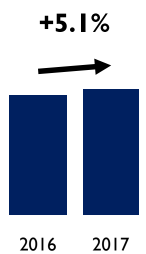
# THIRD QUARTER 2017 RESULTS
## 3rd of November 2017

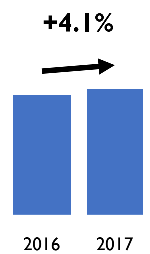

AIRFRANCE KLM

# THIRD QUARTER 2017: STRONG OPERATING RESULT DRIVEN BY SOLID TRAFFIC AND INCREASE IN UNIT REVENUE

## Robust Group traffic statistics

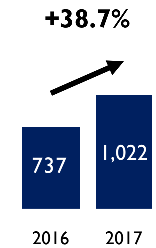



**Passengers**

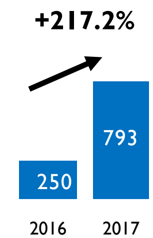



**RASK**(1)
At constant currency

## Strong operating income and free cash flow




**Operating income**




**9M Operating free cash flow**

## Trust Together strategic execution on track

- **Good strategic and commercial momentum**
  - Further advances in strengthening network of alliances: Vietnam Airlines
  - Implementation of a new distribution strategy
  - Upcoming launch of revamped Flying Blue program
- **Further strengthening the financial structure**
  - Soft call exercise of the OCEANE 2023 bond
  - Finalizing the implementation of de-risked pension schemes for pilots and cabin crew in KLM
  - On track to implement IFRS16 in 2018



(1) Group Revenue per Available Seat Kilometer (RASK) Passenger + Transavia at constant currency

# FINANCIAL REVIEW

AIRFRANCE KLM

# THIRD QUARTER 2017 STRONG PERFORMANCE IMPROVING THE LEASE ADJUSTED OPERATING MARGIN BY 3.4 POINTS

| | Q3 2017 | Change | Change at constant currency |
|---|---|---|---|
| Revenues (€bn) | 7.24 | +4.3% | +5.1% |
| EBITDA (€m) | 1,488 | +29.5% | +32.0% |
| Operating result (€m) | 1,022 | +38.7% | +42.9% |
| Operating margin | 14.1% | +3.5 pt | +3.7 pt |
| Lease adjusted operating result[1] (€m) | 1,110 | +34.3% | +37.5% |
| Lease adjusted operating margin | 15.3% | +3.4 pt | +3.6 pt |
| Net result, group share (€m) | 552 | +1.5% | |



(1) Operating result adjusted for the interest portion (1/3) of the operating leases

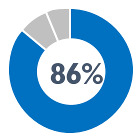
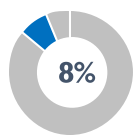
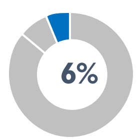
# FIRST 9 MONTHS MAIN KPIs SHOW STRONG IMPROVEMENT

| | 9M 2017 | Change | Change at constant currency |
|---|---|---|---|
| Revenues (€bn) | **19.55** | +4.2% | +4.1% |
| EBITDA (€m) | **2,670** | +24.6% | +32.2% |
| Operating result (€m) | **1,375** | +44.0% | +65.8% |
| Operating margin | **7.0%** | +1.9 pt | +2.6 pt |
| Lease adjusted operating result (€m) | **1,651** | +35.2% | +51.0% |
| Lease adjusted operating margin | **8.4%** | +1.9 pt | +2.6 pt |
| Net result, group share (€m) | **703** | +63.5% | |
| Operating free cash flow (€m) | **793** | +543 m | |
| ROCE | **10.5%** | +0.6 pt | |
| Net debt at end of period (€m)(1) | **2,796** | -859 m | |
| Adjusted net debt (€m)(1) | **10,510** | -656 m | |
| Adjusted net debt / EBITDAR(1) | **2.4x** | -0.5x | |



(1) Compared to 31 December 2016

# GROUP RESULT IMPROVEMENT DRIVEN BY NETWORK AND TRANSAVIA, MAINTENANCE STABLE

| Third Quarter 2017 | | Revenues (€bn) | Change (%) | Operating Result (€m) | Change (%) |
|---|---|---|---|---|---|
| Network[1] |  | 6.21 | +4.2% | 782 | +38.7% |
| Transavia |  | 0.56 | +13.3% | 164 | +78.3% |
| Maintenance |  | 0.46 | -4.1% | 75 | -2.6% |
| Total | | 7.23 | +4.3% | 1,022 | +38.7% |

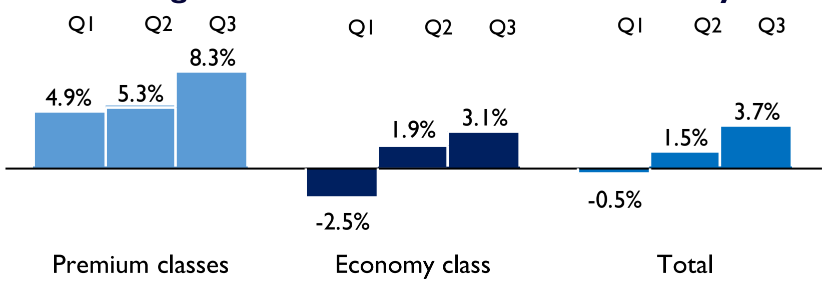


(1) Change in segment reporting as per Q1 2017 to 'Network result' : Passenger (Air France, KLM and HOP!) and Cargo

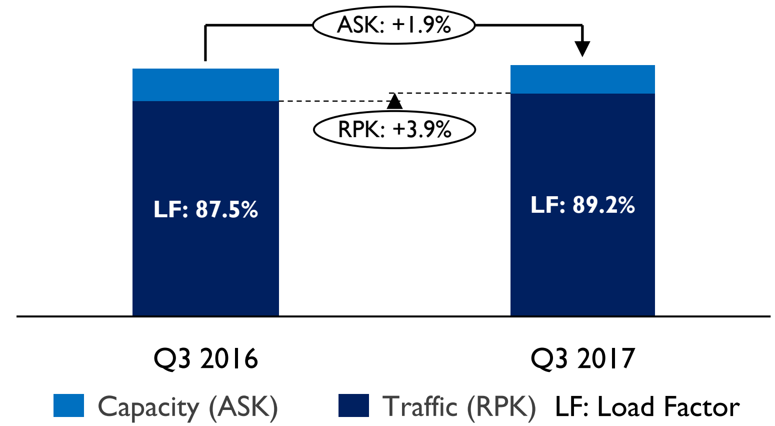
# NETWORK: ROBUST THIRD QUARTER TRAFFIC NUMBERS CONFIRMING IMPROVEMENT IN PASSENGER UNIT REVENUE

- **Confirmation of the improvement in unit revenue**

**Passenger unit revenue at constant currency**




**Q3 activity**

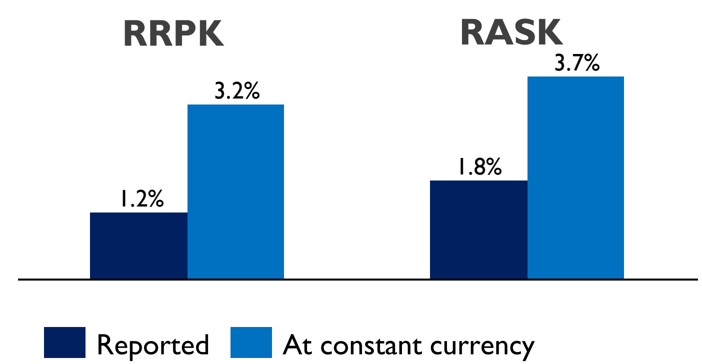



- **Ancillary revenues €160m, +20m**

**Ancillary revenues versus last year**

*at constant currency*


**Q3 Unit Revenues**








Passenger network: Air France, KLM and HOP!

# NETWORK: DEVELOPING A NEW DISTRIBUTION STRATEGY AND A REVAMPED LOYALTY PROGRAM

## New distribution strategy

- **Air France KLM implements a new distribution strategy:**
  - > Taking back control of offer for all channels, allowing creation of:

Personalized offers

Dynamically built product bundles

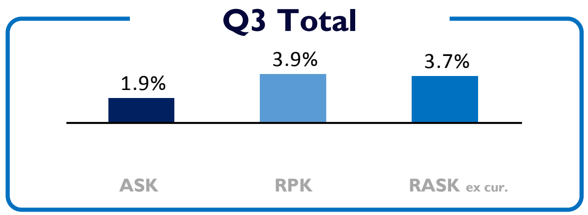
Rich offers and content

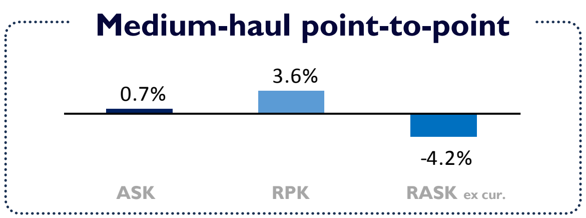
- **Enhancing distribution capabilities to all channels**
- **Effective April 1st 2018, Air France-KLM will implement a Distribution Surcharge on GDS sales**

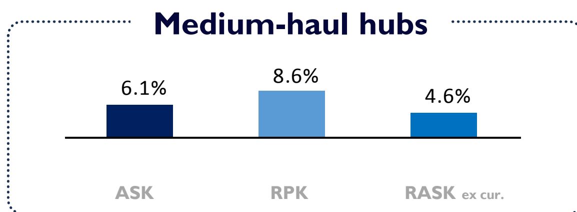
## Loyalty program

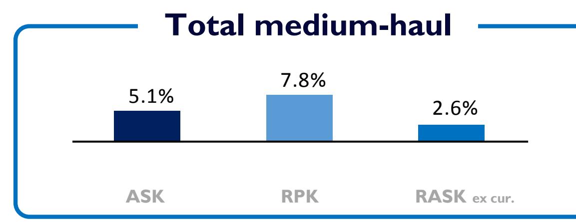
- **A complete re-engineering of the Flying Blue program will be launched on 1st April 2018**
  - > It will enrich the travel experience, offering the members more simplicity and flexibility, a clearer earning scheme, more options to spend their Miles on flights and flight-related services
  - > New tools will be implemented to analyze and rationalize the economics of the program and to optimize the financial steering
- **The announcement of the new program and all related features is scheduled on 6th November 2017**

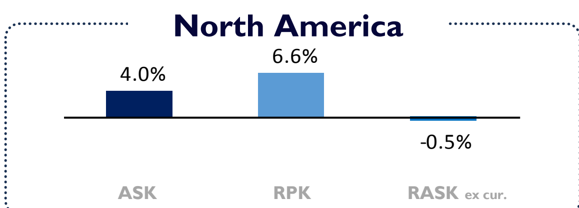
# NETWORK: Q3 STRONG RECOVERY IN ASIA AND LATIN AMERICA

