



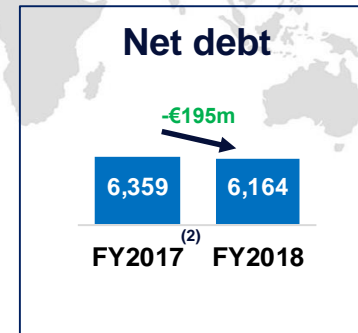
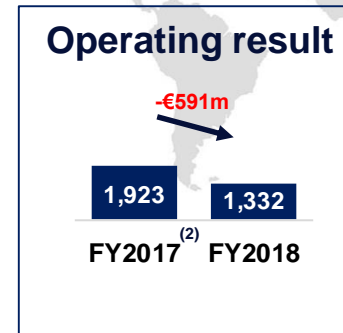
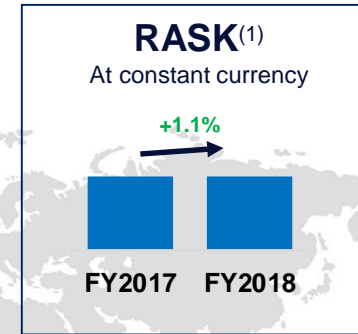
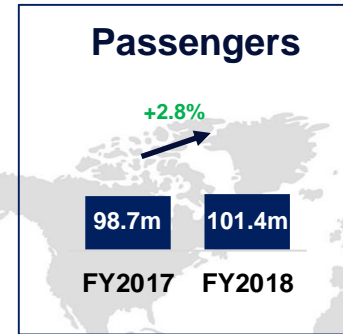
AIRFRANCE **KLM**  
GROUP

# FULL YEAR 2018 RESULTS

February 20, 2019  
**Press Conference**

# RESILIENT FULL YEAR RESULT DESPITE STRIKE IMPACT AND FUEL INCREASE

- More than 100 million passengers carried in 2018, European leader for long-haul
- Successful expansion of Transavia in France and the Netherlands and solid growth trend of MRO third-party activity
- Significant progress in the social dialogue
  - > Air France: finalization of labor agreements for all staff categories
  - > KLM: new CLAs implemented for all staff categories



(1) Group revenues per Available Seat Kilometer (RASK) Passenger + Transavia

(2) Restated for implementation of new IFRS accounting standards

# FINANCIAL REVIEW

FRÉDÉRIC GAGEY



Results at 31 December 2018

# Q4 2018: REVENUE INCREASE OF +4.1% AND AN OPERATING RESULT AT €40 MILLION AFTER SIGNIFICANT FUEL IMPACT

	Q4 2018	Q4 2017 <sup>(1)</sup>	Change	Change at constant currency
Revenues (€ bn)	6.54	6.28	+4.1%	+4.3%
EBITDA (€ m)	776	970	-20.0%	-15.7%
Operating result (€ m)	40	228	-82.4%	-77.7%
Operating margin	0.6%	3.6%	-3.0 pt	-2.3 pt
Net income - Group part (€ m) <sup>(2)</sup>	-218	-928	+710m	

(1) Restated for implementation of new IFRS accounting standards

















(2) Net income - group part one-off elements in Q4 2017:

- Positive effect of €47 million after tax in Q4 2017 resulting from IFRS 16 restatement of lease debt in dollars

- Non current expense impact of €1,195 million after tax in Q4 2017 related to KLM pension plan de-recognition

Excluding these one-offs, the change in Net income - group part Q4 2018 is €-438 million compared to last year.

