

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, 2017 – September 30, 2017

Air France-KLM Group

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CONSOLIDATED INCOME STATEMENT

<i>In € millions</i>			
Period from January 1 to September 30	Notes	2017	2016
Sales	6	19,548	18,758
Other revenues		1	1
Revenues		19,549	18,759
External expenses	7	(10,798)	(10,797)
Salaries and related costs	8	(5,655)	(5,543)
Taxes other than income taxes		(122)	(125)
Other income and expenses	9	523	647
EBITDAR		3,497	2,941
Aircraft operating lease costs		(827)	(798)
EBITDA		2,670	2,143
Amortization, depreciation and provisions		(1,295)	(1,188)
Income from current operations		1,375	955
Sales of aircraft equipment		19	16
Other non-current income and expenses	10	(326)	(107)
Income from operating activities		1,068	864
Cost of financial debt		(198)	(237)
Income from cash and cash equivalents		27	39
<i>Net cost of financial debt</i>		<i>(171)</i>	<i>(198)</i>
Other financial income and expenses	11	82	(78)
Income before tax		979	588
Income taxes	12	(282)	(166)
Net income of consolidated companies		697	422
Share of profits (losses) of associates		16	3
Net income from continuing operations		713	425
Net income from discontinued operations	13	(8)	14
Net income for the period		705	439
<i>Non-controlling interests</i>		2	9
<i>Net income - Group part</i>		<i>703</i>	<i>430</i>
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic		2.29	1.39
- diluted		1.99	1.22
Net income from continuing operations - Equity holders of Air France-KLM (in euros)			
- basic		2.32	1.34
- diluted		2.01	1.18
Net income from discontinued operations - Equity holders of Air France-KLM (in euros)			
- basic		(0.03)	0.05
- diluted		(0.03)	0.04

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

Air France-KLM Group

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES

<i>In € millions</i>		
Period from January 1 to September 30	2017	2016
Net income for the period	705	439
Fair value adjustment on available-for-sale securities		
Change in fair value recognized directly in other comprehensive income	18	44
Cash flow hedges		
Effective portion of changes in fair value hedge recognized directly in other comprehensive income	(171)	157
Change in fair value transferred to profit or loss	44	689
Currency translation adjustment	(1)	10
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	43	(258)
<i>Total of other comprehensive income that will be reclassified to profit or loss</i>	<i>(67)</i>	<i>642</i>
Remeasurements of defined benefit pension plans	1,359	(2,030)
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	(328)	474
<i>Total of other comprehensive income that will not be reclassified to profit or loss</i>	<i>1,031</i>	<i>(1,556)</i>
Total of other comprehensive income, after tax	964	(914)
Recognized income and expenses	1,669	(475)
- Equity holders of Air France-KLM	1,665	(478)
- Non-controlling interests	4	3

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Air France-KLM Group

CONSOLIDATED BALANCE SHEET

Assets		September 30,	December 31,
<i>In € millions</i>	<i>Notes</i>	2017	2016
Goodwill		216	218
Intangible assets		1,113	1,066
Flight equipment		9,813	9,119
Other property, plant and equipment		1,453	1,480
Investments in equity associates		303	292
Pension assets	14	2,487	1,462
Other financial assets		1,122	1,064
Deferred tax assets		143	176
Other non-current assets		187	448
Total non-current assets		16,837	15,325
Other short-term financial assets		444	130
Inventories		583	566
Trade receivables		2,293	1,868
Other current assets		1,136	1,105
Cash and cash equivalents	15	4,102	3,938
Total current assets		8,558	7,607
Total assets		25,395	22,932

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

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CONSOLIDATED BALANCE SHEET (continued)

Liabilities and equity <i>In € millions</i>	<i>Notes</i>	September 30, 2017	December 31, 2016
Issued capital		300	300
Additional paid-in capital		2,971	2,971
Treasury shares		(67)	(67)
Perpetual		600	600
Reserves and retained earnings		(883)	(2,520)
Equity attributable to equity holders of Air France-KLM		2,921	1,284
Non-controlling interests		16	12
Total equity		2,937	1,296
Pension provisions	14	2,117	2,119
Other provisions		1,625	1,673
Long-term debt	15	6,593	7,431
Deferred tax liabilities		451	(12)
Other non-current liabilities		338	284
Total non-current liabilities		11,124	11,495
Other provisions		561	654
Current portion of long-term debt	15	1,412	1,021
Trade payables		2,367	2,359
Deferred revenue on ticket sales		3,062	2,517
Frequent flyer programs		819	810
Other current liabilities		3,103	2,775
Bank overdrafts	15	10	5
Total current liabilities		11,334	10,141
Total liabilities		22,458	21,636
Total equity and liabilities		25,395	22,932