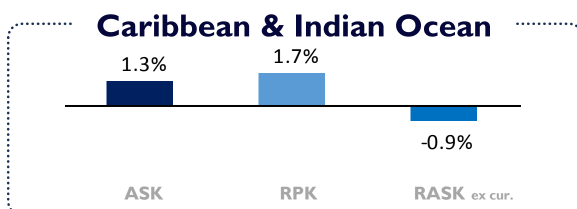


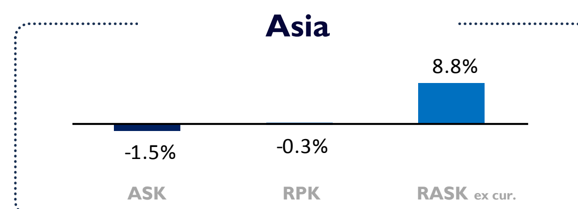



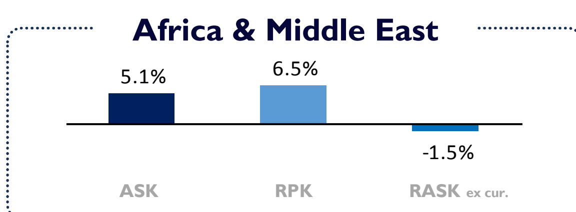



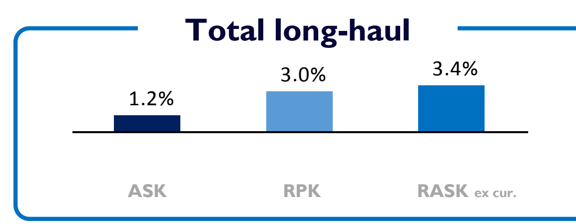







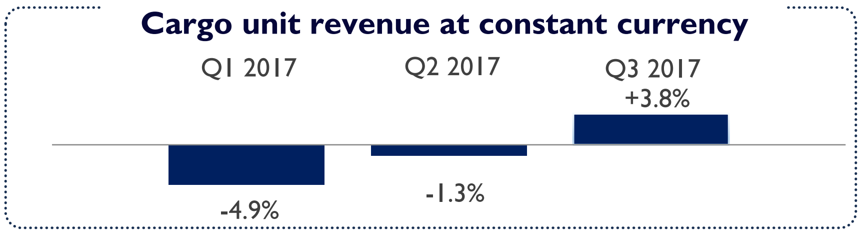





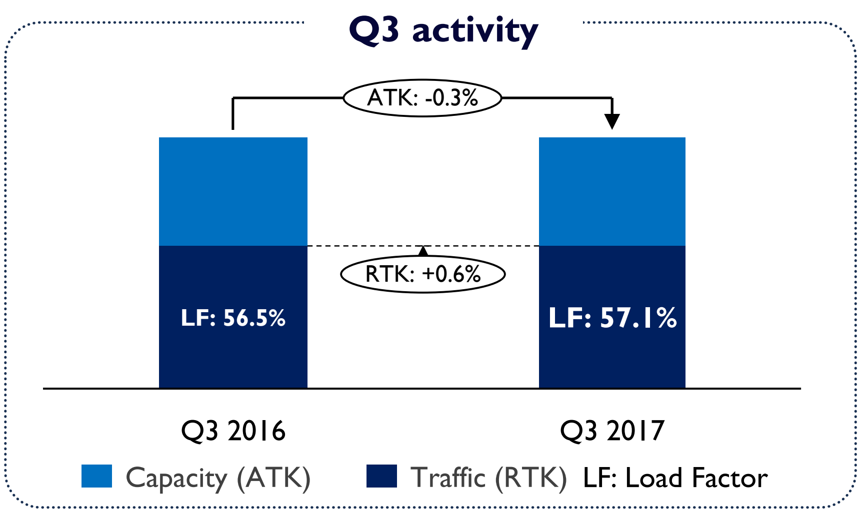

Passenger network: Air France, KLM and HOP!

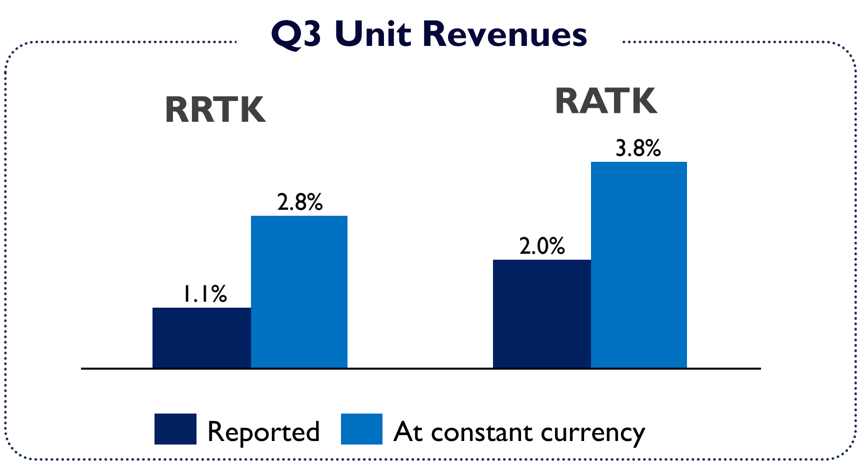
# NETWORK: CARGO TURNAROUND CONTINUING

- **Improved demand**
  - > Positive traffic (RTK) and load factor
  - > Unit revenue increasing in Q3




- **Investing in the future**
  - > Simplified product portfolio & multiple digitalization solutions like "Quote to Book" and customer portal "My Cargo"



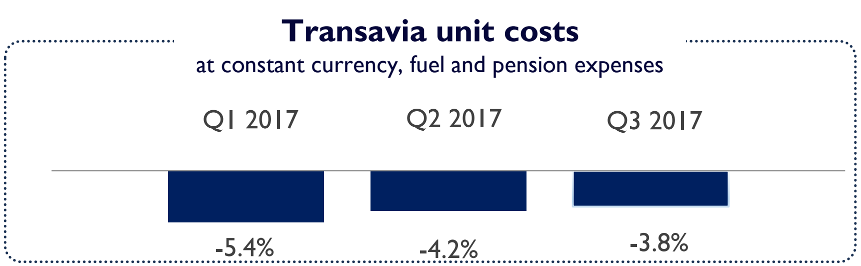




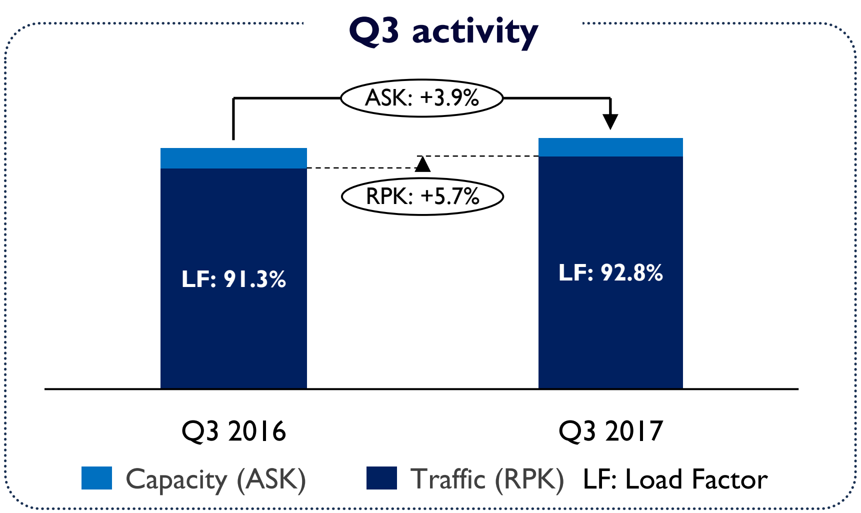

Passenger network: Air France, KLM and HOP!

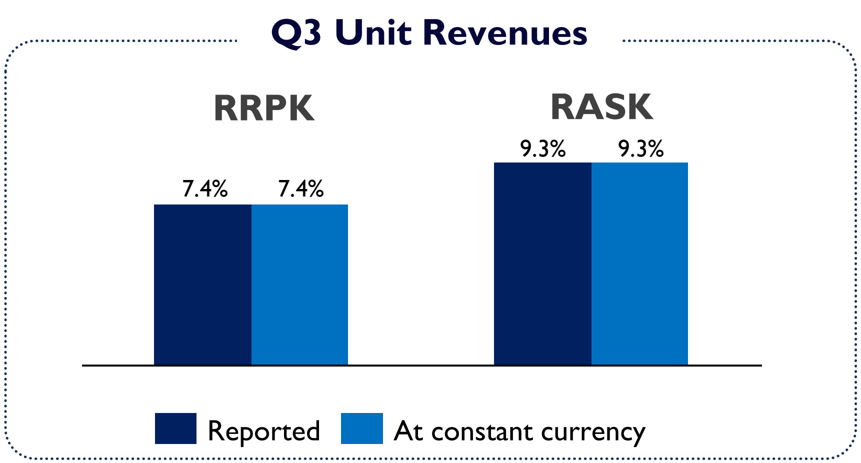
# TRANSAVIA: BOTH FRANCE AND NETHERLANDS SHOW OUTSTANDING PERFORMANCE IN Q3 AND WILL HAVE POSITIVE OPERATING RESULT IN 2017

- **5 million passengers, capacity growth 3.9% driven by entire network**
  - > Capacity France +6.2%
  - > Capacity Netherlands +2.6%
- **Revenues up 13% at €555m**
  - > Transavia unit revenue is strongly increasing by 9.3%
- **Unit cost continuous improvement:**




- **Operating result €164m, up €72m**



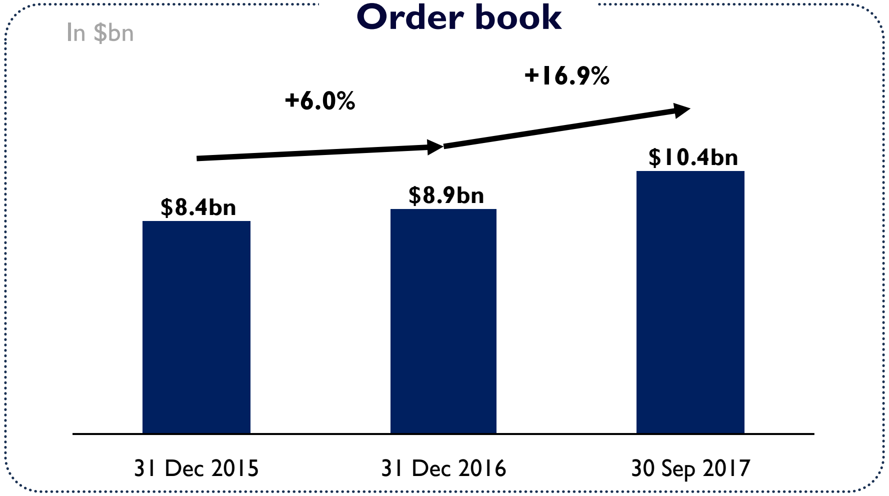






AIR FRANCE - KLM

# MAINTENANCE: ORDER BOOK IN LINE WITH TARGET

- **Strong increase in order book of $1.5bn year to date, securing future growth**
  > Reached target ~10% growth, driven by increase in both Engine and Component order book
  > New contracts signed in the quarter include various "Next Gen" components and CFM56, GE90 engine deals




- **Margin remaining at a solid level**
  > OEM supply chain under pressure in engine business
  > Change in product and business mix from mature to new contracts

