INVESTOR DAY
12 May 2017
Investor day’s agenda

- Delivering Trust Together
  
  - Securing a profitable growth
    - Creating value through alliances
    - Managing the group digital transformation
    - Customer Intimacy leadership through digital innovation
    - Strengthening the growth of E&M

- Q&A session

- Airlines initiatives to return to the offensive and reinforce their competitiveness
  - Air France’s priorities for profitability
  - A new innovative and competitive company alongside Air France
  - Continue to develop a competitive growth at KLM

- An efficient financial strategy

- Q&A session

- Conclusion

- 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

AIRFRANCE KLM
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.
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).

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

**CEO Committee**

**Steering Committee**

**Working Groups**
AIR FRANCE KLM ALITALIA DELTA

- Network
- Sales
- Pricing and Revenue Management
- Finance
- Loyalty Programs
- Advertising and Branding
- Corporate Com.
- Cargo
- Product
- Operations
- I.T.
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.

Presence Chinese market

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 AFKLWS 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

AIRFRANCE KLM
Digital evolution goes in accelerating waves within AFKL

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

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

Next step: digitize operations in order to match the pace of front end development
Deserve the Customer preference by relying on our common assets

Know our customer

Keep our customer

Optimize customer journey

Leverage Customer data

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.
IT Answer: Our Business Solution Portfolio

**Passenger Commercial**
- NextGen Kiosk
- iCare
- New sales process
- New Distribution Capabilities
- E-convergence
- Ancillaries
- Digital Roadmap

**Passenger Ops AF & KL**
- Ipad for Crew
- MyFlight
- Marco & Appy2Help
- Pilot Board
- Turn Around 360
- Connected aircraft
- Appron
- 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

<table>
<thead>
<tr>
<th>Description</th>
<th>Business Case Drivers</th>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>iPads for Cabin Crew:</td>
<td>• Online customer information</td>
<td>Yearly revenue increase &gt; 25 m€</td>
<td>7 m€</td>
</tr>
<tr>
<td></td>
<td>• Increase ancillary revenues</td>
<td>Yearly Cost decrease &gt; 4 m€</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Frequent Flyer enrollment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Manuals online</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yearly revenue increase &gt; 25 m€</td>
<td></td>
</tr>
<tr>
<td>SAP HR for KLM:</td>
<td>• Self-Service for HR self services</td>
<td>Productivity increase ( -47 FTE )</td>
<td>5 m€</td>
</tr>
<tr>
<td>Cargo Digital Roadmap</td>
<td>• Quotation shipments, bookings, shipment track &amp; trace, on the website</td>
<td>Yearly revenue increase ~ 20 m€</td>
<td>12 m€</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yearly Cost decrease ~ 9 m€</td>
<td></td>
</tr>
<tr>
<td>iPads for AF Ground-staff</td>
<td>• Improve customer care (claims &amp; disruptions)</td>
<td>Yearly revenue increase &gt; 10 m€</td>
<td>5 m€</td>
</tr>
<tr>
<td></td>
<td>• Ancillary revenues, Paid upgrade, lounge access, flight changes.</td>
<td>Yearly Cost decrease (-280 FTE in 2017 vs 2015)</td>
<td></td>
</tr>
<tr>
<td>AFKL Commercial Digital</td>
<td>• High quality personalized content</td>
<td>Revenue Increase: online coupons, Customer</td>
<td>32 m€</td>
</tr>
<tr>
<td></td>
<td>• On Board Portal</td>
<td>satisfaction, Increase ICI rate, Conversion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Direct online, Corporate travel</td>
<td>rate</td>
<td></td>
</tr>
</tbody>
</table>
Value example: Cargo Digital Transformation = Benefits >10 M€/yr

- 'Simplifying and automating acceptance of shipments'
- 'Working paperless & digitizing operational processes'
- 'Supply Chain Re-Engineering'
- 'Upgraded transparent integral business processes'
- 'Data driven real time consistent on Cloud environment'
- 'Central gateway for all communication, both incoming and outgoing.'
- 'Piece level and temperature control from acceptance to delivery'

Cargo Operations Digital Program

Plug Cargo (e-Acceptance)
e-Freight e-Fast Delivery
EU Green Fast lanes
e-Messaging Layer
e-Connectivity

