First half financial report

January-June 2018

Société anonyme with share capital of €428,634,035
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Paris Trade and Company Register No. 552,043,002
Free translation into English for convenience only – French version prevails

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1. First half activity report

1.1 Corporate governance

The Board of Directors

Overall presentation

At June 30, 2018, the Board of Directors was composed of eighteen members, including:

- Fifteen 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 French State appointed by ministerial order(3),
- One representative of the employees appointed by the *Comité de Groupe Français*(4);
- One representative of the employees appointed by the European Works Council(4);

Furthermore, as of June 30, 2018, the Board of Directors was composed of eleven members with French nationality, five members with Dutch nationality, one with Chinese nationality and one with US 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, 2018, the Board of Directors numbered seven women Board directors, i.e. a proportion of 43.75%(5).

In application of the AFEP-MEDEF Code, as of June 30, 2018, the proportion of independent Board directors stood at 57%(6).

During the first half 2018, 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 2018:

Dates	Events	Function within the Board
May 15, 2018	Re-appointment of Ms. Isabelle Parize by the Shareholders' Meeting	Independent director
May 15, 2018	Ratification of the co-opting of Ms. Anne-Marie Idrac by the Shareholders' Meeting(7)	Independent director
May 15, 2018	Appointment of Mr. François Robardet by the Shareholders' Meeting	Director representing the employee shareholders (ground staff and cabin crew category of shareholder)
May 15, 2018	Expiry of Louis Jobard's term of office as a Board director	Director representing the employee shareholders (flight deck crew category of shareholder)
May 15, 2018	Appointment of Mr. Paul Farges by the Shareholders' Meeting	Director representing the employee shareholders (flight deck crew category of shareholder)
May 15, 2018	Resignation of Mr. Jean-Marc Janaillac as Chairman and Chief Executive Officer and member of the Board of Directors	Chairman and Chief Executive Officer and member of the Board of Directors
May 15, 2018	Appointment of Ms. Anne-Marie Couderc as non-Executive Chairman by the Board of Directors	Chairman of the Board of Directors Independent Board director

(1) Pursuant to Article 6 of Ordinance No.2014-948 of August 20, 2014, relating to corporate governance and to transactions involving the share capital of State-owned companies.

(2) The directors representing the employee shareholders are appointed pursuant to Article L.225-23 of the *Code de Commerce*, Article L.6411-9 of the *Code des Transports* and Article 17-2 of the Articles of Incorporation.

(3) Pursuant to Article 4 of Ordinance No.2014-948 of August 20, 2014 relating to corporate governance and to transactions involving the share capital of State-owned companies.

(4) Pursuant to the provisions of Article L.225-27-1 of the *Code de Commerce* and Article 17-3 of the Articles of Incorporation.

(5) The directors representing the employees, appointed pursuant to Article L. 225-27-1 of the *Code de Commerce*, are not taken into account for the gender parity calculation in line with the provisions of the aforementioned Article.

(6) The directors representing the employees and the employee shareholders are not taken into account to establish the percentage of independent directors within the Board of Directors.

(7) On November 2, 2017, Ms. Anne-Marie Idrac was appointed as an independent director replacing Air France-KLM Finance SAS. The ratification of her co-opting was thus submitted to the Air France-KLM Shareholders' Meeting of May 15, 2018.

Transitional governance

Following the outcome of the Air France staff consultation on the draft pay agreement on May 4, 2018, and as previously announced, Jean-Marc Janaillac, step down as Chairman and Chief Executive Officer on May 15, 2018. As a consequence of this decision, the Board of Directors opted to establish a transitional governance. Within this framework, the Board of Directors decided to:

- Separate the functions of Chairman of the Board and Chief Executive Officer of Air France-KLM during the transition period;
- Appoint Anne-Marie Couderc as non-executive Chairman;
- Appoint Frédéric Gagey as Chief Executive Officer;
- Create a Management Committee (*Comité de Direction Collégiale* - CDC) composed of:
  - Frédéric Gagey, Chief Financial Officer of Air France-KLM, who serves as Chief Executive Officer;
  - Franck Terner, Chief Executive Officer of Air France and Pieter Elbers, Chief Executive Officer of KLM, both serving as Deputy Group Chief Executive Officers.

Frédéric Gagey acts as spokesperson for the Management Committee while Management Committee decisions will be taken collectively by its three members. The role of the Management Committee will be to oversee and monitor the Group functions and coordinate strategic matters between the Group and its airlines.

The transitional governance structure does not presuppose the future governance to be adopted by the Board, whose implementation will terminate the transition period and the related functions.

Composition of the Board of Directors at June 30, 2018

Board directors (age at June 30, 2018)	**Functions within the Board of Directors**	**Date appointed to the Air France-KLM Board**	**Mandate expiry date**	**Principal current function**
Board directors appointed by the Shareholders' Meeting				
Anne-Marie Couderc (68 years) French	Chairman of the Air France-KLM Board Independent director Chair of the Appointments and Governance Committee and member of the Audit Committee	May 19, 2016	2020 AGM	Company director
Maryse Aulagnon (69 years) French	Independent director Chair of the Audit Committee	July 8, 2010	2021 AGM	Chair of Affine
Leni M.T. Boeren (54 years) Dutch	Independent director Member of the Audit Committee	May 16, 2017	2021 AGM	Member of the Executive Board of Van Lanschot Kempen N.V. and Chair of the Kempen & Co N.V. Executive Board (Netherlands)
Isabelle Bouillot (69 years) French	Independent director Member of the Remuneration Committee	May 16, 2013	2021 AGM	President of China Equity Links
Delta Air Lines, Inc. (Represented by George Mattson) US	Board director	October 3, 2017	2021 AGM	Airline company
Jaap de Hoop Scheffer (70 years) Dutch	Independent director Chairman of the Remuneration Committee	July 7, 2011	2019 AGM	Professor, Leiden University (Netherlands)
Anne-Marie Idrac (66 years) French	Independent director	November 2, 2017	2021 AGM	Board director
Isabelle Parize (61 years) French	Independent director Member of the Remuneration Committee	March 27, 2014	2022 AGM	Company, start-up and private equity fund counsel

Hans N.J. Smits (67 years) Dutch	Board director Member of the Remuneration Committee	May 19, 2016	2020 AGM	Chairman of the Supervisory Board of KLM N.V. (Netherlands)
Bing Tang (51 years) Chinese	Board director	October 3, 2017	2021 AGM	Vice-President of China Eastern Air Holding Company (China)
Alexander R. Wynaendts (57 years) Dutch	Independent director Member of the Appointments and Governance Committee	May 19, 2016	2020 AGM	Chairman and CEO of Aegon N.V.(Netherlands)
Board directors appointed by the Shareholders' Meeting as proposed by the French State				
Jean-Dominique Comolli (70 years) French	Board director Member of the Remuneration Committee and of the Appointments and Governance Committee	December 14, 2010	2019 AGM	Honorary Civil Administrator
Patrick Vieu (53 years) French	Board director	May 21, 2015	2019 AGM	Advisor to the Vice-President of the General Council for the Environment and Sustainable Development
Board directors appointed by the Shareholders' Meeting representing the employee shareholders				
François Robardet (60 years) French	Board director representing the employee shareholders (ground staff and cabin crew category of shareholder) Member of the Audit and Remuneration Committees	December 6, 2016	2022 AGM	Air France executive
Paul Farges (47 years) French	Board director representing the employee shareholders (flight deck crew category of shareholder) Member of the Audit Committee	May 15, 2018	2022 AGM	Airline pilot instructor
Board director representing the French State appointed by ministerial order				
Solenne Lepage (46 years) French	Board director representing the French State Member of the Audit Committee	March 21, 2013	May 2019	Director of Transportation Shareholdings, Agency for State Shareholdings
Board directors representing the employees appointed by the *Comité de Groupe Français*				
Karim Belabbas (44 years) French	Board director representing the employees	June 1, 2017	2019 AGM	Weight and Support Technician, CDG Hub Ground Operations
Board director representing the employees appointed by the European Works Council				
Mathi Bouts (58 years) Dutch	Board director representing the employees	October 10, 2017	2019 AGM	Senior purser on KLM long-haul flights

The Group Executive Committee

Composition of the Group Executive Committee at June 30, 2018

Chaired by the Management Committee (*Comité de Direction Collégiale* - CDC), the Group Executive Committee is composed of eleven members and a secretary:

- The 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 seven heads of the Group's functions.

