AIR FRANCE – KLM
French public company (société anonyme) with a Board of Directors
with a share capital social of € 300,219,278
Registered office: 2, rue Robert Esnault-Pelterie, 75007 Paris
Paris Trade and Company Register: 552,043,002

UPDATE TO THE 2016 REGISTRATION DOCUMENT

This update to the Registration Document is an unofficial translation of the French *Actualisation du Document de Référence*, which was filed with the French *Autorité des Marchés Financiers* (the "AMF") on 17 August 2017. This unofficial translation has been prepared by Air France – KLM for the information and convenience of English-speaking readers and has not been reviewed or registered with the AMF. No assurances are given as to the accuracy or completeness of this translation, not any responsibility assumed for any misstatement or omission that may be contained therein. The French *Document de Référence* and the French *Actualisation du Document de Référence* may be used for the purposes of a financial transaction if supplemented with an offering memorandum approved by the AMF. In the event of any ambiguity or discrepancy between this unofficial translation and the French *Actualisation du Document de Référence*, the French version shall prevail.

Copies of the registration document and this update are available free of charge at the registered office of the company and on the Company's website (www.airfranceklm.com/finance) as well as on the website of the AMF.

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GENERAL NOTE

The purpose of this document is to update the registration document of Air France-KLM filed with the AMF on 31 March 2017 under number D.17-0287 (the "**2016 Registration Document**")

In this update to the 2016 Registration Document, the term the "**Company**" refers to Air France-KLM. The term the "**Group**" refers to the group of companies composed of the Company and all of its consolidated subsidiaries.

This update to the 2016 Registration Document contains information on the Group's objectives and forward-looking statements. These statements are sometimes identified by the use of the future or conditional tense or terms such as "believe", "expect", "could", "estimate", "intend to", "plan to", "anticipate", "should" as well as similar expressions. The attention of the reader is drawn on the fact that the realization of these objectives and forward-looking statements is dependent on the circumstances and facts that arise in the future. Forward-looking statement and information about objectives may be affected by known and unknown risks, uncertainties and other factors that may significantly alter the future results, and performance planned or expected by the Company. These factors may include changes in the economic and commercial situation, as well as the factors described in pages 79 to 90 of the 2016Registration Document, as updated in this update.

Investors are invited to carefully consider the risk factors described on pages 79 to 90 of the 2016 Registration Document, as updated in this update, before deciding to invest. The occurrence of some or all of these risks could have a negative impact on the business, financial position, and results of the Group or its ability to reach its objectives.

Selected financial information

At 30 June 2017	In € Million (except for the debt ratio)
Other elements of the income statement	
Sales	12,314
Income/(loss) – Group part	353
Net income/(loss) - Group part	151
Financial structure	
Net Debt [1]	2,956
Debt ratio (Adjusted net debt / EBITDAR) [1]	2.7 X
Investment and cash flows	
Investments on tangible and intangible assets	(1,208)
Operating free cash flow excluding discontinued activities [1][2]	668

[1] The financial indicators Net Debt, EBITDAR and operating free cash flow are defined in notes 4.9 to 34 of the consolidated financial statements for the year ended 31 December 2016. For a reconciliation of these financial indicators with the financial statements of the Group, please see the paragraph "Key financial indicators" of the press release of 28 July 2017, included in Chapter 3 "Recent events" of this update.
[2] Also called operating free cash flow.

At 30 June 2017	Total revenues (in € million)	Income/(loss) from current operations (in € million)
Network	10,790	309
Maintenance	900	89
Transavia	605	(43)
Other	19	(2)

CHAPTER 1
RESPONSIBLE PERSONS

1.1. PERSON RESPONSIBLE FOR THE UPDATE TO THE 2016 REGISTRATION DOCUMENT

Jean-Marc Janaillac, Chairman and Chief Executive Officer

1.2. PERSON RESPONSIBLE FOR THE 2016 REGISTRATION DOCUMENT

"I confirm that, after considering all reasonable measures to this effect, the information contained in this update to the 2016 Registration Document is, to the best of my knowledge, correct and does not contain any omission likely to affect its import.

I have obtained from the statutory auditors an end-of-work letter stating that they have verified the information concerning the financial situation and the financial statements given in this update to the 2016 Registration Document, as well as an overall reading of the 2016 Registration Document"

Paris, 17 August 2017

Jean-Marc Janaillac
Président-Directeur Général

CHAPTER 2
STATUTORY AUDITORS

2.1. PRINCIPAL STATUTORY AUDITORS

Deloitte et Associés
185, avenue Charles-de-Gaulle –92524 Neuilly-sur-Seine Cedex
représenté par Pascal Pincemin et Guillaume Troussicot

Renewed for 6 financial years at the General Meeting of shareholders of 19 May 2016.

KPMG Audit
Département de KPMG S.A.
Tour Eqho, 2 avenue Gambetta –92066 Paris –La Défense Cedex
représenté par Eric Jacquet et Jean-Paul Vellutini

Renewed for 6 financial years at the General Meeting of shareholders of 20 May 2014.

2.2. DEPUTY STATUTORY AUDITORS

BEAS
195 Avenue Charles de Gaulle -92200 Neuilly-sur-Seine

Renewed for 6 financial years at the General Meeting of shareholders of 19 May 2016.

KPMG ID Audit
Tour Eqho, 2 avenue Gambetta – CS60006 –92066 Paris –La Défense Cedex

First appointed on the General meeting of 20 May 2014

CHAPTER 3
RECENT EVENTS

The main press releases published by the Group since 17 July 2017 are the following.

Press release of 28 July 2017

First Half 2017 results
Result improvement driven by solid traffic and unit revenue performance

First Half 2017

- Robust traffic resulting in an improved load factor, up 1.4 pts compared to last year
- Confirmation of the positive trend in Group (Passenger + Transavia) unit revenue per available seat kilometer (RASK) ex-currency: +1.9% during the Second Quarter
- First Half operating result 353 million euros, up 135 million[1] euros

Trust Together

- Major advances in strengthening the network of alliances
- Air France Pilot agreement paving the way for the creation of Joon
- Air France Cabin crew signed 5-year labor agreement

Outlook

- Long haul forward bookings for coming four months above previous year's level
- Unit revenue variation at constant currency expected to be slightly up for the Second Half 2017
- Despite the negative effects of the increased load factor and profit sharing on the unit cost evolution, the Group is expecting a unit cost reduction for 2017 between 1.0% and 1.5% at constant currency, fuel price and pension related expenses
- Expected decrease in fuel bill in Second Half 2017 to be 100 million euros
- Target of positive free cash flow[2] before disposals reiterated with capex at the high-end of the 1.7-2.2 billion euros range

The Board of Directors of Air France-KLM, chaired by Jean-Marc Janaillac, met on 27th July 2017 to approve the accounts for the First Half 2017.

Jean-Marc Janaillac made the following comments: "*In a context of solid traffic growth and enhanced unit revenue trend, Air France-KLM delivered improved operating income[3] and operating free cash flow. Over the period, the Group continued to execute on its strategic priorities of growing revenues and improve competitiveness. The agreement reached with Air France pilots in July allows the Group to launch the creation of Joon in line with the original schedule. I am also very pleased with the strengthening of our network of alliances: the combination between our North-Atlantic alliance with Delta and Delta and Virgin Atlantic joint-venture, and the reinforcement of our partnership with China Eastern position Air France-KLM as the European pillar of the leading global airline network. These are important milestones showing that Air France-KLM is on the right path to achieve Trust Together's strategic objectives*."

[1] Figure corrected for the purposes of this update to the registration document (153 million euros in the press release of 28 july 2017).

[2] Also called operating free cash flow

[3] Also called current operating income

Groupe Air France-KLM	Second Quarter		First Half	
	2017	*Change*	2017	*Change*
Passengers (thousands)	26,222	+7.5%	47,145	+6.5%
Capacity (ASK m)	80,934	+5.1%	151,768	+4.2%
Traffic (RPK m)	70,411	+7.5%	130,909	+5.9%
Load factor	87.0%	+2.0 pt	86.3%	+1.4 pt
Operating result (€m)	496	+179	353	+135
Net result – group[4] (€m)	367	+326	151	+265
Operating free cash flow (€m)	339	+162	668	+295
Net debt at end of period (€m)			2,956	-699

Business Review

Network: Main contributor to the increase in the Group's operating result

Network	Second Quarter			First Half		
	2017	Change	Change *like-for-like*	2017	Change	Change *like-for-like*
Capacity (EASK m)	82,076	+3.9%		156,936	+2.8%	
Total revenues (€m)	5,749	+5.5%	+4.7%	10,790	+3.3%	+2.6%
Scheduled revenues (€m)	5,520	+6.2%	+5.4%	10,334	+3.7%	+3.1%
Unit revenue per EASK (€ cts)	6.72	+2.2%	+1.3%	6.58	+0.9%	+0.3%
Unit cost per EASK (€ cts)	6.23	-0.2%	-1.6%	6.39	+0.0%	-1.6%
Operating result[5] (€m)	409	+138	+162	309	+106	+200

As announced at the Full Year 2016 results presentation, the busines segment Network consists now of both the Passenger network and Cargo business. The combined operating result amounted to 309 million euros during the First Half 2017, an improvement of 200 million euros at constant currency, driven by a solid traffic and unit revenue performance in the Passenger network.

Robust Second Quarter traffic numbers confirming improvement in Passenger unit revenue trend

Passengers	Deuxième trimestre			Premier semestre		
	2017	Change	Change *like-for-like*	2017	Change	Change *like-for-like*
Passengers (thousands)	21,861	+6.0%		40,333	+4.4%	
Capacity (ASK m)	72,716	+4.2%		138,802	+3.1%	
Traffic (RPK m)	63,022	+6.6%		119,375	+4.8%	
Load factor	86.7%	+2.0 pt		86.0%	+1.4 pt	
Total passenger revenues (€m)	5,243	+6.1%	+5.2%	9,780	+3.9%	+3.3%
Scheduled passenger revenues (€m)	5,050	+6.7%	+5.8%	9,399	+4.4%	+3.7%
Unit revenue per ASK (€ cts)	6.94	+2.4%	+1.5%	6.77	+1.2%	+0.6%
Unit revenue per RPK (€ cts)	8.01	+0.0%	-0.8%	7.87	-0.4%	-1.1%

The Second Quarter confirms the improvement of the Passenger unit revenue performance in both Air France and KLM, up 1.5% at constant currency. On long haul, there was strong premium class performance with unit revenues up by 4.4% at constant currency and economy class up by 2.2%. The improvement was driven mainly by the strong recovery in

[4] Also called net income – Group part

[5] Also called current operating result

Asia, with unit revenue up 8.6% at constant currency and Latin America, up 13.6% at constant currency.

Gradual Cargo turnaround

Cargo business	Second Quarter			First Half		
	2017	Change	Change like-for-like	2017	Change	Change like-for-like
Tons (thousands)	286	+1.4%		558	+0.0%	
Capacity (ATK m)	3,624	+1.7%		7,019	+0.3%	
Traffic (RTK m)	2,144	+2.7%		4,188	+1.6%	
Load factor	59.2%	+0.7 pt		59.7%	+0.8 pt	
Total Cargo revenues (€m)	506	-0.2%	-0.5%	1,010	-2.5%	-3.0%
Scheduled cargo revenues (€m)	470	+1.1%	+0.5%	935	-2.3%	-3.0%
Unit revenue per ATK (€ cts)	12.94	-0.8%	-1.3%	13.31	-2.5%	-3.2%
Unit revenue per RTK (€ cts)	21.87	-1.9%	-2.4%	22.31	-3.8%	-4.5%

During the Second Quarter, the improvement in the Cargo performance was driven by a 2.7% increase in traffic resulting in a 0.7pt increase in load factor. The trend in unit revenue continued to improve compared to previous quarters, confirming the gradual turnaround.

Maintenance: Record high order book

Maintenance	Second Quarter			First Half		
	2017	Change	Change *like-for-like*	2017	Change	Change *like-for-like*
Total revenues (€m)	992	-0.8%		2,041	+1.7%	
Third party revenues (€m)	440	+1.1%	-0.8%	900	+3.9%	+1.7%
Operating result (€m)	53	-4	-7	89	-6	-12
Operating margin (%)	5.3%	-0.4 pt	-0.7 pt	4.4%	-0.4 pt	-0.7 pt

Over the period, the Maintenance order book increased to a record high 9.7 billion dollars, reaching its target of growing the order book by 10% in 2017. The increase was driven by both the Engine and the Component order books.

Transavia: On track for a positive result in 2017

Transavia	Second Quarter		First Half	
	2017	Change	2017	Change
Passengers (thousands)	4,361	+15.9%	6,812	+20.4%
Capacity (ASK m)	8,218	+13.7%	12,966	+18.5%
Traffic (RPK m)	7,389	+15.7%	11,534	+19,.5%
Load factor	89.9%	+1.5 pt	89.0%	+0.8 pt
Total passenger revenues (€m)	408	+26.3%	605	+25.3%
Scheduled passenger revenues (€m)	408	+26.7%	596	+25.5%
Unit revenue per ASK (€ cts)	4.95	+11.0%	4.59	+5.8%
Unit revenue per RPK (€ cts)	5.49	+8.9%	5.15	+4.7%
Unit cost per ASK (€ cts)	4.54	-1.8%	4.93	-2.0%
Operating result (€m)	34	+46	-43	+32

Strong capacity growth (+13.7%) in combination with an increase in load factor (+1.5pts) and an 11.0% rise in unit revenue led to the strong positive Second Quarter result. The result was strengthened by the decrease in unit costs, down 4.2% at constant currency and fuel. The Group is expecting a positive result in 2017 for Transavia.

Group Review

Group operating result driven by solid traffic and unit revenue performance.

	Second Quarter			First Half		
	2017	**Change**	**Change** *like-for-like*	**2017**	**Change**	**Change** *like-for-like*
Capacity (EASK m)	90,294	+4.7%		169,901	+3.8%	
Revenues (€m)	6,605	+6.3%	+5.4%	12,314	+4.2%	+3.5%
EBITDAR (€m)	1,190	+199	+222	1,744	+222	+310
EBITDA (€m)	913	+185	+215	1,182	+188	+290
Operating result (€m)	496	+179	+210	353	+135	+239
Operating margin (%)	7.5%	+2.4 pt	+3.0pt	2.9%	+1.0 pt	+1.9pt
Lease adjusted operating result ((€m)	588	+184	+218	540	+146	+255
Lease adjusted operating margin (%)	8.9%	+2.4 pt	+3.0pt	4.4%	+1.1 pt	+2.0pt
Net result, group share (€m)	367	+326		151	+265	

The Second Quarter operating result improved by 179 million euros of which the increase in capacity translated into a positive 13 million euros contribution. The other items contributing are, at constant currency, the positive trend in group unit revenues resulting in an increase of 100 million euros, whereas the decrease in fuel price including hedge results contributed 74 million euros. Currencies had a negative impact on the operating result of 32 million euros.

Adjusted for the interest portion of operating leases (1/3 of annual operating lease expenses), the operating margin[6] stood at 8.9% versus 6.5% at 30 June 2016.

Unit cost reduction impacted by increase in load factor and profit sharing

During the First Half, the unit cost was down 1.0% with capacity up by 3.8%. The Second Quarter unit cost per EASK was down by 0.3%, on a constant currency, fuel price and pension-related expense basis, against a capacity increase measured in EASK of 4.7%.
The results of the cost saving measures and initiatives were partly offset by higher flight variable costs related to the increasing load factor. The higher load factor compared to last year translated into a 0.3% increase in unit costs during the Second Quarter and 0.2% over the First Half 2017.
In addition to the increase in costs related to the higher load factor, profit-sharing increased during the First Half 2017 due to the timing of the recording of these expenses. This resulted in an increase of 0.6% in the Second Quarter and 0.2% in the First Half 2017.

Improved employee productivity

Second Quarter productivity, measured in EASK per FTE, increased by 5.6% while capacity increased by 4.7%. The average number of staff decreased by 700 FTEs including an increase in Cabin crews by 600 FTEs linked to the increase in capacity. Due to seasonality and timing effects, net employee costs increased by 1.9% and the profit sharing expense

[6] Also called lease adjusted operating margin

increased by 36 million euros. For the Full Year 2017, the increase in the employee costs is expected to be less than 1.0% compared to the previous year.

Stable fuel bill during First Half 2017

The Half Year fuel bill amounted to 2,280 million euros, stable compared to previous year.

Net debt reduction supported by an improvement in EBITDA and working capital

	Second Quarter		First Half	
In million euros	**2017**	**Change**	**2017**	**Change**
Cash flow before change in WCR and Voluntary Departure Plans, continuing operations	795	+241	1,059	+250
Cash out related to Voluntary Departure Plans	-36	+98	-73	+100
Change in Working Capital Requirement (WCR)	165	-104	826	+33
Net cash flow from operating activities	**924**	**+235**	**1,812**	**+383**
Net investments before sale & lease-back*	-585	-73	-1,144	-88
Operating free cash flow	**339**	**+162**	**668**	**+295**

** Net investments before sale & lease-back is defined as the sum of 'Purchase of property, plant and equipment and intangible assets' and 'Proceeds on disposal of property, plant and equipment and intangible assets' as presented in the consolidated cash flow statement*

The net debt at 30 June 2017 amounted to 2,956 million euros, down 699 million euros compared to 31 December 2016. The reduction in net debt was supported by the improvement in both EBITDA and working capital. Operating free cash flow was positive at 668 million euros up by 295 million euros compared to 30 June 2016. The adjusted net debt decreased by 454 million euros to 10,712 million euros.