Air France KLM Cargo
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

- Visual Management
- Big Data
- Content Management
- Mobile
  - Cognitive intelligence
  - Wearing technology
- Connectivity
  - Type recognition
  - Flexible screens
- Document management
- Process Event Management
- SW Designed Datacenter
- Collaboration
- IoT
- Workflow
- E-Signature
- API’s
The AFKL “Group Digital Enablement Platform” will support future developments.
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
In-Depth Digital Transformation is launched within AFKL
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**
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

www.lacollection.airfrance.fr
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
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.)
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

AIRFRANCE KLM
Worldwide Maintenance, Repair and Overhaul (MRO) market: A growing market with three business segments…

### Market size \(^{(1)}\)

#### Airframe
- **$26bn**
- 38% of total

- 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 \(^{(1)}\)

#### Components
- **$15bn**
- 22% of total

- Service business: supply chain and repair
- Requires large investments in inventories and tooling
- Long-term growth: ~4.2% excluding inflation \(^{(1)}\)

#### Engines
- **$27bn**
- 40% of total

- 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 \(^{(1)}\)

---

\(^{(1)}\) 2016, source: ICF
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 3rd 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 3rd party revenue portion

**External revenue breakdown**

- Engines 49%
- Components 41%
- Airframe 10%

**Trend in third party revenue and operating result**

- 2011: €1,040, 110
- 2012: €1,096, 145
- 2013: €1,225, 159
- 2014: €1,251, 174
- 2015: €1,577, 214
- 2016: €1,834, 238

**AFI KLM E&M Adaptive MRO Solutions**

- Customers: >200
- Parts in stock: 600,000
- Employees: 14,000
- Aircraft in component support: 2,000+
- Engine shop visits per year: >500
- Total revenues (2016): €4,182
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 1st quarter, targeting ~10% by end 2017
- Recent contracts underline AFKL strength on the New Generation Aircraft:
  - Xiamen GENx
  - CEBU A320 NEO
  - JETSTAR A320CEO
  - AirAsia A320NEO
  - GOL CFM56-7B
  - 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.
The AFI KLM E&M Trust Together program focuses 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%**(1) 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

(1) ICF 2017 versus 2016
For Component business, continue to increase market share in a growing market

### Segment context

7.1%\(^{(1)}\) 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

---

\(^{(1)}\) Excluding inflation, source: SH&E
Trust Together: Strengthening the growth of E&M

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

<table>
<thead>
<tr>
<th>Engines</th>
<th>Build on VBE market position, reduce and control cost by developing repairs and expand the product portfolio to include new Generation Engines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components</td>
<td>Continue market share growth, presence in growing markets and new generation aircraft. Expand local footprint.</td>
</tr>
<tr>
<td>Airframe</td>
<td>Further reduce cost by using digitized smart operations. Continue to build business segments Cabin Modifications and Line Maintenance International.</td>
</tr>
</tbody>
</table>
Q&A SESSION
AIRLINE 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
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**
- **Improve our operational efficiency and guarantee flight safety**
- **Simplify our ways of working**
- **Invest in our employees**
- **Improve our competitiveness**

**Net Promoteur Score**
- Ambition: 50

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

**Simplification perception index**

**Employee Promoter Score**

**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

- 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 (14J)

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, …)

**6 major priorities in 2017**

- IS and equipment reliability
- Service for disabled/reduced mobility customers
- Launch of boarding
- Cabin baggage management
- End of airside management
- Securing flight times

**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
Current events and labor relations

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 1st 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 %**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014*</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0.7</td>
<td>0.1</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

**Current Operating Income**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014*</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>123</td>
<td>426</td>
<td>372</td>
</tr>
</tbody>
</table>

**EBITDA**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014*</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,282</td>
<td>1,465</td>
<td>1,514</td>
</tr>
</tbody>
</table>

**Operating cash flow**

Before WCR and restructuring cash out (€m)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>665</td>
<td>1,315</td>
<td>1,441</td>
</tr>
</tbody>
</table>

**Unit costs in %**

At constant currency, fuel price and pension cost

<table>
<thead>
<tr>
<th>Year</th>
<th>2014*</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-1.9</td>
<td>-0.7</td>
<td>0.0</td>
</tr>
</tbody>
</table>

* 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
KLM raising the bar on customer experience

**More passengers**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Target 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.7</td>
<td>28.6</td>
<td>30.4</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