Members at June 30, 2018	Age at June 30, 2018	Sector	Relevant professional experience
Frédéric Gagey Chief Executive Officer, Air France-KLM Chief Financial Officer, Air France-KLM	62 years	Public Service Air Transport	7 years 24 years
Pieter Elbers President and Chief Executive Officer, KLM Deputy Chief Executive Officer, Air France-KLM	48 years	Air Transport	25 years
Franck Terner Chief Executive Officer, Air France Deputy Chief Executive Officer, Air France-KLM	58 years	Air Transport	35 years
Patrick Alexandre Executive Vice-President Commercial, Sales & Alliances, Air France-KLM	63 years	Air Transport	36 years
Pieter Bootsma Executive Vice-President Commercial & Revenue, Air France-KLM	48 years	Air Transport	22 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	54 years	Air Transport	22 years
Sonia Barrière Executive Vice-President, Strategy and Innovation, Air France-KLM	43 years	Transport Tourism Air Transport	8 years 3 years 7 months
René de Groot Chief Operating Officer, KLM	49 years	Air Transport	27 years
Marcel de Nooijer Executive Vice-President, Cargo, Air France-KLM	49 years	Air Transport	22 years
Jean-Christophe Lalanne Executive Vice-President, Information Technology, Air France-KLM	56 years	Industry, IT Air Transport	20 years 13 years
Anne-Sophie Le Lay Corporate Secretary, Air France-KLM Executive Vice-President, Human Resources, Air France-KLM Corporate Secretary, Air France	47 years	Automotive industry Air Transport	17 years 4 months
Alexandre Boissy Secretary to Air France-KLM's Group Executive Committee and Chief of Staff	44 years	Air Transport	19 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 Large 60 index and is also included in the leading sustainable development and employee shareholder indexes. For the thirteenth year running, Air France-KLM is included in the RobecoSAM Dow Jones Sustainability Indexes (DJSI World and DJSI Europe) and is the only air transport company to figure in the European ranking.

Stock market performance

Over the 2018 first half, the Air France-KLM stock price decreased by 49%.

	January-June 2018	January-June 2017
Share price high *(In €)*	14.51	12.55
Share price low *(In €)*	6.65	4.78
Number of shares in circulation	428,634,035	300,219,278
Market capitalization at the end of the period *(In € billion)*	2.99	3.75

Information relating to the share capital

At June 30, 2018, the Air France-KLM share capital was composed of 428,634,035 shares with a nominal value of one euro.

Period ended	June 30, 2018	June 30, 2017
Number of shares in circulation	428,634,035	300,219,278
Number of theoretical voting rights	503,985,969	377,461,421
Number of exercizable voting rights	501,723,170	375,195,795
Share capital (in €)	428,634,035	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 ended	**June 30 2018**	**December 31, 2017**	**June 30 2018**	**December 31 2017**	**June 30 2018**	**December 31 2017**
Number of shares in circulation/voting rights	428,634,035	428,634,035	503,985,969	504,378,432	501,723,170	502,115,633
French State	14.3%	14.3%	22.6%	22.6%	22.7%	22.7%
Delta Air Lines, Inc.	8.8%	8.8%	7.4%	7.4%	7.5%	7.5%
China Eastern Airlines	8.8%	8.8%	7.4%	7.4%	7.5%	7.5%
Employees (FCPE)	3.9%	3.9%	6.6%	6.6%	6.6%	6.6%
Treasury stock	0.3%	0.3%	0.4%	0.4%	-	-

At June 30, 2018, more than 50% of Air France-KLM's share capital was owned by European interests – European Union Member States and States party to the European Economic Area Agreement.

1.2 Activity

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 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, KLM and Joon, are backed by a system of hubs around highly-efficient infrastructure at Paris-CDG and Amsterdam-Schiphol, and benefit from their 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 more effectively to respond to customer expectations. Air France-KLM’s expertise in the cargo domain supports the Group’s airline operations by making a significant contribution to their financial equilibrium. The point-to-point (HOP! Air France) and low-cost (Transavia) brands aim to offer effective 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.

Strengths of the Air France-KLM Group

A strong 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 Air Lines, Inc. within the framework of the trans-Atlantic joint-venture and those operated by China Eastern Airlines, Air France, Joon and KLM serve 129 long-haul destinations globally, of which 35 in Africa, 26 in North America, 25 in Asia-Pacific, eleven in the Caribbean, five in the Indian Ocean, fifteen in Latin America and twelve 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 “network” 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.

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 large home markets and internationally.

The brand portfolio strategy has latterly been reinforced: thanks to strong growth in France in recent years, the low-cost brand Transavia, which is already the leading low-cost carrier in the Netherlands, has become the number one low-cost airline at Paris-Orly. In total, Transavia now offers a wide range of more than 100 destinations. In 2017, Transavia France celebrated its tenth anniversary by posting traffic figures of some six million passengers.

Joon, the new Air France airline, operated its first flight on December 1, 2017. This new airline aims to respond to the needs of new generations of travelers, by offering them a personalized, bespoke travel experience. After deployment on the medium-haul network, Joon launched its long-haul operations on March 25, 2018. In the 2018 Summer Season, Joon is operating flights to eight medium-haul and six long-haul 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 flights, as well as on those operated by Transavia and Joon.

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. At Air 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 positioning of Joon aims to increase Air France's penetration of the 18-35-year-old target demographic.

The accelerated growth for Transavia, which carried some 14.8 million passengers in 2017 compared with 13.3 million in 2016, enables the Group to complete its portfolio of products to become customers' low-cost carrier of choice.

Strategy of the Air France-KLM Group

The Group's strategy, as expressed via 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 are being pursued. In particular, in 2017 Air France realized the launch of an additional tool – a new airline – adapted to ultra-competitive situations and positioned on routes that are structurally loss-making or had been closed in recent years.

- **Joon, a new airline alongside Air France, which is competitive and innovative and will drive growth for the Paris-Charles de Gaulle hub to destinations in Europe and the rest of the world**

This airline, which is focused on ultra-competitive markets, enables the Group to open new routes, re-open routes closed due to their lack of profitability and maintain routes under threat within the Group. This new company proposes a simple, modern and innovative offer, whose positioning is not low cost. It offers 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.

Joon is also an innovation laboratory for the Group 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. The Joon flights will be operated by Air France pilots on a volunteer basis, under working conditions adapted to its competitive positioning. For cabin crews, an independent career path has been created to enable this new company to be operated at the level of market costs. The ground operations, handled by Air France, are also optimized by taking maximum advantage of digitalization. The HR framework for this new company was the subject of negotiations with the unions during 2017.

- **Deepen the alliances**

Air France-KLM continues to 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 is thus working on reinforcing its trans-Atlantic joint-venture with its different partners and those of Delta Air Lines, Inc. in Europe and North America. On May 15, 2018, Air France-KLM, Delta Air Lines and Virgin Atlantic signed definitive agreements paving the way for their expanded trans-Atlantic joint-venture, subject to the appropriate regulatory approvals. This new joint-venture will enable the companies in question to propose an integrated offer on the trans-Atlantic market, with a market share of around 25% versus 21% for IAG/American Airlines and 27% for Lufthansa/United and its STAR Alliance partners. In this context, Air France-KLM will also acquire a 31% stake in Virgin Atlantic, in which Delta Air Lines, Inc. has held a 49% stake since 2013, while the historic shareholder Richard Branson will retain 20%.

Towards China, in addition to its stand-alone presence as the European leader, Air France-KLM can 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 the proposition between Europe and China, and to offer customers a service to secondary Chinese cities.

The partnerships with Delta Air Lines, Inc. and China Eastern Airlines have been reinforced by the entry into the Air France-KLM share capital of these two international companies through a reserved capital increase approved in July 2017 and taking place in October 2017. Following the increase in the number of shares resulting from conversion of the 2023 OCEANEs, these two companies now each hold 8.76% of the Group's share capital.

In India, Air France-KLM continued to reinforce its partnership with Jet Airways, the leading private Indian carrier in the intercontinental market. In 2016, the codeshare agreement between the Group and the Indian airline had been expanded to offer flights to more Indian cities, with enhanced connectivity towards Europe and North America following in November 2017. This new development enables shared growth in activity between Europe and India.

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 the 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 without connections in a Group hub, are currently operated by Transavia, HOP!, Air France and KLM.

The priority for Transavia, the Group's low-cost carrier, is growth in its French and Dutch home markets. In France, Transavia is reinforcing its position on some 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) is being stepped up to expand the offer to customers.

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

With growth forecast at more than 4% 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 nearly five years of revenues. Air France-KLM's growth is being driven, in particular, by the engine and component support businesses, which are high-added-value activities deploying state-of-the-art maintenance technologies. The growth in the global fleets of next-generation aircraft offer significant growth relays and AFI KLM E&M is capitalizing 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 step up 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 Operational Efficiency.

The improvement in customer relations will also involve innovation in distribution: Air France-KLM is looking to leverage the new distribution tools to build closer relationships with customers and propose adapted offers, while reducing costs. In 2017, Air France-KLM reached level 3 IATA certification for its new NDC (New Distribution Capabilities) distribution system.

- **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 strengthening its actions to improve their operational efficiency and support the economic performance of the long and medium-haul operations to/from the hubs. This will involve, for example, pursuing the operational excellence programs implemented by 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 from the launch of the new airline "Joon" on the medium-haul network with a simple, modern and innovative offer.

The Amsterdam-Schiphol hub continues to be reinforced via closer coordination between Transavia and KLM, particularly in terms of investment in the fleet, network development and new joint commercial initiatives.

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

The unit cost reduction targets 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 notably 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 rationalized 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 routes.

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 is being pursued and intensified. Air France is rolling out 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 staff and the digitalization of processes are being accelerated to facilitate collaborative working across the Group and gain agility. The agile working method has been deployed across large swathes of the Group's organization.

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

The Group is pursuing 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 underlining the fact 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 taxes, social contributions and charges which are higher than in other European countries, in particular within the framework of the French national aviation conference (*Assises du Transport Aérien*) taking place during 2018.

The implementation of the Trust Together project aims to 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.

