



Public limited company (*société anonyme*) with share capital of 428,634,035 euros
Registered office: 2 Rue Robert Esnault Pelterie - 75007 Paris
Registered with the Paris Trade and Company Register no. 552 043 002

STATUTORY FINANCIAL STATEMENTS
Year ending December 31, 2018

CONFIDENTIAL

INCOME STATEMENT

Year ending December 31,	Notes	2018	2017
<i>In € millions</i>			
Operating income	3	49	40
external expenses	4	(46)	(40)
Salaries and related costs	5	(3)	(4)
Other expenses		(1)	(1)
Total operating expenses		(50)	(45)
Income from current operations		(1)	(5)
Financial income		54	75
Financial expenses		(103)	(136)
Net financial income	6	(49)	(61)
Earnings before tax and non-recurring items		(50)	(66)
Non-recurring income		-	30
Non-recurring expenses		-	(30)
Non-recurring income/- (loss)	7	-	-
Income tax	8	12	36
Net income/(loss)		(38)	(30)

BALANCE SHEET

Assets	<i>Notes</i>	December 31	December 31
<i>In € millions</i>		2018	2017
Long-term investments	9	4,668	4,662
Loans & receivables related to long-term investment	9-13	563	920
Fixed assets		5,231	5,582
Trade receivables	13	37	24
Other receivables	13	141	255
Marketable securities	10	1,222	2,163
Cash and cash equivalent		247	244
Prepaid expenses		4	7
Current assets		1,651	2,693
Issue costs		9	12
Bond redemption premium		1	1
Total Assets		6,892	8,288

BALANCE SHEET (continued)

Liabilities & equity	<i>Notes</i>	December 31	December 31
<i>In € millions</i>		2018	2017
Capital	<i>11.1</i>	429	429
Additionnal paid-in capital	<i>11.2</i>	4,139	4,139
Legal reserve		70	70
Reserves		(14)	16
Income for the year	<i>11.2</i>	(38)	(30)
Shareholder's equity	<i>11.2</i>	4,586	4,624
Other equity	<i>12</i>	403	600
Provision for risks & liabilities	<i>12 - 17</i>	1	-
Financial debts	<i>12</i>	1,148	1,676
Trade payables and related accounts	<i>13</i>	13	13
Tax and social debts	<i>13</i>	2	2
Other liabilities	<i>13</i>	728	1,357
Liabilities	<i>13</i>	1,891	3,048
Unrealized foreign exchange gain		11	16
Total Liabilities & Equity		6,892	8,288

NOTES

The following information constitutes the notes to the financial statements for the year ended December 31, 2018. It is an integral part of the financial statements.

Air France KLM SA, a public limited company (*société anonyme*) with registered office at 2 rue Robert Esnault Pelterie 75007 Paris, is the parent company of the Air France-KLM Group. It is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

1. Accounting policies and procedures

Generally accepted accounting policies have been applied, consistent with the prudence principle and in accordance with the legal and regulatory provisions applicable in France and to the base assumptions whose aim is to provide a true and faithful representation of the company:

- going concern;
- consistent accounting methods from year to year;
- independence of financial periods;

and in accordance with the general rules for establishing and presenting annual financial statements.

The basic method used to value items recorded in the financial statements is the historical cost method.

THE MAIN ACCOUNTING METHODS USED ARE THE FOLLOWING:

Long-term investments

Investments in equity securities are presented on the balance sheet at their acquisition cost net of impairment, if any. A provision for impairment is recorded as soon as the fair value falls below the acquisition value. The fair value of securities is determined by taking into account the share of shareholders' equity, the outlook for profitability and the stock market values that can be used as a reference.

Transfer taxes, fees or commissions and legal fees related to the acquisition of securities are expensed, according to the option offered by the regulations.

Treasury shares not allocated to employees or to a capital decrease are booked in long-term investments. They are shown at the lower of their acquisition cost or fair value. The fair value is determined based on the average market price for the last month of the financial year.