Further strengthening of liquidity and continuous decrease in the net cost of debt

The net cost of debt amounted to 113 million euros during the First Half 2017, down 21 million euros compared to last year, a continuation of the downward trend observed in recent years. The liquidity situation further improved by an increase in the net cash on balance sheet of 580 million euros to 4.9 billion euros.

Contribution by airline to First Half results

	Second Quarter		First Half	
	2017	**Change**	**2017**	**Change**
Air France	184	+83	61	+46
Operating Margin (%)	4.6%	+2.0 pt	0.8%	+0.6 pt
KLM	317	+103	301	+94
Operating Margin (%)	11.7%	+3.0 pt	6.1%	+1.6 pt

Sum of individual airline results does not add up to Air France-KLM total due to intercompany eliminations at Group level

Outlook

The global context remains highly uncertain regarding the geopolitical environment in which we operate and regarding fuel prices.

Long haul forward bookings for the coming four months are currently above previous year level. Based on the current outlook, the variation in unit revenue at constant currency is expected to be slightly up compared to last year for the Second Half 2017 .

To regain the offensive in long-haul and to improve the performance in medium-haul, the Group is maintaining its targeted growth for the passenger group (Air France, KLM and Transavia) of between 3.0% and 3.5% measured in ASKs for Full Year 2017.

To improve its competitiveness, the Group is pursuing and amplifying the initiatives already under way in terms of unit cost reduction. Despite the negative effects of the increased load factor and profit sharing on the unit cost evolution, the Group is expecting for 2017 a unit cost reduction between 1.0% and 1.5% at constant currency, fuel price and pension related expenses.

Based on the forward curve of 14th July 2017, the second half 2017 fuel bill is expected to decrease by 100 million euros compared to 2016[7].

Regarding the balance sheet, the Group is maintaining strict capex discipline, targeting positive free cash flow before disposals. The 2017 investment plan stands at between 1.7 billion euros and 2.2 billion euros and is expected to be at the high end of the range.

The Group is pursuing a further reduction in net debt, targeting an adjusted net debt to EBITDAR below 2.5x mid cycle by the end of 2020. The adjusted net debt to EBITDAR ratio is expected to improve at 31 December 2017 compared to the previous year

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[7] Based on the forward curve of July 14th 2017, Full Year 2017 average Brent price of USD 51, average jet fuel market price of USD 490 per ton. Assuming exchange rate of USD 1.12 per euro for July-December 2017 period.

INCOME STATEMENT

In millions euros	Second Quarter			First Half		
	2017	2016	Change	2017	2016	Change
SALES	**6,605**	**6,215**	**6.3%**	**12,314**	**11,820**	**4.2%**
Other revenues	0	0	N/A	0	0	N/A
REVENUES	**6,605**	**6,215**	**6.3%**	**12,314**	**11,820**	**4.2%**
Aircraft fuel	-1,160	-1,167	-0.6%	-2,280	-2,263	0.8%
Chartering costs	-103	-113	-8.8%	-202	-215	-6.0%
Landing fees and en route charges	-495	-484	2.3%	-932	-914	2.0%
Catering	-203	-113	79.6%	-388	-215	80.5%
Handling charges and other operating costs	-437	-389	12.3%	-856	-750	14.1%
Aircraft maintenance costs	-609	-604	0.8%	-1,240	-1,246	-0.5%
Commercial and distribution costs	-238	-232	2.6%	-468	-463	1.1%
Other external expenses	-395	-469	-15.8%	-782	-953	-17.9%
Salaries and related costs	-1,915	-1,862	2.8%	-3,727	-3,706	0.6%
Taxes other than income taxes	-38	-39	-2.6%	-83	-88	-5.7%
Other income and expenses	178	248	-28.2%	388	515	-24.7%
EBITDAR	**1,190**	**991**	**20.1%**	**1,744**	**1,522**	**14.6%**
Aircraft operating lease costs	-277	-263	5.3%	-562	-528	6.4%
EBITDA	**913**	**728**	**25.4%**	**1,182**	**994**	**18.9%**
Amortization, depreciation and provisions	-417	-411	1.5%	-829	-776	6.8%
INCOME FROM CURRENT OPERATIONS	**496**	**317**	**56.5%**	**353**	**218**	**61.9%**
Sales of aircraft equipment	10	0	N/A	19	8	138%
Other non-current income and expenses	-3	18	-117%	-11	-107	-89.7%
INCOME FROM OPERATING ACTIVITIES	**503**	**335**	**50.1%**	**361**	**119**	**203%**
Cost of financial debt	-68	-78	-12.8%	-133	-162	-17.9%
Income from cash and cash equivalent	11	14	-21.4%	20	28	-28.6%
Net cost of financial debt	**-57**	**-64**	**-10.9%**	**-113**	**-134**	**-15.7%**
Other financial income and expenses	32	-126	N/A	1	-44	N/A
INCOME BEFORE TAX	**478**	**145**	**230%**	**249**	**-59**	**nm**
Income taxes	-105	-107	1.9%	-96	-53	81.1%
NET INCOME OF CONSOLIDATED COMPANIES	**373**	**38**	**882%**	**153**	**-112**	**nm**
Share of profits (losses) of associates	3	2	50.0%	7	1	600%
INCOME FROM CONTINUING OPERATIONS	**376**	**40**	**840%**	**160**	**-111**	**nm**
Net income from discontinued operations	-8	3	N/A	-8	2	-500%
NET INCOME FOR THE PERIOD	**368**	**43**	**756%**	**152**	**-109**	**nm**
Minority interest	-1	-2	N/A	-1	-5	N/A
NET INCOME FOR THE PERIOD - GROUP	**367**	**41**	**795%**	**151**	**-114**	**nm**

CONSOLIDATED BALANCE SHEET

Assets *In million euros*	June 30, 2017	December 31, 2016
Goodwill	217	218
Intangible assets	1,092	1,066
Flight equipment	9,632	9,119
Other property, plant and equipment	1,455	1,480
Investments in equity associates	294	292
Pension assets	2,503	1,462
Other financial assets	1,126	1,064
Deferred tax assets	266	176
Other non-current assets	180	448
Total non-current assets	**16,765**	**15,325**
Assets held for sale	0	0
Other short-term financial assets	404	130
Inventories	623	566
Trade receivables	2,079	1,868
Other current assets	1,023	1,105
Cash and cash equivalents	4,217	3,938
Total current assets	**8,346**	**7,607**
Total assets	**25,111**	**22,932**

Liabilities and equity *In million euros*	June 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	-1,775	-2,520
Equity attributable to equity holders of Air France-KLM	**2,029**	**1,284**
Non-controlling interests	15	12
Total Equity	**2,044**	**1,296**
Pension provisions	2,144	2,119
Other provisions	1,601	1,673
Long-term debt	6,640	7,431
Deferred tax liabilities	307	-12
Other non-current liabilities	319	284
Total non-current liabilities	**11,011**	**11,495**
Provisions	609	654
Current portion of long-term debt	1,618	1,021
Trade payables	2,263	2,359
Deferred revenue on ticket sales	3,957	2,517
Frequent flyer programs	811	810
Other current liabilities	2,787	2,775
Bank overdrafts	11	5
Total current liabilities	**12,056**	**10,141**
Total equity and liabilities	**25,111**	**22,932**

CONSOLIDATED STATEMENT OF CASH FLOWS

In € millions *Period from January 1 to June 30 2017*	**H1 2017**	**H1 2016**
Net income from continuing operations	160	-111
Net income from discontinued operations	-8	2
Amortization, depreciation and operating provisions	829	781
Financial provisions	19	-21
Loss (gain) on disposals of tangible and intangible assets	-19	-59
Loss (gain)on disposals of subsidiaries and associates	-2	-7
Derivatives – non monetary result	76	-129
Unrealized foreign exchange gains and losses, net	-100	122
Impairment	0	2
Other non-monetary items	-42	33
Share of (profits) losses of associates	-7	-1
Deferred taxes	80	33
Financial Capacity	**986**	**645**
Of which discontinued operations	0	9
(Increase) / decrease in inventories	-54	-76
(Increase) / decrease in trade receivables	-292	-238
Increase / (decrease) in trade payables	-31	33
Change in other receivables and payables	1,203	1,074
Change in working capital requirements	**826**	**793**
Change in working capital from discontinued operations	0	2
Net cash flow from operating activities	**1,812**	**1,440**
Purchase of property, plant and equipment and intangible assets	-1,208	-1,152
Proceeds on disposal of property, plant and equipment and intangible assets	64	96
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	2	4
Acquisition of subsidiaries, of shares in non-controlled entities	0	-4
Dividends received	1	3
Decrease (increase) in net investments, more than 3 months	-258	681
Net cash flow used in investing activities of discontinued operations	0	-5
Net cash flow used in investing activities	**-1,399**	**-377**
Sale of minority interest without change in control	0	0
Issuance of debt	324	686
Repayment on debt	-90	-720
Payment of debt resulting from finance lease liabilities	-302	-241
Decrease (increase) in loans, net	-50	-12
Dividends and coupons on perpetual paid	-1	-1
Net cash flow used in financing activities of discontinued operations	0	-6
Net cash flow from financing activities	**-119**	**-294**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	-21	-23
Effect of exch. rate on cash and cash eq. and bank overdrafts of disc. ops.	0	-1
Change in cash and cash equivalents and bank overdrafts	**273**	**745**
Cash and cash equivalents and bank overdrafts at beginning of period	3,933	3,073
Cash and cash equivalents and bank overdrafts at end of period	4,206	3,819
Change in treasury of discontinued operations		-1

KEY FINANCIAL INDICATORS

EBITDA and EBITDAR

In million euros	Q2 2017	Q2 2016	H1 2017	H1 2016
Income/(loss) from current operations	496	317	353	218
Amortization, depreciation and provisions	417	411	829	776
EBITDA	**913**	**728**	**1,182**	**994**
Aircraft operating lease costs	277	263	562	528
EBITDAR	**1,190**	**991**	**1,744**	**1,522**

Restated net result, group share

In million euros	Q2 2017	Q2 2016	H1 2017	H1 2016
Net income/(loss), Group share	367	41	151	(114)
Net income/(loss) from discontinued operations	8	(3)	8	(2)
Unrealized foreign exchange gains and losses, net	(109)	149	(100)	122
Change in fair value of financial assets and liabilities (derivatives)	5	(91)	28	(129)
Non-current income and expenses	(7)	(18)	(8)	99
Depreciation of shares available for sale	0	0	0	0
De-recognition of deferred tax assets	0	0	0	0
Restated net income/(loss), group share	**264**	**78**	**79**	**(24)**
Restated net income/(loss) per share (in €)			(0.22)[8]	(0.12)

Return on capital employed (ROCE)

In million euros	30 Jun. 2017	30 Jun. 2016	30 Jun. 2016	30 Jun. 2015*
Goodwill and intangible assets	1,309	1,238	1,238	1,270
Flight equipment	9,632	9,192	9,192	8,843
Other property, plant and equipment	1,455	1,494	1,494	1,720
Investments in equity associates	294	73	73	131
Financial assets excluding shares available for sale, marketable securities and financial deposits	203	204	204	200
Provisions, excluding pension, cargo litigation and restructuring	(1,628)	(1,558)	(1,558)	(1,510)
WCR, excluding market value of derivatives	(6,136)	(5,897)	(5,897)	(5,923)
Capital employed before operating leases	**5,129**	**4,746**	**4,746**	**4,731**
Operating leases x7	7,756		7,343	
Average capital employed (A)	**12,694**		**12,082**	
Adjusted results from current operations	1,561		1,592	
- Dividends received	(2)		(2)	
- Share of profits (losses) of associates	0		(16)	
- Tax recognized in the adjusted net result	(293)		(165)	
Adjusted result from current operations after tax (B)	**1,266**		**1,409**	
ROCE, trailing 12 months (B/A)	**10.0%**		**11.7%**	

** Reclassification of Servair as a discontinued operation*

[8] Calculated on a diluted basis.

Net debt

Balance sheet at *(In million euros)*	**30 June 2017**	**31 December 2016**
Current and non-current financial debt	8,258	8,452
Deposits on aircraft under finance lease	(337)	(336)
Financial assets pledged (OCEANE swap)	0	0
Currency hedge on financial debt	(12)	(49)
Accrued interest	(50)	(89)
Gross financial debt (A)	**7,859**	**7,978**
Cash and cash equivalents	4,217	3,938
Marketable securities	81	53
Cash pledges	258	50
Deposits (bonds)	361	298
Bank overdrafts	(11)	(5)
Other	(3)	(11)
Net cash (B)	**4,903**	**4,323**
Net debt (A) – (B)	**2,956**	**3,655**

Adjusted net debt and adjusted net debt/EBITDAR ratio

Trailing 12 months	**30 June 2017**	**31 December 2016**
Net debt (in €m)	2,956	3,655
Aircraft operating leases x 7 (in €m)	7,756	7,511
Adjusted net debt (in €m)	**10,712**	**11,166**
EBITDAR (in €m)	4,009	3,787
Adjusted net debt/EBITDAR ratio	**2.7 x**	**2.9 x**

Operating free cash flow

In million euros	**Q2 2017**	**Q2 2016**	**H1 2017**	**H1 2016**
Net cash flow from operating activities, continued operations	924	689	1,812	1,429
Investment in property, plant, equipment and intangible assets	(614)	(545)	(1,208)	(1,152)
Proceeds on disposal of property, plant, equipment and intangible assets	29	33	64	96
Operating free cash flow	**339**	**177**	**668**	**373**

Lease adjusted operating result

In million euros	**Q2 2017**	**Q2 2016**	**H1 2017**	**H1 2016**
Operating result	496	317	353	218
Aircraft operating leases x 1/3	92	88	187	176
Lease adjusted operating result	**588**	**405**	**540**	**394**
Lease adjusted operating margin	8.9%	6.5%	4.4%	3.3%

Unit cost: net cost per EASK

	Q2 2017	Q2 2016	H1 2017	H1 2016
Revenues (in €m)	6,605	6,215	12,314	11,820
Income/(loss) from current operations (in €m)	496	317	353	218
Total operating expense (in €m)	-6,109	-5,898	-11,961	-11,602
Passenger network business – other revenues (in €m)	191	207	381	406
Cargo business – other revenues (in €m)	36	42	75	79
Third-party revenues in the maintenance business (in €m)	440	435	900	866
Transavia - other revenues (in €m)	0	1	9	8
Third-party revenues of other businesses (in €m)	8	10	19	22
Net cost (in €m)	**5,434**	**5,203**	**10,577**	**10,221**
Capacity produced, reported in EASK*	90,293	86,234	169,900	163,678
Net cost per EASK (in € cents per EASK)	**6.01**	**6.03**	**6.22**	**6.24**
Gross change		-0.4%		-0.3%
Currency effect on net costs (in €m)		75		168
Change at constant currency		-1.8%		-1.9%
Fuel price effect (in €m)		-74		-94
Change on a constant currency and fuel price basis		-0.4%		-1.0%
Change in pension-related expenses (in €m)		-10		-8
Net cost per EASK on a constant currency, fuel price and pension-related expenses basis (in € cents per EASK)	**6.01**	**6.03**	**6.22**	**6.28**
Change on a constant currency, fuel price and pension-related expenses basis		**-0.3%**		**-1.0%**

** The capacity produced by the transportation activities is combined by adding the capacity of the Passenger network (in ASK) to that of Transavia (in ASK) and the Cargo business (in ATK) converted into EASK based on a separate fixed factor for Air France and for KLM..*

INDIVIDUAL AIRLINE RESULTS

Air France

	Q2 2017	Change	H1 2017	Change
Revenue (in €m)	3,980	+4.1%	7,572	+2.7%
EBITDA (in €m)	454	+72	589	+57
Operating result (in €m)	184	+83	61	+46
Operating margin	4.6%	+2.0 pt	0.8%	+0.6 pt
Operating cash flow before WCR and restructuring cash out (in €m)	369	+49	515	+2
Operating cash flow (before WCR and restructuring) margin	9.3%	+0.9 pt	6.8%	-0.2 pt

KLM

	Q2 2017	Change	H1 2017	Change
Revenue (in €m)	2,699	+9.4%	4,907	+6.6%
EBITDA (in €m)	456	+115	588	+129
Operating result (in €m)	317	+103	301	+94
Operating margin	11.7%	+3.0 pt	6.1%	+1.6 pt
Operating cash flow before WCR and restructuring cash out (in €m)	415	+110	528	+144
Operating cash flow (before WCR and restructuring) margin	15.4%	+3.0 pt	10.8%	+2.4 pt

NB: Sum of individual airline results does not add up to Air France-KLM total due to intercompany eliminations at Group level.