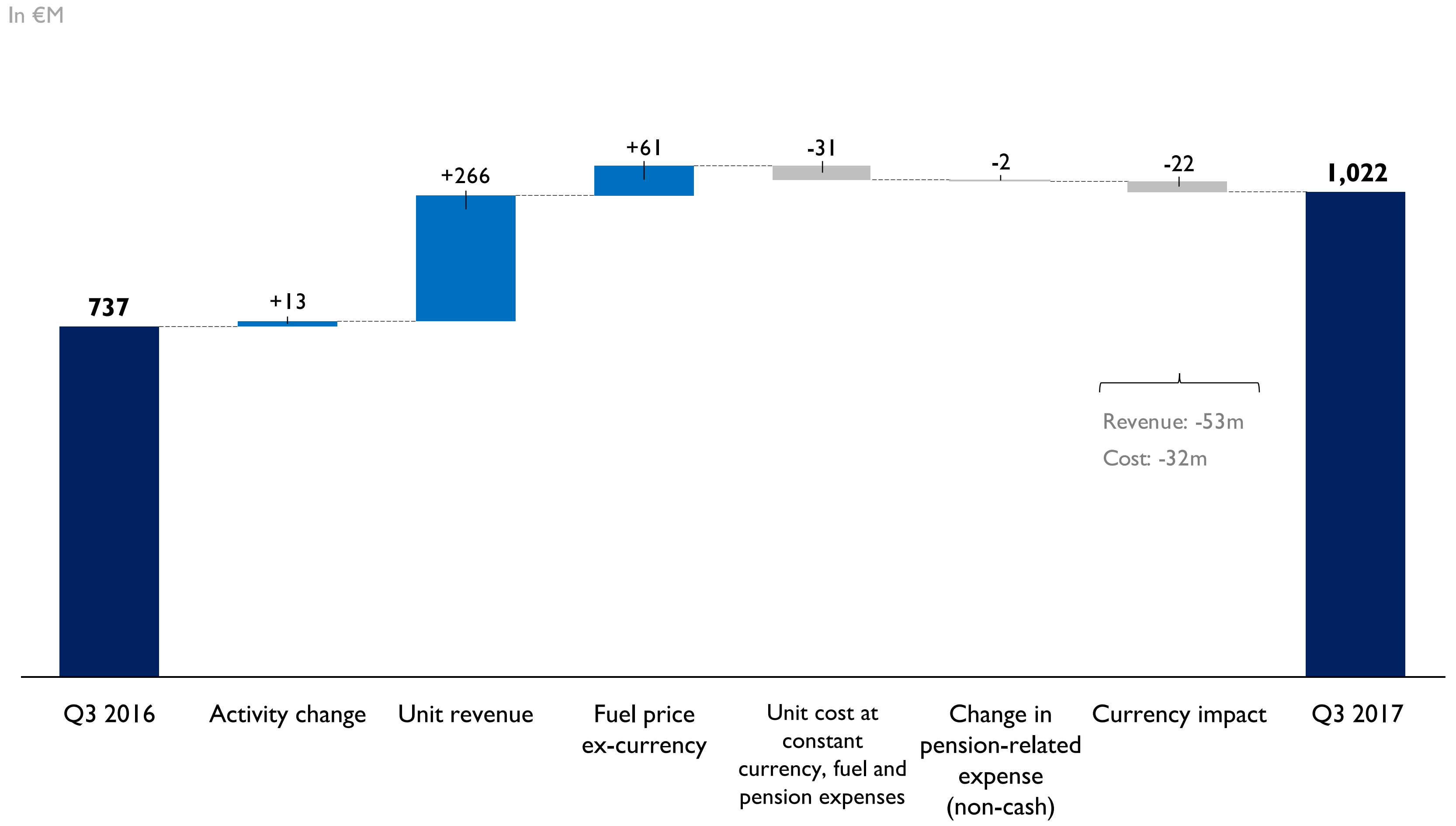
| In €m | Q3 2017 | Q3 2016 | Change | At constant currency |
|---|---|---|---|---|
| Total revenue | **1,050** | 1,046 | +0.4% | |
| Third party revenue | **462.0** | 482.0 | -4.1% | -1.5% |
| Operating result | **75.0** | 77.0 | -2 m | +0 m |
| *Operating margin* [(1)] | ***7.1%*** | *7.4%* | *-0.2 pt* | *-0.1 pt* |





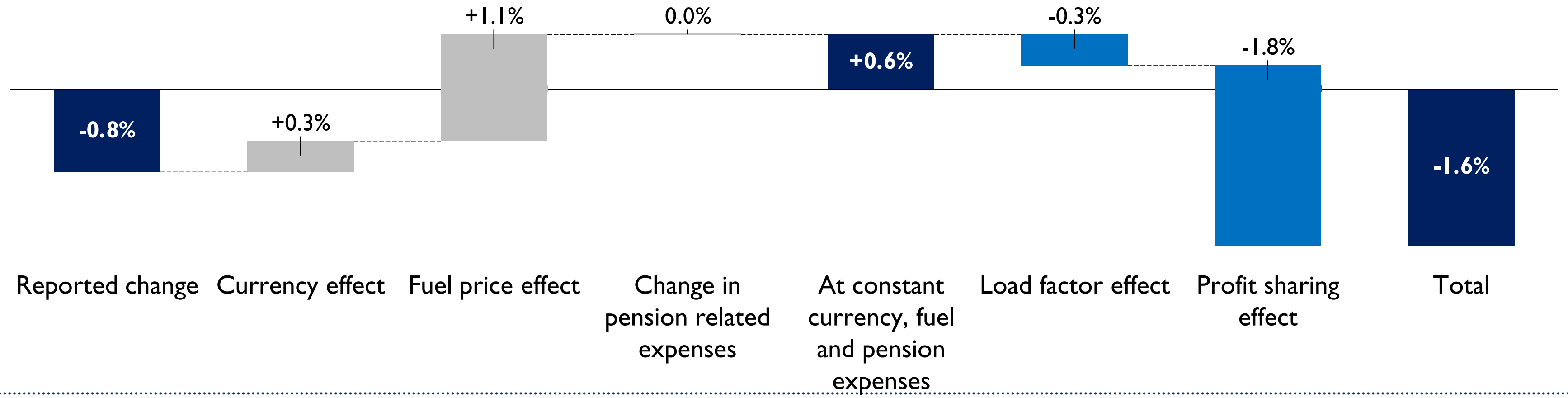
(1) Operating margin: operating result / total revenue

# OPERATING RESULT DRIVEN BY SOLID TRAFFIC AND UNIT REVENUE PERFORMANCE

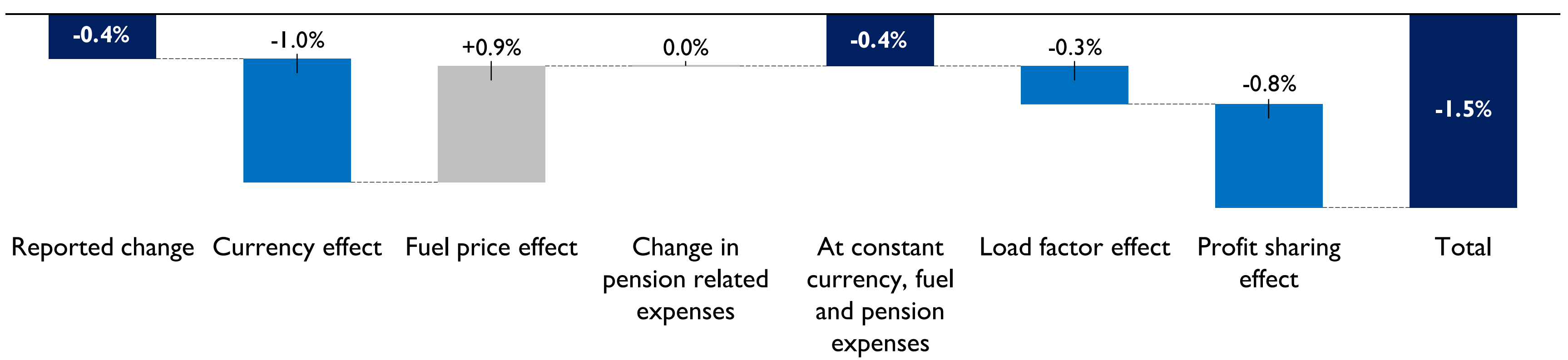


# UNIT COST REDUCTION IMPACTED BY INCREASE IN LOAD FACTOR AND PROFIT SHARING

## Q3 unit cost evolution




## First 9 months unit cost evolution



# IMPROVED EMPLOYEE PRODUCTIVITY

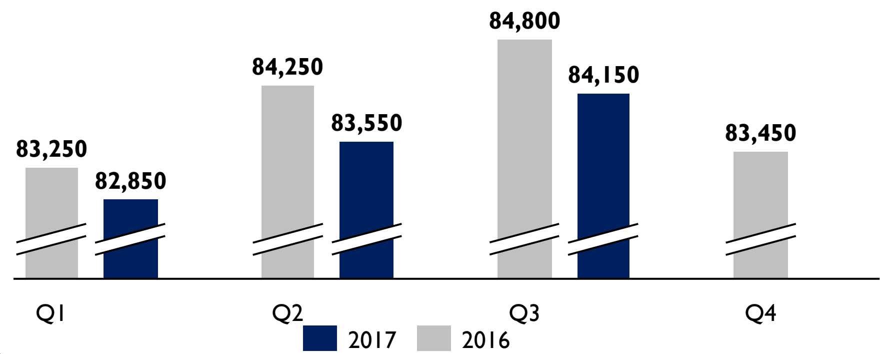
- **Q3 average headcount down 700 FTEs**
  > Pilots +100 FTEs, Cabin crew +600FTEs and Ground -1,400 FTE

- **Q3 Productivity +2.7% (capacity measured in EASK +1.9%)[(2)]**
  > Air France productivity +4.0%
  > KLM productivity +0.6%