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

Air France-KLM Group

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

<i>In € millions</i>	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, 2015	300,219,278	300	2,971	(85)	600	(3,561)	225	48	273
Fair value adjustment on available for sale securities	-	-	-	-	-	42	42	-	42
Gain / (loss) on cash flow hedges	-	-	-	-	-	590	590	-	590
Remeasurements of defined benefit pension plans	-	-	-	-	-	(1,550)	(1,550)	(6)	(1,556)
Currency translation adjustment	-	-	-	-	-	10	10	-	10
Other comprehensive income	-	-	-	-	-	(908)	(908)	(6)	(914)
Net result for the period	-	-	-	-	-	430	430	9	439
Total of income and expenses recognized	-	-	-	-	-	(478)	(478)	3	(475)
Treasury shares	-	-	-	2	-	-	2	-	2
Dividends paid and coupons on perpetual	-	-	-	-	(23)	-	(23)	(7)	(30)
September 30, 2016	300,219,278	300	2,971	(83)	577	(4,039)	(274)	44	(230)
December 31, 2016	300,219,278	300	2,971	(67)	600	(2,520)	1,284	12	1,296
Fair value adjustment on available for sale securities	-	-	-	-	-	15	15	-	15
Gain / (loss) on cash flow hedges	-	-	-	-	-	(81)	(81)	-	(81)
Remeasurements of defined benefit pension plans	-	-	-	-	-	1,028	1,028	3	1,031
Currency translation adjustment	-	-	-	-	-	-	-	(1)	(1)
Other comprehensive income	-	-	-	-	-	962	962	2	964
Net result for the period	-	-	-	-	-	703	703	2	705
Total of income and expenses recognized	-	-	-	-	-	1,665	1,665	4	1,669
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	-	(25)
Change in scope	-	-	-	-	-	(3)	(3)	-	(3)
September 30, 2017	300,219,278	300	2,971	(67)	600	(883)	2,921	16	2,937

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

Period from January 1 to September 30	<i>Notes</i>	2017	2016
Net income from continuing operations		713	425
Net income from discontinued operations		(8)	14
Amortization, depreciation and operating provisions		1,295	1,194
Financial provisions		37	(7)
Loss (gain) on disposals of tangible and intangible assets		(17)	(69)
Loss (gain) on disposals of subsidiaries and associates		(1)	(10)
Derivatives – non monetary result		34	(131)
Unrealized foreign exchange gains and losses, net		(168)	121
Share of (profits) losses of associates		(16)	(1)
Deferred taxes		224	141
Impairment		-	2
Other non-monetary items		221	12
Financial capacity		2,314	1,691
<i>Including discontinued operations (D)</i>		-	29
(Increase) / decrease in inventories		(15)	(108)
(Increase) / decrease in trade receivables		(487)	(198)
Increase / (decrease) in trade payables		62	54
Change in other receivables and payables		613	297
Change in working capital requirement		173	45
Change in working capital from discontinued operations (D)		-	(10)
Net cash flow from operating activities (A)		2,487	1,726
Acquisition of subsidiaries, of shares in non-controlled entities		(7)	(7)
Purchase of property plant and equipment and intangible assets (B)		(1,769)	(1,595)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		3	4
Proceeds on disposal of property plant and equipment and intangible assets (C)		75	138
Dividends received		2	4
Decrease (increase) in net investments, more than 3 months		(276)	798
Net cash flow used in investing activities of discontinued operations		-	(11)
Net cash flow used in investing activities		(1,972)	(669)
Issuance of debt		560	686
Repayment on debt		(283)	(792)
Payment of debt resulting from finance lease liabilities		(533)	(387)
New loans		(108)	(83)
Repayment on loans		34	32
Dividends and coupons on perpetual paid		-	(1)
Net cash flow used in financing activities of discontinued operations		-	(10)
Net cash flow from financing activities		(330)	(555)
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(26)	(16)
Effect of exchange rate on cash and cash equivalent and bank overdrafts of discontinued operations (net of cash acquired or sold)		-	(1)
Change in cash and cash equivalents and bank overdrafts		159	485
Cash and cash equivalents and bank overdrafts at beginning of period (including cash of discontinued operations)		3,933	3,073
Cash and cash equivalents and bank overdrafts at end of period (including cash of discontinued operations)		4,092	3,561
Change in cash of discontinued operations		-	(3)