Business review

Network business: buoyant economic environment but strike impacts the operating result

Network	Second Quarter			First Half		
	2018	**Change**	***Change constant currency***	**2018**	**Change**	***Change constant currency***
Capacity (EASK m)	81,934	*-0.2%*		158,927	*+1.3%*	
Total revenues (€m)	5,696	*-1.2%*	*+2.7%*	10,786	*-0.3%*	*+3.5%*
Scheduled revenues (€m)	5,394	*-2.2%*	*+1.9%*	10,229	*-0.8%*	*+3.1%*
Unit revenue per EASK (€ cts)	6.58	*-2.0%*	*+2.0%*	6.44	*-2.0%*	*+1.8%*
Unit cost per EASK (€ cts)	6.30	*+2.7%*	*+2.8%*	6.34	*+1.2%*	*+2.4%*
Operating result (€m)	236	*-245*	*-188*	150	*-321*	*-285*

Against a buoyant economic backdrop for the first half 2018 and despite 15 days of strikes at Air France, revenues from the Group's Network business progressed by 3.5% at constant currency relative to the previous year. This growth was mainly driven by a positive unit revenue performance, up by 1.8% at constant currency, partly offsetting the impact of higher fuel prices.

Including a negative strike effect of around €335 million, the operating result for the Network business stood at €150 million in the first half 2018, €321 million lower than in 2017.

Passenger business: long-haul and medium-haul both contribute to the positive unit revenue performance

Passenger network	Second Quarter			First Half		
	2018	**Change**	***Change constant currency***	**2018**	**Change**	***Change constant currency***
Passengers (thousands)	21,853	*-0.0%*		41,140	*+2.0%*	
Capacity (ASK m)	72,821	*+0.1%*		140,995	*+1.6%*	
Traffic (RPK m)	63,425	*+0.6%*		122,537	*+2.6%*	
Load factor	87.1%	*+0.4 pt*		86.9%	*+0.9 pt*	
Total passenger revenues (€m)	5,154	*-1.6%*	*+2.4%*	9,699	*-0.6%*	*+3.2%*
Scheduled passenger revenues (€m)	4,928	*-2.3%*	*+1.7%*	9,286	*-1.0%*	*+2.9%*
Unit revenue per ASK (€ cts)	6.77	*-2.5%*	*+1.6%*	6.59	*-2.5%*	*+1.3%*

With capacity up by 1.6%, traffic in the passenger network increased by 2.6%, enabling a 0.9-point improvement in load factor.

Unit revenue per available seat-kilometer increased by 1.3% at constant currency, with strong demand enabling selective fare increases to partially offset higher fuel prices.

The long-haul network again benefited from dynamic demand on the Group's principal networks, enabling a 1.4% increase in the unit revenue at constant currency.

In particular, unit revenues on the North American and Latin American networks progressed by a respective 4.1% and 4.4% at constant currency.

After a first quarter 2018 which had been slightly negative for the medium-haul networks, the strong performance of the hubs having been unable to offset a significant decline in point-to-point, the unit revenue of the medium-haul networks rebounded in the second quarter, standing at +1.3% at constant currency for the first half.

Cargo business: increase in the unit revenue relative to 2017 underpins revenue growth

Cargo	Second Quarter			First Half		
	2018	**Change**	***Change constant currency***	**2018**	**Change**	***Change like-constant currency***
Tons (thousands)	275	*-3.8%*		545	*-2.3%*	
Capacity (ATK m)	3,532	*-2.5%*		6,947	*-1.0%*	
Traffic (RTK m)	2,096	*-2.2%*		4,132	*-1.4%*	
Load factor	59.3%	*+0.2 pt*		59.5%	*-0.2 pt*	
Total Cargo revenues (€m)	543	*+2.1%*	*+6.0%*	1,086	*+2.3%*	*+6.9%*
Scheduled cargo revenues (€m)	467	*-0.4%*	*+3.6%*	943	*+0.9%*	*+5.6%*
Unit revenue per ATK (€ cts)	13.22	*+2.2%*	*+6.3%*	13.58	*+2.0%*	*+6.8%*

Cargo capacity was reduced in second quarter 2018 due to the replacement of a B747 Combi by a B787 at KLM and the strikes at Air France.

The business nevertheless continued its turnaround during the first half, with strong market demand, particularly in the Americas and Asia, enabling the unit revenue to post a 6.8% increase at constant currency.

Transavia: strong capacity growth and a high unit revenue contribute to an increase in the operating result

Transavia	Second Quarter		First Half	
	2018	**Change**	**2018**	**Change**
Passengers (thousands)	4,587	*+5.2%*	7,314	*+7.4%*
Capacity (ASK m)	8,722	*+6.1%*	13,951	*+7.6%*
Traffic (RPK m)	8,023	*+8.3%*	12,830	*+11.1%*
Load factor	92.0%	*+1.8 pt*	92.0%	*+2.9 pt*
Total passenger revenues (€m)	453	*+11.0%*	688	*+13.7%*
Unit revenue per ASK (€ cts)	5.17	*+4.5%*	4.85	*+5.5%*
Unit cost per ASK (€ cts)	4.47	*+1.5%*	4.82	*+1.6%*
Operating result (€m)	61	*+17*	3	*+23*

Transavia carried 7.3 million passengers in the first half 2018, an increase of 7.4% on the previous year. Traffic rose by 11.1% with a load factor up by 2.9%, while the unit revenue increased by 5.5% relative to the previous year.

The first half 2018 operating result stood at breakeven, an improvement of €23 million relative to 2017.

Maintenance business: strong increase in third-party revenues

Maintenance	Second Quarter			First Half		
	2018	**Change**	***Change constant currency***	**2018**	**Change**	***Change constant currency***
Total revenues (€m)	1,007	*+1.4%*		2,082	*+2.6%*	
Third-party revenues (€m)	471	*+6.8%*	*+15.8%*	941	*+5.7%*	*+16.2%*
Operating result (€m)	46	-16	-3	72	-34	-18
Operating margin (%)	4.6%	*-1.7 pt*	*-0.6 pt*	3.5%	*-1.8 pt*	*-1.2 pt*

Maintenance revenues posted substantial growth in the first half 2018 relative to the previous year, with third-party revenues up by 16.2% at constant currency, driven by the Engine business. The operating margin expressed as a percentage of total revenues stood at 3.5%, a decrease of 1.2 points at constant currency relative to the previous year.

The Maintenance order book stood at US$10.5 billion at the end of the second quarter 2018, down by US$0.3 billion compared to the end of 2017, due to the withdrawal of Alitalia contracts from the order book, partially offset by new Component and Engine contracts.

Air France-KLM Fleet

At June 30, 2018, the Air France-KLM Group's fleet totalled 550 aircraft, of which 540 in operation versus a respective 545 and 537 aircraft at December 31, 2017.

The main operational fleet was composed of 416 aircraft (412 aircraft at December 31, 2017). The breakdown of this fleet was 171 long-haul aircraft (170 at December 31, 2017), six freighters (six freighters at December 31, 2017) and 239 medium-haul aircraft (236 at December 31, 2017), including 73 aircraft in the Transavia Group fleet (68 aircraft at December 31, 2017). The regional fleet in operation was composed of 124 aircraft (125 at December 31, 2017).

At June 30, 2018, the average age of the aircraft in the operational fleet was 10.9 years, of which 11.6 years for the long-haul fleet, 11.2 years for the medium-haul fleet, 15.3 years for the cargo fleet and 9.1 years for the regional fleet, compared with 10.9 years at December 31, 2017, of which 11.5 years for the long-haul fleet, 11.1 years for the medium-haul fleet, 14.8 years for the cargo fleet and 9.7 years for the regional fleet.

At June 30, 2018, 38.4% of the total Group fleet was fully owned (36.9% at December 31, 2017), 17.8% was under finance lease (19.6% at December 31, 2017) and 43.8% under operating lease (43.5% at December 31, 2017).

There were firm orders outstanding for 49 aircraft at June 30, 2018, excluding operating leases, after the delivery of sixteen aircraft under Group ownership. Options stood at 47 aircraft (47 at December 31, 2017).

Change in the Air France-KLM Group order book	December 31, 2017	Deliveries during the period[1]	New orders	Option conversion	June 30, 2018
Main fleet	56	9	2	0	**49**
Regional fleet	7	7	0	0	**0**
Total	63	16	0	0	**49**

(1) *Excluding transfers between the Group's airlines.*

Change in the Air France-KLM Group option portfolio	December 31, 2017	Exercized during the period	Options cancelled or expired	New options	June 30, 2018
Main fleet	47	0	0	0	**47**
Regional fleet	0	0	0	0	**0**
Total	47	0	0	0	**47**

Fleet management

During the first half 2018, the Air France-KLM Group continued to modernize its long-haul fleet: three 787-9s were delivered (two for KLM and one for Air France) while four long-haul aircraft were retired (two 747-400s at KLM and two A340s at Air France).

In medium-haul, five B737-800s were delivered to Transavia, three for Transavia France and two for Transavia Netherlands. One A320 was delivered while three A319s were reconfigured.

The regional fleet continued to be renewed: five E175 and two E190 aircraft entered the fleet at KLM Citihopper. In parallel, four ATR42s were withdrawn from the Hop! fleet.

In total, the first half 2018 was marked by the fleet being better adapted to the operational needs: with five additional aircraft in the fleet at June 30, 2018 relative to December 31, 2017, the fleet in operation increased from 537 to 540 aircraft, i.e. three more aircraft (see the following table).

