

Principles and criteria for determining, distributing and granting the fixed, variable and extraordinary elements of total compensation and benefits of any kind granted to the Chairman and Chief Executive Officer for the 2018 financial year (Article L. 225-37-2 of the Code de Commerce)

Change in the compensation policy

During its meetings of February 15 and March 14, 2018, as recommended by the Remuneration Committee, the Board of Directors set the fixed and variable elements comprising the compensation granted to the Chairman and Chief Executive Officer of Air France-KLM in respect of the 2018 financial year.

In this context, at the request of the Remuneration Committee, a benchmark analysis of the compensation packages over three different reference groups (European capital intensive companies, European airline companies and companies with the French State as a shareholder) was carried out by an external consultant.

In light of this benchmarking exercise, and also to align the compensation of the Chairman and Chief Executive Officer more closely with shareholders' interests, in its meeting of February 15, 2018, as recommended by the Remuneration Committee, the Board of Directors decided to make the following changes to the compensation package for Air France-KLM's Chairman and Chief Executive Officer:

- align the short-term incentive (STI) percentage with those of the Chief Executive Officers of Air France and KLM (both 70% at target and 100% maximum of base salary);
- introduce a long-term incentive (LTI) component amounting to 10% of base salary, to compensate for a reduced level of STI on achievement of the targets.

On achievement of the targets, the total amount of compensation (fixed, STI and LTI) will remain unchanged compared to 2017.

In addition, the sum of (i) the fixed compensation for 2018, (ii) the variable compensation paid in respect of 2018 and (iii) the

amount paid under this phantom shares plan may not exceed the maximum compensation ceiling fixed for 2017 (i.e. €1.2 million).

Note that the introduction of a long-term incentive (LTI) aims to align the Chief Executive Officer's compensation more closely with shareholders' interests. The effective percentage of LTI compensation relative to total compensation is deemed to be a first step in changing the composition of the Chairman and Chief Executive Officer's compensation package.

Elements composing the compensation of the Chairman and Chief Executive Officer for 2018

The Chairman and Chief Executive Officer's compensation package for 2018 is composed of the following three elements, as set by the Board of Directors:

1. annual fixed compensation;
2. short-term variable compensation (STI) linked to the performance of the previous financial year;
3. long-term variable compensation (LTI) in the form of phantom shares linked to performance criteria, which will be evaluated over a three-year vesting period.

Annual fixed compensation

The amount of fixed compensation is linked to the level of responsibility and the demands inherent to the relevant top executive's functions. The Remuneration Committee determines the appropriate level of fixed compensation based on the external reference data provided by independent compensation consultants. It also takes into account the required consistency with the level of compensation for the Group's top executives.

On taking office in July 2016, Mr. Jean-Marc Janaillac's fixed compensation was set at the same level as that of his predecessor. For the eighth consecutive year, this amount (€600,000) remained unchanged for the 2018 financial year.

Annual variable compensation

The annual variable compensation aims to reward the top executives for the attainment of pre-determined performance criteria relating to the previous financial year. The variable compensation is paid in cash and represents a percentage of the fixed compensation.

The performance criteria linked to the variable compensation for Air France-KLM's Chairman and Chief Executive Officer as detailed below has two components:

- quantitative criteria relating to the Group's financial targets (60%);
- qualitative criteria composed of individual targets (40%).

The variable compensation, whose target value is set at 70% of the fixed compensation (on achievement of the targets), can vary from 0% to 100% of the fixed compensation based on the level of achievement of these criteria.

Every year, at the accounting year-end, the Remuneration Committee evaluates the achievement of the criteria set for the previous financial year and proposes new criteria for the current financial year. The Board of Directors sets the amount of compensation in respect of the previous financial year together with the structure and elements of variable compensation for the current financial year based on these proposals. The performance criteria relating to the variable compensation are set directly in line with the Group's strategy.

The payment of the annual variable compensation for 2018 is conditional on prior approval by the Shareholders' Meeting taking place in 2019, in the conditions foreseen in Article L. 225-100 of the *Code de Commerce*.

For the 2018 financial year, pursuant to the proposals formulated by the Remuneration Committee, during its meetings of February 15 and March 14, 2018 the Board of Directors decided to set the criteria for determining the variable compensation as follows, subject to approval by the Shareholders' Meeting:

	Breakdown of the variable portion	
	Target: 70% of fixed compensation	Maximum: 100% of fixed compensation
Quantitative performance: Air France - KLM COI (Current Operating Income)	35%	50%
Quantitative performance: Adjusted Net Debt⁽¹⁾ (adjusted net debt before divestments and excluding impact of the euro/dollar exchange rate on aircraft operating leases)	7%	10%
Qualitative performance		
— definition of a new Air France-KLM medium-term strategic plan and unit cost reductions (target -1.2%, maximum of -1.5%)	12%	17%
— successful implementation of new international strategic alliances in line with the targets defined in the business plan	6%	9%
— improvement in the effectiveness of the Group's governance	10%	14%

(1) The definition will take into account the adoption by the Group of IFRS 16.

Long-term incentive

During its meeting of March 14, 2018, as proposed by the Remuneration Committee, the Board of Directors decided to introduce a long-term variable compensation (LTI) element in the form of phantom shares granted to the Chairman and Chief Executive Officer linked to presence and performance conditions, to be evaluated over a three-year vesting period, subject to approval by the Shareholders' Meeting of the resolution proposed in 2018 pursuant to Article L. 225-37-2 of the *Code de Commerce* (Say on Pay *ex-ante*).

