

# INVESTOR DAY

12 May 2017



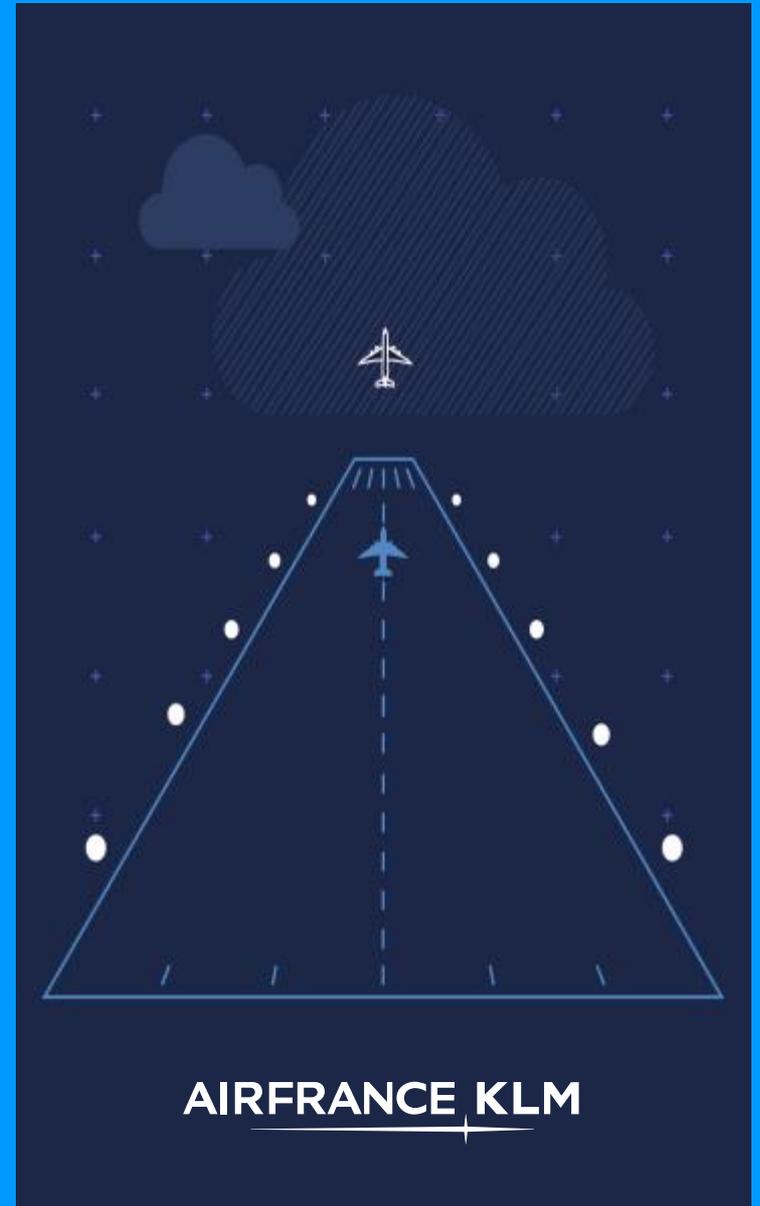
**AIRFRANCE KLM**

# Investor day's agenda

- Delivering Trust Together *Jean-Marc Janailac*
- Securing a profitable growth
  - Creating value through alliances *Pieter Bootsma*
  - Managing the group digital transformation *Jean-Christophe Lalanne*
  - Customer Intimacy leadership through digital innovation *Adeline Challon-Kemoun*
  - Strengthening the growth of E&M *Anne Brachet*
- Q&A session
- Airlines initiatives to return to the offensive and reinforce their competitiveness
  - Air France's priorities for profitability *Franck Terner*
  - A new innovative and competitive company alongside Air France *Jean-Michel Mathieu*
  - Continue to develop a competitive growth at KLM *Pieter Elbers*
- An efficient financial strategy *Frédéric Gagey*
- Q&A session
- Conclusion *Jean-Marc Janailac*
- Lunch
- Visit of Helios or the CCO

# DELIVERING TRUST TOGETHER

JEAN-MARC JANAILLAC  
CEO



# Delivering Trust Together



Regaining the offensive in **long haul**



Improving the efficiency and connectivity of the **hubs**



Develop the **point to point** markets from home markets



Strengthen the growth of **E&M**



Defend the **Cargo** activity

Further developing the **customer relationship** to create more value



Investing in our people and simplifying our ways of working



Reinforcing **operational efficiency** and competitiveness



Pursuing **lobbying initiatives** directed at more equitable competition



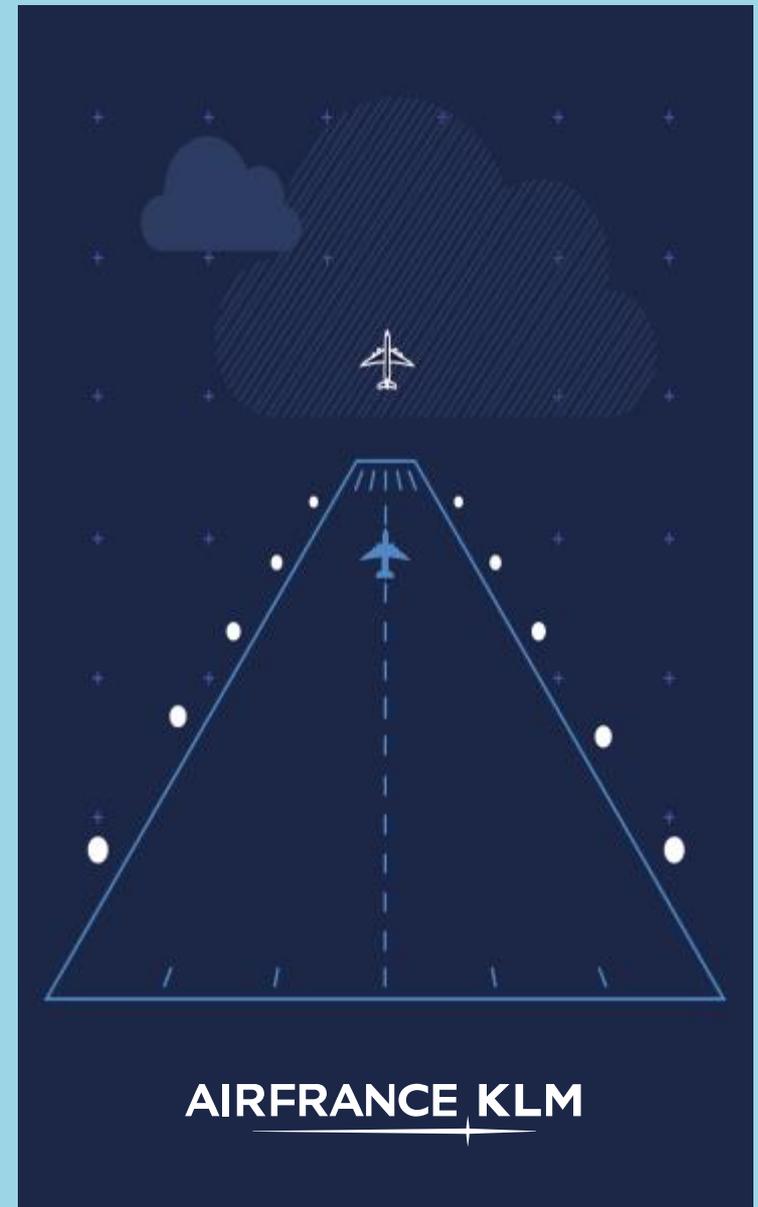
# SECURING A PROFITABLE GROWTH

**Creating value through alliances**  
Pieter Bootsma

**Managing the group digital transformation**  
Jean-Christophe Lalanne

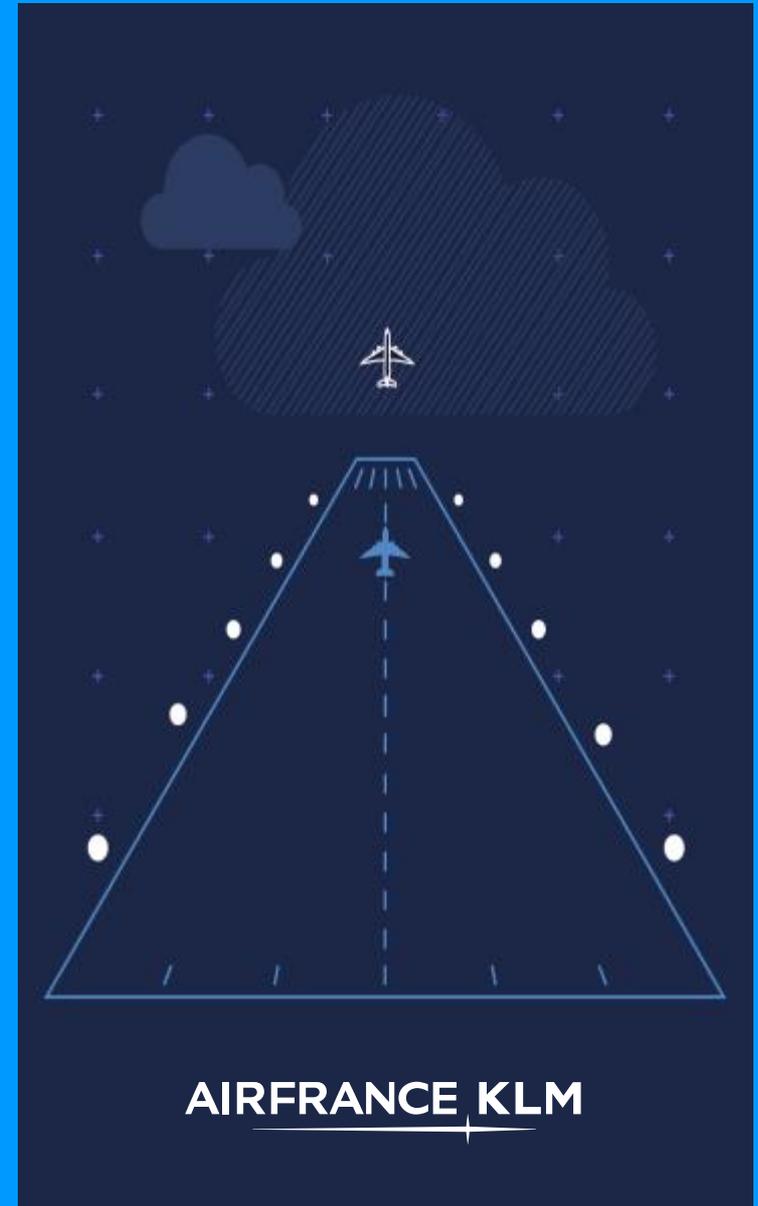
**Customer Intimacy leadership through digital innovation**  
Adeline Challon-Kemoun

**Strengthening the growth of E&M**  
Anne Brachet



# CREATING VALUE THROUGH ALLIANCES

PIETER BOOTSMA  
EVP COMMERCIAL STRATEGY



# Alliances create commercial opportunities, improve our offer to the customer, reinforce our performance and are an efficient tool against competition

Air transport demand is global; to meet this demand we need to maintain a global presence. It is not economically viable to have own network in every corner of the world. Alliances help us meet customers' expectations and create shareholders' value, by building a comprehensive, global offer in an efficient way.



What we achieve through alliances:

- Extend and optimize our network;
- Reinforce our commercial position in various markets by teaming up with local partners;
- Optimize revenues and costs by coordinating pricing and network with our JV partners.



# AFKL is using various forms of partnerships: The choice depends on the balance between added value, complexity and regulatory approval

## Partnerships

From **tactical** partnership: each partner draws an interest in the partnership; reciprocal deal; often **bilateral** agreement, with limited cooperation scope,

...to **strategic** partnership: with **common medium/long-term development targets**; common interests, true financial integration and exclusivity of the relation.

## Our partnerships

### Consolidation (Merger; Equity participation)

*Air France KLM, KLM – Kenya Airways*

### Joint-Venture (facilitated by ATI)

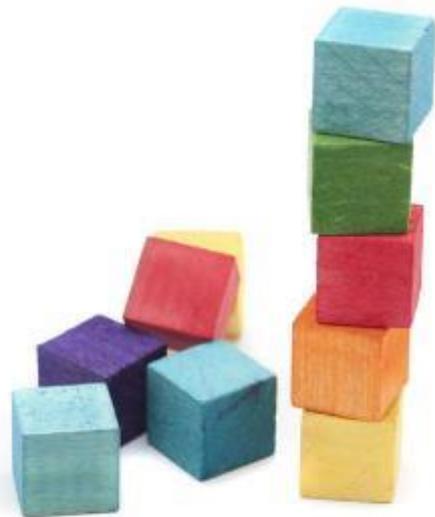
*AFKL-Alitalia-Delta JV, AFKL-China Eastern and China Southern JVs*

### Code-share

*Copa, Westjet*

### Interline agreement

*Avianca, Jetstar, Gulfair*



# Creating global presence and extending network coverage

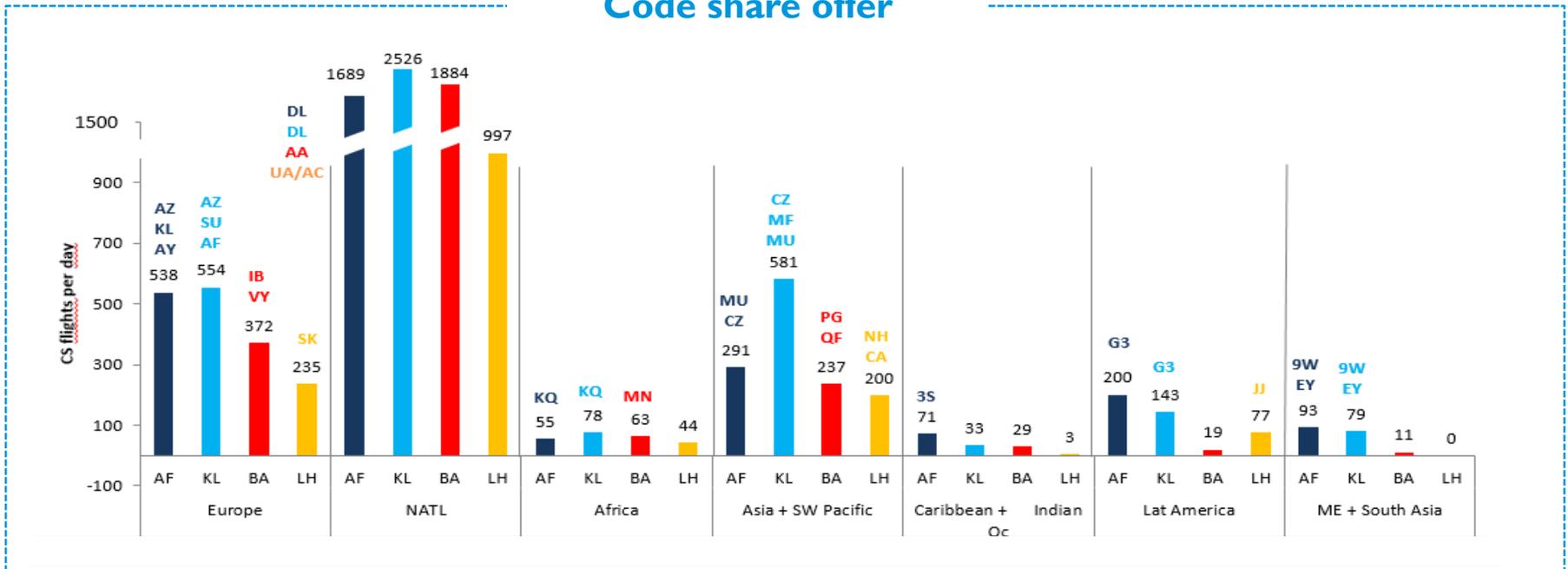
- **80 partners** in code-share, **2000 routes** offered with a marketing code AF or KL.
- Approximately **€ 2,5bn sales of partners** on AF/KL operated flights and **vice-versa**
- Our **strong market position** in the home markets, Europe and Africa is one of the key assets that we bring into our partnerships.



# AFKL developed the most comprehensive code share offer amongst European peers

- European legacy carriers are generally expanding their network portfolio through code share (CS). This is an efficient way to increase market presence.
- AF & KL developed the biggest CS offer out of North Atlantic and Europe, and are leading in Asia, Latin America and India.
- Through this extensive CS coverage KL expands its own operating network by 30 times, and AF by 12 times (compared to BA x 8 times; and LH x 7 times).

Code share offer



(1) Source: OAG; CS offer 'beyond' - per area - Snapshot June '16

# Managing the entire value-chain is fundamental in creating value in JV's



## STRATEGY

Joint goals & priorities' setting



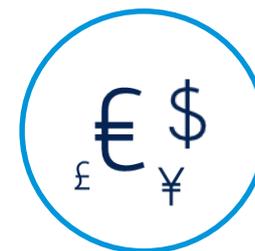
## NETWORK

Network coordination, capacity growth and schedule alignment



## PRODUCT

Joint product development



## PRICING

Pricing delegation, alignment and combinability



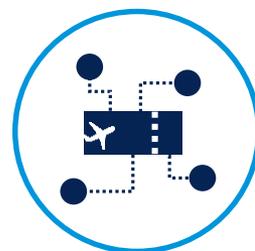
## OPERATIONS

Delegation of handling and customer support



## SALES

Sales delegation, joint contracting



## DISTRIBUTION

Alignment of distribution strategy for various channels



## REV. MGMT

Integrated PRM units, system bridges

# North Atlantic JV governance model

Strategy definition

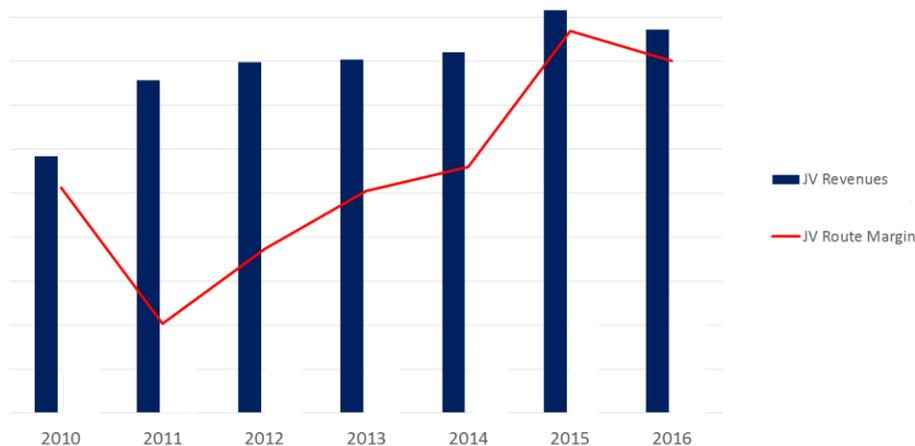
Day to day management



# Strong revenue and margin development in the North Atlantic JV

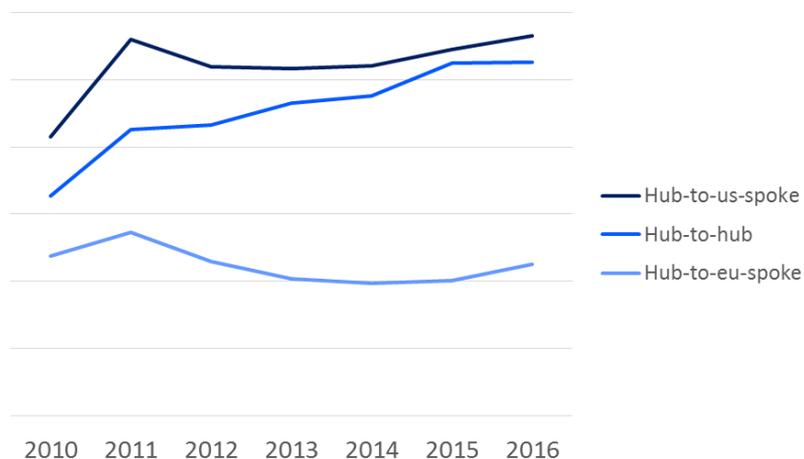
## North Atlantic JV Revenues

Revenues and Route Margin development



## North Atlantic JV ASK development

ASK development per route type

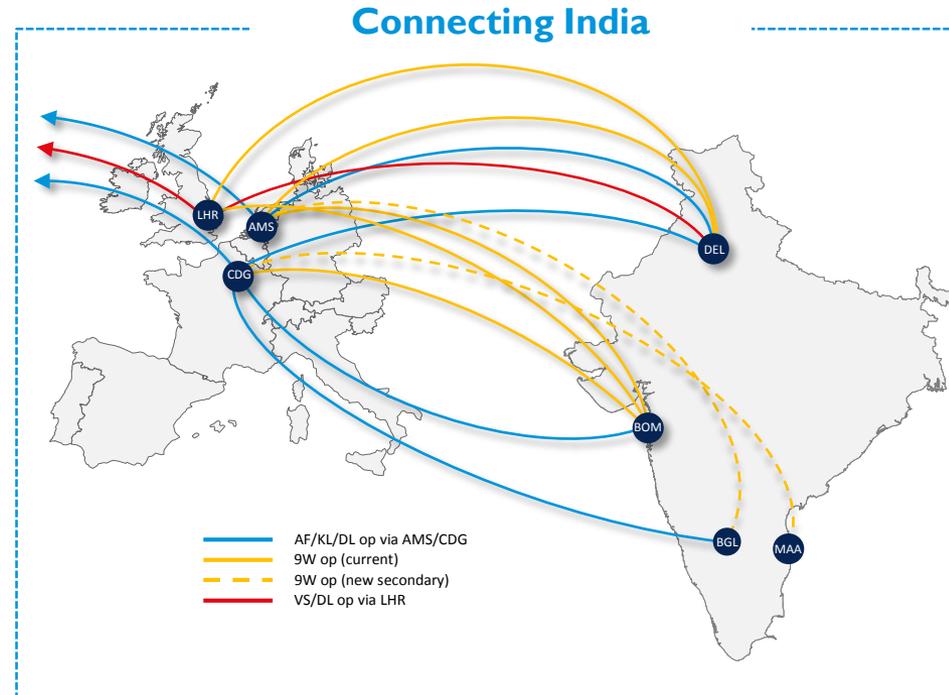


- Revenues and bottom line results have continuously increased from 2011 to 2015, with some decline in 2016.
- Most JV ASKs are deployed on EU-Hubs to US-Spokes, while the ASK share of EU-Hubs to US-Hubs is increasing.
- ~3 mln passengers are transported on our NATL hub-to-hub flights (AMS, CDG, ATL, DTW, MSP), of which only ~0,3 mln are local traffic, the rest are connecting to beyond.

