

First half financial report

January-June 2019

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Registered office: 2, rue Robert Esnault-Pelterie, 75007 Paris

Mailing address: Air France-KLM, AFKL.FI, 95737 Roissy Charles de Gaulle Cedex

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1. First half activity report

1.1 Activity

Strategy

The Air France-KLM Group's ambitions

The Group's business brings people, economies and cultures together, and drives economic growth and social progress. The Air France-KLM Group's ambition embraces this responsibility which guides its strategic priorities: Air France-KLM aims to become the leading airline group in Europe and one of the most powerful in the world, while undertaking its corporate and social responsibility as a global aviation player. As such, flight safety is both an absolute imperative that the Group owes to its customers and staff, and a daily commitment.

The Air France-KLM model: a flight plan to create value

Air France-KLM has elected to present its business and value creation model. It addresses all of the Group's stakeholders, namely employees, shareholders, customers, suppliers, authorities, institutional and non-governmental organizations, and other local partners. As part of its day-to-day activities, the Group interacts with diverse stakeholders, while its business and operations have an array of (qualitative and quantitative) impacts. The value creation is represented through the outcomes of its activities and its impacts on society.

- **Activities and services**

As the leading group in terms of intercontinental traffic on departure from Europe, Air France-KLM is a major global air transport player. Its main businesses are passenger and cargo transportation through its network activities, low cost transportation and aeronautical maintenance. Each activity relies on different brands which are positioned in complementary markets with their own specific operating models, supporting the Air France-KLM Group's goal by offering all customer segments transport offers tailored to their needs.

In 2018, Air France-KLM confirmed its major position in terms of traffic with 101 million passengers carried between both Europe and the rest of the world, and on intra-European routes on departure from the Group's natural markets. The Group has built 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. In 2018, it served 318 destinations in 118 countries around the world. Given its presence in all the major air transport markets, the Group's network is balanced, with no one market representing more than a third of passenger revenues. These markets also behave differently, enabling the Group to mitigate the negative impact of any developments or crises affecting some markets.

The network brands, Air France and KLM, are organized around the two intercontinental hubs of Paris-CDG and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe, and take advantage of numerous partnerships to offer a global network. These hubs connect transfer flows with point-to-point traffic. This large-scale optimized system gives small markets worldwide access, and offers a dense flight schedule tailored to the frequency needs of customers.

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%. The point-to-point activity aims to provide efficient transportation solutions for domestic and intra-European travel.

Air France-KLM's expertise in the cargo business supports the Group's airline operations by making a material contribution to their economics, while limiting the environmental footprint.

Transavia, the Group's low-cost brand provides efficient intra-European transportation solutions and is a leader in hospitality, service and digital services. In 2018, Transavia served 239 routes in Europe, North Africa and the Middle East, departing from France and the Netherlands.

The Flying Blue frequent flyer program is the common denominator between all these brands, since Flying Blue miles can be redeemed on Air France and KLM services, as well as on Transavia flights.

The maintenance activity relies on the Group's undisputed excellence in managing large aircraft fleets, consolidating Air France-KLM's position as a leader of the MRO market. It ensures the airworthiness of the Air France and KLM fleets, and deploys an optimized maintenance policy for more than 200 clients.

- **Turning our resources into assets...**

Air France-KLM takes action to reconcile growth with environmental protection, social value and local development at its hubs and destinations. By implementing state-of-the-art technologies, investing in R&D and innovation and partnering with stakeholders, the Group strives to optimize the use of its different forms of capital and resources to make the most of them. This approach provides Air France-KLM with strong positioning in the airline industry's competitive landscape.

Social and relationship capital: Air France-KLM continues to reinforce its commercial integration with its principal partners worldwide, like Delta Air Lines, Inc. and China Eastern Airlines and through the SkyTeam alliance, to offer value-added services and innovations whilst reinforcing its network and building mutual trust. Engaging with stakeholders through sound and regular dialogue is also key for Air France-KLM in terms of identifying emerging issues, tackling upcoming challenges and better understanding their expectations. Air France-KLM sees this as an opportunity to continue strengthening its local footprint, creating the basis for trust and long-term acceptance, and developing its activities.

Human capital: Air France-KLM is committed to the value of its workforce in the 118 countries where it operates. Through employees' collective dedication, professionalism and accomplishments, Air France-KLM is able to provide premium services and a caring journey, fostering lasting relationships with customers while operating in an efficient and safe manner.

Financial capital: Financial capital not only ensures Air France-KLM's financial sustainability, but its ability to accelerate its transformation while enabling value creation with all other forms of capital. Through the combined use of share capital, cash reserves and debt, the Group is able to fund its infrastructures, optimize its fleet, develop its staff, innovate through digital investments and benefit its supply chain and community relationships.

Industrial capital: Air France-KLM is modernizing its fleet with the inclusion of next-generation aircraft, thereby ensuring a higher standard of passenger comfort and improved energy efficiency. Through its fleet of more than 540 aircraft and its expanded and optimized network, Air France-KLM offers numerous connection opportunities, enabling value creation for the Group in the form of revenue from operations, customer satisfaction and infrastructural value for the home markets where it operates.

Intellectual capital: Air France-KLM has a portfolio of strong brands, positioned in complementary markets with their own specific operating models, aligned with customer expectations. The Group's airlines have a common frequent flyer program "Flying Blue", contributing to the attractiveness of the brands.

Environmental capital: The Group is endlessly innovating so as to be a reference in corporate social responsibility. While relying on key natural resources, ground and flight operations have an impact on the environment, including noise and air pollution or waste. The Group strives to continuously improve all aspects of its activities to reduce its environmental footprint. In particular, it contributes to the establishment of a sustainable biofuels industry for aviation.

- **...to create positive outcomes and impacts on society**

The value creation model shows the impact areas where Air France-KLM adds value through its core activities, and the contribution this makes to realizing certain SDGs (United Nations Sustainable Development Goals).

A caring journey: Customer experience is a cornerstone of the business model to create a memorable journey. Together with suppliers and partners and with 15 million members of the frequent flyer program Flying Blue, Air France-KLM strives to offer high-quality products and solutions by integrating new technologies and sustainability at every step of their journey for ever-more-personalized and innovative services.

A reliable journey: While safety and security are paramount and non-negotiable, operational excellence is also key to ensuring the highest level of customer satisfaction and a safe and pleasant travel experience. In this regard, Air France-KLM focuses on reliability and flight punctuality and develops innovative procedures such as self-boarding to maintain positive results.

An employee journey: Air France-KLM provides skilled and high-value jobs and supports the employability of its staff through continuous development and learning. The Group aims to create a safe and motivating environment for employees and is continually developing skills to ensure the professionalism of its staff, and to achieve the best results for its business and clients. It pursues a policy of promoting and raising awareness of diversity, with women representing 32% of the top 10% management level for ground staff.

A competitive journey: Solid operational and financial results fuel the activities and the future development of the Group. In 2018, Air France-KLM generated €26.5 billion of revenues and worked at reinforcing its financing structure to further accelerate transformation and deliver growth.

An inclusive journey: Air France-KLM contributes to inclusive and sustainable economic growth in France, the Netherlands and the areas where it operates. By working together with local partners, the Group creates new opportunities and supports projects that contribute to future generations and local communities with added social and economic value. With its supply chain and through €12 billion spent on procurement, Air France-KLM stimulates indirect employment and economic activity.

A responsible journey: Air France-KLM aims to reduce its environmental footprint by improving the operations and processes, partnering and innovating in the supply chain and mobilizing its staff and the industry. The Group reduced its noise footprint by 35% between 2000 and 2018. One of the highlights is the Group's contribution to the emergence of an international market for sustainable aviation. By integrating sustainability into its business and operations, Air France-KLM strives to make a substantial contribution to the United Nations Sustainable Development Goals that lie within the scope of its influence.

OUR FLIGHT PLAN TO CREATE VALUE

OUR AMBITION

TO BECOME THE LEADING AIRLINE GROUP IN EUROPE AND ONE OF THE MOST POWERFUL IN THE WORLD, ASSUMING ITS CORPORATE AND SOCIAL RESPONSIBILITY AS A GLOBAL AVIATION PLAYER

OUR PRIORITIES

1 Invest in and empower our people

2 Simplify our brand portfolio and embody the best of our home markets culture

3 Modernize our fleet and products for the benefit of our customers

4 Leverage our partnerships

5 Improve each business unit's contribution to the Group financial performance

OUR ACTIVITIES AND SERVICES

Network

Passenger network

European leader for long-haul traffic

- 85.6m passengers
- 468 aircraft
- Expanded network organized around two major European hubs
- 54,700 employees



Cargo

"Belly- dominant" business model

- 1.1m tons of goods transported
- 6 full-freighter aircraft
- 3,860 employees



Low cost

No.1 Low Cost in the Netherlands and at Paris-Orly

- 15.8m passengers carried
- 74 aircraft
- 3,030 employees



Maintenance

2nd largest global MRO (Maintenance, Repair, Overhaul)

- Undisputed excellence in the maintenance of large aircraft fleets
- Support on over 2,000 aircraft, for more than 200 clients
- 13,460 employees



ONE IMPERATIVE

Flight safety



2018 data



SOCIAL AND RELATIONSHIP CAPITAL

- A diversified customer portfolio and a network of suppliers, favoring local and sustainable players
- The European pillar of the leading global airline partnership and commercial integration within the SkyTeam alliance



HUMAN CAPITAL

- 81,527 innovative and fully committed employees (full-time equivalent) with a diverse culture nurtured by more than 110 nationalities
- Professional and dedicated ground staff, cabin and cockpit crews for a caring journey



FINANCIAL CAPITAL

- A stable shareholding structure with the French State, the Dutch State and two strategic partners, Delta Air Lines and China Eastern Airlines
- A sound financing structure to further accelerate our transformation and deliver growth, in a market growing by 5%



INDUSTRIAL CAPITAL

- Continuous modernization of our fleet, slots and traffic rights enabling an extensive network in all major markets
- An optimized fleet and network reinforcing our operational and environmental performances



INTELLECTUAL CAPITAL

- Prestigious airline brands with a common frequent flyer program, "Flying Blue", and a strong maintenance brand based on specific know-how and leading-edge technologies
- Attractive brands offering high-quality products & services



ENVIRONMENTAL CAPITAL

- Fuel, contribution to the creation of a sustainable alternative biofuels industry for aviation
- A player committed to contributing to positive change at industry level



A CARING JOURNEY

- An improved offer through cabin retrofit, ground infrastructure investment, on-board connectivity
- Customer-centric approach to become the reference airline for Customer Intimacy
- Digital investment for ever-more personalized services
- | 101 million passengers carried



A RELIABLE JOURNEY

- Focus on reliability and punctuality
- Maintain highest safety and quality standards
- | 318 destinations in 118 countries



AN EMPLOYEE JOURNEY

- Develop careers and skill sets of employees
- Safe and motivating environment to improve staff involvement and well-being at work
- | 40 training hours per employee

CONTRIBUTING TO THE UN SDGs...