The maximum amount of phantom shares granted is set at the equivalent of 10% of the fixed compensation of the Chairman and Chief Executive Officer in respect of the 2018 financial year (i.e. €60,000). The number of phantom shares granted is calculated with reference to the average of the Air France-KLM opening share prices over a 20-day period preceding the grant date.

The granting of phantom shares is subject to a presence condition and to performance criteria over a three-year vesting period.

The acquisition of phantom shares is subject to a presence condition until the end of the vesting period (i.e. until the 2021 Shareholders' Meeting convened to vote on the compensation of the Chairman and Chief Executive Officer pursuant to Article L. 225-100 of the *Code de Commerce* – hereinafter “Say on Pay ex-post”). By way of exception, in the event of death⁽¹⁾, invalidity or non-renewal of the term of office, the number of phantom

shares acquired will be determined *pro rata temporis*, subject to achievement of the performance criteria.

In the event of resignation or dismissal, all the phantom shares granted will be forfeited.

The performance criteria, evaluated over a three-year vesting period, are as follows:

KPI	Performance	Vesting as a % of grant
1. TSR on AFKLM shares vs. the weighted TSR on the shares of other sector companies (30%) ⁽¹⁾	> 120	120%
	Between 80 and 100	Between 80% and 100%
	< 80	0%
2. Actual AFKLM ROCE vs. budget (40%) ⁽²⁾	> 120	120%
	Between 80 and 100	Between 80% and 100%
	< 80	0%
3. Dow Jones Sustainability Index (15%)	Position 1	120%
	Position 2	100%
	Position 3	80%
	Position 4 and lower	0%
4. Environmental commitments and CSR performance targets (15%) ⁽³⁾	Substantially above	120%
	At required level	Between 80% and 120%
	Under required level	0%

(1) Defined as the performance of the Air France-KLM share price in any financial year relative to the performance of the sector: Lufthansa (40%), IAG (35%), Ryanair (12.5%), EasyJet (12.5%).

(2) Calculation based on absolute ROCE. The same correction for fuel will be applied as stated under the collective short-term incentive target.

(3) The evaluation of this criterion will be over a three-year period based on indicators reviewed annually by the Board of Directors.

Note that the weighted average of the performance criteria may not exceed 100%.

In the event of a change of control, after consulting the Remuneration Committee, the Board of Directors may decide (i) to adjust or cancel the performance criteria and/or (ii) to vest the phantom shares on a date earlier than the one initially set, if necessary on a *pro rata temporis* basis, subject to approval by the Shareholders' Meeting within the framework of a Say on Pay *ex-post*.

The evaluation of the performance criteria will be made by the Remuneration Committee prior to the 2021 Shareholders' Meeting convened to vote on the Say on Pay *ex-post*.

After consulting the Remuneration Committee, the Board of Directors may also adjust the performance criteria to take into account exceptional situations affecting Air France-KLM or the companies in the airline industry selected to calculate the first performance criterion.

The phantom shares acquired will be converted into cash based on the average of the Air France-KLM share prices, over the 20 stock market trading days preceding the end of the vesting

period, subject to approval by the 2021 Shareholders' Meeting convened to vote on the Say on Pay *ex-post*. In the event of death or invalidity, payment may be made before that date.

In the event that the performance criteria are not achieved, no phantom shares will be granted.

Mr. Jean-Marc Janaillac has also made a formal undertaking not to hedge the risk relating to this grant of phantom shares.

Overall ceiling for the compensation granted to the Chairman and Chief Executive Officer for the 2018 financial year

The sum of (i) the fixed compensation for 2018, (ii) the variable compensation paid for 2018 and (iii) the amount paid under this phantom shares plan may not exceed the maximum compensation ceiling set for 2017 (i.e. €1.2 million).

Benefits of any kind

The material resources put at the Chairman and Chief Executive Officer's disposal (chauffeur-driven car) cannot be separated from the exercise of his duties.

(1) By way of exception, in the event of death before the end of the vesting period, the phantom shares will be acquired *pro rata temporis* at the date of the Shareholders' Meeting following the date of death. The performance criteria will be deemed to have been fulfilled.

No other commitments made with respect to the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer does not benefit from extraordinary compensation.

The Chairman and Chief Executive Officer received no compensation on his appointment.

The Chairman and Chief Executive Officer does not benefit from the supplementary collective pension scheme.

The Chairman and Chief Executive Officer does not receive directors' fees in respect of his Board director and Chairman of the Board of Directors mandates.

The Chairman and Chief Executive Officer does not benefit from stock subscription or purchase option schemes nor from performance shares. The Chairman and Chief Executive Officer receives no elements of compensation or benefits of any nature due or likely to be due in respect of an agreement concluded, directly or via an intermediary, in respect of his mandate, with the Company or a company within the Group.

The Chairman and Chief Executive Officer does not receive other elements of compensation or benefits of any kind from other companies within the Group.

Cessation of functions

The Chairman and Chief Executive Officer does not benefit from a non-compete clause or severance payment in the event of his departure.

The amount of fixed compensation is paid on departure *pro rata temporis* for the accrued period of the current financial year. The amount of annual variable compensation is evaluated at the beginning of the year following the departure date, according to pre-defined criteria potentially applicable based on the evaluation of the Board of Directors, as recommended by the Remuneration Committee

In the event of the early departure of the Chairman and Chief Executive Officer during the 2018 financial year, the same policy as outlined above would apply to the new Chief Executive Officer.