# Expanding the model: connecting India and North America through 3 European hubs and strengthening position in key JV markets

Joining forces with Jet Airways is generating strong value for the NATL JV:

- 12 daily flights from India to Europe connecting to 81 daily flights to North America through 3 major hubs CDG/AMS/LHR.
- Air France, KLM, and Delta's Transatlantic flights benefit from about ~250 bookings per day each way in connections with Jet Airways' Europe – India flights.
- At current yields and bookings rates, Jet connections are generating about ~\$50M/annual TATL carrier segment revenue.

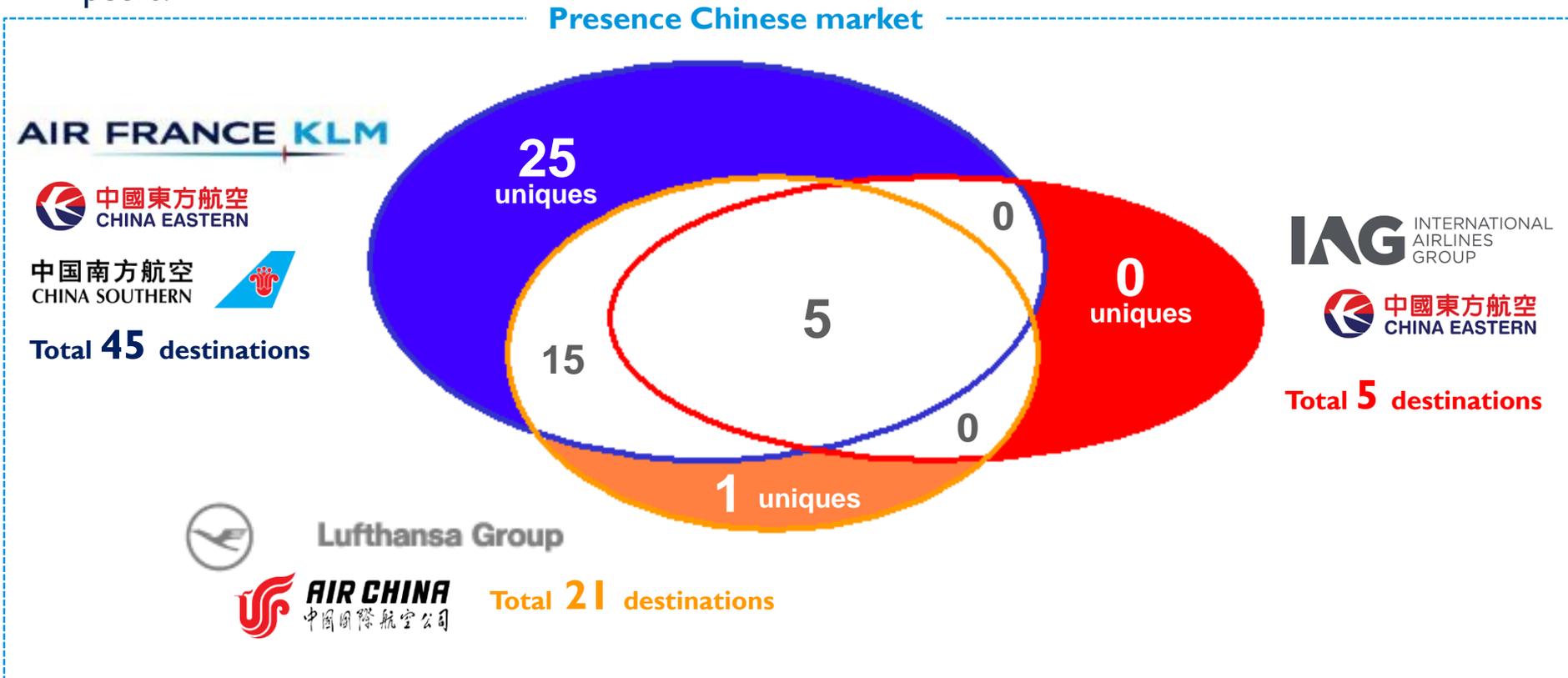


Next steps in strengthening the partnership over the Atlantic will include:

- Further development of cooperation with Virgin Atlantic in the UK market and with AeroMexico

# Applying the know-how of a successful JV model to increase presence in the vast Chinese market

- Chinese JV's (MU & CZ) represented EUR 1 billion spend on the trunk flights in 2016.
- Thanks to our partnerships with China Eastern and China Southern, we serve 45 Chinese destinations, more than half of which are not available from our competitors.
- This makes our network coverage of the Chinese market much more extensive than that of our peers.



Source: OAG Analyser snapshot: 28th April 2017 – Number of destinations, in terms of airports served, departing from Europe for Summer 2017

# Strategic position of Air France KLM on the African continent is a major asset in our partnerships with Delta and the Chinese partners

- Africa: combining organic growth and partnerships.
- 44 destinations served by AFKL with 380 weekly flights.
- Partnerships allow AFKL to further enhance its presence in Africa:
  - KL has a capital share of 26% in KQ since 1995
  - 24 destinations beyond NBO thanks to our partner KQ. Around 20% of our passengers to NBO are connecting to KQ flights
  - KL and KQ have 20% market share between Europe + NATL to East Africa.
  - AF has taken 10% share in Air Cote d'Ivoire and supports the development of this company in Western Africa.



# Tactical partnerships are enabling us to enhance our market position and grow long haul network profitably

Thanks to Westjet, AF KL are able to enhance our presence in Canada:

- With 33 destinations covered by codeshares;
- 275 connecting passengers per day (more than 6% of passengers to & from Canada on AFKL are connecting on a Westjet flight);
- In 2016 AFKLVS had a market share of 9%, vs. LH with 7% and BA with 4%.

By building dual-hub networks with GOL and Copa, AF KL achieved the leading position to Central and South America:

- With 28 destinations covered by codeshares;
- The codeshare with GOL enables 500 connecting passengers per day;
- Around 50% of our AFKL passengers from/to Panama are connecting with a Copa flight;
- Around 20% of our AFKL pax from/to Brazil are connecting with a GOL flight (v.s. 7% connecting passengers 3 years ago);
- 22% market share in 2016, ahead of IAG (19%) and Lufthansa Group (7%).



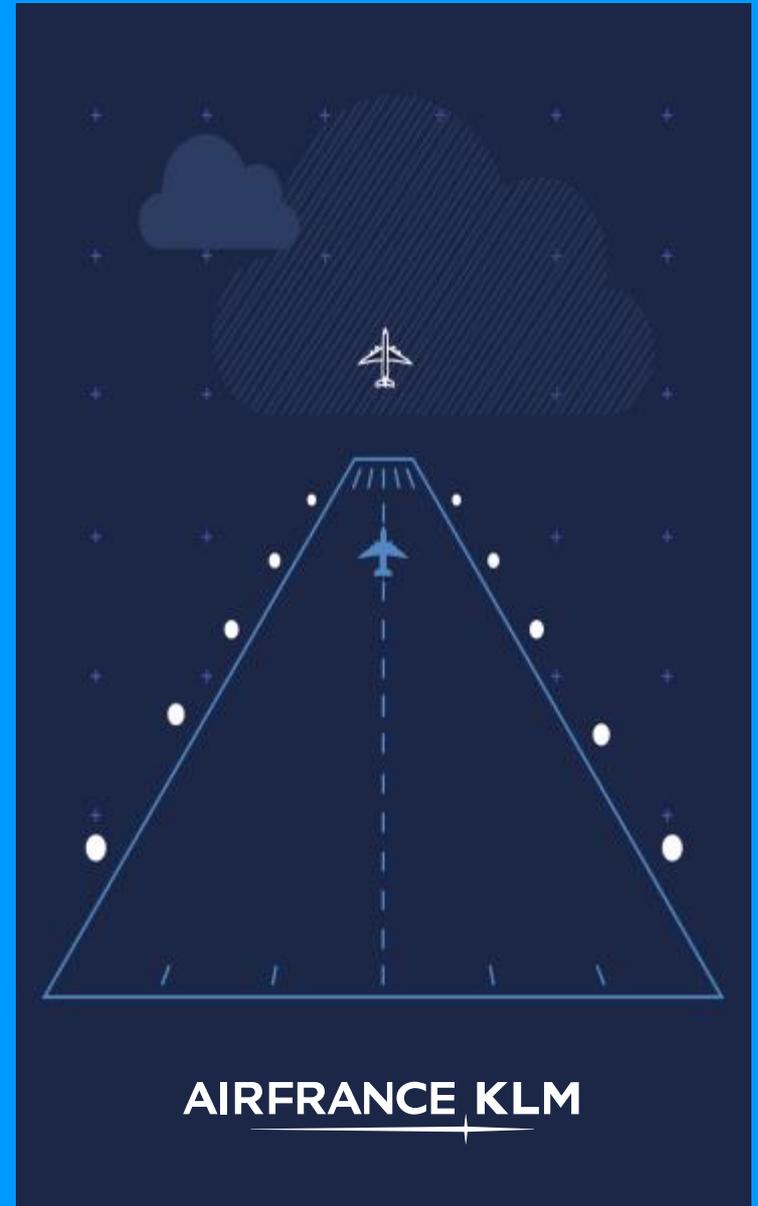
# Trust Together: Creating value through alliances



- Developing alliances with strong partners in key regions and strengthening commercial cooperation with our partners are fundamental for our profitable growth.
- Deep commercial integration, and pricing and network coordination with our JV partners creates significant value and is a strategic asset in a highly competitive long haul airline market.

# MANAGING THE GROUP DIGITAL TRANSFORMATION

JEAN-CHRISTOPHE LALANNE  
EVP INFORMATION TECHNOLOGY



# Digital evolution goes in accelerating waves within AFKL

Air France KLM has over time developed front-end development capabilities with a strong focus on customer experience

## Digital Customer Experience

*„Develop first positive customer experiences“*

- Build services with customer-centric design
- Launch focused areas with digital operating model and agile workforce
- Architecture transformation within the Customer Digital domain

Next step : digitize operations in order to match the pace of front end development

## Digital Operations

*„Drive efficiency and release customer and employee value“*

- End-to-end digitization of processes
- Establish digital operating model and workforce into operational areas
- Broaden digital architecture to create foundation for high volumes

## Ecosystem Connectivity

*„Extend business model“*

- Reasonably complement products and services
- Create networks and partnerships to deliver integrated services
- Introduce Artificial Intelligence everywhere

# Deserve the Customer preference by relying on our common assets

## Know our customer



## Leverage Customer data



## Optimize customer journey



## Keep our customer



## Reach our customer, everywhere



# Digitize processes and involve employees to create value in airlines



## Digitize “my flight”



## Information everywhere



## Contextual data



## Automate processes



## On demand task allocation



## Interact anywhere



# The business solution portfolio covers all domains, everywhere



## Key numbers

- 2016-2018: > 400 M€ investment for Digitization
- > 40.000 tablets for crew and ground staff
- > 100 Agile product teams to deliver value
- > 50 mio savings in IT operations in 2019 (20%)

# IT Answer: Our Business Solution Portfolio

## Passenger Commercial



*NextGen Kiosk*

*iCare*

*Secure payments*

*New sales process*

*New Distribution Capabilities*

*E-convergence*

*Ancillaries*

*eCRM*

*CRM 360°*

*Digital Roadmap*

## Passenger Ops AF & KL



*Ipad for Crew*

*MyFlight*

*Marco & Appy2Help*

*Pilot Board*

*Turn Around 360*

*Connected aircraft*

*Apron*

*Flight 720*

*Pilot & Cabin Pad*

*Plug & Come*

## Cargo



*Cargobus Commercial*

*EU Green fastlanes*

*eConnectivity*

*eMessaging*

*eFreight*

*eAcceptance*

# IT Answer: Our Business Solution Portfolio

## Engineering & Maintenance



*Maintenance planning*

*My Hangar Base Maintenance*

*Document Management*

*Digital Strategy and Journeys*

*Predictive maintenance*

*Connected aircraft*

## Finance



*Airpass (Flight Ops cost)*

*Cloudify Procurement chain*

*Central reporting*

*Blockchain*

*Data Analytics*

## HR



*INUIT / Collaborative platform*

*Sap Successfactors*

*Digital Studio and Factory*

*Career Marketplace*

*Talent Management*

*Job Seeker*

# Speed-up Digital Transformation to create valuable B'Cases

+++++

Description	Business Case Drivers	Benefits	Costs
iPads for Cabin Crew:	<ul style="list-style-type: none"> <li>• Online customer information</li> <li>• Increase ancillary revenues</li> <li>• Frequent Flyer enrollment</li> <li>• Manuals online</li> </ul>	Yearly revenue increase > 25 m€ Yearly Cost decrease > 4 m€	7 m€
SAP HR for KLM:	<ul style="list-style-type: none"> <li>• Self-Service for HR self services</li> </ul>	Productivity increase ( -47 FTE )	5 m€
Cargo Digital Roadmap	<ul style="list-style-type: none"> <li>• Quotation shipments, bookings, shipment track &amp; trace, on the website</li> </ul>	Yearly revenue increase ~ 20 m€ Yearly Cost decrease ~ 9 m€	12 m€
iPads for AF Ground-staff	<ul style="list-style-type: none"> <li>• Improve customer care (claims &amp; disruptions)</li> <li>• Ancillary revenues, Paid upgrade, lounge access, flight changes.</li> </ul>	Yearly revenue increase > 10 m€ Yearly Cost decrease (-280 FTE in 2017 vs 2015)	5 m€
AFKL Commercial Digital	<ul style="list-style-type: none"> <li>• High quality personalized content</li> <li>• On Board Portal</li> <li>• Direct online, Corporate travel</li> </ul>	Revenue Increase: online coupons, Customer satisfaction, Increase ICI rate, Conversion rate	32 m€

# Value example: Cargo Digital Transformation = Benefits > 10 M€/yr



# Competitiveness at stake in all AFKL business domains through Optimization, Big Data and Machine Learning

## Crew & airport resources



Crew planning, bids & preferences,  
**AF Crew P2020 : 3 M€ saved**

Ground resources management,  
flexibility, parking slots, luggage  
**2.5 M€ in airport resources**  
**4 M€ in handling contracts**

## Network & Hub



Aircraft rotation, KPI based tail &  
fleet assignment, market share, **Hub**  
**Redesign : 40 M€**  
**LH Tail assignment : 4 M€**

## Passenger & Cargo RM



Best in market tool combining Big data  
Machine learning & Optimization  
**Additional revenues : 15 M€**

## Develop sales



Modeling "willingness to pay" and now  
being connected to B2C data to analyze  
"price elasticity" and customer behavior  
in search & buy

## Performance Operations



Extending Big Data usage to operations  
domains through PerfOps and 720  
projects

## Powering direct sales



TripPlanner data proxy: delivering  
time table, fare, availability and tax  
information on flights

## Advanced Mining



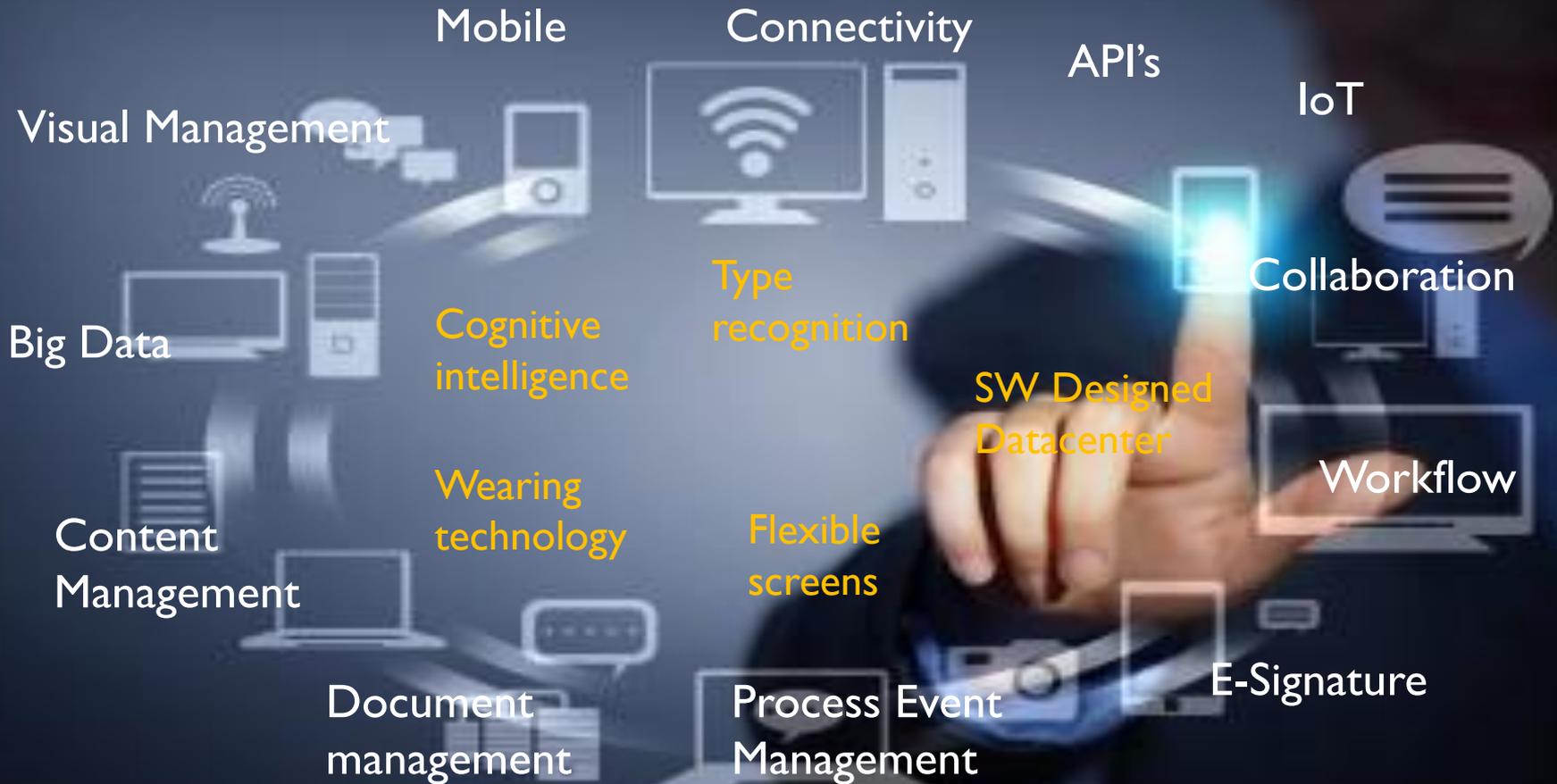
Automatic sorting of Crew reports  
Analysis of satisfaction survey  
Mood analysis  
**3 M€ saved in 2017**

## Forecast models



Transversal AF/KL/Hop revenue forecast;  
reaction to booking trends  
Forward revenue; PAX forecast;  
Absenteeism  
Flying Blue Redemption Model

# AFKL architects define and implement a Technology Roadmap



# The AFKL “Group Digital Enablement Platform” will support future developments

## Group Digital Enablement Platform



# Next Challenge : Leverage Big Data & Machine Learning to accelerate adoption of Artificial Intelligence at AFKL



## Combine the power of:

- Optimization
- Big data
- Machine learning

## With new capabilities:

- IoT (Internet of Things)
- Voice Recognition
- Chatbots
- VR-Virtual Reality
- AR-Augmented Reality
- Robotics
- Video Analytics
- Drones
- Blockchain



## Customers



### Drive differentiation through 1-1 personalization

- Powering **Operational Customer Platform** with recommendation engines & next best actions
- **Evaluate** Pricing & Offers, buy-up
- **NPS**: Analysis, decision support based on forecast, link PerfOps to NPS
- **Automatic interactions**: Virtual assistants, chatbots
- **Entertainment**

## Operations



### Integrate, visualize, and leverage data in Operations, E&M, Cargo & IT

- **Recovery**: forecast, massive data processing to anticipate disruption, ..
- **Disruption management**
- Logistics handling for **Cargo**
- **Enhanced operations**: AR/VR, IoT
- Risk based **network** schedule, **fleet** utilization
- **IT**: machine learning for automation at scale (test, monitoring, ...)