GROUP FLEET AT 30 JUIN 2017

Aircraft type	Air France Group	KLM Group	Transavia	Owned	Financial lease	Operating lease	Total	In operation	Change / 31/12/16
B747-400		16		16			**16**	15	-2
B777-300	43	13		9	25	22	**56**	56	1
B777-200	25	15		19	10	11	**40**	40	
B787-9	2	8			2	8	**10**	10	2
A380-800	10			1	4	5	**10**	10	
A340-300	10			5	5		**10**	9	-1
A330-300		5				5	**5**	5	
A330-200	15	8		5	6	12	**23**	23	
Total Long-Haul	**105**	**65**		**55**	**52**	**63**	**170**	**168**	**0**
B737-900		5		1	1	3	**5**	5	
B737-800		27	62	17	12	60	**89**	89	9
B737-700		18	8	3	8	15	**26**	26	
A321	20			10	1	9	**20**	20	
A320	42			4	3	35	**42**	42	1
A319	38			19	6	13	**38**	38	
A318	18			11	7		**18**	18	
Total Medium-Haul	**118**	**50**	**70**	**65**	**38**	**135**	**238**	**238**	**10**
ATR72-600	6					6	**6**	6	1
ATR72-500	4			1	2	1	**4**	4	-1
ATR42-500	11			5	2	4	**11**	11	-1
Canadair Jet 1000	14			14			**14**	14	
Canadair Jet 700	11			11			**11**	11	
Embraer 190	10	30		5	14	21	**40**	40	
Embraer 175		9		5	4		**9**	9	5
Embraer 170	15			8	2	5	**15**	15	
Embraer 145	18			14	4		**18**	13	-2
Embraer 135	4			4			**4**		
Fokker 70		9		9			**9**	9	-2
Total Regional	**93**	**48**	**0**	**76**	**28**	**37**	**141**	**132**	**0**
B747-400ERF		3		3			**3**	3	
B747-400BCF		1				1	**1**	1	
B777-F	2			2			**2**	2	
Total Cargo	**2**	**4**	**0**	**5**	**0**	**1**	**6**	**6**	**0**

Air France-KLM	**318**	**167**	**70**	**201**	**118**	**236**	**555**	**544**	**10**

Press release of 27 July 2017 (see also Chapter 7 "*Other information and trends*" of this update)

Air France-KLM expands its alliances between the North Atlantic, Europe and Asia, and affirms its position in the worldwide airline industry

Air France-KLM today announces a further major step in the strengthening of its strategic partnerships with, firstly, the creation of a single global joint-venture between Air France-KLM, Delta Air Lines (Delta) and Virgin Atlantic and, secondly, the strengthening of its partnership with China Eastern Airlines (China Eastern). These two commercial alliances will be strengthened by equity investments:

- Air France-KLM will acquire Virgin Group's 31% stake in Virgin Atlantic for around £220 million,

- Delta and China Eastern will each acquire a 10% stake in Air France-KLM by subscribing new shares through capital increases totaling €751 million.

The strategic, commercial and capitalistic reinforcement of these partnerships will position Air France-KLM as the European pillar of the leading global airline network.

At the heart of the most global partnership in the airline industry

Air France-KLM, Delta and Virgin Atlantic today signed a Memorandum of Understanding laying the foundations for a future combination of the existing joint-ventures between firstly Air France-KLM, Delta and Alitalia, and secondly between Delta and Virgin Atlantic, within a single joint-venture. This step will mark the expansion and strengthening of one of the most advanced partnership models in the airline industry. Subject to the signature of the definitive agreements and the approval of the relevant regulatory authorities, this joint-venture will enable the Group to:

- Offer customers an unrivaled proposition on the trans-Atlantic axis,
- Drive the capacity growth of the partners,
- Create an associate partner status enabling the inclusion of other players at a later stage,
- Establish a partnership over a 15-year period,
- Generate significant synergies with the joint-venture thanks to new code shares to/from London, sales coordination, the extended partnership and cost savings.

The creation of this joint-venture will thus consolidate Air France-KLM's leadership position in the North-American and European markets with the largest airline network articulated around twelve powerful hubs on both sides of the Atlantic: Amsterdam, Atlanta, Boston, Cincinnati, Detroit, Los Angeles, London Heathrow, Minneapolis-St Paul, New York-JFK, Paris-CDG, Salt Lake City and Seattle.

In parallel, Air France-KLM and China Eastern will step up their commercial cooperation and reinforce their partnership within the framework of the existing joint-venture, to:

- Secure and reinforce Air France-KLM's presence in the Chinese market thanks to a long-term partnership,
- Give Air France-KLM a European leadership position on Shanghai, the main business market in China,
- Improve the services for our customers,
- Enable increased cooperation in terms of the network, pricing and operational synergies.

The strengthening of this cooperation will take place in accordance with the partnership strategy of Delta, which already holds a 3.2% stake in China Eastern Airlines Corporation Limited. This cooperation does not call into question the current joint-ventures between the Air France-KLM Group and China Southern.

All of these agreements with Delta, Virgin Atlantic and China Eastern Airlines will enable Air France-KLM to offer its customers an expanded network and to capitalize on the pooling of extensive distribution networks. As an integral part of the Trust Together strategic plan, these partnerships will support the Group's profitable growth and enable Air France-KLM to offer its customers an unparalleled proposition.

Reinforcing the partnerships via the acquisition of equity stakes

To consolidate the new trans-Atlantic joint-venture, Air France-KLM has announced plans to acquire a 31% stake in Virgin Atlantic for around £220 million. This transaction should take place in 2018, after approval by the relevant regulatory authorities. Air France-KLM will become the second largest shareholder in Virgin Atlantic after Delta which holds 49%, and will have the same level of representation as Delta within the Board of Directors.

In addition, Delta and China Eastern, who are now Air France-KLM's very long-term partners, will subscribe equal amounts to two reserved capital increases totaling €751 million at a subscription price of €10 per share, enabling them to acquire 10% each of the Air France-KLM share capital. This price represents a 42% premium relative to the average share price over the last 12 months1 and a 13% premium relative to the average share price since the announcement of the 2016 annual results on 16th February 2017. Relative to the closing share price of 26th July 2017, the subscription price represents a 17% discount.

The realization of these reserved capital increases will be subject to approval by the Air France-KLM shareholders during an Extraordinary Shareholders' Meeting convened for 4th September 2017, and to approval by the relevant regulatory authorities. These reserved capital increases will be the subject of a prospectus to be submitted for authorization by the Autorité des Marchés Financiers ("AMF"). The acquisition of these stakes will be accompanied by the appointment of two Board directors to the Air France-KLM Board of Directors, the first nominated by China Eastern and the second by Delta.

The subscription agreements signed separately with Delta and China Eastern, who are not acting in concert, have a 25-year duration and include a commitment by the partners to retain their shares subject to a number of exceptions and not to purchase shares potentially leading to the crossing of 10% threshold in the share capital for five years. The partners have also made a commitment not to sell their stakes to another airline without the agreement of the Air France-KLM Board of Directors.

These capital increases will enable an improvement in Air France-KLM's financial structure, accelerate the reduction in its net debt and finance the purchase of the stake in Virgin Atlantic.

Jean-Marc Janaillac, Chairman and Chief Executive Officer of Air France-KLM, said: "*This partnership which is unprecedented in scale gives Air France-KLM a leadership position in the worldwide airline industry. With Delta and Virgin Atlantic we are reinforcing our trans-Atlantic alliance, making us the number one alliance between Europe and the United States in terms of traffic. With China Eastern, we are consolidating our position on a high-growth market. The commitment and efforts of Air France-KLM staff have enabled an improvement in our performance and the securing of these strategic partnerships. These agreements accelerate the value-creation initiatives deployed through the Trust Together project.*"

Planned calendar for the transaction:

- 4th September 2017 : Extraordinary Shareholders' Meeting to approve the capital increases and the appointment of the new members of the Board of Directors
- Once the regulatory approvals are obtained: realization of the reserved capital increases.

Press release of 17 July 2017

Consultation with Air France pilots: massive vote in favor of the agreement opened for signature by Air France management

Air France-KLM welcomes the result of the consultation carried out by the SNPL (Air France Pilots Union) with its members between 20 June and 17 July.

The majority of pilots took part in this consultation and over 78% supported the agreement opened for signature by Air France management.

This result paves the way for the creation of the new airline, the "Boost" project, in the autumn of this year, in line with the schedule originally announced. This agreement will be effective as soon as it is signed, in the next few hours.

A week after Air France's Cabin Crew agreement, this agreement is in line with the Trust Together project, which will enable the Group to continue its recovery and give it the means to resume the offensive.

"*I welcome the spirit of responsibility shown by the Air France pilots. This agreement is the result of lengthy negotiations, which have resulted in a balanced compromise in favour of the interests of the company and all its employees. This milestone is part of Trust Together's growth and recovery trajectory, driven in particular by the project for the new airline*", said Jean-Marc Janaillac, Chairman and CEO of Air France-KLM.

CHAPTER 4
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2017

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 – June 30, 2017

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

In € million **Period from January 1 to June 30**	***Notes***	**2017**	**2016**
Sales	***6***	**12,314**	**11,820**
Revenues		**12,314**	**11,820**
External expenses	***7***	(7,148)	(7,019)
Salaries and related costs	***8***	(3,727)	(3,706)
Taxes other than income taxes		(83)	(88)
Other income and expenses	***10***	388	515
EBITDAR		**1,744**	**1,522**
Aircraft operating lease costs		(562)	(528)
EBITDA		**1 182**	**994**
Amortization, depreciation and provisions	***9***	(829)	(776)
Income from current operations		**353**	**218**
Sales of aircraft equipment		19	8
Other non-current income and expenses	***11***	(11)	(107)
Income from operating activities		**361**	**119**
Cost of financial debt	***12***	(133)	(162)
Income from cash and cash equivalent	***12***	20	28
Net cost of financial debt		***(113)***	***(134)***
Other financial income and expenses	***12***	1	(44)
Income before tax		**249**	**(59)**
Income taxes	***13***	(96)	(53)
Net income of consolidated companies		**153**	**(112)**
Share of profits (losses) of associates		7	1
Net income from continuing operations		**160**	**(111)**
Net income from discontinued operations		(8)	2
Net income for the period		**152**	**(109)**
Non-controlling interests		*1*	*5*
Net income – Group part		*151*	*(114)*
Earnings per share – Equity holders of Air France-KLM (*in euros*)			
- basic	***14***	0.46	(0.43)
- diluted		0.42	(0.43)
Net income from continuing operations - Equity holders of Air France-KLM (*in euros*)			
- basic	***14***	0.49	(0,43)
- diluted		0.45	(0.43)
Net income from discontinued operations – Equity holders of Air France-KLM (*en euros*)			
- basic	***14***	(0.03)	0.01
- diluted		(0.02)	0.01

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

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (UNAUDITED)

In € million **Period from January 1 to June 30**	**2017**	**2016**
Net income for the period	**152**	**(109)**
Fair value adjustment on available-for-sale securities		
Change in fair value recognized directly in other comprehensive income	(1)	(4)
Cash flow hedges		
Effective portion of changes in fair value hedge recognized directly in other comprehensive income	(374)	221
Change in fair value transferred to profit or loss	43	510
Currency translation adjustment	**-**	**5**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	**115**	**(225)**
Total of other comprehensive income that will be reclassified to profit or loss	***(217)***	***507***
Remeasurements of defined benefit pension plans	**1,077**	**(1,829)**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	**(264)**	**429**
Total of other comprehensive income that will not be reclassified to profit or loss	***813***	***(1,400)***
Total of other comprehensive income. after tax	**596**	**(893)**
Recognized income and expenses	**748**	**(1,002)**
- Equity holders of Air France-KLM	**745**	**(1,001)**
- Non-controlling interests	3	(1)

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

Assets *In € million*	***Notes***	**30 June 2017**	**31 December 2016**
Goodwill		217	218
Intangible assets		1,092	1,066
Flight equipment	***15***	9,632	9,119
Other property. plant and equipment	***15***	1,455	1,480
Investments in equity associates		294	292
Pension assets	***16***	2,503	1,462
Other financial assets		1,126	1,064
Deferred tax assets		266	176
Other non-current assets		180	448
Total non-current assets		**16,765**	**15,325**
Other short-term financial assets		404	130
Inventories		623	566
Trade receivables		2,079	1,868
Other current assets		1,023	1,105
Cash and cash equivalents	***20***	4,217	3,938
Total current assets		**8,346**	**7,607**
Total current assets		**25,111**	**22,932**

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

CONSOLIDATED BALANCE SHEET (UNAUDITED) (continued)

Liabilities and equity *In million euros*	***Notes***	**30 June 2017**	**31 December 2016**
Issued Capital	***17.1***	300	300
Additional paid-in capital		2,971	2,971
Treasury shares		(67)	(67)
Prepetual		600	600
Reserves and retained earnings	***17.1***	(1,775)	(2,520)
Equity attributable to equity holders of Air France-KLM		**2,029**	**1,284**
Non-controlling interests		15	12
Total equity		**2 044**	**1 296**
Pension provisions	***16***	2,144	2,119
Other provisions	***18***	1,601	1,673
Long-term debt	***20***	6,640	7,431
Deferred tax liabilities		307	(12)
Other non-current liabilities		319	284
Total non-current liabilities		**11,011**	**11,495**
Other provisions	***18***	609	654
Current portion of long-term debt	***19 & 20***	1,618	1,021
Trade payables		2,263	2,359
Deferred revenue on ticket sales		3,957	2,517
Frequent flyer programs		811	810
Other current liabilities		2,787	2,775
Bank overdrafts	***20***	11	5
Total current liabilities		**12,056**	**10,141**
Total liabilities		**23,067**	**21,636**
Total equity and liabilities		**25,111**	**22,932**

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

In € million	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	-	-	-	-	-	(8)	**(8)**	-	**(8)**
Gain/(loss) on cash flow hedges	-	-	-	-	-	508	**508**	2	**510**
Remeasurements of defined benefit pension plans	-	-	-	-	-	(1,392)	**(1,392)**	(8)	**(1,400)**
Currency translation adjustment	-	-	-	-	-	5	**5**	-	**5**
Other comprehensive income	-	-	-	-	-	***(887)***	***(887)***	***(6)***	***(893)***
Net result for the period	-	-	-	-	-	(114)	**(114)**	5	**(109)**
Total of income and expenses recognized	-	-	-	-	-	**(1,001)**	**(1,001)**	**(1)**	**(1,002)**
Treasury shares	-	-	-	1	-	-	**1**	-	**1**
Dividends paid and coupons on perpetual	-	-	-	-	-	-	-	(5)	**(5)**
June 30, 2016	**300,219,278**	**300**	**2 971**	**(84)**	**600**	**(4,562)**	**(775)**	**42**	**(733)**
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	-	-	-	-	-	(3)	**(3)**	-	**(3)**
Gain/(loss) on cash flow	-	-	-	-	-	(214)	**(214)**	-	**(214)**
Remeasurements of defined benefit pension plans	-	-	-	-	-	811	**811**	2	**813**
Currency translation adjustment	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	***594***	***594***	***2***	***596***
Net result for the period	-	-	-	-	-	151	**151**	**1**	**152**
Total of income and expenses recognized	-	-	-	-	-	**745**	**745**	**3**	**748**
June 30, 2017	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(1,775)**	**2,029**	**15**	**2,044**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Period from January 1 to June 30 *In € millions*	***Notes***	**2017**	**2016**
Net income from continuing operations		160	(111)
Net income from discontinued operations		(8)	2
Amortization. depreciation and operating provisions		829	781
Financial provisions		19	(21)
Loss (gain) on disposals of tangible and intangible assets		(19)	(59)
Loss (gain) on disposals of subsidiaries and associates		(2)	(7)
Derivatives – non-monetary result		76	(129)
Unrealized foreign exchange gains and losses, net		(100)	122
Share of (profits) losses of associates		(7)	(1)
Deferred taxes		80	33
Impairment		-	2
Other non-monetary items		(42)	33
Financial capacity		**986**	**645**
Including discontinued operations (D)		***-***	***9***
(Increase) / decrease in inventories		(54)	(76)
(Increase) / decrease in trade receivables		(292)	(238)
Increase / (decrease) in trade payables		(31)	33
Change in other receivables and payables		1,203	1,074
Change in working capital requirement		**826**	**793**
Change in working capital from discontinued operations (D)		-	2
Net cash flow from operating activities (A)		**1,812**	**1,440**
Acquisition of subsidiaries, of shares in non-controlled entities		-	(4)
Purchase of property plant and equipment and intangible assets (B)		(1,208)	(1,152)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		2	4
Proceeds on disposal of property plant and equipment and intangible assets (C)		64	96
Dividends received		1	3
Decrease (increase) in net investments, more than 3 months		(258)	681
Net cash flow used in investing activities of discontinued operations		-	(5)
Net cash flow used in investing activities		**(1,399)**	**(377)**
Issuance of debt		324	686
Repayment on debt		(90)	(720)
Payment of debt resulting from finance lease liabilities		(302)	(241)
New loans		(76)	(32)
Repayment on loans		26	20
Dividends and coupons on perpetual paid		(1)	(1)
Net cash flow used in financing activities of discontinued operations		-	(6)
Net cash flow from financing activities		**(119)**	**(294)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(21)	(23)
Effect of exchange rate on cash and cash equivalents and bank overdrafts of discontinued operations (net of cash acquired or sold)		-	(1)
Change in cash and cash equivalents and bank overdrafts		**273**	**745**
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)		4,206	3,819
Change in cash of discontinued operations		-	(1)
Income tax (paid)/reimbursed (flow included in operating activities)		(9)	(22)
Interest paid (flow included in operating activities)		(153)	(165)
Interest received (flow included in operating activities)		9	19

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

Period from January 1 to June 30 *In € million*	*Notes*	2017	2016
Net cash flow from operating activities	***A***	1,812	1,440
Purchase of property plant and equipment and intangible assets	***B***	(1,208)	(1,152)
Proceeds on disposal of property plant and equipment and intangible assets	***C***	64	96
Net cash flow from operating activities from discontinued operations	***D***	-	(11)
Operating free cash flow excluding discontinued activities	***20***	**668**	**373**

The accompanying notes are in integral part of these interim condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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 passenger transportation on scheduled flights (“passenger network”). The Group’s activities also include cargo, aeronautics maintenance, “low cost” passenger transportation (Transavia) and other air-transport-related activities including, principally, catering.