**World Business Class**

80% full flat

**Event for Ultimate customers**

**Tool for customer support at airport**

**Moving Your World**

**Net Promoter Score**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Target 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>38</td>
<td>40</td>
<td>42</td>
<td></td>
</tr>
</tbody>
</table>
KLM improving its network and fleet

**New destinations**

- New destinations globally

**Strength of hub and spoke**

- Hub connected to spokes

**Europe back to profitable**

- Bar chart showing improvement from 2014 to 2016

**Fleet simplification ICA**

- From 7 families to 4 families

**Fleet renewal ICA**

- Fleet renewal for ICA

**Fleet renewal KLC**

- Fleet renewal for 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%)

**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**

- Are you ready for more X in 2017?
- Royal Dutch Airlines

**Tool for expected end boarding time**

- Current boarding progress:
  - 75 out of 103 passengers boarded.

**Tool that reduces baggage unloading time**

- Loadtool

**Fleet utilization ICA**

- 2014: 14:36
- 2015: 15:02
- 2016: 14:56
- Target 2017: 15:21

**Fleet utilization 737**

- 2014: 9:05
- 2015: 9:00
- 2016: 9:17
- Target 2017: 9:36

**Fleet utilization KLC**

- 2014: 7:19
- 2015: 7:23
- 2016: 7:47
- Target 2017: 8:23
KLM becoming increasingly competitive; Pension de-risking in progress

High Performance Organization

CLA’s

Productivity in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Cabin Pension</th>
<th>Cockpit Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1 2017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Ground Pension
- Funding ratio* 112.5%
- 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* 110.5%
- Collective Defined Contribution scheme agreed with unions; IFRS ‘approval’ expected for end of Q2
- ‘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

Cockpit Pension
- Funding ratio* 124.3%
- 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

Passenger Operations: 14,000 iPads

Facebook Messenger

E&M

Cargo

KLM Digital studio
KLM efforts are paying off

### EASK growth in %

- 2014: 1.7%
- 2015: 0.3%
- 2016: 2.7%

### Current Operating Income (€m)

- 2014: 175
- 2015: 384
- 2016: 681

### EBITDA (€m)

- 2014: 734
- 2015: 911
- 2016: 1,189

### Operating cash flow

- Before WCR and restructuring cash out (€m)
  - 2014: 457
  - 2015: 746
  - 2016: 1,054

### Unit costs in %

At constant currency, fuel price and pension cost

- 2014: 0.6%
- 2015: -0.9%
- 2016: -1.7%
AN EFFICIENT 
FINANCIAL 
STRATEGY

FREDERIC GAGEY 
CFO

AIRFRANCE KLM
Five years of improvement

**Lease adjusted operating result**
- FY 2012: 0.0
- FY 2013: 0.4
- FY 2014: 0.6
- FY 2015: 1.1
- FY 2016: 1.4

**Operating cash flow**
- FY 2012: 0.9
- FY 2013: 1.5
- FY 2014: \(\sim 1.5\)
- FY 2015: 1.9
- FY 2016: 2.2

**Unit Costs**
- FY 2012: -1.1%
- FY 2013: -1.4%
- FY 2014: -0.6%
- FY 2015: -1.0%
- FY 2016: -2.0%

- 2016 vs 2012: +€1.4bn
- 2016 vs 2012: +€1.3bn
- 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

Adjusted net debt/EBITDAR ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2011</td>
<td>5.7</td>
</tr>
<tr>
<td>Dec 2012</td>
<td>5.4</td>
</tr>
<tr>
<td>Dec 2013</td>
<td>4.2</td>
</tr>
<tr>
<td>Dec 2014</td>
<td>4.0</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>3.4</td>
</tr>
<tr>
<td>Dec 2016</td>
<td>2.9</td>
</tr>
<tr>
<td>Dec 2020</td>
<td>&lt; 2.5</td>
</tr>
</tbody>
</table>

Strike adjusted
Strengthening the liquidity position and reduction in finance costs

**Liquidity position**

<table>
<thead>
<tr>
<th>Date</th>
<th>Undrawn credit lines</th>
<th>Net cash on balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Dec 2014</td>
<td>1.75</td>
<td>3.50</td>
</tr>
<tr>
<td>31 Dec 2015</td>
<td>1.78</td>
<td>3.79</td>
</tr>
<tr>
<td>31 Dec 2016</td>
<td>1.76</td>
<td>4.32</td>
</tr>
</tbody>
</table>