## Employees



### Scale expertise, HR ambition, people development

- **People Development**: Overall employee platform
- **Smart crowd sourcing**: skills platform
- **Augmented employee** : text mining, virtual assistants
- **People engagement**: Risk management, flexibility in rules & regulations

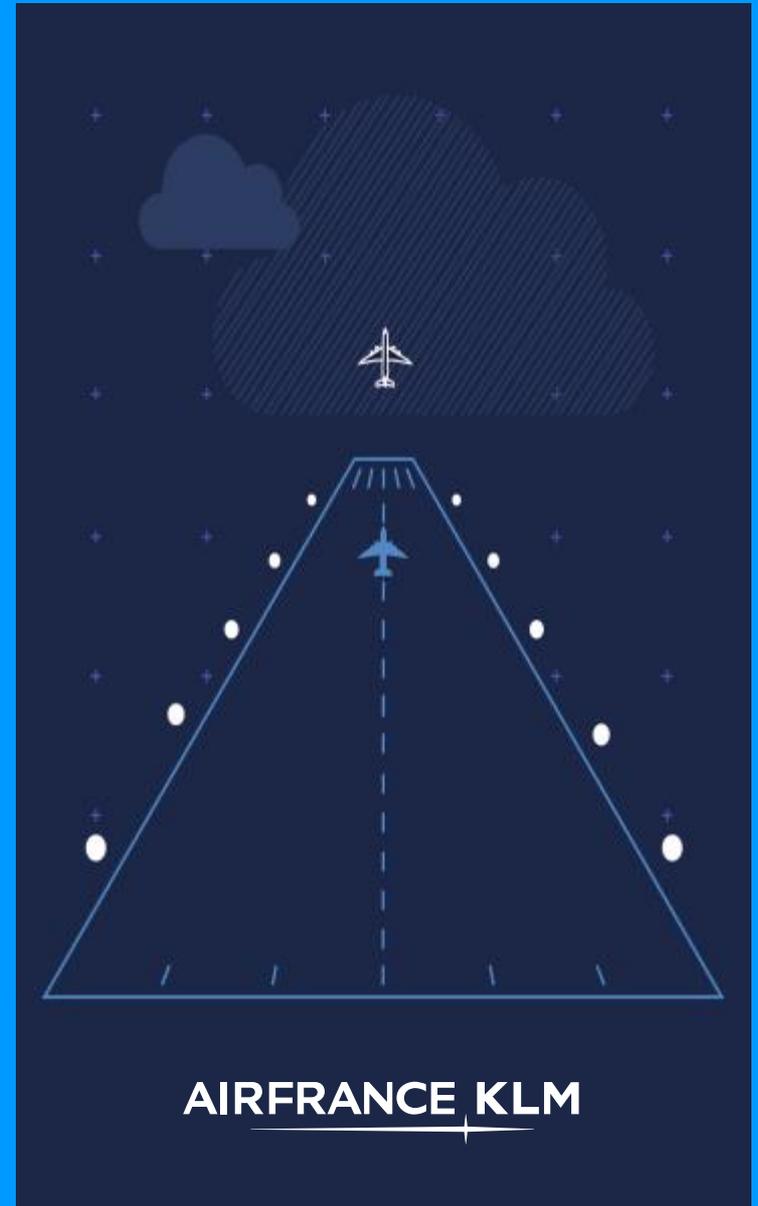


# Trust Together: Managing the group digital transformation

- Digital is fundamentally transforming our business in all domains, from both Customer and Employee perspective
- This is largely supporting Trust Together objectives : increase revenue, improve NPS, decrease costs, simplify processes, optimize performances
- The digital investments within AFKL are growing (>400 M€ in 3 years), benefits and acceleration are visible
- AFKL takes benefit of the Group expertise and common back-ends
- New challenges are : Internet of Things, Artificial Intelligence, Mobility everywhere, Digital Enablement Platform and integration in the Ecosystem
- We are ready for this future!

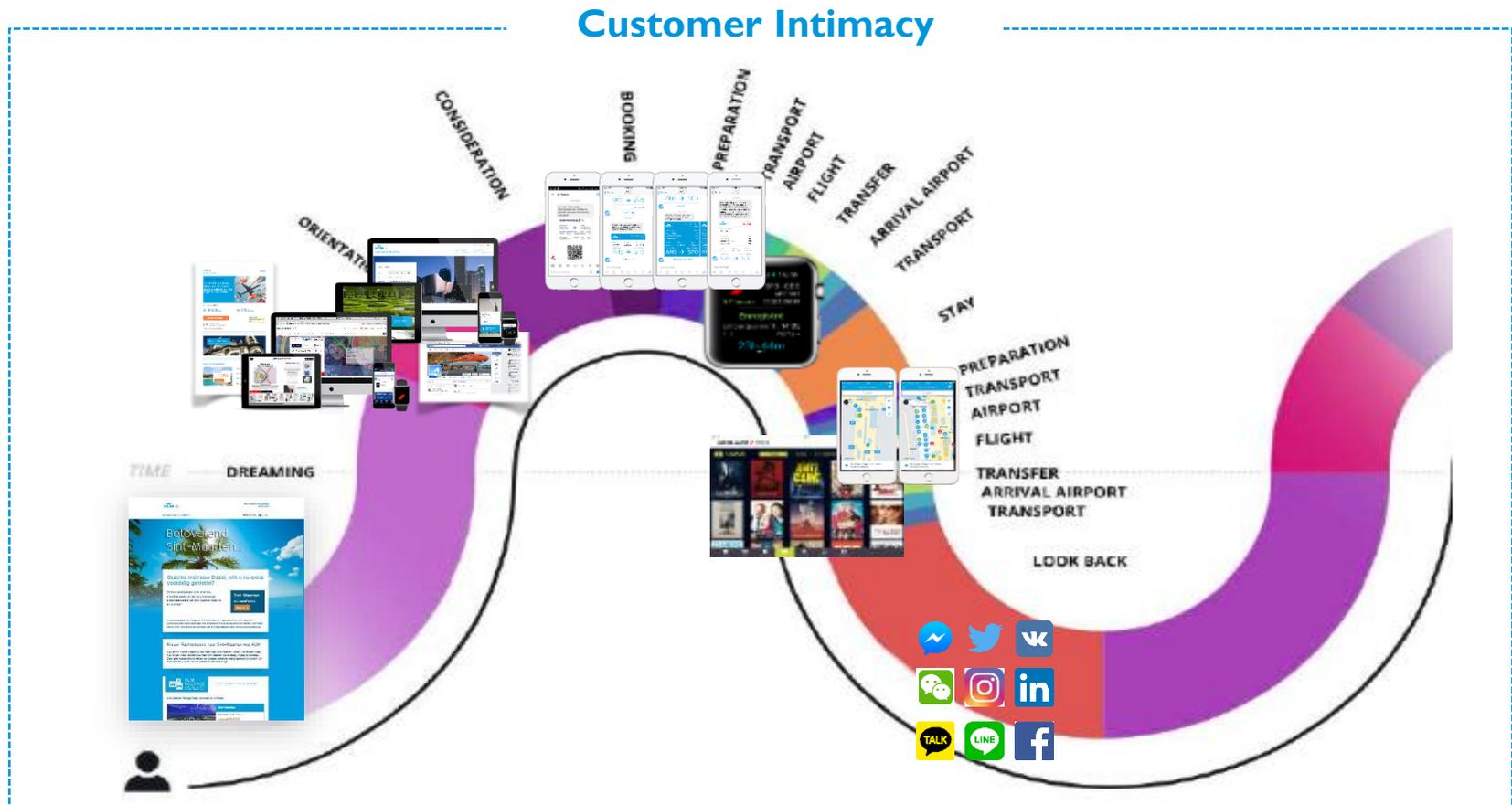
# CUSTOMER INTIMACY LEADERSHIP THROUGH DIGITAL INNOVATION

ADELINE CHALLON-KEMOUN  
EVP DIGITAL, MARKETING &  
COMMUNICATION



# Our ambition: becoming a leader in Customer Intimacy through Digital Innovation

- Trust Together's 6th pillar: Focus on customer value
- Customer Intimacy means personalization thanks to Big Data and innovative technologies



# Air France KLM is a front-runner in digital

- 1 in every 3 tickets sold via AirFrance.com and KLM.com
- €5bn online sales in 2016
- Target 2020: €8bn online sales



# Four levers to excel in Customer Intimacy through Digital innovation



1



Increase Customer value thanks to Big Data

2



Boost sales volume and increase high yield revenue

3



Design the future Customer Experience

4



Work agile and open

# Increase customer value thanks to Big Data

- Air France KLM Big Data Platform

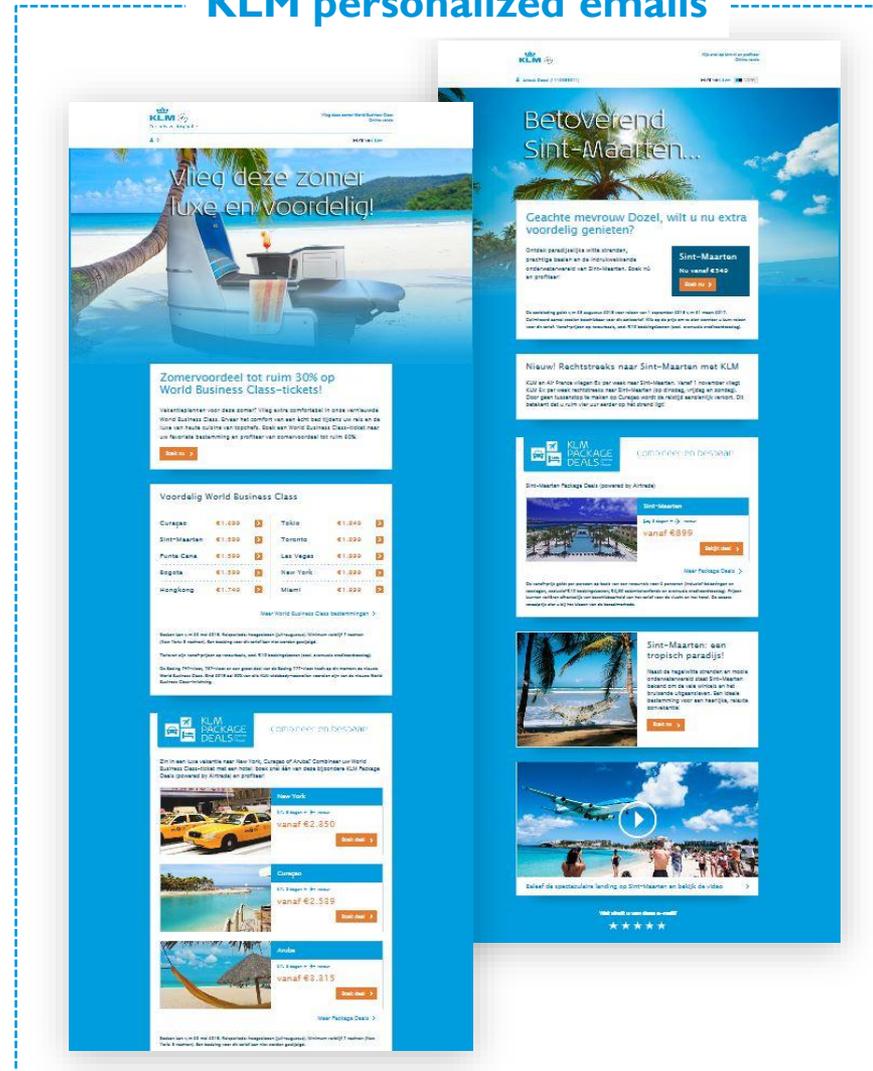
- ▶ Built internally in 2015
- ▶ 93 million customers end 2016
- ▶ 360° customer view

- Customer acquisition: better targeted and personalized offering and communication

- ▶ Increase personalization in “offer emails”
  - ▶ Increase display and search advertising efficiency
  - ▶ Increase ancillary revenue
- => Revenue up by €200M in 2020
- ▶ Increase personalization through personalized pricing

- Customer experience : improved customer satisfaction and loyalty

## KLM personalized emails



# Boost sales volume and increase high yield revenue

- Improve conversion

- Simplify booking flow
- Enrich payment methods offered online
- Design mobile first

- Attract new customer segments and reinforce core ones

- Millennials
- Premium leisure
- Corporate customers



# Boost sales volume and increase high yield revenue

- Better promote our products and destinations

- Leverage aspirational and rich content: Travel by Air France, KL Travel inspiration finder
- Offer specific fares on Hop! Air France domestic flights (carte weekend)

- Better promote our paid options and services

- Create a new transactional digital touchpoint leveraging connectivity on board with the launch of AF & KL Onboard Portals

## Travel by Air France

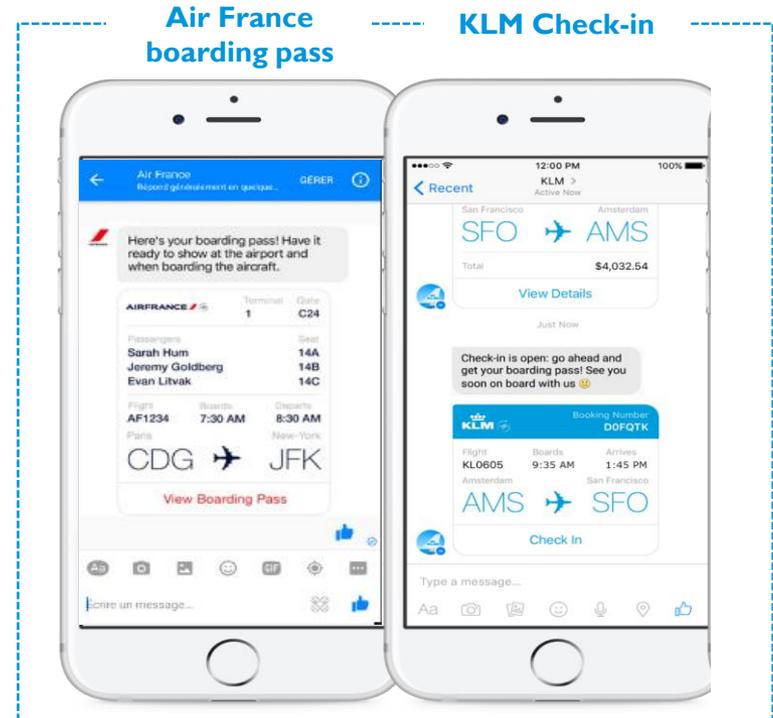


## KLM Flightguide / onboard portal



# Design the future Customer Experience

- Be where our customers are
  - Omni channel strategy
- An advanced presence on Social Media and servicing apps...
  - Worldwide organization serving our customers
  - 24/7 customer social servicing in 10 languages
- ... creating new opportunities to automate
  - Sending of travel documents
  - Chatbots

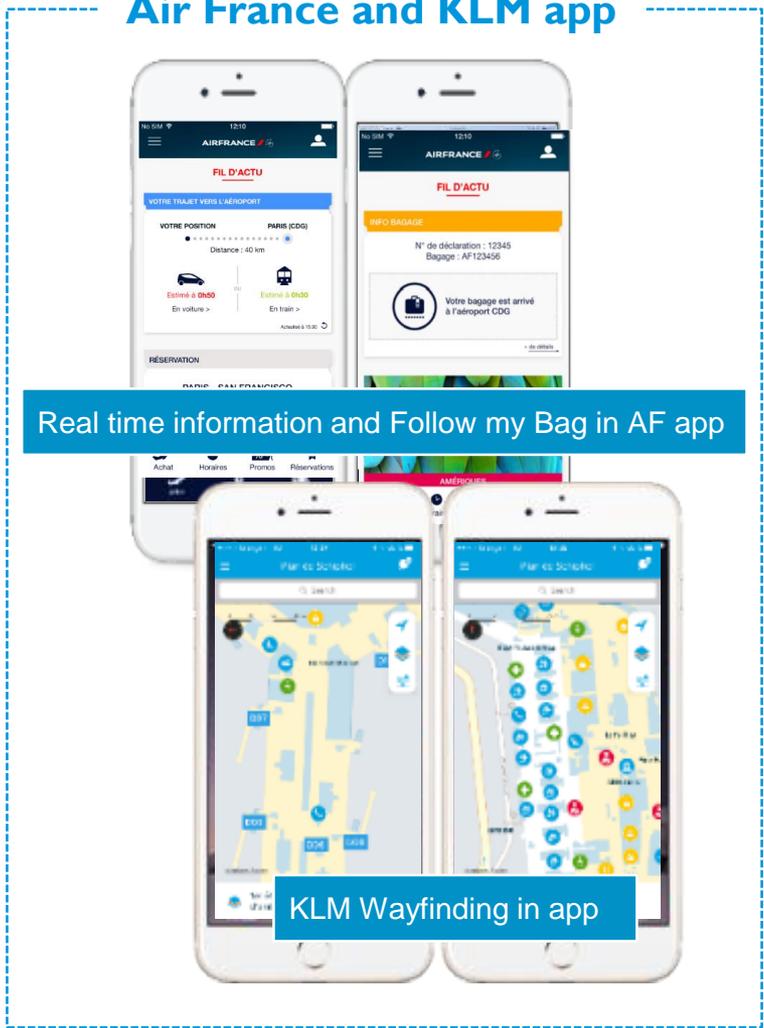


# Design the future Customer Experience

- Customer empowerment through real-time communications

- ▶ E-boarding card
- ▶ Real time information: flight status, luggage belt, boarding gate...
- ▶ Media apps
- ▶ “Follow my bag”
- ▶ “Rate my flight”
- ▶ Location Based services (e.g.. time to reach the airport / reach the gate, “KL wayfinding”, etc.)