The Air France-KLM fleet at June 30, 2018

Aircraft type	AF (incl. HOP! & Joon)	KL (incl. KLC & Martinair)	Transavia France	Transavia NL	Owned	Finance lease	Operating. lease	Total	In operation	Change vs. December 31, 2017
Long-haul	**106**	**66**	**-**	**-**	**68**	**33**	**71**	**172**	**171**	**1**
B747-400	-	12	-	-	12	-	-	12	12	-1
B777-300	43	14	-	-	10	25	22	57	57	-
B777-200	25	15	-	-	24	1	15	40	40	-
B787-9	6	12	-	-	3	3	12	18	18	3
A380-800	10	-	-	-	1	4	5	10	10	-
A340-300	7	-	-	-	7	-	-	7	6	-1
A330-300	-	5	-	-	-	-	5	5	5	-
A330-200	15	8	-	-	11	-	12	23	23	-
Medium-haul	**116**	**50**	**32**	**41**	**75**	**31**	**133**	**239**	**239**	**3**
B737-900	-	5	-	-	1	1	3	5	5	-
B737-800	-	27	32	33	26	8	58	92	92	5
B737-700	-	18	-	8	3	8	15	26	26	-
A321	20	-	-	-	11	-	9	20	20	-
A320	43	-	-	-	2	6	35	43	43	1
A319	35	-	-	-	20	2	13	35	35	-3
A318	18	-	-	-	12	6	-	18	18	-
Regional	**84**	**49**	**-**	**-**	**62**	**34**	**37**	**133**	**124**	**-1**
ATR72-600	6	-	-	-	-	-	6	6	6	-
ATR72-500	2	-	-	-	-	1	1	2	2	-1
ATR42-500	8	-	-	-	4	-	4	8	6	-5
CRJ 1000	14	-	-	-	14	-	-	14	14	-
CRJ 700	11	-	-	-	11	-	-	11	9	-2
Embraer 190	10	32	-	-	6	15	21	42	42	2
Embraer 175	-	17	-	-	5	12	-	17	17	5
Embraer 170	15	-	-	-	8	2	5	15	15	-
Embraer 145	18	-	-	-	14	4	-	18	13	-
Cargo	**2**	**4**	**-**	**-**	**6**	**-**	**-**	**6**	**6**	-
B747-400ERF	-	1	-	-	1	-	-	1	1	-
B747-400BCF	-	3	-	-	3	-	1	3	3	-
B777-F	2		-	-	2	-	-	2	2	-
Total AF-KLM	**308**	**169**	**32**	**41**	**211**	**98**	**241**	**550**	**540**	**3**

Key topics

2018 Summer season, a record: 78 new routes

In 2018, the Group is pursuing its growth by offering 314 destinations in 116 countries, including 78 new routes this summer across its network. This record number in its history marks the Group's determination to grow and be even more offensive in all its markets.

For the 2018 Summer season (from March 25 to October 27, 2018), Air France-KLM has increased its capacity by 4.1% compared to the previous Summer season, with growth being driven by the Transavia low-cost activity (+10.6%), the long-haul passenger network activity (+3.9%) and the short and medium-haul passenger network activity (+1.4%). In its long-haul network, Air France-KLM is offering nine new routes relative to the 2017 Summer season. On departure from Paris-Charles de Gaulle: Nairobi (Kenya), Seattle (United States), Taipei (Taiwan), along with San José (Costa Rica). Fortaleza (Brazil) and Mahé (Seychelles) with Joon. On departure from Amsterdam-Schiphol: Fortaleza (Brazil) and Mumbai (India). On departure from Pointe-à-Pitre: Atlanta (United States).

On its short and medium-haul network, the Group is offering 45 new routes relative to the Summer 2017 season on departure from both the hubs and the French regions. The Group is reinforcing its short and medium-haul network by significantly increasing the number of flight frequencies.

Joon is pursuing its growth on the medium-haul network with four additional destinations on departure from Paris-Charles de Gaulle: Naples and Rome (Italy), Oslo (Norway) and Istanbul (Turkey).

Transavia is developing its network from all its bases in France (Orly, Lyon, Nantes) and the Netherlands (Amsterdam, Rotterdam, Eindhoven) with 24 new routes.

KLM signs a codeshare agreement with Wideroe

The codeshare agreement between KLM Royal Dutch Airlines and the Norwegian airline Wideroe enables the two companies to expand their networks and offers. Customers thus benefit from a simplified and harmonized journey, including on domestic flights in Norway.

Air France joins the KLM-Kenya Airways joint-venture

Since March 25, 2018, Air France has been part of the joint-venture agreement existing since 1995 between KLM Royal Dutch Airlines and Kenya Airways (a SkyTeam member), thereby considerably reinforcing the Air France-KLM Group's capacity in East Africa.

New Flying Blue program

Since April 1, 2018, Flying Blue, Air France-KLM's frequent flyer program, has proposed more simplicity and flexibility in the use of the program, a clearer reward scale and more choice when using Miles. Program members now earn Miles for every euro spent. Booking Award tickets will no longer be limited per flight but offered until the last seat available for sale. All seats on board Air France, KLM, HOP!, Joon and Transavia flights can be booked with Miles. Lastly, to move from one level to another, Flying Blue is introducing Experience Points or XPs, calculated based on the type of flight (domestic, medium-haul or long-haul) and travel cabin. They determine the membership level and enable customers to benefit from additional advantages.

Adapted to simplify the member experience and reinforce the program's attractiveness, the new Flying Blue supports the Group's commercial offensive and its personalization strategy at the service of customers.

Air France and Qantas renew their partnership to offer more travel options between France and Australia

The conditions of the partnership announced in May foresee a code share between Air France and Qantas on more than 200 flights per week between Paris and Australia.

Air France, KLM Royal Dutch Airlines, China Southern Airlines and Xiamen Airlines merge their existing agreements forming, as of July 16, 2018, a single joint-venture

The four airlines merge their two existing agreements to form a single joint-venture. Air France-KLM consolidates its position on the Chinese air transport market.

Air France-KLM and China Eastern broaden their cooperation and extend their joint-venture

On July 19, Air France-KLM's Maintenance Repair & Overhaul division and China Eastern announce a new component support contract for the Chinese carrier's Boeing 787-9 fleet, which could over time reach 15 aircraft. The agreement covers repair services, access to a regional spare parts pool and provision of a local parts stock along with additional services in the fields of training and industrial development support.

Air France-KLM and China Eastern Airlines also announce their intention to extend their joint-venture partnership as of 2019 through a wider choice of destinations thanks to two additional routes operated on a code share basis: Paris-Wuhan and Paris-Kunming.

Jean-Marc Janaillac step down as Chairman and Chief Executive Officer of Air France-KLM and Chairman of Air France on 15 May, following the negative result of the Air France staff consultation on the multi-year pay agreement proposed on 16 April.

After the exercise by some Air France unions of the right to oppose the 2018 wage agreement, followed by several days of strike action at Air France since February 2018, Jean-Marc Janaillac, Chairman and CEO of Air France-KLM and Chairman of Air France, launched a consultation on 20 April 2018 with all Air France staff to ask them their opinion on the multi-year pay agreement open for signature on 16 April 2018.

The Air France staff were able to express their opinion in an electronic voting process between 26 April and 4 May 2018. With a participation rate of 80.33% in this consultation, 55.44% of employees have voted “no”.

Following the outcome of this consultation on May 4, 2018, and as previously announced, Jean-Marc Janaillac step down as on May 15, 2018. As a consequence of this decision, the Board of Directors opted to establish a transitional governance (see p5).

The 15 days of strike action that took place between February and May 2018 incurred serious consequences for customers, staff and the company. The impact of these strikes on the Group operating result is estimated at €335 million (see note 3.1 to the Consolidated Financial Statements p43).

Outlook and subsequent events

Outlook

The global context remains uncertain in view of the current geopolitical environment, pressure linked to wage inflation and rising fuel price trends.

In terms of traffic, the latest available data from the Passenger Network show a continuing positive demand trend for August to November 2018, with long-haul forward-booking load factors remaining ahead of last year. Furthermore, in constant currency, Passenger Network unit revenue is expected to be above its 2018 level for both the third quarter 2018 and the full year. Fare increases are being selectively introduced to partly offset the higher fuel bill.

The unit cost reduction target is maintained at between 0% and +1.0% over the full year, on a constant currency, fuel price and pension-related expense basis, including strike-related costs and the associated capacity adjustments.

The fuel bill is expected to increase by €450 million compared to 2017, based on the forward curve of July 20, 2018 and including a positive hedge result of US$800 million.

Despite the strike impact of 335 million euros in the first half that will weigh on the full year operating result, the Group is targeting a net debt reduction compared to 31 December 2017.

The management will maintain prudent steering of the Group’s financial structure and growth plan.

Subsequent events

There have been no significant events since the closing of the period.

Risk factors

In addition to the risk factors outlined in the 2017 Registration Document filed with the AMF on March 29, 2018, the following risk has been updated as follows:

Implementation of the Trust Together strategic project:

Description of the risk:

At the end of this sub-paragraph, the following paragraph has been added:

Since the 2018 first half, at Air France, the exercise by some unions of the right to oppose the 2018 wage agreement and the negative vote in the employee consultation on the draft Air France pay agreement proposed by the management have intensified the risk of labor unrest.