# Q4 2018: REVENUE GROWTH SUPPORTED BY ALL BUSINESSES

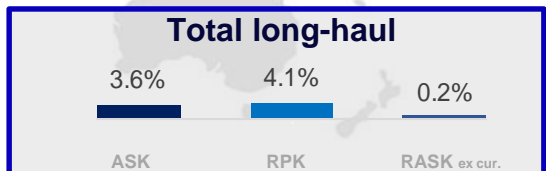
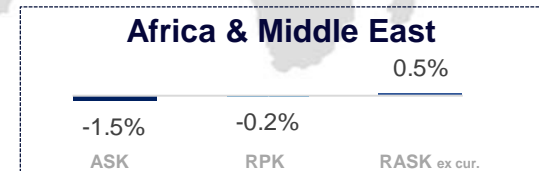
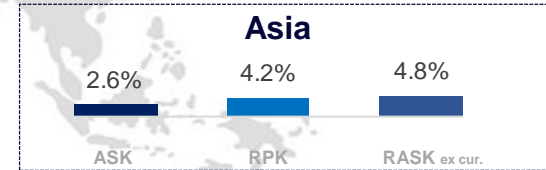
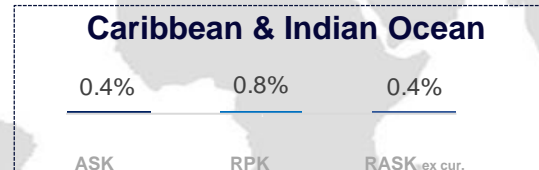
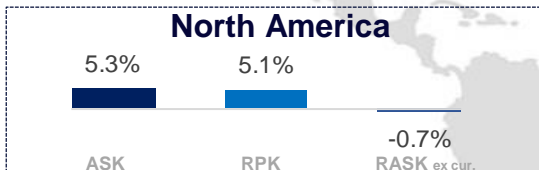
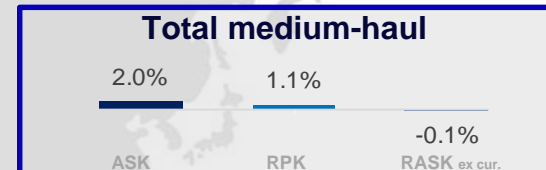
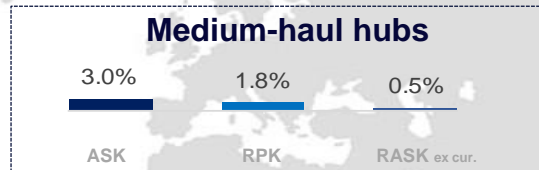
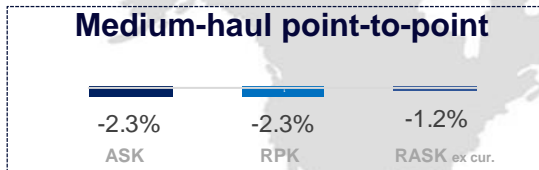
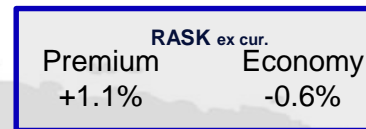
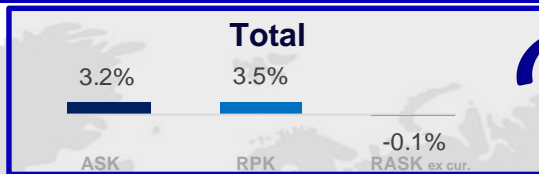
		Capacity <sup>(1)</sup>	Unit Revenue <sup>(2)</sup> Constant Currency	Revenues (€ m)	Change	Operating result (€ m)	Change <sup>(3)</sup>	Operating margin	Change <sup>(3)</sup>
Network	AIRFRANCE  HOP!  KLM  JOPY 	+3.2%	-0.1%	5,727	+3.7%	34	-82.9%	0.6%	-3.0 pt
	AIRFRANCE  KLM  Martinair  CARGO 	+0.7%	+1.3%						
Transavia	 transavia	+14.4%	-0.9%	309	+12.0%	-42	+20.4%	-13.6%	-1.0 pt
Maintenance	AIRFRANCE  INDUSTRIES  KLM  Engineering & Maintenance 			490	+5.4%	46	-27.8%	3.8%	-2.0 pt
Group	AIRFRANCE  KLM  GROUP 	+3.7%	-0.2%	6,538	+4.1%	40	-82.4%	0.6%	-3.0 pt

(1) Passenger airline capacity = Available Seat Kilometers, Cargo capacity = Available Ton Kilometers, Group capacity = Equivalent Available Seat Kilometers

(2) Unit revenues: Passenger airlines = revenue per Available Seat Kilometer, Cargo = revenue per Available Ton Kilometer, Group = revenue per Equivalent Available Seat Kilometer

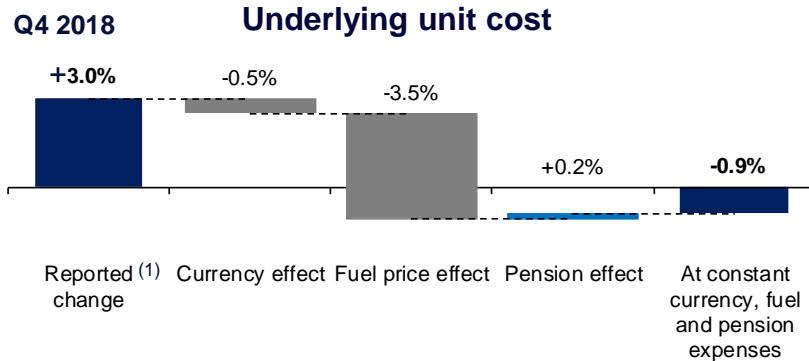
(3) 2017 restated for implementation of the new IFRS accounting standards

# Q4 2018: LONG-HAUL UNIT REVENUE SLIGHTLY POSITIVE WITH A STRONG ASIAN NETWORK PERFORMANCE, STABILITY IN THE MEDIUM-HAUL NETWORK



# Q4 2018 UNIT COSTS DOWN -0.9%, FULL YEAR UNIT COSTS AT +0.6% IN LINE WITH GUIDANCE

- Q4 2018 cost efficiencies offsetting wage inflation including retroactive booking
- Full Year 2018 unit cost +0.6% within guided target range, and -0.2% net of strike impact



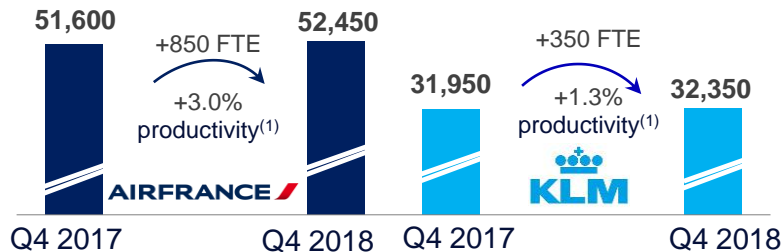
(1) 2017 restated for implementation of the new IFRS accounting standards

# Q4 2018: LABOR PRODUCTIVITY IMPROVED, IMPLEMENTATION OF ANNUAL WAGE AGREEMENTS AT AIR FRANCE

- Q4 staff cost +3% and +1% excluding retroactive booking of the new Air France labor agreement
- Employee productivity +2.2% in Q4 (with capacity +3.7%)

