EFRAG QUESTIONS

1. Do you have any information or evidence on the extent to which leases (that you are party to or otherwise aware of) will be eligible for each of the short-term and low-value assets exceptions identified in paragraph 24? If so, please provide details.

If you are a preparer, do you expect to use the exceptions? If so, please:
(i) quantify the number and annual lease payments for each category;
(ii) indicate the proportion of your leases (by volume and/or value) you estimate to be covered by each of the exceptions.

We have not launched any inventorying concerning the short-term and low-value assets because we intend to use the two exceptions. The information collection will be done next year (2017) in order to prepare historical figures. We do not expect any significant amount in term of value but a significant volume of contracts.

2. If you are a preparer, which approach to transition do you expect to take? Please explain your reasons for this decision.

We have made the decision to use the retrospective method to each prior reporting period presented in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This choice is supported by the fact that the other transition method proposed by the IFRS 16 has two major constraints:

- The Y-1 income statement and cash flow statement cannot be presented with consistent figures because the paragraph C5(b) of IFRS 16 states that “the cumulative effect of initially applying the Standard [must] recognized at the date of initial application”. Because of the magnitude of the IFRS 16 impacts, we must give to third parties income and cash flow statements with consistent comparative figures.
- The method proposed by the C5(b) paragraph of IFRS 16 is to use the incremental borrowing rate at the date of initial application. Because most of our lease assets are aircraft, we can easily calculate implicit rate of each contract. It would not be consistent to have a part of our aircraft lease contract with the incremental borrowing rate and the other part (after the transition) with implicit rates.

3. Are you aware of:
(i) any contracts that you consider to be leases that would not be classified as leases under IFRS 16; or
(ii) any contracts that you consider to be service contracts (or other non-lease contracts) that would be classified as leases under IFRS 16?

If so, please provide details of these contracts and why you consider that the classification would not be appropriate.

We are not aware of any contracts entering into (i) or (ii) in the Air France-KLM Group.
EFRAG is interested in understanding whether leases of intangible assets (other than rights held by a lessee under licensing agreements within the scope of IAS 38) are common. Do you have any information or evidence as to how frequently such leases of intangible assets arise in practice? If so, please provide information about the types of intangible assets that are subject to leases and the significance in operating and monetary terms.

We have not identified any significant leases of intangible assets in Air France-KLM Group.

Do you have any comments on the comparison of IFRS 16 with IAS 17?

According to Air France – KLM Group, IFRS 16 will give a more accurate information in comparison with IAS 17 for the main following reasons:

- All the asset of the Group will be presented the same way. In particular for aircraft, a significant part of our fleet is currently under operational leases and according to IAS 17 is not recorded in the balance sheet. IFRS 16 accounting will give more clarity for third parties.
- The analysis made by the IFRS 16 standard that a lease contract corresponds to a right-of-use asset and a financial liability gives a better presentation of the economic reality of lease contracts.
- The comparison between airlines under IFRS will be highly improved

Moreover, IFRS 16 with the accounting of all lease contracts in the balance sheet will give to the management a real comparison between a financing through a bank financing and a financing through a lease contract, which is not the case using IAS 17 standard.

Do you have any views or information on how IFRS 16 can be expected to affect the behaviour of investors and/or lenders? If so, do you have any views or information on whether and how IFRS 16 could, for European companies that apply IFRS, positively or negatively affect:

(i) the overall cost of capital;
(ii) access to finance and cost of credit? Please provide any available evidence.

Air France – KLM has no evidence on how IFRS 16 will exactly affect investors’ / lenders’ behaviour. However, the fact that leases are accounted for as assets and debts in the balance sheet may change the arbitration between purchased assets and leases. That can also allow us to challenge rents level with our lessors, knowing that the full recognition in the balance sheet. We are planning to work on investment strategy within the framework on IFRS 16 involvements on the financial statements presentation. However, we want also to underline that operating leases also tend to reach other objectives such as flexibility.

We want also to turn your attention to the accounting impact of IFRS 16 approach to lease contracts denominated in foreign currency. The vast majority of our aircraft lease contracts are denominated in USD when our functional currency is EUR. Because of the magnitude of IFRS 16 impact, we have an issue to manage. In fact, assets and liabilities of a lease contract denominated in foreign currency will not be symmetrically re-measured in the subsequent periods. On the debt side the effects of the exchange rate variations will be reassessed and booked in the statement of profit and loss. Conversely, exchange rates variations will not lead to IFRS 16 right of use reassessment, generating an accounting
mismatch and increasing the profit and loss statement volatility. Additional complexity and additional costs are expected to arise in order to prevent such a mismatch.

Because of the worldwide increase of airlines sector, we do not expect significant modifications of the pricing by lessors.

7 Do you have views or information on how IFRS 16 might affect entities’ use of leasing? For example, do you expect lessees to:
(i) reduce their use of leases with a corresponding increase in purchases of assets;
(ii) reduce their use of leases without a corresponding increase in purchases of assets;
(iii) seek to change the terms of new or existing leases? Please provide any available evidence.

