Annual Report 2018

Royal Dutch Airlines

Colofon

Headoffice
Amsterdamseweg 55
1182 GP Amstelveen
the Netherlands

Postal address
P.O. Box 7700
1117 ZL Schiphol
the Netherlands

Telephone: +31 20 649 9123
Fax: +31 20 649 2324
Internet: www.klm.com

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and Industry Amsterdam, the Netherlands

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Letter from the President

In last year's annual report, I stated that KLM had made impressive progress. I am proud to say that in 2018, we have been able to exceed last year's record high achievements on many parameters. Customer appreciation has gone up, we have made significant investments in fleet, technology and employees, we welcomed more passengers on board and improved the on time performance of our flights. Furthermore, we have managed to maintain a stable financial performance, despite a marked higher fuel bill this year.

When we took the helm with the new team in 2014, we set out on a journey to become Europe's most customer-centric, innovative and efficient network carrier. From 2015 until 2017, we defined, executed and reaped the benefits of KLM's new purpose and strategy with the help of our annual KLM Flight Plan and the KLM Compass. Through the effort and hard work of all 35,500 KLM employees, we have been able to reduce our costs over this period. Money, which in return, we have used to invest and reduce our debts. I am very pleased that in 2018 our investments have tripled, we reduced our net debt even further and staff morale is positive. KLM is more robust and agile again, on the way to its centenary in October 2019 in great health.

Our financial health improved in 2018 because of a solid performance of all our businesses: Passenger activity, Cargo activity, Engineering & Maintenance and Transavia. This has allowed us to further renew our fleet, invest in new products for our customers, free up development budget for our employees and accelerate the digital transformation across all business segments. On top of this, our staff has been able to benefit from the highest-ever pay-out from our profit sharing scheme of EUR 170 million in 2018 (related to 2017). For the year 2018 a profit sharing scheme of EUR 168 million is expected. We also managed to make our operations significantly more stable and reliable through innovation, which, amongst other things, translated into a better customer satisfaction expressed in a high Net Promotor Score of 42. I am deeply grateful to all KLM staff for their strong efforts to live up to our customers' expectations and I can only conclude from this year's results, that at KLM, our people truly are our brand.

In 2018, the combination with Air France in the AIR FRANCE KLM Group continued to be beneficial to KLM. We introduced a new, joint Flying Blue loyalty program with 15 million members and achieved synergies in Cargo and purchasing. And with Air France and our partners Delta Air Lines, Kenya Airways, GOL, Jet Airways, China Eastern and China Southern, we further enhanced our global network.

However, 2018 also marked a year of social instability and managerial changes at Air France. The strikes at Air France have been detrimental to our customers, our finances and our internal cohesion. With the appointment of the new CEO of AIR FRANCE KLM Group and the new CEO of Air France, initial steps have been taken to create stronger footing for 2019.

While improving what we have and do, we also focused on the future, on securing our ability to grow moderately at Schiphol, which this year reached the maximum number of flight movements until 2020. Due to the unrestrained growth of passengers and flight movements at Schiphol in past years, sustainability has become an increasingly important subject in the Dutch social debate.

It is my ambition to ensure that KLM takes its responsibility when it comes to maintaining a liveable planet for future generations and therefore sustainable development of the airline industry. As an airline that has existed for 100 years and has been at the top of the Dow Jones Sustainability Index for the past 14 years, sustainability has always been part of our DNA. In 2018, we made record investments in more fuel efficient and quieter aircraft, formulated a new sustainability strategy, and launched an ambitious plan with more than 20 aviation partners for smart and sustainable growth of aviation in the Netherlands. Beyond that we have been working on our growth plans for the next few years. Because the reality is that only profitable growth will enable us to invest in the aircraft and technology needed to achieve our environmental targets.

Sustainability is about more than the environment, though. It is also about creating an organisation that delivers value over the long run, where people feel empowered to be at their best and that feels safe and welcoming to all. This is why we invested in strategic workforce planning and employability, as well as the Winning Way of Working and employee engagement. In addition, we accelerated efforts to make KLM more inclusive and diverse.

In 2019, we will continue to engage in sustainable innovation, continue to further digitise our products and processes for customers and employees, empower our staff and build a better product that moves the world of our customers by creating memorable experiences. Even more important, 2019 also marks an incredible milestone for KLM Royal Dutch Airlines, since we will be the first airline, still operating under its original name, to reach its centenary. An achievement that all of us at KLM, Dutch and non-Dutch, are incredibly proud of.

For 100 years, we have been true pioneers and entrepreneurs in global aviation, as well as the embodiment of the international ambitions of Dutch society. As I look ahead to the next 100 years, I feel confidence and optimism. Of course, there are many more challenges ahead and there is no time to rest on our laurels. But we have built a mature foundation for our ambitious growth plans and long-term value creation for all stakeholders. And I firmly believe that with our people, our plan and the enduring KLM pioneering spirit, we will navigate this new century in good spirits and health. Just as we have done for the first 100 years!

Pieter Elbers
President & Chief Executive Officer

Key figures

REVENUES	TOTAL EXPENSES	EBITDA	AMORTISATION, DEPRECIATION AND MOVEMENT IN PROVISIONS
10,955	8,850	2,105	1,032
10,430	8,366	2,064	985

ADJUSTED PROFIT FOR THE YEAR

573

785

INCOME FROM CURRENT OPERATIONS

1,073

1,079

AS A % OF REVENUES

9.8

10.3

EQUITY

1,006

821

AS A % OF TOTAL LONG-TERM LIABILITIES

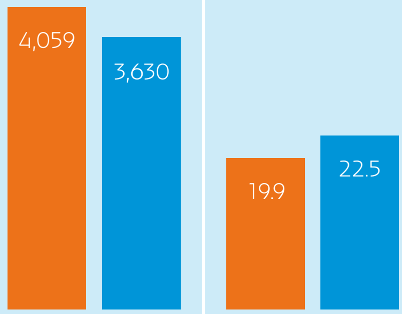
16

12

EARNINGS PER ORDINARY SHARE
(EUR)

12.22

(10.64)



AVERAGE CAPITAL EMPLOYED

RETURN ON CAPITAL EMPLOYED (%)

NET DEBT/EBITDA

1.3

1.6

DIVIDEND PER ORDINARY SHARE
(EUR)

0.395

–

Financial position

CASH FLOW FROM OPERATING ACTIVITIES	CASH FLOW USED IN INVESTING ACTIVITIES (excluding (increase) / decrease in short-term deposits and commercial paper)	FREE CASH FLOW	ADJUSTED FREE CASH FLOW
1,986	(1,290)	696	320
1,735	(1,012)	723	360

● 2018 ● 2017

In millions of Euros, unless stated otherwise

Passenger

TRAFFIC (in millions of revenue passenger-kilometers, RPK)
107,676
103,487

CAPACITY (in millions of available seat-kilometers, ASK)
120,815
117,066

PASSENGER LOAD FACTOR (%)
89.1
88.4

NUMBER OF PASSENGERS (x 1,000)
34,170
32,689

Cargo

TRAFFIC (in millions of revenue ton freight-kilometers, RTFK)
4,849
4,843

CAPACITY (in millions of available ton freight-kilometers, ATFK)
7,239
7,380

CARGO LOAD FACTOR (%)
67.0
65.6

WEIGHT OF CARGO CARRIED (in tons)
620,458
622,852

Average number FTEs of KLM Group staff

PERMANENT	TEMPORARY	EMPLOYED BY KLM	AGENCY STAFF	TOTAL KLM
27,934	1,886	29,820	2,592	32,412
27,820	1,578	29,398	2,274	31,672

Headcount KLM Group staff

PER END FINANCIAL YEAR
35,410
34,872

Review 2018: sustainable change

The year 2018 was one of sustainable change, in which KLM confidently continued to execute its strategy and a more mature organisation emerged that is healthy and fit for growth in the years ahead. Here, the Board of Managing Directors reflects on the past year.

Having just completed the fourth year of the five-year Perform 2020 strategy, CEO Pieter Elbers underlines what can be clearly felt and seen in every fibre of KLM. "Our winning spirit has returned to KLM. Our financial performance is strong, our operation is stable and robust once more, and our ongoing investments in people, IT, equipment and innovation is creating an upward spiral of improvements. We strengthened our sustainability plans and laid the foundations for future growth," Elbers reflects.

Chief Financial Officer Erik Swelheim agrees, saying that increased efficiency, digitisation, and investments have again resulted in good financial results. "In 2018, KLM achieved revenues of close to EUR 11.0 billion, an operating margin of 9.8 per cent and operating income of EUR 1,073 million. This allowed us to invest EUR 1.3 billion in people and equipment, which is essential to remain competitive," Swelheim says. KLM reduced debt levels by EUR 455 million and saw an external spend project achieve savings of EUR 24 million.

These positive results echo all across KLM's businesses. Both the KLM Cargo and Passenger activities performed well, while Engineering & Maintenance and Transavia had solid years, showing healthy financial and growth figures in line with expectations. "The High Performance Organisation we envisaged a few years ago is now materialising and across all parts of KLM we see sustained levels of energy, growth and innovation. It's all coming together," Swelheim adds.

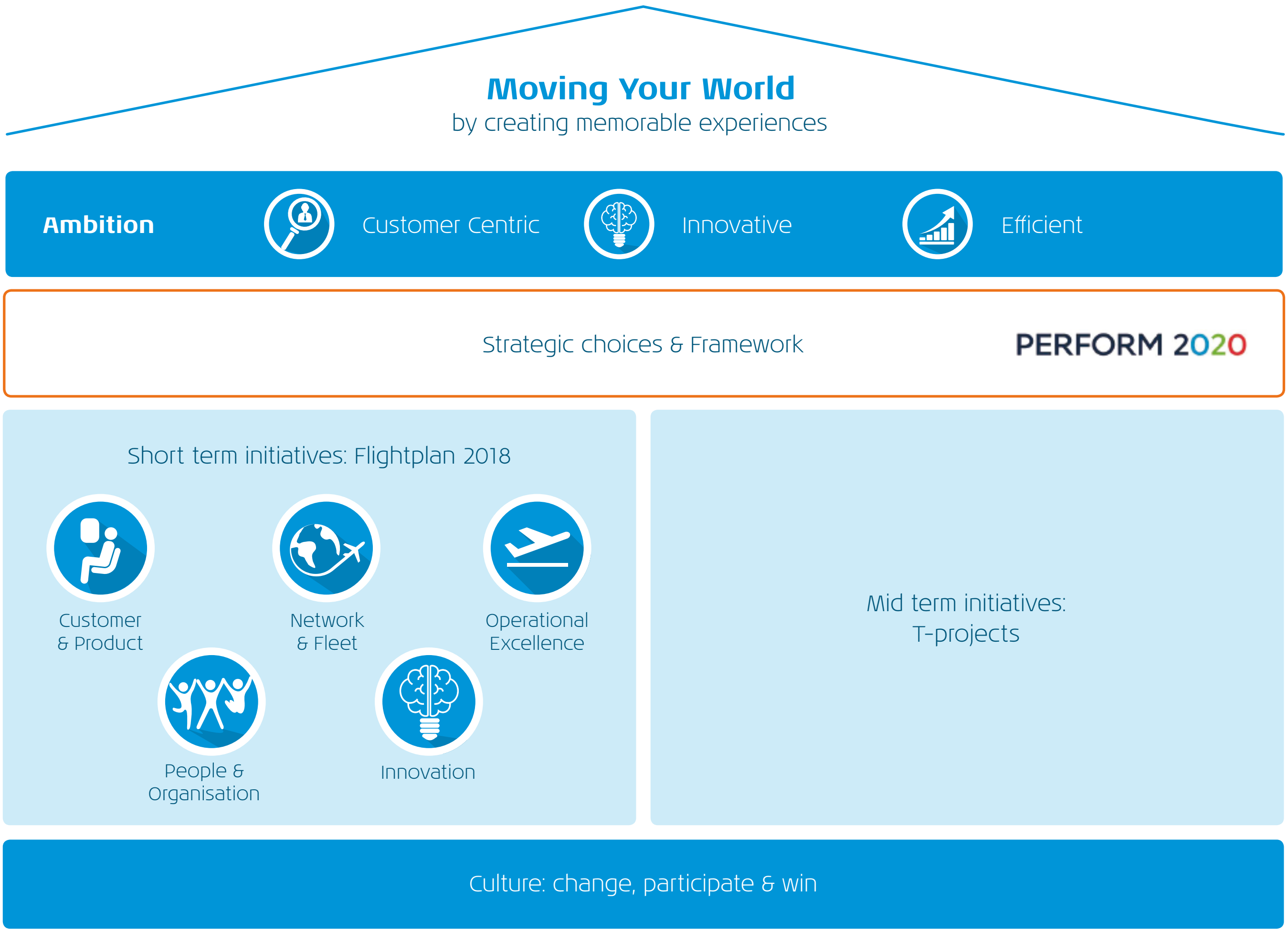
The 2018 results are even more impressive knowing that room for growth was limited this year. While the maximum number of flight movements permissible to and from Schiphol Airport was reached by April, KLM did manage to expand its network with four new destinations and welcomed 1.5 million more passengers on board. Over the last four years, KLM welcomed 6.4 million more passengers on board and added almost 30 destinations to its network. AIR FRANCE KLM also paved the way for an expanded transatlantic joint venture with Delta Air Lines and Virgin Atlantic, intensified the partnership with GOL for extra flights in Brazil, and a code sharing with Qantas on flights from Singapore to Australia.

Stable, robust and sustainable

One key contributor to the success of 2018 was a more stable and robust operation. Where the unexpected growth spurt in 2017 had increased pressure on KLM's people and processes, KLM now stabilised its operation. "A more integrated approach facilitates the ability to handle disruptions smoothly and quickly turn around aircraft on a congested Schiphol Airport. Our safety organisation became stronger as well, which is again recognised by the IOSA approval," says René de Groot, Chief Operating Officer.

At the heart of this integral approach is the alignment of processes across KLM, the search for ongoing improvements and heavy investments in innovation. Examples of such innovation are the introduction of artificial intelligence powered tools in the field of disruption prediction.

In addition to strengthening its operations, KLM boosted its sustainability efforts and revamped its own sustainability strategy. Together with an alliance of 20 organisations the 'Smart and Sustainable plan' for sustainable growth of the aviation industry in the Netherlands was launched. "We strongly believe in the value of biofuels to reduce our environmental footprint, in addition to continuous fleet renewal, electrification of our ground equipment and carbon compensation. The number two position of AIR FRANCE KLM in the Dow Jones Sustainability Index recognises the impact of our actions," argues Elbers.



The customer journey

The steady rise of NPS, which essentially indicates customer satisfaction, to 42 at the end of 2018, is another indicator that KLM's renaissance is sustained. "Customers are clearly noticing the ongoing improvements to KLM's product across the entire customer journey", De Groot says. The NPS shot up an impressive six points from 36 to 42 the last four years.

The fleet upgrade program is one key to this. KLM took delivery of three Boeing 787-9 aircraft and seven Embraer 190/175 for KLM Cityhopper's network. Furthermore, Transavia took delivery of two Boeing 737-800 aircraft. KLM began preparing for the arrival in 2019 of the new Boeing 787-10 and together with Transavia, a further six Boeing 737-800 are on order. In addition, KLM added full flat seats on all its Airbus A330 World Business Class and began adding Wi-Fi to all A330 and Boeing 777 aircraft. Newer aircraft and cabin improvements not only attract and retain more customers, but also reduce noise levels and CO_2 emissions.

"The NPS shot up an impressive six points from 36 to 42 the last four years."

Customers enjoyed a better product in other ways as well. "This year we have managed to engage more directly and personally with customers, during the sales process, on digital media, when disruptions cause discomfort and in the air when we give customers memorable experiences," Elbers says. KLM, for example, completed the installation of flat seats on the long-haul fleet, extended the successful "Anytime for You" meal concept on World Business Class, and launched a new economy class meal on intercontinental flights.

Another customer highlight was the opening of the first phase of the new KLM Crown Lounge, a stunning three-storey, house-shaped lounge that has become an architectural icon of Schiphol Airport. "Digitisation and highly engaged staff are at the centre of a truly unique, customer-centric experience that will make a real difference to our World Business Class customers. The lounge also celebrates Dutch culture, which is part of our DNA as well," Elbers proudly says.

People and innovation

De Groot emphasises that KLM's people have been part of the organisation's transformation. "To secure a healthy and fit future, we want our people to work in a safe, inspiring and empowering environment. In 2018, we made progress on all these fronts. We achieved a drop in absenteeism, introduced the Employee Promotor Score to improve the dialogue with our employees and further implemented our Winning Way of Working concept by renovating workplaces. KLM hired some 1,200 new employees, continued to bring the KLM Compass alive through training and leadership development and boosted our efforts to promote diversity and inclusiveness," summarises De Groot.

"I am confident that KLM is healthy and fit for the next 100 years."

In an aviation industry transformed by fierce competition and more demanding customers, KLM continued to embrace innovation. "In 2018, we saw exciting developments in step change innovation that leads to incremental improvements and more radical innovation that create new opportunities for future growth. Also the X-way of Working has been further implemented," says Swelheim.

Healthy and fit future

As KLM begins to celebrate its centenary, the Board believes in the company's future. "KLM was built on the shoulders of the tens of thousands of staff that worked here before us. Today, 35,500 men and women are building the KLM of the future. Over the past four years, we have fixed the leaky roof and further strengthened our foundations. In light of our ambitions for 2019 and beyond, I am confident that KLM is healthy and fit for the next 100 years," Elbers concludes.

Pieter Elbers
CEO

René de Groot
COO

Erik Swelheim
CFO

The world we operate in

Global economic growth in the first half of 2018 lost the momentum it had gained in the latter half of 2017 and became asynchronous between countries. Certain developed countries grew less than expected, while developing economies continued to grow at the same pace as 2017.

The economy

Growth in the Eurozone and the United Kingdom was disappointing due to lower exports, higher energy prices, political insecurity and industrial action. Economic growth in the Netherlands slowed in 2018 to match the Eurozone's average.

The American and Asian economy grew strongly, while Latin America continued to recover, though at a slower pace. International trade relations were complicated by trade discussions between the US and China. The fuel price, a major component of KLM's cost structure, rose until October 2018 and then appeared to become more stable.

Looking ahead, we expect global growth to be moderate in the years 2019-2020, with inflation trending up very gradually from an otherwise low position. Growth in the euro area is forecast to taper off to 1.9 per cent in 2019 and 1.7 per cent in 2020.

The airline industry

Global passenger volume increased by 9 per cent in the first half of 2018, but growth slowed down to 6 per cent in the latter half. The industry's financial performance is significantly better than during the pre-2015 era, though regional differences remain. Europe and North America in particular did well. Globally, margins were under pressure as costs per unit rose more quickly than revenue per unit, mainly due to rising fuel prices. Classic changes in the airline industry such as consolidation and the ongoing growth of low cost carriers remain. New challenges in the field of digitisation, artificial intelligence and virtual reality become visible. The rise of ecosystems forces the airline industry to reshape. The distribution markets are deeply transforming, whereby new and direct distribution channels emerge. The ownership of data has become an important topic that shifts the distribution of power and responsibilities.

Europe

Brexit influenced Europe's political and economic agenda. For KLM and the airline industry it is crucial to minimise traffic disruptions, costs and impact on passengers and cargo flows. The United Kingdom is a very important market for KLM and therefore it is of paramount importance for both the Netherlands and the United Kingdom to secure the current smooth connectivity. KLM is actively following the developments and is in dialogue at both national and European level to contribute to solutions for the airline industry in order to minimise the impact of Brexit. At the same time, KLM is taking precautionary measures for all Brexit scenarios to ensure that its operations and services will continue as smooth as possible.

KLM actively supports the European Commission's 2015 Aviation Strategy and is looking forward to the implementation thereof as this will make the European aviation industry more competitive. KLM agrees with other European airlines that Europe needs to act on airport monopolies, high charges, taxation and inefficiencies in the aviation supply chain. KLM supports the European Commission's efforts to promote a level playing field for aviation within and outside the EU. KLM supports the deal that has been reached in November 2018 on the revision of Regulation 868 for a stronger instrument to guarantee fair competition in air transport with third country carriers. KLM also looks forward to the realisation of a Single European Sky, which could lower CO_2 emissions by 10 per cent per year through more efficient routes. Currently, KLM aims to reduce its carbon emissions per passenger by 20 per cent in 2020 compared to 2011. The European Emission Trading Scheme (EU ETS) and in the future the Carbon Offset and Reduction Scheme for International Aviation (CORSIA) could bring additional CO_2 reduction.

KLM supports regulations that protect passenger rights. Customers are at the heart of KLM's business. Safety, punctuality and reliability are important to the company. In case of unforeseen events, KLM takes all measures necessary to minimise the inconvenience for passengers. In 2018, EU compensation has been the main contributor to KLM's service recovery cost. An increased claim rate and a non-uniform interpretation of regulations lead to a higher percentage of EU 261 claims as well as higher compensation. KLM is concerned that the existing EU regulation 261/2004 taxes the airline industry with unreasonably high costs and emphasises the need for uniform enforcement and interpretation of the regulation across Europe.

The Netherlands and Schiphol

The Dutch coalition agreement 'confidence in the future 2017' confirms that the high-quality airport Schiphol together with a successful national carrier is of major importance to the Dutch economy. KLM connects the Netherlands to the world and connects the world to the Netherlands. With 35,500 staff and a global network of 166 destinations, KLM is a crucial catalyst of the export-orientated Dutch economy. The KLM network and Schiphol make the Netherlands attractive for foreign investments and the settlement of foreign large companies. KLM is the country's third-largest private employer, and also the most important pillar of Schiphol, Europe's third-largest airport in terms of passenger numbers. The total aviation sector employs a massive 300,000 people and contributes 4.5 per cent to GDP. Schiphol and the strong network of KLM are key to continued prosperity in the Netherlands.

In 2018, Schiphol reached the capacity ceiling of 500,000 flight movements. At the same time the opening of Lelystad Airport expected in 2019 was delayed. These developments limit the growth of the KLM network and forced to make optimal use of available slots. KLM acknowledges and takes responsibility that the aviation industry needs to decrease its impact on the environment. At the same time, KLM has to compete globally and generate funds to invest in modern assets and technologies that minimise our environmental impact. Furthermore, in order to meet customer needs, adding new destinations to our network is key. In light of this, future growth at our home base Schiphol is of utmost importance. This means that we have to find a delicate balance between growth and our economic value on the one hand and our environmental impact at a global, regional and local level on the other hand.

The Dutch airline industry is committed to achieving moderate and controlled growth from the combination of Schiphol and Lelystad Airport, in conjunction with noise reduction and measures to improve quality of life. A reasonable balance needs to be found between the benefits of aviation and its negative side effects, thereby weighing the interests of all parties involved. Therefore the Dutch airline industry has made a conscious effort not to push the limits of the available potential for growth within the agreement reached at the Alders Table. KLM feels strongly about taking part in a dialogue with the community surrounding the Schiphol area. In 2018 KLM engaged on the social participation program to formulate the advice Schiphol Development 2030 by participating in 'living room sessions' with the KLM Chief Operating Officer, giving presentations and holding expert sessions.

KLM is a crucial catalyst of the export-orientated Dutch economy.

At Schiphol, moderate growth is needed beyond 2020 because airlines need long-term perspective towards 2030 for their investments in new fleet and sustainable initiatives. To achieve this moderate growth at Schiphol, it is also key that Lelystad Airport will open per April 1, 2020 in order to create room for development at Schiphol by redirecting aviation traffic from Schiphol to Lelystad Airport. Meanwhile, KLM is investigating the substitution of flight travel by train travel with all parties involved.

In 2018, KLM was involved in a broad stakeholder discussion about airport charges, which will increase by approximately 25% in the next three years and lead to additional costs of EUR 100 million for KLM Group. These increased airport charges at Schiphol contribute towards Schiphol's infrastructure investment scheme over the next five years, investments which are urgently needed.

Since 2012, KLM is incurring costs due to European Emissions Trading System (EU ETS) and per 2020 KLM will incur global costs through CORSIA. On top of this, KLM will be faced with the implementation of the aviation tax in the Netherlands in the year 2021, which will limit our ability to invest as the taxed amounts cannot be used to invest in the modernisation of assets. This stacking of costs is detrimental to KLM's competitive position.

In 2018, KLM continued to experience the limitations of Schiphol's infrastructure as it had to handle at least five flights per day at the buffer due to a lack of wide body gates. This increases the complexity of operations and has negative impact on the customer experience. KLM is looking forward to the construction of the A-terminal, which will be ready for use in 2023, and the construction of Schiphol's A-pier, which began in 2018 with a first phase scheduled for opening by the end of 2019. The SkyTeam alliance will be the main user of the A-pier. Despite adding some highly needed capacity this will still be insufficient to cover KLM's needs.

Although the cooperation between KLM and Schiphol regarding operational issues (e.g. immigration and security queuing) improved considerably, KLM experienced more disruptions than desirable with regard to customer experience (e.g. power outages that are out of our control). It will be a challenge for both KLM and Schiphol to minimise effects on the passengers resulting from the current large scale refurbishment and expansion plans. The same will be the case with the construction works on landside effecting both passenger and staff/crew flows.

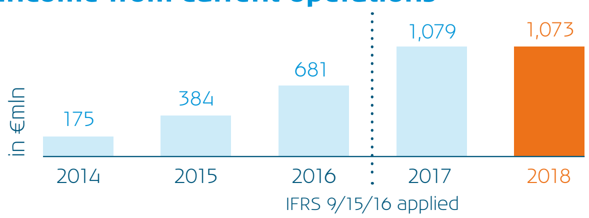
Finance

In a clear sign that the persistent execution of its strategy continues to pay off, KLM again achieved excellent financial results. A solid performance by KLM's network and businesses, coupled with ongoing focus on efficiency and innovation, allowed KLM to make a record investment in new equipment, IT and staff.

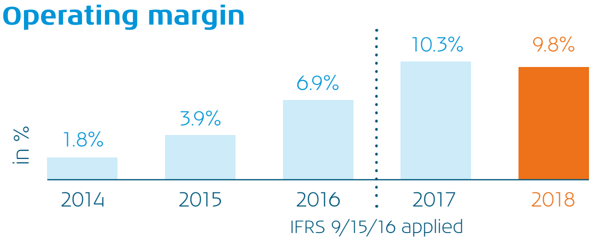
KLM revenues came in at almost EUR 11.0 billion, an important increase of 5 per cent above last year's EUR 10.4 billion. Operating income remained stable at EUR 1,073 million from EUR 1,079 million in 2017, whilst the operating margin slightly decreased from 10.3 per cent to 9.8 per cent. Equity, EUR 821 million in 2017, rose to EUR 1,006 million. These results were influenced by a strong focus on cash flow, an increase in unit revenue and ongoing digitisation, which leads to simpler processes and a reduction of unit costs.

Mainly, though, they were the result of KLM's strong performance, particularly on North Atlantic and European routes. Cargo's contribution grew significantly compared to 2017, the result of its focus on added-value products such as pharma. Engineering & Maintenance grew its share of third-party work and showed stable margins. Transavia achieved a record-operating income of EUR 75 million, and in spite of increased fuel prices managed to lower its cost per unit and achieve an operating margin of 8.2 per cent.

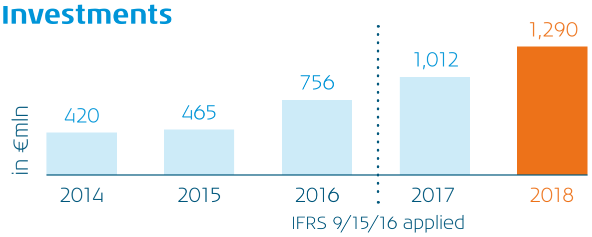
Income from current operations



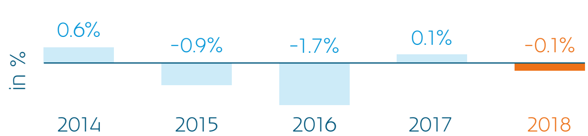
Operating margin



Investments

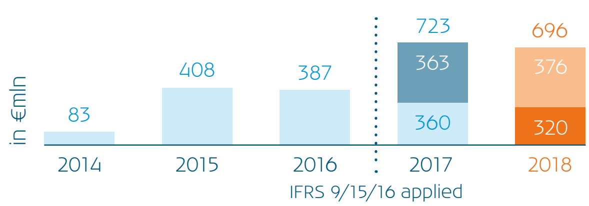


Unit cost (excluding rox/fuel)



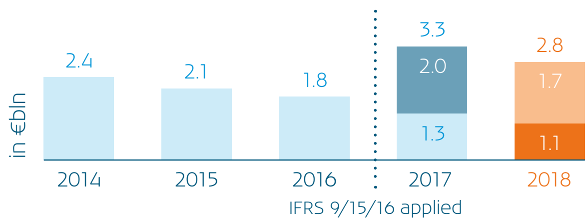
Free cash flow

Lease debt redemption



Net debt

Lease debt



These results enabled KLM to invest a record-breaking EUR 1.3 billion. KLM took delivery of three Boeing 787-9 aircraft, seven Embraers 190/175 for KLM Cityhopper's network – completing the decade-long shift from Fokkers to a fleet of 49 Embraers – and two Boeing 737-800 aircraft for Transavia. These new aircraft not only offer better comfort for passengers, but also lowered KLM's fuel bill. IT was another major recipient of investments to the tune of EUR 109 million, allowing KLM to catalyse its digitalisation and innovation efforts.

After a few years of decreasing cost per unit, overall cost levels remained stable in 2018 due to limited growth at Schiphol Airport, higher service recovery costs and an increase in salaries stemming from KLM's new collective labour agreements. The external spend project netted EUR 24 million and an increase in fuel prices was partly absorbed by an effective hedging strategy. The net debt was lowered by EUR 455 million to EUR 2.8 billion. This includes KLM's right-of-use assets related lease debt (capitalising of operating lease contracts), which is a consequence of KLM's adoption of IFRS 16.

Since January 1, 2018 KLM applies the following three new IFRS standards:
» IFRS 9 "Financial Instruments";
» IFRS 15 "Revenue Recognition from Contracts with Customers"; and
» IFRS 16 "Leases".
IFRS 9 and 15 are mandatory and for IFRS 16 KLM opted for early adoption as from 2018. IFRS 15 and 16 have been applied retrospectively to each previous period in which financial information is presented, resulting in restated 2017 comparative figures. IFRS 9 has initially been applied as at initial application date. Under the transition methods chosen, comparitive information has not been restated except for certain hedging requirements. In order to implement this standard the Group assessed the impact retrospective and is recognised at initial application date.

The High Performance Organisation, the implementation of which began in 2015, was finalised in 2018 with the Finance Organisation. As a result, part of the finance activities will be offshored. In 2018, KLM continued to focus more on its core activities, which amongst other things, resulted in the sale of its Jet Center activities at Schiphol.

As part of KLM's financial risk management framework, KLM also conducted going concern analyses including scenario and sensitivity analyses. These analyses reconfirmed the insights into the most important risks and led to the conclusion of the Board of Managing Directors that – based on the information available and analyses performed – there is no foreseeable reason to expect that the financial going concern of KLM is at stake in the next twelve months.

Looking ahead, KLM sees clear challenges in the form of limited growth until 2020 and the emergence of low cost carriers on intercontinental flights. In response to this, we will continue to seek higher margins, positive cash flows and lower cost. KLM plans to invest at least EUR 1.0 billion a year over the next few years in fleet renewal, innovation and maintenance, in order to realise KLM's ambition to become the most customer-centric, innovative and efficient European network carrier.

Consolidated statement of profit or loss

In millions of Euros	2018	2017 Restated	Variance %
Revenues	10,955	10,430	5
External expenses	(5,920)	(5,571)	6
Employee compensation and benefit expenses	(3,059)	(2,952)	4
Other income and expenses	129	157	(18)
Total expenses	(8,850)	(8,366)	6
EBITDA	2,105	2,064	2
Amortisation, depreciation and movement in provisions	(1,032)	(985)	5
Income from current operations	1,073	1,079	(1)

Revenues
Revenues were 5 per cent higher whereas traffic (equivalent passenger seat kilometers) went up 3.5 per cent and Cargo traffic remained almost stable. Capacity (in equivalent available seat kilometers) was 2.3 per cent higher than last year. Unit revenue increased by 1.3 per cent (3.8 per cent at constant exchange rates). Yield increased by 0.2 per cent (2.6 per cent at constant exchange rates), while the load factor increased to 86.6 per cent (+1.0 per cent compared to 2017).