## Employee productivity

Average FTEs, including temporary staff



(1) Productivity measured in EASK/FTE





# FULL YEAR OPERATING RESULT AT €1.3 BILLION, FURTHER NET DEBT REDUCTION OF €195 MILLION

	FY 2018	FY 2017 <sup>(1)</sup>	Change	Change at constant currency
Revenues (€ bn)	26.51	25.87	+2.5%	+5.0%
EBITDA (€ m)	4,217	4,763	-11.5%	-8.0%
Operating result (€ m)	1,332	1,923	-30.7%	-23.4%
Operating margin	5.0%	7.4%	-2.4 pt	-1.9 pt
Net income - Group part (€ m) <sup>(2)</sup>	409	163	+151%	
Adjusted operating free cash flow (€ m)	115	677	-83.0%	
ROCE	9.8%	14.4%	-4.6 pt	

	31 Dec 2018	31 Dec 2017 <sup>(1)</sup>	Change
Net debt (€ m)	6,164	6,359	-195m
Net debt/EBITDA	1.5x	1.3x	+0.13 pt

(1) Restated for implementation of new IFRS accounting standards






(2) Net income - group part one-off elements in FY2017:

- Positive effect of €386 million after tax in FY2017 resulting from IFRS 16 restatement of lease debt in dollars

- Non current expense impact of €1,428 million after tax in 2017 related to KLM pension plan de-recognition

Excluding these one-offs, the change of Net income - group part FY2018 is -€796 million compared to last year

# RESILIENT RESULTS DESPITE STRIKE IMPACT AND FUEL INCREASE, SUBSTANTIAL MARGIN AT TRANSAVIA

FY 2018	Unit		Revenues (€ m)	Change	Operating result (€ m)	Change <sup>(3)</sup>	Operating margin	Change <sup>(3)</sup>	
	Capacity <sup>(1)</sup>	Revenue <sup>(2)</sup> Constant Currency							
Network		+2.1%	+1.1%	22,943	+1.6%	994	-36.1%	4.3%	-2.6 pt
		+0.1%	+5.2%						
Transavia		+8.4%	+3.6%	1,611	+12.2%	139	+18.0%	8.6%	+0.4 pt
Maintenance				1,920	+6.6%	195	-22.5%	4.5%	-1.6 pt
Group		+2.4%	+1.5%	26,515	+2.5%	1,332	-30.7%	5.0%	-2.4 pt

(1) Passenger airline capacity = Available Seat Kilometers, Cargo capacity = Available Ton Kilometers, Group capacity = Equivalent Available Seat Kilometers

(2) Unit revenues: Passenger airlines = revenue per Available Seat Kilometer, Cargo = revenue per Available Ton Kilometer, Group = revenue per Equivalent Available Seat Kilometer

(3) 2017 restated for implementation of the new IFRS accounting standards

# NETWORK REVENUE INCREASE DRIVEN BY HIGHER UNIT REVENUES AND OPERATING RESULT IMPACTED BY STRIKES

- Q4 2018 Passenger unit revenues -0.1% at constant currency, including the negative impact of protest movements in France
- Full Year Passenger unit revenues at +1.1% at constant currency despite negative strike effect
- Ancillaries revenues at €650 million, +10.8% in 2018 compared to last year
- Q4 2018 Cargo maintains positive unit revenues (RATK) +1.3% at constant currency and Full Year 2018 at 5.2%, particularly driven by strength in Asia, North America and Europe
- Both full freighters and bellies deliver an increased positive contribution to the Network result compared to last year



# TRANSAVIA STRONG GROWTH AND A RECORD HIGH MARGIN

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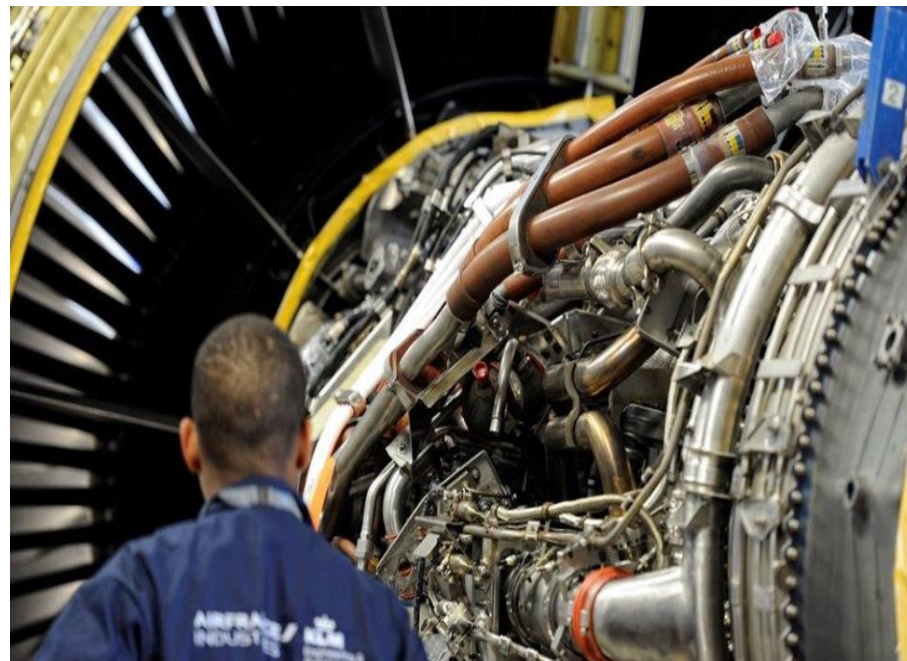
- Best result since launch of Transavia: operating result of €139 million and operating margin above 8% in the two companies, of which Transavia France 9.1%
- Accelerated capacity growth in fourth quarter 2018 +14.4%, ending 2018 with growth of +8.4%, of which +21% in France
- Transavia's cost structure is well aligned with the low-cost business model:
  - ✓ Maximizing use of aircraft, a single aircraft type
  - ✓ Simplicity of the product and fares, multiple options
  - ✓ Light organizational structure, outsourcing non-core activities, strong synergies between the two subsidiaries