## Air France and KLM app



Real time information and Follow my Bag in AF app

KLM Wayfinding in app

# Work agile and open

- Agile

- ▶ Monthly releases and go lives
- ▶ Design thinking
- ▶ Test & learn approach
- ▶ Early experimentation of new technologies



- Open

- ▶ Co-construction with customers
- ▶ Working with start ups and incubators
- ▶ Hackathons
- ▶ API based technology



# Our successes make this strategy achievable

## Key numbers 2016

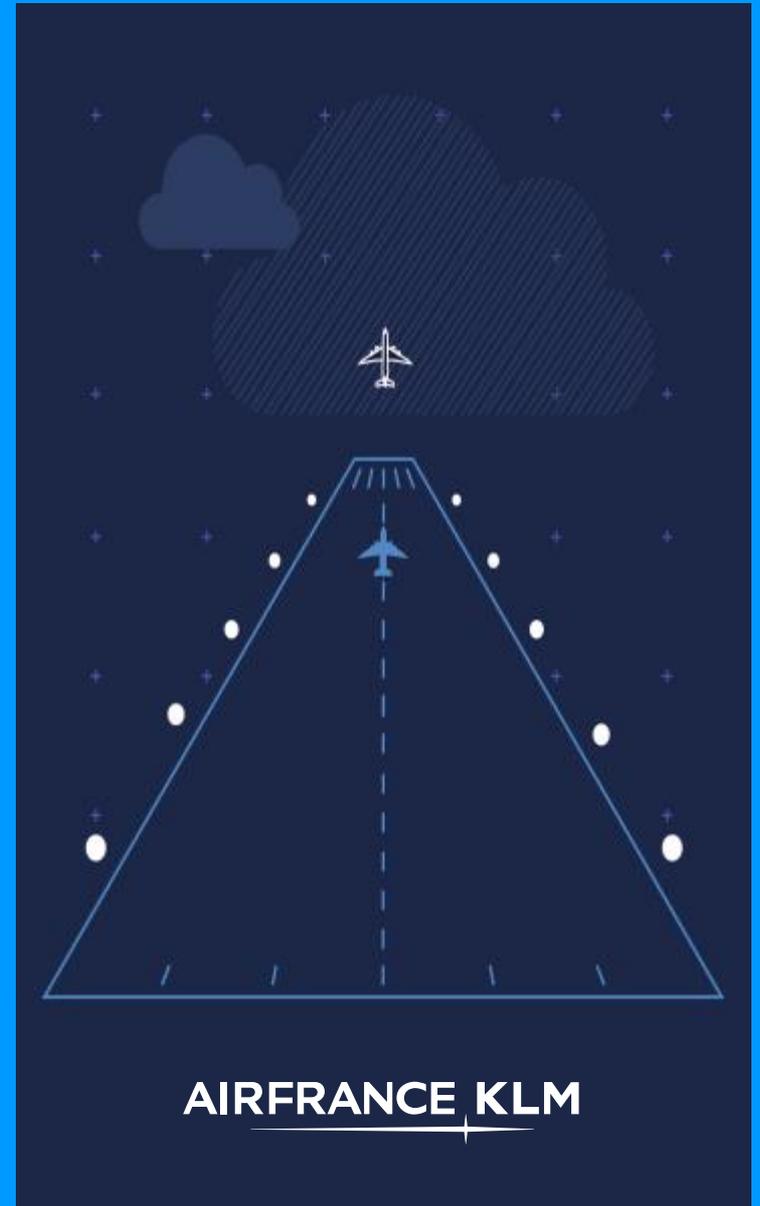
- 379 million visits on AirFrance.com and on KLM.com
- 119 countries supported online (AF and/or KL)
- 75% of travelers are self checked-in (AFKL)
- More than 50% of all online interactions via mobile (AFKL)
- 24 million Facebook fans and 3.7 million Twitter followers (AFKL)
- 21 000 cases handled on the social media/week (AFKL)

# Our excellence in customer intimacy and digital has been rewarded



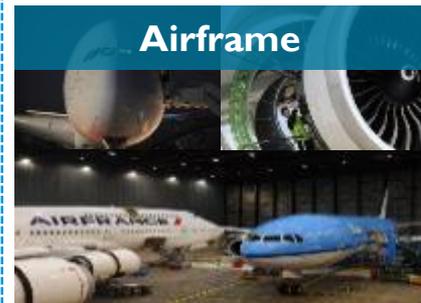
# STRENGTHENING THE GROWTH OF E&M

ANNE BRACHET  
EVP E&M



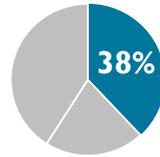
# Worldwide Maintenance, Repair and Overhaul (MRO) market: A growing market with three business segments...

## Market size<sup>(1)</sup>



### Airframe

\$26bn

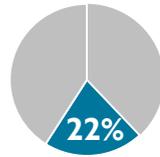


- Three segments: line maintenance, heavy maintenance, modifications
- Majority of heavy maintenance now performed in lower labor cost countries (labor: 70% of costs)
- Long-term growth: ~3.5% excluding inflation<sup>(1)</sup>

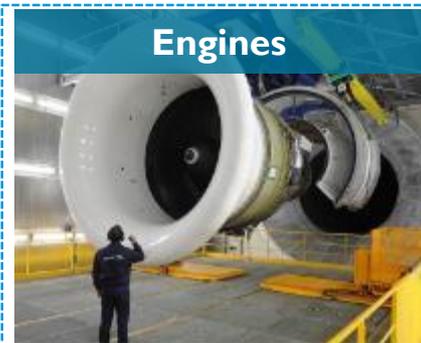


### Components

\$15bn

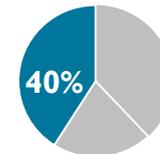


- Service business: supply chain and repair
- Requires large investments in inventories and tooling
- Long-term growth: ~4,2% excluding inflation<sup>(1)</sup>



### Engines

\$27bn



- Parts represent 80% of cost
- Long technology cycles
- 10 year+ contracts
- Requires large investments in facilities and training
- Long-term growth: ~4,5% excluding inflation<sup>(1)</sup>

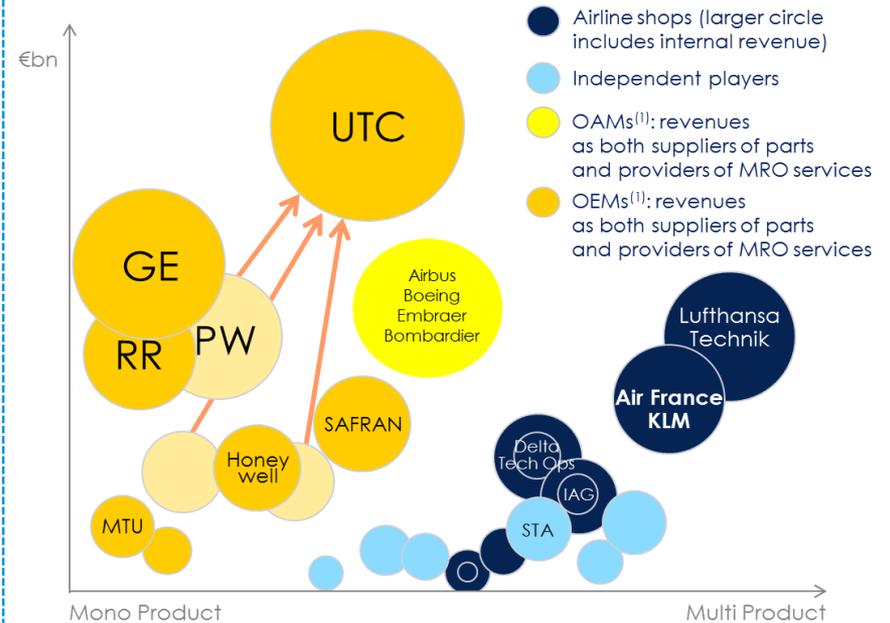
(1) 2016, source: ICF

# Competitive field is determined by 4 types of players, AFI KLM E&M is a leader in Multi Product Airline MRO business

## Main industry trends

- OAM Increase their focus on after sales market voicing strong future revenue ambition
- OEM's have continued ambition to further consolidate, broadening focus to include BFE companies as targets
- Independent MRO's look for ways to strengthen their position by either finding Airline or OEM partners
- Multi product Airline MRO's strengthen their position by organic growth and by creating OEM
- New generation WB aircraft challenges existing "make or buy" choices of non MRO airlines

## Competitive landscape



OEM: Original Equipment Manufacturer OAM: Original Aircraft Manufacturer

# Leading position converts in strong development of 3<sup>rd</sup> party revenue outperforming market growth

- Third party revenue in 2016 up 16% in both Engines (+17%) and Components (+14%)
- Growth is fueled by successes on new generation products GENx, B787, A350 and A320Neo
- Healthy operating margin (2016 5.7%) balancing:
  - Dynamic market with increasing pressure on prices
  - OEM escalations and supply chain pressure
  - Productivity improvements and economies of scale
- Overall margin benefitting from growing 3<sup>rd</sup> party revenue portion

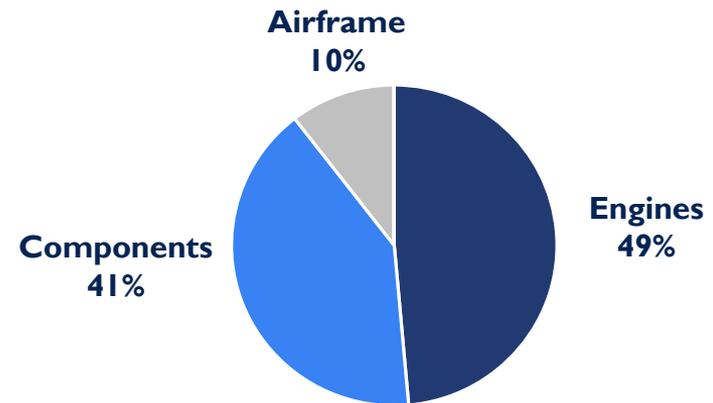
## AFI KLM E&M Adaptive MRO Solutions



## Trend in third party revenue and operating result

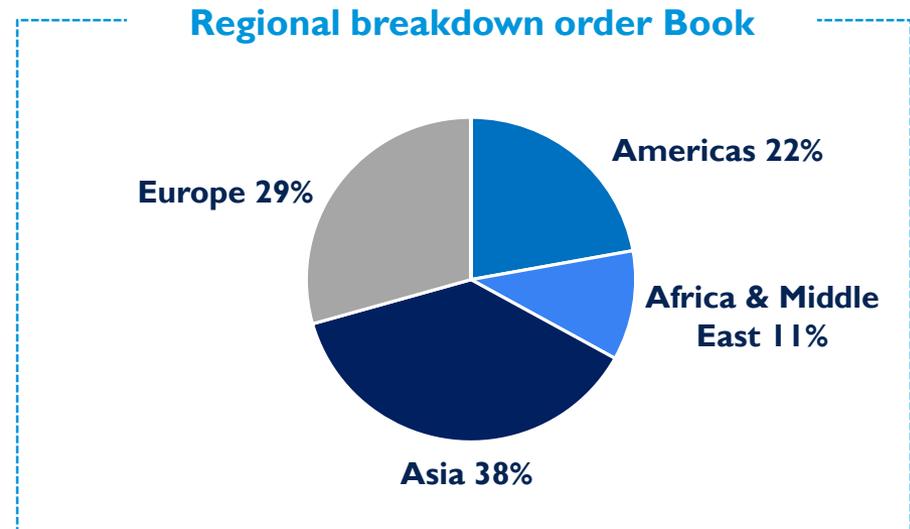
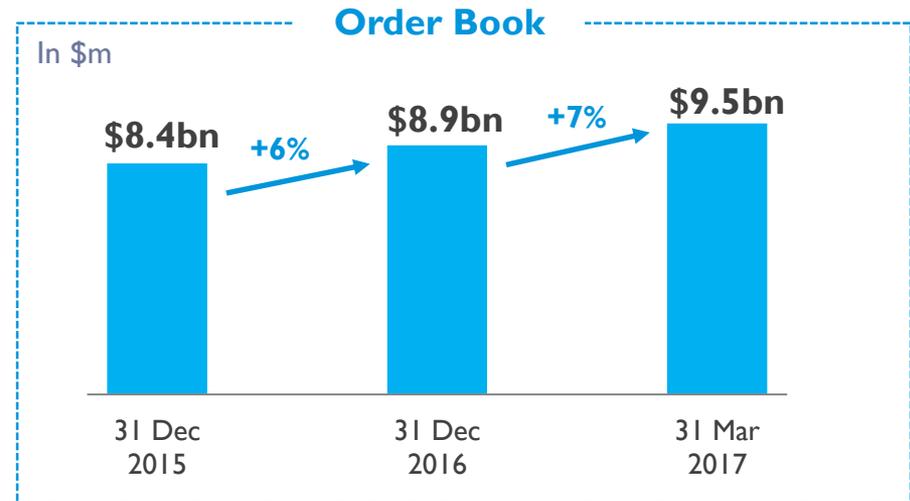


## External revenue breakdown



# Future growth is build on continued strong development of the order book

- Continue to follow its growth strategy and reinforce its global number 2 position
  - Accelerated increase in the order book by +7%, in 1<sup>st</sup> quarter, targeting ~10% by end 2017
- Recent contracts underline AFKL strength on the New Generation Aircraft:
  - Xiamen GENx
  - AirAsia A320NEO
  - CEBU A320 NEO
  - GOL CFM56-7B
  - JETSTAR A320CEO
  - Malaysia B737NG
- Order book illustrates global presence of E&M business and ability to be successful in fast growing Asia Pacific market



# To support global business AFI KLM E&M has a fast growing worldwide commercial and industrial footprint

## Global footprint AFI KLM E&M



# The AFI KLM E&M Trust Together program focusses on strengthening the growth of the E&M business

## Market context

**Continuing growing and dynamic market**

**New generation fleet** challenges existing “make or buy” decisions

**Big and Fast growing airlines**, require tailor made adaptive solutions

**OEM consolidation** and MRO ambitions create entry barriers

### Business Ambition

- Benefit from market growth and strong fleet renewal dynamics to capture market growth and develop presence in emerging countries
- Think global, act local: further expand our MRO network and capabilities
- Strengthen partnerships with OEM and OAM

### Customer & Product

- Build on the competitive edge of adaptive maintenance solutions allowing to accommodate big and fast growing customer requests
- Use Airline MRO DNA to develop and provide the MRO services customer needs, with hassle free customer experience

### Competitiveness

- Benefit of growing scale E&M business to increase in house component repairs capabilities reducing cost and TAT
- Reduce our cost by expanding parts repair capabilities, CRMA, JV with Safran and inhouse
- Invest in new technologies required for new generation aircraft such as: Helios

# ..And invest in development and innovation to secure future growth..

## Market context

**Intense competition** puts pressure on market prices

**Mother airline updated requirements:** cost, fleet utilization and customer experience

**Digital revolution & Big Data analytics** will re-shape the MRO industry

### Governance

- Full joint renewal of AFKL IT backbone:
  - EMPower
  - Maintenix
  - MDOC
- Expand single AFKL Engineering Agency within group B787 (KL) and A350 (AF)

### Operational Excellence & Safety

- Focus on Operational Integrity and fleet utilization of Airlines

### People & Organization

- Build Innovative Culture
- Continue to invest in our staff to prepare them for Next Generation Aircraft and new digital requirements

### Innovation & Digital

- Big data & predictive maintenance:
  - Expand predictive maintenance initiatives building successful on Prognos advanced analytics predictive maintenance tool
- Smart operations:
  - Implementing successful POC of digital tools that drastically improve efficiency and quality

*The MRO Lab*  
Adaptive Innovations

# For the Engine business priorities are growing the product portfolio and increasing added value

## Segment context

**9%<sup>(1)</sup> annual market growth (USD Value)**  
on AFKL E&M group engine types portfolio

**Large engines (VBE) require significant investment in new facilities and know-how**

**Engine MRO supply chain under pressure**, as a result of full OEM order book with Next Generation engines

**OEMs applying strict license policies**, create entry barrier on Next Generation engine types eliminating competition

**Engine On Wing maintenance** growing segment due to VBE and Next Generation engines shop maintenance needs

## Priorities

- Build on unique and strong position for VBE engine
- Develop parts repair capabilities network to reduce cost and OEM dependence
- Expand product portfolio with new generation products like LeapX and TrendXWB
- Build further PROGNOS predictive maintenance tool
- Strengthen the On Wing support capabilities and develop World Wide footprint

# For Component business, continue to increase market share in a growing market

## Segment context

**7.1%<sup>(1)</sup> annual growth on aircraft types serviced by AFKL E&M group (USD Value)**

**Very dynamic market due to new AC types phase in at many airline**

**Growing competition from OEM's and OAM's**

**Higher entry barriers to enter repair market for Next Gen aircraft due to OEM IP policies**

**NG WB aircraft challenges existing “make or buy” choices of non MRO airlines**

**New aircraft types require development of new repair capabilities (AFKL Helios facility)**

## Priorities

- Continue commercial focus to grab market share
- Strengthen and build local footprints to enter regional markets and reduce cost
- Successful CSP partnership with Boeing extended and expanded
- Ambitious projects to increase competitiveness of in house repair capabilities

# Trust Together: Strengthening the growth of E&M

“Be the benchmark player on the market,  
leveraging a powerful global network”



## Engines

Build on VBE market position, reduce and control cost by developing repairs and expand the product portfolio to include new Generation Engines



## Components

Continue market share growth, presence in growing markets and new generation aircraft. Expand local footprint.



## Airframe

Further reduce cost by using digitized smart operations. Continue to build business segments Cabin Modifications and Line Maintenance International.

# Q&A SESSION

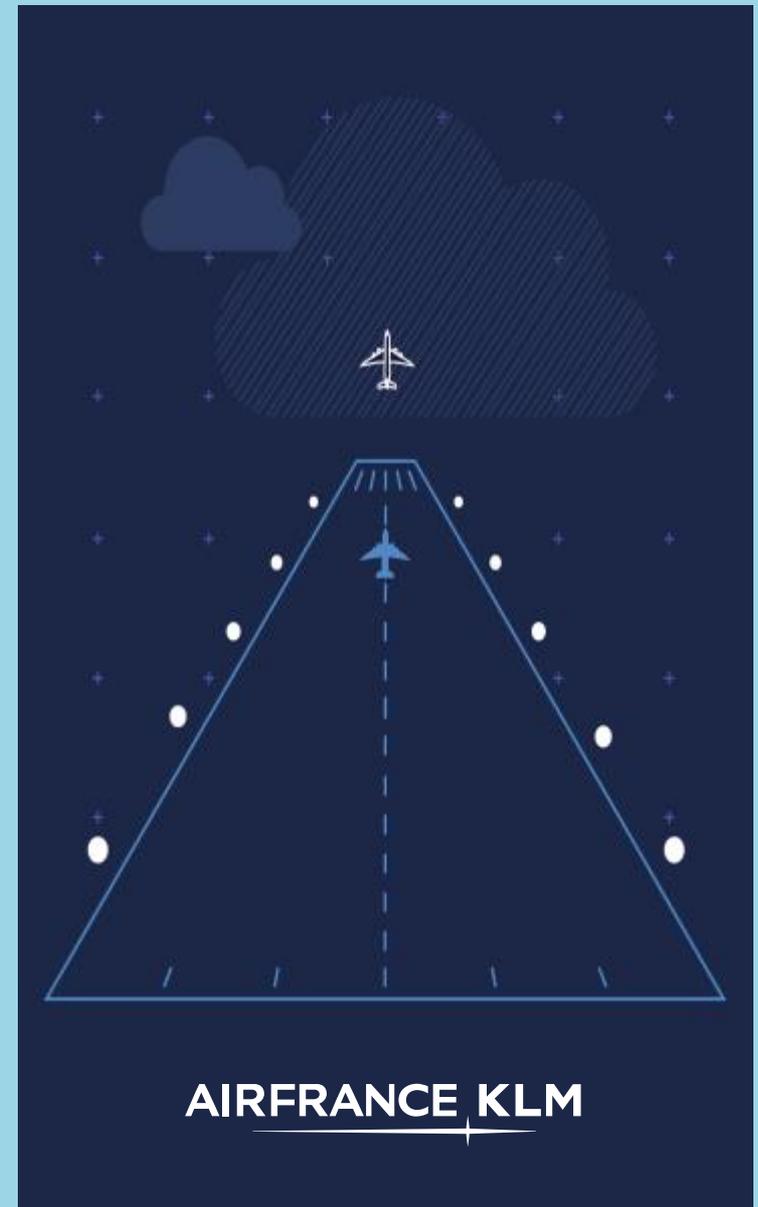


# AIRLINE INITIATIVES TO RETURN TO THE OFFENSIVE AND REINFORCE THEIR COMPETITIVENESS

**Air France's priorities for profitability**  
Franck Turner

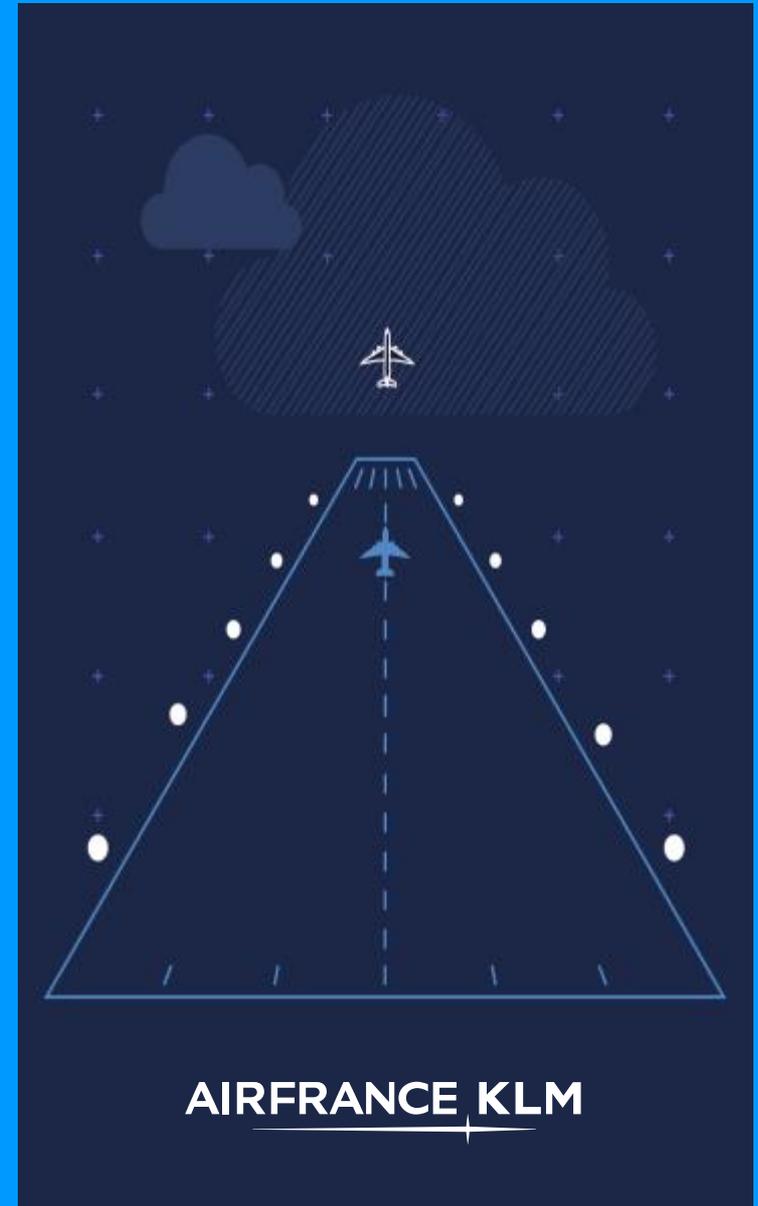
**A new innovative and competitive company  
alongside Air France**  
Jean-Michel Mathieu