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

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Period from January 1 to September 30	<i>Notes</i>	2017	2016
<i>in € millions</i>			
Net cash flow from operating activities	<i>A</i>	2,487	1,726
Purchase of property plant and equipment and intangible assets	<i>B</i>	(1,769)	(1,595)
Proceeds on disposal of property plant and equipment and intangible assets	<i>C</i>	75	138
Net cash flow from operating activities from discontinued operations	<i>D</i>	-	(19)
Operating free cash flow excluding discontinued activities	<i>15</i>	793	250

The accompanying notes are an integral part of these 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. ACCOUNTING POLICIES

2.1. Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation n° 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2016 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 30, 2017 are prepared in accordance with IFRS, as adopted by the European Union on the date these condensed consolidated financial statements were established, and are presented according to IAS 34 "Interim financial reporting" and must be read in connection with the annual consolidated financial statements for the year ended on December 31, 2016.

The interim condensed consolidated financial statements as of September 30, 2017 have been established in accordance with the accounting principles used by the Group for the consolidated financial statements 2016, except for standards and interpretations adopted by the European Union applicable as from January 1, 2017.

The condensed consolidated financial statements were approved by the Board of Directors on November 2, 2017.

Change in accounting principles

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

- Standard IFRS 9 "Financial Instruments", effective for the period beginning January 1, 2018;
- Standard IFRS 15 "Revenue from Contracts with Customers", effective for the period beginning January 1, 2018 and replacing the standards IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes".

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

- Standard IFRS 16 "Leases", effective for the period beginning January 1, 2019;
- Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", effective for the period beginning January 1, 2018;
- Amendment to IFRS 15 Clarification on "Revenue Recognition from Contracts with Customers", effective for the period beginning January 1, 2018.
- Amendment to IAS 7 "Cash Flow Statement", effective for the period beginning January 1, 2017;
- Amendment to IAS 12 "Income tax", effective for the period beginning January 1, 2017;
- Amendment to IFRS 12 "Disclosure of interests in other entities", effective for the period beginning January 1, 2017;

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- Interpretation IFRIC 22 “Foreign currency transactions and advance consideration”, effective for the period beginning January 1, 2018;
- Interpretation IFRIC 23 “Uncertainty over income tax treatments”, effective for the period beginning January 1, 2019.

The main qualitative impacts regarding the implementation of IFRS 9, 15 and 16 have been described in Note 4.1 of the fifth part of the Registration Document 2016 in the ‘Accounting principles’.

The amendment IAS 12 “Income tax” does not have a significant impact on Group’s financial statements as of September 30, 2017.

2.2. Preparation of unaudited interim consolidated financial statements

Seasonality of the activity

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

Income taxes

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

Retirement benefits

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

2.3. Use of estimates

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The significant areas of estimates described in the note 4 of the December 31, 2016 consolidated financial statements, concerned:

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

The Group’s management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

The consolidated financial statements for the period have thus been established on the basis of financial parameters available at the closing date. Concerning the non-current assets, the assumptions are based on a limited level of growth.

Actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

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3. RESTATEMENT OF ACCOUNTS 2016

Introduction of Network Business

Within the strategic repositioning of the cargo business, the Group has progressively implemented a new business model aimed at optimizing the belly and combi capacity of the passenger aircraft and reducing the full freighter fleet. In 2017 the bellies of passenger aircraft should exceed 85 per cent of total cargo capacity. The full freighter fleet consists of two B777 and four B747 freighters which means a reduction in capacity of the full freighters of 24 per cent in 2016 and a more than 50 per cent reduction since 2013.

Except for the full freighter fleet, the commercial interests of the passenger business are leading in the determination of the utilization of the aircraft in the Group's network, especially regarding the selection of and the frequency to destinations and the type of aircraft. In that context, the cargo activities are considered as part of the network, complementary to the passenger activities that contributes to the line profitability of the network destinations. These activities constitute a unique larger activity, called 'Network'. It is the performance of this activity that is monitored by the Group Executive Committee.