Trade receivables

Trade receivables are valued at their nominal value. They are valued on a case-by-case basis and a provision is set up as required based on the assessed risks.

Marketable securities

Marketable securities are shown on the balance sheet at the lower of their acquisition cost and their market value. In the case of listed shares, this market value is determined based on the market price at the end of the financial year.

Treasury shares invested as part of a liquidity agreement are valued at the lower of their acquisition price and fair value. The fair value is determined based on the last month average market price at the end of the financial year.

Negotiable debt securities (certificates of deposits, and bills issued by financial companies) are booked at their acquisition cost. Interest is booked as financial income, on a-prorata temporis basis.

Foreign currency transactions

Operating expense and income transactions in foreign currencies are recognized at the average exchange rate for each relevant month.

Trade payable and receivable in foreign currencies are valued at the exchange rate in effect at December 31, 2018.

Unrealized losses and gains are recognized as assets and liabilities on the balance sheet. Provisions are established for unrealized losses, except for the following cases:

- transactions where the currency and the term contribute to an overall positive currency position and;
- currency hedging contracts concerning the payment of future investment deliveries.

Debts

Debts are valued at their nominal amount. The debt in foreign currency is valued at the closing rate Euro/Dollar.

Financial instruments

Financial derivative instruments are used to reduce exposure to interest rates risk and to foreign exchange. They are over the counter instruments with first class counterpart. Group management policy bans subscription of trading instruments.

Dividends received

Dividends are recognized as income - when they are approved by the competent bodies in the companies (i.e.: the Board of Directors or the General Shareholders' Meeting depending on the local regulations) – or according to the terms of the bylaws.

2. Significant events of the period

Based on its tender offer to repurchase, on September 14, 2018, Air France KLM repurchased subordinated perpetual notes for a nominal amount of € 196.7 million of the €600 million outstanding.

See notes 6 and 12.

3. Other income

This primarily involves royalties of €21 million paid by Air France and KLM at December 31, 2018 to use the “Air France-KLM” brand (€17 million as of December 31, 2017). It also encloses the provision of services paid by Air France and KLM for 25 million as of December 31, 2018, €22 million as of December 31, 2017.

4. External expenses

Period	2018	2017
Fees and surveys	19	13
Insurance	1	1
Sub-Contracting and rent re-invoiced by Air France and KLM	21	21
Financial communication	2	2
Other	3	3
Total	46	40

During the financial year 2018, the teams assigned to Air France-KLM holding company represent 75 full time equivalent seconded from Air France and 27 full-time equivalent seconded from KLM.

5. Salaries & related Costs

The gross remuneration of the company's corporate officers, recognized as an expense in 2018, amounts to € 1.26 million compared to 1.11 million euros in 2017. For 2018, this remuneration includes those of Jean-Marc Janailac from January to mid-May, Frédéric Gagey from mid-May to mid-September and Benjamin Smith from mid-September to the end of December. For 2017, it corresponds to that of Jean-Marc Janailac over the entire period.

The remuneration of the non-executive Chairman of the Board of Directors from May 15, 2018 amounts to €0.13 million.

6. Net financial Income

This section regroups interest paid or received, currency losses and gains, and allocations and reversal of financial provisions. The break-down is as follows.

Period	2018	2017
Interest on loans and other financial expenses	(103)	(136)
<i>Of which related companies commission on the guarantees granted by Air France and KLM & interests on current account</i>	(1)	(11)
<i>Of which interest on OCEANE</i>	-	(1)
<i>Of which interest on bonds</i>	(43)	(75)
<i>Of which perpetual subordinated loan</i>	(34)	(37)
<i>Of which premium included in tender price of perpetual subordinated loan</i>	(14)	-
<i>Of which others</i>	(11)	(12)
Interest on loans	38	42
<i>Of which related companies</i>	38	42
Other financial income	10	25
<i>Of which related companies</i>	2	19
<i>Of which investment in mutual funds and certificates of deposit</i>	4	5
Allocation to provisions	-	8
<i>Of which provision for risks & liabilities</i>	-	1
<i>Of which Air France KLM Finance shares</i>	6	7
Total	(49)	(61)

7. Non-recurring income

None.