Expenses
Total expenses (excluding aircraft operating lease cost and amortisation, depreciation and the movement in provisions) amounted to EUR 8,850 million, an increase of EUR 484 million compared to 2017. Unit cost were 0.1 per cent below 2017.

Fuel prices

Overall fuel cost increased EUR 184 million compared to 2017, with a 16.6 per cent higher jet fuel price after hedge in USD and a 5.7 per cent weaker USD. The hedge portfolio contributed with a positive payout of EUR 262 million in 2018. Fuel volume was 0.6 per cent lower than last year, whereby increased capacity is more than offset by higher fuel efficiency from new, more fuel efficient, aircraft.

Income from current operations

In millions of Euros	2018	2017 Restated
Income from current operations	1,073	1,079
Other non-current income and expenses	(13)	(1,849)
Net cost of financial debt	(177)	(228)
Other financial income and expenses	(111)	319
Income before tax	772	(679)
Income tax (expenses) / benefit	(203)	171
Share of results of equity shareholdings	4	11
Profit/(loss) for the period	573	(497)
Adjusted profit for the period	573	785

The net profit in financial year 2018 amounted to EUR 573 million. Excluding the 2017 one-off, non-cash settlement expenses for the cockpit crew pension plan of EUR 1,049 million after tax and the cabin crew pension plan of EUR 233 million after tax, the net result would have been a net profit of EUR 785 million in 2017.

Other non-current income and expenses

The other non-current income and expenses show a negative amount of EUR 13 million. This mainly relates to EUR 24 million for voluntary leave plans at KLM, partly offset by proceeds from the sale of the Jet Center activities and positive results from the sale of Boeing 747 engines.

The 2017 other non-current income and expenses show a negative amount of EUR 1,849 million. This mainly includes EUR 1,399 million non-cash settlement expenses following the modification to a collective defined contribution pension plan for cockpit crew and subsequent derecognition of the cockpit crew pension asset and the same modification related to cabin crew for a non-cash settlement expense of EUR 311 million, following the derecognition of the cabin crew pension asset. In addition a non-current expense related to a dowry payment amounting to EUR 194 million was agreed with the cockpit crew union. This was partly offset by sale of assets amounting to EUR 25 million (mainly

Boeing 747 engines and Fokker 70 aircraft) and increase in the fair value of Kenya Airways amounting to EUR 50 million following the financial restructuring of that financial fixed asset in 2017.

Net cost of financial debt

The net cost of financial debt was reduced from EUR 228 million to EUR 177 million, mainly as a result of the reduction of net debt (including lease debt following the implementation of IFRS 16) and lower interest rates.

Other financial income and expenses

The expense of EUR 111 million in other financial income and expenses in 2018, mainly relates to the negative revaluation of KLM's debt in foreign currencies and negative USD impact on maintenance and phase out provisions.

As most of the aircraft lease contracts are denominated in US dollars, starting from January 1, 2018 the Group designated the cash flows from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. Since IFRS 9 cannot be applied retrospectively, the restated 2017 other financial income and expenses include a positive unrealised foreign exchange impact related to US dollar debt volatility of EUR 271 million.

Income tax

The income tax mainly relates to the 25% corporate income tax on pre-tax income.

Equity shareholdings

This mainly reflects the KLM share in the results of Schiphol Logistics Park and Transavia France.

Cash flow statement

In millions of Euros	2018	2017 Restated
Cash flow from operating activities	1,986	1,735
Cash flow used in investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	(1,290)	(1,012)
Free cash flow	696	723
Adjusted free cash flow	320	360

Operational cash flow reached EUR 1,986 million, composed of a cash flow from operating activities before working capital of EUR 1,781 million, and a positive working capital movement of EUR 205 million. The continuous focus on cash, resulted in an adjusted positive free cash flow (which is including the redemption of lease debt following the implementation of IFRS 16) of EUR 320 million (EUR 360 million in 2017) with investments EUR 278 million higher than 2017.

The investing cash flow included EUR 677 million for fleet renewal and modifications (EUR 476 million in 2017) and fleet related investments amounted to EUR 433 million, including EUR 216 million for capitalised fleet maintenance. Other capital expenditure amounted to EUR 212 million, including EUR 109 million for capitalised software. Disposal of aircraft and other assets led to an income of EUR 27 million and mainly relates to sales of Boeing 747 engines and a Boeing 737-700.

The financing cash flow was EUR 882 million negative. New financing included new external loans of EUR 175 million. Redemption of finance leases amounted to EUR 424 million, redemption of lease debt to EUR 376 million (following the implementation of IFRS 16), redemption on existing loans to EUR 37 million, redemption on AIR FRANCE KLM loans to EUR 99 million and higher near cash to EUR 121 million. EUR 1 million was paid to a minority interest shareholder of a KLM subsidiary.

Equity

Equity increased to EUR 1,006 million at December 31, 2018, and includes the negative impact of the IFRS 9, 15 and 16 implementation amounting to EUR 106 million as per December 31, 2017 and the 2018 net result of EUR 573 million. It also includes the net negative movements in the remeasurement of defined benefit pension plans amounting to EUR 160 million, the negative net variance of the value of fuel derivatives amounting to EUR 254 million and the net positive variance of the value of interest and currency derivatives of EUR 26 million, all reported in "Other Comprehensive Income" in equity.

Including the subordinated perpetual loans and the preference shares, the near equity amounts to EUR 1,609 million at December 31, 2018 (EUR 1,397 million at December 31, 2017).

The equity level increased in 2018 and thus improved KLM's financial position. The volatility from the KLM pension plans have reduced significantly after the transfer of the cockpit crew and cabin crew pension fund to a collective defined contribution scheme in 2017. However, the volatility in the value of fuel derivatives and the remeasurement of the current defined benefit pension plans for the ground staff pension plan and other smaller defined benefit pension plans remains. The non-cash changes in pension obligations together with the level of plan assets linked to the changes in actuarial assumptions (such as the current low discount rate) need to be recognised in the company's equity and do not directly affect the statement of profit or loss.

Despite the increase the equity is still low per end 2018. Going forward the balance sheet and thus the equity need to be strengthened.

Sustainability

KLM stepped up in 2018 its sustainability effort across the board. This includes the launch of a revised strategy, a new Dutch aviation alliance Smart and Sustainable, fleet renewal, a stronger push for biofuel and a more diverse workforce.

KLM's sustainability performance is externally measured by the Dow Jones Sustainability Index and AIR FRANCE KLM has been at the top two ranking for 14 years at a row. KLM is a signatory to the UN Global Compact, which outlines 10 principles that apply to businesses in the areas of human rights, labour rights and anti-corruption. KLM views the Sustainable Development Goals (SDGs) as a guideline for developing its own sustainability strategy. The 17 goals established by the United Nations provide a direction for sustainable growth and investment, while also devoting attention to human rights, economic growth, peace and security and climate issues. In addition, KLM's sustainability efforts contribute to the UN's SDGs. In particular KLM focuses on 7 (Affordable and Clean Energy), 8 (Decent Work and Economic Growth), 9 (Industry, Innovation and Infrastructure), 12 (Responsible Consumption and Production) and 13 (Climate Action).

Sustainability strategy

In 2018, KLM upgraded its sustainability strategy, which focuses on the three domains, operations, employees and customer experience. Within the operational domain, by far one of the most crucial aspects of the sustainability strategy is to reduce our environmental footprint. Currently, KLM aims to reduce its CO_2 emissions per passenger by 20 per cent in 2020 compared to 2011. Also for the ground processes KLM aims to reduce CO_2 emissions by 20 per cent.

KLM has been doing well on both counts: by the end of 2018, CO_2 emissions per passenger were down 17.3 per cent and the CO_2 emission from ground processes reduced by 18 per cent. For the first year, KLM has succeeded in reducing absolute CO_2 emissions while increasing production.

One key contributor to the sustainability strategy is KLM's major investment in fleet renewal, which introduces a more fuel efficient and low noise fleet. On top of that, KLM saves fuel through operational efficiency, which includes route optimisation and the reduction of on board weight. In 2018, KLM realised a reduction of 11,000 tons of CO_2 emissions through route optimisation and 4,400 tons of CO_2 through on board weight reduction. The electrification of the KLM ground equipment is key to reducing the CO_2 emissions of ground processes.

KLM has been a pioneer in the area of sustainable biofuel, which emits 80 per cent less CO_2 compared to fossil kerosine. KLM adds biofuel from waste resources to its daily Los Angeles to Amsterdam flight and in 2018 started adding biofuel on flights to its new Swedish destination Växjö (see story A Truly Sustainable Case). The KLM Biofuel Program attracted Arcadis, Air Traffic Control the Netherlands, NLR and Södra from Sweden as new partners in 2018.

Apart from CO_2 reductions, KLM aims to reduce its production of residual waste by 50 per cent in 2030 compared to 2011, for example by recycling and reducing passenger waste through innovative packaging. In 2018, we produced 19 per cent less residual on board waste per passenger compared to 2011 and recycled 28 per cent of our waste.

In 2018, KLM has set new ambitions for further CO_2 reduction towards 2030. Its performance of last year contributes to the new goal of reducing CO_2 emissions from 2018 towards 2030 by more than 10 per cent absolute for flight operations. For ground processes KLM aims to reduce the CO_2 emission to zero in 2030.
The European Emission Trading Scheme (EU ETS) and in the future the Carbon Offset and Reduction Scheme for International Aviation (CORSIA) could bring additional CO_2 reduction.

In the second domain of KLM's sustainability strategy, employees, KLM focuses on a healthy and safe work environment, a diverse and inclusive workforce and employee development. In 2018, KLM has endorsed a program called 'KLM 100 years and beyond Safe and Sound' to improve sustainable employability. In terms of health and occupational safety, we have been further developing KLM's integrated safety management system and a new health policy.

KLM Sustainability: 2018 at a glance

17.3% lower CO_2 emissions per passenger compared to 2011. Target for 2020: 20% reduction

12 new, quieter, more efficient aircraft added to the fleet

1,318 tonnes of sustainable biokerosene consumed

40% less noise energy through fleet renewal

9% less waste compared to 2011

61.5 Employee Promotor Score

-50% CO_2 per passenger compared to 2005

2018

2030

14 times at the top of the Dow Jones Sustainability index as AIR FRANCE KLM Group

85 projects in 16 countries supported by Wings of Support

88,000 passengers travelled CO_2-neutral thanks to KLM's compensation service CO2ZERO

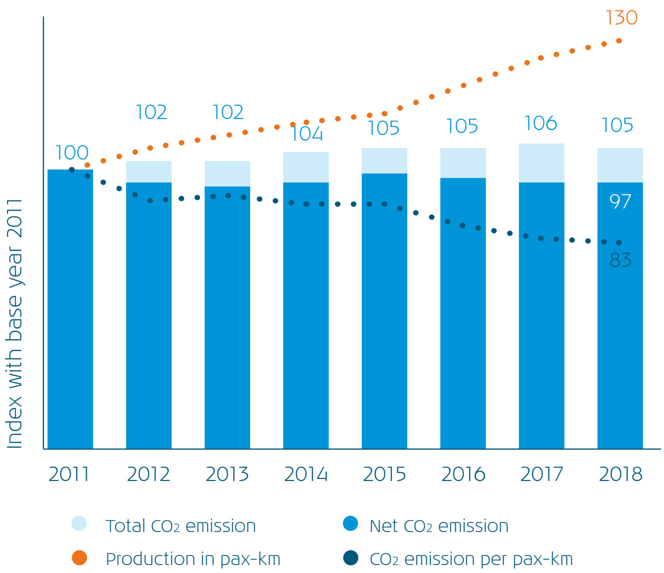
9,4 million sustainably produced sandwiches served on board European flights

18% less CO_2 emissions produced by ground processes. Target for 2020: 20% reduction

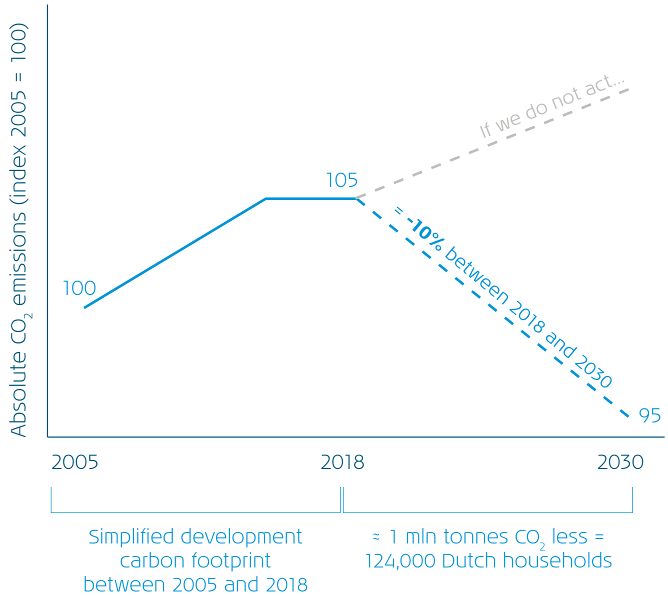
312 hectares of tropical forest planted in Panama by KLM CO2ZERO service

-50% residual waste compared to 2011

Developments 2011-2018: since 2015 Carbon footprint stabilised



Ambition absolute CO_2 emission: 95% compared to 2005 level



Source: Milieu Centraal. NL household emits 8.1 tonnes yearly.

The third and final domain of KLM's sustainability strategy, customer experience, relates to connecting people through KLM's network and offering responsible products and services. KLM offers customers the opportunity to compensate its carbon emissions through its CO2ZERO service, which in 2018 compensated through participation in the CO2OL Tropical Mix project in Panama. In 2018, some 88,000 passengers compensated a total of 40,500 tons of CO_2, equivalent to 312 hectares of tropical forest or 343,000 trees.

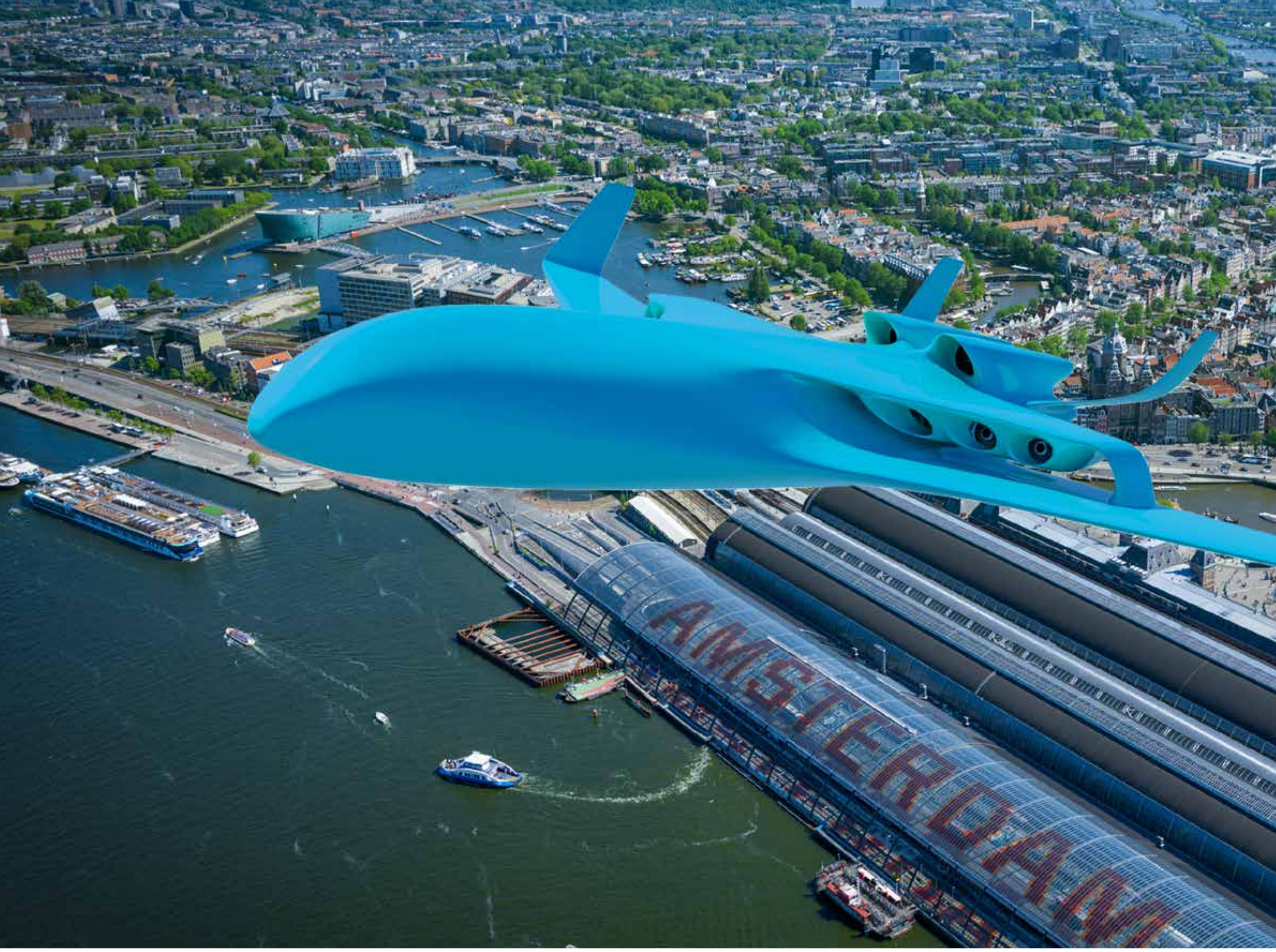
Smart and sustainable

Another achievement this year was Smart and Sustainable, an ambitious plan to bring CO_2 emissions by the Dutch aviation industry back to the level of 2005. The plan focuses on optimising flight paths, stimulating cleaner aircraft, and investments in biofuel usage and production. In addition, the plan aims to invest in the development of radically different aircraft and an emission free airport. Furthermore, the alliance sees room for promoting the usage of trains. Combined, these plans and the independently verified CO_2 reduction calculations, offer a comprehensive and ambitious strategy for the future (see Smart and Sustainable, A Closer Look for more).

Community support

In addition to lowering footprint in the operational domain, also focus on community support. In 2018, KLM extended the support for a diverse and inclusive workforce at Schiphol Airport, the Dutch Masters for Hermitage project and Wings of Support. In fact, 2018 marked the 20th anniversary of Wings of Support, during which time this KLM employee driven social initiative has become a mature aid organisation that has spent around EUR 700,000 on more than 85 projects in 16 countries, helping around 25,000 children get better education, shelter and medical facilities.

In 2018, KLM has set new ambitions for further CO_2 reduction towards 2030.



Smart and Sustainable, a closer look

Smart and sustainable brings together 20 organisations and knowledge institutes from across the Dutch (aviation) industry. Together, they formulated a comprehensive plan for bringing CO_2 emissions from civil aviation originating in the Netherlands back to the level of 2005. CE Delft, an independent consultancy firm, has calculated that the objectives are entirely achievable. The plan, which was presented to the Dutch Minister of Infrastructure and Water Management in October 2018, has the following objectives:

1. Optimising flight routes and procedures

Current routes in Dutch and European airspace are overloaded and not always efficient, and lead to unnecessary CO_2 emissions. More direct flight routes and improved take-off and landing procedures will result in less fuel consumption.

2. Encouraging cleaner aircraft by levying airport fees

Schiphol Airport intends to differentiate airport charges (between 2019 and 2022) partly on the basis of climate impact. Airlines will pay less for quieter and generally cleaner aircraft, while the costs for noisier, more polluting aircraft will increase.

3. Introducing sustainable fuel

As a result of the long development time and life span of new aircraft, kerosine will remain the fuel of choice for the time being. For this reason, sustainable fuel is one of

the most effective ways of reducing CO_2 emissions on the relatively short-term. The alliance aims for an increase in biofuel production, in part by building one or more production facilities in Europe.

4. Radical fleet renewal

The alliance will take major steps to develop new aircraft concepts, meaning new aerodynamic models, stronger and lighter materials, and electric-hybrid propulsion. These are necessary to further reduce emissions from aviation after 2030. Over the next decade, airlines will continue to renew their fleets, thereby further reducing their emissions.

5. International train service over short distances

The alliance has calculated that trains are a good alternative to air travel up to a distance of 700 kilometers. To make train travel even more attractive, the alliance envisions faster trains, better connections to Schiphol Airport, and integrated AirRail tickets. To further develop Schiphol Airport as a multimodal hub, the extension of the North-South Metro line above ground is another interesting option.

6. Emission-free airport

The alliance wants all Schiphol Airport terminals, offices and ground operations to be climate neutral by 2030. Schiphol Airport, which already runs entirely on renewable energy electricity, will encourage energy efficiency, phase out gas and limit commuting. Airport users will make greater use of electrical equipment.

7. A fast and efficient journey to and from the airport

The journey to and from the airport is unnecessarily complicated and time consuming. Solutions like electric rental cars and faster public transport are needed, and it has to be easier for passengers to get cargo and baggage from door to door. Also in air cargo transport, all parties work closely with the help of digitisation, chain agreements and good information exchange to optimise their activities.

Flight Plan 2018

Each year, KLM translates its overall strategy and long-term goals into a Flight Plan. The Flight Plan consists of five pillars, being Customer & Product, Network & Fleet, Operational Excellence, People & Organisation and Innovation. For each of these pillars the actions and achievements are described including a case study, which tells the story behind one of KLM's achievements.

- Customer & Product
- Network & Fleet
- Operational Excellence
- People & Organisation
- Innovation

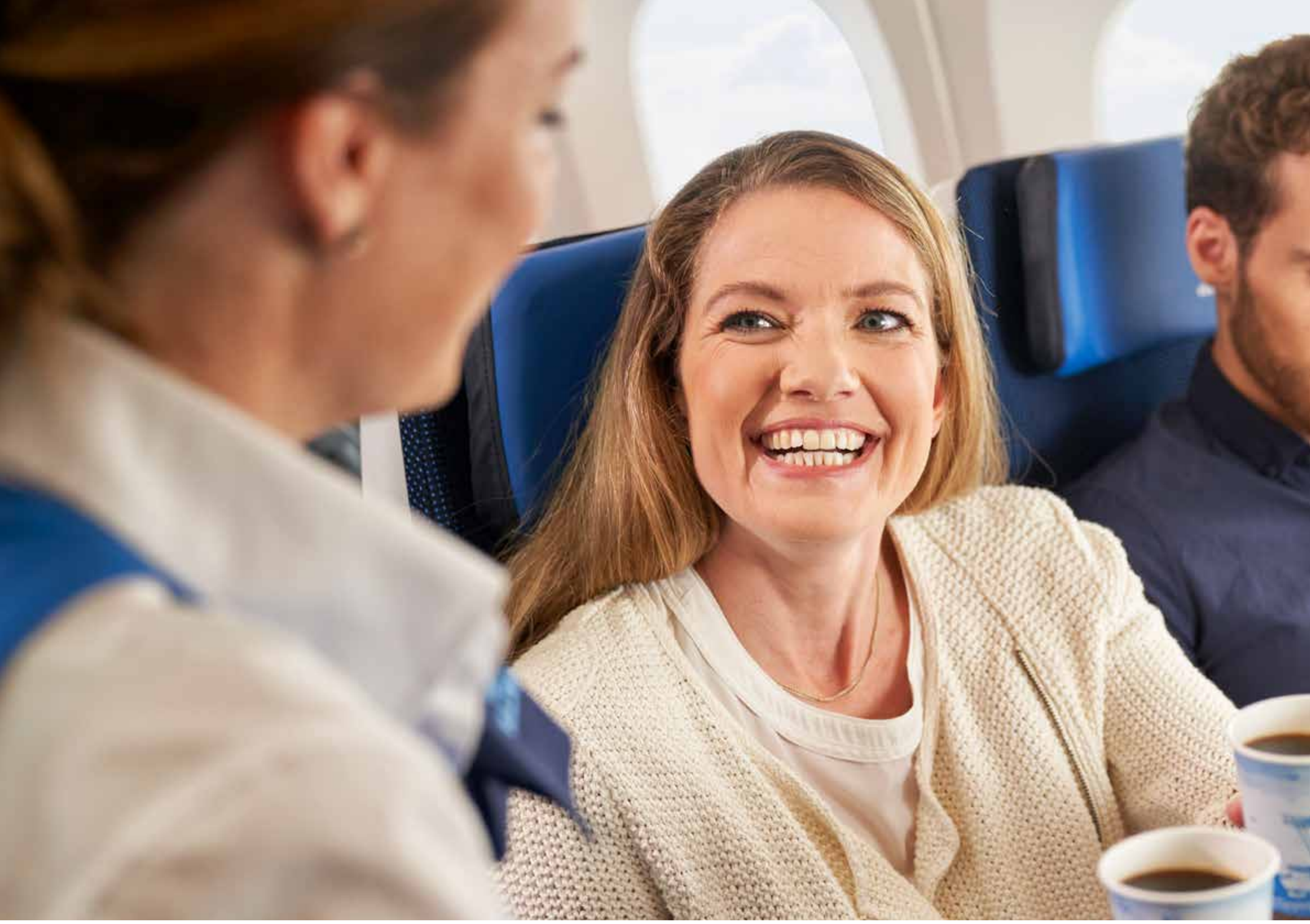
“A satisfied customer is the best business strategy of all.”

–

Michael LeBoeuf

Customer & Product

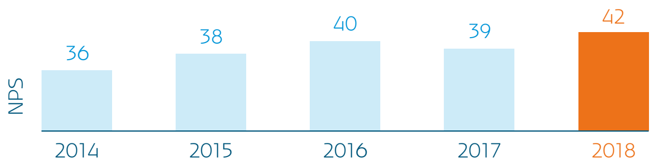
KLM's customers received a better service and product in 2018, not only because of investments in more personalised and digital services, but also thanks to closer alignment with KLM's operational processes and cooperation with KLM's partners.



Since the launch of its new strategy in 2015, KLM has substantially upgraded the quality of its product and services year after year. KLM has invested in staff training, new aircraft with more comfortable cabins and entertainment systems, full flat seats in World Business Class, better customer support via social media and myriad digital tools that empower both customers and frontline staff. By closely aligning these improvements with KLM's operational processes in areas like disruption management, boarding and baggage handling, KLM was able to increase its Net Promotor Score from 36 in 2014 to 42 in 2018.

In 2018, KLM focused on six priorities: personalisation, booking, airport processes, in-flight, baggage and disruption handling. Based on a gap analyses between the service expected by customers and actual service received, KLM initiated a number of improvement projects.

Positive trend of Net Promotor Score



Personalisation

Customers expect personal treatment across their entire journey, from the moment they book, to the actual journey, upon arrival or when things go awry. In 2018, KLM trained staff to offer even more personalised support. It also implemented the new European privacy law (GDPR) to ensure that the data of our customers and our employees are safeguarded and began using the Voice of the Customer methodology to respond more quickly and personally to customer feedback.

KLM, already one of the most digital airlines in the world, further strengthened the 24/7 availability of customer support across a range of digital platforms in no fewer than 10 languages. This led to a further shift of communication to digital channels, with 50 per cent of boarding passes now issued via messaging apps, 30,000 people getting flight updates on their mobile device each day and KLM increasing revenues via mobile devices by 86 per cent.

Paradoxically enough, KLM achieves more personalisation through cutting-edge technology. KLM uses a self-learning artificial intelligence tool, that suggests answers to common customer queries, which are checked and amended by staff before being sent back. This has allowed social media agents to reduce the average time spend on a question with 12 per cent and engage more with customers when they need it the most. From the outgoing messages 50 per cent is handled with support of artificial intelligence.

Booking

In terms of booking, KLM wants to meet customer demand for ease of use, transparency and personalised offers and services. To this end, it embarked on a massive and strategically crucial project to launch new distribution channels and to merge the IT infrastructure of Air France and KLM. Some 37 per cent of all tickets are now sold online and KLM.com receives some 192 million visitors per year.

Airport processes

Customers demand easy and efficient boarding, short waiting times and a memorable experience at Schiphol Airport, the hub of our international network of destinations. In 2018, KLM celebrated the opening of the first phase of its flagship Crown Lounge (see story KLM Crown Lounge) and began designing a new European lounge.

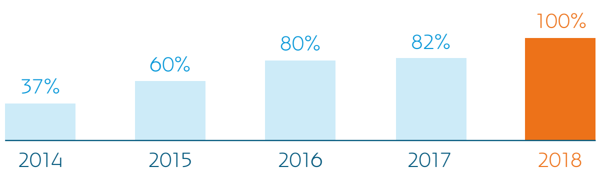
KLM worked hard to ensure passengers have an easier journey whenever possible. That is why this year KLM began testing Green Light Boarding, which shaves crucial minutes off the boarding process through better communication between staff. KLM also explored the use of biometric techniques to give customers a smooth journey.

In addition, KLM is preparing the introduction of pre-clearance at Schiphol Airport. By clearing US customs at Schiphol Airport, passengers will be able to enter the US significantly faster, allowing KLM to expand its US network. Working closely with Schiphol Airport, and the Dutch Ministry of Justice and Security, KLM is looking forward to testing this concept in practice.

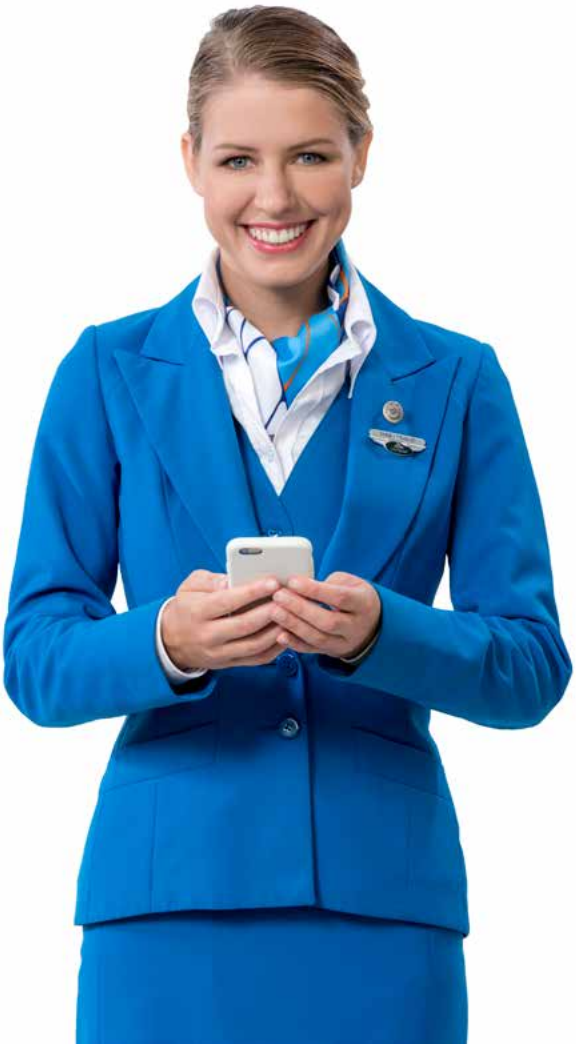
In-flight experience

During their flight, customers expect a personalised and connected cabin, comfort in World Business Class and personal updates during their flight schedule. To meet these expectations, KLM added in 2018 full flat seats to its Airbus A330 World Business Class, which led to a further increase of the NPS. Where the Boeing 787 fleet is already connected, KLM began adding Wi-Fi to the Boeing 777 and Airbus A330, slated for completion by the end of 2020 and 2021 respectively. KLM began preparations for the arrival of four new Boeing 787-10 aircraft in 2019, which will be equipped with Wi-Fi as well as new seats, privacy screens and direct aisle access in World Business Class.

100% WBC full flat reached in 2018



Furthermore, the personalised Anytime for You meal concept, introduced in 2017 on two destinations, which allows World Business Class customers to have meals whenever it suits them, was such a success that it was offered in 2018 on two more destinations. In 2019, flights to and from Shanghai and Cape Town will also offer Anytime for You. KLM Cityhopper, meanwhile, upgraded its business class meal.