Mitigating principles and actions:

At the end of this sub-paragraph, the following paragraph has been added:

The coordination of the employee dialogue is conducted on a continuous basis within each of the entities composing the Group.

In addition, the following risk has been identified:

Transitional governance:

Description of the risk:

Following Mr. Jean-Marc Janaillac's resignation as Chairman and Chief Executive Officer of Air France-KLM on May 15, 2018, the Board of Directors implemented a transitional governance (see page 5, Board of Directors) constituting a non-executive Chairman and a Management Committee (*Comité de Direction Collégiale* - CDC).

Mitigating principles and actions

This transitional governance structure has been established for the shortest-possible period required to complete the succession process for the roles vacated by Jean-Marc Janaillac, conducted by the Appointments and Governance Committee.

Related parties

The information concerning related parties can be found in Note 22 to the consolidated financial statements.

Comments on the financial statements

Consolidated results for the first half ended June 30, 2018

Since January 1, 2018, Air France-KLM Group has applied the following three new standards:

- IFRS 9 “Financial Instruments”
- IFRS 15 “Revenue Recognition from Contracts with Customers”
- IFRS 16 “Leases”

The application modalities for these three standards as well as their main impacts are detailed in Note 2 in the Notes to the financial statements. The financial statements for the 2017 financial year have been restated according to the transition arrangements for these three standards. There arrangements are outlined in Note 2 in the Notes to the financial statements.

Compared with December 31, 2017, the Air France-KLM Group’s consolidation scope at June 30, 2018 showed no significant change. The movements are outlined in Note 5 in the Notes to the financial statements.

In € million	**June 30, 2018**	**June 30, 2017 restated**	**Change** *(In %)*
Revenues	12,432	12,332	0.8
EBITDA	1,670	1,940	-13.9
Income/(loss) from current operations	228	553	-58.8
Income/(loss) from operating activities	201	561	-64.2
Net income/(loss) from continuing operations	(158)	459	na
Net income/(loss) from discontinuing operations	-	(8)	na
Net income/(loss) - Equity holders of Air France-KLM	(159)	450	na
Basic earnings/(loss) per share *(In €)*	(0.40)	1.46	na

Revenues

In the first half 2018, total revenues stood at €12.43 billion versus €12.33 billion in 2017, up by 0.8% in nominal and 4.9% at constant currency.

Operating expenses

Operating expenses increased by 3.6% to €12.2 billion. For capacity measured in EASK (equivalent available seat-kilometers) up by 1.8%, the unit cost per EASK increased by 2.3% on a constant currency, fuel price and pension-related expense basis (see page 29 for the detailed unit cost calculation).

At €7.3 billion, **external expenses** increased by 3.0% (€7.1 billion one year earlier).

The breakdown in operating expenses was as follows:

(In € million)	June 30, 2018	June 30, 2017 restated	% change	% change at constant currency
Aircraft fuel	2,245	2,280	-1.5	11.6
Chartering costs	276	256	7.8	13.1
Landing fees and air route charges	906	932	-2.8	0.4
Catering	375	388	-3.4	-0.7
Handling charges and other operating costs	980	856	14.5	18.2
Aircraft maintenance costs	1,183	1,185	-0.2	8.7
Commercial and distribution costs	510	466	9.4	14.4
Other external expenses	824	725	13.7	19.0
Total	**7,299**	**7,088**	**3.0**	**10.6**

The main changes were as follows:

- **Aircraft fuel:** The fuel bill increased by 11.6% (on a constant currency basis) due to a €243 million increase in the price after hedging and a volume effect of +€35 million, offset by an improvement in fuel efficiency (-€45 million).
- **Chartering costs**: chartering costs represent the costs incurred through leasing aircraft capacity from other airlines. Their increase is mainly explained by the Air France strike.
- **Landing fees and air route charges**: landing fees and air route charges for the use of airspace and airports slightly increased at current currency in line with capacity growth;
- **Catering costs** relating to services supplied on board the Air France-KLM Group's aircraft for its own account.
- **Handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. Their increase is mainly explained by rising costs linked to commercial incidents (compensation linked to the Air France strikes, bad weather conditions and an overall upwards trend).
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for the third-party activity.
- **Commercial and distribution costs** increased due to the roll-out of the NDC system generating an increase in commissions linked to bookings offset by higher revenues.
- **Other external expenses** principally comprise telecommunication costs, insurance and fees. Their increase is mainly explained by higher sub-contracting expenses.

Salaries and related costs stood at €3.81 billion versus €3.73 billion at June 30, 2017, i.e. up by 2.3% in nominal. At constant pension-related expense and scope, they were up by €73 million (1.9%) of which €15 million due to the increase in profit-sharing.

Taxes other than income taxes amounted to €87 million versus €83 million at June 30, 2017.

Other income and expenses (+436 million at June 30, 2018 versus +506 million at June 30, 2017) included the:

- Capitalization of maintenance and IT development costs amounting to €460 million at June 30, 2018 against €510 million at June 30, 2017.
- Currency hedges for -€25 million at June 30, 2018 versus +€27 million at June 30, 2017,
- A €9 million expense booked concerning CO_2 emission quotas (€10 million in the previous year).

EBITDA

EBITDA amounted to €1,670 million (€1,940 million at June 30, 2017).

The contributions to EBITDA by business segment were as follows:

	First half 2018	First half 2017 restated	% change
Network	1,301	1,629	-20.2
Maintenance	235	214	9.8
Transavia	116	83	41.5
Others	18	14	28.6
Total	**1,670**	**1,940**	**-13.9**

Amortization, depreciation and provisions

Amortization, depreciation and provisions totaled €1,442 million versus €1,387 million at June 30, 2017.

Income/(loss) from current operations

The **result from current operations** amounted to €228 million (€553 million at June 30, 2017).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

	June 30, 2018		June 30, 2017 restated	
(In € million)	**Revenues**	**Income/(loss) from current operations**	**Revenues**	**Income/(loss) from current operations**
Network	10,786	150	10,818	469
Maintenance	941	72	890	106
Transavia	688	3	605	(20)
Others	17	3	19	(2)
Total	**12,432**	**228**	**12,332**	**553**

Income/(loss) from operating activities

The **result from operating activities** stood at €201 million versus €561 million at June 30, 2017. Non-current items which amounted to a negative €27 million at June 30, 2018 were composed of:

- The €4 million loss on the sale of aircraft equipment,
- Other non-current income and expenses amounting to a negative €23 million (see Note 11), including mainly restructuring provisions and costs amounting to -€22 million.

Net cost of financial debt

The net cost of financial debt amounted to €216 million versus €278 million at June 30, 2017. The decline in the net cost of financial debt is directly linked to the reduction in gross financial debt.

Other financial income and expenses

Other net financial income and expenses amounted to a €74 million loss versus +€374 million at June 30, 2017, with the breakdown as follows:

- A €78 million foreign exchange loss (gain of €467 million at June 30, 2017) which mainly included €55 million of unrealized losses on maintenance provisions in US dollars and €36 million of unrealized losses on Japanese Yen debt.
  As of June 30, 2017, the foreign exchange gain had mainly included an unrealized currency gain on financial lease debt in US dollars amounting to €312 million, an unrealized currency gain on restitution liabilities in US dollars amounting to US$135 million, and an unrealized currency gain on the Japanese Yen debt amounting to €30 million.
- A net financial profit of €48 million relating to the fair value of derivative instruments (loss of €32 million at June 30, 2017), which is mainly explained by the change in fair value of financial instruments relating to currency for €31 million.
- Revaluation of the Amadeus shares by +€16 million.
- Impact of accretion on long-term restitution liabilities and other provisions amounting to a negative €56 million (versus a negative €63 million as of June 30, 2017).
- Other financial items for an overall negative amount of €4 million as of June 30, 2018 (+€3 million as of June 30, 2017).

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

Income tax amounted to €68 million versus a charge of €205 million at June 30, 2017.

The **share of profits/(losses) of associates** amounted to €1 million at June 30, 2018 (versus +€7 million at June 30, 2017).

The **result from discontinued operations** was nil as of June 30, 2018 against a loss of €8 million at June 30, 2017.

Net income/(loss) - Equity holders of Air France-KLM stood at a loss of €159 million at June 30, 2018 (versus a gain of €450 million at June 30, 2017).

The contributions to the net result by quarter were, respectively, €(269) million for the 2018 first quarter and €111 million for the 2018 second quarter.

Basic earnings/(loss) per share and diluted earnings/(loss) per share stood at €(0.40) at June 30, 2018 versus +€1.46 at June 30, 2017.

Investments and financing of the Group

The Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €1,534 million during the first half 2018 versus €1,339 million at June 30, 2017. Net investment in the fleet amounted to €695 million, ground investment to €138 million, spare parts and aeronautical modifications to €195 million, capitalized maintenance costs to €377 million and investment in intangible assets to €129 million.

Net cash flow from the operating activities of continuing operations stood at €2,146 million versus €2,429 million at June 30, 2017, reflecting:

- A decline in cash flow from continuing operations before voluntary departure plans, which stood at €1,434 million at June 30, 2018 versus €1,656 million at June 30, 2017, in line with the EBITDA decrease.
- An increase in cash-outs linked to the voluntary departure plans, which stood at €121 million at June 30, 2018 versus €83 million at June 30, 2017.
- The change in working capital for continuing operations which moved from €846 million at June 30, 2017 to €833 million at June 30, 2018.