**Continue to develop a competitive growth  
at KLM**  
Pieter Elbers



# AIR FRANCE'S PRIORITIES FOR PROFITABILITY

FRANCK TERNER  
CEO AIR FRANCE



# For Air France, Trust Together encompasses 5 priorities

## Air France's 5 priorities



Put customers  
at the heart of  
our operations

**Net Promoteur  
Score**  
Ambition: 50



Improve our  
operational  
efficiency and  
guarantee flight  
safety

**Customer index**  
showing no  
unreliability  
Goal: 75%



Simplify our  
ways of working

**Simplification  
perception  
index**



Invest in our  
employees

**Employee  
Promoter Score**



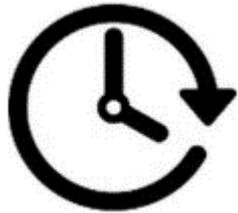
Improve our  
competitiveness

**CASK**  
Annual  
reduction of at  
least 1.5%  
through to 2020

# Put the customer at the heart of the operations: 3 areas of action to achieve our customer satisfaction goals



**1 - Move up-market for our products and services**



**2 - Improve our operational efficiency**



**3 - Become the industry reference for the management of service disruption**

## Net Promoteur Score ambition

- 2017 ambition of **25**
- End 2020 ambition of **50**

# Put the customer at the heart of the operations: fostering client satisfaction through extended move-up market



## Long-haul

**The move up-market for our long-haul fleet is being extended: 80% of the aircraft will be equipped with new cabins by 2020**

- BEST equipped fleet: 25 B777-200s and 19 B777-300s by June 2017.
- Progressive arrival of new-generation aircraft in the fleet: B787s and A350s.
- Investment in the RAVE IFE for the A330s, A350s and a portion of our B773 fleet (14)



Business seat on the A350-3F

## Medium-haul fleet

- **The entire medium-haul fleet has been equipped with the new Smart & Beyond cabins since early May (except A318)**
- By the end of 2018, these aircraft will be progressively equipped with new **USB High Power plugs**.



# Put the customer at the heart of the operations: ambitious goals in terms of operational efficiency



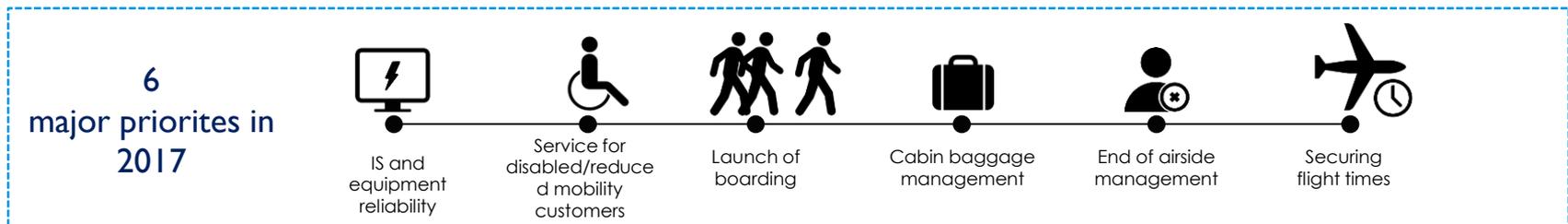
## Operational efficiency ambition

Rate of customers having suffered no operational disruption

- 2017 ambition of **60%**
- End 2020 ambition of **75%**

### As from 2017:

- New organisation with one Chief Operations Officer and enforced focus on performance
- Digital tools available for all front line staff to improve communication and reactivity
- Big Data supporting operational performance (predictive maintenance, ...)
- Simplification of the Turnaround process (lean management, test & learn, ...)



### By 2020, many breakthroughs to enable a jump in performance :

- Simpler operational policy fully aligned throughout the operational chain
- Full digitisation of operational documents to simplify process
- Anticipation thanks to real time tracking of operations (geolocalisation, big data from connected aircraft, ...)
- Full redesign of the Turnaround process

# Put the customer at the heart of the operations: become the industry reference for service disruption management



## Priorities

Improving customer satisfaction in all circumstances and transforming any service disruption into a positive experience for our customers thanks to:

- Innovation enabling the proposal of **personalized solutions**, offering **more choice and autonomy**.
- **Assistance throughout the disruption experienced** via the optimal use of digital tools to provide real-time information.

## An innovative and collaborative approach with our customers and our teams

In November 2016, a **Customer Priority Hackathon** facilitated the emergence of innovative solutions which will be trialed in real situations during 2017 (e.g.: digital vouchers)



# Simplify the ways of working : the “Simple & Digital” project for the in-depth simplification of functioning modes



## “Simple & Digital”: a renewed momentum

- Implementation of a simpler and tighter organization for Air France around its 5 priorities at the beginning of the year.
- Acceleration of the simplification process of our functioning modes with the launch of “**Simple & Digital**” project at the end of April, with one goal : enable Air France to increase its agility and ability to innovate.
  - **A participative approach** and a high level of employee engagement:
  - **Pilot schemes** launched during May, particularly on the most cross-cutting processes and a widespread roll-out of the envisaged schemes after the first feedback in mid-June.
  - Opportunity study of a “**Digital factory**” to accelerate the movement.

# Investing in our employees with the development of the “Air France Employee Experience”



## Ambition of the “Air France Employee Experience”

- A project to promote **internal cohesion**, with a management dimension to **encourage initiative on the part of everyone**.
- A project built around **7 concrete commitments** in which all employees are empowered.
- Simplification & digitalization of the HR processes.

### 4 INDIVIDUAL COMMITMENTS

[#Motivation](#) [#Development](#) [#Initiative](#) [#TeamSpirit](#)

### 2 COLLECTIVE COMMITMENTS

[#SocialResponsability](#) [#SocialDialogue](#)

### 1 NECESSARY COMMITMENT

[#HealthandSafety](#)



## Overall picture

- **Within the framework of Trust Together** deployment of projects **in each division** or **on a cross-cutting** basis by promoting a **dialogue** aligned as closely as possible with **the local realities** and **involving unions**
- **2016 Ground Staff and Cabin Crew VDP:** 100% subscribed, for a total of 1,605 posts.
- At the same time, **recruitment of:**
  - 300 Ground Staff in targeted jobs (Aircraft Maintenance, Information System Development and Network, etc.)
  - About 160 pilots recruited since oct. 2016 for the Summer 2017 schedule and of new forecasts of hiring by the end of 2017
  - Implementation and development of a Cabin Crew internship program (250-270 forecast for the Summer 2017 schedule)

## Labor relations update

### Pilots

- **Draft agreement open for signature until June 1<sup>st</sup> 2017** – submitted to the pilots unions
- **New agreement for Transavia pilots** offering a compromise between increased Airline Pilot Officer remuneration and relaxation of the commercial/network constraints

### Cabin Crew

Implementation of a Unilateral Note for a three-year period

### Cross-cutting

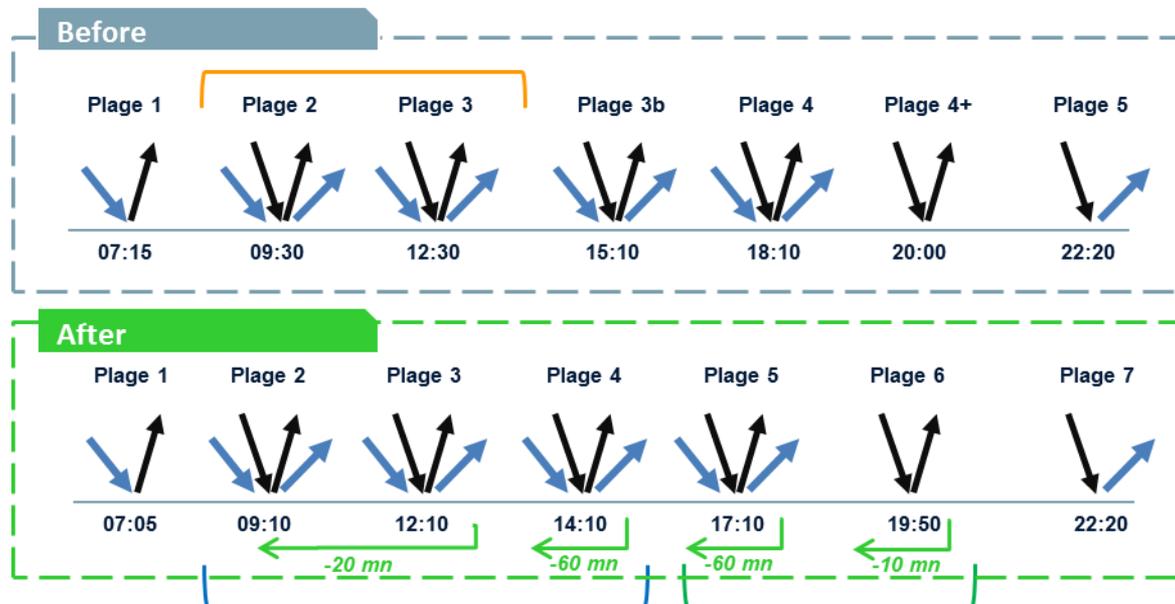
- First quarter 2017: **Mandatory Annual Negotiations**
- May-June 2017: renegotiation of the **profit-sharing agreements**

# Improve competitiveness: full effect of the hub redesign project in Summer 2017



Better spreading of activity allowed with hub redesign :

- First phase : smoothing of flight activity within the morning hub banks.
- 2nd phase : redefining the bank departure/arrival slots at CDG, to optimize the smoothing of activity throughout the day.
- Implemented in the Winter 16, taking full effect during Summer 17.



## Hub Redesign priorities

A financial benefit of **€40 to 50 million annually**, thanks to the improvement of **operational efficiency at CDG, operational cost savings and incremental connecting passenger revenues.**



# Improve competitiveness: more intensive use of the fleet thanks to the aircraft utilization project



With this project, the aim is to gain the equivalent of **6 medium-haul aircraft** and

**3 long-haul aircraft** by 2020,

while maintaining the **operational robustness and commercial quality** of our schedule, resulting in an annual cost saving of EUR 40m by 2020

## First short-term results

### First results as of this summer:

- **+10 minutes** of gain in use per day on the medium-haul fleet on departure from Charles de Gaulle.

### New gains in Winter 2017:

- Medium-haul: **+38 minutes** of use on the CDG medium-haul fleet, enabling the withdrawal of **one aircraft, for +5% more activity in terms of flights operated**
- Long-haul: expected gain of over **30 minutes** on the A380 fleet.

# Improve competitiveness: €30m of annual savings for Air France enabled by the lobbying initiatives.



Lobbying initiatives aiming to reduce the gap in competitiveness with our competitors are being stepped up and are starting to bear fruit.

## 2 major advances since the beginning of 2017

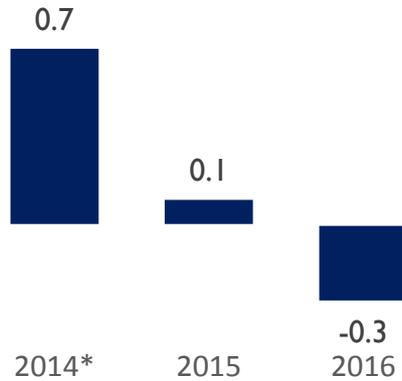
- Implementation of the airline passenger tax to finance the CDG Express postponed from 2017 to 2024 at the earliest (€17m/year)
- Reduction in the level of the aviation Terminal Services Charge, applicable on 1 January and representing a €13m saving for Air France.



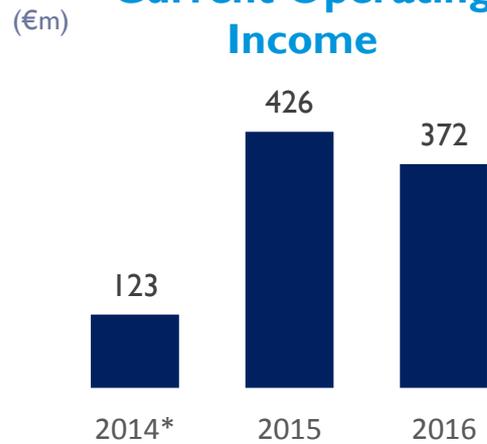
# Air France efforts are paying off



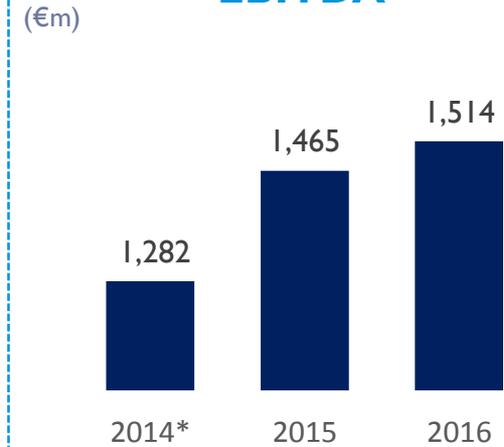
## EASK growth in %



## Current Operating Income

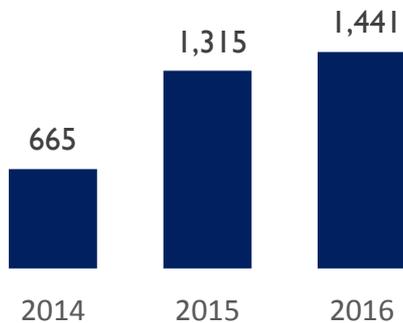


## EBITDA



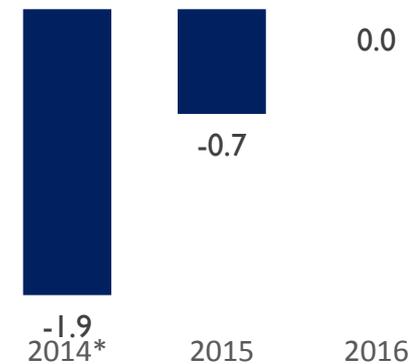
## Operating cash flow

Before WCR and restructuring cash out (€m)



## Unit costs in %

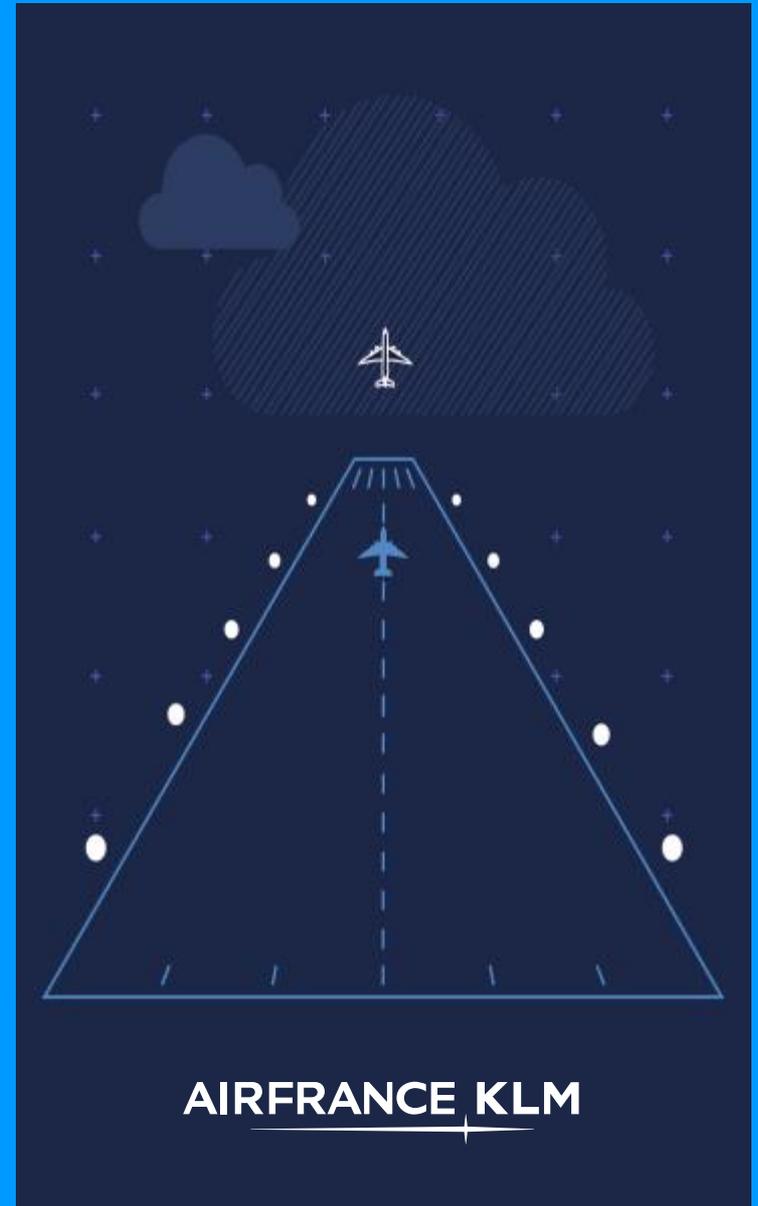
At constant currency, fuel price and pension cost



\* Strike corrected

# A NEW INNOVATIVE AND COMPETITIVE COMPANY ALONGSIDE AIR FRANCE

JEAN-MICHEL MATHIEU



# Boost project: a new response to contend with an ultra-competitive situation and regain the offensive

- Create a new company alongside Air France which will drive growth for the group
- Start of operations in Winter 2017
- To operate around 10% of Air France activity with 18 medium-haul aircraft by 2018 and 10 long-haul aircraft by 2020
- To regain the offensive on ultra-competitive routes
- Boost will propose a simple, modern and innovative offer, oriented towards new customer segments