A COMPETITIVE JOURNEY

- A strong performance across all business segments
- Operating result driven by revenue growth and cost discipline
- | Net debt / EBITDA ratio at 1.5x



AN INCLUSIVE JOURNEY

- Connecting people, economies and cultures
- Contribution to regional development and global economic growth through international trade and foreign investments
- Local employment, with direct and indirect jobs around our hubs
- | 3rd largest private sector employer in the Netherlands, with Air France's impact on French GDP at >1%



A RESPONSIBLE JOURNEY

- Steady reduction in our environmental impact
- At the top of the DJSI Europe and World indices for 14 years running
- | 13.5% improvement in operational fuel efficiency per passenger/km between 2011 and 2018

Strategic orientations

The overarching ambition of the Air France-KLM Group is to become the leading airline group in Europe and one of the most powerful in the world, celebrating the assets of its two legacy brands, Air France and KLM. To accomplish this, the Air France-KLM Group aims to be *the first customer choice*:

- between Europe and intercontinental destinations;
- between its home markets – France and the Netherlands – and the rest of Europe.

Thanks to the professionalism of the Group's frontline staff, the quality of its products and services, and an improved operational performance, Air France and KLM maintain a daily focus on customers.

Five priorities have been identified to help achieve success.

Safety is paramount, a prerequisite that comes before all else. The Group reaffirmed its dedication to flight safety with a dedicated program launched in November 2018 at Air France, called Safety Attitude.

The Group also acknowledges the importance of corporate and social responsibility as a global aviation player, having headed the Dow Jones Sustainability World Index for the fourteenth year running. The Group aims to limit its environmental impact through the use of modern and fuel-efficient aircraft, while being socially responsible in terms of procurement, HR policies promoting gender equality and the Air France Foundation.

1. **Invest in and empower our people.** As a service company, our people are our primary asset. They are the face of our company to our customers, and they represent our brands around the world. We will invest in additional training to ensure their skills are top notch, and further empower them through the use of digital tools, enabling them to surpass our customers' expectations.

The relationship between the companies within the Group and staff is based on the principles of trust, respect, transparency and confidentiality. At Air France, new, balanced labour agreements have been reached with flight crew, cabin crew, and ground staff giving Air France the flexibility required to utilise the company's assets in the most optimal fashion. Air France is also the first French firm of its size to have reached an agreement to implement the Social and Economic Works Councils and professional elections.

The implementation of enhanced digital tools for Air France-KLM employees, and the digitization of processes, is being accelerated to facilitate agile, collaborative work across the Group.

2. **Simplify our brand portfolio, and embody the best of our home market culture.** The Air France-KLM Group presently relies on two strong brands, Air France and KLM, which both have regional operations under the same banner, known as Air France HOP and KLM Cityhopper. The Group also offers its customers a low-cost option with the Transavia brand, present in both France and the Netherlands.

Air France-KLM is in the process of simplifying its brand portfolio and clarifying the positioning of each brand. Both Air France and KLM are iconic national symbols in their home countries, where they are by far the most recognised airline brands and command a loyal following. In addition, they are symbols of their home countries abroad, very often perceived as the first choice to respectively France and the Netherlands, and also among the first to Europe.

3. **Modernize our fleet and products for the benefit of customers:** over the past few years, Air France and KLM have been improving their products and services to keep up with market demands: global lounge enhancements, new cabins, in-flight connectivity (Wifi). The Group aims at accelerating this process in order to position itself as an industry leader in this regard, to meet and exceed customer expectations each flight by offering an improved customer experience that is consistent across each airline's fleet and network. This will enable each Group airline to serve the market as appropriate, with products and services tailored to each segment.

Current delivery of Airbus A350 and Boeing 787 aircraft will contribute to a modernized Air France-KLM fleet, in addition to an accelerated aircraft retrofit program with the goal of offering a full-flat Business Class product across the fleet as soon as possible. This also applies for in-flight connectivity.

Our goal is to align our people, product and fleet through innovation, leading the way with our products and services, and by placing the customer at the forefront of everything that we do. All of us at Air France-KLM are brand ambassadors, and we must earn our customers' business every flight, every day.

4. **Leverage our partnerships:** the Air France-KLM Group continues to pursue its ambition to be the European pillar of the most seamlessly integrated airline partnership in the world. In addition to working alongside our two equity partners Delta Air Lines, Inc. and China Eastern Airlines, and other joint venture and commercial partners on key international markets, the Group also aims to develop new partnerships with key players of the travel value chain.

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

The Group is therefore working on strengthening its current transatlantic Joint-Venture with Delta Air Lines, Inc.; Air France, KLM, Delta Air Lines, Inc., and Virgin Atlantic have agreed to create an expanded transatlantic joint venture. With an expected implementation in 2019, this agreement will enable these companies in the Joint-Venture to offer their customers an enhanced, integrated offer on the transatlantic market, with a forecasted market share of around 25%. In this context, Air France-KLM will also purchase a 31% stake in Virgin Atlantic, while Delta Air Lines, Inc. has owned a 49% stake since 2013.

Looking to China, in addition to its standalone presence as the European leader in the market, Air France-KLM will rely on its Chinese partners – China Eastern, China Southern, and Xiamen Airlines – to fortify its position while aiming to further solidify the joint ventures established in recent years. This close cooperation enables the Group and its Chinese partners to develop and optimise service between Europe and China, and to offer customers an option to secondary Chinese cities. Air France-KLM and China Eastern signed an extension of their joint venture in November 2018, thus continuing to develop their strategic commercial partnership aimed at offering an ever-expanding range of services to customers travelling between Europe and China.

Lastly, the Group intends to pursue additional cooperation with the Spanish carrier Air Europa through a joint venture agreement covering enhanced cooperation on flights between Europe and Central and South America.

5. **Improve each business units' contribution to the Group financial performance.** Both airlines will further optimize their fleet and operational performance to improve revenue and decrease costs, leveraging Group synergies to do so. Improved labor relations will also contribute to financial stability, while simplified and digitized processes will enhance operational and management agility.

The Paris-Charles de Gaulle and Amsterdam-Schiphol hubs play a central role in the strategy of Air France-KLM, as well as that of its partners. The Group is strengthening measures aimed at improving their operational efficiency and efficacy, while supporting more profitable performance on long- and medium-haul operations to/from the Group hubs. For example, this involves continuing the operational excellence programs implemented for Air France and for KLM, with additional levers like employee autonomy or best practices of Group partners.

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

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

Transavia will contribute to the growth of the Group, with a cost structure strictly aligned with the low-cost business model: maximizing the utilization of aircraft, simple product and fares, multiple options, a single aircraft type, a light organizational structure, outsourcing of a significant portion of the activities.

With the global growth forecast for the aviation maintenance industry at more than 4% over the next decade, the Engineering and Maintenance (E&M) business unit 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. The Group's growth is being driven by the engine and component support businesses in particular, which are high added value activities deploying state-of-the-art industrial technologies. The growth in the global fleets of next-generation aircraft offer significant growth relays and AFI KLM E&M is capitalizing on the entry of the Boeing 787s and Airbus A350s into the Group fleet 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.

Business review

Network business: solid revenue growth, operating result impacted by the increased fuel bill

Network	Second Quarter			First Half		
	2019	Change	Change at constant currency	2019	Change	Change at constant currency
Capacity (ASK m)	75,680	+3.9%		145,440	+3.2%	
Total revenues (€m)	6,016	+5.6%	+3.9%	11,191	+3.8%	+2.6%
Scheduled revenues (€m)	5,708	+5.8%	+4.0%	10,601	+3.6%	+2.3%
Operating result (€m)	291	+55	+77	12	-138	-68

During the first half, the revenues generated by the passenger and cargo businesses increased by 2.6%, for capacity growth of 3.2%.

The operating result for the Network business stood at €12 million in the first half 2019, i.e. €138 million lower than in 2018.

Passenger business: positive unit revenue in long-haul offsets pressure on the medium-haul point-to-point network

Passenger network	Second Quarter			First Half		
	2019	Change	Change at constant currency	2019	Change	Change at constant currency
Passengers (thousands)	22,906	+4.8%		42,651	+3.7%	
Capacity (ASK m)	75,680	+3.9%		145,439	+3.2%	
Traffic (RPK m)	67,020	+5.7%		127,241	+3.8%	
Load factor	88.6%	+1.5 pt		87.5%	+0.6 pt	
Total passenger revenues (€m)	5,482	+6.4%	+4.8%	10,110	+4.2%	+3.2%
Scheduled passenger revenues (€m)	5,254	+6.6%	+4.8%	9,674	+4.2%	+2.9%
Unit revenue per ASK (€ cts)	6.94	+2.6%	+0.9%	6.65	+1.0%	-0.2%

First half 2019 capacity increased by 3.2%, mainly driven by the South American, North Atlantic and Asian networks with respective growth of 8.8%, 6.1% and 2.9%. Total revenues increased by 4.2% in the first half relative to last year, with traffic up by 3.8%.

The unit revenue per available seat-kilometer saw a slight decline (-0.2%) at constant currency during the first half 2019. The first quarter 2019 had been under pressure due to a supply-demand imbalance in the industry, resulting in a 1.6% decline in the unit revenue at constant currency relative to 2018. In the second quarter 2019, the revenue management teams succeeded in capturing the improved market dynamic and the unit revenue was +0.9% at constant currency versus last year, mainly driven by the long-haul network.

The long-haul network benefited from buoyant demand, enabling a 0.8% increase in the unit revenue at constant currency, with traffic up by 3.7%. In particular, the unit revenues from the Caribbean & Indian Ocean, Africa & Middle East and Asian networks progressed by a respective 4.4%, 4.1% and 2.9% at constant currency. North America again posted growth, with a unit revenue up 0.4% at constant currency despite a high comparison base in 2018 and a substantial capacity increase. South America remained under pressure due to the economic context in Argentina and Brazil.

The medium-haul network showed a mixed picture with unit revenue at -2.1% at constant currency relative to last year. The medium-haul hubs network was slightly down in the first half while the medium-haul point-to-point network has been under pressure since the beginning of the year owing to a high comparison base in the second quarter 2018 and the competitive pressure from high-speed rail. As a result, capacity has been adjusted.

Cargo business: unit revenue impacted by a challenging air freight market

Cargo	Second Quarter			First Half		
	2019	Change	Change at constant currency	2019	Change	Change at constant currency
Tons (<i>thousands</i>)	279	+1.5%		549	+0.7%	
Capacity (<i>ATK m</i>)	3,630	+2.8%		7,092	+2.1%	
Traffic (<i>RTK m</i>)	2,122	+1.2%		4,168	+0.9%	
Load factor	58.5%	-0.9 pt		58.8%	-0.7 pt	
Total cargo revenues (€m)	534	-1.7%	-4.1%	1,081	-0.5%	-2.7%
Scheduled cargo revenues (€m)	454	-2.8%	-5.2%	927	-1.7%	-3.9%
Unit revenue per ATK (€ cts)	12.54	-5.1%	-7.5%	13.09	-3.6%	-5.7%

For the first half as a whole, cargo capacity and traffic posted respective growth of 2.1% and 0.9%.

However, a negative market dynamic following the economic slowdown, trade disputes and high industry capacity put pressure on the unit revenue during the first half. The latter was down by 5.7% compared to last year with the North American and Asian networks posting declines.

To counter this trend, the Group's cargo strategy is focused on continuing to increase load factors while rationalizing capacity.

Transavia: strong capacity and traffic growth contribute to higher revenue

Transavia	Second Quarter		First Half	
	2019	Change	2019	Change
Passengers (<i>thousands</i>)	4,894	+6.7%	7,823	+7.0%
Capacity (<i>ASK m</i>)	9,527	+9.2%	15,353	+10.0%
Traffic (<i>RPK m</i>)	8,754	+9.1%	14,122	+10.1%
Load factor	91.9%	-0.1 pt	92.0%	+0.0 pt
Total passenger revenues (€m)	500	+10.4%	748	+8.7%
Unit revenue per ASK (€ cts)	5.24	+1.3%	4.83	-0.4%
Unit cost per ASK (€ cts)	4.70	+5.1%	4.95	+2.6%
Operating result (€m)	52	-9	(19)	-22

After a first quarter during which the unit revenue was impacted by the Easter shift and an increase in stage length for the route network, the second quarter posted a unit revenue up 1.3% on versus 2018, driven notably by strong demand throughout the network and a good ancillary revenue performance.