# MAINTENANCE ORDER BOOK INCREASE CONTINUING




- Several large contracts won for NextGen components and Engines
- Third-party revenues maintain solid growth trend, margin pressure partly due to one-offs
- For 2019, focus on margin through better optimization of the turn-around-time and first effects of selective tendering

In €m	FY 2018	FY 2017	Change	At constant currency
Total revenues	<b>4,349</b>	4,155	+4.7%	
Third-party revenues	<b>1,920</b>	1,801	+6.6%	+11.0%
Operating result	<b>195</b>	252	-57 m	-42 m
Operating margin	<b>4.5%</b>	6.1%	-1.6 pt	-1.4 pt
In \$m	31 Dec 2018	31 Dec 2017	Change	
Order book <sup>(1)</sup>	<b>11,400</b>	10,800	+600 m	



(1) Order book is the cumulative value of signed contracts with external customers and may differ from the order book accounting definition in the financial statements

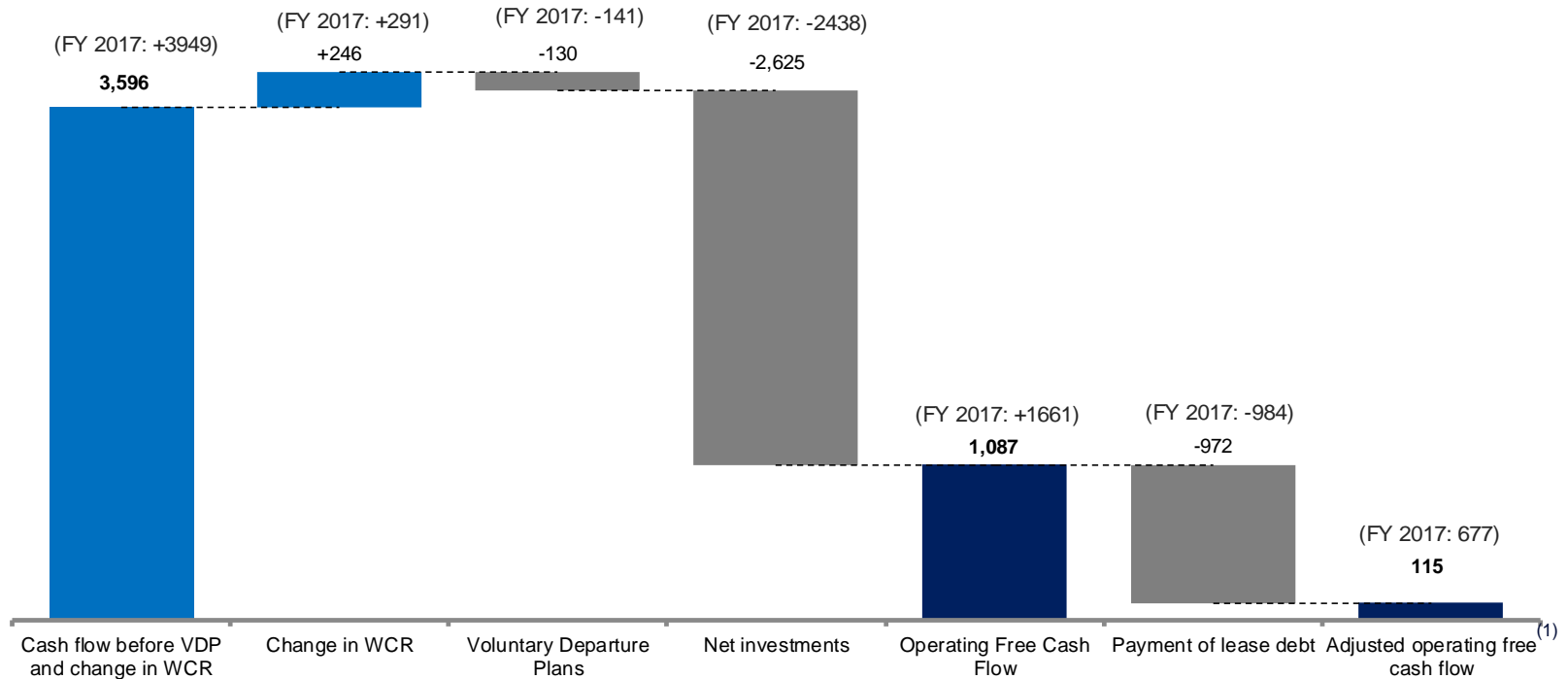
# AIR FRANCE RESULT IMPACTED BY STRIKES, KLM DELIVERS A SOLID RESULT IN LINE WITH LAST YEAR'S PERFORMANCE

FY 2018	Capacity		Revenues (€ m)		Operating result (€ m)		Operating margin		Net debt (€ m)	
		Change		Change		Change		Change		Change
	+2.5%		16,073	+1.2%	266	-69.2%	1.7%	-3.8 pt	3,556	-36
	+2.3%		10,955	+5.0%	1,073	-0.5%	9.8%	-0.5 pt	2,826	-454
	+2.4%		26,515	+2.5%	1,332	-30.7%	5.0%	-2.4 pt	6,164	-195