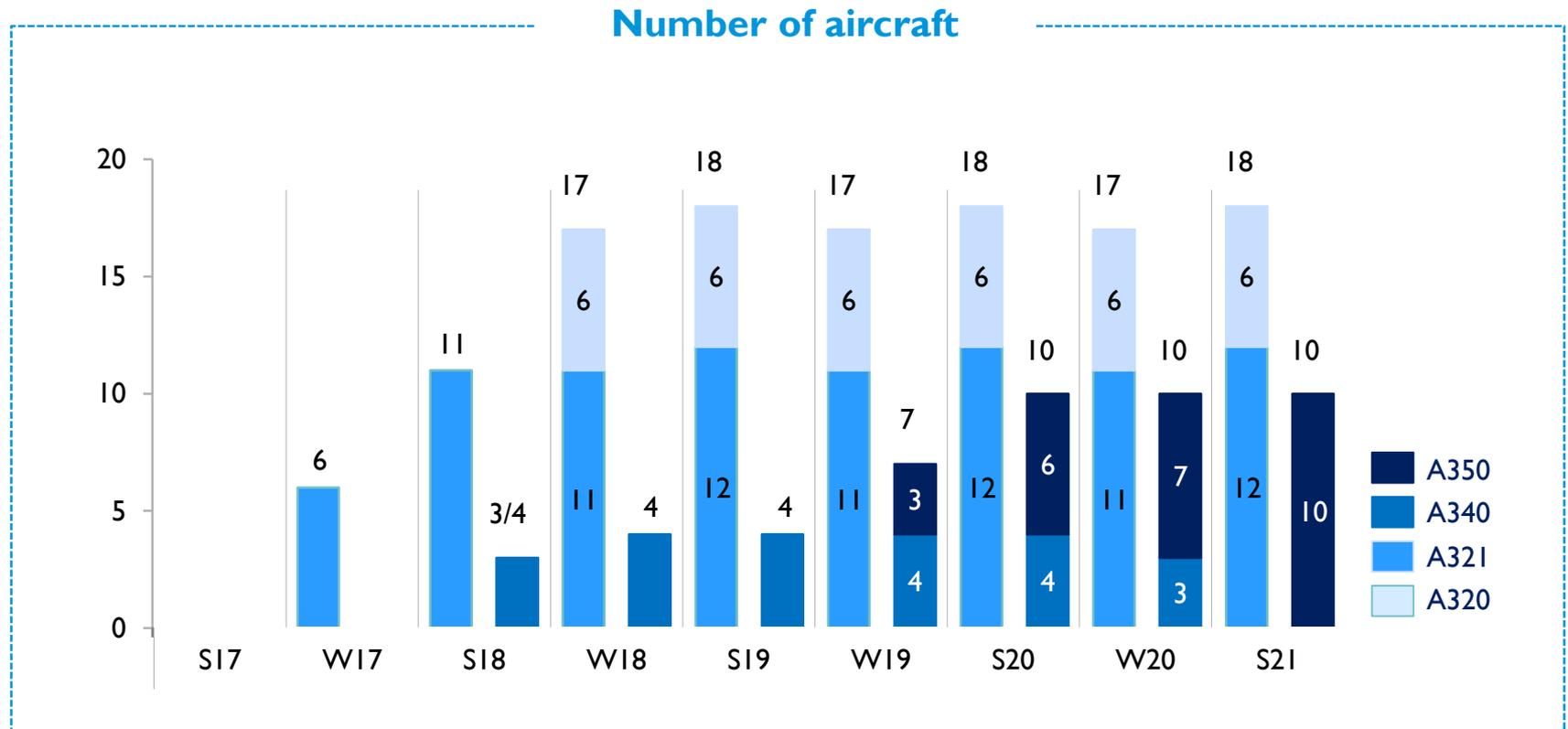
# A tool designed for ultra-competitive routes

- The new company will enable the group to contend with an ultra-competitive situation and to pursue its growth ambition
- Medium-haul: it will operate several hub-feeding routes
- Long-haul: it will focus on ultra-competitive routes, with a mix of Asian routes in competition with the Gulf carriers and the opening of new routes
  - To ensure the long-term viability of currently-loss-making routes under satisfactory profitability conditions (70% of Boost long-haul activity)
  - To open new destinations (30% of Boost long-haul activity)

# Strengthen our position towards new customer segments

- Positioning the new company as a brand oriented towards Millennials with a different customer experience but aligned with Air France standards
  - Additional growth potential and a good blend of business and leisure customers
  - An aspirational target which remains attractive for the other customer segments
  - A new brand positioning:
    - Committed and responsible
    - Natural, convivial and authentic
- An offer which must be perceived as more accessible, different but not downgraded
  - New food and drinks offer
  - Differentiated and connected in-flight entertainment proposition
  - Digital communities
- An NPS ambition aligned with that of Air France

# A progressive ramp-up to benefit from the new A350's efficiency



Progressive ramp-up to 28 aircraft in operation in 2020

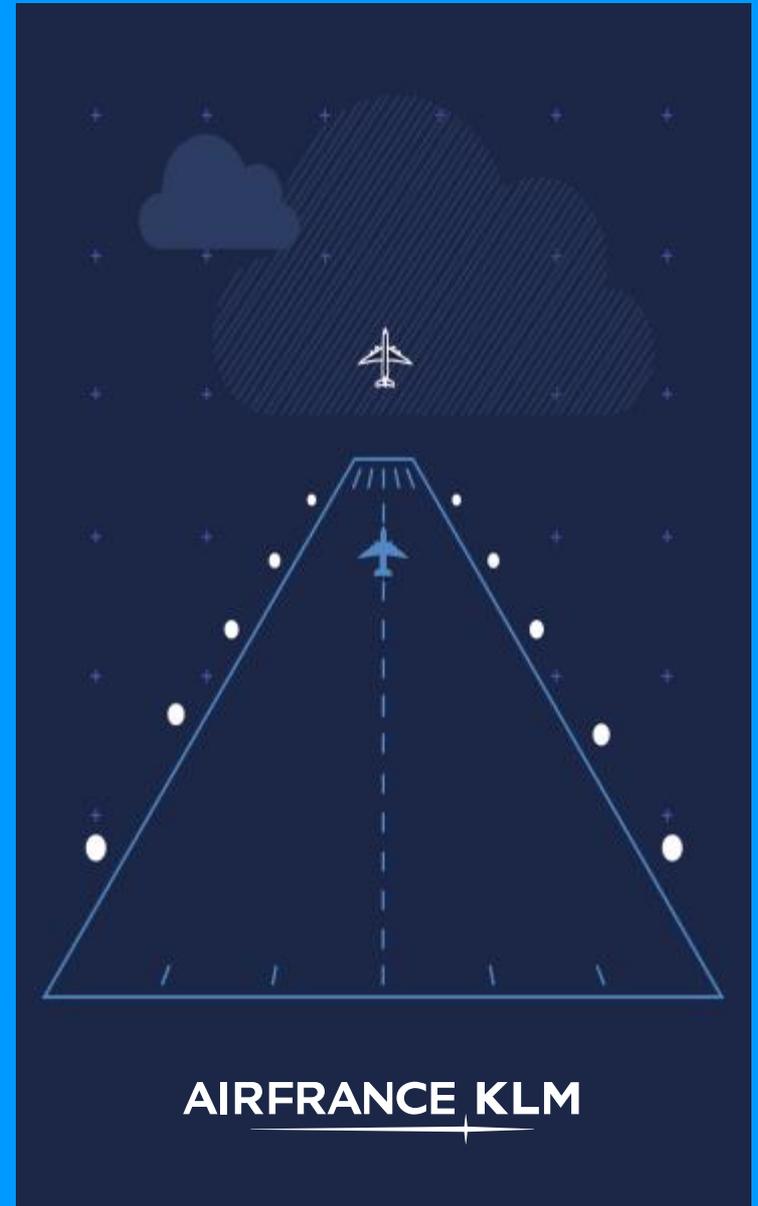
- 10 A350s by Summer 2021
- 18 A320/A321s

# An ambitious business plan to achieve profitable growth

- Boost will have wet lease agreement with Air France
- Unit costs target: 15% (medium-haul) to 18% (long-haul) below Air France unit costs, excluding fuel
  - A different labor agreement for cabin crews
  - Reduced catering and outstation costs
  - Limited support costs
  - Paid on-board options
  - Additional unit cost decrease thanks to A350s as of Winter 2019
    - Optimized configuration thanks to galley volume reduction

# CONTINUE TO DEVELOP A COMPETITIVE GROWTH AT KLM

PIETER ELBERS  
CEO KLM



# KLM 2020 objective: becoming Europe's customer centric, innovative and efficient network carrier



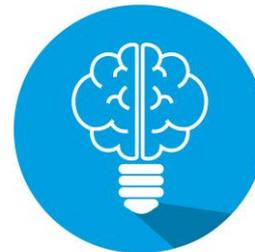
CUSTOMER  
& PRODUCT



OPERATIONAL  
EXCELLENCE



INNOVATION



NETWORK  
& FLEET



PEOPLE &  
ORGANIZATION



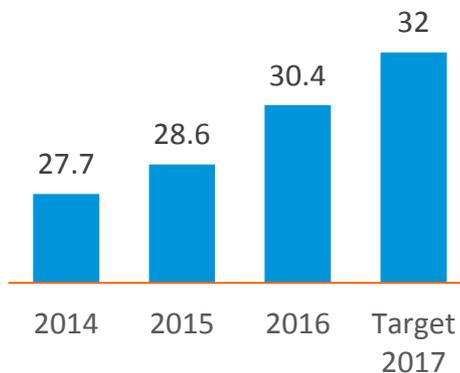
PERFORMANCE



# KLM raising the bar on customer experience



## More passengers



## World Business Class 80% full flat



## Event for Ultimate customers



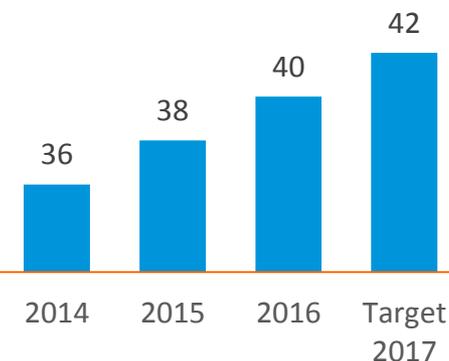
## Tool for customer support at airport



## Moving Your World



## Net Promoter Score



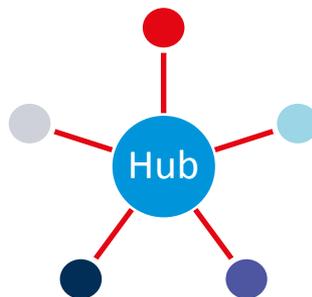
# KLM improving its network and fleet



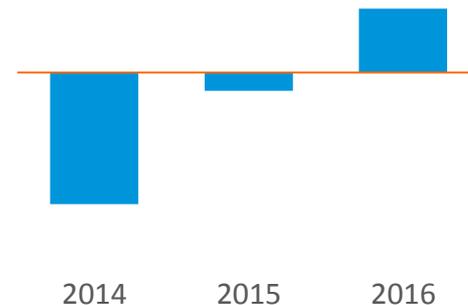
## New destinations



## Strength of hub and spoke



## Europe back to profitable



## Fleet simplification ICA

from 7 families → 4

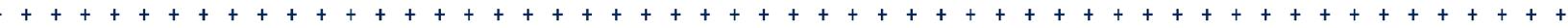
## Fleet renewal ICA



## Fleet renewal KLC



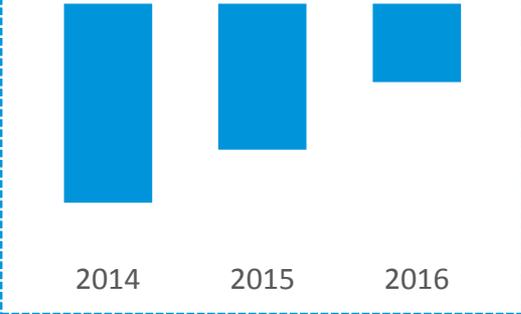
# Cargo restructured; focus on maximizing contribution to Group results



## Restructuring the business

- SPL (Full) Freighter footprint reduced to 4
- Organization rightsized: with 430 FTE (-16%)

SPL Cargo: COI Full Freighter



- Continue to add value to Belly network



## Growing & innovating the business

- New sorter Mail & Equation to capture e-Commerce & Pharma market opportunities



- Focus on digitization; industry leader on E-AWB
- European Green Fast Lanes: optimizing truck feeder quality



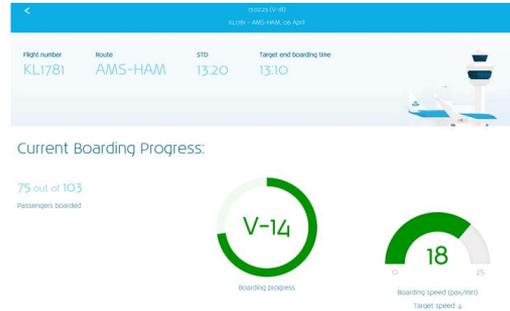
# KLM innovating for operational excellence



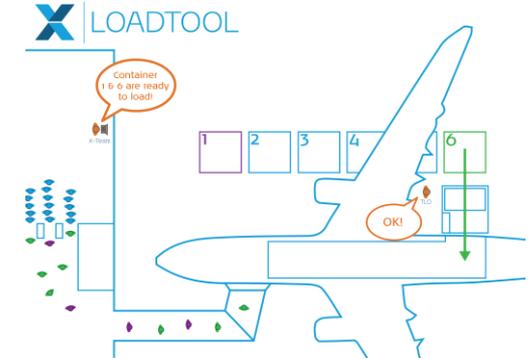
## X-gates



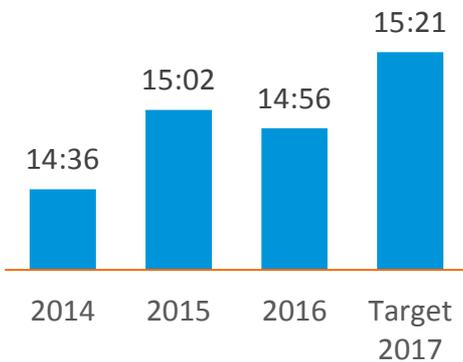
## Tool for expected end boarding time



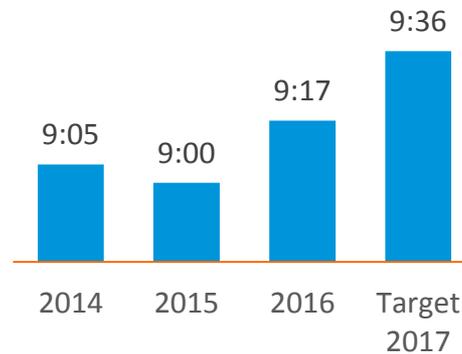
## Tool that reduces baggage unloading time



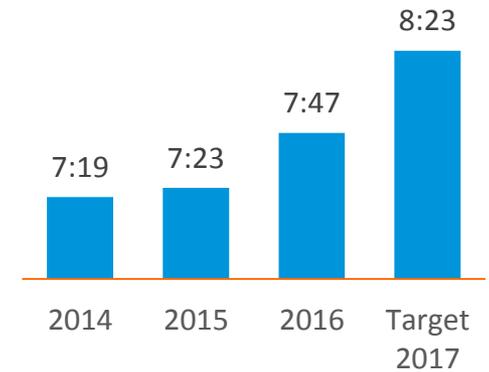
## Fleet utilization ICA



## Fleet utilization 737



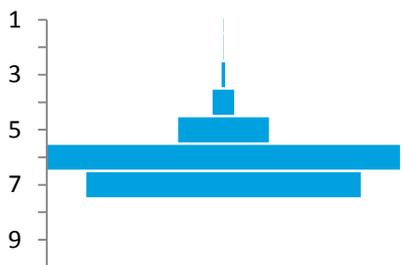
## Fleet utilization KLC



# KLM becoming increasingly competitive; Pension de-risking in progress



## High Performance Organization



## CLA's



## Productivity in %



## Ground Pension

- Funding ratio\* | 12.5%
- Defined Benefit Scheme
- Fixed contribution
- Recovery strength of the fund can be used in case of deficit
- Future accrual at max. € 100k
- Surplus on the balance sheet

## Cabin Pension

- Funding ratio\* | 10.5%
- Collective Defined Contribution scheme agreed with unions; IFRS 'approval' expected for end of Q2
- Fixed contribution
- Surplus on the balance sheet

## Cockpit pension

- Funding ratio\* | 24.3%
- Defined Benefit Scheme
- 'Cost covering' contribution
- Recovery strength of the fund can be used in case of deficit
- Future accrual at max. € 100k
- Surplus on the balance sheet

\* Based on current interest rates

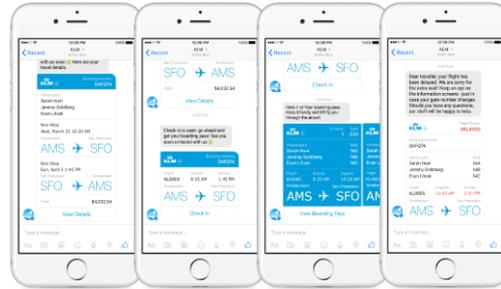
# KLM digital innovations for customer and staff



## Being where our customers are



## Facebook Messenger



## KLM Digital studio



## Passenger Operations: 14.000 iPads



## E&M



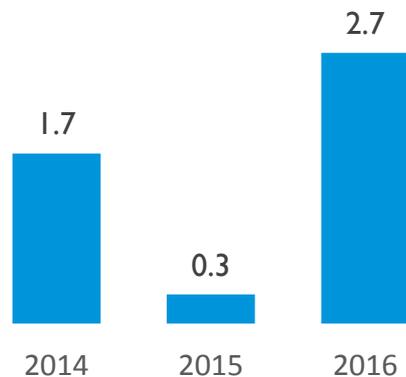
## Cargo



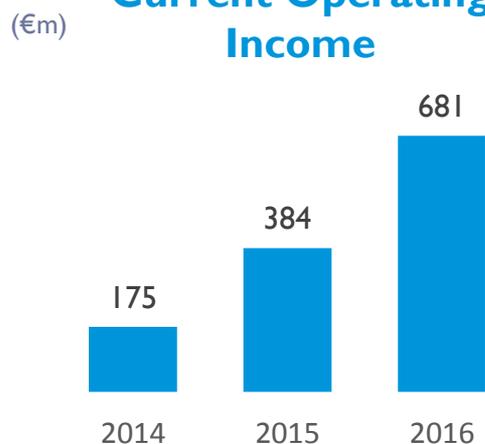
# KLM efforts are paying off



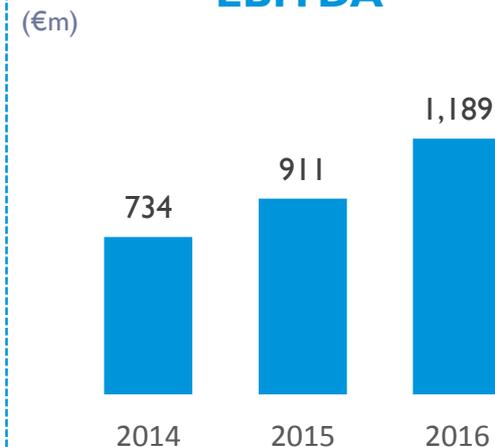
## EASK growth in %



## Current Operating Income

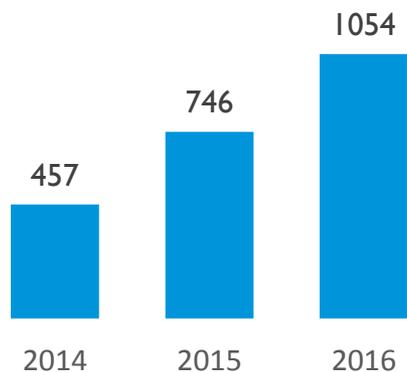


## EBITDA



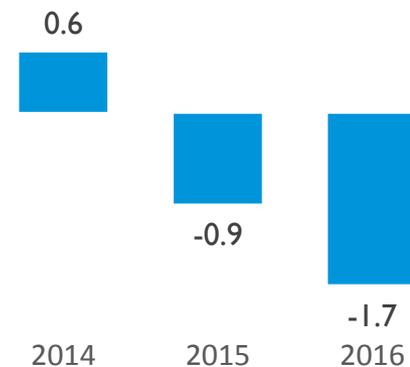
## Operating cash flow

Before WCR and restructuring cash out (€m)