As a consequence, the Network business constitutes one unique operating segment. The external reporting on business segmentation in Note 6 "Information by activity and geographical area", has been restated accordingly.

4. SIGNIFICANT EVENTS

4.1. Events that occurred in the period

KLM Cabin Crew pension scheme in 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 1, 2017, amounted to €311 million and has been recorded to 'Other non-current income and expenses' in the income statement. Net of income tax, the impact amounted to € (233) million.

Litigation concerning anti-trust law in the air-freight industry

On March 17, 2017, the European Commission issued a new decision against eleven air cargo carriers, including Air France, KLM and Martinair, regarding practices in the air cargo sector which are considered to be anti-competitive and relate to the period between December 1999 and February 2006. This new decision follows the December 16, 2015 annulment by the General Court of the European Union of the European Commission's initial decision of November 9, 2010, relating to these same practices and concerning the same carriers. This initial decision had been annulled in full because it contained a contradiction regarding the exact scope of the practices sanctioned.

The total amount of fines imposed on the Air France-KLM Group is €325 million. This amount has been slightly reduced as compared to the initial decision owing to a lower fine for Martinair due to technical reasons.

On 29 and 30 May 2017, the Group companies filed an appeal against this decision before the General Court of the European Union.

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4.2. Subsequent events

Capital increase reserved to China Eastern Airlines and Delta Air Lines

On October 3, 2017, Air France-KLM announced the completion of the capital increases reserved to China Eastern Airlines and Delta Air Lines. The 75,054,098 related new shares have been admitted to the regulated market of Euronext Paris and Amsterdam. These capital increases, announced on 27 July 2017, have been approved by the General meeting of shareholders on 4 September 2017.

Each of China Eastern Airlines and Delta Airlines now holds 10% of Air France-KLM's share capital and has consequently one director representing it at Air France-KLM's board of directors.

The Group already announced the reinforcement of its strategic partnerships with the creation of a global joint-venture between Air France-KLM, Delta Air Lines (Delta) and Virgin Atlantic. Air France-KLM will acquire a 31% stake in Virgin Atlantic's share capital for an amount of GBP 220 million. Delta holds 49% of Virgin Atlantic's share capital. The creation of the global joint-venture is subjected to the approval of the competent statutory authorities.

Early redemption of the OCEANE's maturing on February 15, 2023

On October 16, 2017 Air France-KLM announces to exercise its early redemption option on November 15, 2017 in respect of all its outstanding OCEANE's. As of the announcement date, 53,383,705 OCEANE's remain outstanding out of a total of 53,398,058 OCEANEs initially issued.

Unless the holders of the OCEANE's exercise their conversion/exchange right in accordance with the terms described below, the OCEANE's will be redeemed in cash on 15 November 2017 at par, i.e. €10.30, plus any interest accrued since the last interest payment date until the date of effective redemption, i.e. a total amount of €10.46 per OCEANE.

The holders of the OCEANEs have the right up to and including the 7th business day prior to the early redemption date, i.e. 6 November 2017 to exercise their conversion/exchange rights to receive new and/or existing Air France-KLM shares at a ratio of 1 Air France-KLM share per OCEANE. In case of the exercise of the conversion/exchange right, Air France-KLM will deliver new shares.

Assuming that all the bondholders opt for the exercise of their conversion/exchange right, a maximum of 53,383,705 new Air France-KLM shares would be issued, representing 14.23 per cent of Air France-KLM share capital. The shares will be delivered on 10 November 2017.

KLM Pilot pension scheme in The Netherlands

KLM and the Dutch Airline Pilot Union VNV reached an agreement allowing the modification of the pilot's pension scheme as per January 2018, subject to the approval of the VNV members. This agreement will eliminate the risk for deficit payments and will thus avoid significant variances in the equity position. For the future, the scheme is expected to be qualified as a collective defined contribution scheme and the yearly pension contributions will have a limited volatility.

As part of the agreement, KLM will pay a one-off lump sum to the pension fund of €194 million, to be paid in several annual installments.