- **Net change employee costs -0.1% before profit sharing + €99m**

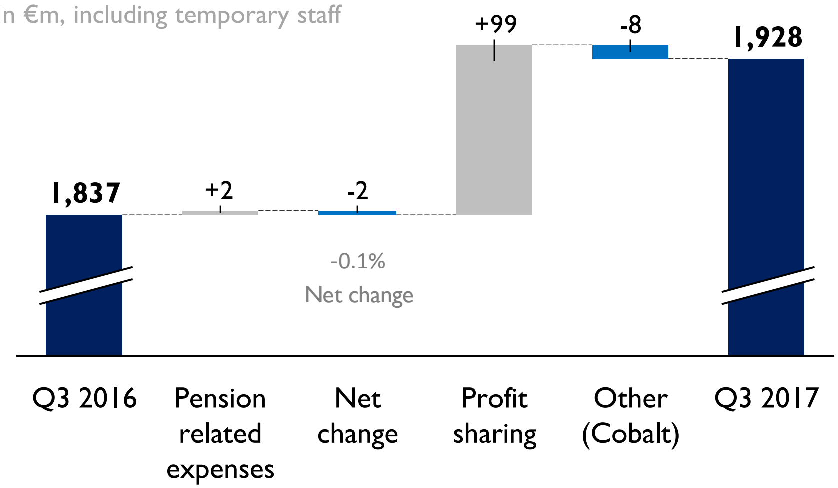
**Staff numbers[(1)]**

Average FTEs, including temporary staff



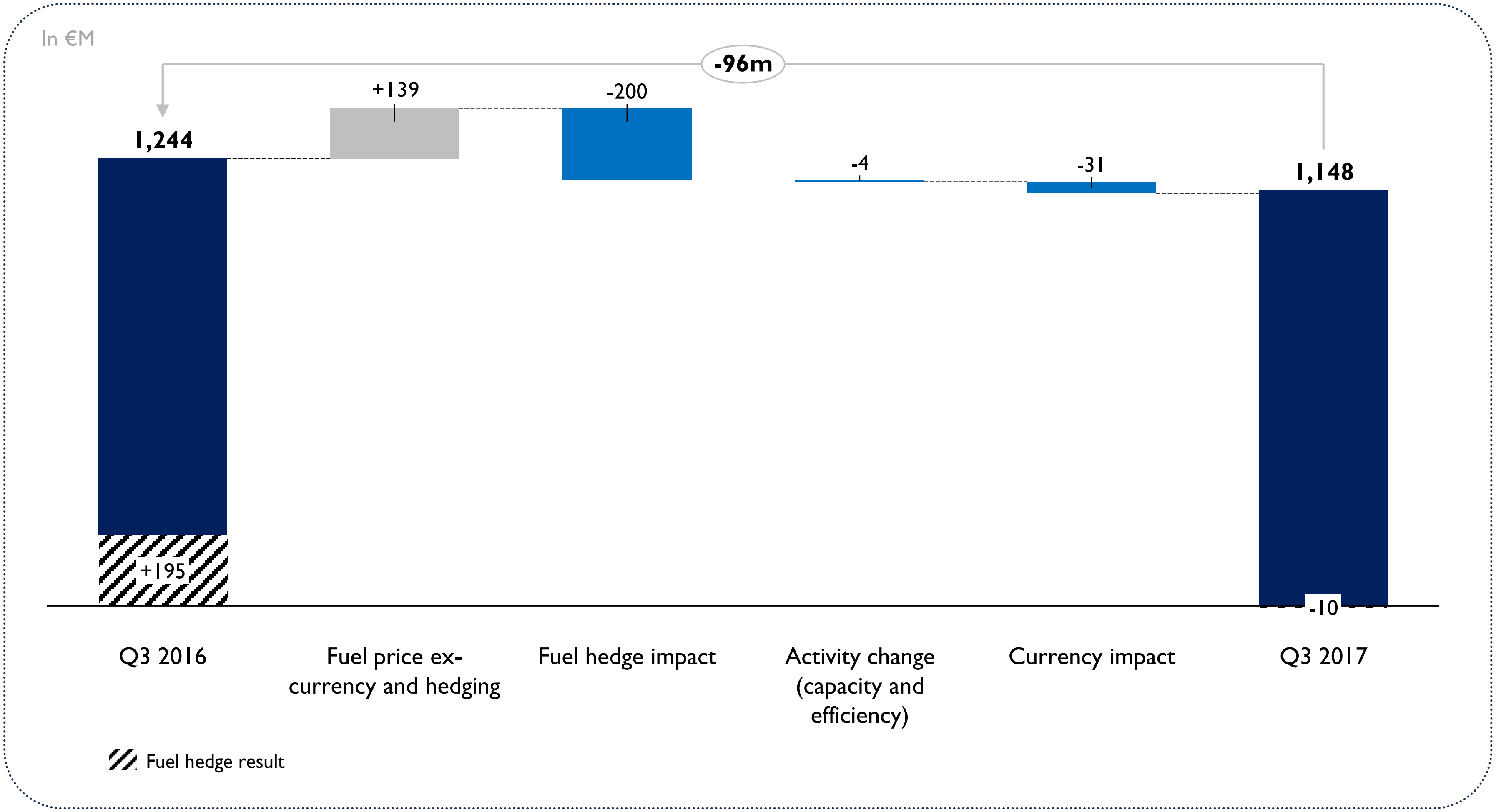

**Change in total employee costs**

In €m, including temporary staff




(1) 2016 FTE headcount restated for the sale of Cobalt Ground Solutions in December 2016 - 746 FTEs FY2016
(2) Productivity measured by EASK/FTE

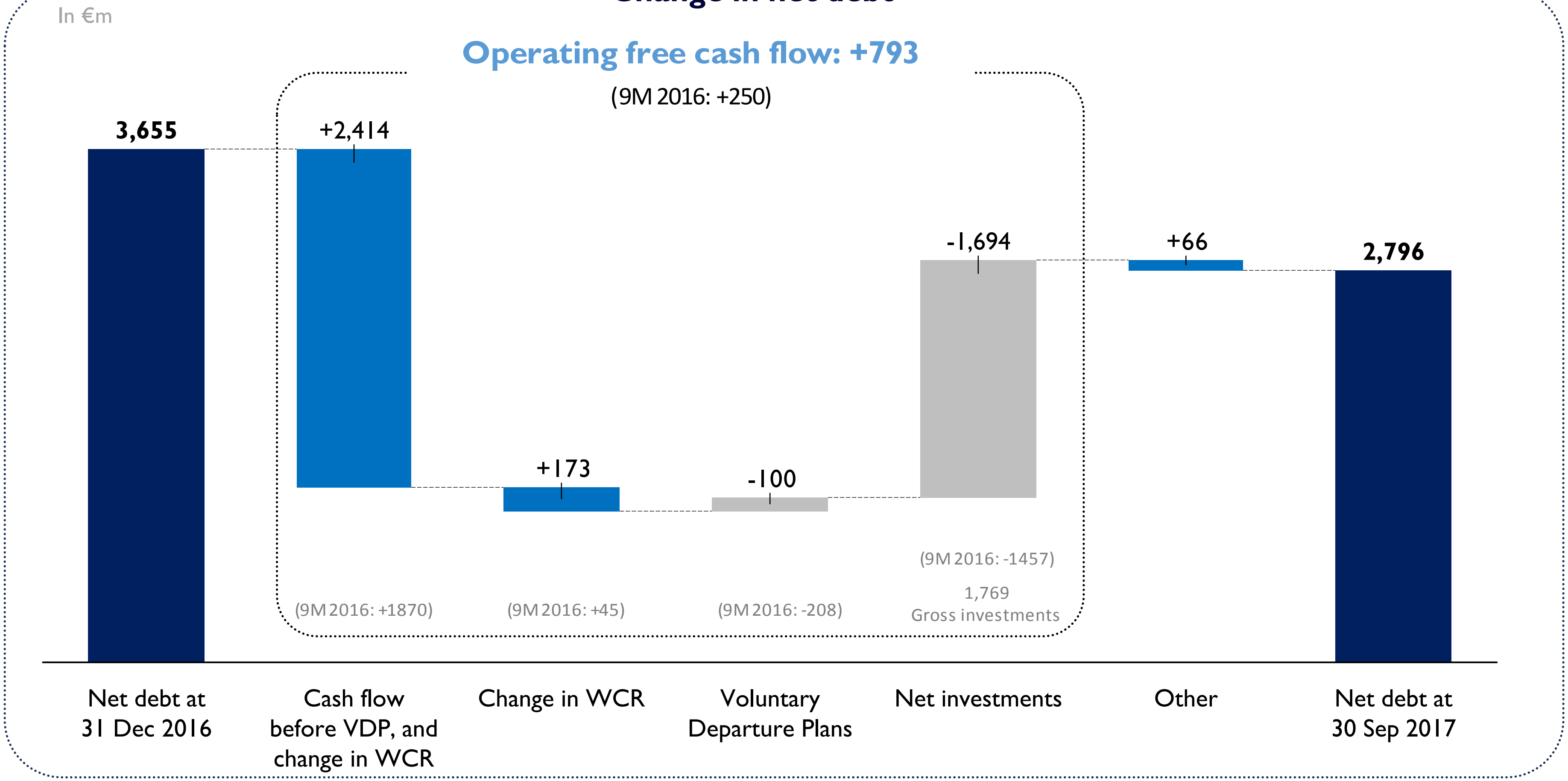
# Q3 2017 FUEL BILL DOWN 100M EUR COMPARED TO LAST YEAR



# NET DEBT REDUCTION SUPPORTED BY IMPROVEMENT IN EBITDA AND WORKING CAPITAL

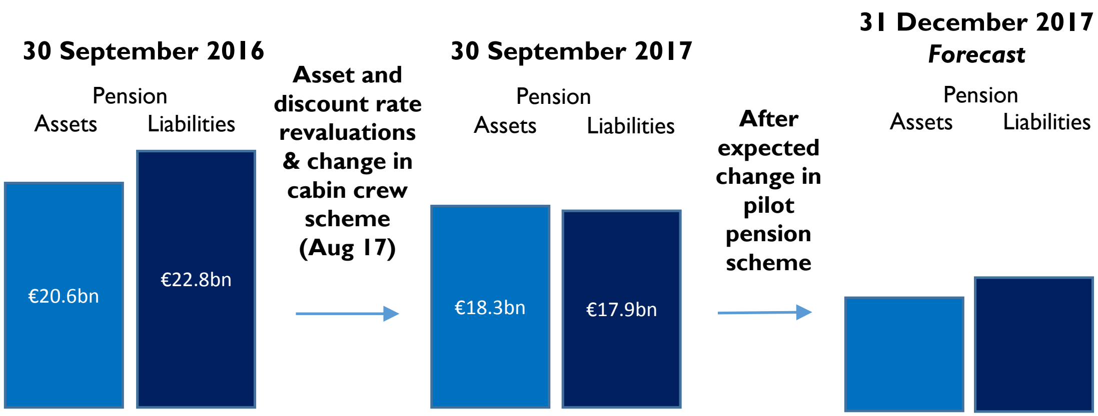
- **Adjusted Net debt / EBITDAR at 2.4**

