is regularly updated, at the theoretical date of the transport. Previously, this recognition was done at the date the ticket was issued;
- Issuing and change fees: revenue recognition at the transport date, not involving a different service bringing a profit to the passenger in the absence of transport. Previously, this recognition was done at the invoice date of change or issuing fee;
- Commissions and other distribution costs (credit card fees, booking fees) is linked to the airline-ticket sales: Cost deferred when transport is made. Previously, they were recognized when incurred, being at the ticket issuance;
- Transport of goods on behalf of the Group, by another airline: the revenue charged to the customer is entirely recognized and a cost corresponding to the chartering is recorded. Previously, only the commission was recognized in revenues for the part operated by another airline;
- Power-by-the hour contracts (overhaul of aircraft equipment and engines): revenue recognition based on the costs incurred. Previously, revenue recognition was based on invoicing schedule, according to flight hours; a provision was made for expected costs;
- Purchase of spare parts on behalf of third parties: Each operation is analyzed to determine if the Group is acting as principal or as agent. Previously, the margin was recognize as revenue;
- Client compensations are presented as a cost. This position has been determined by the airline industry (through IATA).

The main changes involved by IFRS 16 are the following:

- Capitalization of aircraft lease contracts fulfilling the capitalization criteria defined by IFRS 16. The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options contractually foreseen. For example, this may be the case if important cabin customization has taken place whereas the residual lease term is significantly shorter than the useful life of cabins. The discount rate used to value the lease debt corresponds, for each aircraft, to the implicit rate mainly involved by the contractual elements. Most of the aircraft lease contracts are denominated in USD. As from January 1st, 2018 the Group has put in place a natural hedge for its USD revenues by the lease debt in USD in order to limit the volatility of the foreign exchange result involved by the revaluation of its lease debt. Because the standard IFRS 9 cannot be retrospectively applied, the comparative information for 2017 includes foreign exchange impacts linked to the USD debt volatility. This impact is included on the line “other financial income and expenses”;
- Capitalization of real-estate lease contracts: Based on its analysis, the Group has identified lease contracts concerning surfaces rented in its hubs, building devoted to the maintenance business, lounges customized in airports other than hubs and office buildings. The lease term corresponds to the not terminable period completed, if necessary, by options of renewal which are reasonably certain. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the commencement of the contract.
- Accounting of the other-assets leases: Based on its analysis, the main lease contracts identified correspond to company cars, pool of spare parts and engines. The lease term corresponds to the not terminable period completed, if necessary, by options of renewal which are reasonably certain. The discount rate used to calculate the right-of-use asset and the lease debt is determined, for each asset, according to the incremental borrowing rate at the commencement of the contract.
- Accounting of the maintenance of leased aircraft: Within the framework of IFRS 16 deployment, the Group has reviewed the accounting of the maintenance costs and of the contractual maintenance obligations at redelivery of its leased aircraft. Maintenance on leased aircraft is therefore recorded as follows:
    - A return obligation liability is made on delivery of the aircraft if the maintenance to be realized at redelivery to the lessor does not depend on aircraft use. The counterpart of this liability is recorded in the book value of the right-of-use asset at the origin. It is amortized over the lease term.
    - A return obligation liability for redelivery costs: It corresponds to the 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 not anymore a statistical probability as previously done. 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 of flight hours. This allows to reflect better the fact that right-of-use assets include components which can have different useful lives.

For the purpose of comparison, consolidated accounts as of September 30th, 2017 have been restated. The adjusted balance sheets as of January 1st and December 31st, 2017 are also presented.