- Undrawn credit lines
- Net cash on balance sheet

**Net cost of debt**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net cost of debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>-404</td>
</tr>
<tr>
<td>2014</td>
<td>-370</td>
</tr>
<tr>
<td>2015</td>
<td>-310</td>
</tr>
<tr>
<td>2016</td>
<td>-260</td>
</tr>
</tbody>
</table>
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

At 5 May 2017
Target 70% in each coming 4 quarters

- Q3: 64%
- Q4: 64%
- Q1: 62%
- Q2: 44%
- Q3: 32%
- Q4: 23%
- Q1: 12%
- Q2: 3%

2018: 39%
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**

<table>
<thead>
<tr>
<th>Year</th>
<th>% USD Capex exposure hedged</th>
<th>Average hedge rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>95%</td>
<td>1.17</td>
</tr>
<tr>
<td>2018</td>
<td>85%</td>
<td>1.17</td>
</tr>
<tr>
<td>2019</td>
<td>69%</td>
<td>1.24</td>
</tr>
<tr>
<td>2020</td>
<td>43%</td>
<td>1.29</td>
</tr>
</tbody>
</table>

Average hedge rate: x.xx
Investing in an efficient fleet

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

**Long haul fleet plan**

- **Total Long-Haul**: 168
  - B747: 17
  - B777: 95
  - B787: 8
  - A380: 10
  - A340: 10
  - A350: 0
  - A330: 28

- **Total Short and Medium-Haul**: 228
  - B737: 111
  - A321/20/19/18: 117

- **Total Regional**: 132
  - ATR72: 10
  - ATR42: 12
  - Canadair Jet: 25
  - Embraer 190/175/145/135: 74
  - Fokker 70: 11

- **Total Air France-KLM Group**: 528

**Group fleet overview**

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

![Bar chart showing Capex and operating free cash flow](chart.png)

- **Average 2017-2020 between 2.0-2.5**

### 2017-2018 Capex plan breakdown

![Pie chart showing Capex plan breakdown](pie.png)

- **~ 10%** Product upgrade
- **~ 25%** Maintenance and spare parts
- **~ 20%** Ground
- **~ 40% ~ 45%** Net Fleet

- **Capex**
- **Amortization & depreciation (€1.6bn average 2013-2016)**
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\(^{(1)}\) 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

(1) On a constant currency, fuel price and pension costs
A changing world: New IFRS standards impacting our business

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

- Beverly Hills → LAX (Day 1, Truck partner)
- LAX → NYC (Day 2, Delta)
- NYC → BER (Day 3, Air France)

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 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 involve:
  - 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)
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 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
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
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
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

- Existence of an identified asset
- Explicitly or implicitly
- Without true right of substitution
- Physically distinct
- Control of the asset use
- Right to obtain substantially all the economic benefits from its use and
- Right to decide how and for what purpose the asset is used

Example

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

- No identified asset

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
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

Exemptions

- Short-term leases: ≤ 12 months
- Leases of low-value assets: Magnitude ≤ 5,000 $ value for new item

- 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 1st 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

<table>
<thead>
<tr>
<th></th>
<th>IAS 17 / Topic 840</th>
<th>IFRS 16 / FASB model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance leases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating leases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All leases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>$\rightarrow$</td>
<td>$\rightarrow$</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$\rightarrow$</td>
<td>$\rightarrow$</td>
</tr>
<tr>
<td>Off balance sheet rights / obligations</td>
<td>$\rightarrow$</td>
<td>$\rightarrow$</td>
</tr>
</tbody>
</table>

### Income statement

<table>
<thead>
<tr>
<th></th>
<th>IAS 17 / Topic 840</th>
<th>IFRS 16 / FASB model</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Operating costs (excluding depreciation and amortisation)</td>
<td>---</td>
<td>Single expense</td>
<td>---</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td></td>
<td>↑↑</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>Depreciation</td>
<td>---</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td></td>
<td>↑</td>
</tr>
<tr>
<td>Finance costs</td>
<td>Interest</td>
<td>---</td>
<td>Interest</td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Q&A SESSION

AIRFRANCE KLM
CONCLUSION
DELIVERING TRUST TOGETHER

JEAN-MARC JANAILLAC
CEO

AIRFRANCE KLM
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