## Change in net debt

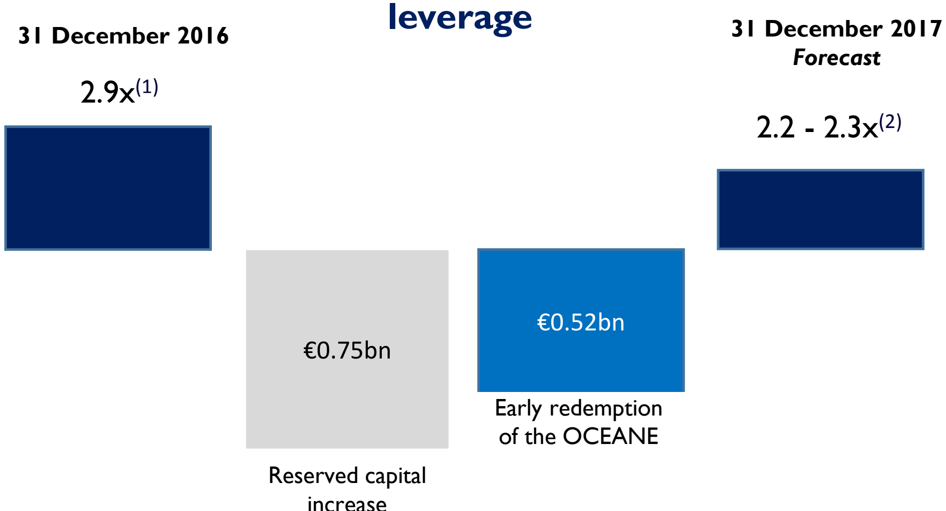


# FURTHER STRENGTHENING THE FINANCIAL STRUCTURE

## De-risking pension plans




## Continued reduction in leverage

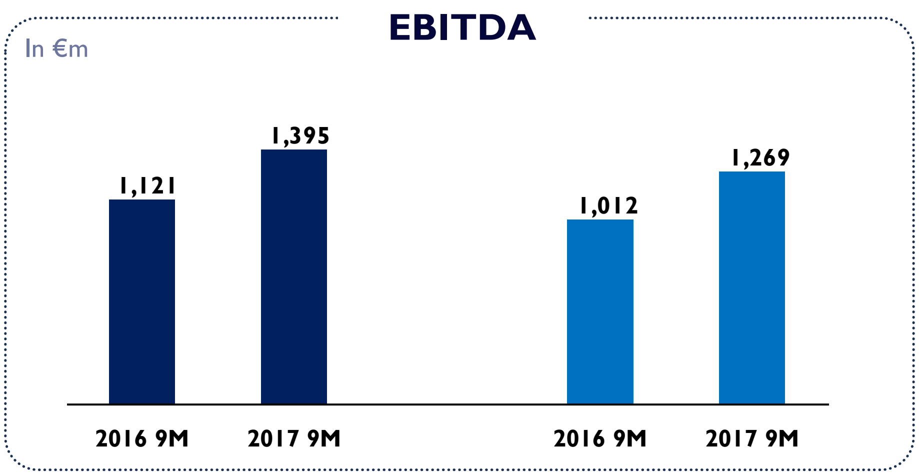


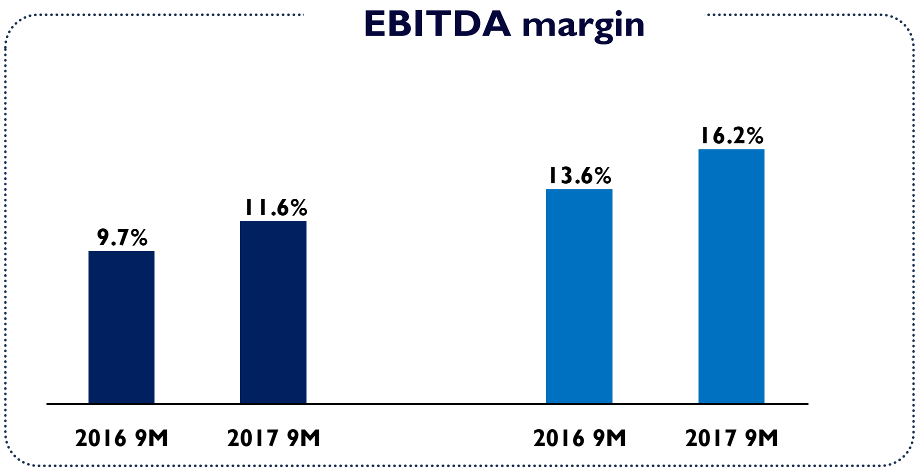

- P&L impact : non-current (and non-cash) of € 233m after tax at Q3 for the KLM cabin scheme. Impact to be calculated at implementation for the KLM pilot plan
- Cash : € 194m lump sum – several annual installments
- Significant reduction of the volatility of the annual pension contributions and of the Group's exposure to sizeable plans

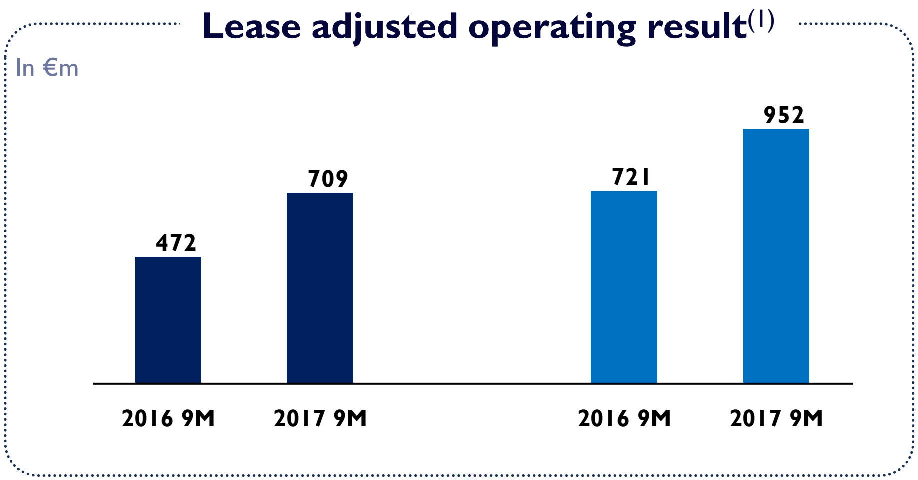
- Reserved capital increase of € 751m completed on October 3rd 2017
- Soft call exercise of the OCEANE 2023:
  - Further deleveraging up to € 520m per November 15th 2017
  - At October 31st, conversion requests for € 340 m
  - Conversion rights up to November 6th 2017

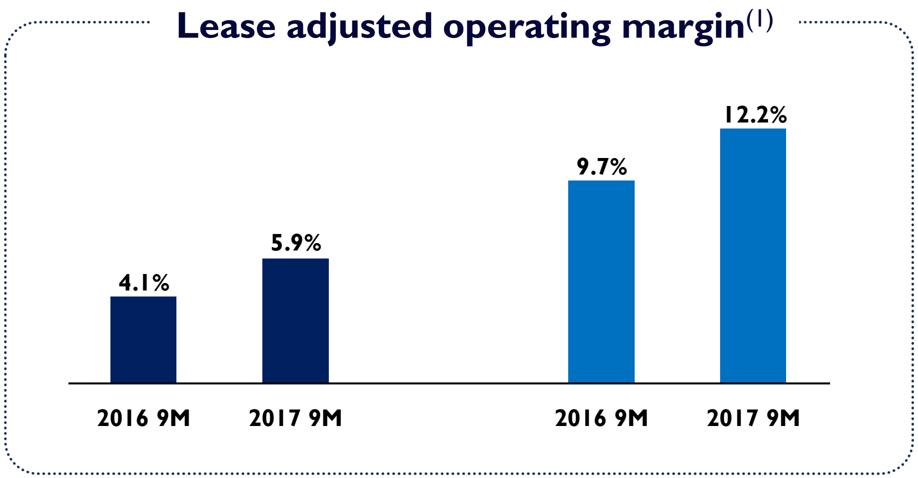
(1) Adjusted net debt/EBITDAR
(2) Before acquiring 31% of Virgin Atlantic shares

# CONTRIBUTION BY AIRLINE TO FIRST 9 MONTHS RESULTS

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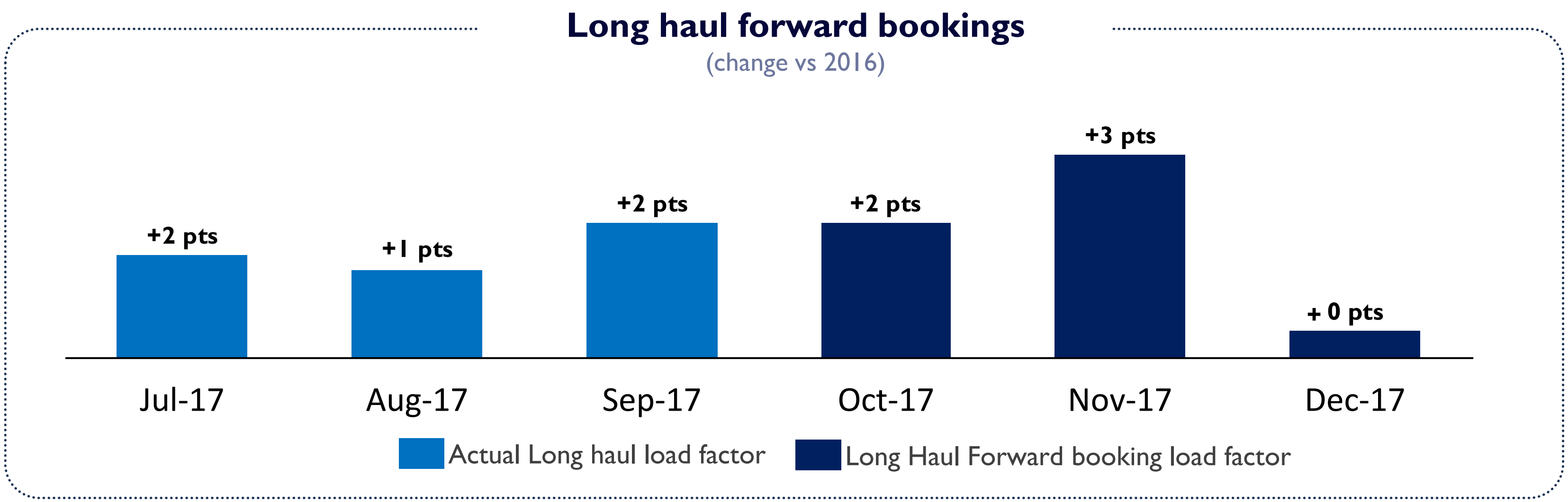
(1) Operating results adjusted for interest portion (1/3) operating leases