At June 30, 2018, net debt stood at €6.26 billion versus €6.57 billion at December 31, 2017.

The Group maintains a good level of liquidity, with net cash of €4.85 billion at June 30, 2018 and undrawn credit facilities totalling €1.8 billion.

At June 30, 2018, stockholders' equity, Group share, amounted to €2.58 billion, a €0.19 billion improvement over the first half of the year.

Right-of-Use assets

The Group records right-of-use assets on its balance sheet corresponding to its lease contracts. The breakdown of right-of-use assets is as follows:

	June 30, 2018			December 31, 2017 restated		
(In € million)	**Gross value**	**Depreciation**	**Net book value**	**Gross value**	**Depreciation**	**Net book value**
Aircraft	12,958	(8,302)	4,655	12,965	(7,977)	4,988
Land and buildings	1,526	(841)	685	1,478	(795)	683
Other	411	(187)	224	419	(175)	244
Total	**14,895**	**(9,330)**	**5,565**	**14,862**	**(8,947)**	**5,915**

Air France-KLM parent company results

As a holding company, Air France-KLM has no operating activity. Its revenues are composed of 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 is nil.

The net result amounted to a €17 million loss, essentially due to financial expenses on the bonds. No dividend was paid in respect of 2017.

Key financial indicators

Operating margin

(In € million)	June 30, 2018	June 30, 2017 restated
Income/(loss) from current operations	228	553
Revenues	12,432	12,332
Operating margin	**1.8%**	**4.5%**

Adjusted net result

The adjusted net result corresponds to the net result adjusted for exceptional or non-recurring items. The income tax impact is calculated on a normative basis using a rate of 29.72%, corresponding to the average of the French and Dutch rates.

(In € million)	June 30, 2018	June 30, 2017 restated
Net income/(loss), Group share	(159)	450
Net income/(loss) from discontinued operations	-	8
Change in fair value of financial assets and liabilities (derivatives and shares)	(60)	(18)
Unrealized foreign exchange gains and losses	108	(461)
Non-current income and expenses	27	(8)
Income tax impact on the adjustments	(22)	134
Restated net income/(loss), Group share	**(106)**	**105**
Restated net income/(loss) per share, Group share	**(0.28)**	**0.31**

Financial cover ratios

► **Net debt/EBITDA**

	June 30, 2018 Trailing 12 months	December 31, 2017 restated
Net debt *(in €m)*	6,256	6,571
EBITDA *(in €m)*	4,508	4,779
Net debt/EBITDA	**1.4x**	**1.4x**

► **EBITDA/net cost of financial debt**

	June 30, 2018 Trailing 12 months	December 31, 2017 restated
EBITDA *(in €m)*	4,508	4,779
Net cost of financial debt *(in €m)*	475	536
EBITDA/net cost of financial debt	**9.5x**	**8.9x**

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 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;
- The adjusted result after tax corresponds to the sum of the operating result, adjusted for dividends received and the share of profits/(losses) of associates. Income tax is calculated on a normative basis using a rate of 29.72%. This rate corresponds to the average of the French and Dutch rates.

(In € million)	**June 30, 2018**	**June 30, 2017 restated**	**June 30, 2017 restated**	**June 30, 2016 restated**
Goodwill and intangible assets	1,378	1,309	1,309	1,238
Flight equipment	10,081	9,539	9,539	8,856
Other property, plant and equipment	1,443	1,378	1,378	1,414
Right-of-use assets	5,565	5,553	5,553	5,778
Investments in equity associates	294	294	294	73
Other financial assets excluding shares available for sale, marketable securities and financial deposits	122	106	106	90
Restitution liabilities and other provisions excluding pension, cargo litigation and restructuring	(2,944)	(2,619)	(2,619)	(2,544)
WCR, excluding market value of derivatives	(6,669)	(6,418)	(6,418)	(6,155)
Capital employed on the balance sheet	9,270	9,142	9,142	8,750
Average capital employed (A)	**9,206**		**8,946**	
Operating result	1,610		1,574	
Dividends received	(3)		(2)	
Share of profits/(losses) of associates	13		-	
Normative income tax	(481)		(467)	
Adjusted result from current operations after tax (B)	**1,139**		**1,105**	
ROCE, trailing 12 months (B/A)	**12.4%**		**12.3%**	

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, 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 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 2018	**First half 2017 restated**
Revenues *(in €m)*	12,432	12,332
Income/(loss) from current operations *(in €m)*	(228)	(553)
Total operating expense *(in €m)*	12,204	11,779
Passenger network business – other revenues *(in €m)*	(414)	(380)
Cargo business – other revenues *(in €m)*	(143)	(127)
Third-party revenues in the maintenance business *(in €m)*	(941)	(890)
Transavia – other revenues *(in €m)*	(11)	(11)
Third-party revenues of other businesses *(in €m)*	(17)	(19)
Net cost *(in €m)*	**10,678**	**10,352**
Capacity produced, reported in EASK	172,877	169,900
Net cost per EASK (in € cents per EASK)	**6.18**	**6.09**
Gross change		1.4%
Currency effect on net costs *(in €m)*		(343)
Change at constant currency		4.9%
Fuel price effect *(in €m)*		243
Change on a constant currency and fuel price basis		2.5%
Change in pension-related expenses *(in €m)*		13
Net cost per EASK *on a constant currency, fuel price and pension-related expenses basis (in € cents per EASK)*	**6.18**	**6.04**
Change on a constant currency, fuel price and pension-related expenses basis		***+2.3%***

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Commission for use in the European Union

January 1, 2018 - June 30, 2018

CONSOLIDATED INCOME STATEMENT (unaudited)

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

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

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

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (unaudited)

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

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

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

CONSOLIDATED BALANCE SHEET (unaudited)

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

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

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

CONSOLIDATED BALANCE SHEET(unaudited) (continued)

Liabilities and equity *In € millions*	***Notes***	**June 30, 2018**	**December 31, 2017** Restated (*)	January 1, **2017** Restated (*)
Issued capital	***17.1***	429	429	300
Additional paid-in capital		4,139	4,139	2,971
Treasury shares		(67)	(67)	(67)
Perpetual		600	600	600
Reserves and retained earnings	***17.1***	(2,520)	(2,713)	(3,542)
Equity attributable to equity holders of Air France-KLM		**2,581**	**2,388**	**262**
Non-controlling interests		13	12	11
Total equity		**2,594**	**2,400**	**273**
Pension provisions	***16***	2,141	2,202	2,119
Return obligation liability and other provisions	***18***	3,206	3,006	2,948
Financial debt	***19 &20***	5,951	5,919	7,271
Lease debt	***19 &20***	4,016	4,153	4,624
Deferred tax liabilities		42	11	(17)
Other non-current liabilities		235	361	284
Total non-current liabilities		**15,591**	**15,652**	**17,229**
Return obligation liability and other provisions	***18***	147	282	446
Financial debt	***19 &20***	688	1,378	1,002
Lease debt	***19 &20***	922	993	1,032
Trade payables		2,548	2,365	2,359
Deferred revenue on ticket sales		4,283	3,017	2,639
Frequent flyer programs		829	819	810
Other current liabilities		3,268	3,245	2,915
Bank overdrafts	***20***	9	6	5
Total current liabilities		**12,694**	**12,105**	**11,208**
Total liabilities		**28,285**	**27,757**	**28,437**
Total equity and liabilities		**30,879**	**30,157**	**28,710**