The first half 2019 operating result stood at €(19) million, €22 million lower than in 2018 due to fuel price and currency headwinds.

Maintenance business: strong third-party revenue growth and a margin improvement

Maintenance	Second Quarter			First Half		
	2019	Change	Change at constant currency	2019	Change	Change at constant currency
Total revenues (€m)	1,120	+11.2%		2,290	+10.0%	
Third-party revenues (€m)	527	+11.9%	+5.0%	1,081	+14.9%	+7.6%
Operating result (€m)	55	+9	+1	102	+30	+18
Operating margin (%)	4.9%	+0.3 pt	-0.2 pt	4.5%	+1.0 pt	+0.6 pt

Maintenance business revenues were strongly higher in the first half 2019 relative to the previous year with third-party revenues up by 7.6% at constant currency, a continuation of the positive trend underpinned by the inflow of new contracts. The operating margin expressed as a percentage of total revenues stood at 4.5%, i.e. a 0.6% increase at constant currency compared to last year, driven mainly by the component business.

The Maintenance order book stood at US\$11.6 billion at the end of the second quarter 2019, up by US\$0.2 billion compared to the end of 2018.

Air France-KLM Group: operating result of €97 million with a unit cost improvement

Air France-KLM	Second Quarter			First Half		
	2019	Change	Change at constant currency	2019	Change	Change at constant currency
Capacity (ASK m)	85,207	+4.5%		160,793	+3.8%	
Traffic (RPK m)	75,774	+6.1%		141,363	+4.4%	
Passenger unit revenue per ASK* (€ cts)	6.75	+2.4%	+0.8%	6.48	+0.8%	-0.4%
Group unit revenue per ASK (€ cts)	7.28	+1.6%	+0.0%	7.05	+0.2%	-1.0%
Group unit cost per ASK (€ cts) at constant currency	6.82	-0.3%	-2.3%	6.99	+0.4%	-1.4%
Revenues (€m)	7,050	+6.4%	+4.5%	13,036	+4.8%	+3.3%
EBITDA (€m)	1,147	+98	+114	1,571	-100	-43
Operating result (€m)	400	+54	+72	97	-131	-69
Operating margin (%)	5.7%	+0.5 pt	+0.8 pt	0.7%	-1.1 pt	-0.6 pt
Net income - Group part (€m)	80	-30		(240)	-81	

*Aggregate of Passenger network and Transavia unit revenues

The Air France-KLM fleet

At June 30, 2019, the Air France-KLM Group's fleet totalled 551 aircraft, versus 548 at December 31, 2018.

The main operational fleet was composed of 423 aircraft (416 aircraft at December 31, 2018). The breakdown of this fleet was 173 long-haul aircraft (172 at December 31, 2018), six freighters (six freighters at December 31, 2018) and 244 medium-haul aircraft (238 at December 31, 2018), including 79 aircraft in the Transavia Group fleet (73 aircraft at December 31, 2018).

The regional fleet in operation was composed of 118 aircraft (121 at December 31, 2018).

At June 30, 2019, the average age of the aircraft in the operational fleet was 11.4 years, of which 12.1 years for the long-haul fleet, 11.8 years for the medium-haul fleet, 16.3 years for the cargo fleet and 9.2 years for the regional fleet, compared with 11.3 years at December 31, 2018, of which 11.9 years for the long-haul fleet, 11.6 years for the medium-haul fleet, 15.8 years for the cargo fleet and 9.4 years for the regional fleet.

At June 30, 2019, 39.6% of the total Group fleet was fully owned (38.7% at December 31, 2018), 15.6% was under finance lease (17.0% at December 31, 2018) and 44.8% under operating lease (44.3% at December 31, 2018).

At June 30, 2019, excluding operating leases and after the delivery of seven aircraft under Group ownership, there were firm orders outstanding for 42 aircraft (49 at December 31, 2018). Options stood at 36 aircraft (47 at December 31, 2018).

Change in the Air France-KLM Group order book(1)	December 31, 2018	Deliveries during the period(2)	New orders	Option conversion	June 30, 2019
Main fleet	49	7	-	-	42
Regional fleet	0	0	-	-	-
Total	49	7	-	-	42

(1) Excluding operating leases.

(2) Excluding transfers between the Group's airlines.

Change in the Air France-KLM Group option portfolio(1)	December 31, 2018	Exercised during the period	Options cancelled or expired	New options	June 30, 2019
Main fleet	47	-	11	-	36
Regional fleet	-	-	-	-	-
Total	47	-	-	-	36

(1) Excluding operating leases.

Fleet management

Air France-KLM is pursuing a pro-active strategy of fleet renewal and modernization, thereby improving the fleet's energy efficiency and reducing its environmental footprint.

During the first half 2019, the Air France Group:

- Retired one A340 from its fleet list in long-haul, replacing it with two new B787-9s,
- Retired one old-generation A319 from the Air France medium-haul fleet.
- Retired three ATR42-500s and one EMB145-EP from the HOP! fleet and replaced them with an additional new EMB 190,
- Took delivery of three B737-800s in the Transavia France fleet.

For its part, KLM welcomed the first B787-10 to its fleet together with three B737-800s, replacing two B737-700s. One B747-400Combi was also retired from the fleet.

Transavia Netherlands took delivery of two new B737-800s.

2019 will also see the first three A350s enter the Air France fleet, with the first delivery in September 2019.

Longer term, fleet modernization will be reflected in the phase-out of KLM's B747-400s and their replacement with B787-10s, and by the ongoing growth of the A350-900 fleet within Air France. For its part, Transavia (France and the Netherlands) will see its fleet adapt to the growth market in the leisure sector.

The Group will continue to invest significant sums in cabin refurbishment, as is currently the case for its A330-200s, as well as in the on-board satellite connectivity proposition, enabling an in-flight Wi-Fi offer for customers.

The Air France-KLM fleet at June 30, 2019.

	AF (incl. HOP!)	KL (incl. KLC & Martinair)	Transavia France	Transavia Neths.	Owned	Finance lease	Operating lease	Total
Long-haul	107	66	0	0	70	32	71	173
B747-400	0	10	0	0	10	0	0	10
B777-300	43	14	0	0	11	24	22	57
B777-200	25	15	0	0	24	1	15	40
B787-10	0	1	0	0	1	0	0	1
B787-9	9	13	0	0	7	3	12	22
A380-800	10	0	0	0	1	4	5	10
A340-300	5	0	0	0	5	0	0	5
A330-300	0	5	0	0	0	0	5	5
A330-200	15	8	0	0	11	0	12	23
Medium-haul	114	51	37	42	84	22	138	244
B737-900	0	5	0	0	2	0	3	5
B737-800	0	30	37	35	29	10	63	102
B737-700	0	16	0	7	3	5	15	23
A321	20	0	0	0	11	0	9	20
A320	43	0	0	0	3	5	35	43
A319	33	0	0	0	20	0	13	33
A318	18	0	0	0	16	2	0	18
Regional	79	49	0	0	58	32	38	128
ATR72-600	6	0	0	0	0	0	6	6
ATR72-500	1	0	0	0	0	0	1	1
ATR42-500	3	0	0	0	0	0	3	3
Canadair Jet 1000	14	0	0	0	14	0	0	14
Canadair Jet 700	11	0	0	0	11	0	0	11
Embraer 190	12	32	0	0	7	14	23	44
Embraer 175	0	17	0	0	3	14	0	17
Embraer 170	15	0	0	0	9	1	5	15
Embraer 145	17	0	0	0	14	3	0	17
Cargo	2	4	0	0	6	0	0	6
B747-400BCF	0	1	0	0	1	0	0	1
B747-400ERF	0	3	0	0	3	0	0	3
B777-F	2	0	0	0	2	0	0	2
Total AF-KLM	302	170	37	42	218	86	247	551

Highlights

Signature of employee agreements and simplification of the brand portfolio at Air France

In January 2019, three employee agreements were signed at Air France.

- ✓ On January 10, an agreement between Air France and its Cabin Crew staff, improving their working conditions while enabling better service delivery to customers.
- ✓ On January 11, 2019, the wage agreement signed with the unions representing Air France Ground Staff, providing for individual increases and enabling the financing of exceptional individual bonuses, thereby offering additional ways to recognize performance.
- ✓ On February 19, 2019, the signature of a Pilot staff category agreement with the SNPL providing the flexibility required to support Air France's new ambition, while foreseeing measures to improve flight safety, the commercial strategy, operational performance and pilot compensation.

The Cabin Crew agreement also enabled the integration of the Joon employees and aircraft. The simplification of the brand portfolio is an undeniable asset for our employees, our customers and our partners.

In the same spirit of simplification, from now on the flights operated by the regional fleet under the Hop! brand are marketed under the Air France HOP banner.

The Air France-KLM Group can thus rely on two powerful brands, Air France and KLM, supplemented by regional brands Air France HOP and KLM Cityhopper, together with a low-cost proposition via the Transavia brand, present in France and the Netherlands.

Air France-KLM simplifies and improves its governance

On February 19, 2019, the Air France-KLM Board of Directors unanimously approved the presentation of Benjamin Smith, Chief Executive Officer of Air France-KLM, outlining his ambitions, principles of managerial governance and the strategic decision-making processes at Group level, aimed at simplifying and improving the Group's governance to recapture the leadership position in Europe.

The elements key to attaining the Group's long-term goals are:

- ✓ Establish a CEO Committee to determine the strategic direction for all the Group's airlines and business units. This CEO Committee is chaired by Benjamin Smith. The other members of the Committee are Pieter Elbers (President & Chief Executive Officer of KLM, and Deputy Chief Executive Officer of Air France-KLM), Anne Rigail (Chief Executive Officer of Air France and Deputy Chief Executive Officer of Air France-KLM) and Frédéric Gagey (Chief Financial Officer of Air France-KLM).
- ✓ Increase collaboration across the Group to better capture synergies and efficiencies, aimed at improving overall Group profitability,
- ✓ Celebrate the longstanding heritage, reputation and brand recognition of Air France, KLM and Transavia within their respective markets and reinforce the Group's position at its two hubs, Amsterdam Schiphol and Paris-Charles de Gaulle,
- ✓ Simplify key Group operational processes in the following areas: fleet and network strategy, commercial and alliances strategy, human resources, procurement, digital and customer data management.

In agreement with the Supervisory Board of KLM, the Air France-KLM Board of Directors proposed the renewal of Pieter Elbers' mandate as President & Chief Executive Officer of KLM. This renewal was ratified by the KLM Shareholders' Meeting of April 25, 2019.

Acquisition by the Dutch State of a shareholding in Air France-KLM

On March 1, 2019, the Dutch State announced that, on February 26, 2019, it had crossed the 5% and 10% thresholds in Air France-KLM's share capital and voting rights and held 60,000,000 shares, representing the same quantity of voting rights, i.e. 14% of the share capital and 12% of the voting rights in Air France-KLM. The Dutch State stipulated that it had no plans to purchase more shares in Air France-KLM or a controlling interest.