# OUTLOOK

# OUTLOOK Q4 2017 PASSENGER NETWORK: CONTINUATION OF THE POSITIVE TREND

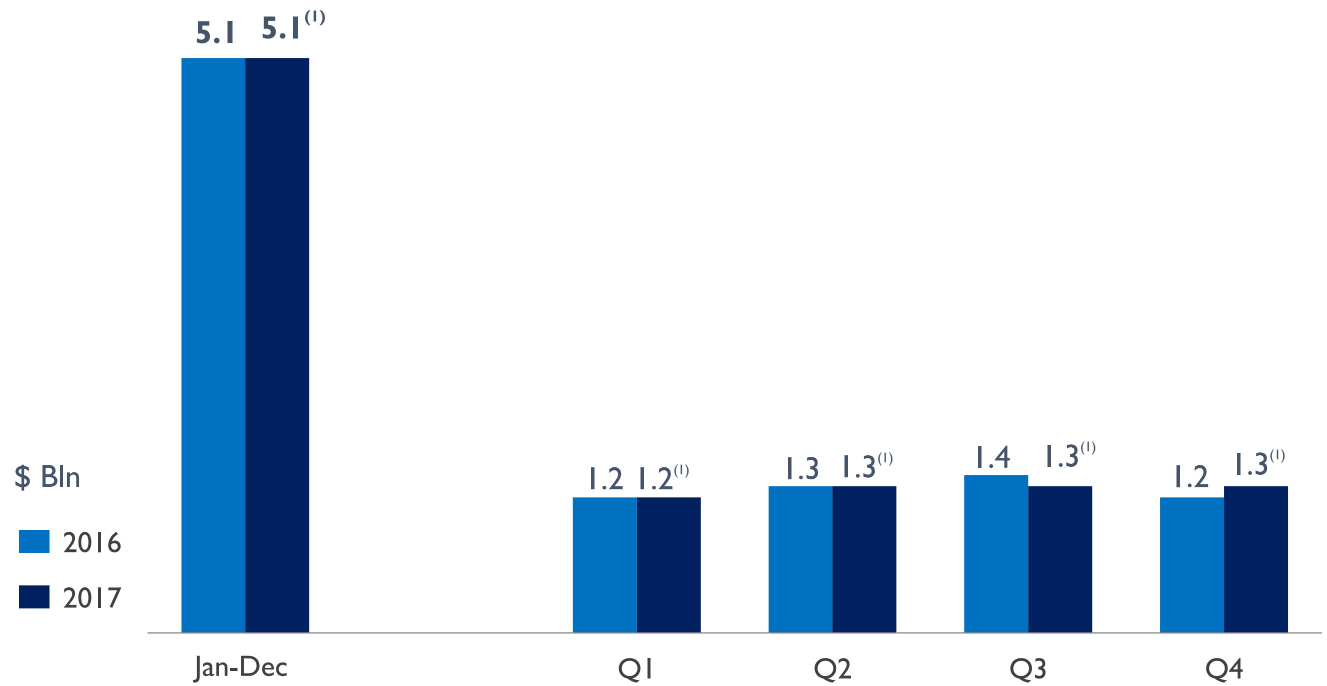



- Q4 2017 capacity of Passenger Network +3-4% and Transavia +6-7%
- Long haul forward booked load factor ahead of last year for coming two months
- October 2017 unit revenue compared to last year at constant currency is positive
- Based on current outlook, Q4 2017 unit revenues compared to last year are expected to be positive at constant currency

# OUTLOOK Q4 2017 FUEL BILL: +100M USD, STABLE IN EUR

2016:
fuel bill €4.6bn

2017:
fuel bill €4.5bn(2)




| | | Jan-Dec | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|
| MARKET PRICE | Brent ($ per bbl)(1) | 54 | 55 | 51 | 52 | 59 |
| | Jet fuel ($ per metric ton)(1) | 522 | 514 | 485 | 520 | 571 |
| % of consumption already hedged | | | | | | 60% |

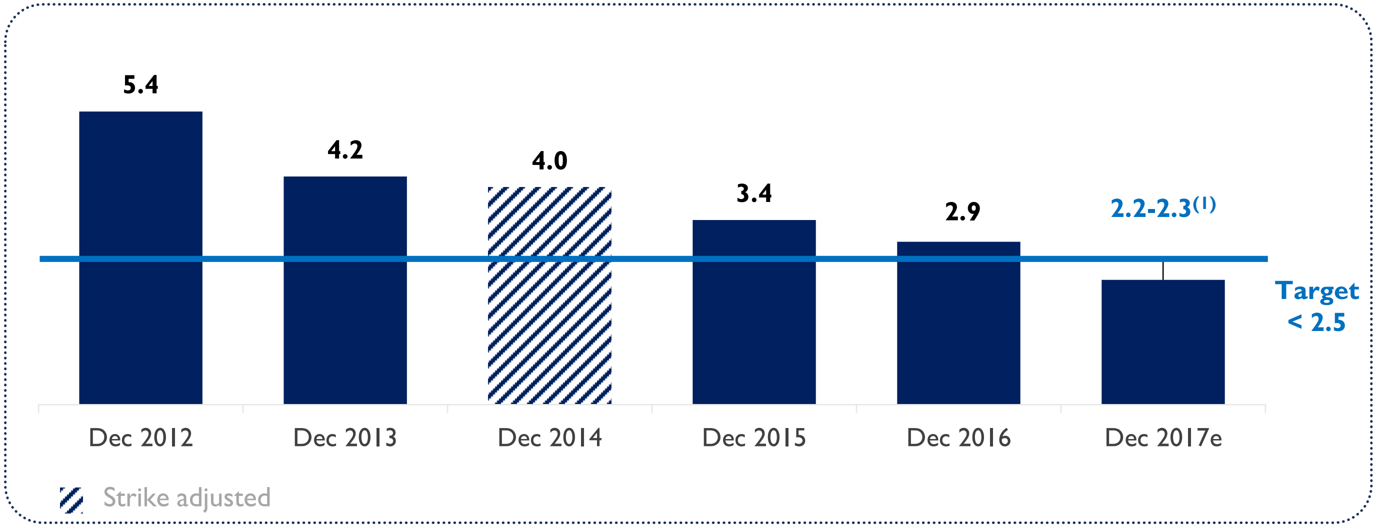




(1) Based on forward curve at October 27th 2017. Sensitivity computation based on October-December 2017 fuel price, assuming constant crack spread between Brent and Jet Fuel
(2) Assuming average exchange rate of US dollar per euro 1.18 for October-December 2017

# OUTLOOK 2017

- Unit cost evolution at constant currency, fuel and pension charges expected slightly negative, and between -1.0% to -1.5% excluding load factor and profit sharing effect
- Capex plan in planned range at € 2.2bn in 2017
- Operating free cash flow before disposals above last year
- Adjusted net debt to EBITDAR exceeds target:







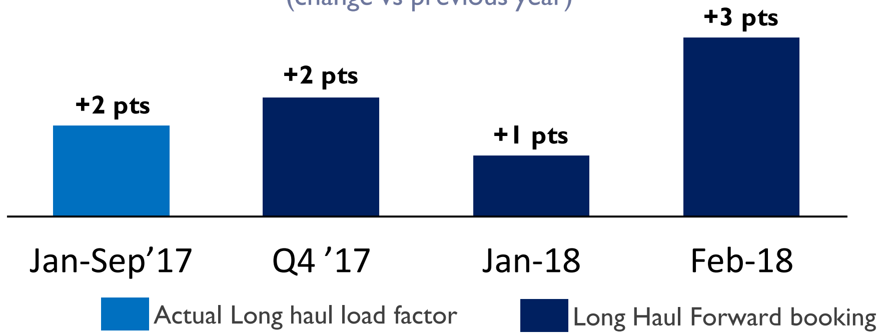

(1) Before acquiring 31% of Virgin Atlantic shares in 2018

# FIRST ESTIMATES 2018

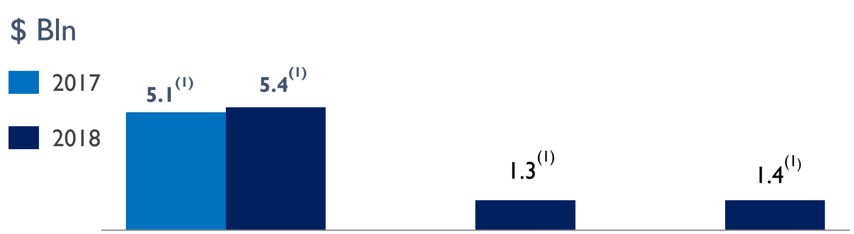
- Forward bookings for the first 2 months of 2018 are positive compared to last year, based on current outlook
- Fuel bill first estimate +300m USD, stable in EUR in 2018 versus 2017, based on current forward prices
- IFRS 16 early implementation in 2018 expected, in a first assessment, to result in a consequential reduction of net debt of at least 1.5 billion euros compared to adjusted net debt (based on 31st December 2016 figures).

## Long haul forward bookings

(change vs previous year)




## Fuel estimates




| | Jan-Dec | Q1 '18 | Q2 '18 |
|---|---|---|---|
| Brent ($ per bbl)[1] | 54 | 59 | 59 |
| Jet fuel ($ per metric ton)[1] | 522 | 574 | 570 |
| % consumption hedged | | 61% | 62% |





(1) Based on forward curve at October 27th 2017

# APPENDIX

# NEW DISTRIBUTION STRATEGY: AGILITY AND INNOVATION ARE KEY TO RESPOND TO CHALLENGES AND OPPORTUNITIES

Competitive pressure reinforces the need to adapt, innovate and differentiate .

Need to become even more efficient and fight commoditization of our product through value selling.

More than ever, customers expect time to market, flexibility, and tailor made offers.

Need to be at the source of offer creation , to best address individual needs through personalization.

There is an increasing range of ways for customers to purchase travel products

Need to be where the customer is and to distribute freely our products on most relevant channels .

# NEW DISTRIBUTION STRATEGY: A CHANGE IN THE DISTRIBUTION MODEL IS REQUIRED, EMBRACING NDC WILL UNLOCK OPPORTUNITIES

## Air France KLM NDC Offer Management

*Taking back control of offer creation for all channels, allowing creation of:*

Personalized offers

Dynamically built product bundles

Rich offers and content

***Enhancing distribution capabilities to all channels***

**Aggregator** → **Travel agent**

*Direct connect or Booking Tool* → **Travel agent**

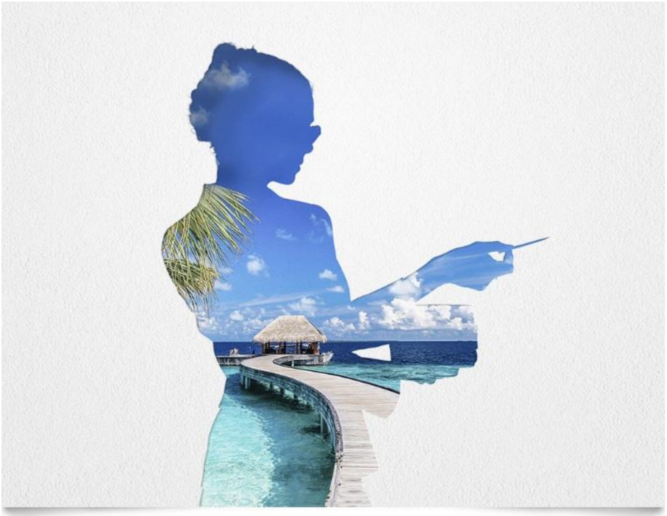
**AFKL direct sales**

*Each channel carries its own cost dynamics.*

- → *Therefore, effective April 1st 2018, Air France KLM will implement a* ***Distribution Surcharge effective on GDS Sales.***
- → ***GDS*** *are a key component of Air France KLM distribution. However their* ***model represents higher costs than other options do*** *and comes with more constraints.*
- → *The Distribution surcharge covers the cost difference created by the GDS model in compared with corresponding costs of Air France KLM direct sales.*

# A NEW FLYING BLUE PROGRAM TO BE LAUNCHED ON 1ST APRIL 2018

- Implemented in June 2005, Flying Blue has proven its strong value to the airlines, with
  - A highly qualified database of nearly 15 million members,
  - A very significant revenue of the total Air France- KLM revenue generated by Flying Blue members
  - An attractive program with 135 partners