# POSITIVE ADJUSTED OPERATING FREE CASH FLOW DESPITE THE STRIKES

## FY 2018

In € m

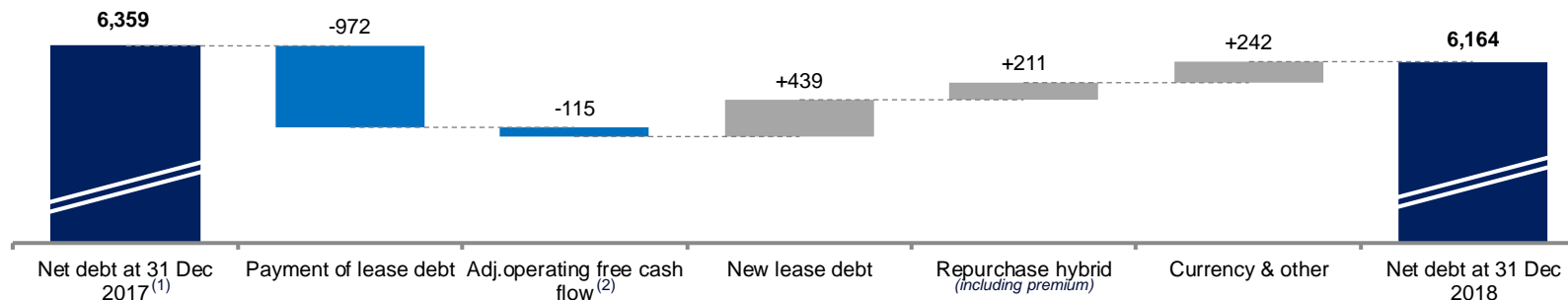


(1) Adjusted operating free cash flow = Operating free cash flow with deduction of repayment of lease debt

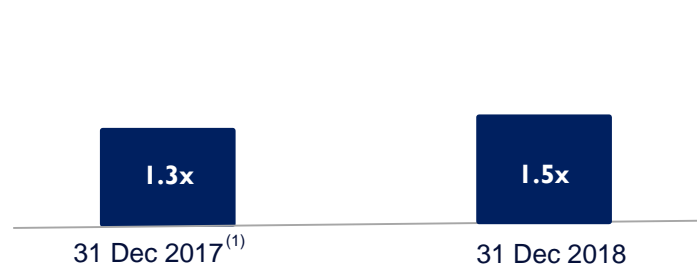
# NET DEBT REDUCED BY €195 MILLION YOY, INCLUDING REPURCHASE OF €197 MILLION OF HYBRID BONDS

## Net Debt evolution

In € m

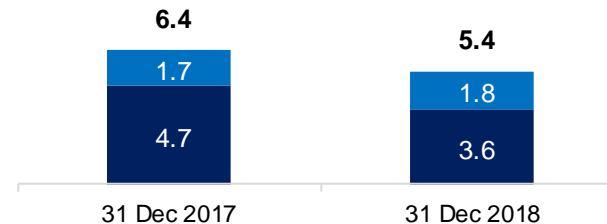


## Net Debt / EBITDA<sup>(3)</sup>



## Liquidity situation

In € bn



(1) Restated for implementation of the new IFRS accounting standards and restated again for 2017 base compared to previous reporting by -€212 mln correction on IFRS leases, due to a revision of accounting for real-estate contracts

(2) Adjusted operating free cash flow = Operating free cash flow with deduction of repayment of lease debt

(3) Net Debt / EBITDA: 12 months sliding, see calculation in press release

■ Cash & Cash Equivalents ■ Undrawn credit lines





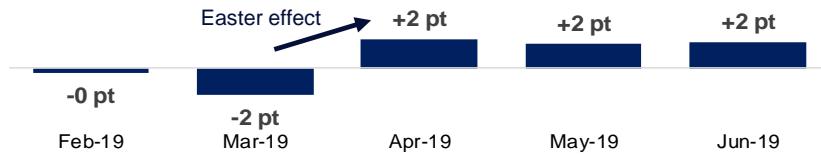
## OUTLOOK

Results at 31 December 2018

# REVENUE OUTLOOK

## Long-haul forward booking load factor

(change vs previous year)



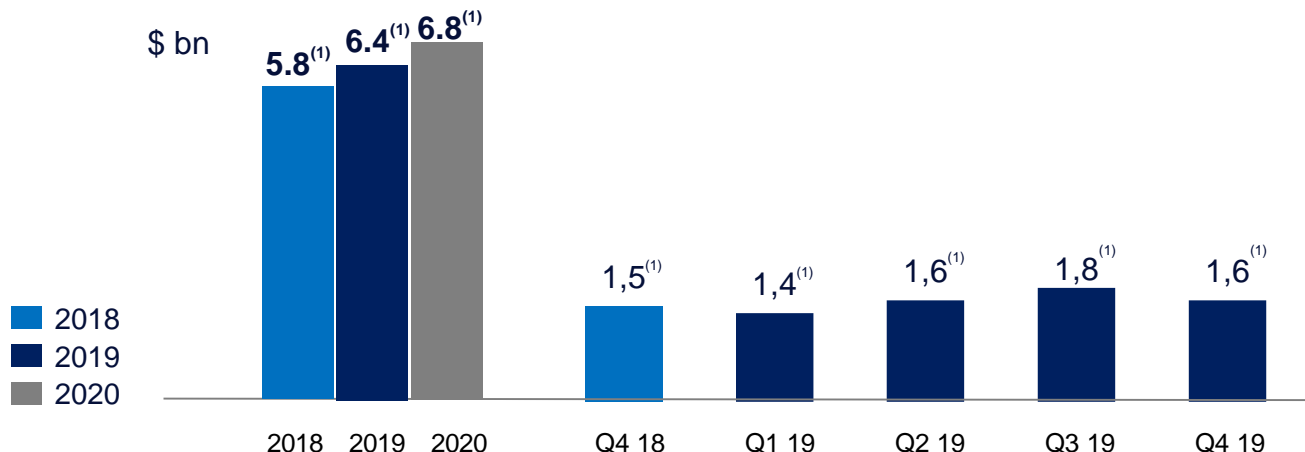
Based on the current data for Passenger network:

- Long-haul forward booking load factors from February to April are on average stable compared to last year, and positively oriented for the early summer,
- First quarter passenger unit revenues at constant currency expected below last year, due in part to the Easter shift.