Reinforced agreements between Air France, KLM and Virgin Atlantic

On March 4, Air France, KLM and Virgin Atlantic announced their first code share agreement, offering their respective customers new travel options to/from North America, and more opportunities to earn Miles via their loyalty programs. Thanks to this partnership, customers of the three airlines can build their ideal journeys across the Atlantic by choosing from the numerous flight options operated by Air France, KLM, Virgin Atlantic and Delta.

For customers, these agreements are reflected in 24 new routes between the United Kingdom and North America on flights via, notably, London-Heathrow or Manchester, and more options between Paris and New York via Manchester.

Convertible bond issue

On March 20, 2019, Air France-KLM successfully placed bonds convertible into new shares and/or exchangeable for existing shares (OCEANE) due in 2026 for a total of around €500 million, representing 27,901,785 underlying shares.

2019 Summer season: Air France-KLM increases capacity by 2% compared with the previous Summer season and offers 58 new routes.

The capacity growth for the Summer season breaks down as follows:

- +1.3% for the long-haul passenger network operations,
- +1.2% for the short and medium-haul passenger network operations.
- +9.3% for Transavia's low-cost operations.

Since March 31, the Group's customers have been able to choose from one of 58 new routes with Air France, KLM and Transavia. The Group is developing its network with a 2% increase in capacity and is committed to guaranteeing customers a seamless travel experience that meets their expectations. At Air France, this means harmonizing the offer for premium customers and, for KLM, making the best product available on all flights.

Air France, KLM and Delta celebrate a decade of their trans-Atlantic joint-venture

On June 4, 2019, Air France, KLM and Delta Air Lines celebrated ten years of their successful trans-Atlantic cooperation. Over the past decade, the three airlines have soared to new heights by opening up new routes between Europe and North America and improving the service offered to their customers. Built around a network of seven hubs – five in the United States and two in Europe – the partnership currently covers routes between Canada, the United States, Mexico and Europe.

Air France-KLM and Accor strengthen their partnership around their loyalty programs with more rewards for their members.

Since June 20, 2019, the members of the Flying Blue and Le Club AccorHotels loyalty programs have been able to benefit from Miles+Points, an innovative opportunity enabling them to earn points and Miles on both their flights and stays: Miles are earned on hotel stays while Points are earned for each flight and can be converted for even more ways to redeem.

The Air France-KLM Group takes a next step in the optimization of the long-haul fleet

On June 28, 2019, Air France and KLM announced that they were pursuing the optimization of their respective long-haul fleets. To realize fleet efficiencies through harmonization and accelerated growth of similar aircraft, the airlines will swap between them the remaining firm Boeing 787 and Airbus A350 orders.

The implementation of the swap between the airlines means that, in the 2021-2023 timeframe, the six remaining Boeing 787s ordered for Air France will be transferred to KLM, and the current seven Airbus A350-900s on order for KLM will be transferred to Air France.

Air France currently operates nine Boeing 787-9s and one additional aircraft is scheduled to arrive in May 2020, resulting in a fleet of ten Boeing 787-9s for Air France next year. In addition, Air France will receive its first Airbus A350-900 in September 2019. It already has an additional 20 on firm order to which will be added the seven A350-900s initially intended for KLM, making a total of 28 aircraft.

KLM currently operates 13 Boeing 787-9s and will receive its first Boeing 787-10 in June 2019. This fleet will grow to a total of 21 Boeing 787s by the end of 2020 to which will be added the six Boeing 787s initially intended for Air France, making a total of 27 aircraft.

In parallel, all the options for further fleet development at Air France within the Air France-KLM Group are currently under review, in consultation with all the stakeholders.

Outlook and subsequent events

Outlook

The global context remains uncertain given the current geopolitical environment and the upward trend in the fuel price.

In terms of traffic, the latest available data from the Passenger Network show a continuing positive demand trend for August to December 2019, with long-haul forward-booking load factors ahead of last year. Furthermore, in constant currency, Passenger Network unit revenue is expected to be stable in the third quarter 2019.

For the full year 2019, the Group plans to grow capacity by 2% to 3% for the Passenger network and by 7% to 9% for the Transavia low-cost business.

The Group will pursue initiatives to reduce unit costs, with a maintained 2019 target of between -1% to 0% at constant currency and fuel price.

The 2019 fuel bill is expected to increase by €550 million compared to 2018, based on the forward curve of July 26, 2019.

The Group plans capital expenditure of €3.2 billion for 2019 and is targeting a Net debt/EBITDA ratio of below 1.5x.

The management will continue to carefully manage the Group's financial structure and growth plans.

Subsequent events

On July 30, 2019, the Board of Directors decided to phase out the A380s in the fleet by the end of 2022. At this stage, the impact of this decision is estimated at around €(400) million, mainly due to accelerated depreciation of the aircraft. The Group expects to account for the impact in "other non-current income and expenses" as from the third quarter 2019 and to spread it over the period through to 2022.

Risk factors

The risk factors to which the Air France-KLM Group is exposed are outlined in the 2018 Registration Document filed with the AMF on April 8, 2019. The nature of these risks saw no significant change during the first half of the 2019 financial year.

Related parties

The information concerning related parties can be found in Note 21 to the consolidated financial statements.

1.2 Corporate governance

The Board of Directors

At June 30, 2019, the Board of Directors was composed of nineteen members, of whom:

- Sixteen Board directors appointed by the General Shareholders' Meeting; one representative of the French State appointed by ministerial order⁽¹⁾; and
- Two representatives of the employees, one of whom appointed by the *Comité de Groupe Français*⁽²⁾ and the other appointed by the European Works Council⁽²⁾.

During the first half 2019, the composition of the Board of Directors saw a number of changes, as presented in the following table.

Departure	Appointment	Re-appointment
Solenne Lepage April 1, 2019	Astrid Panosyan May 28, 2019	Mathi Bouts ⁽⁴⁾ April 17, 2019
Hans Smits May 28, 2019	Cees't Hart May 28, 2019	Karim Belabbas ⁽⁵⁾ May 10, 2019
Patrick Vieu May 28, 2019	Martin Vial May 31, 2019 ⁽³⁾	Jean-Dominique Comolli May 28, 2019
		Jaap de Hoop Scheffer May 28, 2019
		Benjamin Smith ⁽⁶⁾ May 28, 2019

- (1) Pursuant to Article 4 of Ordinance No.2014-948 of August 20, 2014, relating to corporate governance and 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 French Commercial Code (*Code de Commerce*), Article L.6411-9 of the French Transport Code (*Code des Transports*) and Article 17-2 of the Articles of Incorporation.
- (3) Representing the French State and appointed by ministerial order.
- (4) Appointed by the European Works Council.
- (5) Appointed by the *Comité de Groupe Français*.
- (6) On August 16, 2018, Mr. Benjamin Smith was appointed as a Board director, replacing Mr. Jean-Marc Janaillac for the latter's remaining term of office, i.e. until the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ended December 31, 2018. The ratification of his co-opting was thus submitted to the Air France-KLM Shareholders' Meeting of May 28, 2019. Since Mr. Benjamin Smith's term of office was to expire at the end of this Shareholders' Meeting, his re-appointment as a Board director was proposed for a four-year term of office, i.e. until the end of the Shareholders' Meeting convened to approved the financial statements for the financial year ended December 31, 2022.

Composition of the Board of Directors at June 30, 2019

Board directors (age at June 30, 2019 and nationality)	Functions within the Board of Directors	Date appointed to the Board of Directors	Mandate expiry date	Independence
Board directors elected by the Shareholders' Meeting				
Anne-Marie Couderc (69 years) French	Chairman of the Air France-KLM Board of Directors Board director Chair of the Appointments and Governance Committee	May 19, 2016	2020 AGM	✓
Benjamin Smith (47 years) British and Canadian	Board director	December 5, 2018	2023 AGM	
Maryse Aulagnon (70 years) French	Board director Chair of the Audit Committee and member of the Remuneration Committee	July 8, 2010	2021 AGM	✓
Leni M.T. Boeren (55 years) Dutch	Board director Member of the Audit Committee and of the Sustainable Development and Compliance Committee	May 16, 2017	2021 AGM	✓
Isabelle Bouillot (70 years) French	Board director Member of the Remuneration Committee and of the Audit Committee	May 16, 2013	2021 AGM	✓
Delta Air Lines, Inc. (Represented by Mr. George Mattson) U.S.	Board director Member of the Audit Committee and of the Remuneration Committee	October 3, 2017	2021 AGM	
Cees 't Hart (61 years) Dutch	Board director	May 28, 2019	2023 AGM	
Jaap de Hoop Scheffer (71 years) Dutch	Board director Chair of the Remuneration Committee	July 7, 2011	2023 AGM	✓
Anne-Marie Idrac (67 years) French	Board director	November 2, 2017	2021 AGM	✓
Isabelle Parize (62 years) French	Board director Member of the Remuneration Committee and of the Audit Committee	March 27, 2014	2022 AGM	✓
Bing Tang (52 years) Chinese	Board director Member of the Sustainable Development and Compliance Committee	October 3, 2017	2021 AGM	
Alexander R. Wynaendts (58 years) Dutch	Board director Member of the Appointments and Governance Committee	May 19, 2016	2020 AGM	✓
Board directors elected by the Shareholders' Meeting as proposed by the French State				
Jean-Dominique Comolli	Board director	December 14, 2010	2023 AGM	

(71 years) French	Member of the Remuneration Committee and of the Appointments and Governance Committee		
Astrid Panosyan (47 years) French	Board director	May 28, 2019	2023 AGM
Board directors representing the employee shareholders elected by the Shareholders' Meeting			
Paul Farges (48 years) French	Board director representing the employee shareholders (flight deck crew category) Member of the Audit Committee	May 15, 2018	2022 AGM
François Robardet (61 years) French	Board director representing the employee shareholders (ground staff and cabin crew category) Member of the Audit Committee and of the Remuneration Committee	December 6, 2016	2022 AGM
Board director representing the French State appointed by ministerial order			
Martin Vial (65 years) French	Board director representing the French State	May 31, 2019	May 2023
Board director representing the employees appointed by the <i>Comité de Groupe Français</i>			
Karim Belabbas (45 years) French	Board director representing the employees Member of the Sustainable Development and Compliance Committee	June 1, 2017	2021 AGM
Board director representing the employees appointed by the European Works Council			
Mathi Bouts (60 years) Dutch	Board director representing the employees Member of the Sustainable Development and Compliance Committee	October 10, 2017	2021 AGM

The CEO Committee

At its meeting of February 19, 2019, the Board of Directors unanimously approved the presentation given by the Chief Executive Officer of Air France-KLM outlining, in particular, the principles of managerial governance aimed at simplifying and improving the Group's governance to return to European airline leadership.

One of the key elements in attaining the Group's long-term goals is the establishment of a CEO Committee, which is responsible for determining the strategic directions of all the Group's airlines and operational entities.

The CEO Committee is chaired by Mr. Benjamin Smith, Chief Executive Officer of Air France-KLM, and has three other members reporting directly to Mr. Smith:

- Ms. Anne Rigail, Chief Executive Officer of Air France and Deputy Chief Executive Officer of Air France-KLM;
- Mr. Pieter Elbers, President & Chief Executive Officer of KLM and Deputy Chief Executive Officer of Air France-KLM; and
- Mr. Frédéric Gagey, Chief Financial Officer of Air France-KLM.

The Group Executive Committee

Composition of the Group Executive Committee at June 30, 2019

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

- The Chief Executive Officer of Air France-KLM, the Chief Executive Officer of Air France and the President & Chief Executive Officer of KLM; and
- The nine heads of the Group's functions.