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 June 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 June 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 July 27, 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;
  - ✓ Admendment 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;
  - ✓ IFRIC 22 “Foreign currency transactions and advance consideration”, effective for the period beginning January 1, 2018;
  - ✓ The amendment IAS 12 “Income tax” does not have a significant impact on Group’s financial statements as of June 30, 2017.

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 June 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.

- **<u>Retirement benefits</u>**
  - ✓ 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.

3. RESTATEMENT OF ACCOUNTS 2016

<u>Introduction of Network Business</u>

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 contribute to the line profitability of the network destinations. These activities constitute a unique large 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

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.

4.2. Subsequent events

The Group announces a further major step in 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 and the strengthening of its partnership with China Eastern Airlines (CEA). These two commercial alliances will be consolidated by capital links:

- 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;
- Delta and China Eastern will each acquire a 10% stake in Air France-KLM's share capital within the framework of a reserved capital increase for a global amount of 750 million of euros.

The creation of the global joint-venture is subjected to the approval of the competent statutory authorities.

The realization of these reserved capital increases will be subject to approval by the Air France-KLM shareholders during their forthcoming Exceptional Shareholders' Meeting convened for 4th September 2017.

5. CHANGE IN THE CONSOLIDATION SCOPE

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

No significant acquisition or disposal took place during the first semester ended June 30, 2017.

- **First semester ended June 30, 2016**

No significant acquisition or disposal took place during the first semester ended June 30, 2016.

6. INFORMATION BY ACTIVITY AND GEOCRAPHICAL 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)
- Asia-Pacific
- North America

- Caribbean, West Indies, French Guyana, Indian Ocean, South America (CILA)

Only segment revenue is allocated by geographical sales area.

- **Activity by destination**

Group activities by destination are broken down into seven geographic areas::

- Metropolitan France
- Europe (excluding France) and North Africa
- Caribbean, West Indies, French Guyana and Indian Ocean
- Africa (excluding North Africa), Middle East
- North America, Mexico
- South America (excluding Mexico)
- Asia and New Caledonia

6.1. Information by business segment

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

In € million	**Network**	**Maintenance**	**Transavia**	**Other**	**Non allocated**	**Total**
Total sales	10,812	2,041	606	120	-	13 579
Intersegment sales	(22)	(1,141)	(1)	(101)	-	(1,265)
External sales	**10,790**	**900**	**605**	**19**	**-**	**12 314**
EBITDAR	1,486	170	82	6	-	1,744
EBITDA	1,005	170	1	6	-	1,182
Income from current operations	309	89	(43)	(2)	-	353
Income from operating activities	318	89	(45)	(1)	-	361
Share of profits (losses) of associates	-	2	-	5	-	7
Net cost of financial debt and other financial income and expenses	-	-	-	-	(112)	(112)
Income taxes	-	-	-	-	(96)	(96)
Net income from continuing operations	**318**	**91**	**(45)**	**4**	**(208)**	**160**

- **First semester ended June 30, 2016 (Restated)**

In € million	**Network**	**Maintenance**	**Transavia**	**Other**	**Non allocated**	**Total**
Total sales	10,475	2,006	483	324	-	13,288
Intersegment sales	(26)	(1,140)	-	(302)	-	(1,468)
External sales	**10,449**	**866**	**483**	**22**	**-**	**11,820**
EBITDAR	1,307	193	20	2	-	1,522
EBITDA	849	193	(50)	2	-	994
Income from current operations	203	95	(75)	(5)	-	218
Income from operating activities	111	91	(75)	(8)	-	119
Share of profits (losses) of associates	(3)	2	-	2	-	1
Net cost of financial debt and other financial income expenses	-	-	-	-	(178)	(178)
Income taxes	-	-	-	-	(53)	(53)
Net income from continuing operations	**108**	**93**	**(75)**	**(6)**	**(231)**	**(111)**

6.2. Information by geographical area

External sales by geographical area

- First semester ended June 30, 2017

In € million	Metropolitan France	Benelux	Europe (excluding France and Benelux)	Africa	Middle-Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Network	2,904	1,100	2,297	535	280	1,007	1,541	670	10,334
Other network sales	187	89	53	15	15	48	31	18	456
Total network	**3,091**	**1,189**	**2,350**	**550**	**295**	**1,055**	**1,572**	**688**	**10,790**
Scheduled Transavia	230	303	53	1	4	1	3	1	596
Transavia – other sales	4	-	-	-	-	-	5	-	9
Total Transavia	**234**	**303**	**53**	**1**	**4**	**1**	**8**	**1**	**605**
Maintenance	505	333	13	-	-	-	49	-	900
Other	5	14	-	-	-	-	-	-	19
Total	**3,835**	**1,839**	**2,416**	**551**	**299**	**1,056**	**1,629**	**689**	**12,314**

- **First semester ended June 30, 2016 (Restated)**

In € million	Metropolitan France	Benelux	Europe (excluding France and Benelux)	Africa	Middle-Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Network	2,896	976	2 358	517	239	887	1 521	568	9,962
Other network sales	192	70	79	30	4	60	34	18	487
Total network	**3,088**	**1,046**	**2 437**	**547**	**243**	**947**	**1 555**	**586**	**10,449**
Scheduled Transavia	172	263	33	3	-	1	2	1	475
Transavia – other sales	4	-	-	-	-	-	4	-	8
Total Transavia	**176**	**263**	**33**	**3**	**-**	**1**	**6**	**1**	**483**
Maintenance	506	291	15	-	-	-	54	-	866
Others	6	14	2	-	-	-	-	-	22
Total	**3,776**	**1,614**	**2,487**	**550**	**243**	**948**	**1,615**	**587**	**11,820**

Traffic sales by geographical area of destination

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

In million euros	**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	930	2,235	806	1,413	2,131	994	1,825	10,334
Scheduled Transavia	10	562	-	24	-	-	-	596
Total	**940**	**2,797**	**806**	**1 437**	**2,131**	**994**	**1 825**	**10,930**

- **First semester ended June 30, 2016 (Restated)**

In € million	**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	931	2,114	814	1,426	2,055	940	1,682	9,962
Scheduled Transavia	9	456	-	10	-	-	-	475
Total	**940**	**2,570**	**814**	**1,436**	**2,055**	**940**	**1,682**	**10,437**

7. EXTERNAL EXPENSES

In € million	**2017**	**2016**
Period from January 1 to June 30		
Aircraft fuel	2,280	2,263
Chartering costs	202	215
Landing fees and air route charges	932	914
Catering	388	215
Handling charges and other operating costs	856	750
Aircraft maintenance costs	1,240	1,246
Commercial and distribution costs	468	463
Other external expenses	782	953
Total	**7,148**	**7,019**
Excluding aircraft fuel	*4,868*	*4,756*

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € million **Period from January 1 to June 30**	**2017**	**2016**
Wages and salaries	2,552	2,589
Pension costs linked to defined contribution plans	290	278
Net periodic pension cost of defined benefit plans	132	136
Social contributions	526	528
Cost of temporary employees	88	72
Other expenses	124	103
Total	**3,727**	**3,706**

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 June 30, 2017, the line "Other expenses" includes an amount of €79 million of profit-sharing expenses (against €54 million as of June 30, 2016).

Average number of employees

Period from January 1 to June 30	**2017**	**2016**
Flight deck crew	7,719	7,702
Cabin crew	21,154	20,748
Ground staff	51,637	53,807
Temporary employees	2,683	2,228
Total	**83,193**	**84,485**

9. AMORTIZATION, DEPRECIATION AND PROVISIONS

In € million	2017	2016
Period from January 1 to June 30		
Amortization		
Intangible assets	68	62
Flight equipment	625	605
Other property, plant and equipment	99	103
	792	**770**
Depreciation and provisions		
Inventories	4	-
Trade receivables	-	(10)
Risks and contingencies	33	16
	37	**6**
Total	**829**	**776**

10. OTHER INCOME AND EXPENSES

In € million	2017	2016
Period from January 1 to June 30		
Capitalized production	390	442
Joint operation of routes	(39)	(26)
Operations-related currency hedges	29	95
Other	8	4
Total other income and expenses	**388**	**515**

11. OTHER NON-CURRENT INCOME AND EXPENSES

In € million	2017	2016
Period from January 1 to June 30		
Restructuring costs	(16)	(163)
Modification on pensions plans in the Netherlands	15	-
Cargo penalty	(12)	-
Disposal of slots	-	49
Disposal of shares available for sale	2	-
Disposals of subsidiaries and affiliates	-	7
Other non-current income and expenses	**(11)**	**(107)**

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

<u>Restructuring costs</u>

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 pension plans The Netherlands

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.

- **Six-month period ended June 30, 2016**

Restructuring costs

As of June 30, 2016, this included:

- €149 million related to the voluntary departure plans announced by Air France in February 2016;
- €5 million related to several voluntary departure plans initiated in the other Air France establishments located abroad;
- €9 million related to an additional provision for 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 June 30, 2016.

Disposal of subsidiairies and affiliates

As of June 30, 2016, this included the impact of the reclassification in "shares available for sales" of an affiliate previously recorded as equity investment.

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

In € million **Period from January 1 to June 30**	**2017**	**2016**
Income from marketable securities	6	5
Other financial income	14	23
Income from cash and cash equivalents	**20**	**28**
Loan interests	(79)	(98)
Lease interests	(27)	(28)
Capitalized interests and other non-monetary items	7	5
Other financial expenses	(34)	(41)
Gross cost of financial debt	**(133)**	**(162)**
Net cost of financial debt	**(113)**	**(134)**
Foreign exchange gains (losses) net	104	(119)
Financial instruments and change in fair value of hedges shares	(78)	58
Net (charge) release to provisions	3	47
Other	(28)	(30)
Other financial income and expenses	**1**	**(44)**

Cost of financial debt

As of June 30, 2017, the gross cost of financial debt includes an amount of €10 million corresponding to the difference between the nominal interest rate and the effective interest rate (after split accounting) of the OCEANE bonds issued (€13 million as of June 30, 2016).

Foreign exchange gain (losses)

As of June 30, 2017, the foreign exchange gain mainly included €87 million non-realized gain on the maintenance provision in US Dollar and €30 million non-realized gain on Japanese Yen debt.

As of June 30, 2016, it mainly included the unrealized change of the debt yen of €116 million.

Change in fair value of financial instruments

As of June 30, 2017, it mainly includes a net financial charge of financial instrument of €78 million (product of €58 million as June 30, 2016) explain by the variation of the financial instrument due to fuel derivative for €53 million and change derivative for €44 million.

As of June 30, 2016, it mainly included the change in fair value of financial instruments recorded related to fuel derivatives for €72 million and premium paid for fuel call options amounting to € (13) million.

Net (charge) / release to provisions

As of June 30, 2016, the Group released to the consolidated income statement the €41 million provision covering the accrued interest of 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.

Other financial income and expenses

As of June 30, 2017 and 2016, the line “other” comprises mainly the effect of accretion on long-term provisions for € (28) million and € (27) million.

13. INCOME TAXES

13.1. Income tax charge

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

In € million **Period from January 1 to June 30**	**2017**	**2016**
Current tax (expense) / income	**(16)**	**(16)**
Change in temporary differences	13	(3)
CVAE impact	2	2
(Use / de-recognition) / recognition of tax loss carry forwards	(95)	(36)
Deferred tax income / (expense) from continuing operations	**(80)**	**(37)**
Total	**(96)**	**(53)**

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.

- **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.

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

In € million	2017	2016
Period from January 1 to June 30		
Other comprehensive income that will be reclassified to profit and loss	**115**	**(225)**
Assets available for sale	(2)	-
Derivatives	117	(225)
Other comprehensive income that will not be reclassified to profit and loss	**(264)**	**429**
Pensions	(264)	429
Total	**(149)**	**204**

14. EARNINGS PER SHARE

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

Reconciliation of income used to calculate earnings per share

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

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

In € million	2017	2016
As of June 30		
Net income for the period – Equity holders of Air France-KLM	151	(114)
Net income from continuing operations – Equity holders of Air France – KLM	159	(116)
Net income from discontinued operations – Equity holders of Air France – KLM	(8)	2
Coupons on perpetual	(12)	(12)
Basic net income for the period – Equity holders of Air France-KLM	139	(126)
Basic net income from continuing operations – Equity holders of Air France – KLM	147	(128)
Basic net income from discontinued operations – Equity holders of Air France – KLM	(8)	2

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

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

As of June 30	2017	2016
Weighted average number of:		
- Ordinary shares issued	300,219,278	300,219,278
- Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
- Other treasury stock	(32,783)	(3,033,162)
Number of shares used to calculate basic earnings per share	**299,070,075**	**296,069,696**
OCEANE conversion	53,386,532	-
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**352,456,607**	**296,069,696**

14.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of June 30, 2017.

14.3 Instruments issued after the closing date

Following its Board of Directors of 27 July 2017, the Group announces a further major step in the strengthening of its strategic partnerships with, firstly, the creation of a single global joint-venture between Air France-KLM, Delta Air Lines (Delta) and Virgin Atlantic and, secondly, the strengthening of its partnership with China Eastern Airlines (CEA). These two commercial alliances will be strengthened by equity investments:

- Air France-KLM will acquire Virgin Group's 31% stake in Virgin Atlantic for around £220 million;
- Delta and China Eastern will each acquire a 10% stake in Air France-KLM by subscribing new shares through capital increases totaling €751 million.

The creation of the global joint-venture is subject to the approval of the relevant regulatory authorities.

The realization of these reserved share capital increases will be subject to approval by the Air France-KLM shareholders during an Extraordinary Shareholders' Meeting convened for 4th September 2017.

15. TANGIBLE ASSETS

In € million	As of June 30, 2017			As of December 31, 2016		
	Gross value	**Depreciation**	**Net Value**	**Gross value**	**Depreciation**	**Net Value**
Owned aircraft	9,020	(5,739)	3,281	8,873	(5,807)	3,066
Leased aircraft	6,759	(2,678)	4,081	6,656	(2,635)	4,021
Assets in progress	784	-	784	616	-	616
Other	2,463	(977)	1,486	2,391	(975)	1,416
Flight equipment	**19,026**	**(9,394)**	**9,632**	**18,536**	**(9,417)**	**9,119**
Land and buildings	2,739	(1,836)	903	2,721	(1,782)	939
Equipment and machinery	1,212	(951)	261	1,212	(938)	274
Assets in progress	133	-	133	115	-	115
Other	930	(772)	158	921	(769)	152
Other tangible assets	**5,014**	**(3,559)**	**1,455**	**4,969**	**(3,489)**	**1,480**
Total	**24,040**	**(12,953)**	**11,087**	**23,505**	**(12,906)**	**10,599**

The net value of the tangible assets financed under capital lease amounts to €4,391 million as of June 30, 2017 (€4,356 million as of December 31, 2016).

16. PENSION ASSETS AND PROVISIONS

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

	June 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.

All these items have a cumulative impact resulting in:

- An increase of € 1 080 million the “pension assets” on the balance sheet (schemes with a net asset position) and
- An increase of € 2 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

The new pension scheme for KLM Cabin Crew is expected to be implemented as a collective defined contribution scheme in the third quarter 2017, which would lead to de-recognition of the cabin pension asset and recording of a significant amount, based on the current actuarial assumptions, in the consolidated income statement on the line 'Other non-recurring charges and income'. The amount can only be assessed at implementation.

Cockpit Crew pension plan

In December 2016, KLM and the pilots union (VNV) came to a funding agreement concerning the indexation for the year 2017. This agreement indicates that parties will resume negotiations in good faith in 2017 to come to a de-risked pension system and that part of the funding for indexation, amounting to € 94 million will be paid before October 1, 2017. An agreement between parties on a de-risked pension system in 2017 could lead to derecognition of the pension asset related to the KLM Cockpit Crew plan and the € 94 million being deducted from the potential dowry payment. As of June 30, 2017 no agreement has been signed.

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

17.1. Breakdown of stock and voting rights

As of June 30, 2017, the issued capital of Air France-KLM comprised 300,219,278 fully paid-up shares with a nominal value of €1. Each share is entitled to one vote. However since April 3, 2016, shareholders who have owned their shares for at least two years benefit from double voting rights.

The breakdown of stock and voting right is as follows:

In percentage (%)	**June 30, 2017**		**December 31, 2016**	
	Capital	Voting rights	Capital	Voting rights
French State	18	28	18	27
Employees and former employees	6	10	6	10
Treasury shares	-	-	-	-
Other	76	62	76	63
Total	**100**	**100**	**100**	**100**

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

17.2. Reserves and retained earnings

In € million	***Notes***	**June 30, 2017**	**December 31, 2016**
Legal reserve		70	70
Distributable reserves		15	176
Defined benefit pensions reserves		(2,283)	(3,094)
Derivatives reserves		(164)	102
Available for sale securities reserves		204	161
Other reserves		232	(727)
Net income (loss) – Equity holders of Air France-KLM		151	792
Total		**(1,775)**	**(2,520)**

18. PROVISIONS

In € million	**June 30, 2017**			**December 31, 2016**		
	Non current	**Current**	**Total**	**Non current**	**Current**	**Total**
Restitution of aircraft	1,046	316	1,362	1,073	316	1,389
Restructuring	-	221	221	-	277	277
Litigation	390	48	438	424	8	432
Other	165	24	189	176	53	229
Total	**1 601**	**609**	**2 210**	**1 673**	**654**	**2 327**

18.1. Provisions

18.1.1. Restructuring provisions

As of June 30, 2017 and December 31, 2016, the restructuring provisions mainly concern the voluntary departure plans of Air France and its regional subsidiaries, KLM and Martinair.