# FUEL BILL INCREASE BY €650 MILLION IN 2019, EXPLAINED BY DIFFERENCE IN HEDGE IMPACT COMPARED TO 2018

2018:  
Fuel bill €4.9bn<sup>(2)</sup>  
2019:  
Fuel bill €5.6bn<sup>(2)</sup>  
2020:  
Fuel bill € 5.8bn<sup>(2)</sup>



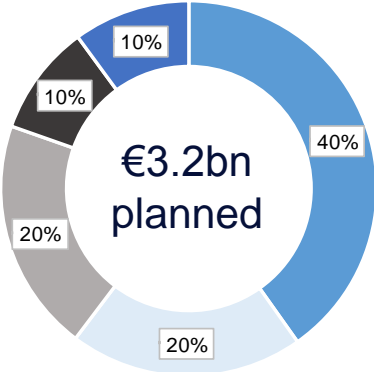
Market price	Brent (\$ per bbl) <sup>(1)</sup>								
	2018	2019	2020	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	
Jet fuel (\$ per metric ton) <sup>(1)</sup>	738	703	715	740	675	706	712	716	
Price after hedge	Jet fuel (\$ per metric ton) <sup>(1)</sup>								
	651	693	717	683	658	686	708	717	
	% of consumption already hedged								
	60%	59%	33%	59%	61%	61%	61%	55%	
	Hedge result (in \$ m)								
	800	100	0	150	50	50	0	0	

(1) Based on forward curve at 15 February 2019. Sensitivity computation based on 2019 fuel price, assuming constant crack spread between Brent and Jet Fuel. Jet fuel price including into plane cost

(2) Assuming average exchange rate on US dollar/Euro of 1.18 for 2018, 1.14 for 2019 and 1.17 for 2020

# CAPEX SUPPORTING THE GROUP'S AMBITION

## Capex breakdown 2019



- New fleet
- Ground & IT innovation
- Maintenance
- Spare parts
- Cabin modifications

Aircraft type	Entry 2019
787	6
A350	3
737	4

### 2019 Capex compared to former medium-term guidance:

- E&M business expansion for spare parts +€ 150 m
  - Aircraft modifications +€ 150 m
  - Transavia accelerated fleet expansion +€ 100 m
  - Operating lease shop visit + € 250 m
- (IFRS16 impact without cash incidence)*

# FULL YEAR GUIDANCE

	Actual 2018	Guidance 2019
<b>Capacity</b>	<b>Passenger</b>	+2.1%
	<b>Transavia</b>	+8.4%
<b>Fuel</b>	+€450m	+€650m
<b>Currency</b>	€183m headwind	Neutral effect
<b>Unit cost</b> <small>ex-currency at constant fuel price</small>	+0.6%	-1% to 0% <sup>(1)</sup>
<b>Capex</b>	€2.6bn	€3.2bn
<b>Net Debt / EBITDA</b>	1.5x	below 1.5x

(1) To align with industry practice, the metric EASK will not be used anymore as of 2019.  
 New Unit Cost definition will be: Net cost per Available Seat Kilometer at constant fuel and currency  
 The impact of this change should be approximately -0.1pt for 2019





# STRATEGIC ORIENTATIONS

BENJAMIN SMITH

Results at 31 December 2018

# A STRONG POSITION IN THE COMPETITIVE AIRLINE MARKETPLACE



**548**  
aircraft



**2,000**  
aircraft maintained  
for 200+ clients



**318**  
destinations  
in 118 countries



**88,800**  
full-time employees+



**74**  
new routes  
added in 2018



**101m+**  
passengers  
carried in 2018



**1.1m**  
tons of cargo  
transported in 2018

# A STRONG POSITION IN THE COMPETITIVE AIRLINE MARKETPLACE

Outstanding professionalism  
and **commitment** of the Group employees

Paris-CDG & Amsterdam-Schiphol:  
2 of the **largest connecting hubs**  
in Europe

The **European pillar**  
of the leading global airline partnership,  
which includes Delta and China Eastern



Leverage  
our **powerful  
competitive  
advantages**

**Strong presence**  
in all major markets

The **largest network**  
between Europe  
and the rest of the world



# A STRONG POSITION IN THE COMPETITIVE AIRLINE MARKETPLACE...

...relying on strong brands benefiting from exceptional reputations

**AIRFRANCE** 

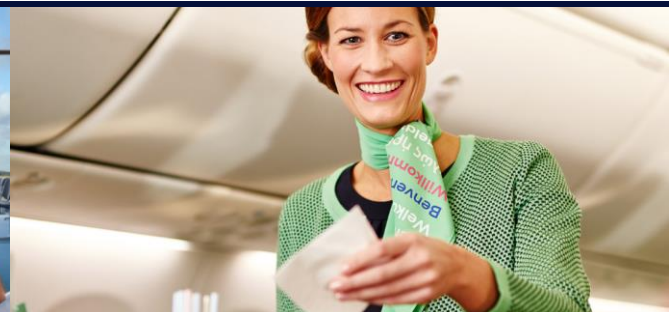
- Globally recognized as **premium** airline
- Strong French **home market**
- **Connecting** passengers



- An **efficient network** airline
- Primarily focused on **connecting customers**
- A **unique Dutch identity**