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The impact of these three new standards are summarized hereafter:

Impact on the consolidated income statement

In € millions **Period from January 1 to September 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	**19 549**	**-**	**39**	**-**	**-**	**19 588**
External expenses	(10 798)	-	(65)	143	6	(10 712)
Salaries and related costs	(5 655)	-	-	3	-	(5 652)
Taxes other than income taxes	(122)	-	-	-	-	(122)
Other income and expenses	523	-	-	(3)	170	690
EBITDAR	**3 497**	**-**	**(23)**	**143**	**176**	**3 793**
Aircraft operating lease costs	(827)	-	-	827	-	-
EBITDA	**2 670**	**-**	**(23)**	**970**	**176**	**3 793**
Amortization, depreciation and provisions	(1 295)	-	7	(670)	(140)	(2 098)
Income from current operations	**1 375**	**-**	**(16)**	**300**	**36**	**1 695**
Income from operating activities	**1 068**	**-**	**(16)**	**300**	**36**	**1 388**
Net cost of financial debt	(171)	-	-	(245)	-	(416)
Other financial income and expenses	82	-	-	441	15	538
Income before tax	**979**	**-**	**(16)**	**496**	**51**	**1 510**
Income taxes	(282)	17	5	(150)	(15)	(425)
Net income of consolidated companies	**697**	**17**	**(11)**	**346**	**36**	**1 085**
Net income from continuing operations	**713**	**17**	**(11)**	**346**	**36**	**1 101**
Net income from discontinued operations	**(8)**	**-**	**-**	**-**	**-**	**(8)**
Net income	**705**	**17**	**(11)**	**346**	**36**	**1 093**
Earning per share (basic)	2,29	0,06	(0,04)	1,12	0,12	3,55
Earning per share (diluted)	1,99	0,05	(0,03)	0,98	0,10	3,09

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Impact on the consolidated statement of recognized income and expenses

In € millions **Period from January 1 to September 30, 2017**	Published accounts	IFRS 9 impact	IFRS 15 & 16 impact	Restated accounts
Net income for the period	**705**	**17**	**371**	**1 093**
Fair value adjustment on available-for-sale securities	18	(18)	-	-
Cash flow hedges	(127)	69	-	(58)
Currency translation adjustment	(1)	-	-	(1)
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	43	(19)	-	24
Total of other comprehensive income that will be reclassified to profit or loss	**(67)**	**32**	**-**	**(35)**
Remeasurements of defined benefit pension plans	1 359	-	-	1 359
Fair value of equity instruments revalued through OCI	-	9	-	9
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	(328)	(15)	-	(343)
Total of other comprehensive income that will not be reclassified to profit or loss	**1 031**	**(6)**	**-**	**1 025**
Total of other comprehensive income, after tax	**964**	**26**	**-**	**990**
Recognized income and expenses	**1 669**	**43**	**371**	**2 083**
• **Equity holders of Air France-KLM**	**1 665**	**43**	**373**	**2 081**
• Non-controlling interests	4	-	(2)	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
<u>Asset</u>						
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
<u>Equity and liabilities</u>						
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

Air France-KLM Group

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 September 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	705	17	(11)	346	36	1 093
Other items of the financial capacity	1 609	(17)	(12)	379	145	2 104
Financial capacity	**2 314**	**-**	**(23)**	**725**	**181**	**3 197**
Change in working capital requirement	173	-	23	7	(12)	191
Net cash flow from operating activities	**2 487**	**-**	**-**	**732**	**169**	**3 388**
Net cash flow used in investing activities	**(1 972)**	**-**	**-**	**-**	**(169)**	**(2 141)**
Net cash flow from financing activities	**(330)**	**-**	**-**	**(732)**	**-**	**(1 062)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(26)	-	-	-	-	(26)
Change in cash and cash equivalents and bank overdrafts	**159**	**-**	**-**	**-**	**-**	**159**
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	4 092	-	-	-	-	4 092

3. SIGNIFICANT EVENTS

3.1. Events occurring during the period

Repurchase subordinated perpetual notes

On September 12th, 2018 Air France-KLM announced the final results of its tender offer result of its tender offer launched on 3 September 2018 to repurchase any and all of its € 600 million subordinated perpetual notes issued in 2015. Notes for a nominal amount of € 194.5 million were presented and accepted for repurchase. In addition to this public operation, €2.2 million were purchased by agreement "de gré à gré" at the same price. As a result, the nominal amount of the outstanding notes after completion of the tender offer is € 403.3 million.