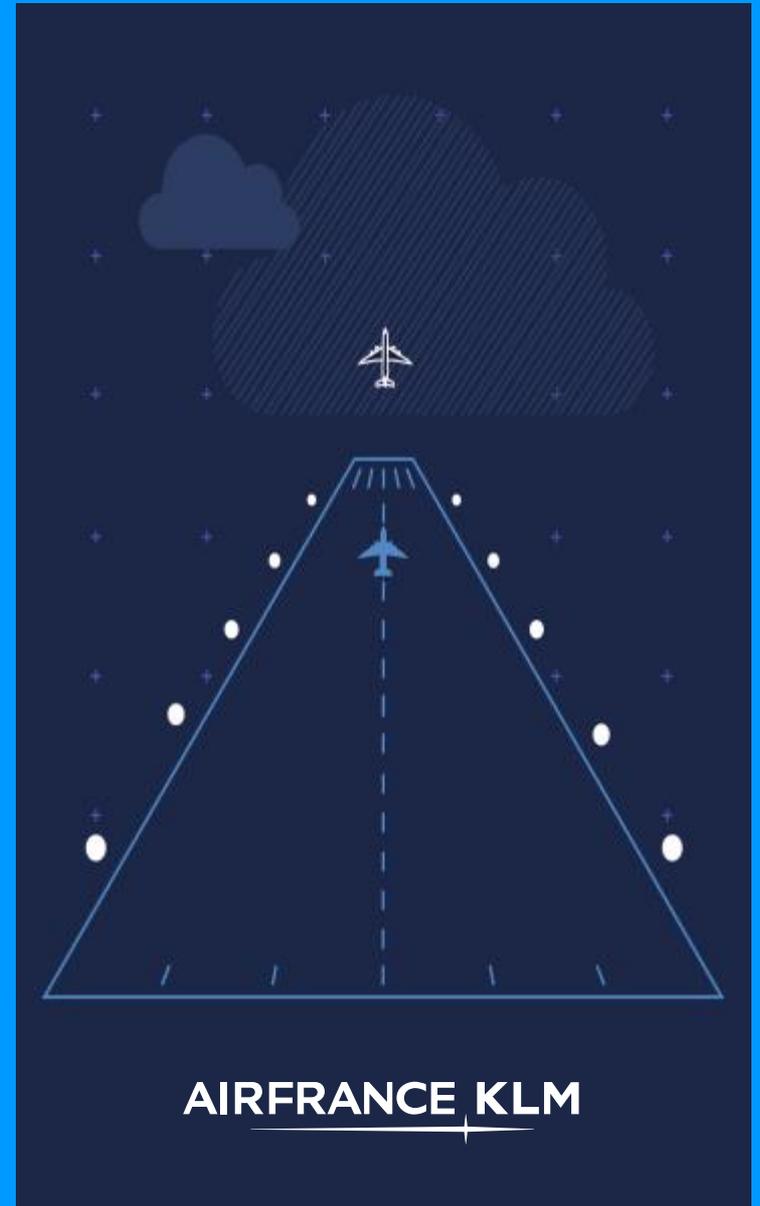
## Unit costs in %

At constant currency, fuel price and pension cost



# AN EFFICIENT FINANCIAL STRATEGY

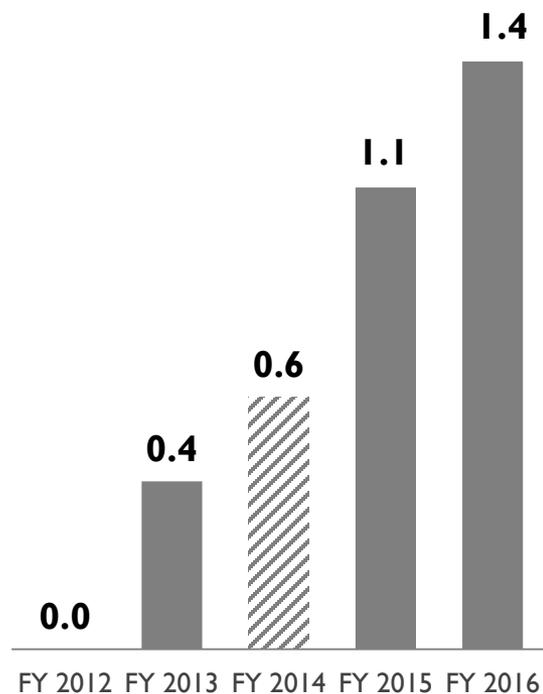
FREDERIC GAGEY  
CFO



# Five years of improvement

## Lease adjusted operating result<sup>(1)</sup>

In €bn

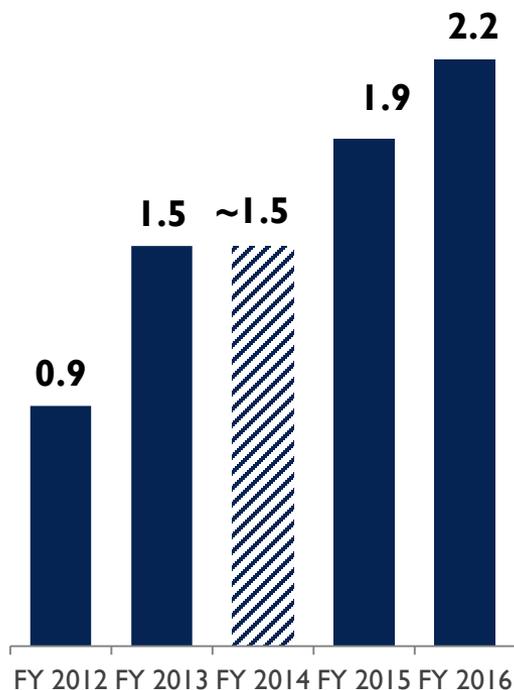


▨ Strike adjusted

● 2016 vs 2012:  
**+€1.4bn**

## Operating cash flow<sup>(2)</sup>

In €bn

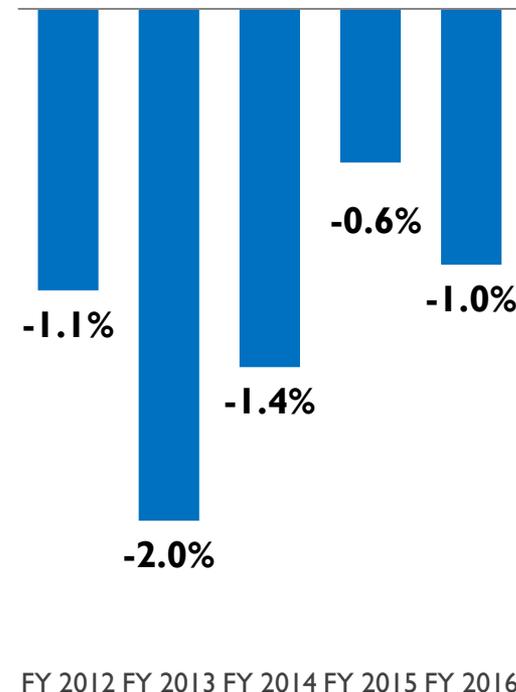


▨ Strike adjusted

● 2016 vs 2012:  
**+€1.3bn**

## Unit Costs

At constant currency, fuel price and pension expense

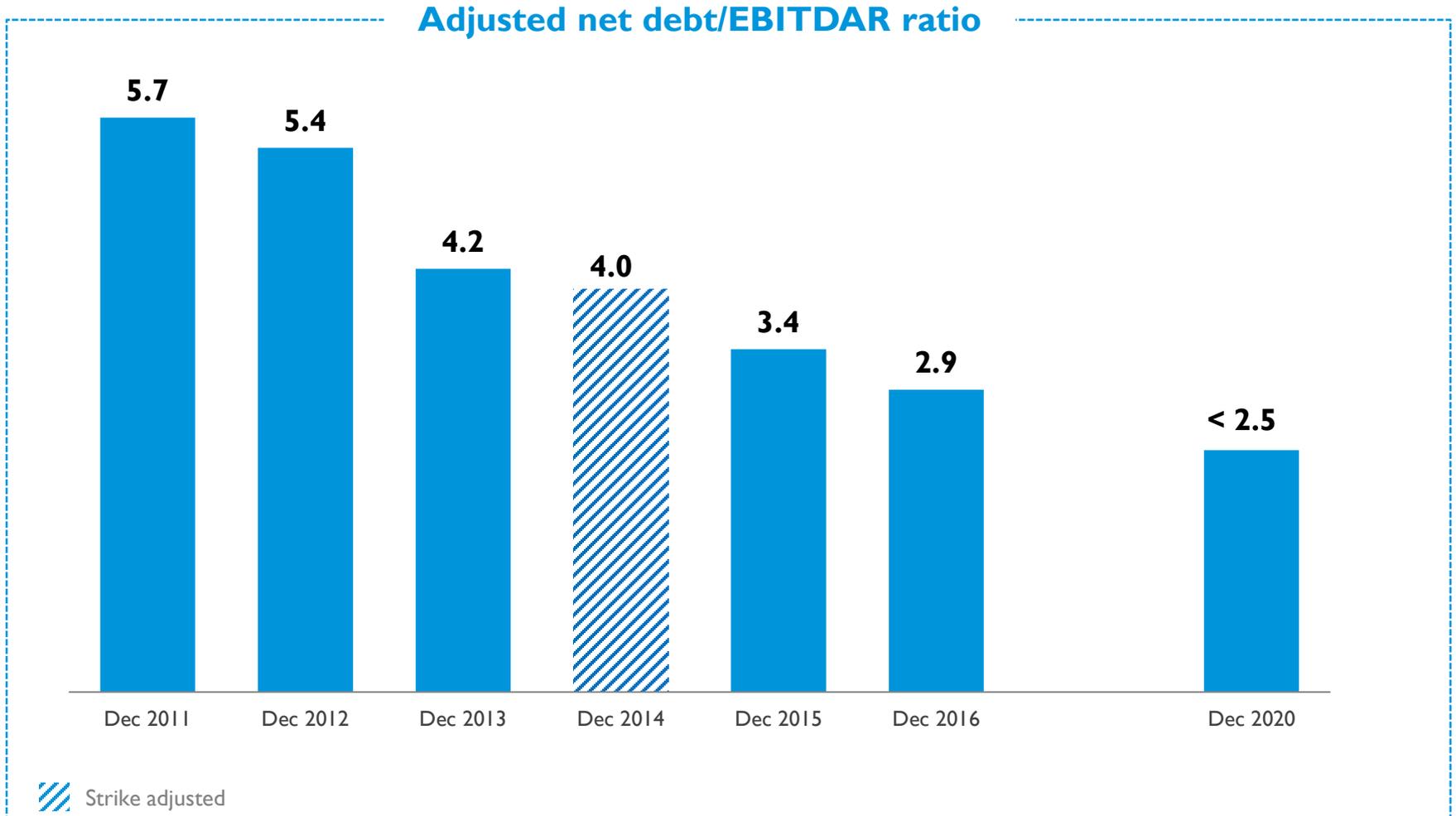


● Continuous unit costs improvement

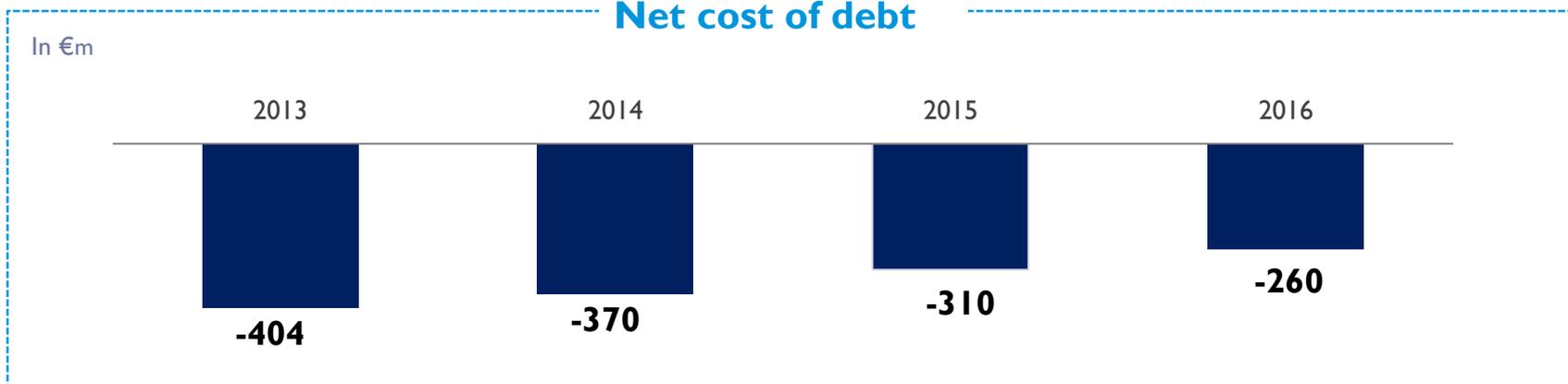
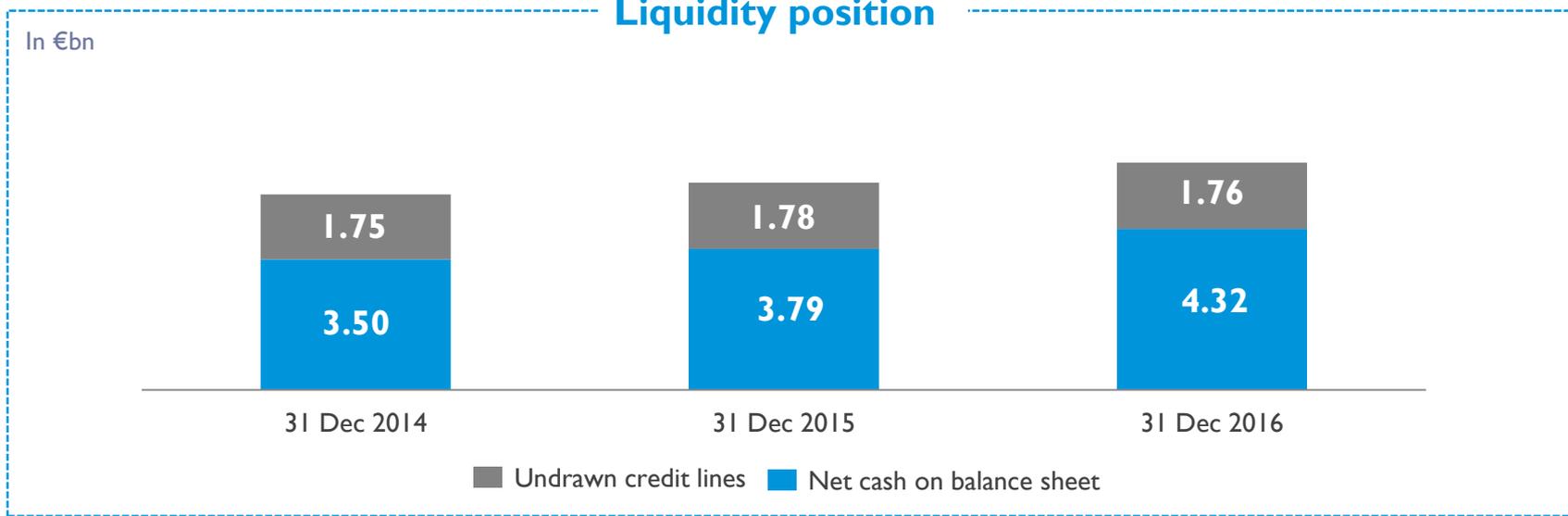
(1) Operating results adjusted for interest portion (1/3) of operating leases

(2) Operating cashflow including VDP and change in WCR

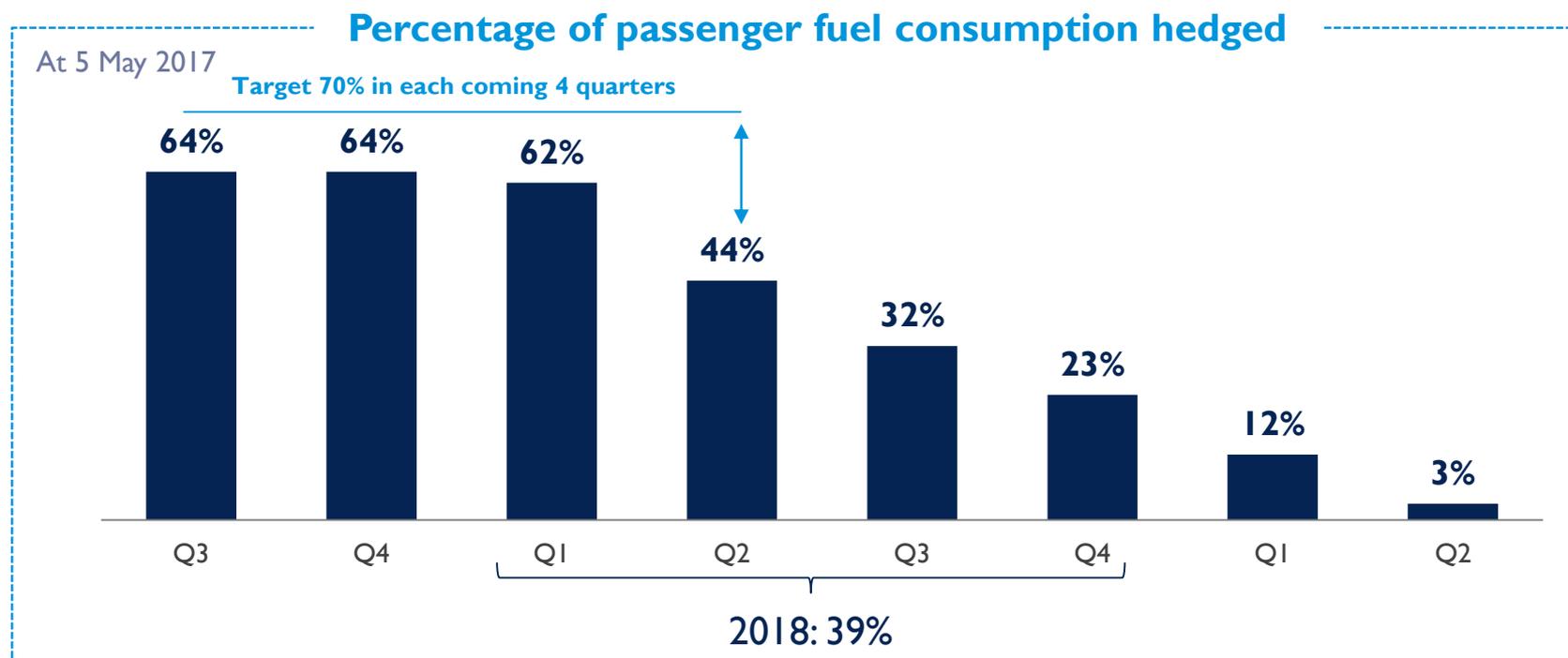
# Continuing net debt reduction, supporting the target adjusted net debt / EBITDAR below 2.5x



# Strengthening the liquidity position and reduction in finance costs



# Disciplined fuel hedge strategy limiting fuel cost volatility



- Fuel hedging strategy:

- ▶ The hedging strategy sets the time span of the hedges at two years (a rolling 24 months), no hedging for the Cargo volumes
- ▶ Use of simple instruments (mainly swaps, calls, collars,...)
- ▶ Enhancing the correlation of the hedging portfolio with the fuel bill: use of underlying Jet fuel by default instead of Brent

# Managing the operating and investing cash flow exposure

## Operating cash flow hedging

- Three main currencies monitored
  - USD (short position)
  - GBP (long position)
  - JPY (long position)
- For each currency hedged
  - Time span of two years (24 rolling basis)
  - Use of simple instruments (forwards and options)

## Investing cash flow hedging

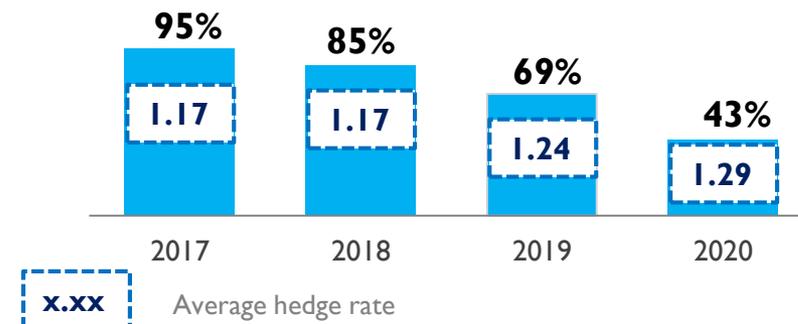
- Strategy applies mainly to aircraft which are purchased in USD
- The exposure is gradually hedged (linear basis approach) between the date aircraft are ordered and their expected delivery date, using forwards
- Market value portfolio: EUR +214m