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

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

In € millions	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Perpetual	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non-controlling interests	Total equity
December 31, 2016	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,520)**	**1,284**	**12**	**1,296**
First application of IFRS 9, IFRS 15 and IFRS 16	**-**	**-**	**-**	**-**	**-**	**(1,022)**	**(1,022)**	**(2)**	**(1,024)**
January 1, 2017 - Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(3,542)**	**262**	**10**	**272**
Gain / (loss) on cash flow hedges	-	-	-	-	-	(234)	(234)	-	(234)
Fair value of equity instruments through OCI	-	-	-	-	-	6	6	-	6
Remeasurements of defined benefit pension plans	-	-	-	-	-	812	**812**	-	**812**
Currency translation adjustment	-	-	-	-	-	(2)	**(2)**	1	**(1)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	***582***	***582***	***1***	***583***
Net result for the period	-	-	-	-	-	450	**450**	1	**451**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**1,032**	**1,032**	**2**	**1,034**
June 30, 2017 - Restated (*)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,510)**	**1,294**	**12**	**1,306**
December 31, 2017 - Restated (*)	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,713)**	**2,388**	**12**	**2,400**
Gain / (loss) on cash flow hedges	-	-	-	-	-	233	233	-	233
Fair value of equity instruments through OCI	-	-	-	-	-	(38)	(38)	-	(38)
Remeasurements of defined benefit pension plans (Including deferred tax on items of comprehensive income that will not be reclassified to profit or loss)	-	-	-	-	-	158	**158**	-	**158**
Currency translation adjustment	-	-	-	-	-	(1)	**(1)**	-	**(1)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	***352***	***352***	***-***	***352***
Net result for the period	-	-	-	-	-	(159)	**(159)**	**1**	**(158)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**193**	**193**	**1**	**194**
June 30, 2018	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,520)**	**2,581**	**13**	**2,594**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Period from January 1 to June 30 *In € millions*	***Notes***	**2018**	**2017** **Restated(*)**
Net income from continuing operations		(158)	459
Net income from discontinued operations		-	(8)
Amortization, depreciation and operating provisions		1,442	1,387
Financial provisions		57	56
Loss (gain) on disposals of tangible and intangible assets		7	(19)
Loss (gain) on disposals of subsidiaries and associates		-	(2)
Derivatives – non monetary result		(23)	28
Unrealized foreign exchange gains and losses, net		108	(461)
Share of (profits) losses of associates		1	(7)
Deferred taxes		61	190
Other non-monetary items		(182)	(40)
Financial capacity		**1,313**	**1,583**
(Increase) / decrease in inventories		(67)	(53)
(Increase) / decrease in trade receivables		(517)	(294)
Increase / (decrease) in trade payables		163	(31)
Change in other receivables and payables		1,254	1,224
Change in working capital requirement		**833**	**846**
Net cash flow from operating activities (A)		**2,146**	**2,429**
Acquisition of subsidiaries, of shares in non-controlled entities		(8)	-
Purchase of property plant and equipment and intangible assets (B)		(1,534)	(1,339)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		3	3
Proceeds on disposal of property plant and equipment and intangible assets (C)		46	73
Dividends received		3	1
Decrease (increase) in net investments, more than 3 months		5	(258)
Net cash flow used in investing activities		**(1,485)**	**(1,520)**
Issuance of debt		295	324
Repayment on debt		(998)	(382)
Payments on lease debts (D)		(517)	(505)
New loans		(115)	(75)
Repayment on loans		66	25
Dividends and coupons on perpetual paid		(1)	(1)
Net cash flow from financing activities		**(1,270)**	**(614)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		8	(22)
Change in cash and cash equivalents and bank overdrafts		**(601)**	**273**
Cash and cash equivalents and bank overdrafts at beginning of period		4,667	3,933
Cash and cash equivalents and bank overdrafts at end of period		4,066	4,206
Income tax (paid) / reimbursed (flow included in operating activities)		(20)	(9)
Interest paid (flow included in operating activities)		(256)	(317)
Interest received (flow included in operating activities)		7	9

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

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

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

The accompanying notes are an integral part of these consolidated financial statements.
(*) See note 2 in notes to the consolidated financial statements.
(**) See note 4 in notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS DESCRIPTION

As used herein, the term "Air France–KLM" refers to Air France-KLM SA, a limited liability company organized under French law. The term “Group” is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world. The Group’s core business is network activities which includes passenger transportation on scheduled flights and cargo activities. The Group’s activities also include aeronautics maintenance, “low cost” passenger transportation (Transavia) and other air-transport-related activities.
The limited company Air France-KLM, domiciled at 2, rue Robert Esnault-Pelterie 75007 Paris, France, is the parent company of the Air France-KLM Group. Air France-KLM is listed for trading in Paris (Euronext) and Amsterdam (Euronext).
The presentation currency used in the Group’s financial statements is the euro, which is also Air France-KLM’s functional currency.

2. RESTATEMENT OF ACCOUNTS 2017

Since January 1, 2018, the Air France-KLM Group has applied the three following new standards:

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

The main changes introduced by IFRS 9 are the following:

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

The main changes introduced by IFRS 15 are the following:

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

The main changes introduced by IFRS 16 are the following:

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

- A return obligation liability for restitution costs: this corresponds to the flight hours that the potentials must have at the date of aircraft redelivery to the lessor. It also includes the estimated duration of the lease contract as defined by IFRS 16 and no longer a statistical probability as previously applied. For each aircraft, the potential levels are dependent on the contract signed.
- Identification of components corresponding to the potentials of the leased aircraft: They are presented with the right-of-use asset of leased aircraft. The first component will be the counterpart of the return obligation liability recorded at the commencement date of the contract. When maintenance events occur, costs incurred to reconstitute the potentials are capitalized. These potentials are amortized over the life of the potential flight hours. This better reflect the fact that right-of-use assets include components which can have different useful lives.

For the purpose of comparison, the consolidated financial statements as of June 30, 2017 have been restated. The adjusted balance sheet as of January 1 and December 31, 2017 is also presented.

The impact of these three new standards are summarized hereafter:

Impact on the consolidated income statement

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

Impact on the consolidated statement of recognized income and expenses

In € millions **Period from January 1 to June 30, 2017**	Published accounts	IFRS 9 impact	IFRS 15 & 16 impact	Restated accounts
Net income for the period	**152**	**45**	**254**	**451**
Fair value adjustment on available-for-sale securities	(1)	1	-	-
Cash flow hedges	(331)	(20)	-	(351)
Currency translation adjustment	-	(1)	-	(1)
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	115	2	-	117
Total of other comprehensive income that will be reclassified to profit or loss	**(217)**	**(18)**	**-**	**(235)**
Remeasurements of defined benefit pension plans	1,077	-	-	1 077
Fair value of equity instruments revalued through OCI	-	6	-	6
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	(264)	(1)	-	(265)
Total of other comprehensive income that will not be reclassified to profit or loss	**813**	**5**	**-**	**818**
Total of other comprehensive income, after tax	**596**	**(13)**	**-**	**583**
Recognized income and expenses	**748**	**32**	**254**	**1,034**
• **Equity holders of Air France-KLM**	**745**	**33**	**254**	**1,032**
• Non-controlling interests	3	(1)	-	2

Impact on the consolidated balance sheet

Only accounts impacted by IFRS 9, IFRS 15 and IFRS 16 are presented hereafter.

In € millions **Balance sheet as of December 31, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
<u>Asset</u>						
Flight equipment	9,921	32	-	(79)	(240)	9,634
Other property, plant and equipment	1,492	-	-	(74)	-	1,418
Right-of-use assets	-	-	-	4,717	1,198	5,915
Deferred tax assets	234	(10)	38	80	80	422
Trade receivables	2,136	-	28	-	-	2,164
Other current assets	1,263	(1)	23	(55)	12	1,242
<u>Equity and liabilities</u>						
Return obligation liability and other provisions (current and non-current term)	2,198	-	(109)	-	1,199	3,288
Financial debt (current and non-current)	7,442	(4)	-	(141)	-	7,297
Lease debt (current and non-current)	-	-	-	5,146	-	5,146
Deferred revenue on ticket sales	2,889	-	128	-	-	3,017
Other current liabilities	3,100	-	147	(2)	-	3,245
Equity	3,015	25	(77)	(414)	(149)	2,400
• Holders of Air France-KLM	3,002	25	(77)	(413)	(149)	2,388
• Non-controlling interests	13	-	-	(1)	-	12

In € millions **Balance sheet as of January 1, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Asset						
Flight equipment	9,119	(26)	-	(94)	(241)	8,758
Other property, plant and equipment	1,480	-	-	(80)	-	1,400
Right-of-use assets	-	-	-	4,651	1,154	5,805
Deferred tax assets	176	6	32	289	86	589
Trade receivables	1,868	-	26	-	-	1,894
Other current assets	1,105	(1)	23	(52)	5	1,080
Equity and liabilities						
Return obligation liability and other provisions (current and non-current term)	2,327	-	(106)	(1)	1,174	3,394
Financial debt (current and non-current)	8,452	(4)	-	(175)	-	8,273
Lease debt (current and non-current)	-	-	-	5,656	-	5,656
Deferred tax liabilities	(12)	-	(5)	-	-	(17)
Deferred revenue on ticket sales	2,517	-	122	-	-	2,639
Other current liabilities	2,775	-	146	1	(7)	2,915
Equity	1,296	(17)	(76)	(767)	(163)	273
• Holders of Air France-KLM	1,284	(17)	(76)	(766)	(163)	262
• Non-controlling interests	12	-	-	(1)	-	11

Impact on the consolidated statement of cash flows

In € millions **Period from January 1 to June 30, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Net income	152	45	(16)	254	16	451
Other items of the financial capacity	834	(45)	(4)	237	110	1,132
Financial capacity	**986**	**-**	**(20)**	**491**	**126**	**1,583**
Change in working capital requirement	826	-	20	5	(5)	846
Net cash flow from operating activities	**1,812**	**-**	**-**	**496**	**121**	**2,429**
Net cash flow used in investing activities	**(1,399)**	**-**	**-**	**-**	**(121)**	**(1,520)**
Net cash flow from financing activities	**(119)**	**-**	**-**	**(495)**	**-**	**(614)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(21)	-	-	(1)	-	(22)
Change in cash and cash equivalents and bank overdrafts	**273**	**-**	**-**	**-**	**-**	**273**
Cash and cash equivalents and bank overdrafts at beginning of period	3,933	-	-	-	-	3,933
Cash and cash equivalents and bank overdrafts at end of period	4,206	-	-	-	-	4,206

3. SIGNIFICANT EVENTS

3.1. Events occurring during the period

Since February 22, 2018, ten Air France unions have launched strike action. During the first semester 2018, there were 15 days of strike. The impact on "income from current operations" for the first semester 2018 is estimated at € (335) million.

3.2. Subsequent events

There have been no significant events since the closing of the period.

4. ACCOUNTING POLICIES

4.1. Accounting principles

__Accounting principles used for the consolidated financial statements__

Pursuant to the European Regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2017 were established in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Commission on the date these consolidated financial statements were established.

The interim condensed consolidated financial statements as of June 30, 2018 have been established in accordance with IFRS, as adopted by the European Union on the date these condensed consolidated financial statements were established, and are presented according to IAS 34 "Interim financial reporting" and must be read in connection with the annual consolidated financial statements for the year ended on December 31, 2017.