Strike impact

Since February 22nd, 2018 the 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 nine-month period ended September 30th, 2018 is estimated at € (335) million.

3.2. Subsequent events

Labour Agreement at Air France

On October 6 2018, the management proposed to open discussions on labour agreement to Air France unions. After discussions performed at a later stafe, an agreement was signed between Air France and the unions on October 19 2018. The key measure of the agreement include a general pay increase of 2%, retroactive to January 1, 2018, and a general pay increase of 2% on January 1, 2019. It covers the unilateral increase already paid in 2018. The impact of the agreement will be booked during the fourth quarter and amounts to around € 40 millions for the period January-September 2018.

4. ACCOUNTING POLICIES

4.1. Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation n° 1606/2002 of July 19th, 2002 the consolidated financial statements of the Air France-KLM Group as of December 31st, 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 September 30th, 2018 are prepared in accordance with IFRS, as adopted by the European Union on the date these condensed consolidated financial statements were established, and are presented according to IAS 34 "Interim financial reporting" and must be read in connection with the annual consolidated financial statements for the year ended on December 31st, 2017.

The interim condensed consolidated financial statements as of September 30th, 2018 have been established in accordance with the accounting principles used by the Group for the consolidated financial statements 2017, except for standards and interpretations adopted by the European Union applicable as from January 1st, 2018.

The condensed consolidated financial statements were approved by the Board of Directors on October 29th, 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 1st, 2018 and replacing the standard IAS 39 of the same name;

    - IFRS 15 “Revenue from Contracts with Customers”, effective for the period beginning January 1st, 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 1st, 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 1st, 2018. This amendment clarifies the scope of the disclosure requirements;

    - IFRIC 22 “Foreign currency transactions and advance consideration”, effective for the period beginning January 1st, 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 1st, 2019 and replacing the IAS 17 of the same name. The Group decided to adopt this standard for the period beginning January 1st, 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 1st, 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 1st, 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 1st, 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 1st, 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 1st, 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 1st, 2019. This amendment indicates borrowing costs eligible for capitalization;

    - Amendment to IAS 19 “Employee benefits”, effective for the period beginning January 1st, 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 1st to September 30th. 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 31st, 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

- **Nine-month period ended September 30th, 2018**

No significant acquisition or disposal took place during the nine-month period ended September 30, 2018

- **Nine-month period ended September 30th, 2017**

JOON, a new airline within the Air France Group has been created. It operates in low cost segment of the network business. JOON started its activities in November 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 three 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

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6.1. Information by business segment

• Nine-month period ended September 30th, 2018

In € millions	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	17,247	3,143	1,305	184	-	21,879
Intersegment sales	(31)	(1,713)	(3)	(156)	-	(1,903)
External sales	**17,216**	**1,430**	**1,302**	**28**	**-**	**19,976**
EBITDA	2,681	378	354	28	-	3,441
Income from current operations	960	149	181	2	-	1,292
Income from operating activities	926	153	181	26	-	1,286
Share of profits (losses) of associates	1	3	-	2	-	6
Net cost of financial debt and other financial income and expenses	-	-	-	-	(460)	(460)
Income taxes	-	-	-	-	(203)	(203)
Net income from continuing operations	**927**	**156**	**181**	**28**	**(663)**	**629**

• Nine-month period ended September 30, 2017 (Restated)

In € millions	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	17,094	3,065	1,161	186	-	21,506
Intersegment sales	(33)	(1,729)	(1)	(155)	-	(1,918)
External sales	**17,061**	**1,336**	**1,160**	**31**	**-**	**19,588**
EBITDA	3,094	365	311	23	-	3,793
Income from current operations	1,355	188	153	(1)	-	1,695
Income from operating activities	1,050	188	151	(1)	-	1,388
Share of profits (losses) of associates	-	3	-	13	-	16
Net cost of financial debt and other financial income and expenses	-	-	-	-	122	122
Income taxes	-	-	-	-	(425)	(425)
Net income from continuing operations	**1,050**	**191**	**151**	**12**	**(303)**	**1,101**

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6.2. Information by geographical area