8. Income tax

Air France-KLM has benefited from the tax consolidation scheme since April 1, 2002.

The consolidation scope, for which Air France-KLM is the parent company, mainly includes Air France-KLM, Air France, HOP!, Joon and Transavia France Companies.

The tax consolidation agreement is based on the so-called neutrality method and puts each member company of the tax group in the situation in which it would have been in without consolidation.

The tax consolidation group benefits from tax losses that can be carried forward for an unlimited period.

The subsidiaries recording a net earning, generated a tax consolidation gain of €12 million to Air France KLM for this financial year (€ 40 million on the previous financial year).

9. Long-Term Investments

9. 1. Net book value

In € millions

	Notes	Beginning of year	Allocation	Reversal	End of Year
Equity investments	9.2	4,680	-	-	4,680
Loans & receivables related to long term investment	9.4	920	6	(363)	563
Gross amount	-	5,600	6	(363)	5,243
Depreciation	9.3	(18)	-	6	(12)
Net amount	-	5,582	6	(357)	5,231

9.2. Equity investments

In € millions

COMPANIES	Gross value at beginnig of year	Increase	Decrease	Gross value at end of year
Air France	3,821	-	-	3,821
KLM	824	-	-	824
Air France KLM Finance	31	-	-	31
Transavia Company	4	-	-	4
Air France KLM International Mobility	-	-	-	-
BigBlank	-	-	-	-
Total	4,680	-	-	4,680

9.3. Impairment of equity shares

In € millions

COMPANIES	Gross value at beginnig of year	Transfers or Acquisitions	Allocation	Gross value at end of year
Air France KLM Finance	(18)	-	7	(11)
Impairment	(18)	-	7	(11)

9.4. Loans & receivables related to long term investment

In € millions

COMPANIES	Beginnig of year	Increase	Decease	End of year
Air France	649	-	(257)	392
KLM	198	-	(99)	99
Air France KLM Finance	73	5	(7)	71
BigBlank	-	1	-	1
Total	920	6	(363)	563

10. Marketable securities

<i>In € millions</i>	December 31, 2018	December 31, 2017
Gross Value		
Mutual funds, certificates of deposit & marketable term notes	1,222	2,163
Securities Compagnia Aerea Italiana	355	355
Total Gross value	1,577	2,518
Depreciation	-	-
Securities Compagnia Aerea Italiana	(355)	(355)
Total Depreciation	(355)	(355)
Total	1,222	2,163

The net carrying amount for the marketable securities, mutual funds and certificates of deposit is the market value.

11. Shareholders' equity

11.1. Distribution of share capital and voting rights

The issued capital comprises 428,634,035 fully paid-up shares with a nominal value of one euro. Each share is entitled to one voting right. However since April 3, 2016, any shareholder who has been owning registered shares for more than two years is entitled to double voting rights, raising the number of voting rights to 501,646,800 as at December 31, 2018.

Distribution is as follows:

	% of capital		% of voting rights	
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
French State	14%	14%	23%	23%
Delta Airlines	9%	9%	8%	7%
China Eastern Airlines	9%	9%	8%	7%
Employees and former employees ⁽¹⁾	4%	4%	7%	7%
Public	64%	64%	54%	56%
Total	100%	100%	100%	100%

⁽¹⁾ Employees and former employees identified in funds or by a Sicovam code.