According to IAS 19 "Employee benefits" the de-risking of the pilot pension fund will lead to the derecognition of the pension asset of Air France-KLM's balance sheet. The contribution of the pension asset to the equity is estimated at € 1.34 billion after tax at 30 September 2017. The impact of this recognition will be taken in the Income statement as a non-current expenses. The actual amounts are calculated and recorded at the date of implementation of the agreement, which is expected to be in the fourth quarter of 2017.

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5. CHANGE IN THE CONSOLIDATION SCOPE

• Nine-month period ended September 30, 2017

JOON, a new airline within the Air France Group has been created. It will operate in low cost segment of the network business. JOON will start its activities in November 2017.

• Nine-month period ended September 30, 2016

No significant acquisition or disposal took place during the nine month period ended September 30, 2016

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. 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 sales of cargo capacity to third parties.

Maintenance: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers worldwide.

Transavia: The revenues from this segment come from the "low cost" activity realized by Transavia.

Other: The revenues from this segment come from various services provided by the Group and not covered by the four segments mentioned above.

The results of the business segments are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond to the EBITDAR, EBITDA, current operating income and to the income from operating activities. Other elements of the income statement are presented in the "non-allocated" column.

Inter-segment transactions are evaluated based on normal market conditions.

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)

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- 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

• Nine-month period ended September 30, 2017

<i>In € millions</i>	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	17,028	3,091	1,161	186	-	21,466
Intersegment sales	(33)	(1,729)	(1)	(155)	-	(1,918)
External sales	16,995	1,362	1,160	31	-	19,548
EBITDAR	2,865	311	309	12	-	3,497
EBITDA	2,158	311	190	11	-	2,670
Income from current operations	1,091	164	121	(1)	-	1,375
Income from operating activities	793	164	119	(8)	-	1,068
Share of profits (losses) of associates	-	2	-	14	-	16
Net cost of financial debt and other financial income and expenses	-	-	-	-	(89)	(89)
Income taxes	-	-	-	-	(282)	(282)
Net income from continuing operations	793	166	119	6	(371)	713

• Nine-month period ended September 30, 2016 (Restated)

<i>In € millions</i>	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	16,448	3,052	973	501	-	20,974
Intersegment sales	(42)	(1,704)	-	(470)	-	(2,216)
External sales	16,406	1,348	973	31	-	18,758
EBITDAR	2,445	310	176	10	-	2,941
EBITDA	1,757	310	67	9	-	2,143
Income from current operations	767	172	17	(1)	-	955
Income from operating activities	685	168	17	(6)	-	864
Share of profits (losses) of associates	(2)	3	-	2	-	3
Net cost of financial debt and other financial income and expenses	-	-	-	-	(276)	(276)
Income taxes	-	-	-	-	(166)	(166)
Net income from continuing operations	683	171	17	(4)	(442)	425

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6.2. Information by geographical area

External sales by geographical area

- Nine-month period ended September 30, 2017

<i>In € millions</i>	Metropo- litan 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	4,417	1,704	3,565	870	451	1,639	2,498	1,157	16,301
Other network sales	283	91	126	41	9	78	38	28	694
Total network	4,700	1,795	3,691	911	460	1,717	2,536	1,185	16,995
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	782	493	18	-	-	1	68	-	1,362
Others	10	21	-	-	-	-	-	-	31
Total	5,955	2,896	3,797	912	468	1,720	2,613	1,187	19,548

- Nine-month period ended September 30, 2016 (Restated)

<i>In € millions</i>	Metropo- litan 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	4,563	1,567	3,554	822	398	1,476	2,331	943	15,654
Other network sales	277	132	130	47	5	91	44	26	752
Total network	4,840	1,699	3,684	869	403	1,567	2,375	969	16,406
Scheduled Transavia	363	525	63	-	6	1	5	1	964
Transavia - other sales	4	-	-	-	-	1	4	-	9
Total Transavia	367	525	63	-	6	2	9	1	973
Maintenance	781	468	20	-	-	-	79	-	1,348
Others	8	21	2	-	-	-	-	-	31
Total	5,996	2,713	3,769	869	409	1,569	2,463	970	18,758

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Traffic sales by geographical area of destination

- Nine-month period ended September 30, 2017

<i>In € millions</i>	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	1,360	3,580	1,236	2,225	3,435	1,598	2,867	16,301
Scheduled Transavia	19	1,093	-	39	-	-	-	1,151
Total	1,379	4,673	1,236	2,264	3,435	1,598	2,867	17,452