External sales by geographical area

- **Nine-month period ended September 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	4,638	1,838	3,556	789	438	1,579	2,382	1,109	16,329
Other network sales	317	127	167	51	15	116	59	35	887
Total network	**4,955**	**1,965**	**3,723**	**840**	**453**	**1,695**	**2,441**	**1,144**	**17,216**
Scheduled Transavia	572	632	70	2	8	2	4	2	1,292
Transavia - other sales	4	-	-	-	-	-	6	-	10
Total Transavia	**576**	**632**	**70**	**2**	**8**	**2**	**10**	**2**	**1,302**
Maintenance	770	570	21	-	-	2	67	-	1,430
Others	6	22	-	-	-	-	-	-	28
Total	**6,307**	**3,189**	**3,814**	**842**	**461**	**1,699**	**2,518**	**1,146**	**19,976**

- **Nine-month period ended September 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	4,421	1,697	3,562	869	450	1,637	2,496	1,156	16,288
Other network sales	284	115	160	48	14	81	39	32	773
Total network	**4,705**	**1,812**	**3,722**	**917**	**464**	**1,718**	**2,535**	**1,188**	**17,061**
Scheduled Transavia	459	587	88	1	8	2	4	2	1,151
Transavia - other sales	4	-	-	-	-	-	5	-	9
Total Transavia	**463**	**587**	**88**	**1**	**8**	**2**	**9**	**2**	**1,160**
Maintenance	750	499	18	-	-	1	68	-	1,336
Others	10	21	-	-	-	-	-	-	31
Total	**5,928**	**2,919**	**3,828**	**918**	**472**	**1,721**	**2,612**	**1,190**	**19,588**

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Traffic sales by geographical area of destination

- **Nine-month period ended September 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	1,302	3,821	1,210	1,957	3,496	1,668	2,875	16,329
Scheduled Transavia	20	1,126	-	146	-	-	-	1,292
Total	**1,322**	**4,947**	**1,210**	**2,103**	**3,496**	**1,668**	**2,875**	**17,621**

- **Nine-month period ended September 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	1,367	3,570	1,235	2,223	3,433	1,596	2,864	16,288
Scheduled Transavia	19	1,093	-	39	-	-	-	1,151
Total	**1,386**	**4,663**	**1,235**	**2,262**	**3,433**	**1,596**	**2,864**	**17,439**

7. EXTERNAL EXPENSES

In € millions **Period from January 1 to September 30**	**2018**	**2017** **Restated**
Aircraft fuel	3,622	3,428
Chartering costs	434	388
Landing fees and air route charges	1,419	1,445
Catering	586	602
Handling charges and other operating costs	1,481	1,313
Aircraft maintenance costs	1,769	1,779
Commercial and distribution costs	776	700
Other external expenses	1,223	1,057
Total	**11,310**	**10,712**
Excluding aircraft fuel	*7,688*	*7,284*

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

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8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions	**2018**	**2017**
Period from January 1 to September 30		
Wages and salaries	3,943	3,861
Social contributions	817	810
Pension costs linked to defined contribution plans	474	418
Net periodic pension cost of defined benefit plans	175	192
Cost of temporary employees	177	140
Profit sharing	143	208
Other expenses	(1)	23
Total	**5,728**	**5,652**

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 September 30	**2018**	**2017**
Flight deck crew	7,922	7,728
Cabin crew	22,055	21,471
Ground staff	51,503	51,445
Temporary employees	3,212	2,861
Total	**84,692**	**83,505**

9. OTHER INCOME AND EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to September 30		**Restated**
Capitalized production	665	733
Joint operation of routes	(44)	(73)
Operations-related currency hedges	(19)	22
Other	27	8
Other income and expenses	**629**	**690**

10. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to September 30		
Restructuring costs	(29)	(18)
Modification on pensions plans in the Netherlands	-	(296)
Disposals of subsidiaries and affiliates	(1)	1
Other disposal of assets	32	(1)
Others	(7)	(12)
Other non-current income and expenses	**(5)**	**(326)**

- **Nine-month period ended September 30th, 2018**

Restructuring costs

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

Other disposal of assets

This line mainly includes the sale of Vilgénis real estate in France and the activities of Jet Center at Amsterdam Airport Schiphol.