Members at June 30, 2019	Age at June 30, 2019	Sector	Relevant professional experience
Benjamin Smith Chief Executive Officer, Air France-KLM	47 years	Air Transport	28 years
Pieter Elbers President & Chief Executive Officer, KLM Deputy Chief Executive Officer, Air France-KLM	49 years	Air Transport	26 years
Anne Rigail Chief Executive Officer, Air France Deputy Chief Executive Officer, Air France-KLM	49 years	Air Transport	27 years
Patrick Alexandre Executive Vice-President Commercial, Sales & Alliances, Air France-KLM	64 years	Air Transport	37 years
Pieter Boostma Executive Vice-President Commercial & Revenue, Air France-KLM	49 years	Air Transport	23 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	55 years	Air Transport	23 years
Angus Clarke Executive Vice-President, Strategy, Air France-KLM	44 years	Air Transport	18 years
Janet Dekker Executive Vice-President, Human Resources	59 years	Human Resources	30 years
Frédéric Gagey Chief Financial Officer, Air France-KLM	63 years	Public service Air Transport	8 years 25 years
Jean-Christophe Lalanne Executive Vice-President, Information Technology, Air France-KLM	57 years	Industry, IT Air Transport	21 years 14 years
Marcel de Nooijer Executive Vice-President, Cargo, Air France-KLM	50 years	Air Transport	23 years
Anne-Sophie Le Lay Corporate Secretary, Air France-KLM Corporate Secretary, Air France	48 years	Lawyer Legal/Governance Automotive industry Air Transport	6 years 17 years 1 year and 4 months

Secretarial services to the Group Executive Committee are provided by the Air France-KLM Chief Executive Officer's Chief of Staff.

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 included in the CAC Next 20, CAC Large 60 and SBF120, and is also a component of the leading sustainable development and employee shareholder indexes. For the fourteenth 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 first half 2019, the Air France-KLM stock price decreased by 10%.

	January-June 2019	January-June 2018
Share price high (In €)	12.73	14.51
Share price low (In €)	7.46	6.65
Number of shares in circulation	428,634,035	428,634,035
Market capitalization at the end of the period (In € billion)	3.62	2.99

Information relating to the share capital

At June 30, 2019, the Air France-KLM share capital was composed of 428,634,035 shares with a nominal value of one euro.

Period ended	June 30, 2019	June 30, 2018
Number of shares in circulation	428,634,035	428,634,035
Number of theoretical voting rights	503,812,330	503,985,969
Number of exercisable voting rights	501,549,531	501,723,170
Share capital (in €)	428,634,035	428,634,035

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

Period ended	% of the share capital		% of theoretical voting rights		% of exercisable voting rights	
	June 30 2019	December 31 2018	June 30 2019	December 31 2018	June 30 2019	December 31 2018
Number of shares in circulation/voting rights	428,634,035	428,634,035	503,812,330	503,909,599	501,549,531	501,646,800
French State	14.3%	14.3%	22.6%	22.6%	22.7%	22.7%
Dutch State	14.0%	-	-	-	12.0%	-
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%	6.7%	6.6%	6.7%
Treasury stock	0.3%	0.3%	0.4%	0.4%	-	-

At June 30, 2019, 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.

Comments on the financial statements

Consolidated results for the first half ended June 30, 2019

Compared with December 31, 2018, the Air France-KLM Group's consolidation scope at June 30, 2019 showed no significant change. The movements are outlined in Note 4 in the Notes to the financial statements.

In € million	June 30, 2019	June 30, 2018	Change (In %)
Revenues	13,036	12 432	4.9
EBITDA	1,571	1,670	-5.9
Income/(loss) from current operations	97	228	-57.5
Income/(loss) from operating activities	90	201	-55.2
Net income/(loss) - Equity holders of Air France-KLM	(240)	(159)	na
Basic earnings/(loss) per share - Equity holders of Air France-KLM (In €)	(0.59)	(0.40)	na

Revenues

In the first half 2019, revenues stood at €13.03 billion versus €12.43 billion in 2018, up by 4.8% in nominal and 3.3% at constant currency.

Operating expenses

Operating expenses increased by 6.3% to €12.9 billion. For capacity measured in ASK up by 3.8%, the unit cost per ASK (available seat-kilometer), declined by 1.4% on a constant currency and fuel price basis (see page 31 for the detailed unit cost calculation).

At €7.8 billion, **external expenses** increased by 6.9% (€7.3 billion one year earlier).

The breakdown in operating expenses was as follows:

	June 30, 2019	June 30, 2018	Change (in %)	Change at constant currency (in %)
In € million				
Aircraft fuel	2,605	2,245	16.0	8.2
Chartering costs	269	276	-2.5	-5.6
Landing fees and air route charges	941	906	3.9	2.5
Catering	395	375	5.3	4.0
Handling charges and other operating costs	909	980	-7.2	-8.0
Aircraft maintenance costs	1,298	1,183	9.7	3.2
Commercial and distribution costs	517	510	1.4	-0.8
Other external expenses	872	824	5.9	4.6
Total	7,806	7,299	6.9	2.8

The main changes were as follows:

- **Aircraft fuel:** The fuel bill increased by 8.2% (at constant currency). This is explained by a €204 million increase in the price after hedging and a volume effect of €162 million, offset by an improvement in fuel efficiency (-€37 million).
- **Chartering costs:** chartering costs represent the costs incurred through leasing aircraft capacity from other airlines. Their reduction is mainly explained by higher expenses in 2018 due to the strike at Air France.
- **Landing fees and air route charges:** landing fees and air route charges for the use of airspace and airports increased at current currency in line with the capacity growth;
- **Catering costs** relating to services supplied on board the Air France-KLM Group's aircraft for its own account. The increase at constant currency was in line with the growth in the number of passengers carried.
- **Handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, for a small portion, third-party customers. Their decline is mainly explained by the high level of compensation paid to customers in 2018 owing to the strike at Air France.
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for the third-party activity. Their increase is linked to the growth in third-party revenue.
- **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 €4.02 billion versus €3.81 billion at June 30, 2018, i.e. up by 5.5% in nominal. Their progression is due to the growth in activity and the wage agreements signed at Air France and KLM in 2018.

Taxes other than income taxes amounted to €97 million versus €87 million at June 30, 2018.

Other income and expenses (+€454 million at June 30, 2019 versus +€436 million at June 30, 2018) included the:

- Capitalization of maintenance and IT development costs amounting to €482 million as of June 30, 2019 against €460 million as of June 30, 2018.
- Currency hedges for €12 million at June 30, 2019 versus €(25) million at June 30, 2018,
- A €28 million expense booked concerning CO₂ emission quotas (€9 million expense in the previous year).

EBITDA

EBITDA amounted to €1,571 million (€1,670 million at June 30, 2018).

The contributions to EBITDA by business segment were as follows:

In € million	First half 2019	First half 2018	% change
Network	1,186	1,301	-8.8
Maintenance	268	235	14.0
Transavia	99	116	14.7
Others	18	18	-
Total	1,571	1,670	-5.9

Amortization, depreciation and provisions

Amortization, depreciation and provisions totaled €1,475 million versus €1,442 million at June 30, 2018.

Income/(loss) from current operations

The **result from current operations** amounted to €97 million (€228 million at June 30, 2018).

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

In € million	June 30, 2019		June 30, 2018	
	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Network	11,191	12	10,786	150
Maintenance	1,081	102	941	72
Transavia	749	(19)	688	3
Others	15	2	17	3
Total	13,036	97	12,432	228

Income/(loss) from operating activities

The **result from operating activities** stood at €90 million versus €201 million at June 30, 2018. Non-current items which amounted to €(7) million at June 30, 2019 were composed of:

- The €23 million gain on the sale of aircraft equipment,
- Other non-current income and expenses amounting to €(30) million (see Note 11), including mainly restructuring provisions and costs amounting to €(30) million.

Net cost of financial debt

The net cost of financial debt amounted to €194 million versus €216 million at June 30, 2018. The decline in the net cost of financial debt was directly linked to the reduction in gross financial debt.

Other financial income and expenses

Other net financial income and expenses amounted to €(110) million versus €(74) million at June 30, 2018, with the breakdown as follows:

- A €36 million foreign exchange loss (loss of €78 million at June 30, 2018) which mainly included €12 million of unrealized losses on maintenance provisions in US dollars and €24 million of unrealized losses on Japanese Yen debt. As of June 30, 2018, the foreign exchange loss had mainly included of €55 million of unrealized losses on maintenance provisions in US dollars and €36 million of unrealized losses on the Japanese Yen debt.

- A net financial loss of €24 million relating to the fair value of derivative instruments (profit of €27 million at June 30, 2018), which was mainly explained by the change in fair value of the collar on Amadeus shares for €(23) million.
- The revaluation of Amadeus shares amounting to +€44 million (versus +€37 million as of June 30, 2018).
- The impact of accretion on provisions and liabilities for leased aircraft restitution amounting to €(86) million (€(56) million as of June 30, 2018).
- Other financial items for a total positive amount of +€1 million as of June 30, 2019 (-€4 million as of June 30, 2018).

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

Income tax amounted to €33 million versus an expense of €68 million at June 30, 2018.

The **share of profits/(losses) of associates** amounted to €8 million at June 30, 2019 (€(1) million at June 30, 2018).

Net income/(loss) - Equity holders of Air France-KLM stood at €(240) million as of June 30, 2019 against €(159) million at June 30, 2018.

The contributions to the net result by quarter were, respectively, €(320) million for the first quarter 2019 and €80 million for the second quarter 2019.

Basic earnings/(loss) per share – equity holders of Air France-KLM - stood at €(0.59) at June 30, 2019 versus €(0.40) at June 30, 2018.

Investments and financing of the Group

The Air France-KLM Group's net capital expenditure on tangible and intangible assets amounted to €1,389 million during the first half 2019 versus €1,488 million at June 30, 2018. Net investment in the fleet amounted to €508 million, ground investment to €119 million, spare parts and aeronautical modifications to €275 million, capitalized maintenance costs to €289 million and investment in intangible assets to €198 million.

Net cash flow from operating activities stood at €2,241 million versus €2,146 million at June 30, 2018, reflecting:

- An increase in operating cash flow before voluntary departure plans, to €1,465 million at June 30, 2019 versus €1,434 million at June 30, 2018.
- A reduction in cash-outs linked to the voluntary departure plans, which stood at €11 million at June 30, 2019 versus €121 million at June 30, 2018.
- The change in working capital for continuing operations which moved from €833 million at June 30, 2018 to €787 million at June 30, 2019.

At June 30, 2019, net debt stood at €5.70 billion versus €6.16 billion at December 31, 2018.

The Group maintains a good level of liquidity, with net cash of €5.28 billion at June 30, 2019 and undrawn credit facilities totalling €1.8 billion.

At June 30, 2019, stockholders' equity, Group part, amounted to €1.58 billion, down by €0.28 billion during the first half.

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 the compensation of company officers and the staff made available by Air France and KLM. The operating result was nil.

The net result amounted to a €6 million loss, mainly due to financial expenses on the bonds. No dividend was paid in respect of 2018.