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

The condensed consolidated financial statements were approved by the Board of Directors on July 31, 2018.

Change in accounting principles

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

  - IFRS 9 "Financial Instruments", effective for the period beginning January 1, 2018 and replacing the standard IAS 39 of the same name;
  - IFRS 15 "Revenue from Contracts with Customers", effective for the period beginning January 1, 2018 and replacing the standards IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs";
  - Amendment to IFRS 15 "Revenue from Contracts with Customers", effective for the period beginning January 1, 2018. This amendment provides clarifications regarding the identification of the performance obligation, distinction between agent / principal, intellectual property licensing and transitional provisions;
  - Amendment to IFRS 12 "Clarification of the scope of the disclosure requirements", effective for the period beginning January 1, 2018. This amendment clarifies the scope of the disclosure requirements;
  - IFRIC 22 "Foreign currency transactions and advance consideration", effective for the period beginning January 1, 2018. This interpretation of IAS 21 "Effects of Changes in Foreign Exchange Rates" clarifies the accounting of transactions in foreign currencies including payments or receipts in advance.

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

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

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

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

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

  - IFRIC 23 "Uncertainty over Income Tax Treatments", effective for the period beginning January 1, 2019. This interpretation of IAS 12 "Income Taxes" clarifies the treatment of any uncertainty situation regarding the acceptability of a tax treatment related to income taxes;
  - Amendment to IAS 28 "Long-term interests in an associate or joint venture", effective for the period beginning January 1, 2019. This amendment is related to the measurement of other interests in an associate or a joint venture which would not be recognized by the equity method;
  - Amendment to IAS 12 "Income taxes", effective for the period beginning January 1, 2019. This amendment outlines income tax consequences of payments on instruments classified as equity;

- Amendment to IFRS 11 “Joint arrangements”, effective for the period beginning January 1, 2019. This amendment clarifies the accounting treatment of the interest’s acquisition in a joint operation;
- Amendment to IAS 23 “Borrowing costs”, effective for the period beginning January 1, 2019. This amendment indicates borrowing costs eligible for capitalization;
- Amendment to IAS 19 “Employee benefits”, effective for the period beginning January 1, 2019. This amendment relates to the consequences of a plan amendment, curtailment or settlement on the current service cost and the net interest.

4.2. Preparation of unaudited interim consolidated financial statements

Seasonality of the activity

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

Income taxes

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

Retirement benefits

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

4.3. Use of estimates

The preparation of the condensed consolidated financial statements in conformity with IFRS requires the management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The significant areas of estimates described in the note 4 of the December 31, 2017 consolidated financial statements, concerned:

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

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

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

The consolidated financial statements for the period have thus been established on the basis of the financial parameters available at the closing date. Concerning the non-current assets, the assumptions are based on a limited level of growth.
Actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.4. Aggregates used within the framework of financial communication

Adjusted operating free cash flow

This corresponds to the operating free cash flow decreased by the redemption of the lease financial debts.

5. CHANGE IN THE CONSOLIDATION SCOPE

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

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

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

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

6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

The segment information is prepared on the basis of internal management data communicated to the Executive Committee, the Group's principal operational decision-making body.

The Group is organized around the following segments:

Network: Passenger network and Cargo operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (excluding Transavia), including flights operated by other airlines under code-sharing agreements. As from the end of 2017, the activities of JOON contributes to the performances of Network. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third-party airlines and services linked to IT systems.
The revenues also including freight come from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from the sales of cargo capacity to third parties and the transportation of shipments on behalf of the Group by other airlines.

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

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

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

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

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

Geographical segments

• Activity by origin of sales area

Group activities by origin of sale are broken down into eight geographical areas:

- Metropolitan France
- Benelux
- Europe (excluding France and Benelux)
- Africa
- Middle East, Gulf, India (MEGI)
- Asia-Pacific
- North America
- Caribbean, West Indies, French Guyana, Indian Ocean, South America (CILA)

Only segment revenue is allocated by geographical sales area.

• Activity by destination

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

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

6.1. Information by business segment

• First semester ended June 30, 2018

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

• First semester ended June 30, 2017 (Restated)

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

6.2. Information by geographical area

External sales by geographical area

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

In € millions	**Metropo-litan France**	**Benelux**	**Europe (except France and Benelux)**	**Africa**	**Middle-Eastern gulf India (MEGI)**	**Asia Pacific**	**North America**	**West Indies Caribbean Guyana Indian Ocean South America (CILA)**	**Total**
Network	3,012	1,144	2,306	469	263	932	1,434	670	10,230
Other network sales	201	87	100	31	9	67	38	23	556
Total network	**3,213**	**1,231**	**2,406**	**500**	**272**	**999**	**1,472**	**693**	**10,786**
Scheduled Transavia	290	337	40	1	4	1	2	1	676
Transavia - other sales	5	-	-	-	-	-	7	-	12
Total Transavia	**295**	**337**	**40**	**1**	**4**	**1**	**9**	**1**	**688**
Maintenance	505	377	13	-	-	1	45	-	941
Others	4	13	-	-	-	-	-	-	17
Total	**4,017**	**1,958**	**2,459**	**501**	**276**	**1,001**	**1,526**	**694**	**12,432**

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

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

Traffic sales by geographical area of destination

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

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

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

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

7. EXTERNAL EXPENSES

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

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

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

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

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

Average number of employees

Period from January 1 to June 30	**2018**	**2017**
Flight deck crew	7,870	7,719
Cabin crew	21,897	21,154
Ground staff	51,377	51,637
Temporary employees	3,125	2,683
Total	**84,269**	**83,193**

9. AMORTIZATION, DEPRECIATION AND PROVISIONS

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

10. OTHER INCOME AND EXPENSES

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

11. OTHER NON-CURRENT INCOME AND EXPENSES

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

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

Restructuring costs

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

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

Restructuring costs

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

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

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

Foreign exchange gain (losses)

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

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

Financial instruments and change in fair value of hedged shares

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

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

Other financial income and expenses

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

13. INCOME TAXES

13.1. Income tax charge

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

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

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

- **French fiscal group**

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

- **Dutch fiscal group**

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

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

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

14. EARNINGS PER SHARE

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

<u>Reconciliation of income used to calculate earnings per share</u>

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

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

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

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

<u>Reconciliation of the number of shares used to calculate earnings per share</u>

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

14.2 Non-dilutive instruments

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

14.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

15. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

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

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

16. PENSION ASSETS AND PROVISIONS

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

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

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

The impact in variations of discount rates on the defined benefit obligation has been calculated using sensitivity analysis of the pension defined benefit obligation. The sensitivity analysis is mentioned in note 30.2 of the annual financial statements as of December 31, 2017.
Over the same period, the fair value of the plan assets of the pension funds increased.

All these items have a cumulative impact resulting in:

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

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

17.1 Breakdown of stock and voting rights

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

The breakdown of stock and voting rights is as follows:

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

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

17.2 Reserves and retained earnings

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

18. RETURN OBLIGATION LIABILITY AND OTHER PROVISIONS

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

18.1. Return obligation liability and other provisions

18.1.1. Return obligation liability on aircraft

The return obligation liability on aircraft are recorded at aircraft delivery. They cover:

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

18.1.2. Restructuring provisions

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

18.1.3. Litigation

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

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

18.1.4. Litigation concerning antitrust laws in the airfreight industry

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

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

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

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

18.1.5. Other provisions

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

18.2 Contingent liabilities

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

18.2.1. Litigations concerning antitrust laws in the airfreight industry

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

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

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

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

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

18.2.2. Litigations concerning antitrust laws in the passenger sector

Canada

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

18.2.3. Other litigations

Rio-Paris AF447 flight

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

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

US Department of Justice investigation related to United States Postal Service

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

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

19. FINANCIAL DEBT AND LEASE FINANCIAL

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

Market value

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

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

20. NET DEBT

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

(1) Included in "others financial assets"

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

21. FLIGHT EQUIPMENT ORDERS

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

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

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

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

Long-haul fleet (passenger)

The Group took delivery of 3 Boeing B787.

Medium-haul fleet

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

Regional fleet

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

The Group's commitments concern the following aircraft:

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

22. RELATED PARTIES

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

Information and control

Attestation by the person responsible for the first half financial report to June 30, 2018

I hereby declare that, to the best of my knowledge, the condensed financial statements for the first half of the 2018 financial year have been established in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and results of the Company and of all the companies within the consolidation scope, and that the first half activity report presents a true picture of the significant events arising during the first six months of the financial year and of their impact on the first half financial statements, the main related party agreements together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Frédéric Gagey
Chief Executive Officer

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

For the six-month period ended June 30, 2018

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

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, 2018,
- 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.Without qualifying the conclusion expressed above, we draw your attention to note 2 of the condensed half-year consolidated financial statements for the first time application of IFRS 16 "leases" which results in the capitalization of leases, in particular those related with aircrafts, which comply with the capitalization criteria defined by the standard, of IFRS 15 "revenue from contracts with customers", the application of which affects, in particular, revenue recognition conditions and of IFRS 9 "financial instruments", which deals with the classification and measurement of financial assets and hedge accounting.

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, August 1, 2018

The Statutory Auditors

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

Document produced by Air France-KLM's Investor Relations Department