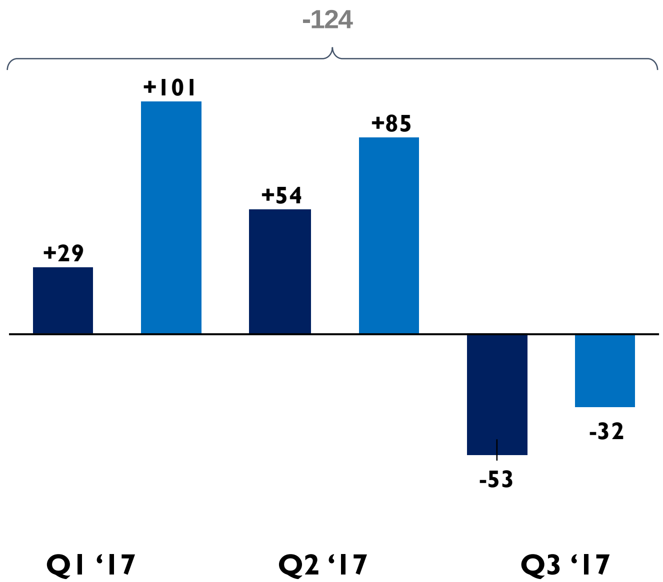


- A new program will be launched on 1st April 2018, offering the members more simplicity, more flexibility, a clearer earning scheme, more options to spend their Miles on flights and flight-related services
- It will be based on a complete re-engineering of the program, with the purpose to enrich the travel experience, to stimulate the loyalty towards the airlines and to maximize the attractiveness thanks to the development of partners
  - New tools will be implemented to analyze and rationalize the economics of the program and to optimize the financial steering,  while improving the program towards customers

# NEGATIVE CURRENCY IMPACT ON THE OPERATING RESULT

## Currency impact on revenues and costs

In €m




Currency impact on revenues

Currency impact on costs, including hedging

**-XX** Currency impact on operating result

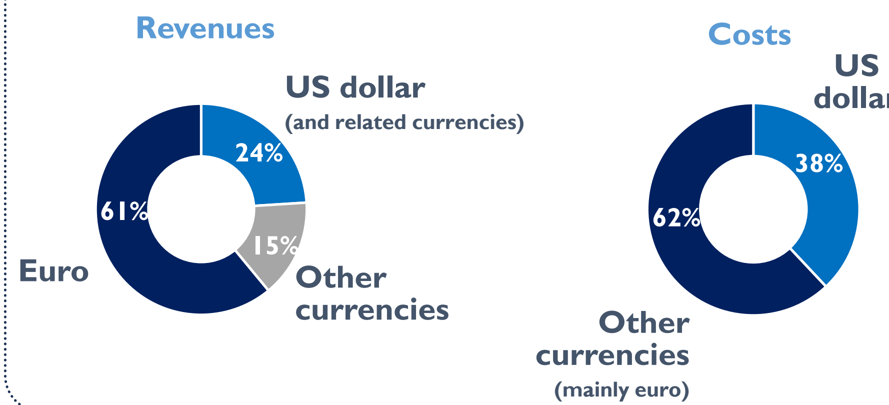
## FY 2017

FY 2017 guidance

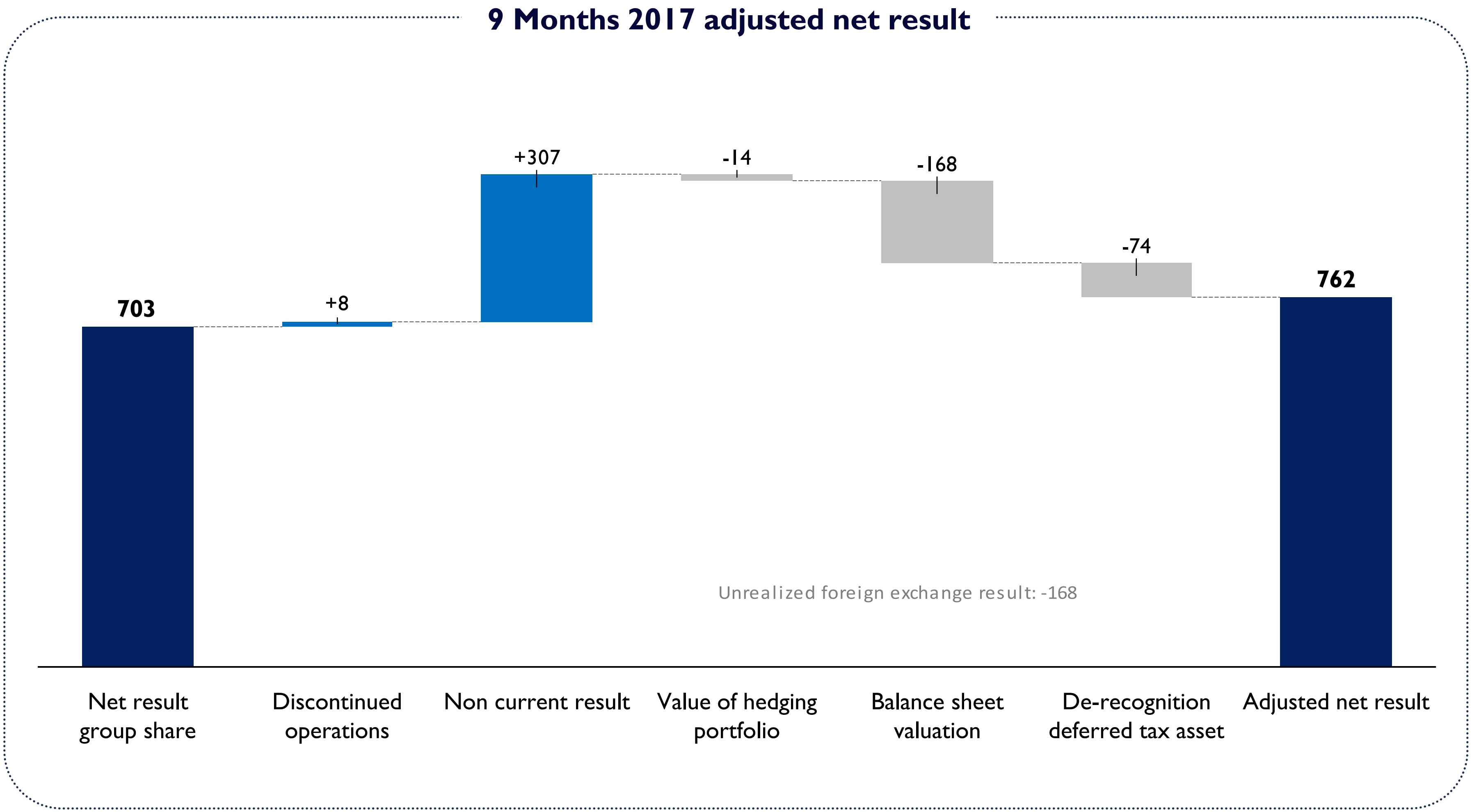
- FX headwind FY 2017 estimated around €125m based on spot €/$ 1.19 in Q4 2017
- Hedging policy on USD, GBP and JPY: ~50% net operational exposure 2017

## Revenues and costs per currency

FY 2016



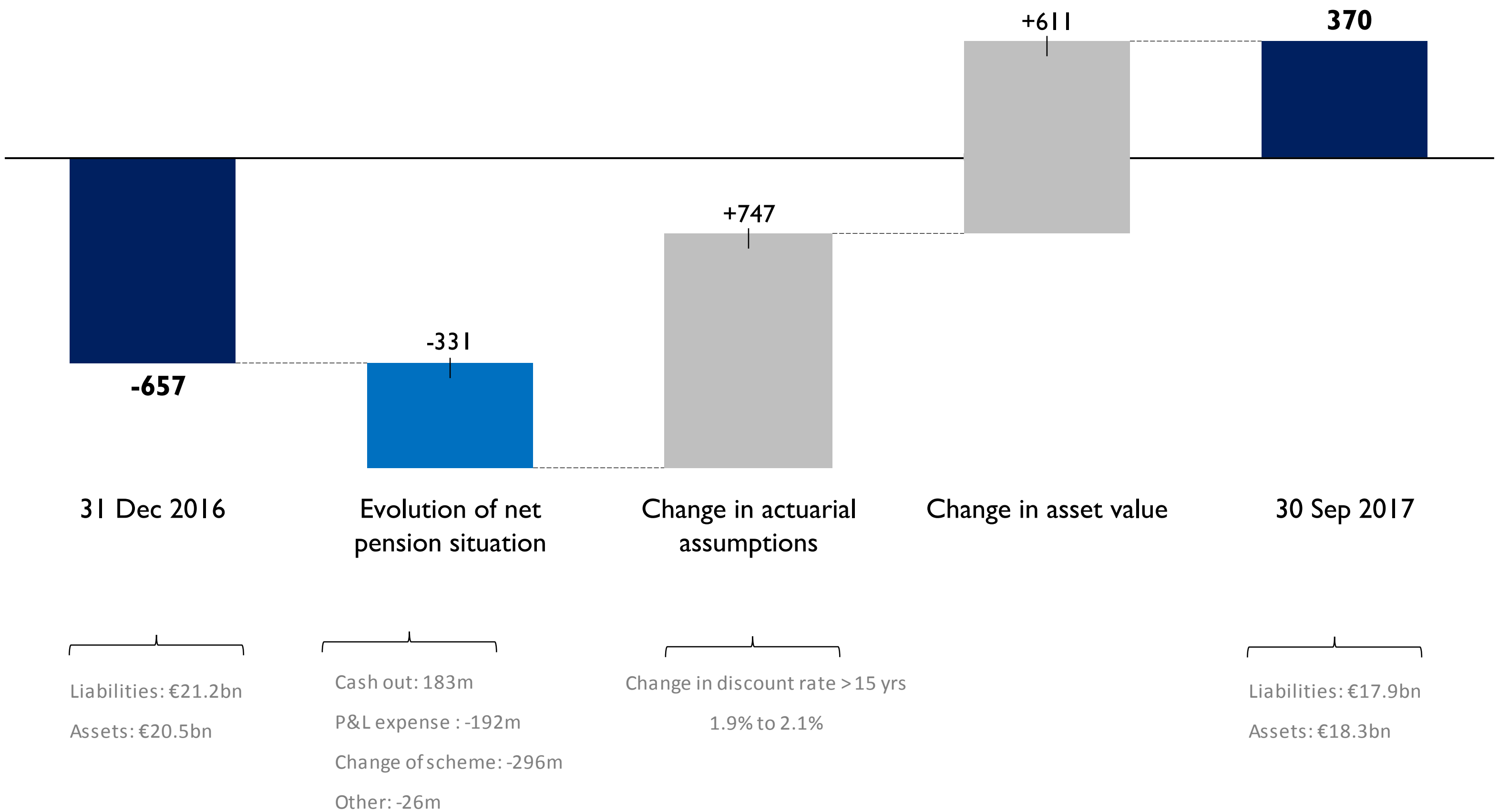
# FIRST 9 MONTHS 2017 ADJUSTED NET RESULT