- Nine-month period ended September 30, 2016 (Restated)

<i>In € millions</i>	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	1,369	3,326	1,242	2,223	3,325	1,499	2,670	15,654
Scheduled Transavia	18	915	-	31	-	-	-	964
Total	1,387	4,241	1,242	2,254	3,325	1,499	2,670	16,618

7. EXTERNAL EXPENSES

<i>In € millions</i>		
Period from January 1 to September 30	2017	2016
Aircraft fuel	3,428	3,507
Chartering costs	306	324
Landing fees and air route charges	1,445	1,437
Catering	602	336
Handling charges and other operating costs	1,313	1,196
Aircraft maintenance costs	1,842	1,847
Commercial and distribution costs	701	690
Other external expenses	1,161	1,460
Total	10,798	10,797
<i>Excluding aircraft fuel</i>	<i>7,370</i>	<i>7,290</i>

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8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

<i>In € millions</i>	2017	2016
Period from January 1 to September 30		
Wages and salaries	3,863	3,888
Pension costs linked to defined contribution plans	418	413
Net periodic pension cost of defined benefit plans	192	213
Social contributions	810	810
Cost of temporary employees	140	114
Other expenses	232	105
Total	5,655	5,543

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). This multi-employer plan being assimilated with a French State plan, it is accounted for as a defined contribution plan in “pension costs linked to defined contribution plans”.

As of September 30, 2017, the line “Other expenses” includes an amount of €208 million of profit-sharing expenses (against €85 million as of September 30, 2016).

Average number of employees

Period from January 1 to September 30	2017	2016
Flight deck crew	7,728	7,680
Cabin crew	21,471	20,999
Ground staff	51,445	53,756
Temporary employees	2,861	2,391
Total	83,505	84,826

9. OTHER INCOME AND EXPENSES

<i>In € millions</i>	2017	2016
Period from January 1 to September 30		
Capitalized production	564	566
Joint operation of routes	(73)	(63)
Operations-related currency hedges	22	129
Other	10	15
Other income and expenses	523	647

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10. OTHER NON-CURRENT INCOME AND EXPENSES

<i>In € millions</i>	2017	2016
Period from January 1 to September 30		
Restructuring costs	(18)	(167)
Modification on pensions plans in the Netherlands	(296)	-
Cargo penalty	(12)	-
Disposal of slots	-	49
Disposal of shares available for sale	1	-
Disposals of subsidiaries and affiliates	-	10
Other	(1)	1
Other non-current income and expenses	(326)	(107)

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

Restructuring costs

This mainly includes 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.

Modification on KLM pension schemes in 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 1, 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 has 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.

Cargo penalty

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

- **Nine-month period ended September 30, 2016**

Restructuring costs

As of September 30, 2016, this mainly included:

- €149 million related to the voluntary departure plans announced by Air France in February 2016;
- €7 million related to several voluntary departure plans initiated in the other Air France establishments located abroad.
- €9 million related to KLM restructuring plans.

Sale of slots

During the first semester 2016, the Group transferred to two airlines two pairs of slots at London Heathrow airport. Concerning this operation, an amount of €49 million has been recorded as of September 30, 2016.

Disposal of subsidiaries and affiliates

This included the impact of the reclassification in "shares available for sales" of an affiliate previously recorded as equity investment.

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11. OTHER FINANCIAL INCOME AND EXPENSES

<i>In € millions</i>		
Period from January 1 to September 30	2017	2016
Foreign exchange gains (losses), net	164	(131)
Change in fair value of financial instruments and hedged shares	(38)	51
Net (charge)/ release to provisions	5	48
Other	(49)	(46)
Other financial income and expenses	82	(78)

Foreign exchange gains (losses)

As of September 30, 2017, the foreign exchange gains and losses mainly includes:

- An unrealized gain of €62 million on the debt in Japanese Yen and,
- An unrealized gain of €122 million on the provisions denominated in US Dollar.

As of September 30, 2016, the foreign exchange losses mainly included an unrealized currency loss of €124 million on Japanese Yen debt.

Change in fair value of financial instruments

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

- Fuel derivatives for €13 million as of September 30, 2017, against €73 million as of September 30, 2016 and,
- Currency derivatives for € (57) million as of September 30, 2017, against € (6) million as of September 30, 2016.