11.2. Statement of changes in shareholders' equity

In € millions

	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At December 31, 2016	300	2,971	247	(161)	3,357
Allocation of earnings	-	-	(161)	161	-
Capital increases	129	1,168	-	-	1,297
Earnings for the period	-	-	-	(30)	(30)
At December 31, 2017	429	4,139	86	(30)	4,624
Allocation of earnings	-	-	(30)	30	-
Earnings for the period	-	-	-	(38)	(38)
At December 31, 2018	429	4,139	56	(38)	4,586

12. Financial debt and other equity

In € millions

	Notes	December 31 2018	December 31 2017
Other equity			
Perpetual subordinated loan	12.1	403	600
Total Other equity		403	600
Non-current financial debt			
Bonds	12.2	1,126	1,121
Total non-current debt		1,126	1,121
Current Financial Debt			
Bonds	12.2	-	500
Accrued interest		22	55
Total current debt		22	55
Total financial debt		1,148	1,176

12.1. Perpetual subordinated loan

Between April 1 and April 17, 2015, Air France KLM issued a €600 million perpetual subordinated loan, presented as other equity. These securities, which have no maturity date, have a first repayment option in October 2020 at Air France KLM discretion. They carry an annual coupon of 6.25 % paid for €18 million in 2015 and €37.5 million for each following year 2016 and 2017.

On September 14, 2018, €196.7 million were repurchased follow a tender offer at 107.125% of nominal. The coupon for an amount of €37 million was paid on September 14, 2018 and October 1st, 2018.

12.2. Bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Coupon
Bond issued in 2012	14 Dec. 2012	€500	18 Jan. 2018	6.25%
Bond issued in 2014	4 June 2014	€600	18 June 2021	3.875%
€ Bond issued in 2016	5 Oct. 2016	€400	5 Oct. 2022	3.75%
\$ Bond issued in 2016 ⁽¹⁾	12 Dec. 2016	\$145	15 Dec. 2026	4.35%

⁽¹⁾ Issuance bonds with Asian institutional investors by way of unlisted private placement.

On December 14, 2012, Air France KLM issued € 500 million of bonds. This bond was reimbursed at maturity on January 18, 2018.

On June 4, 2014, Air France KLM issued € 600 million of bonds maturing on June 18, 2021 with an annual coupon of 3.875%.

In August 2015, an amount of €200 million has been hedged and converted to a floating rate through a swap and is connected to a floor. On December 31, 2018, the fair value of the floor is €0.7 million leading to a provision for risks and liabilities of the same amount (see note 17).

On October 5, 2016, Air France KLM issued €400 million of bonds with a 6 years maturity. The annual coupon arises 3.75%.

On December 12, 2016, Air France KLM issued -fully hedged- USD 145 million senior notes by way of unlisted private placement to Asian institutional investors. Maturity is December 15, 2026 and annual coupon arises 4.35%. This loan is the object of a complete cover. (See note 17).

Some of the proceeds were used to issue loans to Air France, KLM, Air France KLM Finance and Transavia Company and BigBlank. As of December 31, 2018 these loans amount to €411 million with Air France, €99 million with KLM, €71 million with Air France KLM Finance and €1 million with BigBlank. (See note 9.4).

13. Maturity of receivables and debt

- As of December 31, 2018

As of December 31, 2018

In € millions

Receivables	Gross amount	Up to one year	More than one year	Related companies
Non-current assets				
Loans and receivables related to long-term	582	151	431	582
Current assets				
Trade receivables and related accounts	37	37	-	37
Other receivables (including tax receivables) ⁽¹⁾	141	141	-	119
Total	760	329	431	738

⁽¹⁾ Of which €116 million as accrued income with related companies on December 31, 2018.

In € millions

Debt	Gross amount	Up to one year	More than one year	Related companies
Financial debt ⁽¹⁾	1,148	22	1,126	-
Trade payables and related accounts	13	13	-	5
Tax and social debts	2	2	-	-
Other liabilities ⁽²⁾	728	728	-	728
Total	1,891	763	1,126	733

⁽¹⁾ See note 12.

This amount includes €21 million of accrued interests (€ 55 million at December 31, 2017).

⁽²⁾ Other liabilities comprise, mainly, a financial current account with Air France including cash pooling for €728 million as of December 31, 2018.