18.1.2. Litigation

An assessment of litigation risks with third parties has been carried out with the Group's attorneys and provisions have been recorded whenever circumstances require.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities, in case of a tax audit, could reasonably challenge a tax position adopted by the Group or one of its subsidiaries.

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

18.1.3. Litigation concerning antitrust laws in the airfreight industry

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

As of December 31, 2016, 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, because it contained a contradiction regarding the exact scope of the practices sanctioned. 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 Group has provisioned the totality of this fine.

18.1.4. Other provisions

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

18.2. Contingent liabilities

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

18.2.1. Litigations concerning antitrust laws in the airfreight industry

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

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

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

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

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

18.2.2. Litigations concerning antitrust laws in the passenger sector

Canada

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

18.2.3. Other litigations

Rio-Paris AF447 flight

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

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

US Department of Justice investigation related to United States Postal Service

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

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

19. FINANCIAL DEBT

In € million	June 30, 2017			December 31, 2016		
	Non current	**Current**	**Total**	**Non current**	**Current**	**Total**
Perpetual subordinated loan stock	589	-	589	600	-	600
OCEANE (convertible bonds)	516	-	516	507	-	507
Bonds	1,131	500	1,631	1,646	-	1,646
Capital lease obligations	3,382	784	4,166	3,567	696	4,263
Other long-term debt	1,022	284	1,306	1,111	236	1,347
Accrued interest	-	50	50	-	89	89
Total	**6,640**	**1,618**	**8,258**	**7,431**	**1,021**	**8,452**

Market value

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

In € million	June 30, 2017		December 31, 2016	
	Net book value	**Estimated market value**	**Net book value**	**Estimated market value**
Perpetual subordinated loan stock	589	521	600	289
OCEANE	516	706	507	559
Bonds	1,631	1,574	1,646	1,686
Total	**2,736**	**2,801**	**2,753**	**2,534**

20. NET DEBT

in € million	**June 30, 2017**	**December 31, 2016**
Current and non-current financial debt (1)	8,258	8,452
Financial lease deposits (others)	(337)	(336)
Fair value hedge on financial debt	(12)	(49)
Accrued interest	(50)	(89)
Gross financial debt (I)	**7,859**	**7,978**
Cash and cash equivalents (2)	4,217	3,938
Marketable securities	81	53
Cash secured	258	50
Financial lease deposit (bonds)	361	298
Others	(3)	(11)
Bank overdrafts (3)	(11)	(5)
Net cash (II)	**4,903**	**4,323**
Net debt (I-II)	**2,956**	**3,655**

(1) Liabilities : long term debt

(2) Assets : cash and cash equivalents

(3) Liabilities : bank overdrafts

In € millions	**June 30, 2017**	**December 31, 2016**
Operating net debt	**3,655**	**4,307**
Operating free cash, cash flow excluding discontinued activities (1)	(668)	(347)
Operating free cash flow, cash flow from discontinued activities	-	(33)
Disposal of subsidiaries, of shares in non-controlled entities	-	(364)
Acquisition of subsidiaries, of shares in non-controlled entities (2)	-	18
Non monetary variation of the debt	-	(64)
Currency translation adjustment	(76)	73
Amortization of OCEANE optional part	10	21
Reclassification	(2)	2
Change in scope	-	(19)
Other	37	61
Closing net debt	**2,956**	**3,655**

(1) Cash flows statement : operating free cash flow

(2) Cash flows statement : acquisition of subsidiaries, of shares in non-controlled entities

21. LEASE COMMITMENTS

21.1 Financial leases

The breakdown of total future minimum lease payments related to capital leases is as follows:

In € million	**June 30, 2017**	**December 31, 2016**
Flight equipment	4,090	4,164
Buildings	405	432
Other	6	7
Total	**4,501**	**4,603**

21.2 Operating leases

The undiscounted amount of the future operating lease payments for aircraft under operating lease totaled €4,940 million as of June 30, 2017 (€5,559 million as of December 31, 2016).

22. FLIGHT EQUIPMENT ORDERS

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

In € million	**June 30, 2017**	**December 31, 2016**
2nd semester year Y (6 months)	444	-
Year Y+1	1,095	1,053
Year Y+2	1,072	1,134
Year Y+3	1,271	1,151
Year Y+4	1,249	1,362
> Year Y+4	1,911	3,402
Total	**7,042**	**8,102**

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

The number of aircraft under firm order (excluding operational lease) as of June 30, 2017 decreased by 12 units compared with December 31, 2016 and stood at 70 aircraft. These changes are explained by the delivery of 14 aircraft over the period and by the order of 2 aircraft.

Long-haul fleet (passenger)

The Group took delivery of 1 Boeing B787.

Medium-haul fleet

The Group took delivery of 8 Boeing B737s.

Regional fleet

The Group took delivery of 5 Embraer E175s.

The Group's commitments concern the following aircraft:

Aircraft type	To be delivered in	2nd semester N (6 months)	Y+1	Y+2	Y+3	Y+4	Beyond Y+4	Total
<u>Long-haul fleet – passenger</u>								
A350	As of June 30, 2017	-	-	3	6	6	13	**28**
	As of December 31, 2016	-	-	-	3	6	19	**28**
B787	As of June 30, 2017	1	5	5	4	5	3	**23**
	As of December 31, 2016	-	2	5	5	4	8	**24**
B777	As of June 30, 2017	1	-	-	-	-	-	**1**
	As of December 31, 2016	-	1	-	-	-	-	**1**
<u>Medium-haul fleet</u>								
A320	As of June 30, 2017	2	1	-	-	-	-	**3**
	As of December 31, 2016	-	2	1	-	-	-	**3**
B737	As of June 30, 2017	-	5	-	-	-	-	**5**
	As of December 31, 2016	-	8	5	-	-	-	**13**
<u>Regional fleet</u>								
EMB 175	As of June 30, 2017	3	5	-	-	-	-	**8**
	As of December 31, 2016	-	8	5	-	-	-	**13**
EMB 170	As of June 30, 2017	-	-	-	-	-	-	**-**
	As of December 31, 2016	-	-	-	-	-	-	**-**
EMB 190	As of June 30, 2017	-	2	-	-	-	-	**2**
	As of December 31, 2016	-	-	-	-	-	-	**-**
Total	**As of June 30, 2017**	**7**	**18**	**8**	**10**	**11**	**16**	**70**
	As of December 31, 2016	**-**	**21**	**16**	**8**	**10**	**27**	**82**

23. RELATED PARTIES

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

CHAPTER 5
REPORT OF STATUTORY AUDITORS ON 2017 FIRST HALF FINANCIAL INFORMATION

Statutory Auditors' review report on the half-year financial information

For the six-month period ended June 30, 2017

To the Shareholders,

Following our appointment as Statutory Auditors by your Annual General Meetings and in accordance with the requirements of Article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Air France-KLM S.A. for the six-month period ended June 30, 2017;
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review..

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

II. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, July 28, 2017

The Statutory Auditors

KPMG Audit *Département de KPMG S.A.*		Deloitte & Associés	
Jean-Paul Vellutini	Eric Jacquet	Pascal Pincemin	Guillaume Troussicot
Partner	*Partner*	*Partner*	*Partner*

CHAPTER 6
ACTIVITY REPORT

Corporate governance

The Board of Directors

Composition of the Board of directors

At June 30, 2017, the Board of Directors was composed of fifteen members, including:

- Thirteen Board directors appointed by the General Shareholders' Meeting, of whom:
  - ✓ Two proposed by the French State(1); and
  - ✓ Two representing the employee shareholders(2);
- One representative of the employees appointed by the *Comité de Groupe Français*(3);
- One representative of the French State appointed by ministerial order(4).

Furthermore, as of June 30, 2017, the Board of Directors was composed of eleven members with French nationality and four members with Dutch nationality.

Despite the particularity of its composition, the Board of Directors is a collegial body which collectively represents all the shareholders and acts in the interests of the company.

At June 30, 2017, the Board of Directors numbered six women Board directors, i.e. a proportion of 42.9%(5), pursuant as of that date to the provisions of Act No.2011-103 of January 27, 2011 relating to the balanced representation of men and women within Boards of Directors and Supervisory Boards, and professional equality.

During the first half 2017, the composition of the Board of Directors saw a number of changes as shown in the following table.

Changes in the composition of the Board of Directors during the first half 2017:

Dates	Events	Function within the Board
May 16, 2017	Ratification of the co-opting of Jean-Marc Janaillac by the Shareholders' Meeting	Chairman of the Board of Directors
May 16, 2017	Re-appointment of Maryse Aulagnon by the Shareholders' Meeting	Independent director
May 16, 2017	Re-appointment of Isabelle Bouillot by the Shareholders' Meeting	Independent director
May 16, 2017	Appointment of Leni M.T. Boeren by the Shareholders'Meeting	Independent director
May 16, 2017	Expiry of Peter Hartman's term of office	Vice-Chairman of the Board of Directors
May 16, 2017	Expiry of Antoine Santero's term of office	Board director representing the employees
June 1, 2017	Appointment of Karim Belabbas by the Comité de Groupe Français	Board director representing the employees

(1) Pursuant to Article 6 of Ordinance No.2014-948 of August 20, 2014, relating to governance and to transactions involving the share capital of State-owned companies.
(2) The Board directors representing the employee shareholders are appointed pursuant to Article L.225-23 of the Code of Commerce, Article L.6411-9 of the Transport Code and Article 17-2 of the Articles of Incorporation.
(3) Pursuant to the provisions of Article L.225-27-1 of the Code of Commerce and Article 17-3 of the Articles of Incorporation.
(4) Pursuant to Article 4 of Ordinance No.2014-948 of August 20, 2014 relating to governance and to transactions involving the share capital of State-owned companies.
(5) The Board directors representing the employees, appointed pursuant to Article L. 225-27-1 of the Code of Commerce, are not taken into account for the gender parity calculation in line with the provisions of the aforementioned Article.

Composition of the Board of Directors at June 30, 2017

Board director (Age at June 30, 2017)	Functions within the Board of Directors	Date appointed to the Air France-KLM Board	Mandate expiry date	Principal current position
Jean-Marc Janaillac (64 years)	Chairman and Chief Executive Officer of Air France-KLM	April 7, 2016	2019 AGM	Chairman and CEO of Air France-KLM
Maryse Aulagnon (68 years)	Independent director Chair of the Audit Committee	July 8, 2010	2021 AGM	Chair and CEO of Affine
Leni M.T. Boeren (53 years)	Independent director	May 16, 2017	2021 AGM	Chair of the Transtrend B.V. Supervisory Board (Netherlands) and member of the Tata Steel Nederland Supervisory Board (Netherlands)
Isabelle Bouillot (68 years)	Independent director Member of the Remuneration Committee	May 16, 2013	2021 AGM	President of China Equity Links
Jean-Dominique Comolli (69 years)	Director appointed by the Shareholders' Meeting as proposed by the French State Member of the Appointments and Governance Committee and of the Remuneration Committee	December 14, 2010	2019 AGM	Honorary Civil Administrator
Anne-Marie Couderc (67 years)	Independent director Chair of the Appointments and Governance Committee and member of the Audit Committee	May 19, 2016	2020 AGM	Company director
Jaap de Hoop Scheffer (69 years)	Independent director Chairman of the Remuneration Committee	July 7, 2011	2019 AGM	Professor, Leiden University (Netherlands)
Isabelle Parize (60 years)	Independent Director Member of the Remuneration Committee	March 27, 2014	2018 AGM	Chair of the Managing Board of Douglas Holding AG (Germany)
Hans N.J. Smits (67 years)	Board director Member of the Remuneration Committee	May 19, 2016	2020 AGM	Chairman of the KLM N.V. (Netherlands) Supervisory Board
Patrick Vieu (52 years)	Board director appointed by the Shareholders' Meeting as proposed by the French State	May 21, 2015	2019 AGM	Advisor to the Vice-President of the General Council for the Environment and Sustainable Development
Alexander R. Wynaendts (56 years)	Independent director Member of the Appointments and Governance Committee	May 19, 2016	2020 AGM	Chairman of the Aegon N.V. Executive Board (Netherlands)
Solenne Lepage (45 years)	Director representing the French State Member of the Audit Committee	March 21, 2013	May 2019	Director of Transportation Shareholdings, Agency for State Shareholdings
Louis Jobard (57 years)	Director representing the employee shareholders Member of the Audit Committee	May 20, 2014	2018 AGM	B777 Flight Captain
François Robardet (59 years)	Director representing the employee shareholders Member of the Audit and Remuneration Committees	December 6, 2016	2018 AGM	Air France Executive
Karim Belabbas (43 ans)	Director representing the employees	June 1, 2017	2019 AGM	Weight and Support Technician, CDG Hub Ground Operations

The Group Executive Committee

Composition of the Group Executive Committee at June 30, 2017

Chaired by the Chairman and Chief Executive Officer of Air France-KLM, the Group Executive Committee is composed of twelve members, plus a secretary:

- the Chairman and Chief Executive Officer of Air France-KLM, the Chief Executive Officer of Air France, the President of the KLM Managing Board and the Chief Operating Officer of KLM; and
- the eight heads of the Group's functions.

		Relevant professional experience	
Members at June 30, 2017	**Age at June 30, 2017**	**Sector**	**Experience**
Jean-Marc Janaillac Chairman and Chief Executive Officer of Air France-KLM Chairman of the Air France Board of Directors	64 years	Public Service Tourism Transport Air Transport	9 years 2 years 10 years 8 years
Pieter Elbers KLM President and Chief Executive Officer	47 years	Air Transport	24 years
Franck Terner Chief Executive Officer of Air France	57 years	Air Transport	34 years
Patrick Alexandre Executive Vice-President Commercial – Sales & Alliances, Air France-KLM	62 years	Air Transport	35 years
Pieter Bootsma Executive Vice-President Commercial – Strategy, Air France-KLM	47 years	Air Transport	21 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	53 years	Air Transport	21 years
Adeline Challon-Kemoun Executive Vice-President, Marketing, Digital & Communication, Air France-KLM	50 years	Sales Media/Communication Air Transport	10 years 14 years 5 years
René de Groot Chief Operating Officer, KLM	48 years	Air Transport	26 years
Marcel de Nooijer Executive Vice-President Cargo, Air France-KLM	48 years	Air Transport	21 years
Frédéric Gagey Chief Financial Officer, Air France-KLM	61 years	Public Service Air Transport	7 years 23 years
Jean-Christophe Lalanne Executive Vice-President Information Technology, Air France-KLM	55 years	Industry, IT Air Transport	20 years 12 years
Jérôme Nanty Executive Vice-President Corporate Secretary and Executive Vice-President Human Resources, Air France-KLM, Corporate Secretary responsible for Air France's transformation	56 years	Banking Transport Air Transport	22 years 3 years 11 months

Alexandre Boissy Secretary to Air France-KLM's Group Executive Committee and Chief of Staff	43 years	Air Transport	18 years

Stock market and shareholder structure

Air France-KLM is listed for trading on the Paris and Amsterdam stock markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. The stock is a component of the CAC Mid 60 index and is also included in the leading sustainable development and employee shareholder indices. For the twelfth year running, Air France-KLM is included in the Dow Jones Sustainability Indexes (DJSI World and DJSI Europe) and is ranked Industry Leader of the "Airlines" sector by RobecoSAM. Furthermore, for the seventh year, the Group is ranked leader of the "Transport" sector.

Stock market performance

Over the 2017 first half, the Air France-KLM stock price rose by 142%.

	January-June 2017	January-June 2016
Share price high *(In €)*	12.55	8.84
Share price low *(In €)*	4.78	5.48
Number of shares in circulation	300,219,278	300,219,278
Market capitalization at the end of the period *(In € billion))*	3.75	1.7

Information relating the share capital

At June 30, 2017, the Air France-KLM share capital comprised 300,219,278 shares with a nominal value of one euro.

Period ended	June 30, 2017	June 30, 2016
Number of shares in circulation	300,219,278	300,219,278
Number of theoretical voting rights	377,461,421	373,737,570
Number of exercisable voting rights	375,195,795	368,471,572
Share capital (in €)	300,219,278	300,219,278

The shares are fully paid up and shareholders can opt to hold them in either registered or bearer form. Until April 2, 2016, each share had one voting right attached. As from April 3, 2016, in application of the "Florange" Act and in view of no provision to the contrary in the Air France-KLM Articles of Incorporation, all fully paid-up shares held in registered form in the name of the same shareholder for at least two years automatically benefit from a double voting right. There are no other specific rights attached to the shares.

Furthermore, there are no securities not representing the share capital.

Shareholder structure

	% of the share capital		% of theoretical voting rights		% of exercisable voting rights	
Period	**June 30 2017**	**December 31 2016**	**June 30 2017**	**December 31 2016**	**June 30 2017**	**December 31 2016**
Number of shares in circulation/voting rights	300,219,278	300,219,278	377,461,421	373,639,451[9]	375,195,795	371,373 828[10]

[9] Figure corrected for the purpose of this update to the registration document (371,373,828 in the first half activity report)

[10] Figure corrected for the purpose of this update to the registration document (373,639,451 in the first half activity report).

French State	17.6%	17.6%	28.0%	27.0%	28.1%	28.2%
Employees (FCPE)	6.0%	6.3%	9.5%	10.2%	9.6%	9.6%
Treasury stock	0.4%	0.4%	0.6%	-	-	-

At June 30, 2017, more than 50% of Air France-KLM's share capital was owned by European interests – European Union Member States or States party to the European Economic Area Agreement.

Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) 2.03% 2023

In March 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs), raising a total of €550 million. These bonds have a nominal unit value of €10.30, a conversion/exchange ratio of one share for one bond and mature on February 15, 2023. The annual coupon is 2.03% payable annually in arrears on February 15. Bondholders may request the early redemption of their bonds on February 15, 2019, at par plus accrued interest. At June 30, 2017, 11,526 bonds had been converted into existing shares, reducing the number of bonds remaining in circulation to 53,386,532.

Should the share price exceed 130% of the nominal value, i.e. €13.39, encouraging the holders to convert their OCEANEs into Air France-KLM shares, Air France-KLM can proceed with their mandatory reimbursement in return for cash via the exercise of a call. Following its recent rise, the Air France-KLM share price is currently trading at close to this level.

Highlights of 2017

2017 Summer season : 53 new routes

For the 2017 Summer season (from March 26 to October 28, 2017), Air France-KLM returned to the offensive in its markets and pursued its growth by opening 53 new routes, a record number for the Group. Capacity was increased by 2.9% compared to the previous Summer season, with growth driven by the long-haul passenger network (+2%), the short and medium-haul passenger network (+2.7%) and Transavia's low-cost operations (+10.2%).

In its long-haul operations, Air France -KLM is operating nine new routes, reinforcing the offer to the United States and Mexico, and to the growing African markets, enabling capacity growth towards Cuba and Iran while consolidating its position in Asia.

With the capacity growth on its short and medium-haul network, the Group is again demonstrating its agility on the European network and is enriching its offer with 25 new routes this Summer. On departure from the Paris-Charles de Gaulle and Amsterdam-Schiphol hubs, the offer reflects the strategic offensive: growth in the Group's fleet combined with more intensive use of aircraft, enabling the Group to propose new destinations in Europe during the peak Summer season. On departure from Paris-Orly and the French regions, on the HOP! Air France network, ten daily flights will be offered to Montpellier, the fifth La Navette service on departure from Paris-Orly after Toulouse, Bordeaux, Marseilles and Nice. Capacity will also be increased to Corsica, which will be served on departure from 16 French regional cities.

Transavia, Air France-KLM's low-cost business which is seeing rapid development, is pursuing its growth on departure from France and the Netherlands. On departure from Paris-Orly, Transavia is strengthening its offer to Israel and Morocco. On departure from Amsterdam-Schiphol, Transavia is developing new markets to the Eastern European countries.

Air France-KLM moves up in the Fortune's World's Most Admired Companies ranking, reaching number two in its category

Air France-KLM moved up in Fortune's World's Most Admired Companies 2017 ranking, reaching number two in the "airlines" category.

The economic decision-makers polled applauded the excellent performance in terms of innovation, product and services quality, and social and environmental responsibility.

Since 2010, Air France-KLM has been a reference airline and confirmed its excellence this year by again moving up the ranking: fifth position in 2015, third position in 2016 and second position in 2017.

New decision of the European Commission against air cargo carriers regarding practices considered to be anti-competitive between December 1999 and February 2006

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 followed 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. Air France-KLM has filed an appeal before the General Court of the European Union.

These fines have been fully provisioned in the financial statements since 2010.

In any event, Air France-KLM confirms its commitment to strict compliance with the competition rules, while constantly ensuring the effectiveness of the prevention system implemented within Group divisions within the framework of its general compliance policy.

Air France-KLM Martinair Cargo, "Best Airline of the Year for Innovation"

On the occasion of the 60th anniversary of the Association of Air Freight Forwarders in Italy (Anama), Air France-KLM Martinair Cargo was recognized as the "Best Airline of the Year for Innovation" during a ceremony held in Milan on May 23, before more than 450 professionals.

This prestigious award acknowledges all the Air France-KLM Group's achievements in relation to digitization of the air freight industry. Over the past year, Air France-KLM Martinair Cargo's Italian teams succeeded in deploying, promoting, selling and implementing myCargo, the new online portal offering tailor-made solutions for forwarder customers. This web platform is now available in all markets served by Air France-KLM Martinair Cargo and enables customers to access schedules, product presentations, market rates and local conditions, as well as providing track and trace solutions and instant shipment notifications.

Strategy

The Air France- KLM Group’s ambitions

The Air France-KLM Group’s ambition is to be a European leader in the air transport industry by offering all customer segments adapted transportation propositions between both Europe and the rest of the world, and on intra-European routes on departure from the Group’s natural markets. This goal is supported by the Group’s different brands which are positioned on complementary markets with their own specific operating models.

The network brands, Air France and KLM, are backed by a system of hubs around high-performance infrastructure at Paris-CDG and Amsterdam-Schiphol, and can benefit from numerous partnerships to offer a high-density global network and a wide range of top-quality products and services with digital enabling their ever-greater personalization to respond to customer expectations. The point-to-point (HOP! Air France) and low-cost (Transavia) brands aim to offer efficient transportation solutions for both domestic and intra-European travel. The Air France-KLM Group also plans to develop its positioning as a global reference player in the aeronautics maintenance market by leveraging its recognized know-how in terms of operational performance, innovation and technical expertise.

Lastly, the Air France-KLM’s expertise in the cargo field supports the Group’s airline operations by making a significant contribution to balancing their economics.

Strenghts of the Air France-KLM

A string presence in all the major markets

The Air France-KLM Group currently operates the largest network between Europe and the rest of the world. Including the flights operated by Delta within the framework of the trans-Atlantic joint-venture, in 2017 Air France and KLM will serve 134 long-haul destinations globally, of which 41 in Africa, 26 in North America, 22 in Asia-Pacific, twelve in the Caribbean, three in the Indian Ocean, fourteen in Latin America and sixteen in the Middle East.

Given its presence in all the major air transport markets, the Group’s network is balanced, with no single market representing more than a third of “passenger” revenues. These markets also behave differently, enabling the Group to mitigate the negative impact of any developments or crises affecting some markets.

Coordinated hubs

The Group’s network is coordinated around the dual intercontinental hubs of Paris-CDG and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe. These hubs combine transfer flows with point-to-point traffic. This large-scale optimized system gives small markets world-wide access, and offers a dense flight schedule tailored to the frequency needs of customers.

The efficiency of the hubs largely depends on the quality of airport infrastructures: number of runways usable in parallel, fluidity of circulation and ease of connections between terminals. The Group pays particular attention to operational excellence and, in 2016, KLM won the FlightStats award for the most punctual airline world-wide.

A portfolio of strong brands aligned with customer expectations

With “Air France” and “KLM”, the Group has a portfolio of powerful brands that benefit from exceptional reputations and identities in both its two home markets and internationally.

The brand portfolio strategy has been reinforced in recent years: thanks to strong growth in France during 2016, the low-cost brand Transavia, which is already the leading low-cost carrier in the Netherlands, became the number one low-cost airline at Paris-Orly. In total, Transavia now offers a wide range of more than 100 destinations.

The Flying Blue frequent flyer program is the common denominator between all of these brands, since Flying Blue miles can be redeemed on Air France and KLM services, as well as on Transavia flights. Flying Blue won awards in five categories at the 2016 Freddie Awards, including Best Program of the Year for the fourth year running.

A balanced customer base

The Air France-KLM Group’s choice of meeting the needs of all types of customer in terms of networks, products and fares has enabled it to build a balanced customer base.

In the traditional network carrier business (Air France and KLM brands), around 40% are business passengers and 60% are travelling for personal reasons. The Group also benefits from a balanced breakdown between transfer and point-to-point passengers.

France, connecting passengers represent more than 45% of total passengers while, at KLM, this figure is 65%. Furthermore, nearly 55% of revenue is realized with loyalty scheme customers (members of the Flying Blue frequent flyer program or those whose companies have a corporate contract with the Group).

The acceleration in growth at Transavia, which carried near to 13.3 million passengers in 2016 compared with 10.8 million in 2015, enables the Group to complete its portfolio of products to become customers’ low-cost carrier of choice.

An efficient fleet

Air France-KLM is pursuing its fleet renewal and modernization strategy. In 2016, the Group retired KLM’s last MD-11 Freighters along with Air France’s remaining B747-400s, and took delivery of Air France’s first B787-9. KLM also reinforced its fleet of B787-9s which numbered eight aircraft at the end of 2016 while KLM Cityhopper began to retire its Fokker 70s with the introduction of four Embraer 175s.

2017 will see the ongoing retirement of the Fokker 70s from the KLM Cityhopper fleet and their replacement with eight Embraer 175s, and the arrival at Air France of two renovated first-generation A320s in the form of A320 Sharklets. Over the longer term, the modernization of the Group’s fleet will be reflected in the withdrawal of KLM’s B747-400s and their replacement with B787s and the planned entry into revenue service of the first A350-900s at Air France in 2019.

For its part, after growing by ten aircraft in 2016, Transavia will see its base fleet increased by nine aircraft in 2017.

Furthermore, having made a significant investment in cabin retrofitting, the Group now offers its passengers a higher standard of comfort, achieves substantial fuel savings and respects its sustainable development commitments by mitigating noise disturbance for local residents and limiting greenhouse gas emissions.

Strategy of the Air France-KLM Group

The Group's strategy, as expressed in the Trust Together project, must enable Air France-KLM to rise to three major challenges: capture its share of global air transport industry growth, further enhance the customer experience and reinforce the Group's Operational Efficiency while achieving the competitiveness targets in the Perform 2020 plan.

Regaining the offensive

Air France-KLM is targeting profitable growth of between 2% and 3% per year for the long-haul operations through to 2020, supported by a number of levers. At revenue level, the Group will pursue its strategy of alliances and commercial integration with partners, while investing in its current tools. At cost level, the ongoing measures to improve the competitiveness of Air France and KLM will be pursued. In particular, Air France will see the development of a new company adapted to ultra-competitive situations and positioned on structurally loss-making routes or those that have been closed in recent years.

- **Creation of a new company alongside Air France, which is competitive and innovative and will drive growth for the Paris-Charles de Gaulle hub**

This new company will constitute the Group's response to the Gulf State airlines which are developing on key markets where Air France-KLM is pursuing its growth ambition. This initiative to regain market share has been dubbed "Boost".

This company will be focused on ultra-competitive markets and will enable the Group to go on the offensive by opening new routes, re-opening routes closed due to their lack of profitability and maintaining routes under threat within the Group. This new company will propose a simple, modern and innovative offer, whose positioning will not be low cost. It will offer its customers mixed business and leisure destinations with standards comparable to those of Air France in terms of product quality and the professionalism of the crews.

The new company will also serve as a laboratory for the Group's innovative ability in terms of products, digital and technology, catering, cabin design, services and the customer experience, as well as for working methods.

It will number ten long-haul aircraft by 2020 with some 30% of operations focused on newly-created routes. It will also include medium-haul operations feeding the Paris-CDG hub and operate with Air France pilots on a volunteer basis at working conditions adapted to its competitive positioning. For cabin crews, an independent career path will be created to enable this new company to be operated at the level of market costs. The ground operations, handled by Air France, will also be optimized by taking advantage of digitalization. The HR framework for this new company was the subject of negotiations with the unions in early 2017.

- **Deepen the alliances**

Air France-KLM will reinforce its commercial integration with its principal partners to benefit from an expanded market position, leverage joint distribution networks and be able to offer customers a global proposition in each market.

The Group will thus work on reinforcing its trans-Atlantic joint-venture with its different partners and those of Delta Air Lines, in Europe and North America.

Towards China, in addition to its stand-alone presence as the European leader, Air France-KLM will be able to rely on its Chinese partners - China Eastern, China Southern and Xiamen Airlines – and aims to further reinforce the joint-ventures established in recent years. This close cooperation enables the Group and its Chinese partners to develop and optimize capacity between Europe and China, and to offer customers a service to secondary Chinese cities.

In India, Air France-KLM will continue to reinforce its partnership with Jet Airways, the leading private Indian carrier in the intercontinental market. In 2016, the code share agreement between the Group and the Indian airline was expanded to offer flights to more Indian cities, and enhanced connectivity towards Europe and North America.

Lastly, the Group is pursuing its cooperation with the Brazilian carrier, Gol, which began in 2014, enabling Air France-KLM and Gol customers to benefit from a network that now links more than 30 European with over 50 Brazilian cities.

- **Develop point-to-point markets on departure from the French and Dutch home markets**

The point-to-point operations, i.e. the short- and medium-haul flights, are currently operated by Transavia, HOP! Air France and KLM.

The priority for Transavia, the Group's low-cost airline, will be growth in its French and Dutch home markets. In France, Transavia will reinforce its position on some routes to compete with the TGV and the low-cost carriers, and will develop its European routes on departure from Orly and the French provinces.

Commercial coordination between Transavia and the Group's other airlines (HOP! Air France and KLM) will be stepped up to expand the offer to customers.

Concerning the ground operations at Paris-Orly and the French stations, Air France will redefine an operational model, on a station-by-station basis, to reconcile changes in the professions and activity.

- **Strengthen the growth of the maintenance business**

With growth forecast to be 4.1% for the aeronautics maintenance industry at global level over the next decade, the maintenance business should be able to continue its development and consolidate Air France-KLM's leadership position in this segment. In this regard, Air France-KLM has an order book representing approaching five years of revenues. Air France-KLM's growth will be driven, in particular, by the engine and component support businesses, which are high-added-value activities deploying state-of-the-art industrial technologies. The growth in the global fleets of next-generation aircraft offer significant growth relays and AFI KLM E&M will be able to capitalize on the entry of the B787s and A350s into the Group's fleets to develop a major role in these product lines. Lastly, Air France-KLM continues to expand its partnership portfolio in all continents, to remain as close as possible to customers.

Further develop customer relationships to create more value

The Group plans to reinforce the positioning of the customer at the heart of its strategy through its “Customer First” approach and increase the Net Promoter Score for each of its companies, by making this indicator a fully-fledged management tool. The Group is aiming to become a market leader for customer satisfaction.

To achieve this and differentiate itself from competitors, Air France-KLM is investing in digital tools, a more personalized service for customers and a move up-market. The Group will thus amplify its customer-focused action plans with initiatives like the:

- Personalization of the customer experience and relationship thanks to Big Data;
- An ongoing move up-market for products and services, with the continued deployment of the Best cabins on Air France’s long-haul aircraft, the World Business Class upgrade and the progressive deployment of WiFi on the Group’s long-haul fleet.
- An improvement in the Operational Efficiency of its airlines.

In distribution: Air France-KLM will take advantage of the new distribution tools to build closer relationships with customers and propose adapted offers, while reducing costs.

Reinforce Operational Efficiency and competitiveness

Operational Efficiency is a key contributor to customer satisfaction and financial performance, and the Group is aiming for excellence in this area. The improvement in Operational Efficiency will mainly come from hub optimization initiatives, increased utilization of the fleet and an approach aimed at streamlining organizational structures and making them more efficient and agile.

- **Improve the efficiency and connectivity of the hubs**

The Paris-Charles de Gaulle and Amsterdam-Schiphol hubs play a central role in the strategy of Air France-KLM and its partners. The Group is going to strengthen the measures aimed at improving their operational efficiency and supporting the economic performance of the long and medium-haul operations to/from the hubs. This will involve, for example, continuing the operational excellence programs implemented for Air France and KLM, with additional levers like employee autonomy or based on the best practices of the Group’s partners.

The Paris-Charles de Gaulle hub will also gain renewed dynamism, within the framework of the Boost project, through the launch of the new company on the medium-haul network with a simple, modern and innovative offer.

The Amsterdam-Schiphol hub will be reinforced by closer coordination between Transavia and KLM, particularly in terms of investment in the fleet and the development of the network and new joint commercial approaches.

- **Reinforce operational competitiveness and the utilization of aircraft**

The unit cost reduction targets – more than 1.5% per year over the 2017-20 period – aim to give the Group the flexibility required to finance its investment linked to the activity growth plan and concern all cost items.

To improve its competitiveness, the Group plans to activate all the levers, by pursuing and amplifying the initiatives already under way in terms of unit cost reduction. Air France-KLM will focus its efforts on reducing fleet costs by optimizing the utilization of its aircraft.

This asset optimization process through, notably, increased utilization of aircraft, something which is already under way within KLM through the OpX program, will also involve seeking savings on the cost of ownership and leasing for the Group's fleet.

- **Defend the Cargo business in support of the Passenger operations**

In recent years, Air France-KLM has significantly downsized its full freighter business to concentrate on transporting cargo in the bellies of passenger aircraft. This generates revenues which are key when it comes to balancing the economics of the Group's air lines.

To seize opportunities in the air freight market, Air France-KLM is continuing to rescale its activity focused on the utilization of long and medium-haul aircraft bellies. The Group is putting the emphasis on digitalization and the simplification of processes, and on a high level of service quality.

- **Optimize organizational structures and gain agility to facilitate the initiatives and accelerate innovation**

The work in progress on organizational optimization and the simplification of functioning modes will be pursued and intensified. Air France plans to launch a new HR ambition for employees, in the form of a commitment to greater recognition, career development, empowerment, innovation and internal cohesion, across all staff categories, accompanied by concrete action plans. The implementation of digital tools for Air France-KLM employees and the digitalization of processes will be accelerated to facilitate collaborative working across the Group and gain agility.

Pursue lobbying initiatives in Europe and France directed at more equitable competition

The Group will pursue its lobbying initiatives at European level to establish equitable competition with the Gulf State and low-cost carriers and, at French level, to reduce the structural gap in competitiveness due to higher taxes and charges.

For several months, Air France-KLM has been lobbying the national and European authorities in favor of equitable competition with the Gulf State and low-cost carriers. In particular, the Group is committed to stressing that the opening of the European air transport market vis-à-vis third-party players must be conditional on no future subsidies for their carriers from the relevant States. The Group is also making a case for the harmonization of the regulation applicable to mobile staff working in the air transport industry in Europe and strict monitoring by the national authorities of the practices of some companies which are akin to "social dumping". Lastly, the Group is seeking to reduce the structural shortfall in competitiveness that exists in France due to the level of taxes, social contributions and charges which are higher than in other European countries.