Net (charge) / release to provisions

As of September 30, 2016, the Group released to the consolidated income statement the €41 million provision covering the accrued interest on the fine imposed concerning the litigation relating to anti-trust legislation in the air freight industry, as the European commission did not appeal before February 29, 2016 the decision taken by European Court.

Others

As of September 30, 2017 and 2016, this line mainly comprises the accretion effect on long-term provisions.

12. INCOME TAXES

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 7 years, consistent with the Group's operating visibility.

The Finance law 2017, voted in December, 2016, planned a decrease of the income tax rate from 34.43% to 28.92% applicable to the French fiscal group as from fiscal year 2020.

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- **Dutch fiscal group**

In The Netherlands, tax losses can be carried forward over a period of 9 years without limitation in the amount of recovery due each year.

As of September 30, 2017 and 2016, the Group recognized deferred tax assets on fiscal losses amounting to €230 million and €137 million respectively, relating to the Dutch fiscal Group.

13. NET INCOME FROM DISCONTINUED OPERATIONS

As of September 2017 and 2016, the net income from discontinued operations is the following:

<i>In € millions</i>		
Périod from January 1 to September 30	2017	2016
Revenues	-	298
EBITDAR	-	39
EBITDA	-	39
<i>Income from current operations</i>	-	33
Non current item	-	(7)
<i>Income from operating activities</i>	-	26
Financial Income	-	1
<i>Income before tax</i>	-	27
Income taxes	-	(11)
Share of profits (losses) of associates	-	(2)
Net income from discontinued operations	(8)	14

- **Nine-month period ended September 30, 2016**

As of September 30, 2016, the line « net income from discontinued operations » included the result of Servair Group after intercompany elimination.

In the context of this operation, the assets and liabilities of the Servair Group have been reclassified on the lines « assets held for sale » and « liabilities relating to assets held for sale », for respectively €390 million and €254 million as of December 31 2016.

14. PENSION ASSETS AND PROVISIONS

As of September 30, 2017, the discount rates used by companies to calculate the defined benefit obligations are the following:

	September 30, 2017	December 31, 2016
Euro zone – duration 10 to 15 years	1.50%	1.50%
Euro zone – duration 15 years and more	2.10%	1.90%

The impact in variations of discount rates on the defined benefit obligation has been calculated using sensitivity analysis of the pension defined benefit obligation. The sensitivity analysis is mentioned in note 31.2 of the annual financial statements as of December 31, 2016.

Over the same period, the fair value of the plan assets of the pension funds increased.

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All these items have a cumulative impact resulting in:

- An increase of € 1 322 million of the “pension assets” on the balance sheet (schemes with a net asset position) and
- A decrease of € 37 million of the “pension provisions” on the balance sheet (schemes with a net liability position).

KLM pension schemes in The Netherlands

Cabin Crew pension plan

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 1, 2017, amounted to €311 million and has been written off. This derecognition has involved a decrease of the “pension assets” by €311 million.

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15. NET DEBT

<i>In € millions</i>	September 30,	December 31,
	2017	2016
Current and non-current financial debt	8,005	8,452
Financial lease deposits (others)	(337)	(336)
Fair value hedge on financial debt	9	(49)
Accrued interest	(69)	(89)
Gross financial debt (I)	7,608	7,978
Cash and cash equivalents	4,102	3,938
Marketable securities	98	53
Cash secured	258	50
Financial lease deposit (bonds)	367	298
Others	(3)	(11)
Bank overdrafts	(10)	(5)
Net cash (II)	4,812	4,323
Net debt (I-II)	2,796	3,655

<i>In € millions</i>	September 30,	December 31,
	2017	2016
Opening net debt	3,655	4,307
Operating free cash, cash flow excluding discontinued activities	(793)	(347)
Operating free cash flow, cash flow from discontinued activities	-	(33)
Disposal of subsidiaries, of shares in non-controlled entities	(3)	(364)
Acquisition of subsidiaries, of shares in non-controlled entities	7	18
Non monetary variation of the debt	-	(64)
Currency translation adjustment	(73)	73
Amortization of OCEANE optional part	15	21
Reclassification	(2)	2
Change in scope	-	(19)
Other	(10)	61
Closing net debt	2,796	3,655