Key financial indicators

Operating margin

In € million	June 30, 2019	June 30, 2018
Income/(loss) from current operations	97	228
Revenues	13,036	12,432
Operating margin	0.7%	1.8%

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, 2019	June 30, 2018
Net income/(loss), Group share	(240)	(159)
Change in fair value of financial assets and liabilities (derivatives and shares)	(20)	(60)
Unrealized foreign exchange gains and losses	52	108
Non-current income and expenses	7	27
Income tax impact on the adjustments	(12)	(22)
Restated net income/(loss), Group share	(213)	(106)
Restated net income/(loss) per share, Group share (in euros)	(0.53)	(0.28)

Financial cover ratios

► Net debt/EBITDA

	June 30, 2019	December 31, 2018
Net debt (in €m)	5,698	6,164
EBITDA (in €m)	4,118	4,217
Net debt/EBITDA	1.4x	1.5x

► EBITDA/net cost of financial debt

	June 30, 2019 Trailing 12 months	December 31, 2018
EBITDA (in €m)	4,118	4,217
Net cost of financial debt (in €m)	404	426
EBITDA/net cost of financial debt	10.2x	9.9x

Return on Capital Employed (ROCE)

The return on capital employed is a profitability indicator that 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, 2019	June 30, 2018	June 30, 2018	June 30, 2017 restated
Goodwill and intangible assets	1,465	1,378	1,378	1,309
Flight equipment	10,541	10,081	10,081	9,539
Other property, plant and equipment	1,530	1,443	1,443	1,378
Right-of-use assets	5,079	5,565	5,565	5,553
Investments in equity associates	305	294	294	294
Other financial assets excluding shares available for sale, marketable securities and financial deposits	133	122	122	106
Restitution liabilities and other provisions excluding pension, cargo litigation and restructuring	(3,243)	(2,944)	(2,944)	(2,619)
WCR, excluding market value of derivatives	(6,942)	(6,669)	(6,669)	(6,418)
Capital employed on the balance sheet	8,868	9,270	9,270	9,142
Average capital employed (A)		9,069		9,206
Operating result		1,201		1,610
Dividends received		(1)		(3)
Share of profits/(losses) of associates		6		13
Normative income tax		(358)		(481)
Adjusted result from current operations after tax (B)		848		1,139
ROCE (B/A)		9.3%		12.4%

Net cost per ASK

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

To analyze the company's overall cost performance, the Group uses the net cost per ASK. This net cost is obtained by dividing the total net cost by the capacity produced expressed in available seat-kilometers (ASK).

The net cost is calculated by subtracting from total operating expenses the revenues other than those generated by the three transportation activities (passenger, cargo, Transavia). The capacity produced by the transportation activities is combined by adding the capacity of the Passenger network (in ASK) to that of Transavia (in ASK).

	First half 2019	First half 2018
Revenues <i>(in €m)</i>	13,036	12,432
Income/(loss) from current operations <i>(in €m)</i>	-97	-228
Total operating expense <i>(in €m)</i>	12,939	12,204
Passenger network business – other revenues <i>(in €m)</i>	-589	-557
Third-party revenues in the maintenance business <i>(in €m)</i>	-1,081	-941
Transavia – other revenues <i>(in €m)</i>	-9	-11
Third-party revenues of other businesses <i>(in €m)</i>	-15	-17
Net cost <i>(in €m)</i>	11,245	10,678
Capacity produced, reported in ASK	160,793	154,946
Net cost per ASK (in € cents per ASK)	6.99	6.89
<i>Gross change</i>		1.5%
Currency effect on net costs <i>(in €m)</i>		-196
<i>Change at constant currency</i>		-0.3%
Fuel price effect <i>(in €m)</i>		-114
Net cost per ASK on a constant currency and fuel price ((in € cents per ASK)	6.99	7.09
<i>Change on a constant currency and fuel price basis</i>		-1.4%

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, 2019 - June 30, 2019

CONSOLIDATED INCOME STATEMENT (unaudited)

In € millions

Period from January 1 to June 30	Notes	2019	2018
Sales	5	13,036	12,432
Revenues		13,036	12,432
External expenses	6	(7,806)	(7,299)
Salaries and related costs	7	(4,020)	(3,812)
Taxes other than income taxes		(93)	(87)
Other income and expenses	9	454	436
EBITDA		1,571	1,670
Amortization, depreciation and provisions	8	(1,474)	(1,442)
Income from current operations		97	228
Sales of aircraft equipment		23	(4)
Other non-current income and expenses	10	(30)	(23)
Income from operating activities		90	201
Cost of financial debt	11	(221)	(236)
Income from cash and cash equivalents	11	27	20
Net cost of financial debt		(194)	(216)
Other financial income and expenses	11	(110)	(74)
Income before tax		(214)	(89)
Income taxes	12	(33)	(68)
Net income of consolidated companies		(247)	(157)
Share of profits (losses) of associates		8	(1)
Net income for the period		(239)	(158)
<i>Non-controlling interests</i>		<i>1</i>	<i>1</i>
<i>Net income - Group part</i>		<i>(240)</i>	<i>(159)</i>
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic	13	(0.59)	(0.40)
- diluted		(0.59)	(0.40)

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

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (unaudited)

In € millions

Period from January 1 to June 30	2019	2018
Net income for the period	(239)	(158)
Effective portion of changes in fair value hedge and cost of hedging recognized directly in other comprehensive income	404	629
Change in fair value and cost of hedging transferred to profit or loss	(79)	(302)
Currency translation adjustment	-	(1)
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	(103)	(94)
<i>Total of other comprehensive income that will be reclassified to profit or loss</i>	<i>222</i>	<i>232</i>
Remeasurements of defined benefit pension plans (1)	(331)	192
Fair value of equity instruments revalued through OCI	(12)	(38)
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	52	(34)
<i>Total of other comprehensive income that will not be reclassified to profit or loss</i>	<i>(291)</i>	<i>120</i>
Total of other comprehensive income, after tax	(69)	352
Recognized income and expenses	(308)	194
- Equity holders of Air France-KLM	(310)	193
- Non-controlling interests	2	1

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

⁽¹⁾ Remeasurement of defined benefit pension plans is composed of €886 million related to the difference between the expected and actual return on assets (June 2018: €(14) million) and €(1,217) million related to the change in actuarial assumptions (June 2018: €206 million)

CONSOLIDATED BALANCE SHEET (unaudited)

Assets		June 30,	December 31,
<i>In € millions</i>	<i>Notes</i>	2019	2018
Goodwill		217	217
Intangible assets		1,248	1,194
Flight equipment	14	10,541	10,167
Other property, plant and equipment	14	1,530	1,503
Right-of-use assets		5,079	5,243
Investments in equity associates		305	311
Pension assets	15	174	331
Other financial assets		1,384	1,487
Deferred tax assets		441	544
Other non-current assets		242	264
Total non-current assets		21,161	21,261
Other short-term financial assets		469	325
Inventories		702	633
Trade receivables		2,558	2,191
Other current assets		1,224	1,062
Cash and cash equivalents	19	4,418	3,585
Total current assets		9,371	7,796
Total assets		30,532	29,057

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

Liabilities and equity	June 30, December 31,		
	<i>In € millions</i>	Notes	2019
Issued capital	16.1	429	429
Additional paid-in capital		4,139	4,139
Treasury shares		(67)	(67)
Perpetual		403	403
Reserves and retained earnings	16.1	(3,327)	(3,051)
Equity attributable to equity holders of Air France-KLM		1,577	1,853
Non-controlling interests		13	12
Total equity		1,590	1,865
Pension provisions	15	2,285	2,098
Return obligation liability and other provisions	17	3,097	3,035
Financial debt	18 & 19	5,949	5,733
Lease debt	18 & 19	3,473	3,546
Deferred tax liabilities		-	4
Other non-current liabilities		293	459
Total non-current liabilities		15,097	14,875
Return obligation liability and other provisions	17	558	492
Current portion of financial debt	18 & 19	1,080	826
Lease debt	18 & 19	955	989
Trade payables		2,500	2,460
Deferred revenue on ticket sales		4,407	3,153
Frequent flyer programs		837	844
Other current liabilities		3,505	3,548
Bank overdrafts	19	3	5
Total current liabilities		13,845	12,317
Total liabilities		28,942	27,192
Total equity and liabilities		30,532	29,057

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

<i>In € millions</i>	Number of shares	Issued capital	Addition al paid-in capital	Treasury shares	Perpetual	Reserve s and retained earnings	Equity attributable to holders of Air France-KLM	Non-controlling interests	Total equity
January 1, 2018	428,634,035	429	4,139	(67)	600	(2,693)	2,408	12	2,420
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	-	-	-	-	-	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	(2,500)	2,601	13	2,614
December 31, 2018	428,634,035	429	4,139	(67)	403	(3,051)	1,853	12	1,865
Gain / (loss) on cash flow hedges	-	-	-	-	-	221	221	1	222
Fair value of equity instruments through OCI	-	-	-	-	-	(9)	(9)	-	(9)
Remeasurements of defined benefit pension plans	-	-	-	-	-	(282)	(282)	-	(282)
Other comprehensive income	-	-	-	-	-	(70)	(70)	1	(69)
Net result for the period	-	-	-	-	-	(240)	(240)	1	(239)
Total of income and expenses recognized	-	-	-	-	-	(310)	(310)	2	(308)
OCEANE	-	-	-	-	-	35	35	-	35
Dividends paid and coupons on perpetual	-	-	-	-	-	-	-	(1)	(1)
Other	-	-	-	-	-	-	(1)	-	(1)
June 30, 2019	428,634,035	429	4,139	(67)	403	(3,327)	1,577	13	1,590

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

The amounts included in other comprehensive income are presented net of deferred tax.

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Period from January 1 to June 30	Notes	2019	2018
<i>In € millions</i>			
Net income from continuing operations		(239)	(158)
Amortization, depreciation and operating provisions		1,475	1,442
Financial provisions		89	57
Loss (gain) on disposals of tangible and intangible assets		(31)	7
Loss (gain) on disposals of subsidiaries and associates		(2)	-
Derivatives – non monetary result		24	(23)
Unrealized foreign exchange gains and losses, net		52	108
Share of (profits) losses of associates		(8)	1
Deferred taxes		30	61
Other non-monetary items		64	(182)
Financial capacity		1,454	1,313
(Increase) / decrease in inventories		(73)	(67)
(Increase) / decrease in trade receivables		(371)	(517)
Increase / (decrease) in trade payables		24	163
Change in other receivables and payables		1,207	1,254
Change in working capital requirement		787	833
Net cash flow from operating activities (A)		2,241	2,146
Acquisition of subsidiaries, of shares in non-controlled entities		-	(8)
Purchase of property plant and equipment and intangible assets (B)		(1,465)	(1,534)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		8	3
Proceeds on disposal of property plant and equipment and intangible assets (C)		76	46
Dividends received		7	3
Decrease (increase) in net investments, more than 3 months		20	5
Net cash flow used in investing activities		(1,354)	(1,485)
Increase of equity due to new convertible bonds		54	-
Issuance of debt		762	295
Repayment on debt		(339)	(998)
Payments on lease debts (D)		(501)	(517)
New loans		(34)	(115)
Repayment on loans		20	66
Dividends and coupons on perpetual paid		(1)	(1)
Net cash flow from financing activities		(39)	(1,270)
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(13)	8
Change in cash and cash equivalents and bank overdrafts		835	(601)
Cash and cash equivalents and bank overdrafts at beginning of period		3,580	4,667

Cash and cash equivalents and bank overdrafts at end of period	4,415	4,066
Income tax (paid) / reimbursed (flow included in operating activities)	5	(20)
Interest paid (flow included in operating activities)	(221)	(256)
Interest received (flow included in operating activities)	14	7

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

Period from January 1 to June 30	Notes	2019	2018
<i>in € millions</i>			
Net cash flow from operating activities	A	2,241	2,146
Purchase of property plant and equipment and intangible assets	B	(1,465)	(1,534)
Proceeds on disposal of property plant and equipment and intangible assets	C	76	46
Operating free cash flow (*)	19	852	658
Payments on lease debts	D	(501)	(517)
Operating free cash flow adjusted (**)		351	141

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

(*) See note 3 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. SIGNIFICANT EVENTS

2.1. Events occurring during the period

Convertible bond (OCEANE) issued in 2019

On March 20, 2019, Air France-KLM issued 27,901,785 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at March 25, 2026 for a total nominal amount of €500 million. Each bond has a nominal value of €17.92. The annual coupon amounts to 0.125 per cent. The conversion period of these bonds runs from May 4, 2019 to the seventh working day preceding the normal or early reimbursement date. The conversion ratio is one share for one bond.