In 2018, in close cooperation with staff representatives, KLM completely redesigned the economy class service on intercontinental flights. With the start of the winter schedule in October as a deadline, KLM developed a delicious meal using sustainable ingredients on trays that are lighter and easier to serve. This seemingly simply innovation was preceded by rigorous in-flight testing, the redesign of the catering supply chain at Schiphol Airport and more than 100 outstations, and the design and sourcing of lighter cutlery, bowls and trays.

Baggage

Customers expect an easy hand baggage experience, up to date information about the whereabouts of baggage throughout the journey, an easy reclaim of baggage and flexibility in how baggage is transported door to door. In 2018, KLM communicated its hand baggage policy more clearly and developed operational tools that can predict the amount of hand baggage on a flight. KLM also began a pilot using RFID technology that enables real-time track and trace of baggage. Thanks to Augmented Reality (AR) technology, customers can also check their size of their handbaggage with KLM's AR handbaggage check via KLM on messenger and the KLM app.

Disruption handling

Congested skies, a growing number of flights and extreme weather can cause disruptions to KLM's schedule. In such an event, customers expect timely information, personalised solutions, easy recovery and a pleasant waiting time. To meet these needs, KLM in 2018 introduced a range of measures, including leveraging artificial intelligence driven social media to provide flight status updates and more demanding service level agreements for KLM's customer call centres. The iCare system that automates the handling of recovery cases was further rolled out as well. As a result, KLM can rebook a customer five times faster than in the past.

Digital innovation

In the area of social media and digitisation KLM made great progress. One major achievement was the introduction of a new distribution strategy. This enables KLM in developing new distribution capabilities that allows for more direct engagement with customers, thereby increasing customer intimacy, and quicker response to the changing needs of customers. Key to this is the creation of an ecosystem of airline and non-airline partners, for example through joint ventures in customer data, the ability to offer personalised offers that recognise and entice customers and the ability to sell value-added service.

After years of investing in new joint AIR FRANCE KLM IT architecture and APIs for partners, KLM started rolling out the new booking flow. In line with customer expectations this is faster and leads to better conversations with the 192 million people that visit the KLM.com website each year. The website recently celebrated its 20th anniversary in 2018.

KLM extended its social media lead by adding Line, one of the main social media platforms in Japan and important for boosting flights to KLM destinations. KLM is the first airline outside China offering 'WeChat Pay', which makes it easier for KLM's Chinese customers to book a ticket, which accounts for 13.7 per cent of all online sales in the Chinese markets.

Finally, AIR FRANCE KLM introduced a joint, revamped Flying Blue loyalty program to offer more simplicity and flexibility in the use of the program, a clearer reward scale and more choice in the use of reward miles. The number of miles no longer depends on distance flown but on money spent, and miles can be used towards the purchase of additional flight services in addition to the actual flights. Flying Blue now has 15 million members.

Elvira Buis
Customer Journey Manager

KLM Crown Lounge

On December 12, KLM opened the first phase of the gorgeous and iconic Crown Lounge, a proud testimony of the vigour, vision and enduring spirit with which KLM enters its second century.

The story of the design and construction of the Crown Lounge is in many ways the story of how KLM once more became a successful airline brimming with self-confidence. It is also a celebration of Dutch culture and the deep care KLM feels for its passengers.

Elvira Buis, Customer Journey Manager, says KLM and Schiphol Airport began to prepare for what would become one of the airport's largest construction projects in 2012. "More than 100 KLM employees have been involved, from designers to programmers in India, to create this beautiful new home for our World Business Class passengers."

The lounge is a three-storey house with a marvellous glass front, its shape a gentle nod to the canal houses that Amsterdam is famous for. Wedged into Schiphol's frame, the lounge is an immediate eye catcher and a bold celebration of world-famous Dutch design.

Sustainability is also a key feature of the lounge. It is built using natural materials such as stone, FSC-certified oak wood and leather, which last long and become more beautiful over time. The furniture and carpets are made from recycled materials. Also, the lounge is lit using energy-efficient LED lighting.

Dutch culture pervades every corner of this architectural marvel on purpose. "Many of our customers are in transit and we want to give them a taste of the Netherlands." The lounge, for example, features a two-storey showcase that celebrates Dutch Design and the KLM brand. Next year the City, the food and beverage area, will feature acoustic panels decorated with scenes from famous Dutch museums such as the Rijksmuseum and the Van Gogh Museum.

Ultimately, though, the lounge was made for premium customers and they are in for a treat. Not just because the lounge is kitted out with homely furniture made from natural and sustainable materials, but also because of the innovative, customer-centric service concept that marries personalisation with digitalisation.

The old-fashioned lobby desk where customers wait in line has made way for an open space where customers can request service at a kiosk and sit down, while waiting for a personal lounge assistant to approach them. Within a few months, customers can also use their personal device to request service via the KLM lounge Guide and a location-based mobile service will automatically pinpoint their location.

"We wanted customers to have a faster, more convenient and efficient experience, so we especially recruited and trained agents who will pro-actively engage with the customers." Armed with iPads and KLM's famous personal touch, these agents will truly create a memorable experience for customers.

That experience is enhanced by the many features of the lounge, including a separate TV room and a unique terrace across the full width of the lounge with an exciting view of the aircrafts on the tarmac. "Customers told us they wanted to be able to go outside and we made that happen."

And there is more to come. In the summer of 2019, the second and final phase of the lounge will open when the third-floor à la carte restaurant, serving high quality food and bar will open. "We selected Dutch caterer Vermaat to create a premium dining and bar experience that customers will love." Also the area for customers to refresh and recharge will open by then.

Once the lounge is fully operational, it will offer room to 1,500 customers on 6,800 m2, of memorable space, up from the 680 people and 2,500 m2 of the old lounge. All in all, this marks a fitting start to KLM's second century as a leader in global aviation.

"Roads were made for journeys, not destinations."

–

Confucius

Network & Fleet

In 2018 Schiphol Airport hit the limits of further growth, necessitating KLM to a more agile approach to scheduling and network and a critical look at future opportunities. Meanwhile, KLM continued to invest in its fleet, upgrading existing aircraft and received new aircraft that offer more fuel efficiency and comfort.

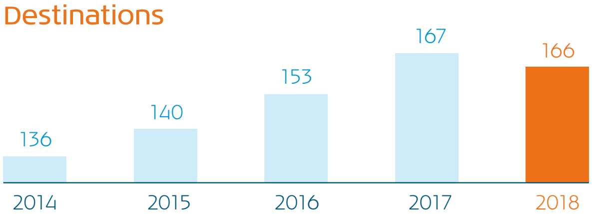
Network

KLM, together with Transavia, increased the number of passengers welcomed on board to 43.0 million in 2018, a significant increase of 1.4 million compared to 41.6 million in 2017. During the last four years KLM, together with Transavia welcomed an impressive 8.4 million more passengers on board.

While there was minor growth in the number of flights in the first four months of 2018, Schiphol Airport in April reached the 500,000 flight movements ceiling as determined by the Alders Agreement in 2008.

Consequently the limits to growth meant that KLM's network remained relatively stable in 2018. Four destinations were added, including Fortaleza in Brazil and Växjö in Sweden. (see story A Truly Sustainable Case), while Nantes and Marseilles in France were temporarily taken over from Air France. Three destinations were closed, namely Almaty and Astana in Kazakhstan and Tehran in Iran, bringing the total number of destinations worldwide to 166. Preparations are under way to close Freetown in Sierra Leone, Monrovia in Liberia and to open Wroclaw in Poland and Las Vegas and Boston in the United States in 2019. KLM is aware that, by not being able to grow the number of destinations and flights and by having to close down some destinations, customers may be adversely affected.

Destinations

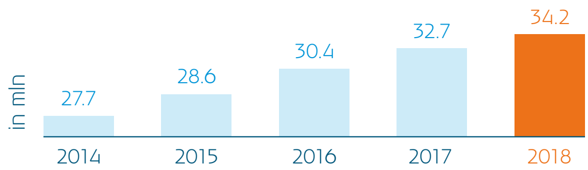


KLM quickly responds to the changing needs of customers. One such solution is to strive for more seasonality, which means flying to destinations only part of the year. The increased robustness and stability of KLM's operations now allow for this. In Europe, for example, KLM flies to a range of destinations in Italy and Spain in July and August by temporarily scaling down flights to business destinations, which are quieter in summer.

Not content with seasonality alone, KLM is trying to push the boundaries of what is possible in terms of scheduling. In 2018, KLM began preparing for a new event-driven flight to Las Vegas in January to the world-renowned CES technology conference. While the event only lasts three days and it takes considerable effort to organise crew and aircraft, KLM believes such event-driven flights can be profitable.

In 2018, KLM managed to make better tactical, operational and strategic use of available slots. This positively impacts KLM's planning and fleet utilisation and in the long-run KLM's ability to grow sustainably.

Rising number of KLM Passengers welcomed on board

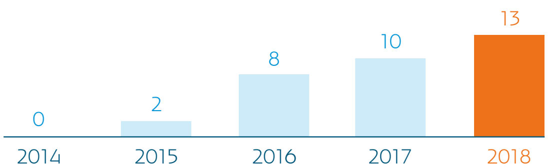


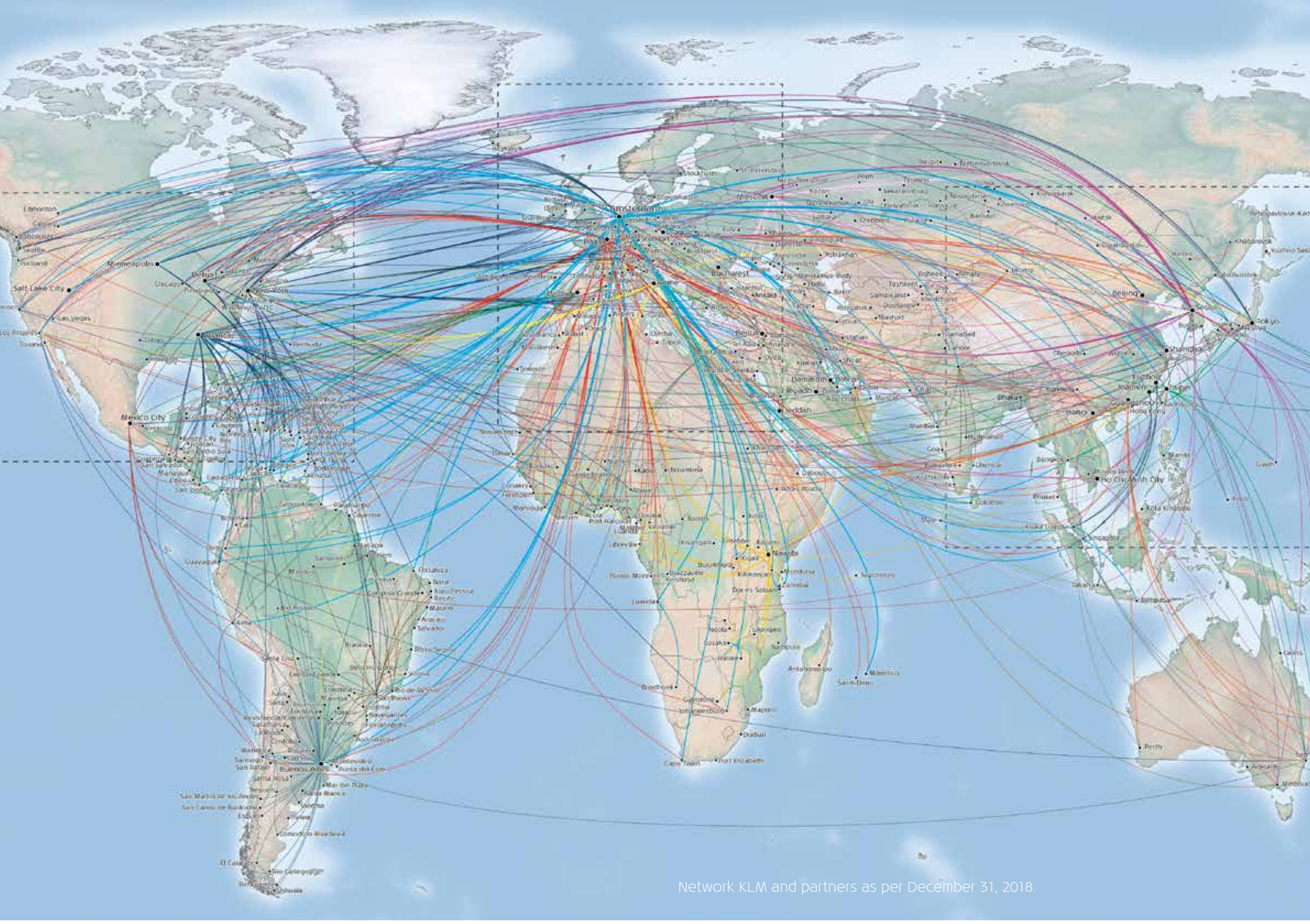
Fleet

During the first three years of the Perform 2020 strategy, from 2015 to 2017, KLM invested heavily in the modernisation of its fleet. In that period, a total of 42 new aircraft, including KLM Cityhopper and Transavia, entered the fleet and the cabins of the in-service aircraft were upgraded. In 2018, KLM continued its investments and added three Boeing 787-9 aircraft, now totalling 13, enabling the further gradual phase-out of Boeing 747 aircraft. The European fleet was strengthened with the arrival of seven Embraer aircraft of which two E190 and five E175 and two Boeing 737-800 aircraft for Transavia. The Cargo fleet remained unchanged at four aircraft. The total consolidated fleet, excluding the training aircraft, grew from 200 to 209 aircraft.

KLM also began to prepare for the arrival of the new 787-10 aircraft, which are at the cutting edge of low noise and CO_2 emissions. Compared to the remaining Boeing 747 aircraft which it will replace between 2019 and 2021, it produces around 50 per cent less noise and emits around 30 per cent less CO_2 per seat thanks to the same reduction in fuel consumption. In addition, the new aircraft has an upgraded World Business Class section with more privacy, comfort and aisle access.

Boeing 787 Dreamliners





Network KLM and partners as per December 31, 2018.

Alliances

KLM has a two-pronged approach to partnerships, which strengthen the network and enable to reach new markets. Firstly, KLM participates in the transatlantic joint venture with Air France, Delta Air Lines and Alitalia. In May 2018, AIR FRANCE KLM signed definitive agreements that pave the way for the expanded transatlantic joint venture with Delta Air Lines and Virgin Atlantic.

The combination of the existing joint ventures between firstly AIR FRANCE KLM, Delta Air Lines and Alitalia and secondly between Delta Air Lines and Virgin Atlantic, within a single joint-venture marks the expansion and reinforcement of one of the most advanced partnership models in the airline industry. The signed agreements are all subject to regulatory approvals which are expected to be obtained in the second quarter of 2019. As a result of the many successful hub-to-hub operations and US West Coast operations, the transatlantic joint venture continues to achieve positive financial results, despite fierce competition and the expansion of new and existing low-cost entrants.

Secondly, KLM participates in joint ventures with Kenya Airways, China Southern Airlines / Xiamen Airlines, China Eastern Airlines and Air Mauritius, supplemented by its enhanced cooperation agreement with Jet Airways.

Kenya Airways has experienced a challenging year, and in its role as shareholder and joint venture partner, KLM fully supports the continuous and successful restructuring efforts that took place in 2018. The joint venture has been fortified through the inclusion of Air France, which started flying from Paris to Nairobi in 2018.

The partnership with China Southern Airlines and its subsidiary Xiamen Airlines performs well. This encompasses a joint venture on six routes and about 40 codeshare destinations beyond KLM's gateways in China, supporting KLM's operations in Greater China.

In addition, KLM and Air France are developing a new joint venture with China Eastern Airlines, operating from its Shanghai base, complementing the partnerships in mainland China on the prime gateways. These partnerships with China Southern Airlines / Xiamen Airlines, China Eastern Airlines and China Airlines from Taiwan, makes Amsterdam the leading gateway from Europe to greater China and from greater China to Europe with eight destinations served non-stop from Amsterdam.

KLM and Air France together with India's Jet Airways launched an enhanced cooperation agreement in November 2017 to develop their networks and commercial activities between Europe and India. The implementation of this agreement in 2018 enables passengers on Jet Airways aircraft from India to transfer to the KLM network in Amsterdam. Having started with just one flight per day three years ago, the enhanced cooperation agreement in 2018 operated five flights per day to three different destinations in India. KLM expects the number of passengers between the Netherlands and India to grow to more than 1 million per year in 2019.

The partnership with GOL showed good results. Some 25 per cent of passengers who travel to Brazil make an onward connection with GOL and are offered 35 code share destinations. This partnership is being enhanced in both the commercial and customer experience fields, in order to be the first choice for customers traveling between Brazil and Europe. In 2018, KLM and Air France together with GOL launched a third hub in Brazil with flights to Fortaleza. KLM plays an important role in the global SkyTeam Alliance and continuously explores new opportunities to strengthen its cooperation with SkyTeam partners, contributing to the expansion of the alliance.

		Average age in years	Owned *	Finance leases**	Operating leases ***	Total
Consolidated fleet as at December 31, 2018						
Boeing 787-9	wide body	2.0	3	1	9	13
Boeing 747-400 PAX	wide body	25.4	5	-	-	5
Boeing 747-400 Combi	wide body	21.7	6	-	-	6
Boeing 777-300ER	wide body	5.9	2	8	4	14
Boeing 777-200ER	wide body	13.9	8	-	7	15
Airbus A330-300	wide body	6.1	-	-	5	5
Airbus A330-200	wide body	11.3	6	-	2	8
Total wide body		10.6	30	9	27	66
Boeing 747-400ER Freighter	wide body	15.4	3	-	-	3
Boeing 747-400BC Freighter	wide body	28.5	1	-	-	1
		18.7	4	-	-	4
Boeing 737-900	narrow body	16.8	1	1	3	5
Boeing 737-800	narrow body	10.9	18	6	36	60
Boeing 737-700	narrow body	10.4	4	6	15	25
Total narrow body		11.1	23	13	54	90
Embraer 190	regional	7.1	3	14	15	32
Embraer 175	regional	1.5	3	14	-	17
Total regional		5.2	6	28	15	49
Training aircraft			5	-	-	5
Total consolidated fleet		9.7	68	50	96	214

* Excluding 1 B747-400 PAX not in operation as per December 31, 2018
** With the implemenation of IFRS 16, these aircraft are regarded as in substance purchases and therefore included as Owned aircraft in the financial statements
*** With the implementaion of IFRS 16, these aircrraft are recorded as Right of use assets in the financial statements

Fleet composition

Boeing 777-300ER/200ER

Number of aircraft	14/15	Maximum passengers	408/320
Cruising speed (km/h)	920/900	Total length (m)	73.86/63.80
Range (km)	12,000/11,800	Wingspan (m)	64.80/60.90
Max. take-off weight (kg)	351,543/297,500	Personal inflight entertainment	

Boeing 747-400 Passenger/Combi

Number of aircraft	5/6	Max. freight (kg)	35,000
Cruising speed (km/h)	920	Maximum passengers	408/268
Range (km)	11,500	Total length (m)	70.67
Max. take-off weight (kg)	390,100/396,900	Wingspan (m)	64.44
		Personal inflight entertainment	

Boeing 747-400ER Freighter

Number of aircraft	3	Max. freight (kg)	112,000
Cruising speed (km/h)	920	Total length (m)	70.67
Range (km)	11,500	Wingspan (m)	64.44
Max. take-off weight (kg)	412,800		

Airbus A330-300/200

Number of aircraft	5/8	Maximum passengers	292/268
Cruising speed (km/h)	880/880	Total length (m)	63.69/58.37
Range (km)	8,200/8,800	Wingspan (m)	60.30/60.30
Max. take-off weight (kg)	233,000/230,000	Personal inflight entertainment	

Boeing 787-9 Dreamliner

Number of aircraft	13	Maximum passengers	294
Cruising speed (km/h)	920	Total length (m)	62.80
Range (km)	11,500	Wingspan (m)	60.10
Max. take-off weight (kg)	252,650	Personal inflight entertainment/Wi-Fi on board	

Boeing 737-900

Number of aircraft	5	Maximum passengers	188
Cruising speed (km/h)	850	Total length (m)	42.12
Range (km)	4,300	Wingspan (m)	35.80
Max. take-off weight (kg)	76,900		

Boeing 737-800/700

Number of aircraft KLM	27/18	Maximum passengers	186/142
Number of aircraft Transavia	33/7	Total length (m)	39.47/33.62
Cruising speed (km/h)	850/850	Wingspan (m)	35.80/35.80
Range (km)	4,200/3,500		
Max. take-off weight (kg)	73,700/65,317		

Embraer 190/175

Number of aircraft	32/17	Maximum passengers	100/88
Cruising speed (km/h)	850/850	Total length (m)	36.25/31.68
Range (km)	3,300/3,180	Wingspan (m)	28.72/28.65
Max. take-off weight (kg)	45,000/36,500		

Paul Terstegge
General Manager North Europe

A truly sustainable case

The opening of Växjö, KLM's new Swedish destination since last summer, was based on a truly sustainable case: the business rationale aligned perfectly with the region's green credentials and KLM's pioneering push to promote the use of biofuel.

KLM was already operating 14 destinations in the Nordic region when, eager for growth, it went looking for another. It ended up being charmed by Växjö, a little-known town with around 90,000 souls in the South of Sweden.

Asked what makes Växjö so attractive, General Manager North Europe Paul Terstegge said, "locals need to travel up to four hours to get to a major airport. Flight time to Amsterdam is only an hour and a half, so we can offer passengers access to more than 160 destinations worldwide with far greater ease."

There was another important connection between KLM and Växjö. "Växjö has been named the greenest city in Europe and has the ambition to become completely carbon neutral by 2030. This aligned with KLM's own ambition to make deep cuts to our CO_2 emissions."

"Växjö has been named the greenest city in Europe and has the ambition to become completely carbon neutral by 2030. This aligned with KLM's own ambition to make deep cuts to our CO_2 emissions."

KLM approached the airport and the municipality and quickly agreed on a CO_2 compensation scheme for flights to and from the airport using KLM's participation in a reforestation scheme in Panama. Quickly, though, all parties started wondering if that was enough.

KLM suggested that all parties commit to a structural use of biofuel on the new route. Biofuel emits 80 per cent less CO_2 compared to regular fossil fuel, but is also three times more expensive, in part because demand is still low. "KLM believes in biofuel in the transition as the short-term solution - until 2030 - towards sustainable aviation. For Växjö we decided to support that transition by purchasing 5 per cent biofuel on all Växjö flights."

In a clear sign that others are beginning to follow KLM's lead, Södra, Sweden's largest forest-owner association with 51,000 members, became the first non-Dutch organisation to join KLM's Corporate BioFuel Program, which means when their employees fly with KLM they will contribute to the use of biofuel.

Perhaps Sweden will become the new epicentre of biofuel. Currently, only one biofuel plant exists in the world, in Los Angeles, and KLM is pushing for more production facilities to be built. "We organised a one-day seminar in Växjö to explore possibilities for local production in the region around Växjö and the response was positive."

An organisation like Södra, which is already involved with biomethanol for cars, could use its forestry byproducts as a source for aviation biofuel as well. And in the meantime the Swedish government has committed a subsidy to conduct an in-depth feasibility study for a biofuel plant in the Småland region around Växjö.

The actual flight, meanwhile, is very much appreciated by the people in Växjö. The value of Växjö, however, extends beyond the extra passengers. "Within KLM we are now looking at how we can copy this way of working with local stakeholders to create a more sustainable flight, to other European destinations."

"We are what
we repeatedly do.
Excellence, then, is not
an act, but a habit."

–

Aristotle

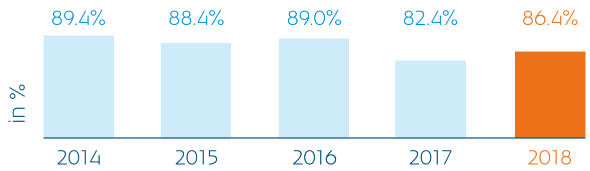
Operational Excellence

KLM managed to return its operations to a stable and robust state in spite of growing passenger numbers by pushing the boundaries of innovation and taking an even more integrated approach. In addition, KLM began laying the groundwork for sustainable growth in the years ahead.

KLM strives for operational excellence, delivering on the customer promise safely, effectively and at the lowest overall cost by integrally reshaping all products, processes, operational control, organisation and information. In 2017, this became hard to realise when Schiphol Airport unexpectedly released substantial growth capacity ahead of schedule. Necessity being the mother of invention, KLM devised creative operational measures that turned out to be so effective that they were made permanent in 2018. Nevertheless, KLM in 2018 needed to make its operation more stable and robust. Stable meaning operations has little variation and robust meaning KLM delivers its schedule as promised and quickly returns to it in case of disturbances.

KLM succeeded in 2018 on both counts, as witnessed on several days of extreme disturbances. One example is a power outage at Schiphol Airport that caused massive cancellation of flights, but by the end of the day KLM's operation was back to normal and no passengers were left stranded.

Strong on time performance (A15)



Innovation

Innovation played a key role in this. First of all, KLM introduced a new tool for rebooking passengers and communicating with them in the event of a disturbance. This incorporates a digital tool, digital kiosks at Schiphol Airport and a pool of 250 office staff armed with iPads who can be called to assist passengers in case of a disturbance. Parallel to this, KLM adopted a second approach to innovation that involves cutting-edge technology.

KLM and Boston Consulting Group have launched a unique partnership mid-2018 and developed a state of the art solution based on artificial intelligence, machine learning and advanced optimisation. The partnership offers tailor-made, integral and optimised decision making across departments and horizons, leveraging state of the art analytics keeping people at the core of decision making and execution. The jointly developed technology drives growth, accelerates innovation and streamlines operations to meet the growing demand of today's travellers. These so-called optimiser tools have been implemented already at KLM and have proven value in KLM operations.

The first tool to be used in a live operational environment is Vanguard, which predicts network disturbances with stunning accuracy. Co-created with KLM staff, Vanguard outperformed KLM's own people when tested in a real-live environment. Rather than having to react to the sudden cancellation of dozens of flights due to bad weather, Vanguard allows KLM to pro-actively reschedule flights and rebook customers. The tool went live in October, leading to significantly fewer cancellations. This reduces pressure on employees, increases the NPS and reduces non-performance costs.

In addition to Vanguard, KLM began working on Pathfinder, a tool that intelligently allocates 'tails' - basically aircraft licence plates - one day in advance. Pathfinder facilitates KLM to plan with greater accuracy which aircraft is going to fly where, which in turn optimises fleet utilisation. In 2019, KLM will work on three additional optimisers related to operational disturbances on the actual day of flight and optimising cabin crew and cockpit scheduling. These will help KLM achieve sustainable growth over the coming years.

Integrated approach

An integrated approach to optimising operations was another key theme in 2018. For example, KLM Ground Services replaced a number of KPIs used to track its operational performance to exactly one: the time earmarked for the turnaround of an aircraft. Every single Ground Services employee is now responsible for this one target, which encourages focus and cooperation. This has a positive effect on KLM's NPS. To achieve this result, KLM introduced continuous improvement and in line with the KLM Compass, staff has been empowered to identify and solve problems by working together across teams.

While KLM did well in 2018, it wants to do even better in 2019. To this end, KLM wants to ensure a stable network performance while preparing the operation for sustainable growth. From the perspective of operations, KLM in 2019 will focus on reducing turnaround times and creating a stable but flexible operation against the lowest integral costs. Furthermore, KLM will continue to avail of process optimisation and technologies such as optimisers.

Safety

It is KLM's ambition to be a leader in aviation safety. As part of the introduction of the High Performance Organisation, KLM created an integrated safety organisation that aligns operational, occupational, environmental safety and operational security. This integrated approach, using the best practises of the four domains, increases compliance and improves safety, which is needed to maintain the high level of safety while growing in number of flights and realising KLM's ambitious operational targets. External agencies and consultancies focussing on and rating aviation safety have, as in previous years, again indicated KLM as one of the leading companies.

In 2018, KLM introduced a document control management system that increases and secures compliance with laws and regulations. It also became one of the first airlines to have its ISO 14001 certificate renewed against more demanding environmental protection standards. Furthermore, KLM successfully completed the IATA Operational Safety Audit, which 60 other airlines use as the basis of their codeshare with KLM.

KLM took major steps towards increasing occupational safety by formulating a long-term occupational safety policy, which will be implemented from 2019 onwards. And in close cooperation with Schiphol Airport, Air Traffic Control the Netherlands and other airport partners, KLM founded the Joint Sector Integral Safety Management System. An international first initiative, which introduces a structured approach to proactively identifying and mitigating risks arising from interaction between the partners in the aviation sector at Schiphol Airport.

In addition to strengthening its safety processes, KLM continuously boosts its safety culture. This year staff followed digital and team-based training in Just Culture, which aims for an environment in which mistakes can be safely reported and learnt from. In 2018, KLM received 13,000 reports with early safety indicators, an increase from the previous year. This means KLM's reporting culture is improving and that KLM is able to be more pro-active and predictive in mitigating safety risks. KLM also began testing a safety reporting app that will further simplify and invigorate safety reporting, which will be rolled out to all 35,500 staff in 2019.

KLM Cityhopper

KLM Cityhopper, a fully owned subsidiary of KLM with its own air operator certificate, operates 52 per cent of KLM's European network. The year 2018 brought a range of improvements, including the new green destination Växjö, a new business class meal and faster training process for new cabin crew by using Virtual Reality tools. Furthermore, KLM Cityhopper successfully completed the IATA Operational Safety Audit.

The arrival of seven new Embraers in 2018 marks the end of the transition from a fleet of Fokkers to more fuel efficient and cost effective Embraers. The fleet now comprises 32 Embraer 190 and 17 Embraer 175.

KLM Cityhopper also reorganised its hangar at Schiphol Airport to allow for the introduction of the Pit Stop concept, which means faster turnaround times on maintenance. The hangar was also renovated in line with the Winning Way of Working, which provides employees with a sustainable and empowering office environment.

Cargo activity

KLM Cargo aims to be the customers' preferred partner by delivering on promises in a transparent and easy to connect way at a competitive price. To realise this ambition, KLM Cargo has been focusing on optimising belly capacity, growth in e-pharmaceuticals and e-commerce and digitisation. This strategy is paying off and leading to a further improvement of the KLM Cargo contribution to the Network business results, including improved performance of the freighters.

As part of KLM's fleet renewal program, the 747 combi aircraft are gradually being phased out. The number of full freighters remained at four, but the available belly capacity on wide body aircraft grew further as planned. As a result, total cargo capacity decreased slightly by 1.9 per cent. In spite of this, KLM was able to capitalise on positive market conditions, with an average freight ton kilometers growth of 0.1 per cent.

In 2018, KLM Cargo continued its digitisation drive to increase customer satisfaction, operational quality, compliance and efficiency. New functionalities were added to MyCargo, an electronic platform that allows customers to manage their shipments online, which helped to offer personalised service to small and medium size customers in a brand new way. The use of MyCargo more than doubled in 2018.

KLM Cargo also introduced automated checks on completeness and compliance of booking information, which sped up the acceptance process at Schiphol Airport. Currently, 90 per cent of shipments are accepted using the new digital application. The Track & Trace application that sends information via push messaging to email or phone was upgraded. By automating such tasks, front-line staff has more time to focus on the customers and complex shipments.

KLM Cargo also contributed to KLM's overall sustainability results. In cooperation with an external company, lashing straps used to secure cargo in the hold are recycled into cushions or shopping bags. With regard to sustainable employability, in the cargo building at Schiphol Airport a Golden Bay was especially set up for older workers. The same quality and productivity targets apply, but working conditions and equipment such as forklift truck seats and workstations are specifically adapted to the target group.