The implementation of the Trust Together project must guarantee the Group's financial flexibility. Air France-KLM will pursue efforts to improve its competitiveness, by confirming the Perform 2020 competitiveness objectives and by improving the cost of fleet utilization and financing. The unit cost reduction target for the 2017-20 period is in excess of 1.5% per annum.

The Group will also maintain strict capex discipline, by targeting annual positive free cash-flow and limiting its investment. For 2017 and 2018, the capex forecast is between €1.7bn and €2.2bn per year. Deleveraging will remain the priority, with a mid-cycle adjusted net debt/EBITDAR ratio target of below 2.5x at the end of 2020.

Activities

Network activity

Network	Second Quarter			First Half		
	2017	Change	Change like-for-like	2017	Change	Change like-for-like
Capacity (EASK m)	82,076	+3.9%		156,936	+2.8%	
Total revenues (€m)	5,749	+5.5%	+4.7%	10,790	+3.3%	+2.6%
Scheduled revenues (€m)	5,520	+6.2%	+5.4%	10,334	+3.7%	+3.1%
Unit revenue per EASK (€ cts)	6.72	+2.2%	+1.3%	6.58	+0.9%	+0.3%
Unit cost per EASK (€ cts)	6.23	-0.2%	-1.6%	6.39	+0.0%	-1.6%
Operating result (€m)	409	+138	+162	309	+106	+200

As announced at the Full Year 2016 results presentation, it has been decided to change the Cargo reporting as per the 2017 financial year to include it in the passenger network results. As a result, the Network business segment consists of both the passenger network and cargo businesses.

During the First half 2017, the improvement in the operating result, up by €200 million at constant currency, was driven by a solid traffic and unit revenue performance in the Passenger Network business.

Passenger network business

Passenger network	Second Quarter			First Half		
	2017	Change	Change like-for-like	2017	Change	Change like-for-like
Passengers (thousands)	21,861	+6.0%		40,333	+4.4%	
Capacity (ASK m)	72,716	+4.2%		138,802	+3.1%	
Traffic (RPK m)	63,022	+6.6%		119,375	+4.8%	
Load factor	86,7%	+2.0 pt		86.0%	+1.4 pt	
Total passenger revenues (€m)	5,243	+6.1%	+5.2%	9,780	+3.9%	+3.3%
Scheduled passenger revenues (€m)	5,050	+6.7%	+5.8%	9,399	+4.4%	+3.7%
Unit revenue per ASK (€ cts)	6.94	+2.4%	+1.5%	6.77	+1.2%	+0.6%
Unit revenue per RPK (€ cts)	8.01	+0.1%	-0.8%	7.87	-0.4%	-1.1%

The Second Quarter confirmed the improvement of the passenger unit revenue performance for both airlines, up 1.5% at Group level at constant currency.

On a regional level, all areas contributed to the improvement in trend driven by the strong recovery in Asia, with unit revenue up 8.6% at constant currency, and a good performance from Latin America, up 13.6% at constant currency.

Passenger network activity by network

First half to June 30	Capacity in ASK *(In million)*		Traffic en PKT *(In million)*		Load factor *(In %)*		Number of passengers *(In million)*		Scheduled passenger revenues *(In € million)*	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Long-haul	**110, 868**	**107, 756**	**96, 730**	**92 373**	**86.98%**	**85.7%**	**12,872**	**12,324**	**6,250**	**5,972**
North America	30, 493	28, 997	26, 782	25, 176	87.8%	86.8%	3,747	3,525	1,906	1,830
Latin America	16, 324	16, 670	14, 599	14, 513	89.4%	87.1%	1,524	1,513	827	764
Asia/Pacific	29, 676	29, 051	26, 537	25, 003	89.4%	86.1%	3,027	2,873	1,552	1,426
Africa/Middle-East	18, 777	18, 083	15, 166	14, 560	80.8%	80.5%	2,705	2,619	1,225	1,209
Caribbean/Indian Ocean	15, 598	14, 955	13, 645	13, 121	87.5%	87.7%	1,870	1,794	740	743
Short and Medium-haul	**27, 934**	**26, 887**	**22, 646**	**21, 537**	**81.1%**	**80.1%**	**27,462**	**26,300**	**3,149**	**3,031**
Total	**138, 802**	**134, 643**	**119, 375**	**113, 910**	**86.0%**	**84.6%**	**40,333**	**38,624**	**9,399**	**9,003**

Cargo business

Cargo	Second Quarter			First Half		
	2017	Change	Change like-for-like	2017	Change	Change like-for-like
Tons (thousands)	286	+1.4%		558	+0,0%	
Capacity (ATK m)	3,624	+1.7%		7,019	+0.3%	
Traffic (RTK m)	2,144	+2.7%		4,188	+1.6%	
Load factor	59.2%	+0.7 pt		59.7%	+0.8 pt	
Total Cargo revenues (€m)	506	-0.2%	-0.5%	1,010	-2.5%	-3.0%
Scheduled cargo revenues (€m)	470	+1.1%	0.5%	935	-2.3%	-3.0%
Unit revenue per ATK (€ cts)	12.94	-0.8%	-1.3%	13.31	-2.5%	-3.2%
Unit revenue per RTK (€ cts)	21.87	-1.9%	-2.4%	22.31	-3.8%	-4.5%

During the second quarter, the improvement in the Cargo performance was driven by the 2.7% growth in traffic and the 0.7 point increase in load factor. The unit revenue continued to improve compared to previous quarters, confirming the gradual turnaround.

Maintenance business

Maintenance	Second Quarter			First Quarter		
	2017	Change	Change *like-for-like*	2017	Change	Change *like-for-like*
Total revenues (€m)	992	-0.8%		2,041	+1.7%	
Third party revenues (€m)	440	+1.1%	-0.8%	900	+3.9%	1.7%
Operating result (€m)	53	-4	-7	89	-6	-12
Operating margin (%)	5.3%	-0.4 pt	-0.7 pt	4.4%	-0.4 pt	-0.7 pt

Over the period, the maintenance order book posted a 10% increase to a record US$9.7 billion, reaching its growth target of 10% in 2017, driven by an increase in both the Engine and the Component order books.

Transavia

Transavia	Second Quarter		First Half	
	2017	Variation	2017	Variation
Passengers (thousands)	4,361	+15.9%	6,812	+20.4%
Capacity (ASK m)	8,218	+13.7%	12,966	+18.5%
Traffic (RPK m)	7,389	+15.7%	11,534	+19.5%
Load factor	89.9%	+1.5 pt	89.0%	+0.8 pt
Total passenger revenues (€m)	408	+26.3%	605	+25.3%
Scheduled passenger revenues (€m)	408	+26.7%	596	+25.5%
Unit revenue per ASK (€ cts)	4.95	+11.0%	4.59	+5.8%
Unit revenue per RPK (€ cts)	5.49	+8.9%	5.15	+4.7%
Unit cost per ASK (€ cts)	4.54	-1.8%	4.93	-2.0%
Operating result (€m)	34	+46	-43	+32

Transavia is on track for a positive result in 2017. Strong capacity growth (+13.7%), a 1.5 point increase in load factor and an 11.0% rise in unit revenue, together with a 4.2% reduction in unit costs at constant currency and fuel, led to a positive Second Quarter operating result.

Air France – KLM Fleet

At June 30, 2017, the Air France-KLM Group fleet totalled 555 aircraft, of which 544 in operation versus a respective 552 and 534 aircraft at December 31, 2016.

The main operational fleet was composed of 412 aircraft (402 aircraft at December 31, 2016). The breakdown of this fleet is 168 long-haul aircraft (168 at December 31, 2016), six freighters (eight freighters at December 31, 2016) and 238 medium-haul aircraft (228 at December 31, 2016), including 70 aircraft in the Transavia Group fleet (63 aircraft at December 31, 2016). The regional fleet in operation was composed of 132 aircraft (132 at December 31, 2016).

At June 30, 2017, the average age of the aircraft in the operational fleet was 11.0 years, of which 11.7 years for the long-haul fleet, 10.8 years for the medium-haul fleet, 14.3 years for the cargo fleet and 10.4 years for the regional fleet. At June 30, 2017, 36.2% of the total Group fleet was fully owned (36.1% at December 31, 2016), 21.3% was under finance lease (21.4% at December 31, 2016), and 42.5% under operating lease (42.5% at December 31, 2016).

There were firm orders outstanding for 70 aircraft at June 30, 2017, excluding operating leases, after the delivery of fourteeen aircraft under Group ownership during the first six months of the year. Options stood at 53 aircraft (56 at December 31, 2016).

Change in the Air France-KLM Group order book	**December 31, 2016**	**Deliveries during the period**(1)	**New orders (2)**	**Option conversion**(3)	**June 30, 2017**
Main fleet	69	9	-	-	**60**
Regional fleet	13	5	-	2	**10**
Total	82	14	-	2	**70**

(1) *Excluding transfers between the Group's airlines.*
(2) *At KLM, a 787-9 order was converted to a 787-10.*
(3) *Two Embraer 190 orders against two Embraer 175 options*

Change in the Air France-KLM Group option portfolio	**December 31, 2016**	**Exercized during the period** (1)	**Options cancelled or expired**	**New options**	**June 30, 2017**
Main fleet	47	-	-	-	**47**
Regional fleet	9	2	1	-	**6**
Total	56	2	1	-	**53**

(1) *See note (3) above.*

Fleet management

During the 2017 first half, the Air France-KLM Group continued to modernize the long-haul fleet:

- The 44 B777s concerned were equipped with the new Best cabin;
- One B777-300ER (KLM) and one 787-9 (AF) aircraft were delivered, while five long-haul aircraft were retired (three 747-400s at KLM and two A340s at Air France).

In medium-haul, nine B737-800s were delivered to Transavia, five for Transavia Netherlands (of which one leased) and four for Transavia France. One twenty-five-year-old Air France A320 was withdrawn.

In cargo, two Martinair 747-400BCFs were sold.

The regional fleet continued to be renewed: five E175 aircraft entered the fleet at KLM Citihopper and one ATR72-600 at HOP! In parallel, seven aircraft were withdrawn (four Fokker 70s, two old ATRs and one CRJ100).

In total, the first half 2017 was marked by better adaptation of the fleet to the operational needs: with three additional aircraft in the fleet at June 30, 2017 relative to December 31, 2016, the fleet in operation increased from 534 to 544 aircraft, i.e. ten more aircraft (see the following table).

The Air France-KLM fleet at June 30, 2017

Aircraft type	AF (incl. HOP!)	KL (incl. KLC & Martinair)	Transavia France	Transavia NL	Owned	Finance Lease	Operating lease	Total	In operation	Change vs. December 31, 2016
B747-400		16			16			16	15	-2
B777-300	43	13			9	25	22	56	56	1
B777-200	25	15			19	10	11	40	40	
B787-9	2	8				2	8	10	10	2
A380-800	10				1	4	5	10	10	
A340-300	10				5	5		10	9	-1
A330-300		5					5	5	5	
A330-200	15	8			5	6	12	23	23	
Long-haul	**105**	**65**	**0**	**0**	**55**	**52**	**63**	**170**	**168**	**0**
B737-900		5			1	1	3	5	5	
B737-800		27	29	33	17	12	60	89	89	9
B737-700		18		8	3	8	15	26	26	
A321	20				10	1	9	20	20	
A320	42				4	3	35	42	42	1
A319	38				19	6	13	38	38	
A318	18				11	7		18	18	
Medium-haul	**118**	**50**	**29**	**41**	**65**	**38**	**135**	**238**	**238**	**10**
ATR72-600	6						6	6	6	1
ATR72-500	4				1	2	1	4	4	-1
ATR42-500	11				5	2	4	11	11	-1
CRJ1000	14				14			14	14	
CRJ700	11				11			11	11	
Embraer 190	10	30			5	14	21	40	40	
Embraer 175		9			5	4		9	9	5
Embraer 170	15				8	2	5	15	15	
Embraer 145	18				14	4		18	13	-2
Embraer 135	4				4			4		
Fokker 70		9			9			9	9	-2
Regional	**93**	**48**	**0**	**0**	**76**	**28**	**37**	**141**	**132**	**0**
B747-400ERF		3			3			3	3	
B747-400BCF		1					1	1	1	
B777-F	2				2			2	2	
Cargo	**2**	**4**	**0**	**0**	**5**	**0**	**1**	**6**	**6**	**0**
Total AF-KLM	**318**	**167**	**29**	**41**	**201**	**118**	**236**	**555**	**544**	**10**

Outlook and subsequent events

Outlook

Medium-term financial targets

The unit cost reduction target for 2017 is between 1% and 1.5%, on a constant currency, fuel price and pension-related expense basis.
Concerning the balance sheet, the Group is maintaining strict capex discipline and is targeting positive free cash flow before disposals.
The Group continues to deleverage and is targeting a mid-cycle adjusted net debt/EBITDAR ratio of below 2.5x at the end of 2020.

Subsequent events

Following the meeting of its Board of Directors on July 27, 2017, the Group announced a further major step in 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, and the strengthening of its partnership with China Eastern Airlines (CEA). These two commercial alliances will be consolidated by capital links:
• Air France-KLM will acquire a 31% stake in Virgin Atlantic – already 49% held by Delta - for around £220 million.
• Delta and China Eastern will each acquire a 10% stake in Air France-KLM within the framework of reserved capital increases amounting to a total of €751 million.
The creation of the global joint-venture is subject to the approval of the relevant regulatory authorities.
The realization of these reserved capital increases will be subject to approval by Air France-KLM's shareholders during an Extraordinary Shareholders' Meeting convened for September 4, 2017.

Risk factors

In addition to the risk factors outlined in the 2016 Registration Document filed with the AMF on March 31, 2017, the following risks have been identified:

Terrorist attacks, threats of attack, geopolitical instability

The on-going situation of geopolitical instability and terrorist attacks in many countries could have a negative impact on both the Group's "passenger" traffic and, consequently, its revenues, and on the level of operating expenses.

BREXIT: United Kingdom decision to withdraw from the European Union

In the medium term, the likely slowdown in the United Kingdom and, to a lesser extent, the euro zone could have an impact on the Group's activities and thus on its financial results.

Related parties

The information concerning related parties can be found in Note 23 to the consolidated financial statements.

Comments on the financial statements

Consolidated results for the first half ended June 30, 2017

Compared with December 31, 2016, the Air France-KLM Group's consolidation scope at June 30, 2017 showed no significant change. The movements are outlined in Note 5 in the notes to the financial statements.

(In million euros)	**June 30, 2017**	**June 30, 2016**	**Change (in %)**
Revenues	12,314	11,820	4,2
EBITDAR	1,744	1,522	14,6
EBITDA	1,182	994	18,9
Income/(loss) from current operations	353	218	61,9
Income/(loss) from operating activities	361	119	203,4
Net income/(loss) from continuing operations	160	-111	na
Net income/(loss) from discontinuing operations	-8	2	na
Net income/(loss) - Equity holders of Air France-KLM	151	-114	na
Basic earnings/(loss) per share (In €)	0.46	-0.43	na

Revenues

In the first half 2017, total revenues stood at €12.31 billion versus €11.82 billion in 2016, up by 4.2% in nominal and 3.5% on a like-for-like basis.

Operating expenses

Operating expenses increased by 3.1 % to €12.0 billion. For capacity measured in EASK (equivalent available seat-kilometers) up by 3.8%, the unit cost per EASK decreased by 1.0% on a constant currency, fuel price and pension-related expense basis (see page 30 for the detailed unit cost calculation).

At €7.1 billion, external expenses increased by 1.8% (€7.0 billion one year earlier).

The breakdown in operating expenses was as follows:

(In million euros)	**June 30, 2017**	**June 30, 2016**	**Change (in %)**	**Change at constant currencies** *(In %)*
Aircraft fuel	2,280	2,263	0.8	-2.2
Chartering costs	202	215	-6.0	-7.1
Landing fees and air route charges	932	914	2.0	1.3
Catering	388	215	80.5	79.8
Handling charges and other operating costs	856	750	14.1	13.8
Aircraft maintenance costs	1,240	1,246	-0.5	-2.8
Commercial and distribution costs	468	463	1.1	0.2
Other external expenses	782	953	-17.9	-17.7
Total	**7,148**	**7,019**	**1.8**	

The main changes were as follows:

- **Aircraft fuel:** The fuel bill declined by 2.2% (on a constant currency basis) thanks to improved fuel efficiency (-€43 million) and especially a €94 million decrease in the price after hedging, and a volume effect of +€89 million.
- **Chartering costs:** chartering costs represent costs incurred through leasing aircraft capacity from other airlines. Their decrease is explained firstly by the termination of the agreements between Air France and Cityjet and, secondly, by the Air France pilots' strike in 2016.
- **Landing fees and air route charges:** landing fees and air route charges for the use of airspace and airports increased in line with capacity growth.
- **Catering costs** relating to services supplied on board the Air France-KLM Group's own aircraft. The significant increase in these costs is largely explained by the booking of expenses incurred with Servair following the loss of control over Servair on December 30, 2016 (expenses formerly eliminated in intra-Group and booked in "other expenses".
- **Handling charges and other operating costs** principally include aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. The increase in this cost line is mainly explained by the booking of expenses incurred with Servair and Cobalt following the loss of control over Servair and Cobalt on December 30, 2016 (expenses formerly eliminated in intra-Group and booked in "other expenses").
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for the third-party activity.