Repayment at par, plus accrued interest, will be possible on March 25, 2024 on request of the bond holders. Air France-KLM can enforce the cash reimbursement of these bonds by exercising a call option running from April 15, 2022 if the share price exceeds 130 per cent of the nominal, amounting to €23.29, encouraging OCEANE bond holders to convert their bonds into Air France-KLM shares.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €446 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. The option value was evaluated by deducting this debt value from the total nominal amount (i.e. €500 million) and was recorded in equity.

Voluntary Departure Plan

Voluntary Departure Plan focused on Air France ground staff of short haul, aimed at the respective departure of some 465 full time equivalents. The Group accordingly made a provision of €32 million to the income statement as of June 30, 2019.

2.2. Subsequent events

On July 30, 2019, the Board decided to early phase out progressively the A380 aircraft from the fleet by the end of 2022. The impact of this decision, at this stage, is estimated at around €(400) million, mainly due to the acceleration in the depreciation of the aircraft. The Group expects to account for the impact in "other non-current incomes and expenses" as from the third quarter of 2019 and to spread it over the period until 2022.

3. ACCOUNTING POLICIES

3.1. Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation n° 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2018 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, 2019 are prepared in accordance with IFRS, as adopted by the European Union on the date these condensed consolidated financial statements were established, and are presented according to IAS 34 “Interim financial reporting” and must be read in connection with the annual consolidated financial statements for the year ended on December 31, 2018.

The interim condensed consolidated financial statements as of June 30, 2019 have been established in accordance with the accounting principles used by the Group for the consolidated financial statements 2018, except for standards and interpretations adopted by the European Union applicable as from January 1, 2019.

The condensed consolidated financial statements were approved by the Board of Directors on July 30, 2019.

Change in accounting principles

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

Amendment to IFRS 9 “Financial instruments”

This amendment deals with prepayment features with negative compensation.

IFRIC 23 “Uncertainty over Income Tax Treatments”

This interpretation of IAS 12 “Income Taxes” clarifies the treatment of any situation of uncertainty regarding the acceptability of a tax treatment related to income taxes.

Amendment to IAS 28 “Long-term interests in an associate or joint venture”

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 19 “Employee benefits”

This amendment relates to the consequences of a plan amendment, curtailment or settlement for the current service cost and the net interest.

Amendment to IAS 12 “Income taxes”

This amendment outlines income tax consequences of payments on financial instruments classified as equity.

Amendment to IFRS 11 “Joint arrangements”

This amendment clarifies the accounting treatment of the interest's acquisition in a joint operation;

Amendment to IAS 23 “Borrowing costs”

This amendment indicates borrowing costs eligible for capitalization;

The application of these amendments and interpretation has no significant impact on the Group's consolidated financial statements.

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

Amendment to IFRS 3 “Business Combinations”

(Effective for the accounting periods as of January 1, 2020)

This amendment clarifies the definition of a business.

Amendments to IAS 1 “Presentation of financial statements” and IAS 8 “Accounting policies, changes in accounting estimates and errors”

(Effective for the accounting periods as of January 1, 2020)

This amendment defines the materiality.

The impact of the application of these amendments is currently being assessed.

3.2. Preparation of unaudited interim consolidated financial statements

Seasonality of the activity

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

Income taxes

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

Retirement benefits

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

3.3. Use of estimates

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The significant areas of estimates described in the note 4 of the December 31, 2018 consolidated financial statements, concerned:

- Revenue recognition related to deferred revenue on ticket sales;
- Frequent flyer program;
- Financial instruments;
- Tangible and intangible assets;
- Lease contracts;
- Pension assets and provisions;
- Return obligation liability and provision for leased aircraft and Other provisions;
- Current and deferred tax assets.

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

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

These accounting estimations are based upon the latest available, reliable information.

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

4. CHANGE IN THE CONSOLIDATION SCOPE

• First semester ended June 30, 2019

No significant acquisition or disposal took place during the first semester ended June 30, 2019

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

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

5. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

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

The Group is organized around the following segments:

Network: Passenger network and Cargo operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (excluding Transavia), including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third-party airlines and services linked to IT systems.

The revenues also including freight come from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from 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

5.1. Information by business segment

• First semester ended June 30, 2019

<i>In € millions</i>	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	11,211	2,290	751	123	-	14,375
Intersegment sales	(20)	(1,209)	(2)	(108)	-	(1,339)
External sales	11,191	1,081	749	15	-	13,036
EBITDA	1,186	268	99	18	-	1,571
Income from current operations	12	102	(19)	2	-	97
Income from operating activities	29	102	(19)	(22)	-	90
Share of profits (losses) of associates	1	1	-	6	-	8
Net cost of financial debt and other financial income and expenses	-	-	-	-	(304)	(304)
Income taxes	-	-	-	-	(33)	(33)
Net income	30	103	(19)	(16)	(337)	(239)

• First semester ended June 30, 2018

<i>In € millions</i>	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	121	78	3	(2)	(358)	(158)

5.2. Information by geographical area

External sales by geographical area

▪ First semester ended June 30, 2019

<i>In € millions</i>	Metropo- litan France	Benelux	Europe (except France and Benelux)	Africa	Middle- Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Network	3,149	1,180	2,322	491	264	988	1,586	622	10,602
Other network sales	216	87	105	34	11	72	35	29	589
Total network	3,365	1,267	2,427	525	275	1,060	1,621	651	11,191
Scheduled Transavia	324	359	46	1	5	1	3	1	740
Transavia - other sales	5	-	-	-	-	-	4	-	9
Total Transavia	329	359	46	1	5	1	7	1	749
Maintenance	636	382	11	-	-	2	50	-	1,081
Others	3	12	-	-	-	-	-	-	15
Total	4,333	2,020	2,484	526	280	1,063	1,678	652	13,036

• First semester ended June 30, 2018

<i>In € millions</i>	Metropo- litan France	Benelux	Europe (except France and Benelux)	Africa	Middle- Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Network	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

Traffic sales by geographical area of destination

- First semester ended June 30, 2019

<i>In € millions</i>	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guyana, Indian Ocean	Africa (except North Africa) Middle East	North America, Mexico	South America, except Mexico	Asia, New Caledonia	Total
Network	831	2,360	821	1,357	2,291	1,045	1,897	10,602
Scheduled Transavia	10	672	-	58	-	-	-	740
Total	841	3,032	821	1,415	2,291	1,045	1,897	11,342

- First semester ended June 30, 2018

<i>In € millions</i>	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guyana, Indian Ocean	Africa (except North Africa) Middle East	North America, Mexico	South America, except Mexico	Asia, New Caledonia	Total
Network	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

6. EXTERNAL EXPENSES

<i>In € millions</i>	2019	2018
Period from January 1 to June 30		
Aircraft fuel	2,605	2,245
Chartering costs	269	276
Landing fees and air route charges	941	906
Catering	395	375
Handling charges and other operating costs	909	980
Aircraft maintenance costs	1,298	1,183
Commercial and distribution costs	517	510
Other external expenses	872	824
Total	7,806	7,299
<i>Excluding aircraft fuel</i>	<i>5,201</i>	<i>5,054</i>

7. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

<i>In € millions</i>	2019	2018
Period from January 1 to June 30		
Wages and salaries	2,750	2,608
Social contributions	535	525
Pensions costs on defined contribution plans	337	319
Pensions costs of defined benefit plan	133	119
Cost of temporary employees	126	115
Profit sharing	57	94
Other expenses	82	32
Total	4,020	3,812

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 on defined contribution plans".

Average number of employees

Period from January 1 to June 30	2019	2018
Flight deck crew	8,378	7,870
Cabin crew	22,185	21,897
Ground staff	52,022	51,377
Temporary employees	3,021	3,125
Total	85,606	84,269

8. AMORTIZATION, DEPRECIATION AND PROVISIONS

<i>In € millions</i>	2019	2018
Period from January 1 to June 30		
Amortization		
Intangible assets	90	79
Flight equipment	587	585
Other property, plant and equipment	99	95
Right-of-Use assets	633	615
	1,409	1,374
Depreciation and provisions		
Inventories	13	(3)
Trade receivables	6	22
Risks and contingencies	46	49
	65	68
Total	1,474	1,442

9. OTHER INCOME AND EXPENSES

<i>In € millions</i>	2019	2018
Period from January 1 to June 30		
Capitalized production	482	460
Joint operation of routes	(23)	(21)
Operations-related currency hedges	12	(25)
Emission trade schemes (ETS)	(28)	(9)
Other	11	31
Other income and expenses	454	436

10. OTHER NON-CURRENT INCOME AND EXPENSES

<i>In € millions</i>	2019	2018
Period from January 1 to June 30		
Restructuring costs	(30)	(22)
Modification on pension plans	(11)	-
Cargo claim	(1)	(1)
Other	10	-
Other non-current income and expenses	(30)	(23)

– **Six-month period ended June 30, 2019**

Restructuring costs

This mainly includes the new provision relating to the voluntary departure plan for Air France ground staff (please refer to note 2.1).

Modification on pension plans

On February 22, 2019, an agreement was signed amending the retirement indemnities for Air France pilots retiring at 60 years or above, increasing the benefit obligation by € 11 million.

Other

This line mainly includes the sale of Vilgénis school real estate in the Paris area and ground equipment at Charles de Gaulle airport.

– **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.

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

<i>In € millions</i>		
Period from January 1 to June 30	2019	2018
Income from marketable securities	2	2
Other financial income	25	18
Financial income	27	20
Interest on financial debt	(70)	(73)
Interest on lease debt	(136)	(146)
Capitalized interests and other non-monetary items	(8)	(8)
Other financial expenses	(7)	(9)
Gross cost of financial debt	(221)	(236)
Net cost of financial debt	(194)	(216)
Foreign exchange gains (losses), net	(37)	(78)
Financial instruments and change in fair value of hedges shares	20	64
Net (charge)/release to provisions	(3)	(3)
Other financial income and expenses	(90)	(57)
Other financial income and expenses	(110)	(74)

Net cost of financial debt

Financial income mainly consists of interest income on financial assets accounted at the effective interest rate and of the result on disposal of financial assets at fair value recorded through the income statement.

Foreign exchange gain (losses)

As of June 30, 2019, the foreign exchange losses mainly include an unrealized currency loss of €53 million of which €12 million loss on return obligation liabilities and provisions on aircraft in US dollars and a loss of €24 million on debt in Japanese Yen.

As of June 30, 2018, the foreign exchange losses mainly include an unrealized currency loss of €55 million on return obligation liabilities and provisions on aircraft in US dollars and an unrealized currency loss of €36 million on the debt on Japanese Yen.

Financial instruments and change in fair value of hedged shares

As of June 30, 2019, this line mainly includes a gain on the hedged Amadeus shares of €21 million?