Engineering & Maintenance

Engineering & Maintenance (E&M) provides KLM and other airlines with competitive aircraft, engine and component maintenance and engineering support. E&M contributed to KLM's financial result through revenues from a growing number of third-party contracts by focusing on the newest products. In 2018, E&M reduced the A-Check turnaround time, prepared for Component Services 2.0, including Business Process Redesign, and improved aircraft availability by enabling predictive maintenance and big data. E&M is also finalising the cabin modification upgrade program for the Airbus A330. Moreover, E&M was granted LEAPx (Boeing 737Max) maintenance permission by the US Federal Aviation Administration (FAA) and performed the first LEAPx Engine maintenance.

Innovation played an important role at E&M. E&M started using RFID, developed better training modules using Microsoft's HoloLens and augmented/virtual reality, made further use of robots, and created innovative ways to repair parts with the use of 3D printing (see story Pioneers of Electric Equipment). In addition, E&M continued implementing the High Performance Organisation and increased employee ownership by further implementing teaming and a culture and behaviour program.

Transavia

In 2018, KLM's low-cost subsidiary improved its operating result, achieving EUR 75 million compared to EUR 72 million in 2017. Transavia commenced with the implementation of a sharpened strategy, which has already started to pay off. The load factor was 91.8 per cent compared to 90.5 per cent in 2017.

Transavia remains the number one low-cost carrier in the Netherlands in terms of capacity and is the second most preferred airline after KLM. Transavia pursued four strategic themes. First, laying the basis for an improved customer experience by becoming a more customer centric organisation. Second, to further develop the agility of the organisation so as to increase both the employee experience as well as performance. Third, to improve operational performance with integral planning. And finally, the roll-out of the sharpened positioning and brand values, focusing on external as well as internal branding. Part of the external roll-out of this brand strategy was broadcasted on Dutch television.

In line with the fleet strategy, Transavia started with the early phase-out of the Boeing 737-700 aircraft, selling one of eight. 2018 was also marked by successfully renewing the collective labour agreements for the period up to April 2020, for cockpit, cabin and ground staff. Overall, Transavia laid the foundation for continued sustainable development in 2019 and beyond.

Nico Parlevliet
Team member Large Equipment

Pioneers of electric equipment

To make its operations more sustainable, KLM has been working closely with Schiphol Airport and equipment manufacturers to replace diesel-powered ground equipment with electric ones. KLM is at the forefront of this electric revolution and in 2018 introduced the first electric high loader.

The ground support equipment around the blue KLM aircraft is vital to ensuring safe operations and fast turnaround. Tow trucks, power generators, air conditioners and belt loaders are some of the motorised equipment needed to make the magic of flight possible.

That magic is not necessarily clean, though. Traditionally powered by diesel, such equipment generates plenty of noise and emits CO_2 and soots particles that ground staff inhale. So, to create a healthier work environment and contribute to a safer, more sustainable operation, KLM has begun to electrify its equipment.

That is easier said than done, according to Team member Large Equipment Nico Parlevliet. The first issue is the limited supply of good electric alternatives. "Either an electric version doesn't exist or the one that does has a bulky battery with low capacity, which severely limits our ability to service many aircraft during the day."

KLM has been one of the first airlines to embrace electrification and this pioneering position meant it had to pro-actively engage with manufacturers to specify needs and get them to develop new equipment. This can take a few years, however, and lots of diligent work.

"KLM has been one of the first airlines to embrace electrification and this pioneering position meant it had to pro-actively engage with manufacturers to specify needs and get them to develop new equipment."

So back in 2016, KLM contacted several manufacturers of high loaders, a heavy-duty elevator that lifts cargo up to the belly of an aircraft. "We gave them our specs, they developed prototypes and we tested them on the ground to measure how it performed."

Ultimately, KLM opted for a new highly sophisticated loader which can work at a broader range of heights and angles to accommodate the concave surface of the Schiphol Airport platforms. Battery-wise these loaders have a smart feature: they generate electricity when the platform descends.

Another challenge with electric equipment is that, while diesels can be quickly refuelled on the spot, electric equipment takes a long time to charge using a charger in a fixed location at the airport. "We worked closely with Schiphol Airport to ensure that chargers were built and the electric grid was adjusted accordingly."

Electrification is not cheap, but it is worthwhile. "Staff work in a healthier place, the impact on the environment is lowered and electrified machines are quiet, which increases safety."

The loaders are just the tip of the iceberg, however, as KLM has around 50 types of motorised equipment. In principle the aim is to electrify all of them. "A few years ago people were sceptic of electric and I had to work hard to make a business case. Now I need to have very, very good reasons to opt for diesel instead of electric when replacing old equipment."

In 2019, electrification will continue at a zippy pace. The majority of the new loaders will be delivered and the baggage towers, now with a hybrid engine, will be made fully electric as well.

Traffic and capacity

Passenger	Passenger kilometers			Seat kilometers			Load factor	
In millions	2018	2017	% Change	2018	2017	% Change	2018 %	2017 %
Route areas								
Europe & North Africa	19,433	18,796	3.4	22,508	21,904	2.8	86.3	85.8
North America	23,045	21,388	7.7	25,795	24,012	7.4	89.3	89.1
Central and South America	15,939	14,302	11.4	17,645	15,963	10.5	90.3	89.6
Asia	27,668	27,445	0.8	30,318	30,356	(0.1)	91.3	90.4
Africa	11,698	11,239	4.1	13,243	12,859	3.0	88.3	87.4
Middle East	3,205	3,853	(16.8)	3,896	4,716	(17.4)	82.3	81.7
Caribbean and Indian Ocean	6,688	6,464	3.5	7,410	7,256	2.1	90.3	89.1
Total	107,676	103,487	4.0	120,815	117,066	3.2	89.1	88.4

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2018	2017	% Change	2018	2017	% Change	2018 %	2017 %
Route areas								
Europe & North Africa	13	17	(23.5)	377	364	3.6	3.4	4.7
North America	1,019	1,065	(4.3)	1,640	1,741	(5.8)	62.1	61.2
Central and South America	1,316	1,199	9.8	1,851	1,776	4.2	71.1	67.5
Asia	1,504	1,580	(4.8)	1,745	1,841	(5.2)	86.2	85.8
Africa	767	755	1.6	1,125	1,127	(0.2)	68.2	67.0
Middle East	125	142	(12.0)	201	244	(17.6)	62.2	58.2
Caribbean and Indian Ocean	105	85	23.5	300	287	4.5	35.0	29.6
Total	4,849	4,843	0.1	7,239	7,380	(1.9)	67.0	65.6

Transavia	Passenger kilometers			Seat kilometers			Load factor	
In millions	2018	2017	% Change	2018	2017	% Change	2018 %	2017 %
Route areas								
Europe & North Africa	16,803	16,386	2.5	18,303	18,107	1.1	91.8	90.5
Total	16,803	16,386	2.5	18,303	18,107	1.1	91.8	90.5

Overview of significant KLM participating interests

As at December 31, 2018

Subsidiaries	KLM interest in %
Transavia Airlines C.V.	100
Martinair Holland N.V.	100
KLM Cityhopper B.V.	100
KLM Cityhopper UK Ltd.	100
KLM UK Engineering Ltd.	100
European Pneumatic Component Overhaul & Repair B.V.	100
KLM Catering Services Schiphol B.V.	100
KLM Flight Academy B.V.	100
KLM Health Services B.V.	100
KLM Equipment Services B.V.	100
Cygnific B.V.	100
Jointly controlled entity	
Schiphol Logistics Park C.V.	53 (45% voting right)
Associate	
Transavia France S.A.S.	4
Financial asset	
Kenya Airways Ltd.	8

"Every person is
a new door to
a different world."

–

Unknown

People & Organisation

KLM commenced with a new phase in the transformation of its culture and workforce, with a stronger emphasis on engaging and developing people so that they can be at their best. Highlights of the year include work on strategic workforce planning, the Winning Way of Working, a more inclusive and diverse workforce and first steps in the decrease in absenteeism.

When KLM launched its new strategy in 2015, it also set about transforming the organisation. The roll out of the High Performance Organisation, shrank management layers and brought more integrated and agile decision-making, while the new KLM Compass connected people's values and behaviours with KLM's purpose. All collective labour agreements were modernised and digital tools made it easier to cooperate. As a result, KLM became more productive, effective and cost-efficient.

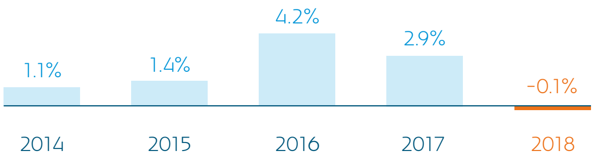
In 2018, KLM further developed this foundation. New collective labour agreements for ground personnel, cabin crew and flight crew create stability until June 2019. In addition, the high level of absenteeism, especially in the physically demanding business units, has been tackled. Managers were trained to conduct interviews with employees. In line with the KLM Compass, employees are challenged to become owners of their return to work and indicate what they need to be able to return to work.

As a result, absenteeism decreased from 6.93 to 6.74 per cent in 2018. In addition to the focus on reducing absenteeism, prevention of absenteeism will be in scope in 2019. For example, more attention will be paid to the employee and the sustainable 'fit' with regard to his or her work. Moreover, interventions such as online physiotherapy and coaching tools are available to enable employees to anticipate early, before health issues become structural.

Leadership and team development

KLM specified leadership behaviours based on the KLM Compass and began to align these with existing leadership development programs, as well as developed programs for priority groups such as shift leaders, first-time managers and female talent. Furthermore, in 2018 KLM continued the team development program, training 580 teams with more than 8,000 participants until the end of the year.

Productivity



KLM also initiated strategic workforce planning, which will enable it to attract and retain the right people at a time when talent in certain disciplines is hard to come by. In 2017, KLM mapped its entire workforce, looking at the projected influx and outflow of staff for the next five years, as well as the gap between available and required capabilities. Based on this outcome, a more concrete plan to train people and attract talent has been developed around four areas, namely mobility, productivity, digital and Engineering & Maintenance resourcing. A number of divisions began implementing this plan in 2018.

Furthermore, KLM began to introduce the Winning Way of Working, which translates KLM's Compass into the physical environment by integrating real estate, culture and digitisation. KLM has made a multi-year plan for the renovation of its 80 buildings in order to make them more safe, healthy, productive and inspiring. A design guide was made that incorporates sustainable practices such as recycling, reducing energy usage and indoor climate.

Employee Promotor Score

KLM started using the Employee Promotor Score (EPS), the internal cousin of the Net Promotor Score that measures customer satisfaction. On an organisational level, a selection of employees is asked whether they would recommend KLM as an employer. The results are shown on TV screens across all of KLM's buildings and in 2018 the average EPS score was 61.

In addition, around 35 per cent of teams began using EPS to determine whether team members would recommend their team to someone else. By tagging on a set of short questions related to the KLM Compass, EPS helps to engage leaders and team members in a dialogue around issues that need addressing. EPS team discussions are not compulsory, but KLM would like 60 per cent of teams to use the tool by the end of 2019, because a higher EPS means more engaged staff, which in turn translates to a higher NPS and lower rates of absenteeism.

Sustainable employability

KLM's renewed organisation-wide focus on sustainability also inspired to come up with ways to make KLM a more welcoming and inspiring employer for every single employee. As of 2018, all ground staff have been given the opportunity to spend 1.93 per cent of their annual salary on their professional development. This is in addition to the one-off EUR 7 million Development and Training Fund for ground staff introduced in 2017. In 2018 this fund has been fully utilised by almost 8,000 staff for some 14,950 training programs, 3,750 online tests and (financial) online advice.

KLM is embracing the power of Diversity and Inclusion (D&I), because a diverse workforce performs better than a more homogenous one and true inclusion enables KLM to have better customer understanding. KLM's Diversity Circle, consisting of among others KLM Executive Committee members, sets the D&I strategy and leads the way towards the realisation of the various D&I targets and objectives. The strategic pillars vary from increasing awareness of the importance to have D&I to embed in the various management teams to hiring and retaining talents. For this reason, KLM also supported employee networks for specific demographic groups, for example the Women on Board network (see story Boosting Diversity and Inclusion across KLM). In addition, KLM continued its work on Inclusive Aviation, a program initiated in 2015 with Schiphol Airport and some 35 companies in the wider Schiphol Airport community. The program aims to create more sustainable jobs for people with work limitations, such as an illness or handicap.

Tina Bergsma
Vice President HR & Senior Business partner Commercial, Corporate and IT

Boosting diversity and inclusion across KLM

To support the personal development of talented women across all parts of the organisation and to improve the overall performance of KLM, the Women on Board network organised in 2018 various inspiring events and strongly advocated the establishment of an integrated approach to boost the number of women in leadership positions.

KLM has traditionally been a more masculine organisation, but the changes and challenges in the outside world have forced it to adapt. The KLM Compass, introduced a few years ago, links the company's purpose to a set of values and shows the balanced need of both masculine and femine labelled behaviour.

In terms of diversity, though, KLM has some way to go. A homogenous culture is self-sustaining and shuts out alternative qualities and perspectives, a vicious circle that requires conscious action to be broken.

The Women on Board network, one of the democratic networks which KLM actively supports, aims to do just that. "Diversity, inextricably linked with that inclusiveness, is key to the future of KLM. To really get the KLM Compass in our DNA, we need to increase support and opportunities for women. As focusing on one diverse group will inevitably support other diverse groups and that in turn will lead the way to true inclusiveness" says Tina Bergsma, Vice President HR & Senior Business partner Commercial, Corporate and IT.

Women on Board was set up with three goals in mind: to encourage concrete steps towards gender diversity, connect and inspire women from different divisions and encourage personal development. The network organises events, featuring speakers and workshops, that align with the KLM Compass. "We want to support and empower women to become authentic leaders who can unlock their potential."

"More diverse organisations are known to attract more talent, be more customer driven, have higher employee satisfaction, make better decisions and are more innovative and creative."

Women on Board clearly meets a need. In 2015 there were only 50 members, but in 2018 that number shot up to 1,000 women from all divisions and levels of KLM.

While diversity is beneficial to individual women and men, the broader story here is that diversity has a positive impact on the performance of the organisation. "More diverse organisations are known to attract more talent, be more customer driven, have higher employee satisfaction, make better decisions and are more innovative and creative."

"The Board of Managing Directors is fully supporting us and has given us a mandate to find ways to promote gender diversity."

As part of KLM's growing support for diversity and inclusiveness, Women on Board received a powerful boost in 2018. "The Board of Managing Directors is fully supporting us and has given us a mandate to find ways to promote gender diversity. We researched best practices in the corporate world and came up with an integral plan connected to KLM's growth ambitions."

From 2019 onwards, there will be a specific 2025 target in the Flight Plan for the number of women in the top of KLM. "This means we need to align action across a range of issues, from talent management and leadership development to coaching, sponsorship and mentoring. This will create a steady pipeline of talented women in managerial and executive positions."

"I like the dreams of the future better than the history of the past."

–

Thomas Jefferson

Innovation

KLM continued its advances in step change and radical change to accelerate the transformation of the company and enable it to achieve sustainable growth in the years to come. Innovation highlights include experiments in cutting-edge technologies such as artificial intelligence and blockchain.

KLM accelerated the pace of innovation with investments and experiments in IT architecture and digital apps. This empowers staff to give customers memorable experiences and to engage more efficiently with one another across divisions and teams. In 2018, KLM aimed to create more cohesion among these parts and add new experiments based on artificial intelligence, virtual reality, augmented reality, blockchain and the internet of things.

KLM distinguishes between two types of innovation. Step change implies an incremental improvement of existing processes, such as those commonly found in KLM's operation. An example of this is the introduction of the X-Way of Working to develop innovative solutions to operational constraints in the live environment of Schiphol Airport.

Radical innovation, meanwhile, is designed to generate new opportunities, ecosystems and business models linked to KLM's future growth. These are essential to keep KLM relevant in an aviation industry being transformed by fierce competition, demands for customer-centricity and other powerful forces.

In both types of innovation, KLM conducted or began to prepare for a number of experiments in 2018. Many of these were initiated and led by KLM's Digital Studio, which brings together hundreds of staff in a bid to take KLM where it has never gone before.

Robotic Process Automation and blockchain

Robotic Process Automation (RPA) has been taken very close to production in 2018. This technology aims to relieve KLM employees from repetitive tasks, like copy-pasting large amounts of data between different computer systems or printing out luggage labels. Several automated systems have been developed in order to realise this. This technology has already proven to be a real time saver and upgrades the work experience. The aim is to further roll out RPA on a larger scale in 2019.

KLM also conducted experiments based on the blockchain technology, a digitally encrypted ledger that allows for the secure and decentralised distribution of information. The first results are interesting. Within Engineering & Maintenance, this technology was used to create a global single shared data view on the movement of components through its lifecycle, to lower costs and administrative workload. KLM Catering Services used blockchain to create the backbone for a system that traces food from farm to fork. It was also used to create a distributed platform for issuing and exchanging digital tokens between partners during flight disruptions and to automate inter-company transactions to improve financial integrity.

In addition, KLM used blockchain to safely treat customer biometric data in the Known Traveller Digital Identity program of the Dutch and Canadian governments in conjunction with the World Economic Forum.

The program aims to solve airport security inefficiency by developing an improved security flow, including a pre-clearance solution, biometric scanners, a digital passport stored on a mobile phone and the secure exchange of sensitive data. In 2019, KLM will continue with these experiments and scale them, possibly with external partners.

Customers

Customers benefited in more direct ways from KLM's innovation efforts. In 2018 passengers were empowered by augmented reality to use their mobile device to determine whether their hand baggage has appropriate dimensions, while on the lighter side KLM launched Tune into your Travel in Facebook Messenger, a first-of-its-kind augmented reality travel channel that projects animated characters and landscapes that users can interact with. KLM launched three new services in English on the Google Home, all of which have been developed using artificial intelligence and KLM technology. Customers can now use voice commands to search for and book a KLM flight. They can find a suitable travel destination based on the flight duration, budget, travel date and preferred travel theme. Furthermore, KLM provides advice about how to pack your bag based on your destination, trip duration and the local weather forecast via the Google Home.

Operational support

Innovation also found its way to many other parts of the organisation. Managers and staff are empowered to discuss team dynamics with the new WhatsUp tool for using the Employee Promotor Score. Career Market Place is introduced to create visibility and transparencies in vacancies within KLM and the MyRoster app is used by 11,000 staff to quickly check their roster on their phone. A new safety app is built for staff to easily report safety concerns.

Within the Cargo business, in order to simplify the daily life of the customers and staff, KLM Cargo implemented a digital acceptance tool to get e-acceptance of the ground. Virtual reality helps KLM Cityhopper to speed up crew training and finally MySearch is developed for the HR department.

Aircraft, meanwhile, have so many parts that maintenance crew need many manuals. Last year these became available on iPad and KLM began to experiment with the HoloLens, a wearable device that projects holograms into a user's field of vision. Short battery life, however, meant the device was not very practical yet. Instead KLM set out to get an iPad to recognise aircraft parts using the camera, then take it directly to the right page in the manual and show a 3D model of how the part works.

Arlette van der Veer
Innovation Manager

3D printing within Engineering and Maintenance

As part of KLM's desire to push the boundaries of what is possible, KLM has been experimenting with 3D printing in the Engineering and Maintenance department. The first results point to faster, cheaper and more ergonomic repairs.

Do yourself a favour and watch a time lapse video of 3D printing: as if guided by an invisible hand, layer by layer, solid objects magically appear out of thin air. KLM was intrigued by the possibilities of 3D printing and explore how it could be used in the maintenance of aircraft.

"KLM was intrigued by the possibilities of 3D printing and explore how it could be used in the maintenance of aircraft."

Innovation Manager Arlette van der Veer says KLM used 3D printing to make practical tools that support the maintenance and repair process, something that is permitted by aviation regulation.

"One such tool is a rim masking plug for Boeing 737 wheels. In the past, technicians would use masking tape when painting the wheels, but this would take hours and a lot. By sticking a plug in the hole, KLM saves 55 minutes per rim and 260 man hours."

In the past, it would take weeks and a lot of money to have such a plug made by a manufacturing firm. "Now, we take a day to make the plug ourselves. The rim hole can be 3D scanned, a drawing is made using intuitive software that requires little effort to master and then the plug gets printed. Any changes can be made on the fly."

Another example of a tool is when a bird strike damages the fairing or metal cover of an aircraft wing. In the past KLM would first make a one-time mould, which is time-consuming and costly. Now, a 3D scan of the fairing becomes the basis for a quickly printed 3D model of a mould.

KLM is experimenting with a broad range of materials, such as plastic made from biodegradable polyactic acid and PET, the material commonly found in plastic bottles. The printer can even handle polyamide-glass fibre composites, which are super flexible and strong.

KLM is also interested in exploring ways to use recycled plastic from its own waste stream. "We have already contacted companies who can extrude plastic filament from our bottles and have printed some tools this way. If we scale this up, we could decrease our environmental footprint and save costs."

"They learn that if you can 'think' it, you can 3D draw it and print it."

The experiment shows the incredible potential of 3D printing. It is quicker, cheaper and creates more ergonomic tools. It also extends the capabilities of maintenance staff, which makes them a more valuable partner. "It also impacts the mind-set of technicians. They learn that if you can 'think' it, you can 3D draw it and print it."

KLM has a total of eight different printed tools in production and its ambition is to go up to around 100 and experiment with many different materials and technologies. "Our end game is to build 3D design engineering capability within Engineering & Maintenance. This helps us to get ready for the day after tomorrow where we start every job with a 3D model. We believe this is the digital way of the future."

Risk management and control

The KLM In Control Statement is the KLM approach to voluntarily comply with the Dutch Corporate Governance Code 2016. The purpose of the Code is to facilitate – with or in relation to other laws and regulations – a sound and transparent system of checks and balances and, to that end, to regulate relations between the Board of Managing Directors, the Supervisory Board and the Shareholders (including the General Meeting of Shareholders).

Compliance with the Code contributes to confidence in good and responsible management of companies and their contribution into society. Building blocks of the In Control Statement are the next two paragraphs on Risks and Risk Management and on Control and Monitoring. The In Control Statement can be found in the Board and Governance paragraph.

Risks and risk management

KLM is exposed to general risks associated with the air transport industry and with airline operations, and consequently has a system to identify, analyse, monitor, manage and control risks. A distinction is made between strategic, operational, compliance and financial risks. Strategic risks are related to KLM's strategic choices, operational risks are related to operational activities, compliance risks are related to applicable laws and regulations, and financial risks are related to financial markets and market developments. The financial risks are also elaborated upon in the Financial Risk Management section in the notes included in the consolidated financial statements.

Overall risks of AIR FRANCE KLM are explained in the relevant parts of the AIR FRANCE KLM financial disclosure reporting. These risks can also have an impact on KLM's brand, reputation, profitability, liquidity and access to capital markets.

Risk profile

The airline industry is a cyclical, capital and labour intensive business with high levels of fixed cost and relatively small margins. In addition, the airline industry has to deal with strongly fluctuating oil prices and currencies, as well as with increasing numbers of laws and regulations, for instance in the areas of compliance, environment, flight safety, security and passenger rights. Especially increased attention for environment can have impact on KLM. KLM is fully aware of this risk profile and has a risk management process and internal control monitoring in place to manage this profile.

Risk appetite

The risk appetite of KLM differs per type of risks:

» Strategic risk: with a mission 'to become Europe's most customer-centric, innovative and efficient network carrier' taking and accepting strategic risks is inevitable;
» Operational risk: KLM operations are diverse. KLM accepts zero risks in the field of flight safety and operational safety, other operational risks are considered in view of the (daily) business;
» Compliance risk: KLM is averse to risks that could jeopardise compliance with applicable external laws, and internal rules and regulations; and
» Financial risk: KLM is averse to risks that could endanger the integrity of finance and reporting.

Risk management process

KLM has implemented a system to identify, analyse, monitor, manage and control risks, which is in line with international risk management standards (COSO Enterprise Risk Management) and complies with the risk management part of the 8th EU Company Law Directive. Strategic and operational risk mapping processes have been established by all the relevant entities, facilitated by Internal Control and Internal Audit, where also consolidation of KLM-wide risks takes place.

Every three months, KLM divisions, departments and Group entities update their decentralised operational risks sheet that contains an outline of risks, the probability these risks will occur, the potential financial impact and mitigating actions taken or proposed. Risks are discussed within the management teams owning the risks. Both specific decentralised risks to each entity and transversal risks affecting the whole Group are the subject of reporting.

For each reported risk, members of the Board of Managing Directors and the KLM Executive Team are responsible for reviewing measures implemented to control and mitigate the risks. On a quarterly basis, the most significant operational, compliance and financial risks are presented to the Board of Managing Directors, the KLM Executive Team and, twice a year, to the KLM Audit Committee of the Supervisory Board.

Strategic risks - risks relating to the air transport activity

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive with – as a general trend throughout the economic cycle - increasing volumes and reduced airfares. On its short and medium haul flights to and from the Netherlands, KLM competes with alternative means of transportation, such as the high-speed rail network in Europe. In addition, KLM faces competition from low-cost airlines for European point-to-point traffic. To increase revenues per seat, some of the low-cost airlines adopt a more hybrid model by also focusing more on the business travel market. KLM expects downward pressure on airfares in Europe to continue.

On its long-haul flights KLM competes, within the boundaries of governmental air transport agreements, with a multitude of airlines. Point-to-point operations of long-haul low cost airlines are growing rapidly, especially between Europe and the US. Furthermore, US carriers are bigger and stronger than ever and non-Western global carriers are rapidly expanding. Non-EU airlines operate under very different regulatory and state aid regimes that allow them to compete successfully in the global market and with lower cost bases. These carriers are actively building positions in the European airline market.

The accelerating capacity growth of Middle East and Turkish carriers in combination with the capacity growth of Asian carriers will further increase the imbalance between supply and demand to and from the Far East, resulting in the expectation of lower airfares in general.

Mitigating action(s): To respond to the competition from other airlines or railway networks, KLM constantly adapts its network strategy, capacity and commercial offers. Furthermore, KLM seeks opportunities in mutually reinforcing airline partnerships (codeshares, joint ventures and alliances) and other partnerships. KLM regularly discusses with the Dutch and European authorities the need to establish and maintain a fair competitive landscape.

Risks linked to the Air Cargo market

The Air Cargo market faces structural excess capacity on a relevant number of routes. This is the result of moderate demand growth, given moderate global trade developments and alternative transportation modes (trains between China and Europe, improved sea transport scenarios) in a market with ongoing capacity supply, mostly driven by passenger activity growth. The new generation of passenger aircraft also have larger cargo capacities than the types they replace. As a result, cargo unit revenues are under pressure.

Mitigating action(s): KLM addresses the risk by structurally lowering unit cost and has reduced the number of full freighters.

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on KLM's activities and financial results. Periods of economic crisis affect demand for leisure and business travel. Furthermore, during such periods, KLM may have to take delivery of new aircraft or be unable to sell aircraft not in use under acceptable financial conditions.

Mitigating action(s): KLM monitors demand closely to be able to adjust capacity while reinforcing the flexibility of the fleet via operational leases.

Risks linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter months, leading to a higher cost base in the winter.

Mitigating action(s): To reduce seasonality cost KLM uses flexible networking planning, temporary personnel during peaks and projects and seasonal maintenance.

Risks linked to the oil price

Jet fuel is one of the largest cost items for an airline. The volatility of oil prices therefore represents a material risk for KLM. Both an increase and decrease of the oil price may have a material impact on the profitability. Furthermore, any change in the US dollar relative to the Euro also results in volatility in the fuel bill.

Mitigating action(s): KLM has a policy in place to manage these price risks, which are set out in the section "Financial risk management" in the notes attached to the consolidated financial statements.

Risks linked to terrorist attacks, the threat of attacks, geopolitical instability and (threats of) epidemics

Any terrorist attack or threat, or a military action may have a negative effect on KLM's business. This is notable by a decrease in demand and an increase of insurance and security cost. An epidemic, or the perception of an epidemic, can also have negative impact on passenger traffic, just as geopolitical situations resulting in political volatility.

Mitigating action(s): KLM has an Integrated Safety Management System, contingency plans and procedures that enables the company to adapt quickly to changing environments and to anticipate and respond effectively to the above-mentioned events. The aim of these plans is the effective protection of passengers and staff, operational and service continuity and the preservation of the long-term viability of KLM's businesses. These plans are regularly evaluated. KLM complies with national, European and international safety and security regulations and submits regular reports to the national authorities of the measures and procedures deployed.

Risks of loss of airport slots or lack of access to airport slots

Due to congestion at major European airports including Schiphol Airport, all air carriers must obtain airport slots, which are allocated in accordance with the terms and conditions defined in EU Council of Ministers Regulation 95/93. Pursuant to this regulation, at least 80 per cent of airport slots held by an air carrier must be used during the period for which they have been allocated. Unused slots will be lost by the relevant carrier and transferred into a slot pool. Any loss of airport slots or lack of access to airport slots due to airport saturation could have negative impact in terms of market share, results or even future development.

An additional risk is the possible adjustment of daylight saving time (DST) in Europe. Such a change can lead to several ICA/EUR schedule changes (pending uniformity of decision within EU). It is highly questionable if all desired slots (Schiphol Airport/outstations) can be obtained. Furthermore, it will especially put pressure on the profitability of the KLM network due to less connectivity and less complementarity with partner networks, eventually resulting in less flights (mainly on hub-to-hub routes).

Mitigating action(s): Given the 80/20 utilisation rule applying to each pair of airport slots for the duration of the season concerned, KLM manages this risk at a preventive and operational level. Schiphol Airport has reached the maximum capacity, agreed in the 2008 Alders Agreement, therefore access to new airport slots will be limited. Regarding the daylight saving time (DST) in Europe lobby together with IATA and industry partners against DST adjustment, reschedule flights where possible and if necessary evaluate the hub design.

Risks linked to the passenger compensation regulations

Passenger rights in the European Union are defined by European regulations. One of them (EU 261/2004) applies to all flights, departing from an airport located in a Member State of the European Union or flying to the EU if it concerns an EU carrier.

Regulation 261/2004 establishes common rules for compensation, uniform enforcement and assistance on denied boarding or substantial delay in embarkation, flight cancellation or seat class downgrading. However, the interpretation of this regulation differs per jurisdiction. The European Commission therefore published a proposal to amend the regulation issue in March 2013. The proposal is still under review by the Council of the European Union. The timetable for this regulation to become effective is unclear as the Gibraltar issue is currently blocking any review of this proposal. It is expected that the Brexit in March 2019 will resolve the Gibraltar issue. After this issue has been solved, agreement must be reached at European Parliament and Council level, which will take time. Another issue is the emergence of claim agents who assist passengers in claiming compensation from airlines. Due to the spectacular growth of the number of claim agencies, the number of claims for compensation ending up in court has grown substantially.

Outside the European Union, air passenger rights apply, but sometimes conflict with other passenger rights. This can lead to regulatory conflicts.

Mitigating action(s): KLM actively supports a global standardisation of passenger rights, also in light of a level playing field and the competitive position of EU carriers.

Risks linked to competition from aircraft, engine and component manufacturers in maintenance

Aircraft, engine manufacturers and aircraft component manufacturers are rapidly expanding its after-sales departments to offer customers increasingly integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to maintenance providers seeking to exercise its business activity on certain products. Ultimately, if it were to result in reduced competition in the aviation maintenance market, this trend could have a material adverse impact on airline maintenance costs.

This trend is escalating, especially with the arrival of new aircraft such as the Embraer 190/175 aircraft or Boeing 787 aircraft. The ability to maintain balanced competitive conditions is a priority objective for commercial activity in maintenance and to contain the Group's maintenance costs.

Mitigating action(s): KLM discusses OEM license agreements and is actively developing scenarios for further discussions with manufacturers.

Risks linked to the environment

There is increasing public pressure on global and local flight related pollution by the airline industry. The air transport industry has to manage its impact on the environment and is subject to numerous environmental laws and regulations, such as laws on aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste and contaminated sites. Over the last few years, the Dutch and European authorities have adopted various measures, notably regarding noise pollution and emission trading, introducing taxes on air transport companies and obligations for them to ensure compliance of its operations.