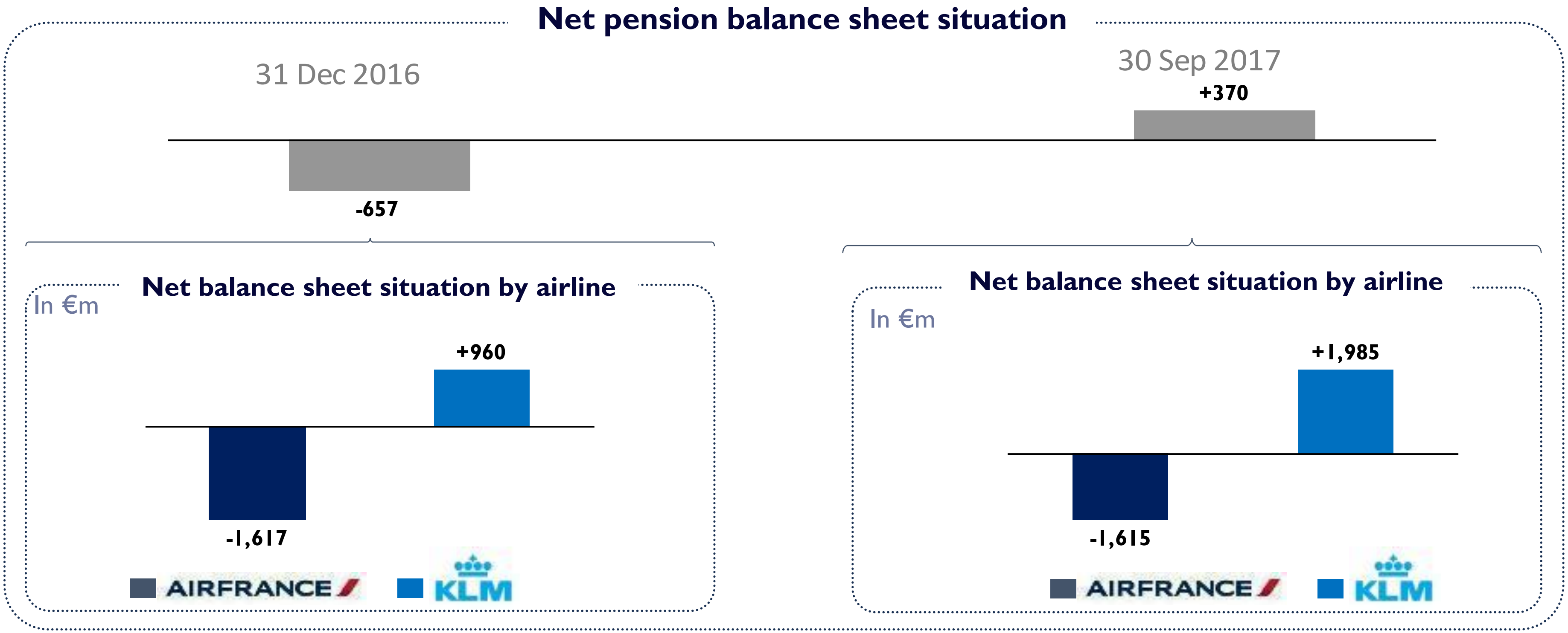
# PENSION UPDATE GROUP LEVEL

## Net pension balance sheet situation

In €m



# PENSION DETAILS AT 30 SEPTEMBER 2017



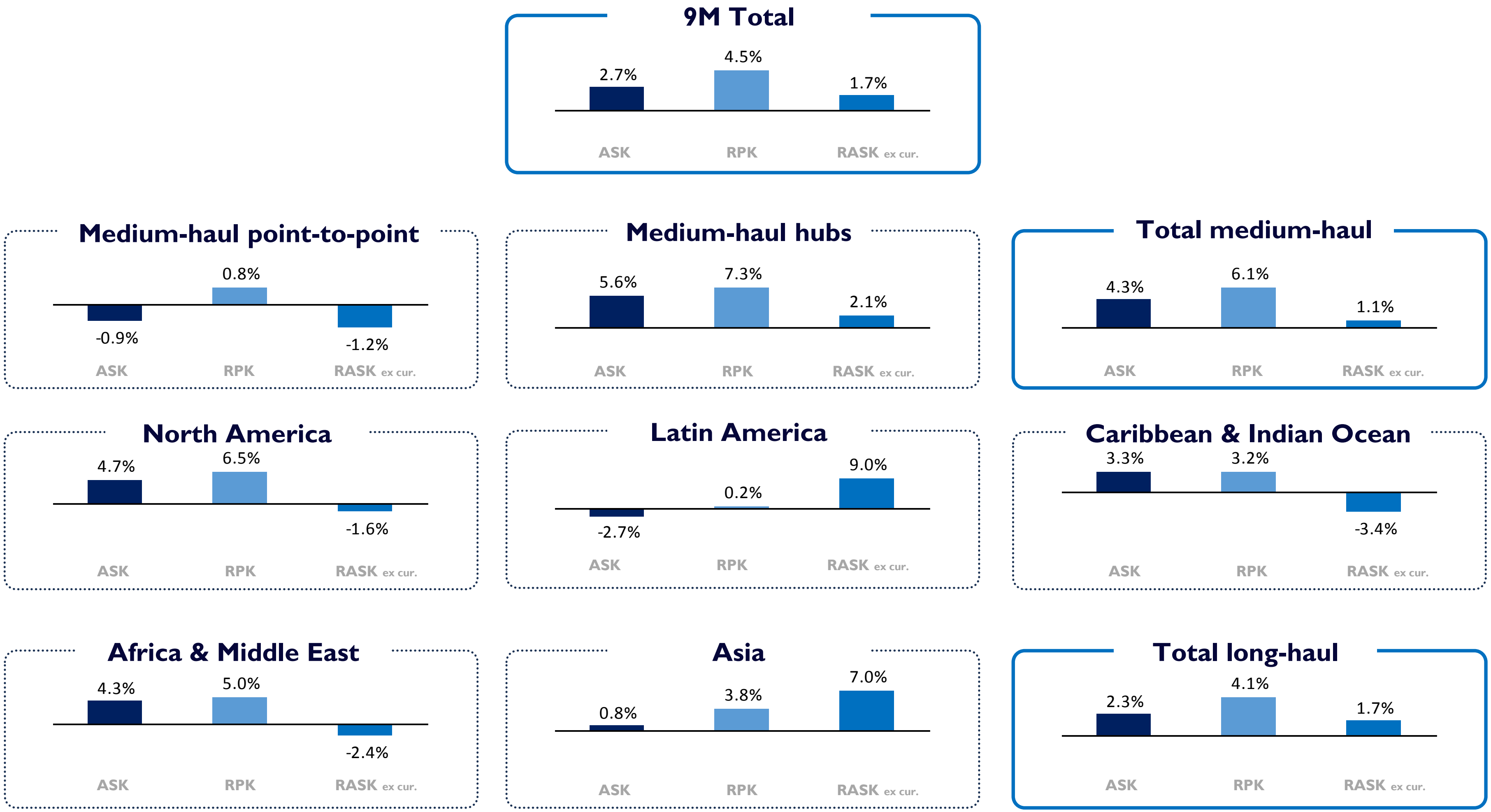

**Air France**

- Air France end of service benefit plan (ICS): Pursuant to French regulations and the company agreement, every employee receives an end of service indemnity payment on retirement (no mandatory funding requirement). ICS represents the main part of the Air France position
- Air France pension plan (CRAF): related to ground staff affiliated to the CRAF until December 31st, 1992

**KLM**

- Defined benefit schemes for Pilots and Ground staff

# NETWORK: FIRST 9 MONTHS PASSENGER NETWORK RECOVERY IN ASIA AND LATIN AMERICA



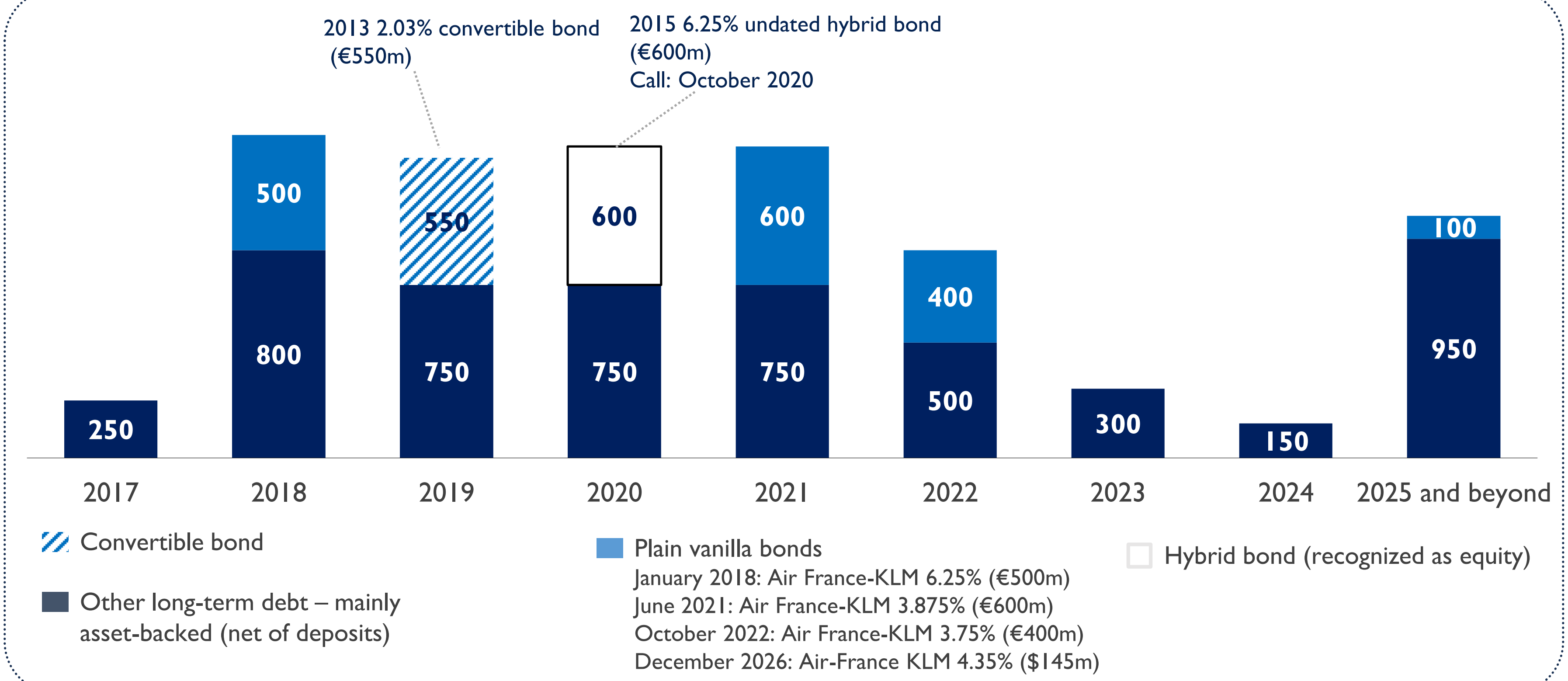



Passenger network: Air France, KLM and HOP!

# DEBT REIMBURSEMENT PROFILE AT 30 SEPTEMBER 2017

- The 2013-23 2.03% convertible bond will be redeemed on 15th of November 2017 following the soft call by Air France-KLM. The bondholders have the right up to 6th of November 2017 to exercise their conversion rights, for which new shares will be issued

## Debt Reimbursement Profile[1]






(1) In € million, net of deposits on financial leases and excluding KLM perpetual debt (€m)