As of June 30, 2018, it mainly includes a gain on the hedged Amadeus shares of €16 million and a gain on the non-aligned time value of dissymmetrical options with barriers for an amount of €48 million.

Other financial income and expenses

As of June 30, 2019 and 2018, the line "other financial income and expenses" comprises mainly the effect of accretion on long-term provisions for € (86) million and € (56) million.

12. INCOME TAXES

12.1. Income tax charge

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

<i>In € millions</i>	2019	2018
Period from January 1 to June 30		
Current tax (expense) / income	(3)	(7)
Change in temporary differences	(54)	-
CVAE impact	2	2
(Use / de-recognition) / recognition of tax loss carry forwards	22	(63)
Deferred tax income / (expense) from continuing operations	(30)	(61)
Total	(33)	(68)

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 to 25.83 per cent in 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.

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

<i>In € millions</i>	2019	2018
Period from January 1 to June 30		
Other comprehensive income that will be reclassified to profit and loss	(103)	(94)
Gain and loss on cash flow hedge	(103)	(94)
Other comprehensive income that will not be reclassified to profit and loss	52	(34)
Equity instruments	3	-
Pensions	49	(34)
Total	(51)	(128)

13. EARNINGS PER SHARE

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

Reconciliation of income used to calculate earnings per share

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

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

<i>In € millions</i>	2019	2018
As of June 30		
Net income for the period – Equity holders of Air France-KLM	(240)	(159)
Coupons on perpetual	(12)	(12)
Basic net income for the period – Equity holders of Air France-KLM	(252)	(171)

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

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

As of June 30	2019	2018
Weighted average number of:		
- Ordinary shares issued	428,634,035	428,634,035
- Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
- Other treasury stock	(29,959)	(29,956)
Number of shares used to calculate basic earnings per share	427,487,656	427,487,659
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	427,487,656	427,487,659

13.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of June 30, 2019.

13.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

14. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

<i>In € millions</i>	As of June 30, 2019			As of December 31, 2018		
	Gross value	Depreciation	Net Value	Gross value	Depreciation	Net Value
Owned aircraft	16,420	(8,473)	7,947	16,101	(8,337)	7,764
Assets in progress	1,117	-	1,117	1,032	-	1,032
Other	2,324	(847)	1,477	2,184	(813)	1,371
Flight equipment	19,861	(9,320)	10,541	19,317	(9,150)	10,167
Land and buildings	2,691	(1,883)	808	2,676	(1,846)	830
Equipment and machinery	1,306	(1,016)	290	1,308	(1,012)	296
Assets in progress	239	-	239	187	-	187
Other	976	(783)	193	980	(790)	190
Other tangible assets	5,212	(3,682)	1,530	5,151	(3,648)	1,503
Total	25,073	(13,002)	12,071	24,468	(12,798)	11,670
Aircraft			3,065			3,137
Maintenance			1,175			1,269
Land and real estate			585			585
Other			254			252
Total right-of-use assets			5,079			5,243

As of January 1, 2019 Air France extended the useful life of its A330 fleet to 25 years. Previously the useful life was 20 years. This decision decreases the depreciation cost of €4 million in the first semester 2019 vs. first semester 2018.

15. PENSION ASSETS AND PROVISIONS

As of June 30, 2019, the discount rates used by companies to calculate the defined benefit obligations are the following:

	June 30, 2019	December 31, 2018
Euro zone – duration 10 to 15 years	0.75%	1.45%
Euro zone – duration 15 years and more	1.30%	1.85%

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 29.2 of the annual financial statements as of December 31, 2018.

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 €157 million decrease in the “pension assets” on the balance sheet (schemes with a net asset position) and
- A €187 million increase in the “pension provisions” on the balance sheet (schemes with a net liability position).

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

16.1 Breakdown of stock and voting rights

As of June 30, 2019, 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:

<i>In percentage(%)</i>	June 30, 2019		December 31, 2018	
	Capital	Voting rights	Capital	Voting rights
French State	14	23	14	23
Dutch State	14	12	-	-
Delta Airlines	9	7	9	7
China Eastern Airlines	9	7	9	7
Employees and former employees	4	7	4	7
Other	50	44	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.

16.2 Reserves and retained earnings

<i>In € millions</i>	June 30, 2019	December 31, 2018
Legal reserve	70	70
Pension defined benefit reserves ⁽¹⁾	(1,809)	(1,527)
Derivatives reserves ⁽¹⁾	(59)	(309)
Equity instruments reserves ⁽¹⁾	(34)	(19)
Other reserves	(1,255)	(1,675)
Net income (loss) – Equity holders of Air France-KLM	(240)	409
Total	(3,327)	(3,051)

⁽¹⁾ Net of deferred tax

17. RETURN OBLIGATION LIABILITY AND OTHER PROVISIONS

<i>In € millions</i>	June 30, 2019			December 31, 2018		
	Non current	Current	Total	Non current	Current	Total
Return obligation liability on leased aircraft	2,135	74	2,209	2,145	32	2,177
Maintenance on leased aircraft	843	12	855	778	15	793
Restructuring	-	72	72	-	48	48
Litigation	54	350	404	47	346	393
Others	65	50	115	65	51	116
Total	3,097	558	3,655	3,035	492	3,527

17.1. Return obligation liability and other provisions

17.1.1. Return obligation liability on leased aircraft

The movements in return obligation liabilities on leased aircraft (revaluation of future costs and change in discount rate) are booked in the components corresponding to the potential and restoration work performed on leased aircraft and recorded in the right-of-use assets. Effects of accretion and foreign exchange translation of return obligation liabilities recorded in local currencies are recognized in "Other financial income and expenses".

17.1.2. Restructuring provisions

The movements in restructuring provisions with a significant impact on the income statement are charged to "Other non-current income and expenses" (See note 10).

As of June 30, 2019 and December 31, 2018, the restructuring provisions mainly concern the voluntary departure plans for Air France and its regional subsidiaries and KLM.

17.1.3. 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 (except corporate tax). 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.

17.1.4. 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 the aforementioned cargo carriers, including Air France, KLM and Martinair. The total amount of fines imposed in respect of this decision at the Air France-KLM Group level is €325 million. This amount has been slightly reduced by €15.4 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 hearings before the General Court have taken place on June 12 and 13, 2019 for Air France-KLM and Air France. KLM and Martinair hearings took place on July 2, 2019. A decision from the General Court may be expected by the end of 2019. The Group has maintained a provision covering the total amount of 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.

17.1.5. 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.

17.2 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.

17.2.1. 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 and South Korea) 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.

17.2.2. 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.

17.2.3. 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 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 17.1 and 17.2, 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.

18. FINANCIAL DEBT AND LEASE DEBT

<i>In € millions</i>	June 30, 2019			December 31, 2018		
	Non current	Current	Total	Non current	Current	Total
Perpetual subordinated loan stock	501	82	583	572	-	572
OCEANE (convertible bonds)	449	-	449	-	-	-
Bonds	1,129	-	1,129	1,131	-	1,131
Deb on financial lease with bargain option	2,756	682	3,438	2,907	640	3,547
Other debt	1,114	283	1,397	1,123	140	1,263
Accrued interest	-	33	33	-	46	46
Total - Financial debt	5,949	1,080	7,029	5,733	826	6,559
Lease debt - aircraft	2,613	780	3,393	2,657	821	3,478
Lease debt - real estate	658	107	765	654	119	773
Lease debt - other	202	49	251	234	30	264
Accrued interest	-	19	19	1	19	20
Total - Lease debt	3,473	955	4,428	3,546	989	4,535

Market value

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

<i>In € millions</i>	June 30, 2019		December 31, 2018	
	Net book value	Estimated market value	Net book value	Estimated market value
Perpetual subordinated loan stock	583	540	572	527
OCEANE	449	493	-	-
Bonds	1,129	1,198	1,131	1,171
Total	2,161	2,231	1,703	1,698

19. NET DEBT

<i>In € millions</i>	June 30,	December 31,
	2019	2018
Current and non-current financial debt	7,029	6,559
Current and non-current lease debt	4,428	4,535
Accrued interest	(52)	(67)
Deposits related to financial debt	(344)	(343)
Deposits related to lease debt	(88)	(85)
Derivatives impact on debt	5	7
Gross financial debt (I)	10,978	10,606
Cash and cash equivalents	4,418	3,585
Marketable securities ⁽¹⁾	49	74
Cash secured ⁽¹⁾	269	265
Triple A bonds ⁽¹⁾	548	522
Others	(1)	1
Bank overdrafts	(3)	(5)
Net cash (II)	5,280	4,442
Net debt (I-II)	5,698	6,164

(1) Included in "others financial assets"

<i>In € millions</i>	June 30,	December 31,
	2019	2018
Opening net debt	6,164	6,359
Operating free cash, cash flow excluding discontinued activities	(852)	(1,087)
Oceane 2019 - Equity part	(54)	-
Perpetual	-	197
Coupons on perpetual	-	38
Disposal of subsidiaries, of shares in non-controlled entities	(8)	(6)
Acquisition of subsidiaries, of shares in non-controlled entities	-	9
New lease debts (new and renewed contracts)	400	439
Unrealised exchange gains and losses on lease financial debts through OCI	(3)	121
Currency translation adjustment	61	66
Reclassification	-	3
Other	(10)	25
Closing net debt	5,698	6,164

20. FLIGHT EQUIPMENT ORDERS

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

<i>In € millions</i>	June 30, 2019	December 31, 2018
2 nd semester year Y (6 months)		-
Year Y+1	628	1,274
Year Y+2	1,069	914
Year Y+3	769	1,279
Year Y+4	689	831
> Year Y+4	2,041	1,256
Total	5,196	5,554

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

Air France and KLM agreed to re-allocate firm orders of seven A350 and six B787 aircraft. The swap has been formalized in a settlement agreement between Air France and KLM on June 28, 2019. The swap does not impact consolidated reporting at Air France KLM level. It only revises delivery dates with the aircraft manufacturers.

The number of aircraft under firm order as of June 30, 2019 decreased by seven units compared with December 31, 2018 and stood at 42 aircraft. These changes are explained by the delivery of seven aircraft over the period.

Long-haul fleet (passenger)

The Group took delivery of three Boeing B787.

Medium-haul fleet

The Group took delivery of four Boeing B737.

The Group's commitments concern the following aircraft:

Aircraft type	To be delivered in	2 nd semester Y (6 months)	Y+1	Y+2	Y+3	Y+4	Beyond Y+4	Total
<u>Long-haul fleet – passenger</u>								
A350	As of June 30, 2019	-	3	4	4	3	14	28
	As of December 31, 2018	-	3	3	7	5	10	28
B787	As of June 30, 2019	-	3	5	3	2	1	14
	As of December 31, 2018	-	6	4	4	2	1	17
<u>Medium-haul fleet</u>								
B737	As of June 30, 2019	-	-	-	-	-	-	-
	As of December 31, 2018	-	4	-	-	-	-	4
Total								
	As of June 30, 2019	-	6	9	7	5	15	42
	As of December 31, 2018	-	13	7	11	7	11	49

21. RELATED PARTIES

Since the Netherland State took share interests in Air France KLM Group, the related parties scope has changed.

Information and control

Attestation by the person responsible for the first half financial report to June 30, 2019

I hereby declare that, to the best of my knowledge, the condensed financial statements for the first half of the 2019 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.

Benjamin Smith
Chief Executive Officer

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

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

For the six-month period ended June 30, 2019

To the Shareholders,

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

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

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

I- Conclusion on the financial statements

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

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

II- Specific verification

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

Paris La Défense, July 31, 2019

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

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