14. List of subsidiaries and equity investments

In € millions

Companies or Groups of companies	Capital	Shareholders' equity other than capital after earnings	Share of capital held	Carrying amount of shares held		Loans & advances granted and not reimbursed	Amount of security and guarantee s given	Revenues (excl. tax) for financial year	Net profit or loss for financial year	Dividends booked during financial year
				Gross	Net					
Detailed information about individual investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France) ⁽¹⁾	-	-	100%	3,820	3,820	411	23	(215)	14,862	-
KLM (Netherlands) ⁽¹⁾	-	-	99.7%	824	824	99	44	-	-	1
Air France KLM Finance ⁽¹⁾	-	-	100%	31	20	71	-	-	-	-

⁽¹⁾ Statutory financial statements at December 31, 2018

15. Estimated value of portfolio

<i>In € millions</i>	Amount at beginning of year		Amount at the end of year	
	Gross carrying amount	Net carrying amount	Gross carrying amount	Net carrying amount
Portfolio fractions valued :				
Air France	3,820	3,820	3,820	3,820
KLM	824	824	824	824
Air France KLM Finance	31	14	31	20

Estimated value is based on consolidated equity or on medium term profitability outlook.

This estimated value supports net book value at year end.

16. Items concerning related companies

As of December 31, 2018

<i>In € millions</i>			Amount
Trade receivables & related accounts	Of Which	Air France	5
		KLM	12
Other receivables	Of Which	Air France	111
		KLM	5
Trade payable and related accounts	Of Which	Air France	-
		KLM	3
Other payables	Of Which	Air France- Cash pooling	816
		Other members of the tax group	23

17. Commitments

- **KLM shares**

During the business combination of the Air France and KLM groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government had to sell its cumulative preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer had occurred during the first three years following the business combination.

In the latter case, the foundation would have issued, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates would have conferred to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KLM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain SAK I and SAK II foundations, Air France-KLM did not carry out this exchange. Furthermore, Air France-KLM can decide to dissolve the foundations at any time and at its sole discretion.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (i.e. a unit price of €2.27 per cumulative A preferred share, which has to be paid pro rata during any sale or transfer under the conditions above).

- **Hedges**

The €600 million bond dated June 18, 2014, is hedged for a nominal value of €200 million converting fix rate to a floating rate through a swap connected to a floor-isolated open position. On December 31, 2018, the fair value of the swap is € 7 million and the fair value of the floor amounts to € (0.7) million. (See note 11).

The \$145 million bond is fully hedged by a cross currency swap. As of December 31, the fair value of this derivative instrument is €(18) million. (See note 12).

The future purchase of 31% of the share capital of Virgin Atlantic for GBP 220 million is now supported by Air France KLM Finance. The coverage of this purchase by swap was also transmitted.

- **Other**

Since January 2009, Air France-KLM has acted as a guarantor for Air France Company within the framework of its commitments to Aéroport de Paris in respect of civil leases. This guarantee has been renewed in July 2014. The guarantee is now expressly limited to €21 million.

Air France KLM guarantees a debt that KLM holds on the Airline GOL for an amount of USD50 million.

Air France KLM guarantees the payment by Transavia Holland to a lessor, of outstanding operational leases until 2024 for an amount of USD50 million at December 31, 2018.

18. Litigation

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

Air France KLM, as parent company of Air France, KLM and Martinair, is involved, since February 2006, in investigations initiated by the antitrust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air freight industry with up to twenty-five other airlines.

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

In Europe, the decision of the European Commission of 2010 against eleven air cargo carriers, including the companies of the Group, Air France, KLM and Martinair, was annulled by the General Court of the European Union on 16 December 2015. On 17 March 2017, the European Commission issued a new decision against eleven air cargo carriers, including Air France, KLM and Martinair. The total amount of fines imposed on the Air France-KLM Group is €325 million. This amount has been reduced by €15 million 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. The Group has maintained a provision covering these fines.

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

Those provisions are booked by each airlines and do not have any impact in the financial statements of Air France KLM.

19. Contingent liabilities

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

Under these civil lawsuits, Air France KLM is involved as the parent company of the airlines. Shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to alleged competition law infringement.

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

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

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

Except for the matters specified under the paragraphs 18 and 19, the company is not aware of any governmental, judicial and arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the company's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

20. Subsequent events

None.

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