We will probably reduce the use of leases with a corresponding increase in our purchases of assets when it is allowed. Indeed when we have lease contracts in airports, we will not have any other solution than to continue with lease contracts. On the other side, concerning aircraft, the business model would probably be challenged thanks to IFRS 16 implementation because the real cost of leases will be shown to the financial statements.

8 Do you have any additional information or views on how the endorsement of IFRS 16 can be expected to affect the leasing industry in Europe? EFRAG is particularly looking for views from the leasing industry.

Please provide any available evidence.

We are not concerned by this question.

9 Do you have any information or views on how the endorsement of IFRS 16 can be expected to affect SMEs in Europe?

Please provide any available evidence.

We are not concerned by this question.

10 Do you have any information or views on whether IFRS 16 is likely to endanger financial stability in Europe?

Please provide any available evidence.

We have no information concerning the potential danger for the European stability involved by IFRS 16 implementation. Concerning Air France-KLM Group, in particular, the assessment of the impact of this standard is currently under progress. We do not expect any impact concerning our financial stability due to IFRS 16.

11 What is your view on the relative costs of applying IFRS 16 and US GAAP? Do you have any other views as to the advantages or disadvantages of IFRS 16 compared to US GAAP?

Please provide any available evidence.

The fact that the perceived advantage of spreading the expense over the lease term under US GAAP rather than having a higher total expense in early years with interest plus depreciation under IFRS 16 is somewhat compensated by the classification below EBITDA.
Moreover, according to us, IFRS 16 is more robust on a standard point of view than Topic 842 because of the consistency of presentation: financial costs will be linked to the lease liability (which is a financial liability) when it will be presented cumulated with the “depreciation part” in the EBIT under US GAAP. The IFRS 16 presentation will allow an easier understanding of the cost of financing for third parties.

| 12 | What is your view on the one-off and ongoing costs for preparers? (Please indicate whether you are (a) a lessee; (b) a lessor; (c) both a lessee and a lessor or (d) neither a lessee nor a lessor).

Will preparers that already report finance leases have lower costs than preparers without finance leases?

Please provide any evidence you have on the expected magnitude of the costs.

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Air France – KLM group is a lessee. The implementation of IFRS 16 has started since January 2016 because we want to implement this standard in January 1st, 2018. This choice is led by two main reasons: first we think that IFRS 16 will give a more accurate information than IAS 17 (please refer to question 5) and secondly we want to manage the implementation of the three new standards (IFRS 9, IFRS 15 and IFRS 16) together for efficiency and cost savings purposes.

Concerning the one-off costs for implementation, the IFRS 16 deployment is managed by a project team of 7 peoples, including two fully dedicated peoples and 5 part-time (around 30% of their time) peoples. Because we expect to be early adopter, the project is expected on a 30 months period. That means we will be around 2 000 days/people. A system will be implemented in order to manage the IFRS 16 accounting taken into account that for French purposes (on Air France side), the standard will not be applied for local and fiscal purposes. Then we will have two different frame of reference to manage for French entities and only one for Dutch entities. There is only a few IT tool proposed for IFRS 16 accounting which can be connected directly with our accounting system (and not with our consolidation system). We are currently in a negotiation process for the IFRS 16 IT tool. These negotiations are difficult because of the lack of competition. All in all, including peoples and IT, Air France – KLM Group expects a cost of the IFRS 16 deployment between €2 and €2.5 million. Please not that if we will not be able to be early adopter because of delay in the endorsement of IFRS 16 by the EU, this cost will significantly increase.

Concerning the ongoing costs, we do not expect significant additional costs thanks to the automation through the IFRS 16 IT tool and the fact that the number of lease contracts is around 1 000 with a high level of centralization.

Air France – KLM already reports finance leases which are followed on excel. That will not help to lower the IFRS 16 cost.

| 13 | If you are a user, are you aware of any costs in addition to those identified by EFRAG in paragraphs 116 to 118 of Appendix 3? Please quantify if possible and provide any available evidence.

Air France – KLM does not identify any other costs than those listed in paragraphs 116 to 118 of Appendix 3.

| 14 | If a lessee has to develop new systems to support the accounting for leases, to what extent do you, as a lessee, expect internal benefits from the information provided by the new information? Please quantify to the extent possible.

Do you agree with the benefits for users and preparers identified above? Are there any additional benefits for users and preparers?
Please provide any available evidence.

We expect internal benefits in the management of our lease contracts because the balance sheet presentation will be closer to an in-substance purchase. That means that the decision makers (especially for CAPEX decision) will have a comparable view of advantages (flexibility) and convenient (as of today, the price) of a lease financing versus a purchase.

Moreover, when Air France – KLM will make benchmark in order to compare its performance to its main European competitors, no adjustments of leased aircraft will be necessary and the comparison will be more accurate.

16 Are there any issues that have not been raised in this Preliminary Consultation Document that should be considered by EFRAG? Please explain your view.

We want to stress the fact that an early adoption has to be allowed to European registrants as it is / will be authorized in many other countries under IFRS.