- **Nine-month period ended September 30th, 2017**

Restructuring costs

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

Modification on pension plans The Netherlands

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

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 1st, 2017. The one-off financial impact of this scheme change is a €15 million profit.

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11. OTHER FINANCIAL INCOME AND EXPENSES

In € millions	**2018**	**2017**
Period from January 1 to September 30		
Income from marketable securities	3	5
Other financial income	26	22
Income from cash and cash equivalents	**29**	**27**
Interest on financial debt	(108)	(153)
Interest on lease debt	(221)	(250)
Capitalized interests and other non-monetary items	(15)	(26)
Other financial expenses	(10)	(14)
Gross cost of financial debt	**(354)**	**(443)**
Net cost of financial debt	**(325)**	**(416)**
Foreign exchange gains (losses), net	(113)	672
Financial instruments and change in fair value of hedged shares	78	(36)
Net (charge)/ release to provisions	(1)	3
Other	(99)	(101)
Other financial income and expenses	**(135)**	**538**

Foreign exchange gains (losses)

As of September 30th, 2018 the foreign exchange loss includes €(91) million on US dollar, mainly related to return obligation liability on aircraft, and €(22) million non-realized loss on Japanese Yen debt.

As of September 30th, 2017 the foreign exchange gain mainly included €629 million non-realized gain on US Dollar of which €440 million on lease debts and €189 million on return obligation liability on aircraft, and €62 million non-realized gain on Japanese Yen debt.

Financial instruments and change in fair value of hedged shares

As of September 30th, 2018 it mainly includes a gain on the hedged Amadeus shares of €32 million and a gain on financial instrument of €37 million, of which a variation of the change derivatives for €54 million.

As of September 30th, 2017 it mainly includes a net financial charge of financial instrument of €37 million explained by the variation of the fuel derivatives for €(13) million and change derivatives for €(43) million.

Other financial income and expenses

As of September 30th, 2018 and 2017, this line “other” comprises mainly the effect of accretion on long-term provisions for €(92) million and €(94) million.

12. PENSION ASSETS AND PROVISIONS

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

	September 30, 2018	**December 31, 2017**
Euro zone – duration 10 to 15 years	1.50%	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 31st, 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:

- An € 197 million increase in the "pension assets" on the balance sheet (schemes with a net asset position) and

- A € 96 million decrease in the "pension provisions" on the balance sheet (schemes with a net liability position).

13. NET DEBT

In € millions	**September 30, 2018**	**December 31, 2017**
Financial debt	6,711	7,297
Lease debt	4,794	5,146
Accrued interest	(63)	(76)
Lease deposits related to financial debt	(342)	(342)
Lease deposits related to lease debt	(84)	(86)
Derivatives impact on debt	11	19
Gross financial debt (I)	**11,027**	**11,958**
Cash and cash equivalents	3,891	4,674
Marketable securities [(1)]	73	73
Cash secured [(1)]	264	269
Triple A bonds [(1)]	465	379
Others	-	(2)
Bank overdrafts	(15)	(6)
Net cash (II)	**4,678**	**5,387**
Net debt (I-II)	**6,349**	**6,571**

(1) Included in "others financial assets"

In € millions	**September 30, 2018**	**December 31, 2017**
Opening net debt	**6,571**	**9,044**
Operating free cash, cash flow	(863)	(1,639)
Perpetual	211	-
Disposal of subsidiaries, of shares in non-controlled entities	5	8
Acquisition of subsidiaries, of shares in non-controlled entities	(9)	(9)
New lease debts (new and renewed contracts)	239	991
Unrealized exchange gains and losses on lease financial debts through OCI	96	-
Currency translation adjustment	93	(575)
Capital increase	-	(747)
Coupon on perpetual paid	11	-
Amortization of OCEANE optional part	-	16
Reclassification	3	(524)
Other	(8)	6
Closing net debt	**6,349**	**6,571**