Mitigating action(s): KLM is best in class in fuel efficiency and reducing CO_2 emissions and has the ambition to go beyond the target, set by the International Civil Aviation Organisation (ICAO). In order to reduce our CO_2 emission by 20 per cent in 2020 compared to 2011 levels, the KLM Group is acting to reduce its fuel consumption and carbon emissions by:

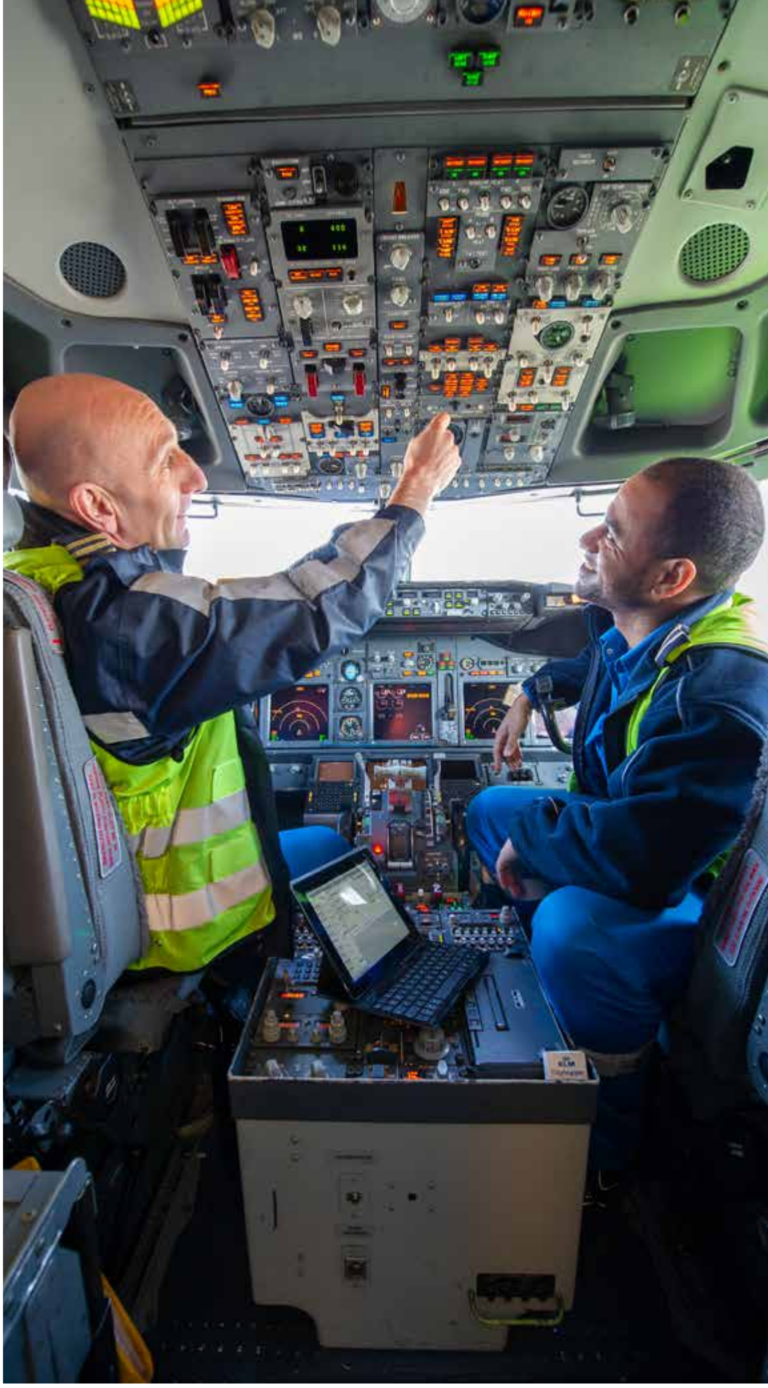
» Fleet renewal, improved fuel management, continuous reductions in weight carried and improved operating procedures;
» Active engagements in sustainable aviation fuels for international aviation. Together with SkyNRG and corporate customers KLM supports research, development and creation of a market for sustainable biofuels; and
» Cooperation with the relevant national, European and international authorities, e.g. on optimisation of traffic control and by creating effective marked-based solutions to manage climate impact in the airline industry.

Towards 2030 KLM is working to a CO_2 reduction of 50 per cent per passenger kilometers compared to 2005 levels (EU ETS reference year), equivalent to an absolute CO_2 reduction of more than 10 per cent from 2018 onwards.

The Dutch Aviation Act has a separate chapter relating to Schiphol Airport including environmental regulations covering local emissions, noise and security. The Alders Agreement on minimising noise pollution is supported with an active dialogue in the Omgevingsraad Schiphol. Due to growth at Schiphol Airport over the last years, dialogues intensified to minimise noise pollution and safeguarding connectivity in KLM's network within the agreed operational restrictions.

Mitigating action(s): For KLM flight operations and all relevant ground activities in the Netherlands, compliance with environmental rules and regulations and improving environmental performance is ensured by the externally verified Environmental Management system according to ISO 14001.

KLM is subject to the Emission Trading Scheme (EU ETS) [1] implemented by the European Commission, covering global emissions from flights within Europe. In November 2017 the EU decided to extend the current intra EU scope of EU ETS until 2023. In 2010, the global airline industry agreed to stabilise emissions from 2020. In 2016, ICAO concluded the global climate agreement for international aviation CORSIA, in which 76 countries will participate in the first stage, covering more than 75 per cent of the global routes from international aviation. It is still uncertain how EU ETS will be aligned with the proposed global ICAO measure.



Mitigating action(s): KLM has set a strategy to reduce its fuel consumption and defined targets towards 2030 to reduce the carbon footprint from its operations. In addition, KLM hedges the EU ETS price two years forward to limit the price volatility.

1 The principle of the European Emissions Trading Scheme is that each Member State is allocated an annual allotment of CO_2 emission allowances. Each Member State then, in turn, allocates a specific quantity of emission allowances to each relevant company. At the end of each year, companies must return an amount of emission allowance that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell allowances to certain markets in the EU. Furthermore, they can earn a limited amount of credits for their greenhouse gas reduction efforts in developing countries through Clean Development Mechanisms (CDMs).

Operational risks – risks related to the operations of KLM

Operational integrity
Operational integrity is one of the essential conditions for success in the airline industry. Airline operations are sensitive to disruptions. Delays lead to loss of quality and are costly.
Air transport depends on meteorological conditions, which can lead to flight cancellations, delays and diversions. Adverse weather conditions such as heavy fog and heavy storms may require the temporary closure of an airport or airspace and thus can lead to a significant costs (repatriation and passenger accommodation, schedule modifications, diversions, etc.).

Mitigating action(s): KLM has taken a number of operational initiatives to safeguard its operational integrity, in order to deliver a high-quality service to its customers. The Operations Control Center, where all network-related decisions on the day of operations are taken, is central to ensuring operational integrity.

Airline accident risk
Air transport is heavily structured by a range of regulatory procedures issued by both national and international civil aviation authorities. The required compliance with these regulations is governed through an Air Operator Certificate (AOC), awarded to KLM for an unlimited period.
As accident risk is inherent to air transport, each AOC holder is required to adopt a predictive and pro-active approach which forms an integral part of KLM's Integrated Safety Management System (ISMS). The civil aviation authority carries out a series of checks and audits on a continuous basis covering these requirements and associated quality system.
In addition to this regulatory framework the IATA member airlines have defined and comply with the IATA Operational Safety Audit certification (IOSA). Both KLM and KLM Cityhopper passed the renewal audit in 2018 and their certificates will be renewed in March 2019. Martinair and Transavia hold a valid certificate and will perform their renewal audit in 2019.

Mitigating action(s): KLM continuously aims to improve its industry-leading, risk and performance-based safety management system in which risk-based decisions can be taken at all levels of KLM. Its Safety Culture program, which includes promotion, communication, training and learning interventions, is gradually expanding throughout the company in order to enhance safety awareness and relevant safe attitudes and behaviours on all levels.

Safety and security
Safety and security are fundamental elements of KLM operations and a prerequisite for customer satisfaction. KLM is committed to continuously improving the safety and security of its operations, its personnel, its customers and passengers.

Mitigating action(s): KLM builds upon the best safety and security practices through an Integrated Safety Management System, a working environment of continuous learning and improvement and an orchestrated managerial approach of the four safety domains: operational, occupational and environmental safety and operational security.

IT risks and cybercrime
The IT and telecommunications systems are of vital importance to day-to-day operations. They comprise the IT applications in the operating centers that are used through the networking of tens of thousands of different devices. IT systems and the information they contain may be exposed to risks concerning continuity of functioning, data security and regulatory compliance. These risks have diverse origins from both inside and outside of the company. The materialisation of one of these risks could have an impact on KLM's activity, reputation, revenues and costs, and thus its results.
The Cybercrime program, approved by the AIR FRANCE KLM Group Executive Committee, covers the prevention and detection procedures such as cyber threat surveillance, evaluations of information system security and tests to pinpoint any information system incursions via the internet. There are regular awareness-raising campaigns on IT security for staff across the company.

Mitigating action(s): The secure functioning of the IT systems is monitored on a permanent basis. Dedicated help centers and redundant networks guarantee the availability and accessibility of data and IT processing in the event of major incidents. AIR FRANCE KLM arranged a cyber insurance program including cover for crisis management, incident response, third party liability and first party loss.

The AIR FRANCE KLM Group's IT division implements security rules aimed at reducing the risks linked to new technologies, particularly mobile data terminals. The access controls to IT applications and to the computer files at each workstation together with the control over the data exchanged outside the company all comply with rules in line with international standards.

Mitigating action(s): Campaigns to raise the awareness of all staff to the potential threats to encourage best practices are regularly carried out. Specialised companies, external auditors and Internal Audit, comprising IT experts, regularly evaluate the effectiveness of the solutions in place.

Data security is a priority, especially the protection of data of a personal nature pursuant to the laws and regulations requiring its strict confidentiality. New EU legislation, the General Data Protection Regulation (GDPR), has become effective in May 2018. This legislation calls for pro-active control over all personal data processing, embedding accountability, transparency and data subjects rights into the organisation. Non-compliance may lead to severe enforcement with penalties at a maximum of 4 per cent of the yearly turn-over.

Mitigating action(s): KLM has implemented the critical elements of GDPR, preparing the business to take responsibility. The project is led by Data Protection Officers (DPO), together with business and IT and has complied on schedule to GDPR by May 2018.

The risk of damage to IT facilities is covered by an insurance policy but, the risk of the operating losses that such damage might entail is not. As with any business making extensive use of modern communication and IT data processing technologies KLM is exposed to threats of cyber criminality.

Mitigating action(s): To protect itself against this risk, the AIR FRANCE KLM Group deploys substantial resources aimed at ensuring business continuity, data protection, the security of personal information pursuant to the law, and the safeguarding of at-risk tangible and intangible assets.

Risks linked to labour disruptions

Labour costs account for around a quarter of the operating expenses of KLM. As such, the level of salaries has an impact on operating results. Any strike or cause for work to be stopped could have a negative impact on KLM's activity and financial results.

Mitigating action(s): KLM fosters social dialogue and employee agreements amongst other things in order to prevent the emergence of a conflict.

Risks linked to labour cost

KLM's current CLAs (cockpit, cabin and ground staff) will expire at June 1, 2019. CLA negotiations are expected to start during Spring 2019. As expectations of unions (in the festive year of KLM's 100st anniversary) may and national unions' strategic agenda will exceed the financial possibilities, this may cause a risk of industrial action, which could potentially harm KLM's activities and financial results.

Mitigating action(s): KLM fosters social dialogue and employee agreements amongst other things in order to prevent the emergence of a conflict.

Risks linked to the use of third-party services

KLM's activities depend in part on services provided by third parties, such as air traffic controllers, airport authorities and public security officers. KLM also uses suppliers, which it does not directly control, like aircraft handling companies, aircraft maintenance companies and fuel supply companies. Any interruption in the activities of these third parties or any increase in taxes or prices of the services concerned could have a negative impact on the Group's activity and financial results.

Mitigating action(s): In order to secure supplies of goods and services, the contracts signed with third parties include, whenever possible, clauses for service, continuity and responsibility. A supplier relation management program has been developed with a growing number of strategic suppliers. Also business continuity plans are developed by the Group's different operating entities to ensure the long-term viability of all commercial and operational activities. KLM has implemented specific policies in the past to ensure compliance with anti-bribery and corruption for sales representatives that are used by KLM in certain countries to generate maintenance business under long-term contracts and monitors compliance with such policies. KLM has paid an amount of EUR 9.5 million in 2018 to sales representatives. During 2018 KLM updated these policies and controls around sales representatives. It is expected that in the first half year of 2019 such new policies and controls will be implemented. During 2018 KLM has not contracted any new sales representatives and any new contracts are required to comply with such updated policies. There will be a transition period in which current contracts will be reviewed and where possible be aligned with the new procedures.

Compliance risks - risks related to non-compliance to applicable laws and regulation

Risks linked to changes in International, National or regional laws and regulations

Air transport activities are highly regulated, particularly with regard to the allocation of traffic rights, time slots and conditions relating to operations like safety standards and security, aircraft noise, CO_2 emissions and airport access. Institutions like the European Commission or the national authorities decide on regulations that may restrict airlines and are liable to have a significant organisational and/or financial impact. Brexit will influence EU decision-making in the near future.

Implementation of a Single European Sky is still one of the European Commission's key priorities. The airline industry also closely follows the implementation of the European Aviation Safety Agency (EASA) basic regulation, the unfair pricing practices regulation and the passenger rights regulation.

On a national level, the Dutch government is drafting a new air transport policy ('Luchtvaartnota') for the period 2020-2050, which aims to strengthen the mainport function of Schiphol Airport and which recognises the essential role of the network of KLM and partners. The government asserted that Schiphol Airport is of major importance to the Dutch economy and will therefore be allowed to continue to grow within the context of the Alders Agreement, meaning that further growth at Schiphol Airport is possible after 2020. Growth possibilities at Schiphol are limited due to maximised Air Traffic Movements. It is unclear what future growth possibilities will be and when they will be activated. Planning of the Government to open Lelystad Airport in 2020 however is still uncertain and under which conditions.

Mitigating action(s): For KLM it is important to monitor that the implementation of laws and regulations does not lead to a distortion of the level playing field in the airline industry and does not disproportionately burden our industry.

KLM, in close coordination with Air France, actively defends its position towards the European institutions and the Dutch government, both directly and through industry bodies such as IATA, the trade body Airlines for Europe (A4E) and BARIN, regarding both changes in European and national regulations.

Volume growth is achieved by changing aircraft type and lower EU frequencies to use their slot for ICA destinations.

Risks linked to non-compliance with antitrust legislation and compliance in general

KLM and its subsidiaries have been exposed to investigations by authorities alleging breaches of antitrust legislation and subsequent civil claims.

On March 17, 2017, the European Commission announced that it would fine eleven airlines, including KLM, Martinair and Air France, for practices in the Air Cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006. This new decision follows the initial decision of the Commission of November 9, 2010. This decision, issued to the same airlines for the same alleged practices, was annulled on formal grounds by the General Court of the European Union in December 2015. The new fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million. On May 29, 2017, KLM submitted its appeal to the General Court of the EU. While the decision is under appeal, there is no obligation to pay the imposed fines. Reference is made to note 23 "Contingent assets and liabilities" of the consolidated financial statements.

Mitigating action(s): To KLM, compliance (in general) has top priority. Various programs and procedures aimed at preventing a breach of antitrust legislation, such as online training modules and on-site and tailor-made training sessions have been implemented and staff appointed. KLM will further expand its procedures to secure and monitor compliance.

Risks linked to the regulatory authorities' inquiry into commercial cooperation agreements between carriers (alliances)

In 2012, the European Commission started an investigation whether or not the transatlantic joint venture between KLM, Air France, Alitalia and Delta Air Lines is compatible with EU antitrust legislation. Commitments have been offered by the parties on certain routes, which the European Commission agreed with in May 2015.

Mitigating action(s): The joint venture is fully approved for 10 years. The joint venture was granted antitrust immunity from the US Department of Transport in 2008. In 2019, the existing joint venture between AIR FRANCE KLM, Delta Air Lines and Alitalia and the existing joint venture between Delta Air Lines and Virgin Atlantic will be further combined within a single global joint venture between AIR FRANCE KLM, Delta Air Lines and Virgin Atlantic as announced in July 2017. This joint venture will enable AIR FRANCE KLM to extend the partnership over a 15-year period.

Risks linked to commitments made by KLM and Air France to the European commission

For the European Commission to clear the merger between KLM and Air France, KLM and Air France had to make a certain number of commitments, notably with regard to the possibility of making landing and take-off slots available to competitors at certain airports. The fulfilment of these commitments should not have a material impact on the activities of KLM and Air France.

Mitigating action(s): The honouring of the commitments is closely monitored and the related (information) dialogue with the European Commission is ongoing.

Legal risks and arbitration proceedings

In relation to the normal exercise of activities, KLM and its subsidiaries are involved in disputes or subject to

monitoring actions or investigations by authorities. Where applicable provisions are included in the consolidated financial statements and/or information is being included in the notes to the consolidated financial statements as to the possible liabilities. Please refer to note 23 "Contingent assets and liabilities" of the consolidated financial statements for more information.

Mitigating action(s): Any and all proceedings and investigations are duly addressed and claims defended. External counsel is appointed. Where applicable, provisions are included in the consolidated financial statements and/or information is being included in the notes to the consolidated financial statements as to contingent liabilities.

Financial risks – risks related to integrity of finance and reporting

Financing risks

KLM finances amongst other things, its capital requirements via bank loans using aircraft as collateral, which constitutes an attractive guarantee for lenders via bilateral unsecured loans and through a bond issued at AIR FRANCE KLM holding level.

The value of unencumbered assets has risen since a number of new aircraft that came into service has not been financed. On top of that, KLM has a sizable standby facility (RCF) with twelve international banks.
Any long-term obstacle to KLM's ability to raise capital could reduce the borrowing capability and any difficulty in securing financing under acceptable conditions could have a negative impact on the AIR FRANCE KLM and KLM activities and financial results.

Mitigating action(s): AIR FRANCE KLM and KLM have set up a Risk Management Committee to manage the financial risks and keep those risks within predetermined guidelines, as described in the part Financial Risk Management. In addition to financing risks, AIR FRANCE KLM is exposed to market risks and credit risks. These risks and mitigating actions are set out in the section "Financial risk management" in the notes attached to the consolidated financial statements.

Risks linked to tax losses carry forward

KLM has tax losses carry forward for which deferred tax assets have been recorded. These tax losses mainly relate to the Dutch KLM fiscal unity and originate from fiscal losses until financial year 2014.

Mitigating action(s): Deferred tax assets are recognised only to the extent it is probable that future taxable profits, based on budget and medium term plan, will be available against which the asset can be utilised in the Dutch KLM fiscal unity. Following positive taxable profits in the last couple of years a substantial part of the tax losses carried forward have been utilised. If expected future taxable profits will not materialise, it could have a significant impact on the recoverability of these deferred tax assets. Reference is made to the paragraph "Accounting policies for the balance sheet - Deferred income taxes," note 18 Deferred income tax and note 31 "Income tax expense/benefit".

Transfer pricing

The combination of KLM and Air France requires measures to ensure compliance with tax legislation including well documented cross-border intercompany transactions.

Mitigating action(s): Strong monitoring and mitigating controls have been introduced, such as an AIR FRANCE KLM guideline and an active monitoring of the arms-length character of the transactions.

Risks linked to pension plans

KLM's main commitments in terms of defined benefit schemes as per December 31, 2018 is the KLM ground staff pension plan based in the Netherlands. Both the fiscal rules for accruing pensions and the financial assessment framework (part of the Pension Act) in the Netherlands changed as per January 2015. On the one hand this has resulted in, amongst other things higher minimum required solvency levels, but on the other hand pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan. This also mitigates the short-term risk that in case of shortages, based on existing or future financing agreements, KLM could be required to make additional cash payments.

Under IAS 19 the KLM Group is exposed to changes in external financial parameters (e.g. discount rate, future inflation rate), which could lead to annual fluctuations in the statement of profit or loss and KLM's equity with no impact on cash. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions will be recognised in KLM's equity and will never be taken against profit and loss. The current calculations lead to the KLM ground staff pension plan figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the defined benefit obligations. In the consolidated financial statements, the potential volatility is explained in the "Accounting policies for the balance sheet - Provisions for employee benefits" and in note 19 Provisions for employee benefits of the consolidated financial statements.

The sensitivity of the defined benefit cost recognised in profit and loss and the defined benefit obligation to variation to the change in discount rate, salary increase and pension rate are presented in note 19 of the consolidated financial statements.

Mitigating action(s): The KLM ground staff pension plan can create an accounting volatility in KLM's equity. The cash risk on recovery premiums for the ground staff pension plan is limited based on the funding agreement between the pension fund and KLM. The regular premium level is fixed. Given the longer allowed recovery time and recovery strength of the fund itself this clearly also limits cash risks.

Risks linked to the impact of external economic factors on equity

KLM's equity has become volatile, following the implementation of the revised IAS 19 for pensions, as of January 1, 2013. Not only results for the year and dividend distributions can have an impact on equity, but the non-cash impact of "Other Comprehensive Income" coming from the defined pension plans or the changes in the fair value of cash flow hedges (predominantly related to fuel hedges) can have a significant impact on equity. Please refer to note 10 Share Capital and note 11 Other reserves in the consolidated financial statements for more information.

Mitigating action(s): KLM needs to strengthen its balance sheet and equity. Perform 2020 is well under way and results are improving and net debt is lowering. The non-cash changes in remeasurements of defined benefit plans and changes in fair value of cash flow hedges will however remain volatile. Following the new defined contribution pension contracts for KLM cabin and cockpit crew concluded in 2017, the non-cash remeasurements in "Other Comprehensive Income" lowered significantly, but is still applicable to the KLM ground staff plan.

For an elucidation on the volatility of defined pension plans, and actions to reduce the volatility, please refer to the paragraph Risks linked to pension plans in this Risk and risk management section.

In addition reference is made to the assessment of 'going concern' in this Risk and risk management section.

Insurance coverage

KLM and Air France have pooled their airline risks in the insurance market in order to capitalise on their combined scale.

Insurance policies taken out by KLM

KLM has taken out an airline insurance policy for its operational risks on behalf of itself and its subsidiaries which is to cover damage to aircraft, liability with regard to

passengers and general third-party liability in connection with its activities. It covers KLM's legal liability up to USD 2.25 billion per event and also includes liability for damage to third parties caused by acts of terrorism up to an amount of USD 1 billion. In addition, KLM participates in the payment of claims for damage to its aircraft through a Protected Cell Company (PCC). Lastly, within the framework of its risk management and financing policy designed to ensure its activities, employees and assets are better safeguarded, KLM has taken out a number of policies to protect its industrial sites in the event of material damage and, consequently, loss of income, property portfolio and activities ancillary to air transportation.

Assessment of 'going concern'

Since 2016, KLM provides a more extensive elaboration on the going concern analyses performed by the company. These analyses include the most important economic, financial and business risks (many of them described in this chapter), the uncertainties in relation to them and their potential impact on the financial robustness and going concern basis of the company.

In this context, scenario and sensitivity analyses have been performed in the course of 2018 and various time horizons have been considered. The analyses have been shared and discussed with the Audit Committee and the conclusions were shared with the Supervisory Board of KLM.

Several important observations following from these analyses are:

- In general, KLM's financial risk profile has improved compared to 2017 due to a combination of developments and achievements;
- Equity position has strengthened compared to 2017;
- The introduction of IFRS 16 Leases on January 1, 2018 has had, next to the slightly positive EBITDA development, a positive impact on KLM's leverage (Net Debt / EBITDA) ratio;
- Overall Gross as well as Net Debt are significant lower than at the end of 2017; the current macro-economic situation remained favourably, boosting demand that was reflected by a robust unit revenue development throughout 2018;
- Strong fuel price fluctuations remain an important factor for KLM, also due to the fact that there is generally a delay in any impact on air transport prices. Also, the correlation between fuel price development and air transport price development may fluctuate over time, depending on many factors underlying the ever-changing supply-demand balance. AIR FRANCE KLM has a policy in place to manage these risks that is set out in the section "Financial risk management" in the notes attached to the consolidated financial statements. In 2018 there was an increase of the fuel price until October, which led to a negative impact on the fuel bill of KLM after hedge. As from October fuel prices have dropped significantly;

- In the financial sensitivity analyses performed, KLM has assessed the flexibility in executing committed as well as uncommitted (fleet) investments and the funding capacity. This flexibility proves to be an important element to mitigate risks on financial continuity in longer periods of strong and unexpected downturns;
- KLM has ensured that the scenario and financial sensitivity analyses were based on an up-to-date business plan that has been built up from realistic business and financial parameters;
- KLM aims at mitigating its financial risks as much as possible to compensate for the relatively high business risks, which were identified in our analyses and are inherent to our airline business and the different underlying business activities. This conservative approach includes clear and stringent risk management policies in order to mitigate fuel price, currency and interest, refinancing, counterparty and liquidity risks; and
- KLM's approach to mitigate the liquidity risk is based on maintaining sufficient liquidity in the form of daily available cash and cash equivalents as well as a committed standby revolving credit facility.

With regard to the annual planning horizon, which has most emphasis in the context of this annual report, based on all information and analyses available and taking into account the current liquidity position, business outlook, (flexibility in the) investment plan, fuel price sensitivity, availability of funding and the redemption profile, the Board of Managing Directors concludes that there is no foreseeable reason to expect that the financial going concern of KLM is at stake in the next twelve months.

Control and monitoring

The foundations of KLM's Internal Control System are the regularly performed processes in the areas of Risk Management, Safety Management, (Internal) Control Management, Compliance and Fraud and the Management Control cycle.
KLM uses the COSO (Committee of Sponsoring Organisation of the Treadway Commission) 2013 standards for internal control. According to these standards, internal control is a process, defined and implemented by the executives, businesses and employees to provide a reasonable level of comfort regarding:

- The reliability of the financial information;
- The compliance with the laws and regulations in force; and
- The performance and optimisation of operations.

KLM has organised its operations in such a manner as to anticipate risks and minimise exposure. For that purpose KLM has dedicated departments or functions to manage and control the risks in daily activities, in line with the risk groups, as defined in the chapter on Risk and Risk Management.
Next to the control organisation, additional comfort and/or mitigation is given by the departments of Internal Audit, Legal and Insurances.
As with any control system, it is not possible to provide an absolute guarantee that risks will be totally eliminated.

Risk management

The Risk Management process is described in the chapter Risk and Risk Management.

Safety management

KLM has set up a Safety and Security Organisation to ensure compliance with the principle of secure, safe and effective operations.

Safety review board

The Safety Review Board (SRB) is a strategic meeting chaired by the Accountable Manager (Chief Operating Officer) that deals with high-level issues.
The SRB sets the safety policy and provides the platform to:
- Monitor the safety and compliance performance against safety policy and objectives; and
- Ensure appropriate resources are allocated to achieve the desired safety and compliance performance.

The SRB sets strategic safety directives, including the company's safety goals. The Management Team Operations (MTO) as the corporate Safety Action Group monitors if these goals are being met, safety risks are identified and any necessary corrective action is taken in a timely manner. The responsibility for integrated safety and compliance, including the implementation of mitigations, resides with the Nominated Person or Head of Division and ultimately, the Accountable Manager. The corporate safety services organisation ensures that the measures applied by all the Company's entities are consistent.
The main objectives of the SRB are the execution, communication and promotion of KLM's Safety Policy and the review of the Integrated Safety Management. The SRB allocates the appropriate resources to ensure the proper execution of safety and compliance.

Integrated safety management system board

The Integrated Safety Management System Board (ISMS Board) is a strategic meeting and is chaired by the Accountable Manager Air Operator Certificate.

The ISMS Board sets policies, procedures and methods with respect to the delivery of safety services. Its objective is the continuous development of the ISMS for KLM, KLM Engineering & Maintenance and KLM Cityhopper and to ensure the effectiveness of KLM's ISMS processes, procedures and methods with respect to safety and compliance monitoring. The ISMS board allocates the appropriate resources to ensure the proper execution of safety and compliance monitoring.

Safety & compliance execution

It is the responsibility of the divisions and business units within KLM to work safely and in accordance with legislation and agreements (KLM policy).
Advice and support for this responsibility is organised both decentrally and centrally. The Integrated Safety & Compliance Manager (ISCM) within the (decentral) line organisation is responsible for the implementation of KLM's safety policy and related culture. Each ISCM has a direct line and access to the highest responsible manager in the division or business unit.

Safety & compliance monitoring

The Integrated Safety Services Organisation (ISSO) is a centralised independent support department, which is responsible for monitoring, measuring, policy and advice regarding Operational, Occupational and Environmental Safety & Compliance and Operational Security.

Legal & business ethics compliance organisation

KLM has set up and implemented a legal and business ethics Compliance Framework, which was adopted by the Board of Managing Directors and the Supervisory Board. The Framework ensures staff are capable of adhering rules of conduct, internal procedures and relevant laws and regulations. Several expert functions, including the Legal & Business Ethics Compliance Director, the Corporate Privacy Officer and the Export Compliance Manager, are installed to manage (parts of) the Legal & Business Ethics Compliance Framework, under the supervision of the Board of Managing Directors, who delegated the day-to-day monitoring to the Compliance Committee.
The Compliance Committee's primary role is to support the Board of Managing Directors and the Executive Team on compliance matters falling under the scope of the Legal & Business Ethics Compliance Framework, excluding all operational safety, occupational safety, environmental safety and operational security compliance matters. The Compliance Committee will (i) specifically monitor the adherence by all concerned to the KLM Code of Conduct and related codes and regulations and (ii) assist the Board of Managing Directors and Executive Team in fulfilling their responsibilities relating to compliance with applicable laws and regulations.

The KLM Compliance Charter is released by the Board of Managing Directors and subsequently adopted by the Supervisory Board. Its target audience are all employees and regular temporary workforce. Its purpose is to inform the target audience regarding the principles, roles, tasks and responsibilities of the compliance function within the company.
The corporate compliance monitor provides an overview of the compliance status of KLM. The compliance monitor is discussed with the Supervisory Board.

KLM Anti-Fraud Policy

By means of the KLM Anti-Fraud Policy, which has been revised during 2018 to become more vigilant, proactive and consistent in fraud approach, KLM mitigates the risk of intentional acts designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM. Security Services and Internal Audit took the lead, in cooperation with all relevant internal stakeholders of the (also revised) Fraud Management Table. As part of reporting on compliance to the Board of Managing Directors and Supervisory Board, fraud-related cases and their potential financial impact are prepared and discussed by the Compliance Committee and included in a more comprehensive reporting.

Control management

KLM has set up an Internal Control organisation and a system of internal controls in order to provide reasonable comfort regarding reliability of accounting and financial information and to comply with the applicable laws and regulations.
The Internal Control Office (embedded in the Corporate Control department) supports and guides all activities in relation to internal controls. Principles are laid down in the Internal Control Charter.
Within the businesses and at corporate level Internal Control Coordinator's are appointed to monitor the Internal Control activities. An important part of the Internal Control Coordinator's activities is to oversee the yearly testing of the entity level controls, the testing of the operational effectiveness of the transaction level controls in the financial disclosure processes and the testing of the IT general controls that are relevant for the financial disclosure processes. The results of the testing are also one of the

cornerstones for signing the Document of Representation (DoR) by the business executives and business controllers. The Internal Control Office is responsible for the governance and principles of internal control as well as the communication towards Internal Control Coordinators. Next, the Internal Control Office reports on the result of the internal control testing to Financial Management and performs quality reviews to monitor the application of internal control principles by the business.
Business management and their Internal Control Coordinators are responsible for executing an annual risk assessment to determine e.g. changes in their scoped processes, additional or changed (IT) systems, the impact of open issues from testing and/or the Management Letter issued by the external auditors. The appropriate execution of controls as well as the validation of this execution is also the responsibility of business management.
On pre-defined dates during the year the Internal Control Coordinators have to report the progress of testing and detected issues to the Internal Control Office. Based on these business reports, an overall KLM Group Internal Control Monitor is maintained, published and shared with Financial Management.
The use of a DoR is incorporated in the internal reporting procedures. It requires the business executives and business controllers in the KLM Group to confirm at the end of the financial year the reliability of the figures they submit and their control procedures and to report detected issues that could not be repaired before year end. It also underlines their responsibility for transparent accounting procedures, adequate risk management and the establishment and operating of an adequate internal control framework.
Based on received information from the businesses in the DoR and the Internal Control reporting during the year, at year end an Internal Control memo is prepared which is shared with the Board of Managing Directors and the Audit Committee. This memo contains a summary of the performed controls, detected issues (solved issues and open) and an indication regarding the materiality level of the open issues.