- **Other external expenses** principally comprise rental costs, telecommunication costs, insurance and fees. Their decrease is mainly explained by the loss of control over Servair and Cobalt on December 30, 2016 (see catering costs and handling charges and other operating costs).
- **Salaries and related costs** stood at €3.73 billion versus €3.71 billion at June 30, 2016, i.e. up by 0.6% in nominal. At constant pension-related expense and scope, these costs increased by €48 million (1.3%) including €22 million due to the profit-sharing increase.
- **Taxes other than income taxes** amounted to €83 million versus €88 million at June 30, 2016.

Other income and expenses (€388 million at June 30, 2017 versus €515 million at June 30, 2016) included the:

- Capitalization of maintenance and IT costs amounting to €390 million as of June 30, 2017 against €442 million as of June 30, 2016.
- Currency hedges for €29 million at June 30, 2017 versus €95 million at June 30, 2016.
- A €10 million expense booked concerning CO2 emissions (€10 million one year earlier).

EBITDAR

EBITDAR amounted to €1,744 million (versus €1,522 million at June 30, 2016).

The contributions to EBITDAR by business segment were as follows:

(In million euros)	**First half 2017**	**Second half 2016 restated**	**Variation (In%)**
Network	1,486	1,307	13.7
Maintenance	170	193	-11.4
Transavia	82	20	x 4.1
Others	5	2	x 2.5
Total	**1,744**	**1,522**	**14.6**

Aircraft operating lease costs

Aircraft operating lease costs stood at €562 million, up by 6.4% under the influence of the euro/dollar exchange rate and the delivery of new aircraft under operating lease. On a constant currency basis, these costs increased by 3.9% due to the entry into the fleet of new aircraft under operating lease at KLM.

EBITDA

EBITDA amounted to €**1,182 million** (versus €994 million at June 30, 2016).

The contributions to EBITDA by business segment were as follows:

(In € million)	First half 2017	First half 2016 restated	Variation *(In %)*
Network	1,005	849	18.4
Maintenance	170	193	-11.4
Transavia	1	(50)	Na
Other	5	2	x 2.5
Total	**1,182**	**994**	**18.9**

Amortization, depreciation and provisions

Amortization, depreciation and provisions totaled €829 million versus €776 million at June 30, 2016.

Income/(loss) from current operations

The **result from current operations** amounted to €353 million versus €218 million at June 30, 2016.

The contributions to revenues and income/(loss) from current operations by sector of activity were as follows:

	June 30, 2017		June 30, 2016 restated	
(In € million)	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Network	10,790	309	10,449	203
Maintenance	900	89	866	95
Transavia	605	-43	483	-75
Other	19	-2	22	-5
Total	**12,314**	**353**	**11,820**	**218**

Income/(loss) from operating activities

The **result from operating activities** stood at €361 million versus €119 million at June 30, 2016. Non-current items which amounted to a positive €8 million at June 30, 2017 were composed of:

- The €19 million result on the sale of aircraft equipment
- Other non-current income and expenses amounting to €(11) million (see Note 11), including mainly:
  - ✓ Restructuring provisions and costs amounting to €(16) million,
  - ✓ An adjustment in the provision for the cargo fine amounting to €(11) million,
  - ✓ Income owing to a change in the KLM pilots’ pension scheme amounting to €15 million.

Net cost of financial debt

The net cost of financial debt amounted to €113 million versus €134 million at June 30, 2016. The fall in the net cost of financial debt was directly linked to the reduction in the gross financial debt.

Other financial income and expenses

Other net financial income and expenses amounted to €1 million versus a €(44) million at June 30, 2016, with the breakdown as follows:

- ✓ A €104 million foreign exchange gain (loss of €119 million at June 30, 2016) which mainly included €87 million of non-realized gains on maintenance provisions in US dollars and €30 million of non-realized gains on Japanese Yen debt.

As of June 30, 2016, the foreign exchange losses had mainly included a currency loss on the Japanese Yen debt amounting to €116 million.

- ✓ A net financial loss of €78 million relating to the fair value of derivative instruments (profit of €58 million at June 30, 2016), mainly explained by the change in fair value of financial instruments due to fuel derivatives for €53 million and relating to currency for €44 million;

- ✓ Impact of accretion on long-term provisions amounting to €(28) million (versus €(27) million as of June 30, 2016);

- ✓ Other financial items for an overall positive amount of €3 million as of June 30, 2017. As of June 30, 2016, a release of 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 the decision taken by the European Court before February 29, 2016.

Net income/(loss) – Equity holders of Air France-KLM

Income tax amounted to a €96 million expense versus a €53 million expense at June 30, 2016. The effective income tax rate stood at 38.6[11]%.

The **share of profits/(losses) of associates** amounted to €7 million at June 30, 2017 (versus €1 million at June 30, 2016).

The **result from discontinued operations** amounted to a €(8) million as of June 30, 2017 against a profit of €2 million at June 30, 2016. This comprised only the adjustment of the Servair disposal price and also the adjustment in the value of the shares retained (see Note 15).

[11] Figure corrected for the purposes of this update to the registration document (38.3 in the first half activity report)

Net income/(loss) - equity holders of Air France-KLM stood at a positive €151 million at June 30, 2017 (versus a loss of €114 million at June 30, 2016).
The contributions to the net result by quarter were, respectively, €(216) million for the 2017 first quarter and €368 million for the 2017 second quarter.

Basic earnings/(loss) per share and diluted earnings/(loss) per share was positive at €0.46 at June 30, 2017 versus €(0.43) at June 30, 2016..

Investments and financing of the Group

The Air France-KLM Group's net capital expenditure on tangible and intangible assets amounted to €1,144 million during the first half versus €1,056 million at June 30, 2016. Net investment in the fleet amounted to €486 million, ground investment to €83 million, spare parts and aeronautical modifications to €231 million, capitalized maintenance costs to €221 million and investment in intangible assets to €123 million.

Net cash flow from operating activities of continuing operations stood at €1,812 million versus €1,429 million at June 30, 2016, reflecting:

- ✓ An improvement in cash flow from continuing operations before voluntary departure plans, which stood at €1,059 million at June 30, 2017 versus €809 million at June 30, 2016, in line with the EBITDA improvement.
- ✓ A decrease in cash-outs linked to the voluntary departure plans, which stood at €73 million at June 30, 2017 versus €173 million at June 30, 2016.
- ✓ The change in working capital of continuing operations which moved from €793 million at June 30, 2016 to €826 million at June 30, 2017.

At June 30, 2017, net debt stood at €2.96 billion versus €3.66 billion at December 31, 2016.

The Group continues to enjoy a good level of liquidity, with net cash of €4.90 billion at June 30, 2017 and undrawn credit facilities totaling €1.8 billion.

At June 30, 2017, stockholders' equity, Group share, amounted to €2.03 billion, a €0.75 billion improvement over the first half of the year.

Air France-KLM parent company results

As a holding company, Air France-KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo and services invoiced to Air France and KLM. Its expenses mostly comprise financial communication costs, Statutory Auditors' fees, the expenses linked to compensation of company officers and the staff made available by Air France and KLM. In total, the operating result amounted to a positive €14 million.

The net result amounted to a €37 million loss, essentially due to financial expenses on the bonds. No dividend was paid in respect of the 2016 financial year.

Key financial indicators

Adjusted operating result and adjusted operating margin

In accordance with generally accepted practice for analysing the air transport sector, operating leases are capitalized at seven times for the capital employed and adjusted net debt calculations. Consequently, the result from current operations is adjusted by the portion of operating leases assimilated with financial charges, i.e. 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The outcome is an adjusted operating margin which, by stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

(In € million)	**June 30, 2017**	**June 30, 2016**
Income/(loss) from current operations	353	218
Portion of operating leases corresponding to financial charges (34%)	191	180
Adjusted income/(loss) from current operations	**544**	**398**
Revenues	12,314	11,820
Adjusted operating margin	**4.4%**	**3.4%**

Restated net result

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

(In € million)	**June 30, 2017**	**June 30, 2016**
Net income/(loss), Group share	151	-114
Net income/(loss) from discontinued operations	8	-2
Change in fair value of financial assets and liabilities (derivatives)	28	-129
Unrealized foreign exchange gains and losses, net	-100	122
Non-current income and expenses	-8	99
Impairment on shares available-for-sale	-	-
Restated net income/(loss), Group share	**79**	**-24**
Restated net income/(loss) per share, Group share	**0.22**	**-0.12**

Financial cover ratios

➢ Net debt/EBITDA

	June 30, 2017 Trailing 12 months	December 31, 2016
Net debt *(en M€)*	2,956	3,655[12]
EBITDA *(en M€)*	2,901	2,714
Net debt/EBITDA	**1,0x**	**1,4x**

➢ EBITDA/net cost of financial debt

	June 30, 2017 Trailing 12 months	December 31, 2016
EBITDA *(in €m)*	2,901	2,714
Net cost of financial debt (in €m)	238	260
EBITDA/net cost of financial debt	**12.2x**	**10.4x**

➢ Adjusted net debt/EBITDAR

Adjusted net debt amounts to net debt added to the annual amount of operating leases capitalized at seven times. Within the framework of the Trust Together plan, the Group has set itself an adjusted net debt/EBITDAR ratio target of around 2.5x mid cycle during the 2020 financial year.

	June 30, 2017	December 31, 2016
Net debt (in €m)	2,956	3,655[13]
Operating leases x 7, trailing 12 months (in €m)	7,756	7,511
Total adjusted net debt (in €m)	**10,712**[14]	**11,166**
EBITDAR, trailing 12 months (in €m)	4,009	3,787
Adjusted net debt/EBITDAR	**2.7x**	**2.9x**

[12] Figure corrected for the purposes of this update to the registration document (3,665 million euros in the first half activity report)

[13] Figure corrected for the purposes of this update to the registration document (3,665 million euros in the first half activity report)

[14] Figure corrected for the purposes of this update to the registration document (10,717 million euros in the first half activity report)

> EBITDAR/adjusted net cost of financial debt

The adjusted net cost of financial debt includes the portion of operating leases corresponding to interest charges (34%).

	June 30, 2017 Trailing 12 months	December 31, 2016
EBITDAR *((in €m)*	**4,009**	3,787
Net cost of financial debt (in €m)	238	260
Portion of operating leases corresponding to interest charges (34%) (in €m)	377	365
Adjusted net cost of financial debt (in €m)	**615**	625
EBITDAR/adjusted net cost of financial debt	**6.5x**	**6.1x**

Return on Capital Employed (ROCE)

The return on capital employed measures the return on invested capital by expressing a result after tax as a percentage of capital employed. The calculation methodology, in line with market practices, is the following:

- The calculation of capital employed is currently based on an additive method by identifying the balance sheet items corresponding to capital employed. The capital employed for the year is obtained by taking the average of the capital employed on the opening and closing balance sheets, to which is added the capital employed corresponding to aircraft under operating leases (seven times the amount of operating leases for the year);

- The adjusted result after tax corresponds to the sum of the operating result adjusted for the portion corresponding to financial charges in operating leases (34%), dividends received, and the share of profits/(losses) of associates. To be able to compare figures on a comparable scope, the Alitalia shares have been excluded from the calculation.

(In € million)	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015
Goodwill and intangible assets	1,309	1,238	1,238	1,270
Flight equipment	9,632	9,192	9,192	8,843
Other property, plant and equipment	1,455	1,494	1,494	1,720
Investments in equity associates, excluding Alitalia	294	73	73	131
Other financial assets excluding share available for sale, marketable securities and financial deposits	203	204	204	200
Provisions excluding pension, cargo litigation and restructuring	(1,628)	(1,558)	(1,558)	(1,510)
WCR, excluding market value of derivatives	(6,136)	(5,897)	(5,897)	(5,923)
Capital employed on the balance sheet	5,129	4,746	4,746	4,731
Average capital employed on the balance sheet	**4 938**		**4 739**	
Capital employed corresponding to flight equipment under operating leases (operating leases x7)	7,756		7,343	
Average capital employed (A)	**12,694**		**12,082**	
Operating result, adjusted for operating leases	1,561		1,592	
Dividends received	(2)		(2)	
Share of profits/(losses) of associates	-		(16)	
Tax recognized in the adjusted net result	(293)		(165)	
Adjusted result after tax (B)	**1,266**		**1,409**	
ROCE (B/A)	**10.0%**		**11.7%**	

Net cost per EASK

To analyze the cost performance of an individual transportation activity, the Group divides the net cost of this activity by the capacity produced, expressed in ASK for the "passenger network" and Transavia activity, and in ATK for the cargo activity.

To analyze the company's overall cost performance, the Group uses the net cost per EASK. This net cost is obtained by dividing the total net cost by the capacity produced expressed in equivalent available seat-kilometers (EASK). The net cost is calculated by subtracting the revenues other than those generated by the three transportation activities (passenger, Cargo, Transavia) from total operating expenses. The capacity produced by the three transportation activities is combined by adding the capacity of the passenger business (in ASK) to that of Transavia (in ASK) and the cargo business (in ATK) converted into EASK based on a separate fixed factor, which is stable over time, for Air France and for KLM.

IAS 19 Revised makes the defined benefit pension expense more volatile. This expense varies independently of the corresponding cash outflows. The calculation of the change in the net cost per EASK on a constant defined benefit pension expense basis enables this effect to be stripped out.

	First half 2017	**First half 2016**
Revenues (in €m)	12,314	11,820
Income/(loss) from current operations (in €m)	353	218
Total operating expense (in €m)	-11,961	-11,602
Passenger network business – other revenues (in €m)	381	406
Cargo business – other revenues (in €m)	75	79
Third-party revenues in the maintenance business (in €m)	900	866
Transavia – other revenues (in €m)	9	8
Third-party revenues of other businesses (in €m)	19	22
Net cost (in €m)	**10,577**	**10,221**
Capacity produced, reported in EASK	169,900	163,678
Net cost per EASK (in € cents per EASK)	**6.22**	**6.24**
Gross change		***-0.3%***
Currency effect on net costs (in €m)		168
Change at constant currency		***-1.9%***
Fuel price effect (in €m)		-94
Change on a constant currency and fuel price basis		***-1.0%***
Variation in pension-related expenses**(in €m)		-8
Net cost per EASK on a constant currency, fuel price and pension-related expenses basis (in € cents per EASK)	6.22	**6.28**
Change on a constant currency, fuel price and pension-related expenses basis		-1.0%

CHAPTER 7
OTHER INFORMATION AND TRENDS

1. The strengthening of the Group's strategic partnerships

On July 27, 2017 the Group announced the strengthening of the Company's strategic partnerships through, on the one hand, the implementation of a single global joint-venture[15] between the Company, Delta Air Lines and Virgin Atlantic[16], and, on the other hand, the strengthening of the commercial alliances with China Eastern Airlines and the reinforcement of their partnership through the existing joint-venture.

In the context of these strategic transactions (together, the "**Transactions**"), the Company will acquire a stake of 31% in Virgin Group (representing 31% of voting rights) from Virgin Atlantic for an amount of approximately GBP 220 million and Delta and China Eastern Airlines will subscribe to capital increases which will be reserved to each of them, for a total amount of 750,548,200 euros. Besides, the Company and China Eastern Airlines have signed a marketing agreement on 27 July 2017, aiming at setting up the principles of their commercial cooperation.

Besides, the Company plans to adapt its governance by the appointment of two new directors who will represent as the case may be China Eastern Airlines or Delta Air Lines. It will be proposed to the Combined Ordinary and Extraordinary Shareholders' Meeting (i) to appoint Mr. Bing Tang, vice president and party member of China East Airlines Holding Company, and director and vice president of China Eastern Airlines Corporation Limited, a candidate proposed by China Eastern Airlines, and (ii) to appoint Delta Air Lines Inc., a candidate proposed by Delta, as members of the Board of directors.

The investment in Virgin Atlantic will be effective in 2018, subject to notably obtaining necessary regulations authorizations (in particular authorization of the civil aviation authority of the United Kingdom and competition authorities if required). The company will be represented in Virgin Atlantic by three directors, same number of directors as Delta Air Lines and Delta Air Lines and the Company will have under certain conditions a common put option, with no defined utilization date, over their stake in case of the exit of United Kingdom from the European Union. (Brexit). The exercise price of such put option will correspond to the acquisition price of the investment in Virgin Atlantic, reduced by 10%.

The detailed terms and conditions of these Transactions and the synergies expected in connection therewith are described in the press release dated 27 July 2017 included in Chapter 3 "Recent events" of this update.

2. Litigation

As at the date of this update, except for the matters described under the notes 32.1 and 32.2 of the condensed consolidated accounts for the financial year ended 31 December 2016

[15] As with most joint-ventures in the industry, it did not lead to the creation of a common company but rather the signature of a contract defining both a common income statement and organizations to manage all aspects of the partnership.

[16] Virgin Atlantic is the fourth European actor on the North America roads, behind British Airways Lufthansa and Air France, and the second air transport company in terms of capacity in London Heathrow, the largest airport in Europe. In 2016, Virgin Atlantic flew 5.4 million of passengers to 26 destinations with a fleet of 39 aircraft and had 8500 employees (Source: Annual report 2016 of Virgin Atlantic, available on the website of Virgin Atlantic (www.virginatlantic.com) together with the 2016 audited accounts of Virgin Atlantic)

included in the chapter 5 of the 2016 Registration Document, and the note 18.2 of the first half condensed consolidated accounts included in the chapter 4 of this update, the Group is not aware of any governmental, judicial or arbitration dispute or proceedings (including any such proceedings of which are pending or threatened of which the Group is aware) that could have or has had recently a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

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