 **transavia**

- The Group's **low-cost business**
- **Point-to-point flights to Europe** from the Netherlands and France
- Leader in **hospitality, service** and **digital services**



# THREE PRIORITIES LAYING THE FOUNDATION TO REGAIN THE LEADING POSITION IN EUROPE

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Conclusion of **new, balanced labor agreements** at Air France

- Representing a **major step** towards **rebuilding confidence and trust**
- Enabling necessary **flexibility** to implement future commercial strategy

**Simplified governance** to support the Group's ambition

- Key goals:
  - Simplify and accelerate decision processes
  - Maximize overall value for the Group and all its entities
- Nomination of **Anne Rigail** as CEO of Air France

Develop a **go forward strategy**

- First initiatives
  - Improving and simplifying Air France-KLM's brand portfolio and product offer
  - Simplifying and optimizing the fleet
  - Boosting our competitiveness

# SIMPLIFYING AND STRENGTHENING AIR FRANCE-KLM'S BRAND PORTFOLIO

From **several over-lapping brands** to a **simplified brand portfolio**

Objective: **provide greater clarity** for customers and **more consistency** with the Group's global commercial product offer

- Decision to **integrate Joon** employees and aircraft **into Air France**, the latest cabin crew agreements enable Air France to retain Joon's cost savings through other means
- **Air France regional fleet**, currently under the HOP! brand, will wear the **Air France HOP** livery

**AIRFRANCE** 

**AIRFRANCE**  
**HOP** 

  
**KLM**

  
**KLM** Cityhopper

 **transavia**

# SIMPLIFYING AND STRENGTHENING AIR FRANCE-KLM'S OFFER THROUGH NETWORK OPTIMIZATION

## Long-haul network



# SIMPLIFYING AND STRENGTHENING AIR FRANCE-KLM'S OFFER THROUGH NETWORK OPTIMIZATION

## Long-haul network



# DELIVERING THE BEST PRODUCT OFFER TO OUR CLIENTS

- **Right-sized cabins** and more **efficient aircraft interior** configurations, to **serve each market segment** with appropriate gauge and product
- **Aircraft retrofit** to latest cabin standards to be **accelerated**
  - First Air France Airbus 330 retrofitted on line two weeks ago
  - Airbus 380 retrofit to be launched in 2020
  - All aircraft retrofit completed at KLM
- **Flight connectivity** in all the Group's long-haul fleet in 2020



# SIMPLIFYING AND OPTIMIZING THE FLEET



## LONG-HAUL FLEET

- Fuel efficient aircraft:  
**6 Boeing 787** and **3 Airbus 350** to enter the combined fleet in **2019**, more to come in the following years
- Ongoing phase out of the remaining **Air France Airbus 340** in **2020** and **KLM Boeing 747** in **2021**
- **A380** fleet to decrease **from 10 to 7** aircraft at the expiry of the leases in 2020 and 2021



## MEDIUM-HAUL FLEET

- **Tender offer** to be launched in **2019**



## REGIONAL FLEET

- Phase **out** of **ATRs** in **2020**

# BOOSTING OUR COMPETITIVENESS

---

The strategy of upgrading and simplifying the product offer and optimizing the fleet aims to **reinforce the Group's competitiveness**, and we will go further:

- Achieve **Air France profitability** in order to increase its margin to industry standards
- Improve the **operational robustness**, reducing fleet constraints and adding spare aircraft at Air France
- Control our **infrastructure costs**, improving the **relationship with ADP** and **Schiphol** airports
  - ✓ Reopening discussions with ADP for **new terminal T4**, to improve the customer experience and operational performance
  - ✓ Maximise **societal support** for growing KLM at Schiphol
- In **Europe**, implementation of the **conditions for a level playing field**





**AIRFRANCE**KLM  
GROUP

## CEOs' MESSAGES

PIETER ELBERS  
ANNE RIGAIL

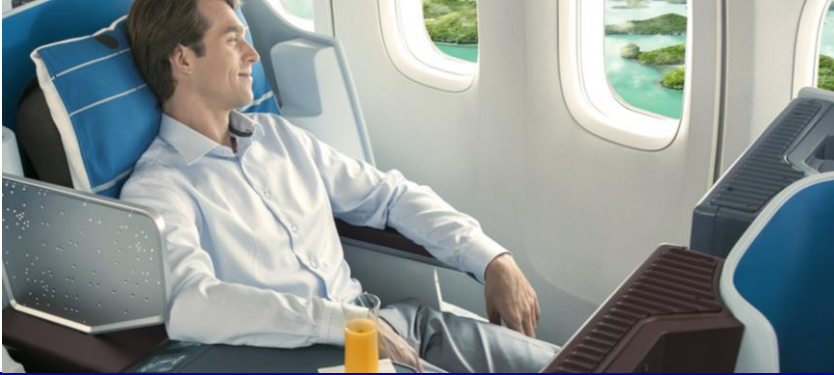
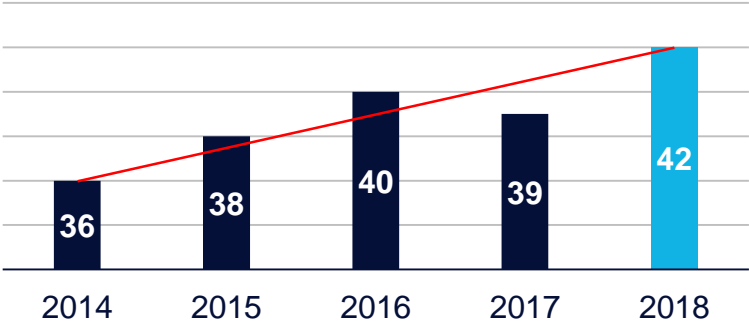
Results at 31 December 2018