Management control cycle

KLM's organisation is based on the Network Business, in which both Passenger and Cargo activities are combined, Engineering and Maintenance Business, Leisure Business and Central Staff functions and the Subsidiaries controlled by KLM.
The AIR FRANCE KLM Group budget and three-year plan process is fully aligned. This alignment not only relates to common key assumptions but also to timing and review meetings. KLM's part of this aligned budget and three-year plan process is managed by KLM's Corporate Control Department and implemented in the three business segments and ten of KLM's most significant subsidiaries, thus covering almost the entire business of KLM.
A management report is sent every month by each of the businesses analysing the monthly development of the financial results in relation to the forecast, budget and previous year. Furthermore these management reports built up to the operational performance of the Company. The management reports are discussed with responsible managers of the businesses and the Board of Managing Directors in Monthly Review Meetings.
KLM's most significant subsidiaries are monitored through KLM's Corporate Strategy Department and Corporate Control Department on a monthly basis. KLM Board members are represented in the management of the most significant subsidiaries.

Planning & control process

This process is based on the following three structural procedures:

» Group Strategic Framework which is updated annually in close cooperation with Air France and AIR FRANCE KLM;
» Corporate three-year plan which determines which growth and investment is needed to realise the Company's vision. The corporate budget for the next financial year is fully embedded in the first year of the corporate three-year plan. The budget is drawn up on an entity level and consolidated at Company level. As mentioned before, this process is fully aligned in AIR FRANCE KLM Group. The corporate three-year plan, including the budget for 2019, has been prepared and approved before the start of the financial year 2019 (December 2018); and
» Tactical Planning Meetings held quarterly on a business level, which evaluate (and update) the performance of the businesses in the context of the budget.

Accounting process and establishment of accounts

The Corporate Control Department prepares monthly group financial information on the basis of information submitted by the businesses and subsidiaries. The AIR FRANCE KLM accounting manual meets the compliance objectives for accounting records. The accounting information feedback from the subsidiaries is required to follow the Group's accounting rules, methods and frames of reference laid down by the Company and presentation of financial statements must be in the format circulated by the Group.
The consolidated and company financial statements are submitted twice a year (at the middle and end of the year) for review by the Vice President Reporting & Control to the external auditors prior to their closure at a summary meeting, and are then forwarded for discussion to the Audit Committee.

Management reporting process

The Corporate Control Department coordinates the Company's reporting process. At the beginning of the month, a forecast is prepared in a bottom-up process by the businesses and most significant subsidiaries based on the planned network activity information available of the previous month. Once the accounting result is known, the Corporate Control Department then produces a monthly management report listing the main activity data, staff numbers and accounting and financial data. Also each month, the Corporate Control Department examines and analyses with the Company's businesses and main subsidiaries the economic performances for the month just passed and evaluates the results for the coming months up to the end of the current financial year.
The Corporate Controller presents the management report monthly in the Management Board Council and KLM Executive Team meeting and in the Audit Committee on a biannual basis, focusing on the variances between actual year and budget/forecast and explaining incidental results recorded during the period. Attention is also given to the variances in the full-year forecast.

Support functions

Internal audit

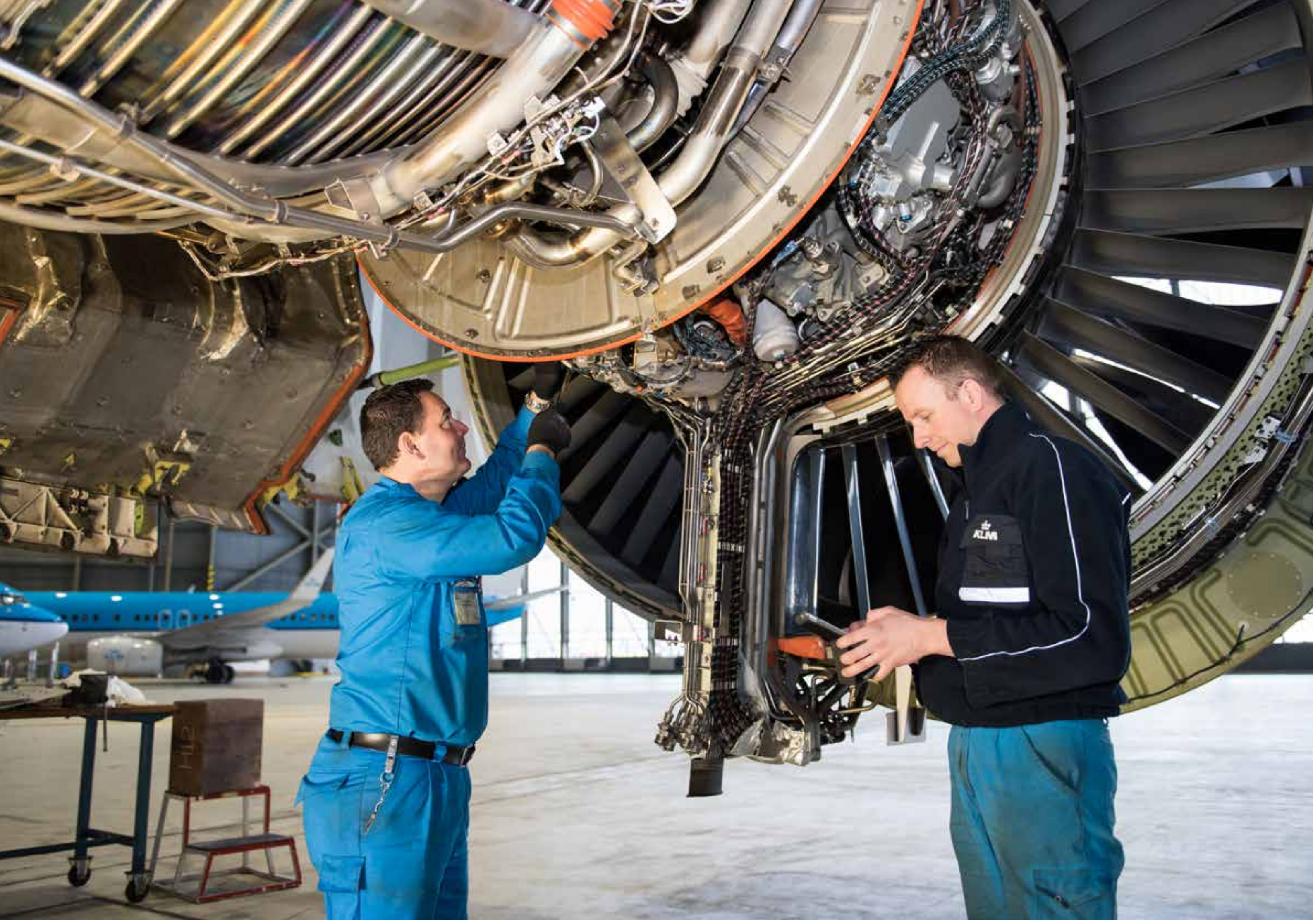
KLM has set up an independent Internal Audit Function (IAF) to strengthen the internal controls. The presence and activities of an IAF provides a powerful element in contributing to assure proper risk management, governance and internal control.
The IAF is subject to a regular external quality assessment by the Dutch and French affiliates of the worldwide Institute of Internal Auditors. The overall opinion is positive.
The IAF is an independent function designed to provide added value to the KLM Group and improve its operations. It helps to accomplish the KLM Group's objectives by bringing a systematic, disciplined approach to evaluating and strengthening the effectiveness of decision making, risk management, internal control and governance processes. The IAF objectively reviews the accuracy and reliability of the KLM Group's internal controls in general and related processes in particular. Management will be pro-actively advised on required improvements.
The IAF conducts audits on request of the Audit Committee, the Board of Managing Directors or the Executive Team. An annual audit plan is drawn up and presented to the Board and Executive Team and approved by the Audit Committee. The IAF performs different types of engagements like operational audits, information and communication technologies or electronic data processing audits, compliance audits, post audits, fraud investigations and consulting engagements.
Engagements that have been carried out are summarised in a report that describes the conclusions, highlighting findings, risks and related recommendations. For audits a four-point grading scale is used to express the impact of the findings and the level of action required from either local management or the Board of Managing Directors. The follow up by business management is required and monitored within a desired timeframe depending on the issue and reasonable corrective action period.
The KLM Internal Audit department provides management with audit reports, which four times a year are recapitulated for the Board of Managing Directors and twice a year for the Audit Committee of the KLM Supervisory Board.

Insurance department

The KLM business activities and related processes involve myriad major and minor risks. Many of these risks are mitigated by a variety of measures, such as contingency plans, hedging and back-up facilities or mandatory insurance. The remaining risks can be either accepted or insured against, the latter if risks are perceived unacceptable, for instance because they may threaten the continuity of KLM. KLM has insured risks such as damage to its owned and leased aircraft and liability to its customers and others in case of an aircraft incident, war risks, damage to property and business interruption. If ever such a risk becomes manifest, the damage can be claimed on the insurance company up to the insured amount taking deductibles and standard market exclusions into account.

Legal department

The Legal department is responsible for legal practices within KLM and monitors the "legal integrity" of activities performed by KLM. The Legal department supports both KLM's Board of Managing Directors and the businesses. The department is centralised, exist of qualified legal professionals and functions as a single point of contact for external lawyers.



Reference standards

Charters and manuals

Integrated Safety Management Manual

The Integrated Safety Management Manual (ISMM) describes the Integrated Safety Management System (ISMS). The ISMS is an integrated system that is used in the following KLM domains: operational safety, occupational safety, environmental safety and operational security.
The ISMS assures the safe performance of all processes within these domains through the effective management of safety risk.

The ISMS complies with relevant national and international legislation. The ISMS is also based on the requirements of other regulatory systems: IOSA, ISAGO, ISO 14001 etc.
The ISMS encompasses all safety management system components and elements as stated in ICAO document 9859.
The ISMS allows risks to be predictively indicated and proactively eliminated or mitigated before accidents and incidents occur. The ISMS also allows safety to be continuously improved by collecting and analysing data, identifying hazards, threats and safety issues, and assessing safety risks to ensure the optimal allocation of company resources.

KLM's ISMS is based on the following main internal and external frames of reference:

External frames of reference:

Statutory: European and Dutch regulations (including European and Dutch regulations for operational security) and general implementing regulations;

- Industry: IATA Operational Safety Audit (IOSA), a standard that ensures a transparent level of operational safety to enable code share operations without further audits on KLM and ICAO document 9859, for the Safety Management Manual; and
- Environment: ISO 14001: a standard for monitoring environmental control and impact.

Internal frames of reference:

These are variations of external frames of reference adjusted to the Company's own processes:

- Statutory: statutory manuals (operating manuals, maintenance manuals, quality manual) and associated general procedures, which are usually formally validated by the supervisory authorities that issue approval certificates (CAA-NL, FAA, etc.);
- Quality manuals for environmental control; and
- Management system: the company's Integrated Safety Management Manual and associated general procedures.

Social rights and ethics charter

The KLM Group has published a Social Rights and Ethics Charter to enshrine individual commitment to Corporate Social Responsibility by orienting its corporate and ethical policy towards respect for individuals at the professional, social and citizenship levels.

Code of conduct

The KLM Group has published a Code of Conduct addressing the following principal matters: compliance with laws and regulations, conflicts of interest, confidentiality, the safeguarding of assets, environmental protection, Corporate Social Responsibility and intellectual property. KLM has also implemented a code of ethics intended principally for employees in finance positions.

Legal & business ethics compliance framework

The KLM Legal & Business ethics Compliance Framework ensures staff to be competent to adhere to rules of conduct, internal procedures and relevant laws and regulations. The KLM Compliance Charter target audience are all employees and regular temporary workforce. Its purpose is to inform the target audience regarding the principles, roles, tasks and responsibilities of the compliance function within the Company. The Corporate Compliance Monitor provides an overview of the compliance status of KLM.

Anti-Fraud Policy

During 2018 KLM's Anti-Fraud Policy has been revised to become more vigilant, proactive and consistent in fraud approach. The Policy and its accompanying documents were endorsed by the KLM Compliance Committee and approved by the Board of Managing Directors. Elements in this Policy are amongst other things the introduction of a Fraud Risk Management Framework and Fraud Risk Assessments, a zero tolerance stance against fraud, an Anti-Fraud Policy Statement and a Fraud Response Protocol. By means of the KLM fraud policy, KLM mitigates the risk of intentional acts designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM.

Manual to prevent the risks of corruption

This manual affirms the commitment to exercising its activities fairly, equitably, honestly and with integrity, and in the strict respect of anti-corruption laws wherever its companies or subsidiaries exercise their activities. It establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations with regard to the anti-corruption legislation.

The e-learning module "competition law compliance" and "anti-bribery and corruption" have been available online to all employees since 2014. In 2017 a new e-learning module has been rolled out.

Internal Control Charter

The AIRFRANCE KLM Internal Control Charter sets out the components of the internal control framework and outlines the methodology adopted to guarantee its effective implementation and functioning. It also reaffirms the involvement in the prevention and control of the risks associated with the KLM Group's activities.

Internal Audit Charter

To provide the internal auditors with an adequate base, a KLM Group Internal Audit Charter is in place. The charter is revised and tailored to changing needs and has been signed in 2017 by the President and Chief Executive Officer of KLM, the Chairman of the KLM Audit Committee and the Vice President Internal Audit. It is in line with the Dutch Corporate Governance Code.

The KLM Group Internal Audit Charter establishes the framework of the Internal Audit Function and contains the guidelines to which it adheres regarding:

- » Internal Audit mission and objective, scope of work and types of work;
- » Accountability, independence and relationship to other assurance functions;
- » Authority and ethics; and
- » Applicable standards.

The KLM Group Internal Audit Charter is in line with the governance structure regarding the Internal Control Function, and is in line with the AIR FRANCE KLM Group Internal Audit Charter.

Board and governance

Koninklijke Luchtvaart Maatschappij N.V. ("KLM") is a non-listed, limited liability company incorporated under Dutch law. Supervision and management of KLM are structured in accordance with the two-tier model, meaning a Board of Managing Directors supervised by a Supervisory Board. KLM has been subject to the mitigated structure regime (as per Dutch company law, Book 2 Dutch Civil Code) for large companies since May 2007.

KLM's corporate governance is based on the applicable statutory requirements and on the company's Articles of Association. Furthermore, KLM has brought its corporate governance as far as possible in line with generally accepted principles of good governance, as laid down in the Dutch Corporate Governance Code 2016.
This section considers KLM's corporate governance policy. There have been no material changes in the company's governance policy in comparison with financial year 2017.

The amendment of the Articles of Association

In accordance with the procedure prescribed in the Articles of Association, in April 2018 the General Meeting of Shareholders adopted a resolution to amend the Articles of Association. The Articles of Association have been amended to capture the changes in Dutch civil law. Furthermore, provisions regarding the indemnification of Supervisory Board members and members of the Board of Managing Directors have been included.

Shareholder structure

KLM's shareholder structure is outlined below. Depositary receipts of shares carry beneficial (economic) ownership, but no voting rights on the underlying KLM shares.

AIR FRANCE KLM holds:

- All KLM priority shares;
- A proportion of the common shares, together with the priority shares representing 49% of the voting rights in KLM;
- The depositary receipts issued by Stichting Administratiekantoor KLM (SAK I) on common KLM shares and on the cumulative preference shares A; and
- The depositary receipts issued by Stichting Administratiekantoor Cumulatief Preferente Aandelen C (SAK II) on the cumulative preference shares C.

On December 31, 2018, SAK I held 33.59% of the voting rights in KLM on the basis of common shares and cumulative preference shares A. SAK II holds 11.25% of the voting rights in KLM. The Dutch State directly holds cumulative preference shares A, which represents 5.92% of the voting rights.

AIR FRANCE KLM

KLM and Air France share the same holding company, AIR FRANCE KLM S.A. The holding company's Board of Directors (Conseil d'Administration) has 19 members. The Board has five Dutch members, of which one is appointed upon nomination by the Dutch government and two upon nomination by the KLM Supervisory Board.
The fourth Dutch member is the Chairman of the KLM Supervisory Board. The fifth Dutch member joined the AIR FRANCE KLM Board as Director representing employees. The KLM CEO attends the Board meetings as permanent guest/observer.

The AIR FRANCE KLM Group Executive Committee amongst other things decides upon issues of a strategic nature within the framework of the strategy approved by the Board of Directors.

Supervisory Board

Pursuant to the Articles of Association, KLM's Supervisory Board shall consist of at least nine and at most eleven members. The Supervisory Board supervises the management by the Board of Managing Directors and the general performance of the company. It also provides the Board of Managing Directors with advice. The members of the Supervisory Board fulfil their duties in the interests of the company, its stakeholders and its affiliates. On December 31, 2018, KLM's Supervisory Board consists of nine members. Supervisory Board members are appointed and reappointed by the General Meeting of Shareholders whereby the KLM Works Council has the legal right to recommend one third of the Supervisory Board members.

Committees

Three committees are active within the Supervisory Board: an Audit Committee, a Remuneration Committee and a Nomination Committee. All these committees have their own regulations, which lay down, amongst other things, their composition, role and responsibilities.

Board of Managing Directors

Pursuant to the Articles of Association, the Board of Managing Directors shall consist of at least three Managing Directors. On December 31, 2018, KLM's Board of Managing Directors consisted of three members. The Managing Directors are appointed and dismissed by the General Meeting of Shareholders. The members of the Board of Managing Directors are appointed for a fixed term of four years. Further information on the members' terms and conditions of service as well as remuneration is presented in the section Remuneration Policy and Report. Regardless of the allocation of tasks among its members, the Board of Managing Directors acts as a single organ with collective responsibility. The Board of Managing Directors has final responsibility for the overall management of the company and monitors all corporate governance activities. The Supervisory Board appoints one of the members of the Board of Managing Directors as President & Chief Executive Officer and may in addition appoint one or more Managing Directors as Deputy CEO.

General Meeting of Shareholders

KLM's Annual General Meeting of Shareholders will be held on April 25, 2019. In addition to the Annual General Meeting of Shareholders, a General Meeting of Shareholders may be convened by the Board of Managing Directors, the President & Chief Executive Officer, the Supervisory Board, three Supervisory Board members, or the Meeting of Priority Shareholders, each of which has equal power to do so.

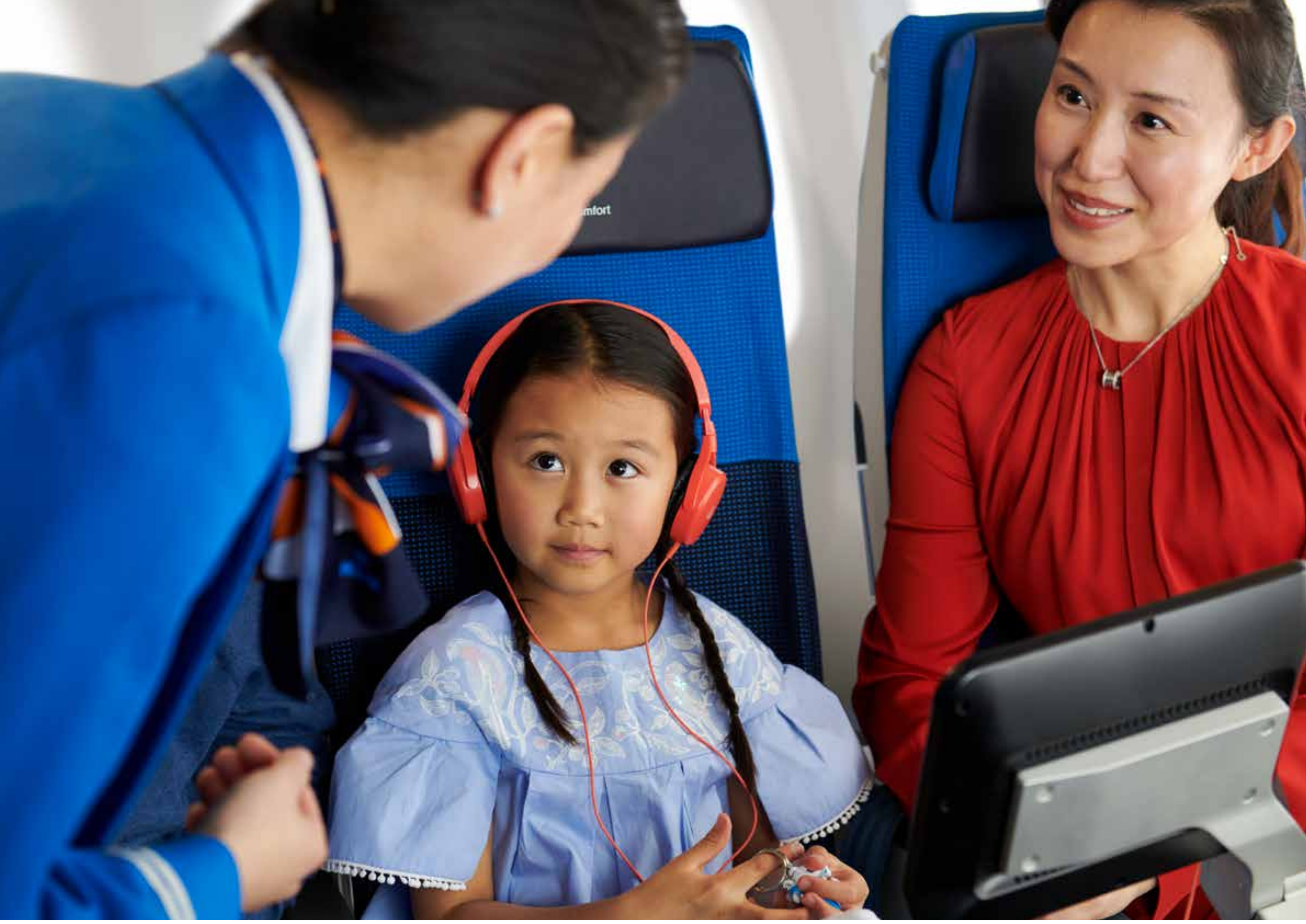
Staff participation

The Board of Managing Directors, represented by the President & Chief Executive Officer, meets with the company's Works Council on a regular basis. During these meetings, a number of topics is discussed such as the developments within AIR FRANCE KLM and the company's strategy and financial results. Also the topic of conduct and culture within KLM is addressed. The KLM Works Council has 25 members. The KLM Works Council met representatives of the Board of Managing Directors on 13 occasions (nine regular consultation meetings and four strategy sessions) in financial year 2018.

At AIR FRANCE KLM level a European Works Council has been installed to jointly represent KLM and Air France. This council focuses on cross businesses subjects between Air France and KLM. The European Works Council held two plenary meetings and two extra plenary meetings in financial year 2018. During most of these meetings representatives of the Supervisory Board were present.

Diversity

KLM recognises the importance and added value of a diverse and balanced composition of the Board of Managing Directors and Supervisory Board and believes that their diversity policy should set an example to the rest of the company. To this end, both the Board of Managing Directors and Supervisory Board profiles deal with the aspects of diversity such as age, nationality, gender and



education and working background. In the event that candidates for new appointments to the Board of Managing Directors are to be selected, the Supervisory Board will duly consider the relevant diversity requirements, when searching, selecting and evaluating the candidates.

On December 31, 2018, one third of the directors of the Supervisory Board is female. The Supervisory Board consists of five French board members and four Dutch board members

Within the framework of the company's diversity policy, the aim is also to increase over time the number of women in executive positions through promotion from within. To implement the policy that promote a diverse workforce (with a focus on gender), in 2018 multiple sessions have been organised, where employees of different departments expressed their thoughts and suggestions on this topic. An action plan has been developed, which will be executed next year.

Culture

The KLM Legal & Business Ethics Compliance Framework supports leadership and staff to do business with loyalty, fairness, transparency, honesty and integrity. It requires KLM staff to reach out, take ownership and leadership and to be competent, to connect, to guide, to challenge and to inspire their teams in a joint effort to secure the integrity of the KLM organisation internally and vis-à-vis the third parties that KLM deals with in its day-to-day business.

The KLM Code of Conduct serves as a framework that reflects the basic principles of business integrity and shall be taken into account by KLM staff, management and contracted third parties. The Code of Conduct clarifies rules and standards that are to be complied with and sets out expected behaviours. In 2018, the KLM Code of Conduct has been reviewed and rewritten. The Code of Conduct serves as an umbrella for all available compliance codes, as the anti-corruption manual and the updated KLM whistle-blower policy.

Designated individuals are required to complete additional training on antitrust and competition laws, anti-bribery and corruption law and data protection. KLM has published relevant codes and regulations on its intranet.

On behalf of the Board of Managing Directors KLM's Compliance Committee's monitors the effectiveness of the KLM Legal & Business Ethics Compliance program and frequently reports on the compliance status of KLM.

The KLM Compass fosters at staff engagement throughout the company. The KLM Compass aligns ambitions for the desired customer experience with ambitions for the desired employee experience.

Dutch Corporate Governance Code 2016

KLM's corporate governance is, generally in line with generally accepted principles of good governance, such as laid down in the Dutch Corporate Governance Code 2016 ("Code"). Although KLM as a non-listed company is not formally obliged to comply with the Code, it has committed itself to follow the Code voluntarily where possible. On several occasions the Board of Managing Directors together with the Supervisory Board discussed the impact of the Code on KLM's corporate governance.

KLM deviates from the best practices described in the Code in a limited number of areas. In accordance with the "comply or explain" principle, these deviations are:

» Regulations and other documents (such as the annual reports of SAK I and SAK II) are not made available on the company website. Regulations and other documents are available upon written request;
» The composition of the Supervisory Board does not meet the Best Practice Provision 2.1.7 sub i that relates to the Independence of the Supervisory Board;
» The reappointment period of the Chairman of the Supervisory Board (Mr. Smits) is not in line with the Best Practice Provision 2.2.2. The deviation from this best practice is due to be terminated in 2019; and
» The severance pay of newly appointed members of the Board of Managing Directors, from within KLM, in the event of dismissal is set at a maximum of two years base salary, and consequently does not comply with Best Practice Provision 3.2.3.

Conflict of interest

The handling of conflicts of interest between the company and members of the Board of Managing Directors or the Supervisory Board is governed by Dutch law, the relevant provisions of the Code and the Regulations of the respective Board. With the amendment in 2018, the Articles of Association have been aligned with Dutch law, hence now explicitly stating that a Managing Director or a member of the Supervisory Board may not participate in any discussion or decision-making on a subject in which he or she has a direct or indirect personal interest that conflicts with the interests of KLM and the business connected with it. A member of the Board of Managing Directors or the Supervisory Board is required to report any conflict of interest or potential conflict of interest that is of material significance to the company and/or to the member concerned, to the Chairman of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with members of either Board that are of material significance to the company or such member require the approval of the Supervisory Board.

During the financial year 2018, no conflicts of interest were reported.

Internal regulations

The regulations adopted in respect of the Supervisory Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Board of Managing Directors are reviewed on a regular basis. The Rules of Supervision, the profile with Code of Conduct for the members of the Supervisory Board, the Board of Managing Directors Regulations, the Terms of Reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, and the rotation schedule, in so far not published in this annual report, may all be viewed at the company's head office. Copies shall be made available to shareholders upon written request to the Company Secretary.

In control statement

During 2018 the financial health of KLM and the level of safety improved. KLM executed the internal control framework processes and identified areas of improvement for certain IT controls, Engineering & Maintenance accounting and the further embedding of IFRS16. In accordance with previous paragraphs on Risks and Risk Management and on Control and Monitoring, in addition to the Going Concern statement in Risks and Risk Management, all currently known circumstances taken into consideration, the Board of Managing Directors states to the best of its knowledge that:

i. The Annual Report 2018 provides sufficient insights into potential material weaknesses in the effectiveness of the internal risk management and control systems;
ii. The internal risk management and control systems of the company provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
iii. Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
iv. The Annual Report 2018 states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the date of the Annual Report.


KLM
Royal Dutch Airlines

Report of the Supervisory Board

The Supervisory Board is a separate body and fully independent of the Board of Managing Directors in the two-tier corporate structure under Dutch law. The Board, consisting of nine members is entrusted with supervising and advising the Board of Managing Directors of the company, and overseeing KLM's strategy and the general course of its businesses.

Supervisory Board meetings

In 2018, the Supervisory Board held six meetings according to schedule and four ad hoc scheduled conference calls. Four Supervisory Board meetings were held shortly after the quarterly close. The deliberations during these meetings concentrated on KLM's (quarterly, semi-annual and annual) financial results. One meeting focused on KLM's strategy and the execution thereof. Like previous years, one meeting was dedicated for discussion of the company's three-year plan (including budget, investment plan and financial plan for the next financial year) and the Internal Audit plan. The conference calls dealt with topics that followed from the general course of KLM's business as well as the governance changes within AIR FRANCE KLM.

The Supervisory Board performed its duties in close cooperation with the Board of Managing Directors. The Managing Directors attended all regular meetings of the Board. All regular Supervisory Board meetings were followed by an Executive Session – meetings of the Supervisory Board without the presence of members of the Board of Managing Directors, except for the President & CEO, who attended (in some instances partially). The Company Secretary attended both the Supervisory Board meetings as well as the Executive Sessions. Members from the Executive Team and the external accountants were frequently invited to present on specific topics. Average attendance of the Supervisory Board meetings was 94 per cent. Messrs. Smits and Peyrelevade as well as Mrs. De Gaay Fortman and Mrs. Roobeek attended all regular Board meetings. Messrs. 't Hart and Riolacci and Mrs. Pellerin were present at all but one of the meetings.

Sustainable growth

In 2018, KLM continued on the course set, in order to realise the ambition to become Europe's most customer-centric, innovative and efficient network carrier. After 2015, in which KLM revisited its top strategic priorities, redefined strategic choices and updated strategic objectives, and the year 2016 and 2017, which were marked by execution of the strategy and transformation, KLM focused on the further strengthening of its foundation in 2018 and is well on track to regain its solid position in the airline industry and proves to become fit and healthy for the future, thereby delivering a substantial contribution to the financial well-being of AIR FRANCE KLM. The financial performance continues to improve and the company is on track to achieve the Perform 2020 targets. The investment level of 2018 was the highest ever, product and services were improved and passenger numbers have increased despite serious growth constraints at Schiphol Airport. Under the motto of "Change, participate and win", KLM is demonstrating entrepreneurship with success in a fast changing landscape.

The airline industry, which traditionally is capital and labour intensive, and sensitive to fuel price and currency volatility as well as geopolitical developments, continues to change rapidly. The consolidation of airlines, the increasing market shares of low cost airlines, as well as new competition of long haul low cost carriers, had and have their influence on industry dynamics since many years. The start-up of long haul low cost carriers is challenging the business models of European flag carriers. Beyond the airline competition, ecosystem forces are reshaping the industry and distribution models are transforming due to new and direct business models. Ownership of data and artificial intelligence require for disruptive innovation.

During the annual strategy meeting of 2018, the Supervisory Board discussed with the Board of Managing Directors some specific topics, following from KLM's strategy, as established last year. Within the definition and execution of the strategic goals of KLM, the AIR FRANCE KLM group context in particular and the interests of other relevant stakeholders in general, are taken into consideration. Both the Cargo activity and E&M business challenges and strategies were discussed. Also, in-depth discussions took place on innovation, strategic workforce planning, Schiphol Airport positioning as well as sustainability. The Supervisory Board has perceived the discussions as well as the interactions with the Board of Managing Directors and Executive team members during the annual strategy meeting as very valuable.

The Supervisory Board is well engaged in the Board of Managing Director's process of formulating and executing KLM's strategy for realising sustainable growth of the company. During the quarterly meetings, the Supervisory Board was informed on the progress of the execution of the strategy.

Highlights 2018

During the financial year 2018, the activities of the Supervisory Board concentrated on themes that are considered as being conditional to realise the ambition to become Europe's most customer-centric, innovative and efficient network carrier.