## Opex exposure

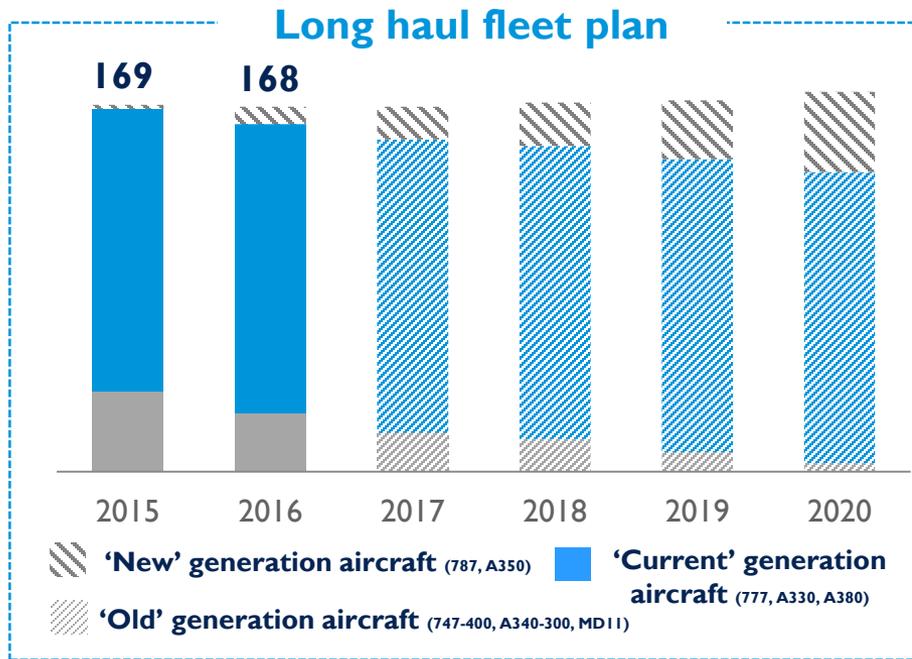
- Hedging policy on USD, GBP and JPY: ~50% net operational exposure 2017 and ~30% in 2018
- Value of hedge portfolio: EUR +42m

## Capex exposure

% USD Capex exposure hedged



# Investing in an efficient fleet



- Target to secure a profitable growth between 2% and 3% (ASKs) in long haul until 2020

### Group fleet overview

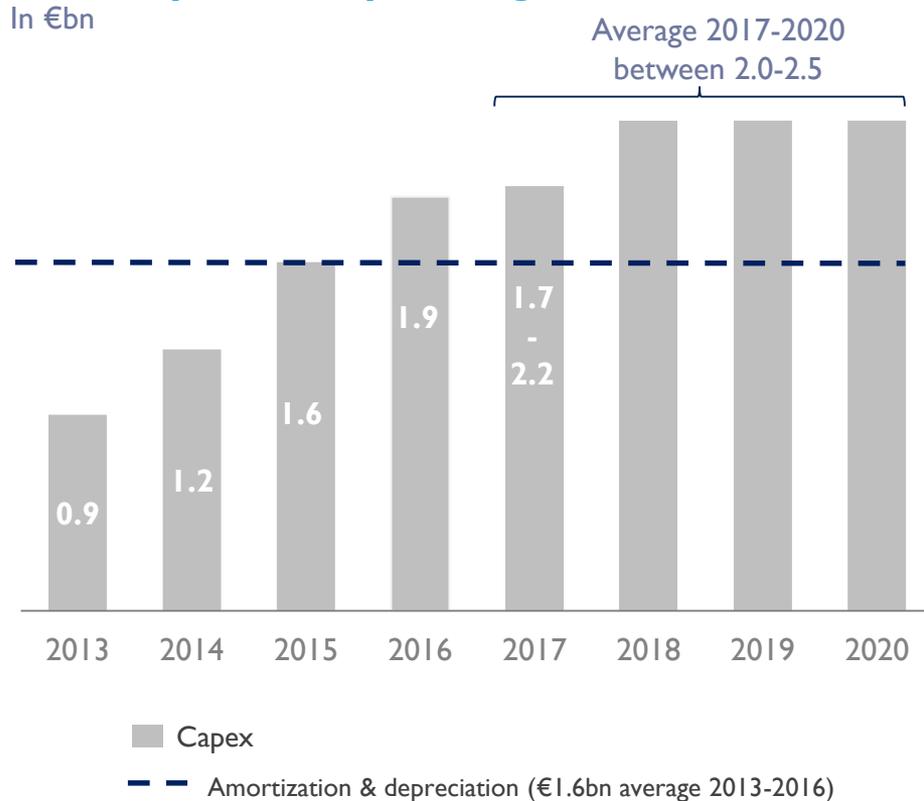
Aircraft	In operation 31/12/16	Trend Medium term
B747	17	↘
B777	95	↗
B787	8	↗
A380	10	=
A340	10	↘
A350	0	↗
A330	28	=
<b>Total Long-Haul</b>	<b>168</b>	
B737	111	↗
A321/20/19/18	117	↘
<b>Total Short and Medium-Haul</b>	<b>228</b>	
ATR72	10	=
ATR42	12	↘
Canadair Jet	25	=
Embraer 190/175/145/135	74	↗
Fokker 70	11	↘
<b>Total Regional</b>	<b>132</b>	
<b>Total Air France-KLM Group</b>	<b>528</b>	

# Maintaining a yearly positive free cash flow

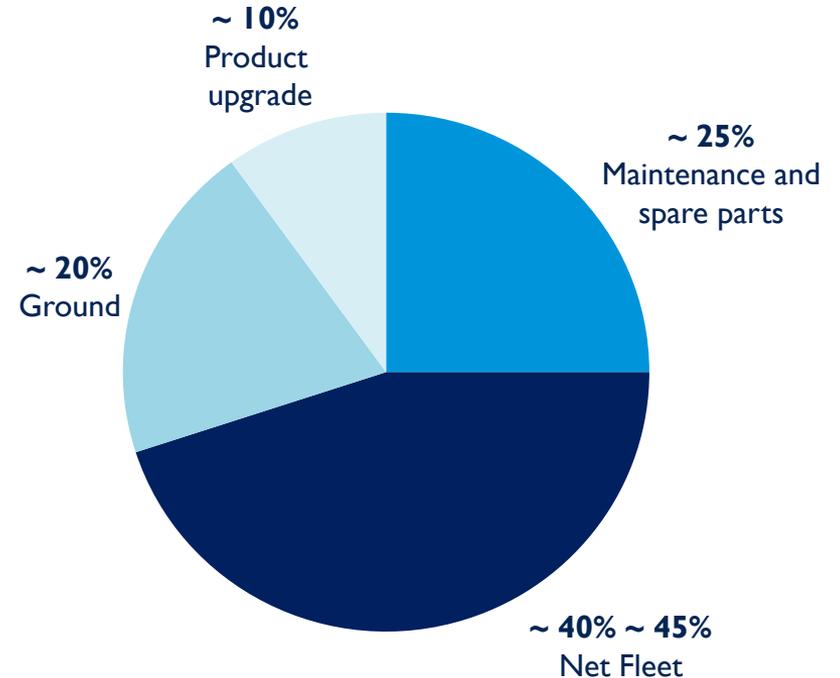
- **Strict discipline**

- Positive yearly free cash flow before disposals
- Maintained capex discipline in relation with the operating cash flow

**Capex and operating free cash flow**



**2017-2018 Capex plan breakdown**



# Carefully monitoring Air France-KLM financial flexibility within Trust Together framework

- Target to secure a profitable growth
  - Between 2% and 3% (ASKs) growth in long haul until 2020
- Continue to improve the competitiveness efforts
  - Continued unit cost<sup>(1)</sup> reduction, in excess of 1.5% between 2017 and 2020
- Strict capex discipline ensuring flexibility, guaranteeing positive free cash flow
  - Positive free cash flow before disposals
  - Average capex plan between €2.0- € 2.5bn between 2017 and 2020
- Net debt reduction remains a priority
  - Adjusted net debt to EBITDAR below 2.5x mid cycle by end 2020

# A changing world: New IFRS standards impacting our business

- IFRS 15: revenues from contracts with customer
- IFRS 16: accounting of leases

# IFRS 15: revenues from contracts with customer

## Question 1: Change fees

You buy a ticket CDG – Berlin. Because of a change in your travel date, you decide to change your CDG – Berlin ticket. Air France-KLM invoices you a change fee amounting to 50€.

**Under the new standard IFRS 15, when will Air France-KLM recognize the revenue linked to the change fee?**

Answer 1: When the change fee is paid

Answer 2: When the transport between CDG and Berlin is made

Answer 3: When the ticket CDG – Berlin is re-issued

# IFRS 15: revenues from contracts with customers

## Answer - Question 1

Answer 2: Revenue linked to change fee will be recognized when the transport between CDG and Berlin will be made

- The change service is not considered distinct, as the passenger does not benefit from it without the provision of his flight. The benefit from the change service is not provided until the passenger is uplifted. The change fee revenue should be recognized at the time of the flight.
- As there is only one performance obligation, both the change fee and ticket revenue should be **classified as traffic revenue**.

# IFRS 15: revenues from contracts with customers

## Question 2: Revenue Recognition concerning CARGO

You buy an Airway Bill (AWB) with Air France-KLM to transport some materials from Beverly Hills to Berlin. The transport will be done as follows:



**Under the new standard IFRS 15, how will the margin between LAX and NYC be recognized?**

**Answer 1:** The margin will be recognized as revenue

**Answer 2:** The margin will be recognized as costs decrease

**Answer 3:** Revenue and cost will be recognized separately

# IFRS 15: revenues from contracts with customers

## Answer - Question 2

Answer 3: Revenue and cost will be recognized separately

- **Current accounting:** AFKL Cargo recognizes the segments Beverly Hills-LAX and NYC-BER as revenue and the trucking bill is charged as cost. The invoice segment LAX – NYC is settled via interline (IATA clearing) and AFKL recognizes a commission from DL as revenue.
- **New accounting:** AFKL Cargo should recognize the segment LAX – NYC as revenue after transportation and the invoices of both DL and trucking partner as cost.

# Summary of IFRS 15: revenue from contracts with customer

- This standard must be applied starting January 1, 2018
- This standard imposes a framework to analyze contracts with customers and involves differences in the revenue recognition in comparison with the current practice
- It will involves
  - ▶ Different timing in recognition of a part of our revenues (example: change fees)
  - ▶ Different classification in our P&L of some items (example: cargo transportation operated by another airline)
- Group accounts as of 2017 will be restated when 2018 consolidated accounts will be published (retrospective application)

# IFRS 16: leases

## Question 3: Aircraft operating leases

At the inception of an aircraft lease contract, a *right-of-use* asset and a financial debt will be recorded for the same amount. As you know, most of the aircraft lease contracts are paid in USD.

**What will be the impact of the USD on the aircraft lease accounting?**

**Answer 1:** The asset will be revalued according to the USD rate every month

**Answer 2:** The debt will be revalued according to the USD rate every month

**Answer 3:** The asset and the debt will be revalued according to the USD rate every month

# IFRS 16: leases

..... **Answer - Question 3** .....

Answer 2: The *right-of-use* asset is a non monetary item which will be converted into € at the inception date of the contract. The financial debt, as monetary item, is revalued every month according to the USD rate through P&L

- The Group is currently working on several solutions to avoid this volatility

# IFRS 16: leases

## Question 4: Airport leases

Air France-KLM has lease contracts in airports all around the world. Only the contracts in our three hubs will be considered as leases. Contracts in other airports will be considered as services and not capitalized.

**What is the reason that allow us to consider contracts in airports other than hubs as services contracts?**

**Answer 1:** True right of substitution

Answer 2: Asset not physically distinct

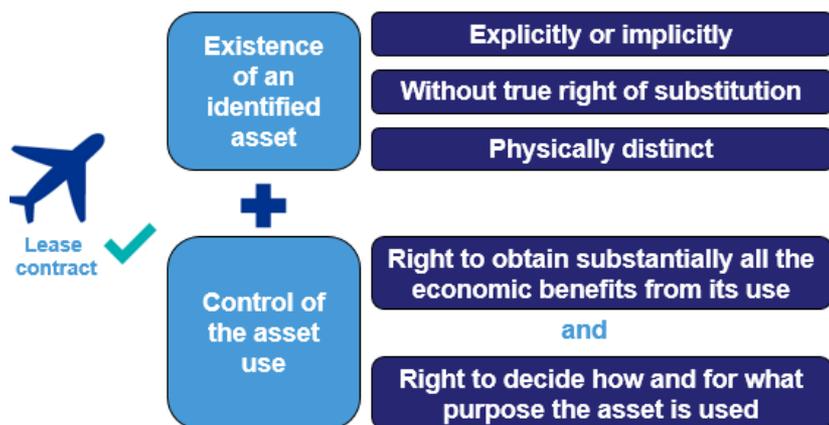
Answer 3: It is an exemption included in the standard

# IFRS 16: leases

## Answer - Question 4

**Answer 1:** When Air France-KLM is not in one of its 3 hubs, we can demonstrate that a true substitution right is existing (see example). That is why, according to our analysis, contracts in airports other than hubs can be considered as service contracts (no capitalization)

### Definition lease contract



### Example

Concession space of 3 years for a coffee shop in an airport

Amount of space located at any one of several boarding areas stated

Minimal costs to supplier associated with changing the space for the customer

There are many areas in the airport that are available and that would meet the specifications for the space in the contract

No identified asset



# IFRS 16: Short-term leases and low asset value asset

## Question 5: Short-term leases and low asset value asset

Transavia decides to sign a B737 wet lease for 6 months. Moreover, it has signed a 3-years lease for 5 espresso-coffee machines.

**Which assets will Air France-KLM have to capitalized according to IFRS 16**

**Answer 1:** The B737 wet lease only

**Answer 2:** The 5 espresso-coffee machines only

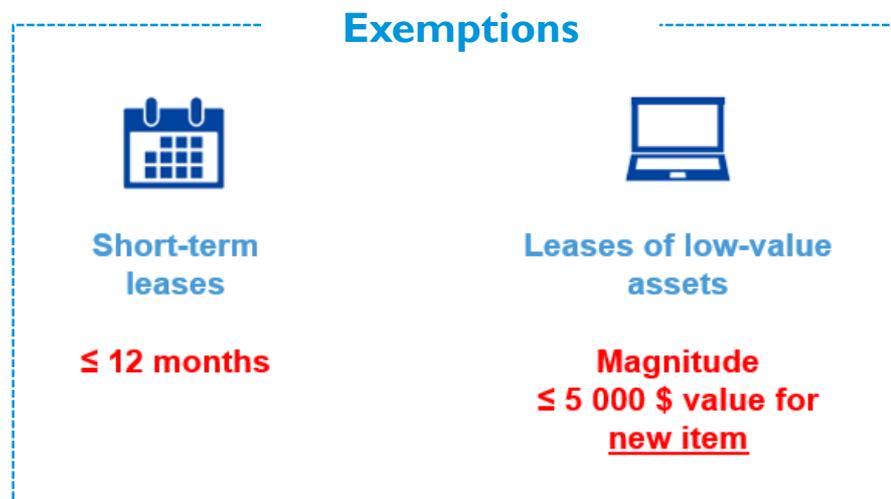
**Answer 3:** None of these two assets

# IFRS 16: Short-term leases and low asset value asset

## Answer - Question 5

Answer 3: None of these two assets

- Two operational exemptions in order to simplify the standard application



- Costs generally recorded on a straight-line basis over the lease term

# Summary of IFRS 16 (accounting of leases)

- IFRS 16 is mandatory applicable starting January 1<sup>st</sup> 2019
  - May be early adopted and will replace IAS 17
- All lease contracts will be recognized on balance sheet
- The adjustment of the net debt involved by IFRS 16 is expected to correspond, at the maximum, to seven times the aircraft operational lease rents
- Air France-KLM is studying several solutions to avoid the change volatility

## Balance sheet

	IAS 17 / Topic 840		IFRS 16 / FASB model <sup>6</sup>
	Finance leases	Operating leases	All leases
Assets	→ 🏠	---	→ 🛩️ 🛩️ 🚗 🚗 🏠 🏠 🏠
Liabilities	\$\$	---	\$\$\$\$\$\$
Off balance sheet rights / obligations	---	🚗 🚗 → 🏠 🏠 🏠 \$\$\$\$\$	---

## Income statement

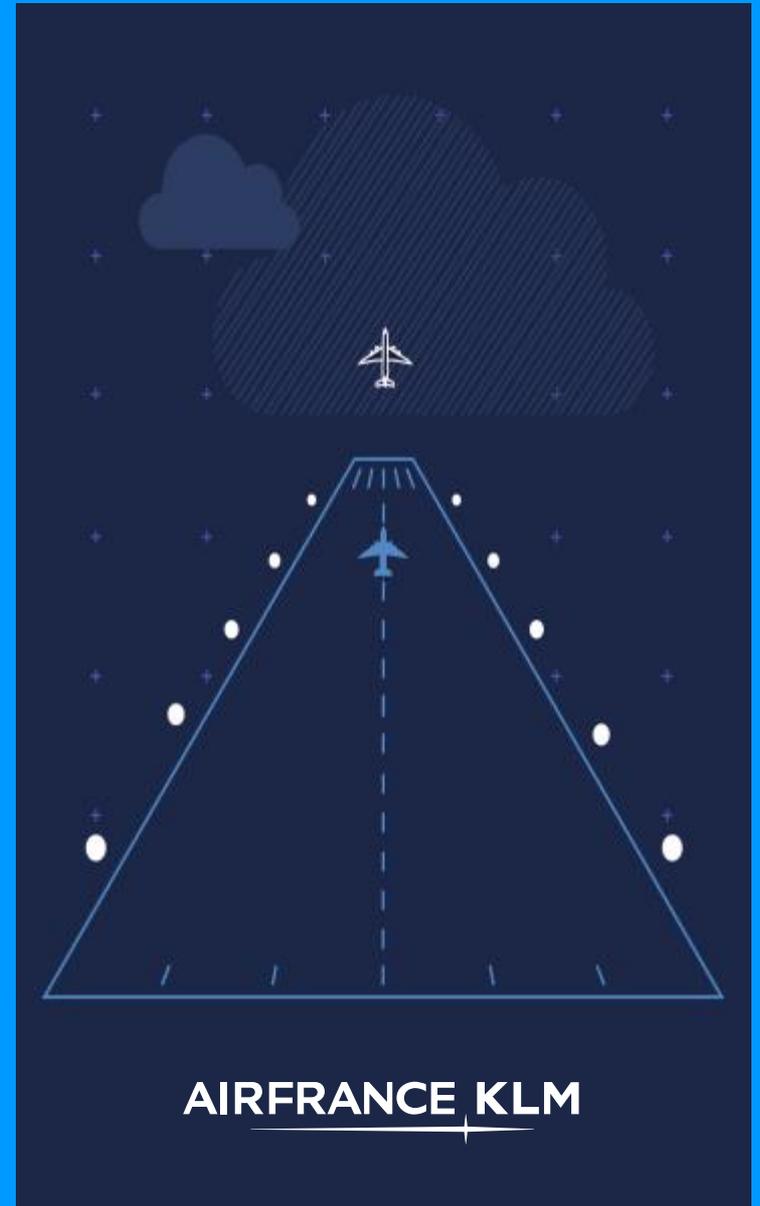
	IAS 17 / Topic 840 / FASB model		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs (excluding depreciation and amortisation)	---	Single expense	---
EBITDA			↑↑
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
Profit before tax			↔

# Q&A SESSION



# CONCLUSION DELIVERING TRUST TOGETHER

JEAN-MARC JANAILLAC  
CEO



# Delivering Trust Together

- **Credible strategic positioning** around our 3 core businesses
- Trust Together is both a **solid and comprehensive plan, ambitious and achievable**
  - Robust actions points to expand our revenues
    - Powerful alliances
    - Network agility
    - Revenue management
    - Customer focus through upgrading and personalization of offers
  - On the right path to improve competitiveness
    - Renewal of the fleet
    - Operational excellence through an optimize fleet utilization
    - Boost project
    - Simplifying our ways of working and our organization
- We have already started **to reap the benefit of Trust Together**
- Well-positioned **to return to the offensive and renew European leadership**
  - Between 2% and 3% annual capacity growth through 2020