# KLM CUSTOMER & PRODUCT

EUR 1.3 BILLION INVESTMENTS



### Net Promoter Score (NPS)

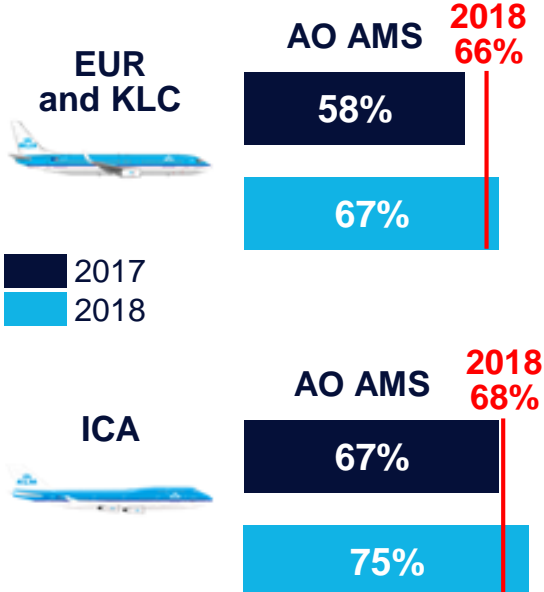


# KLM OPERATIONAL PERFORMANCE

## IMPROVED STABILITY AND ROBUSTNESS



12 out of 13 operational KPI's improved!



# KLM EMPLOYEE DIALOGUE

## ENHANCED ENGAGEMENT WITH OUR STAFF



**1,200 New Hirings**  
**Learning & Development**  
**Budget**  
**-**  
**EPS 2018 = 62 !**

**Ground-, Cockpit, Cabin-CLA duration until 1<sup>st</sup> of June**



# UNITE OUR STAFF AROUND A PROJECT FOR THE FUTURE OF AIR FRANCE



**Establish a quality social dialogue and solid foundations for the future**

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**Renew our operating methods and change our managerial culture**

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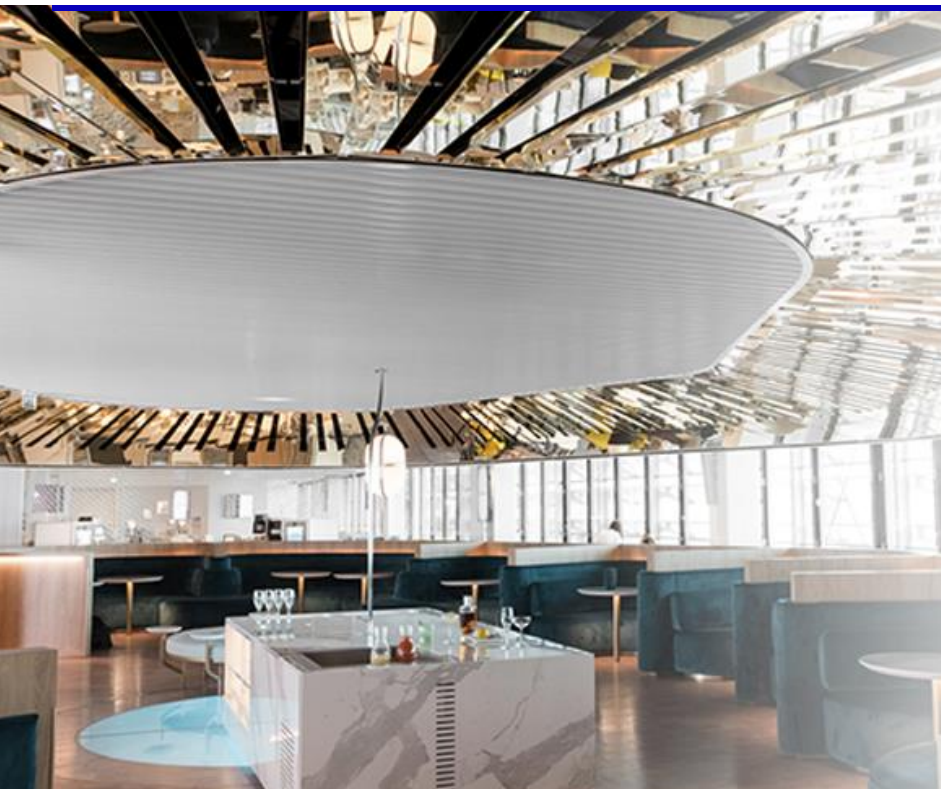
**Continue to improve health / safety and quality of life at work**

- 11% less work accident in 2018
- 

**Continue our commitment to the company's societal challenges**

- 76 projects supported by the Air France Foundation in 31 countries

# BE THE REFERENCE BRAND FOR OUR CUSTOMERS



## Capitalize on two brands with clear territories

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### Meet the requirement of flight punctuality and regularity

- Arrival punctuality objective of 55% in 2019
  - Up to 8 standby aircraft /day on long and medium-haul
- 

### Develop our network and simplify our flight schedule

- 8 new destinations in Summer 2019 for Air France
- 

### Continue and speed up our investments in the quality of our products and services

- €1 bn invested over 5 years in cabins' retrofits and lounges

# IMPROVE AIR FRANCE'S COMPETITIVENESS



## Renew and expand our fleet

- 9 new long-haul aircraft by the end of 2020

## Simplify and improve the efficiency of our processes

## Continue the digitisation of our operations

- 25,000 iPads for our staff in contact with customers

## Continue to defend the competitiveness of French air transport

- French air transport: €81 bn in GDP and 1.1 m jobs
- Air France: 4,000 new hires in 2019, 1st employer of Paris Region