A wide variety of topics concerning Schiphol Airport was discussed on several occasions. Developments at and around Schiphol Airport, centered at the heart of KLM's intercontinental network, are of utmost importance for KLM's strategy execution. In 2018, Schiphol Airport reached the maximum of 500,000 air traffic movements per year as set in the 'Aldersakkoord' of 2008, thereby restricting KLM's future growth. The delayed opening of Lelystad airport hampers the company's growth and further contributions to the mainport. The Supervisory Board is aware of the public debate on aviation and growth as well as the sustainability challenges that the industry faces and is of the opinion that KLM needs to take an active stance in the sustainability dialogue, balancing the different interests of all stakeholders.

During financial year 2018, the Supervisory Board monitored the operational performance of the business, recognising the continuity of running the business as an important success factor for KLM. The Board welcomed KLM's improved operational integrity scores and learned that KLM continued to be one of the highest ranked in the industry as regards punctuality. The customer is at the heart of KLM's strategy, and the Supervisory Board was happy to learn that customer satisfaction, measured by the Net Promotor Score (NPS), has improved during the year. An important element in this improvement was the improved operational integrity.

The Board recognises that it is due to the strong hubs of both KLM and Air France (and the related) dual hub strategy, the worldwide network as well as the respective strong brands, that KLM as does Air France continue to benefit from their combination. The AIR FRANCE KLM Group has had a turbulent 2018. The strikes within Air France in the first half of the year had a negative impact on the customers of both airlines as well as the Group's financial results. On different occasions during the financial year 2018 the Supervisory Board discussed possible solutions for the Group governance and options in which KLM could contribute to a reinforced Group structure. The Supervisory Board regretted the resignation of Mr. Janaillac, former Chief Executive Officer of AIR FRANCE KLM, following long-lasting disputes over pay with staff. With the appointment of Mr. Smith, the new Chief Executive Officer of the Group, in September the interim management structure of the Group ended.

During the October meeting, the Supervisory Board had an introductory meeting with Mrs. Annemarie Couderc, chair of the AIR FRANCE KLM Board of Directors, and Mr. Ben Smith, AIR FRANCE KLM CEO. During this meeting, apart from an introduction by Mr. Smith, the necessity for a clear strategy for AIR FRANCE KLM going forward was discussed.

The Supervisory Board is content that, following a complex period of intense discussions, the AIR FRANCE KLM Board supports the Supervisory Board's unanimous decision to propose the reappointment of Mr. Elbers as Chief Executive Officer as per the Annual General Meeting of Shareholders in April 2019. The Supervisory Board trusts that with the reappointment of Mr. Elbers, his appointment as Deputy Chief Executive Officer of the AIR FRANCE KLM Group and the installation of a new Group CEO Committee consisting of Mr. Smith (CEO AIR FRANCE KLM), Mrs. Rigail (CEO Air France), Mr. Gagey (CFO AIR FRANCE KLM) and Mr. Elbers (CEO KLM), a clear future governance is set, that allows to focus on the strategic challenges the Group faces.

On several occasions in fiscal year 2018, the Supervisory Board was informed about staff engagement. People are one of the most important assets for the company and they make the difference when it comes to delivering KLM's services to the customer. The Supervisory Board is well aware that during the first phase of KLM's transformation, topics of staff productivity through CLA results and a reorganisation through the principles of the High Performance Organisation have been relevant. However, digital revolution, automation and artificial development together with the focus on customer-centricity require a revised view on workforce planning. The Supervisory Board, together with the Board of Managing Directors discussed the need for talent management, succession planning, management development and diversity. In 2018, thanks to the revised model for profit sharing, KLM staff benefitted from KLM's improved results.

Within the framework of customer-centricity, the Supervisory Board together with the Board of Managing Directors focused on innovation and digitisation of products and services. With the establishment of the Digital Studio and the introduction of the KLM X-way of working, an environment was created that facilitates the introduction of new ways of working and swift introduction of innovative solutions for challenges encountered in daily operations. Preceding the Strategy Meeting, the Supervisory Board visited KLM's Digital Studio and witnessed different demonstrations of KLM's digital initiatives, which support the execution of KLM's strategy and prepare for further innovation in an era where digital disruption is a new reality.

The Supervisory Board was informed by the Board of Managing Directors on the progress of the negotiations towards new collective labour agreements and the implementation thereof. In all three domains (cockpit, cabin and ground) new agreements were concluded (with the CLA for cabin crew already concluded in 2017) and implemented during the course of the year 2018.

During the annual strategy meeting, sustainability was on the agenda. As an important prerequisite for future growth, sustainability is an integral part of the company's operations. The strategy and ambitions were discussed and endorsed. The Supervisory Board challenged the Board of Managing Directors on the ambitions, knowing that taking an active stance and presence in the dialogue on the topic is increasingly important and above all expected by customers, employees and other stakeholders. The Supervisory Board took note of the envisaged joint sector efforts as laid down in the sector action plan 'Slim en Duurzaam' and considers this an important step in improving the environmental footprint. Only joint efforts will lead to sustainable results.

As an annually recurring topic on its agenda, the Supervisory Board was informed about the performance of the company's intercontinental and European network, as well as future network scenarios and partner developments. Furthermore, and at the request of the Board, the topic of financial settlement methodologies with KLM partners was elucidated. The Supervisory Board discussed with the Board of Managing Directors developments in the markets and the company's response to them. During the February meeting the Supervisory Board was informed about the strategic rationale of the envisaged cooperation with Virgin Atlantic.

Other topics discussed during the financial year, some of which are recurring, were the safety performance and the operational performance, the company's fleet development planning, developments in the field of cyber security and business continuity as well as IT.

The Supervisory Board was periodically informed about discussions with the Works Council. The Supervisory Board is grateful to the Works Council for its contribution in the transformation process of KLM. In keeping with previous years, members of the Supervisory Board took turns to attend meetings of the Works Council. Preceding the December meeting the Supervisory Board, together with the Board of Managing Directors, enjoyed the annual lunch together with the Works Council.

Financial topics

The Supervisory Board discussed progress on the budget and the Perform 2020 program on a frequent basis. Quarterly reports and figures were discussed during the regular meetings. An update on KLM's flight plan's execution, as part of the regular strategy execution update, was also discussed during the quarterly review meetings.
In 2018, KLM further strengthened its financial position. The Current Operating Margin ended well above budget but slightly below last year's level. The net debt was decreased and equity improved. The Supervisory Board carefully monitored investment levels. In 2018, investments stood at EUR 1.3 billion, the highest level ever in the company's history.
Despite the positive results the Supervisory Board has been carefully discussing the outlook for 2019 and beyond. KLM remains exposed to external financial risks; unit revenues may come under pressure and the fuel price is expected to rise. During the course of the year various scenarios were discussed, including actions to be taken in case of a less favorable economic environment. The Supervisory Board critically monitored unit cost development and productivity and reviewed improvement actions that are in place to manage these costs. Unit cost control remains a key element for the company.

As part of the AIR FRANCE KLM Group implementation, KLM implemented the IFRS 16 accounting standards as of financial year 2018, being the first in the industry. The Supervisory Board analysed the impact of IFRS 16 on various items of the consolidated statement of profit or loss, and the balance sheet.

On the topic of the Brexit, the Supervisory Board was informed that a Brexit task force has been set up in which all relevant departments in KLM are represented. The task force discusses developments on the Brexit negotiations and the effects on KLM's businesses. The Supervisory Board is confident that possible consequences of the Brexit have been made visible and that mitigating measures are developed to cope with the possible impact of the Brexit.

The Supervisory Board supports the Board of Managing Directors in the further execution of the strategy and the Perform 2020 program. Well on track in achieving KLM's objectives, KLM is aware that further and higher investments are needed in order to continuously improve the relative position of the company and thereby the need for a positive and acceptable cash flow. During the Supervisory Board's December meeting the company's budget, its financing plan and financial risk plan as well as its investment plan for fiscal year 2019 were approved.

Risk management

The Supervisory Board paid close attention to the topic of risk management, as risk is inherent to the airline industry. KLM's Audit Committee takes responsibility for monitoring the adequacy of KLM's risk control system and prepares discussions in the Supervisory Board. During fiscal year 2018, the Supervisory Board was regularly updated on KLM's strategic, financial and operational risks as well as compliance risks. In 2018, KLM's risk climate has further improved compared to 2017, and as a consequence is making KLM more robust in facing financial setbacks.
During the updates on the topic of risk management, the Supervisory Board reviewed and discussed the assessments of the Board of Managing Directors of the adequacy and effectiveness of the risk management and control system. In 2018, the setup of the operational risk sheet was reviewed and improved. KLM's internal audit function is firmly positioned within the organisation and creates conditions for an effective interaction between the Board of Managing Directors, the Supervisory Board and the Audit Committee.

On several occasions the Supervisory Board discussed with the Board of Managing Directors the risks of cybersecurity, thereby stressing the significant risks associated with cyberattacks and the need for contingency programs and training to be prepared in case of such attacks.

Corporate governance and compliance

Within the framework of the company's Legal & Business Ethics Compliance framework and the Compliance Charter, the Supervisory Board monitored KLM's compliance with rules and regulations. During the April meeting and the October meeting, the Supervisory Board was updated on the main compliance activities. Current topics following from risk assessments, export controls, and anti-bribery and privacy regulations were elucidated.

In the first half of financial year 2018, KLM implemented the obligations under privacy legislation (GDPR). In the second half of the year improvement actions were further implemented as part of phase two of the project. During the course of the year, the Supervisory Board was informed about the status of the project.

KLM has committed itself to follow the principles and best practice provisions of the revised Corporate Governance Code where possible. The Supervisory Board together with the Board of Managing Directors concluded that the introduction of the revised Corporate Governance Code's most important principles, being long-term value creation and culture, coincided with the implementation of KLM's new process for defining, executing and reviewing its strategy.

Supervisory Board review

Consistent with the new Dutch Corporate Governance Code the Supervisory Board assesses its functioning on an annual basis. In addition, in 2018 the Supervisory Board has undertaken a Board self-assessment. The review assessed the collective performance of the Board and its Committees, the contribution of individual Board members as well as the Chairman. An inventory was made with topics for improvement. The outcome of the assessment, conclusions and actions for improvement will be discussed during an executive session in the first quarter of 2019.

Composition of the Supervisory Board

At the end of the Annual General Meeting of 2018, Mrs. Dautry stepped down as Supervisory Board member. Mrs. Dautry served one term in the Board. The Supervisory Board wishes to express its gratitude for her valuable contributions to the Board and the company.

Upon recommendation of AIR FRANCE KLM and filling the vacancy of Mrs. Dautry, Mrs. Pellerin was appointed as Supervisory Board member for a first term of four years, at the end of the Annual General Meeting of 2018. The Board considers Mrs. De Pellerin's experience and background in economics, finance and digital, valuable additions to the expertise of the Supervisory Board. Mr. 't Hart was reappointed for a second period of four years.

As announced in last year's annual report, Mrs. Roobeek and Messrs. Smits and Peyrelevade, are due to retire by rotation. KLM's Works Council has the right to recommend a candidate for the position that will arise following the resignation of Mrs. Roobeek. As to the vacancy due to the retirement of Mr. Peyrelvade, AIR FRANCE KLM has the right to recommend a candidate.

The Supervisory Board hereby announces that Messrs. Calavia, Enaud and Riolacci are due to retire by rotation at the end of the closure of the Annual General meeting of Shareholders in 2020. For both Mr. Enaud and Mr. Riolacci, their first term expires. For Mr. Calavia, his second term expires.

Shareholders are entitled to make recommendations for Supervisory Board vacancies. It should however be noted that for the positions of Messrs. Calavia, Enaud as well as Riolacci AIR FRANCE KLM may propose candidates.

Independence

The Supervisory Board considers all but two of its members to be independent pursuant to the revised Dutch Corporate Governance Code 2016. Both Mr. Calavia and Mr. Riolacci, in their capacity of former Chief Financial Officers of AIR FRANCE KLM, are not considered independent. Mr. Calavia resigned as Chief Financial Officer of AIR FRANCE KLM as per the end of January 2014. Mr. Riolacci resigned as Chief Financial Officer of AIR FRANCE KLM as per July 2016.

Composition of the Board of Managing Directors

The Board of Managing Directors consists of three members, Mr. Elbers, Chief Executive Officer, Mr. Swelheim, Chief Financial Officer, and Mr. de Groot, Chief Operating Officer. No changes materialised in the composition of the Board of Managing Directors during the year 2018.

In view of the expiration of Mr. Elbers term in the function of Managing Director and Chief Executive Officer and the expiration of the term of Mr. de Groot in the function of Managing Director and Chief Operating Officer as per the Annual General Meeting of April 2019, the Supervisory Board has unanimously proposed their reappointments for a new term of four years, thereby expressing their confidence and support for Mr. Elbers and Mr. de Groot.

The Supervisory Board hereby announces that it will propose to the 2019 Annual General meeting of Share-holders the reappointment of Mr. Elbers, Chief Executive Officer, as well as the reappointment of Mr. de Groot, Chief Operating Officer, for a new term of four years.

Committees

The Supervisory Board has three committees: an Audit Committee, a Remuneration Committee, and a Nomination Committee. These committees prepare policy and decision-making and report on their activities to the full Supervisory Board. Committee meetings are open to all members of the Board, regardless of membership of the Committees.
The Audit Committee consists of three members, being Mr. Peyrelevade (Chairman), Mr. 't Hart and Mrs. Roobeek. The Audit Committee met on two occasions during the financial year. These meetings were scheduled in line with the regular schedule. The Audit Committee meetings were attended by all members of the Committee, with the exception of one member not being present at one meeting.

The Audit Committee's meetings are regularly attended by the Chief Financial Officer, the external auditors, the Internal Auditor and the Corporate Controller.

In keeping with previous years, the Audit Committee met with the external auditors without the members of the Board of Managing Directors present, to discuss the closing procedures and the state of affairs during the financial year. In addition to the plenary Audit Committee meetings, the

Chairman of the Audit Committee held separate sessions with the Chief Financial Officer and the Internal Auditor.

In the Audit Committee meetings, the Audit Committee discussed amongst other things the yearly and bi-yearly financial results as well as the internal and external audit results, as reported under the authority of respectively the company's internal auditor and the external auditors KPMG and Deloitte. The Audit Committee discussed the main financial and non-financial risks deriving from management's risk assessments. The Audit Committee discussed financial reporting, the overall internal controls over financial reporting and the adherence of the company to laws and regulations governing financial and regularly reporting.

During its February 2018 meeting, the Audit Committee discussed changes in reporting due to IFRS disclosures and the Audit Committee discussed the report of the external auditors regarding fiscal year 2017 as well as the dividend proposal and, following the discussion advised the full Supervisory Board to approve the proposal. During its July 2018 meeting, the Audit Committee discussed the audit plan, with the focus on IFRS 16. Furthermore, the Audit Committee analysed the long-term finance plan before the discussion thereof during the full Board Meeting.

The Audit Committee considered the role, performance and reports of the external auditors, the management letters and the auditor's independence and fees. During the February 2019 meeting the report of the external auditors regarding fiscal year 2018 as well as the dividend proposal were discussed within the Audit Committee. Following the discussion, the Audit Committee advised the Supervisory Board to approve the proposal.

The Chairman of the Audit Committee reported to the Supervisory Board about the deliberations and findings on the main topics during the meetings of the Supervisory Board.

The Remuneration Committee and the Nomination Committee consist of Mrs. De Gaay Fortman, and Messrs. Smits and Enaud. The Nomination Committee is chaired by Mr. Smits. The Remuneration Committee is chaired by Mrs. De Gaay Fortman.

The Remuneration Committee met on two occasions during the financial year. At its February meeting, the Committee evaluated the performance of the members of the Board of Managing Directors against the collective and individual targets set for financial year 2017. The Supervisory Board subsequently established the variable remuneration based on the recommendations of the Remuneration Committee. The Committee furthermore developed a proposal for targets for the new financial year, and these targets have been endorsed by the Supervisory Board. Further information can be found in the Remuneration Policy and Report section of this annual report.

The Nomination Committee met on three occasions during the financial year and all members attended. During the meeting, the composition of both the Supervisory Board and the Board of Managing Directors, including succession planning, was discussed.

The meetings of the Remuneration Committee as well as the Nomination Committee were attended by all members of the Committees and the Company Secretary. The meetings were partly attended by the President & Chief Executive Officer.

Distribution to shareholders

Article 32 of KLM's Articles of Association provides for the appropriation of profit. Paragraph 1 of that article gives the Meeting of Priority Shareholders (AIR FRANCE KLM) the right to set aside an amount of the disclosed profit to establish or increase reserves. The Meeting of Priority Shareholders may do so only after consultation of the Board of Managing Directors and the Supervisory Board.

After having consulted both Boards and under the condition that the financial statements 2018 would be adopted by the Annual General Meeting of Shareholders on April 25, 2019, the Meeting of Priority Shareholders, after due consideration of KLM's 2018 results, the financial situation of the company, its balance sheet and net debt/EBITDA ratio, specific required investment levels for the upcoming years, as well as uncertainties as regards revenue development and fuel prices and the competition that remains fierce, decided to add an amount of EUR 553,268,581 of the disclosed profit to the reserves.

In accordance with further provisions of Article 32, payments to holders of priority shares and holders of A and C cumulative preference shares will require an amount of EUR 2,347,518 and also relate to the financial year 2017, in which year no distributions were made to these shareholders.

As a consequence of the foregoing, there will be EUR 18,489,831 or EUR 0.395 per common share available for distribution to the shareholders.

Financial statements 2018

The Supervisory Board hereby presents the annual report and the financial statements for financial year 2018. The financial statements have been audited by KPMG Accountants N.V. and Deloitte Accountants B.V. The Supervisory Board has discussed the financial statements and the annual report with the external auditors and the Board of Managing Directors. The unqualified auditors' report as issued by KPMG and Deloitte can be found in the Other Information section of the financial statements.

The Supervisory Board is satisfied that the annual report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of KLM Group's affairs and the Supervisory Board's supervision thereof in the financial year 2018.

Closing remarks

For KLM, innovation, pioneering and Dutch courage and entrepreneurship have always been a distinct competitive advantage. These Dutch characteristics are reflected in KLM's culture and have made KLM a world class player. The persistent execution of KLM's strategy continues to pay off. KLM achieved excellent financial results and has laid the fundament for sustainable future growth. KLM is well on its way to become Europe's most customer-centric, innovative and efficient network carrier. The positive results have contributed to making KLM more agile and significantly more robust. We are confident but must and will remain cautious. The competition continues to put pressure and KLM will remain exposed to internal and external risks and uncertainties.

As part of AIR FRANCE KLM, KLM will further build on its strong base towards its 100th anniversary on October 7, 2019. We are looking forward to celebrating this extraordinary and special anniversary.

In closing and on behalf of the entire Supervisory Board I wish to express our appreciation for the work of the Board of Managing Directors and the Executive team in realising KLM's strategic and business objectives. And of course, also a special thank you to all KLM employees for their continued support, effort and engagement to KLM and its customers across the world.

Amstelveen, March 28, 2019
Hans N.J. Smits
Chairman

Remuneration policy and report

Remuneration policy for the Board of Managing Directors

The Supervisory Board's Remuneration Committee is responsible for formulating, implementing and evaluating the remuneration policy of KLM with regard to the terms and conditions of service and remuneration of the members of the Board of Managing Directors and the remuneration of the members of the Supervisory Board. The remuneration policy is formulated and proposed by the Supervisory Board and, in accordance with the Articles of Association, adopted by the General Meeting of Shareholders.

Each year, the Remuneration Committee evaluates whether there is reason to change the remuneration policy, and within the framework of the policy the actual remuneration, for the members of the Board of Managing Directors. The following factors are considered in the evaluation: (i) developments in the remuneration of AIR FRANCE KLM's directors, whereby external benchmark data regarding directors' remuneration (reference group is large Dutch companies) are also taken into account and (ii) inflation and developments in KLM's collective labour agreements. Following its evaluation in 2018, the Supervisory Board decided to submit an amendment of the remuneration policy in respect of the pensions of the Board of Managing Directors. The amendment has been adopted by the General Meeting of Shareholders during its annual meeting in April 2018. This amendment is explained in paragraph 'Pensions' of this chapter.

In accordance with the Articles of Association and the remuneration policy, and subject to prior approval of the Meeting of Priority Shareholders (AIR FRANCE KLM), the Supervisory Board sets the remuneration and further terms and conditions of service of the individual members of the Board of Managing Directors. These decisions are prepared by the Supervisory Board's Remuneration Committee. Any changes in individual remuneration resulting from the evaluation are proposed by the Remuneration Committee to the Supervisory Board. The Supervisory Board in turn adopts the remuneration, subject to approval of the Meeting of Priority Shareholders.

Objective of the policy

The main objective of the remuneration policy is to create a clear and understandable remuneration structure that enables KLM to attract and retain qualified Managing Directors and to offer them a stimulating reward. Furthermore, the remuneration policy aims to encourage Managing Directors to improve the performance of KLM and to achieve KLM's long-term objectives within the context of AIR FRANCE KLM.

The remuneration package includes, in addition to a base salary, a short-term incentive in cash relating to the (financial and non-financial) performance in the financial year as reported and a long-term incentive in the form of phantom shares, relating to certain pre-determined financial and non-financial targets with a longer-term focus. When determining the remuneration package, the Remuneration Committee takes into consideration an appropriate ratio between the variable and fixed remuneration. In this context, the Remuneration Committee also takes note of the views of the Board of Managing Directors regarding the structure and level of their individual remuneration.

Structure

The remuneration package for the members of KLM's Board of Managing Directors consists of three basic components:

1. Base salary;
2. Short-term incentive in cash related to performance in the past financial year; and
3. Long-term incentive in the form of phantom shares related to certain pre-determined financial and non-financial targets.

1. Base salary

The amount of the base salary is related to the requirements and responsibilities pertaining to the function of the relevant member of the Board of Managing Directors. The Remuneration Committee determines an appropriate level for the base salary with the aid of external reference data issued by independent remuneration experts and also takes into account the base salaries for directors at AIR FRANCE KLM level. The job grade is determined on the basis of KLM's size, the complexity of the activities, the national and international environment in which KLM operates and the specific responsibilities pertaining to the position. On the basis of this job grade, a base salary level is set at around the median of the market level. This salary level then serves as the maximum achievable base salary for the respective Managing Director.

Managing Directors may retain payments they receive from other remunerated positions (such as membership of a supervisory board or similar body) with the maximum number of remunerated positions set at two per Managing Director. Acceptance of such position requires the prior approval of the Supervisory Board. Any payment in connection with Supervisory Board memberships with KLM Group companies or with other airline companies remains due to KLM.

Members of the Board of Managing Directors are furthermore entitled to make use of travel facilities comparable to the travel facilities as described in the travel regulations for KLM employees.

2. Short-term incentive plan

The purpose of the short-term incentive plan is to reward members of the Board of Managing Directors for achieving pre-agreed and measurable targets relating to performance in the past financial year. The short-term incentive is paid in cash as a percentage of base salary. The criteria on which the short-term incentive plan is based, are: (i) financial targets relating to KLM (25%), (ii) financial targets relating to AIR FRANCE KLM (25%) and (iii) individual targets (50%).

The maximum pay-out percentage is connected to the position of the Board member. Depending on the performance level achieved, the pay-out percentages are as follows:

For the CEO position:

» The maximum percentage that can be paid out in case of an 'excellent' score is 100%;
» In case of an 'at target' score for each of the three short-term incentive targets, this percentage is 70%; and
» In case of a 'below a set limit' score (target less than 80% achieved), no payment is made.

For the Managing Director position:

» The maximum percentage that can be paid out in case of an 'excellent' score is 60%;
» In case of an 'at target' score for each of the three short-term incentive targets, this percentage is 40%; and
» In case of a 'below a set limit' score (target less than 80% achieved), no payment is made.

The Remuneration Committee evaluates the agreed targets each year and proposes new targets. The CEO and other Board members are asked to provide input for their evaluation.

Both the evaluation and the proposals are submitted to the Supervisory Board for approval. In line with the Dutch Corporate Governance Code, the Remuneration Committee – in establishing both the policy and actual remuneration for individual members of the Board of Managing Directors – analyses the possible outcomes of the intended new short-term incentive target setting (in case of a change to the policy) or the agreed short-term incentive pay-out percentage. The Committee will relate such outcomes against the results of KLM as a whole.

The Remuneration Committee may use its discretionary powers in case the evaluation of the short-term incentive targets would produce an unfair result due to extraordinary circumstances by adjusting the pay-out downwards or upwards. Together with its proposal to the Supervisory Board, the Remuneration Committee will provide an explanation for using its discretionary powers.

3. Long-term incentive plan

Members of the Board of Managing Directors participate in KLM's long-term incentive (LTI) plan, which is in the form of phantom shares, relating to certain predetermined financial and non-financial targets. The LTI plan encourages members of the Board of Managing Directors to achieve long-term profitable growth for KLM as part of AIR FRANCE KLM. The phantom performance shares plan provides for the conditional award of an amount in cash that, at the time of selling of the performance shares, is equal to the number of phantom shares that have vested during the performance period and are offered for the AIR FRANCE KLM share price at the time of sale.

Granting of the phantom shares will only take place if the individual performance of the Board members is at least 'at target'. The granted shares will vest in three years, provided certain predetermined performance criteria are met. The vested shares may then be sold after three years from the granting date during a period of two years.

KLM's performance criteria for the LTI plan are:
(a) AIR FRANCE KLM total shareholders' return (30%);
(b) KLM Group Return on Capital Employed (40%); and
(c) AIR FRANCE KLM position in the Dow Jones Sustainability Index, sector transport (30%).

The number of phantom performance shares (in the case of 'at target' performance), that will conditionally be granted to the members of the Board of Managing Directors under the long-term incentive plan, amounts to 10,000 shares for the CEO and 6,000 shares for the Managing Director.

Claw back clause

The Supervisory Board has the authority to reclaim payments on the basis of article 2:135 sub 8 of the Dutch Civil Code.

Pensions

In accordance with KLM's pension policy the Pension Plan for members of KLM's Board of Managing Directors is a career average salary scheme. Following the aforementioned amendment of the remuneration policy in April 2018, the short-term incentive (up to a maximum of 30 per cent) is included as pensionable income. By doing so the Remuneration Policy on this element is brought in alignment with that of the executives of KLM. In line with the fiscal regime, pensionable income is capped at EUR 105,075 (2018). In addition Managing Directors are entitled to an allowance, comparable to the premium available for pension accrual for the part of base salary above EUR 105,075, which can be used as a premium (deposit) for a net pension scheme that is offered by KLM's pension fund.

Employment contracts with members of the Board of Managing Directors

Members of the Board of Managing Directors have a contract of employment with KLM. In case of newly appointed external members of the Board of Managing Directors, the term of the employment contract is set at a maximum of four years. When Board members are appointed from within KLM, the years of service are respected in their new employment contract, and the appointment as a board member has a fixed term of four years.

With regard to the current members of the Board of Managing Directors:

» Pieter Elbers' employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2019;
» Erik Swelheim's employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2022; and
» René de Groot's employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2019.

Severance pay

In case of newly appointed members of the Board of Managing Directors from outside KLM, the maximum severance pay in the event of dismissal is established at one year's base salary. In case of newly appointed members of the Board of Managing Directors from within KLM, the severance pay in the event of dismissal has been set at a maximum of two years' base salary, whereby in establishing the amount due consideration will be given to the years of service with KLM.

Remuneration of the Board of Managing Directors in financial year 2018

1. Base salary

The base salary of the individual Managing Directors increased in 2018, and now stands at EUR 520,000 (2017: EUR 475,000) for Pieter Elbers, EUR 335,000 (2017: EUR 315,000) for Erik Swelheim and EUR 345,000 (2017: EUR 325,000) for René de Groot.

Despite the increase compared to 2017, the base salary of the Managing Directors remains significantly below the median of the applicable market benchmark as well as below that of previous KLM CEOs in the case of Mr. Elbers.

Details of the base salary received by the individual members of the Board of Managing Directors are presented in note 34 of the financial statements.

2. Short-term incentive plan

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2018 in accordance with the remuneration policy and its proposal has subsequently been endorsed by the Supervisory Board. The evaluation led to the following pay-outs under the short-term incentive plan for financial year 2018: 68% (out of 100% maximum) of the base salary for Pieter Elbers, 42.6% (out of 60% maximum) for Erik Swelheim and 42.6% (out of 60% maximum) for René de Groot.

For 2018, the Board of Managing Directors did not receive any payments under the company-wide profit sharing scheme.

Details of the amounts involved are included in note 34 of the financial statements.

3. Long-term incentive plan

Pursuant to the long-term incentive plan and based on the performance evaluation of financial year 2018, phantom shares will be conditionally granted to each member of the Board of Managing Directors in April 2019.

At its January 2019 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the long-term incentive plan. In respect of financial year 2018, targets were partially met.

Therefore the first (one-third) increment of the 2019 phantom shares series, the second (one-third) increment of the 2018 phantom shares series and the third (one-third) increment of the 2017 phantom shares series will vest for 74.8%. These phantom shares will be unconditionally awarded in April 2019 to the members of the Board of Managing Directors. Since the first and second increment of the 2017 phantom shares series have vested for 116% and 114% respectively, the 74.8% vesting of the third increment will be capped, so that the vesting in total will not exceed 100%.
Details of the granting and vesting of the phantom shares are included in note 32 of the financial statements.

Internal pay ratios

In line with the Dutch Corporate Governance Code, internal pay ratios are an important input for assessing the Remuneration policy for the Board of Managing Directors. The ratio between the annual total compensation for the CEO and the average annual total compensation for an employee of KLM was 12.2 for the 2018 financial year. Annual total compensation for both include variable income and pension benefits. The development of this ratio will be monitored and disclosed going forward.

Loans and advances

No loans or advances have been granted to members of the Board of Managing Directors.

Remuneration policy for the Supervisory Board

The remuneration policy for members of the Supervisory Board has not changed since 2008. The remuneration consists of a fixed annual fee and a fee for each meeting that is attended. Members of the Supervisory Board do not receive a performance-related reward or shares or rights to shares by way of remuneration, nor are they granted loans, advances or guarantees. The remuneration of the members of the Supervisory Board is fixed by the General Meeting of Shareholders.

Remuneration of the Supervisory Board members in financial year 2018

The remuneration for the Supervisory Board is as follows. The fixed fee payable for services amounts to EUR 42,500 for the Chairman, EUR 34,500 for the Vice-Chairman and EUR 26,500 for the other members of the Supervisory Board.

The fee per meeting of the Audit Committee attended amounts to EUR 2,000 for the Chairman and EUR 1,000 for the other members of the Audit Committee. The fee per meeting of the Remuneration Committee and the Nomination Committee attended amounts to EUR 1,500 for the Chairman and EUR 1,000 for the other members of the Remuneration Committee and the Nomination Committee.

Members of the Supervisory Board are furthermore entitled to make use of travel facilities described in the travel regulations for KLM employees.

Details on the remuneration received by individual members of the Supervisory Board are presented in note 33 of the financial statements.

Supervisory Board and Board of Managing Directors

Supervisory Board (situation as at December 31, 2018)

Name	Year of birth	Nationality	First appointment/ Current term	Function / Supervisory Board memberships and other functions*
Hans N.J. Smits** Chairman	1950	Dutch	2004 / (fourth) 2016 - 2019	Chairman Janssen de Jong Group / Board member Odfjell SE, Former Chairman Board of Managing Directors Havenbedrijf Rotterdam N.V., former Chairman and CEO Rabobank, former Chairman and CEO Amsterdam Airport Schiphol.
Philippe Calavia ***	1948	French	2012 / (second) 2016 - 2020	Senior advisor Accuracy / former CFO AIR FRANCE KLM, former CEO AIR FRANCE KLM Finance, former deputy CEO Natexis, Director to Servair.
François Enaud ***	1959	French	2016 (first) 2016 - 2020	President & CEO FE Development / Director Arkema, Board member of Aston Finance respectively Premium Peers, Board member of Linkbynet, Chairman of Shadline and DejaMobile, President ANSA, Senior advisor Omnes Capital.
Marry de Gaay Fortman **	1965	Dutch	2017 / (first) 2017 - 2021	Partner Houthoff / Member Supervisory Board De Nederlandsche Bank, Chair Stichting Topvrouwen, various board memberships in the cultural sector.
Cees C. 't Hart	1958	Dutch	2014 / (second) 2018 - 2022	President & CEO Carlsberg Group / former CEO of Royal Friesland Campina, former SVP Marketing Operations Unilever Europe.
Fleur Pellerin ***	1973	French	2018 / (first) 2018 - 2022	CEO of Korelya Consulting, CEO of Korelya Capital / Board member of Naver France, Board member Schneider Electric, Board member Devialet, Board member Talan, Board member Ledger, Board member, Snips, Board member of France Digitale, President of Canneseries Festival.
Jean Peyrelevade ***	1939	French	2007 / (third) 2015 - 2019	Former CEO of SUEZ, former CEO Stern Bank, former CEO of the Union des Assurances de Paris, former CEO Credit Lyonnais / Director of BG Switzerland / SNI Marocco.
Pierre François Riolacci ***	1966	French	2016 (first) 2016 - 2020	CFO ISS Facility Services / former CFO AIR FRANCE KLM, former CFO Veolia Environment, Director of Finance Veolia.
Annemieke J.M. Roobeek **	1958	Dutch	2011 / (second) 2015 - 2019	Professor of Strategy and Transformation Management Nyenrode Business Universiteit, CEO and founder of MeetingMoreMinds B.V./ Non-Executive Director of ABN AMRO Group, Abbott Healthcare Products. Chairman Advisory Board for Responsible Investing of PGGM Investments.

* Only memberships of Supervisory Boards and functions with large companies on December 31, 2018 are shown here
** Appointed upon recommendation of KLM's Works Council
*** Appointed upon recommendation of AIR FRANCE KLM

Board of Managing Directors (situation as at December 31, 2018)

Name	Year of birth	Nationality	First appointment	Function
Pieter J.TH. Elbers	1970	Dutch	2012	President and Chief Executive Officer KLM
René M. de Groot	1969	Dutch	2015	Managing Director and Chief Operating Officer KLM
Erik R. Swelheim	1965	Dutch	2014	Managing Director and Chief Financial Officer KLM

Company Secretary & General counsel

Name	Year of birth	Nationality
Barbara C.P. van Koppen	1966	Dutch

2018 Financial Statements

KLM Royal Dutch Airlines Consolidated balance sheet

In millions of Euros	Note	December 31, 2018	December 31, 2017 Restated	January 1, 2017 Restated
After proposed appropriation of the result for the year				
ASSETS				
Non-current assets				
Property, plant and equipment	1	4,775	4,272	3,690
Right-of-use assets	2	2,008	2,250	2,176
Intangible assets	3	432	394	343
Investments accounted for using the equity method	4	21	23	20
Other non-current assets	5	224	186	317
Other financial assets	6	616	404	365
Deferred income tax assets	18	107	185	239
Pension assets	19	331	590	1,462
		8,514	8,304	8,612
Current assets				
Other current assets	5	135	228	224
Other financial assets	6	78	170	28
Inventories	7	235	177	193
Trade and other receivables	8	1,274	1,228	958
Cash and cash equivalents	9	874	1,058	1,208
		2,596	2,861	2,611
TOTAL ASSETS		11,110	11,165	11,223
EQUITY				
Capital and reserves				
Share capital	10	94	94	94
Share premium		474	474	474
Other reserves	11	(651)	(304)	(2,198)
Retained earnings		1,088	556	2,266
Total attributable to Company's equity holders		1,005	820	636
Non-controlling interests		1	1	1
Total equity		1,006	821	637
LIABILITIES				
Non-current liabilities				
Loans from parent company	12	-	198	288
Financial debt	13	1,038	1,181	1,365
Lease debt	14	1,401	1,592	1,787
Other non-current liabilities	5	228	216	171
Other financial liabilities	15	1,189	1,113	1,208
Deferred income	17	205	207	204
Provisions for employee benefits	19	386	423	474
Return obligation liability and other provisions	20	1,005	1,064	969
		5,452	5,994	6,466
Current liabilities				
Trade and other payables	21	2,235	2,182	1,988
Loans from parent company	12	99	-	-
Financial debt	13	232	355	395
Lease debt	14	374	353	381
Other current liabilities	5	168	112	66
Other financial liabilities	15	10	33	85
Deferred income	17	1,301	1,168	1,051
Provisions for employee benefits	19	26	100	28
Return obligation liability and other provisions	20	207	47	126
		4,652	4,350	4,120
Total liabilities		10,104	10,344	10,586
TOTAL EQUITY AND LIABILITIES		11,110	11,165	11,223

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines Consolidated statement of profit or loss

In millions of Euros	Note	2018	2017 Restated
Revenues	24	10,955	10,430
Expenses			
External expenses	25	(5,920)	(5,571)
Employee compensation and benefit expenses	26	(3,059)	(2,952)
Other income and expenses	27	129	157
Total expenses		(8,850)	(8,366)
EBITDA		2,105	2,064
Amortisation, depreciation and movements in provisions	28	(1,032)	(985)
Income from current operations		1,073	1,079
Other non-current income and expenses	29	(13)	(1,849)
Income from operating activities		1,060	(770)
Cost of financial debt	30	(195)	(238)
Income from cash and cash equivalents	30	18	10
Net cost of financial debt		(177)	(228)
Other financial income and expenses	30	(111)	319
Income before tax		772	(679)
Income tax (expense)/benefit	31	(203)	171
Net income after tax		569	(508)
Share of results of equity shareholdings		4	11
Profit/(loss) for the year		573	(497)
Attributable to:			
Equity holders of the Company		572	(498)
Non-controlling interests		1	1
		573	(497)
Net profit/(loss) attributable to equity holders of the Company		572	(498)
Dividend on priority shares		-	-
Net profit/(loss) available for holders of ordinary shares		572	(498)
Average number of ordinary shares outstanding		46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699
Profit/(loss) per share (in EUR)		12.22	(10.64)
Diluted profit/(loss) per share (in EUR)		12.22	(10.64)

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines Consolidated statement of profit or loss and other comprehensive income

In millions of Euros	2018	2017 Restated
Profit/(loss) for the year	573	(497)
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	(246)	94
Change in fair value transferred to profit or loss	(39)	(13)
Exchange differences on translation foreign operations	1	12
Tax on items of comprehensive income that will be reclassified to profit or loss	71	(21)
Total of comprehensive income that will be reclassified to profit or loss	**(213)**	**72**
Remeasurement of defined benefit pension plans	(209)	831
Fair value of equity instruments revalued through OCI	(27)	-
Tax on items of comprehensive income that will not be reclassified to profit or loss	56	(206)
Total of comprehensive income that will not be reclassified to profit or loss	**(180)**	**625**
Total of other comprehensive income after tax	**(393)**	**697**
Recognised income and expenses	**180**	**200**
- Equity holders of the company	179	199
- Non-controlling interests	1	1

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines Consolidated statement of changes in equity

In millions of Euros	Attributable to Company's equity holders Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2018	94	474	(304)	556	820	1	821
Prospective first application of IFRS 9	-	-	6	-	6	-	6
As at January 1, 2018	94	474	(298)	556	826	1	827
Net gain/(loss) from cash flow hedges	-	-	(285)	-	(285)	-	(285)
Fair value of equity instruments revalued through OCI	-	-	(27)	-	(27)	-	(27)
Exchange differences on translation foreign operations	-	-	1	-	1	-	1
Remeasurement of defined benefit pension plans	-	-	(209)	-	(209)	-	(209)
Transfer from retained earnings	-	-	40	(40)	-	-	-
Deferred tax on items taken directly to or transferred from equity	-	-	127	-	127	-	127
Net income/(expense) recognised directly in equity	-	-	(353)	(40)	(393)	-	(393)
Profit for the year	-	-	-	572	572	1	573
Total recognised income/(expenses)	-	-	(353)	532	179	1	180
Dividends paid	-	-	-	-	-	(1)	(1)
Other movements	-	-	-	-	-	-	-
As at December 31, 2018	94	474	(651)	1,088	1,005	1	1,006

In millions of Euros	Attributable to Company's equity holders Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at December 31, 2016	94	474	(2,191)	2,610	987	1	988
First application of IFRS 9, 15 and 16	-	-	(7)	(344)	(351)	-	(351)
As at January 1, 2017 Restated	94	474	(2,198)	2,266	636	1	637
Net gain/(loss) from cash flow hedges	-	-	81	-	81	-	81
Exchange differences on translation foreign operations	-	-	12	-	12	-	12
Remeasurement of defined benefit pension plans	-	-	831	-	831	-	831
Transfer from retained earnings	-	-	1,197	(1,197)	-	-	-
Deferred tax on items taken directly to or transferred from equity	-	-	(227)	-	(227)	-	(227)
Net income/(expense) recognised directly in equity	-	-	1,894	(1,197)	697	-	697
(Loss) for the year	-	-	-	(498)	(498)	1	(497)
Total recognised income/(expenses)	-	-	1,894	(1,695)	199	1	200
Dividends paid	-	-	-	(17)	(17)	(1)	(18)
Other movements	-	-	-	2	2	-	2
As at December 31, 2017 Restated	94	474	(304)	556	820	1	821

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines consolidated cash flow statement

In millions of Euros	Note	2018	2017 Restated
Profit/(loss) for the year		573	(497)
Depreciation and amortisation	28	1,003	962
Changes in provisions	28	29	23
Results of equity shareholdings		(4)	(11)
Result on sale of equity shareholdings		-	(30)
Changes in pension assets		(34)	(33)
Changes in deferred income tax	31	203	(171)
Other changes *		11	1,418
Net cash flow from operating activities before changes in working capital		1,781	1,661
(Increase) / decrease in inventories		(16)	14
(Increase) / decrease in trade receivables		18	(160)
Increase / (decrease) in trade payables		21	43
(Increase) / decrease in other receivables and other payables		182	177
Change in working capital requirement		205	74
Net cash flow from operating activities		1,986	1,735
Capital expenditure on intangible fixed assets	3	(109)	(118)
Capital expenditure on aircraft	1	(1,110)	(871)
Disposal of aircraft		17	51
Capital expenditure on other tangible fixed assets	1	(103)	(94)
Disposal of other (in-)tangible fixed assets		6	7
Sale of equity shareholdings		4	6
Dividends received		5	7
(Increase) / decrease in short-term deposits and commercial paper		-	(60)
Net cash flow used in investing activities		(1,290)	(1,072)
Increase in long-term debt		175	425
Decrease in long-term debt		(560)	(765)
Decrease in lease debt		(376)	(363)
Increase in long-term receivables		(167)	(113)
Decrease in long-term receivables		47	32
Dividend paid		(1)	(18)
Net cash flow used in financing activities		(882)	(802)
Effect of exchange rates on cash and cash equivalents		2	(11)
Change in cash and cash equivalents		(184)	(150)
Cash and cash equivalents at beginning of period		1,058	1,208
Cash and cash equivalents at end of period **	9	874	1,058
Change in cash and cash equivalents		(184)	(150)
Interest paid (flow included in operating activities)		(190)	(219)
Interest received (flow included in operating activities)		9	5

The accompanying notes are an integral part of these consolidated financial statements

* 2017 Other changes mainly relate to the non-cash settlement expenses following modification of pension plans. See note 19 and 29

** Including unrestricted Triple A bonds, deposits and commercial paper the overall cash position and other highly liquid investments amount to EUR 1,468 million as at December 31, 2018 (December 31, 2017 EUR 1,508 million)

In millions of Euros	2018	2017 Restated
Cash flow from operating activities	1,986	1,735
Cash flow used in investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	(1,290)	(1,012)
Free cash flow	696	723
Adjusted free cash flow	320	360

Financial Statements financial year 2018

Notes to the consolidated financial statements

General

Koninklijke Luchtvaart Maatschappij N.V. (the "Company") is a public limited liability company incorporated and domiciled in the Netherlands. The Company's registered office is located in Amstelveen.

The Company is a subsidiary of AIR FRANCE KLM S.A. ("AIR FRANCE KLM"), a company incorporated in France. The Company financial statements are included in the financial statements of AIR FRANCE KLM which can be obtained from the AIR FRANCE KLM Financial communication department. AIR FRANCE KLM's shares are quoted on the Paris and Amsterdam stock exchanges.

These financial statements have been authorised for issue by the Board of Managing Directors on March 28, 2019 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 25, 2019.

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards adopted by the European Union (EU-IFRS) and effective at the reporting date December 31, 2018. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of the Dutch Civil Code. As permitted by Section 402 of Book 2 of the Dutch Civil Code the Company statement of profit or loss has been presented in condensed form.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).

Significant accounting policies

The consolidated financial statements are prepared on historical cost basis unless stated otherwise. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented in these financial statements, unless stated otherwise.

Restatement of 2017 financial statements

Since January 1, 2018, the Company and its subsidiaries (the "Group") have applied the following three new standards:

» IFRS 9 "Financial Instruments": this standard came into force on January 1, 2018. It defines new accounting principles in terms of the classification and valuation of financial instruments, the impairment based on financial assets credit risk and the hedge accounting. The Group has initially applied IFRS 9 as at initial application date. Under the transition methods chosen, comparative information has not been restated except for certain hedging requirements. In order to implement this standard the Group assessed the impact retrospective and is recognised at initial application date;
» IFRS 15 "Revenue Recognition from Contracts with Customers": this standard came into force on January 1, 2018. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the standard has been applied retrospectively to each previous period in which financial information is presented; and
» IFRS 16 "Leases": The Group opted for the early adoption of this standard as of January 1, 2018. In accordance with IAS 8 Accounting Policies, Changes in Accounting

Estimates and Errors, it has been applied using the retrospective restatement to each prior reporting period detailed below. The two capitalisation exemptions allowed by the standard – lease contracts with a duration of less than 12 months and lease contracts for which the underlying asset has a low value in new state, which has been defined by the Group below USD 5,000 – have been used.

The main changes induced by IFRS 9 are the following:
The implementation of the "classification and valuation" section of the standard mainly had impacts on the accounting of equity instruments. IFRS 9 requires making an irrevocable election of the way to account for these instruments at their initial recognition. The valuation of equity instruments is either in fair value through the statement of profit or loss or in fair value through other comprehensive income. The classification methodology for equity instruments has been defined as follows:

- If the equity instrument is considered to be a cash investment, i.e. it is held for the purposes of monetary transactions, its revaluations are recorded in "other financial income and expenses"; and
- If the equity instrument is considered to be a business investment, i.e. it is held for strategic reasons (as it mainly consists of investments in companies whose activity is very close to that of the Group), its revaluations are recorded in "other comprehensive income".

The implementation of the "impairment" section did not have significant impacts on the financial statements of the Group.

The implementation of the "hedge accounting" section led to the following changes:

- The change in time-value of call-options is now recognised in "other comprehensive income" whereas it had previously been recorded in the statement of profit or loss as "other financial income and expenses";
- The designation of a risk component (e.g. Brent or gas oil) as a hedged item relating to the fuel derivatives (purchase of jet fuel). This change allows a decrease in the ineffectiveness of the hedge relationships;
- The forward element of the forward currency contracts is treated as a cost of the hedge. The changes in fair value of the points-swap are now recorded in "other comprehensive income" and recycled as a transaction cost when the hedge item is recognised; and
- The designation of the lease liability in US dollar as a cash flow hedge of the revenues in US dollars (refer to the paragraph related to the changes induced by IFRS 16).

The main changes induced by IFRS 15 are the following:

- Revenue related to unused tickets: revenue recognition is based on a historical statistical rate for unused tickets which is regularly updated, at the theoretical date of the transport. Previously, this recognition had been done at the date the ticket was issued;
- Ticket issuing and change fees: revenue recognition at the transport date, since these are not considered to be a separate service providing a benefit to the passenger in the absence of transportation. Previously, this recognition had been done at the date of change or issuance;
- Commissions and other distribution costs (credit card fees, booking fees) linked to airline ticket sales and charged to cost when transport is made. Previously, they had been recognised when incurred, i.e. at the issuance date of the ticket;
- Transportation of goods on behalf of the Group, by other airlines: the revenue invoiced to the customer is fully recognised and a cost corresponding to the chartering is recorded. Previously, only the commission had been recognised in revenues for the part operated by another airline;
- The frequent flyer program Flying Blue is considered as a performance obligation; and
- Power-by-the hour contracts (overhaul of aircraft equipment and engines): revenue recognition based on the costs incurred. Previously, revenue recognition had been based on the invoicing schedule, i.e. according to flight hours; a provision had been made for the expected costs.

The main changes induced by IFRS 16 are the following:

- Capitalisation of aircraft lease contracts fulfilling the capitalisation criteria defined by IFRS 16:
  The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising the renewal options contractually foreseen. For example, this may be the case if substantial cabin customisation has taken place whereas the residual lease term is significantly shorter than the useful life of the cabins. The discount rate used to value the lease debt corresponds, for each aircraft, to the implicit rate mainly determined by the contractual elements.
  Most of the aircraft lease contracts are denominated in US dollars. As from January 1, 2018, the Group put in place a cash flow from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. The effective portion of the foreign exchange revaluation of the lease debt in US dollars at the closing date is recorded in "other comprehensive income". This amount is recycled in revenues when the hedged item is recognised.
  In accordance with IFRS 9, the hedging relationship was designated prospectively and has been set up at Group level as from January 1, 2018. The comparative accounts, restated 2017, are therefore impacted by the debt volatility in US dollars on the line "other financial income and expenses" in the consolidated statement of profit or loss.
  Marginally, for companies in the Group that do not have

revenues in US dollars, derivatives have been designated as hedging instrument;

» Capitalisation of real-estate lease contracts:
Based on its analysis, the Group has identified lease contracts within the meaning of the standard concerning surface areas rented in its hubs, rented building dedicated to the maintenance business, customised lounges in airports other than the hubs and rented office buildings, including leasehold land when applicable. The lease term corresponds to the non-terminable period plus, if necessary, any renewal options which are reasonably certain to be exercised by the Group. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the commencement of the contract;

» Accounting of the other-asset leases:
As a result of the Group's analysis, the main lease contracts identified concern company cars, pools of spare parts and engine lease contracts. The lease term corresponds with the non-terminable period plus, if necessary, any renewal options to be exercised by the Group. The discount rate used to calculate the right-of-use asset and the lease debt is determined, for each asset, by the incremental borrowing rate at the commencement of the contract; and

» Accounting of the maintenance on leased aircraft:
the Group recognizes return obligation liabilities and provisions in respect of the required maintenance obligations within the framework of the lease of aircraft to lessors. The constitution of these return obligation liabilities and provisions depends on the type of maintenance obligations to fulfill before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These provisions also consist of compensation paid to lessors in respect of wear of the limited life parts in the engines.

» Overhaul and restoration works (not depending on aircraft utilisation)
A return obligation liability is recorded on delivery of the leased aircraft for the expected cost of restoration of the aircraft to contractually specified condition and appearance on redelivery to the lessor on termination of the lease, independent of any use of the aircraft during the lease term.

This liability is valued on commencement date at the discounted value of the expected cost of restoration. At the same time and for the same value, an additional asset component is recognised in the right-of-use asset for the aircraft lease on commencement date, which is amortised over the lease term.

» Airframe and engine potentials reconstitution (depending on the utilisation of the aircraft and engines)
A return obligation liability is recorded on delivery of the leased aircraft for the use within the lease of contractually specified airframe and engine productive potentials, which were available on the aircraft on delivery and which after and to the degree of their use, either require reinstatement by a maintenance event, of which at least one is reasonably certain to take place before the lease termination date, or a compensation in cash on redelivery of the aircraft to the lessor on termination of the lease for used productive potentials not reinstated.

This liability is valued on commencement date at the discounted value of the expected cost of reinstatement or compensation of the used productive potentials (both related to expected cost of the maintenance event required to reinstate the used potentials). At the same time and for the same value, an additional asset component is recognised in the right-of-use asset of the lease, which is depreciated in the period from delivery of the aircraft until the first expected maintenance event that will reinstate the used potentials. The actual cost of the maintenance event is capitalised to replace the then fully depreciated component recorded on the commencement date and will in turn be depreciated in the estimated period until the next required maintenance event according to normal expected use of productive potentials.

The return obligation liability is not affected by the maintenance event, as this in itself does not redeem any liability to the lessor. The liability remains on the books until the actual redelivery date on which the liability will be redeemed by any remaining book value corresponding with the unused potentials remaining since the last performed maintenance event before the lease termination and by a cash compensation for the used (and depreciated) potentials since that last event.

Discounting to determine the value of the return obligation liability and the corresponding right-of-use asset component on the commencement date reflects the time value of money which is established in the same way as described in the accounting policies for "Other provision" as included in the Accounting policies for the balance sheet.

» Compensation related to limited life parts (engine components)
As the component approach is not applicable for limited life parts, cost related to the lessor's compensation are recorded progressively as they are used during the lease term and based upon contractual data (e.g. cost of a limited life part).

For comparison purposes, the consolidated financial statements as of December 31, 2017 have been restated.
The impacted line items in the consolidated financial statements for these three new standards are summarised hereafter:

Impact on the consolidated balance sheet

	Balance sheet December 31, 2017				
In millions of Euros	Published	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact	Restated
ASSETS					
Property, plant and equipment	4,319	23	-	(70)	4,272
Right-of-use assets	-	-	-	2,250	2,250
Investments accounted for using the equity method	24	-	-	(1)	23
Deferred income tax assets	145	(5)	5	40	185
Other current assets	229	-	-	(1)	228
Trade and other receivables	1,228	-	19	(19)	1,228
EQUITY	927	18	(16)	(108)	821
LIABILITIES					
Lease debt	-	-	-	1,592	1,592
Deferred income (non-current)	207	-	-	-	207
Return obligation liability and other provisions (non-current)	622	-	-	442	1,064
Trade and other payables	2,167	-	10	5	2,182
Lease debt	-	-	-	353	353
Deferred income (current)	1,133	-	38	(3)	1,168
Return obligation liability and other provisions (current)	137	-	(8)	(82)	47

	Balance sheet January 1, 2017				
In millions of Euros	Published	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact	Restated
ASSETS					
Property, plant and equipment	3,783	(21)	-	(72)	3,690
Right-of-use assets	-	-	-	2,176	2,176
Investments accounted for using the equity method	22	-	-	(2)	20
Deferred income tax assets	119	5	5	110	239
Other current assets	224	-	-	-	224
Trade and other receivables	964	-	16	(22)	958
EQUITY	988	(16)	(15)	(320)	637
LIABILITIES					
Lease debt	-	-	-	1,787	1,787
Deferred income (non-current)	204	-	-	-	204
Return obligation liability and other provisions (non-current)	593	-	-	376	969
Trade and other payables	1,983	-	12	(7)	1,988
Lease debt	-	-	-	381	381
Deferred income (current)	1,017	-	34	-	1,051
Return obligation liability and other provisions (current)	163	-	(10)	(27)	126

Impact on the consolidated statement of profit or loss

In millions of Euros	Period from January 1, 2017 to December 31, 2017 2017 Published	 IFRS 9 impact	 IFRS 15 impact	 IFRS 16 impact	 2017 Restated
Revenues	10,340	-	90	-	10,430
External expenses	(5,523)	-	(89)	41	(5,571)
Employee compensation and benefit expenses	(2,955)	-	-	3	(2,952)
Other income and expenses	77	-	-	80	157
Total expenses	(8,401)	-	(89)	124	(8,366)
EBITDAR	1,939	-	1	124	2,064
Aircraft operating lease costs	(443)	-	-	443	-
EBITDA	1,496	-	1	567	2,064
Amortisation, depreciation and movements in provisions	(586)	-	(2)	(397)	(985)
Income from current operations	910	-	(1)	170	1,079
Other non-current income and expenses	(1,849)	-	-	-	(1,849)
Income from operating activities	(939)	-	(1)	170	(770)
Gross cost of financial debt	(102)	-	-	(136)	(238)
Income from cash and cash equivalents	11	-	-	(1)	10
Net cost of financial debt	(91)	-	-	(137)	(228)
Other financial income and expenses	78	(8)	-	249	319
Pre-tax income	(952)	(8)	(1)	282	(679)
Income tax benefit/(expense)	239	2	-	(70)	171
Net result after taxation of consolidated companies	(713)	(6)	(1)	212	(508)
Share of results of equity shareholdings	10	-	-	1	11
(Loss) for the year	(703)	(6)	(1)	213	(497)
(Loss) per share (in EUR)	(15.04)	(0.13)	(0.02)	4.55	(10.64)
Diluted (loss) per share (in EUR)	(15.04)	(0.13)	(0.02)	4.55	(10.64)

Impact on the consolidated statement of profit or loss and other comprehensive income

In millions of Euros	Period from January 1, 2017 to December 31, 2017 2017 Published	 IFRS 9 impact	 IFRS 15 and 16 impact	 2017 Restated
(Loss) for the year	(703)	(6)	212	(497)
Cash flow hedges				
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	41	53	-	94
Change in fair value transferred to profit or loss	(13)	-	-	(13)
Exchange differences on translation foreign operations	12	-	-	12
Tax on items of comprehensive income that will be reclassified to profit or loss	(7)	(14)	-	(21)
Total of comprehensive income that will be reclassified to profit or loss	33	39	-	72
Remeasurement of defined benefit pension plans	831	-	-	831
Tax on items of comprehensive income that will not be reclassified to profit or loss	(206)	-	-	(206)
Total of comprehensive income that will not be reclassified to profit or loss	625	-	-	625
Total of other comprehensive after tax	658	39	-	697
Recognised income and expenses	(45)	33	212	200
- Equity holders of the company	(46)	33	212	199
- Non-controlling interests	1	-	-	1

Impact on the consolidated cash flow statement

In millions of Euros	Period from January 1, 2017 to December 31, 2017 2017 Published	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact	2017 Restated
(Loss) for the year	(703)	(6)	(1)	213	(497)
Depreciation and amortisation	532	-	-	430	962
Changes in provisions	54	-	-	(31)	23
Results of equity shareholdings	(10)	-	-	(1)	(11)
Changes in deferred income tax	(239)	(2)	-	70	(171)
Other changes	1,659	8	-	(249)	1,418
Net cash flow from operating activities before changes in working capital	1,230	-	(1)	432	1,661
(Increase) / decrease in other receivables and other payables	158	-	1	18	177
Change in working capital requirement	55	-	1	18	74
Net cash flow from operating activities	1,285	-	-	450	1,735
Capital expenditure on aircraft	(784)	-	-	(87)	(871)
Net cash flow used in investing activities	(985)	-	-	(87)	(1,072)
Decrease in lease debt	-	-	-	(363)	(363)
Net cash flow used in financing activities	(439)	-	-	(363)	(802)
Effect of exchange rates on cash and cash equivalents	(11)	-	-	-	(11)
Change in cash and cash equivalents	(150)	-	-	-	(150)
Cash and cash equivalents at beginning of period	1,208	-	-	-	1,208
Cash and cash equivalents at end of period	1,058	-	-	-	1,058
Change in cash and cash equivalents	(150)	-	-	-	(150)

IFRS standards which are applicable on a mandatory basis to the 2018 financial statements

» Standard IFRS 9 "Financial Instruments"

This standard has been applied starting January 1, 2018 and comprises new accounting principles for financial instruments: classification and valuation, impairment of financial assets and hedge accounting.

The main qualitative and quantitative impact, resulting from the implementation of this standard are indicated in the aforementioned paragraph "Restatement of 2017 financial statements".

» Standard IFRS 15 "Revenue Recognition from Contracts with Customers"

This standard has been applied since January 1, 2018. The amendments to IFRS 15 "Clarifications to IFRS 15 Revenue Recognition from Contracts with Customers" have been taken into account.

The Group has chosen to apply IFRS 15 retrospectively to each previous period in which financial information is presented, according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Within this framework, none of the simplification measures proposed by the standard have been used.

The main qualitative and quantitative impact, resulting from the implementation of this standard are indicated in the aforementioned paragraph "Restatement of 2017 financial statements".

IFRS standard for early adoption to the 2018 financial statements

The Group has opted for the early adoption of IFRS 16 "Leases" starting January 1, 2018.

The Group has chosen to apply IFRS 16 using the retrospective restatement to each prior reporting period presented applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
The main qualitative and quantitative impact, resulting from the implementation of this standard are indicated in the aforementioned paragraph "Restatement of 2017 financial statements".

Other IFRS standards or amendments which are applicable on a mandatory basis to the 2018 financial statements

» Amendment to IFRS 12 "Clarification of the Scope of the Disclosure Requirements", effective for the accounting periods as of January 1, 2018. This amendment clarifies the scope of the disclosure requirements; and
» IFRIC 22 "Foreign Currency Transactions and Advance Consideration", effective for the accounting periods as of January 1, 2018. This interpretation of IAS 21 "Effects of Changes in Foreign Exchange Rates" clarifies the accounting of transactions in foreign currencies, including advance payments or receipts.

These amendment and interpretations did not have a significant impact on the Group's financial statements as of December 31, 2018.

IFRS standards which are applicable on a mandatory basis to the 2019 financial statements

» Amendment to IFRS 9 "Financial Instruments", effective for the accounting periods as of January 1, 2019. This amendment deals with prepayment features with negative compensation; and
» IFRIC 23 "Uncertainty over Income Tax Treatments", effective for the accounting periods as of January 1, 2019. This interpretation of IAS 12 "Income Taxes" clarifies the treatment of any situation of uncertainty regarding the acceptability of a tax treatment related to income taxes.

The Group does not expect a significant impact resulting from the implementation of these amendments and the interpretations.

Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union

» Amendment to IAS 28 "Long-term Interests in an Associate or Joint-Venture", effective for the accounting periods as of January 1, 2019. This amendment is linked to the measurement of other interests in an associate or joint-venture which would not be recognised by the equity method;
» Amendment to IAS 12 "Income Taxes", effective for the accounting periods as of January 1, 2019. This amendment stipulates the income tax consequences of payments relating to financial instruments classified as equity;
» Amendment to IFRS 11 "Joint Arrangements", effective for the accounting periods as of January 1, 2019. This amendment clarifies the accounting treatment of the acquisition of an interest in a joint operation;

- Amendment to IAS 23 "Borrowing Costs", effective for the accounting periods as of January 1, 2019. This amendment stipulates the borrowing costs that are eligible for capitalisation;
- Amendment to IAS 19 "Employee Benefits", effective for the accounting periods as of January 1, 2019. This amendment relates to the consequences of a plan amendment, curtailment or settlement for the current service cost and the net interest;
- Amendment to IFRS 3 "Business Combinations", effective for the accounting periods as of January 1, 2020. This amendment clarifies the definition of a business; and
- Amendment to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors", effective for the accounting periods as of January 1, 2020. This amendment defines the materiality.

Use of estimates and the exercise of judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from the estimates. The preparation of these financial statements also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further in the note Accounting policies for the consolidated balance sheet.

Consolidation principles

Subsidiaries

In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial statements for all entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated.
An entity is controlled when the Group has power over it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.

Non-controlling interests are presented within equity and on the statement of profit or loss separately from Company's equity holders and the Group's net result, under the line "non-controlling interests".

The effects of a buyout of non-controlling interests in a subsidiary already controlled by the Group and divestment of a percentage interest without loss of control are recognised in equity. In a partial disposal resulting in loss of control, the retained equity interest is remeasured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this remeasurement and the gain or loss on the sale of the equity interest, including all the items initially recognised in equity and reclassified to profit or loss.

Interest in associates and jointly controlled entities

In accordance with IFRS 11 "Joint arrangements", the Group applies the equity method to partnership over which it exercises control jointly with one or more partners (jointly controlled entities). Control is considered to be joint when decisions about the relevant activities of the partnership require the unanimous consent of the Group and the other parties sharing the control. In cases of a joint activity (joint operation), the Group recognises assets and liabilities in proportion to its rights and obligations regarding the entity.
In accordance with IAS 28 "Investments in Associates and Joint Ventures", companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are also accounted for using the equity method. The ability to exercise significant influence is presumed to exist when the Group holds more than 20% of the voting rights.
The consolidated financial statements include the Group's share of the net result of associates and jointly controlled entities from the date the ability to exercise significant influence begins to the date it ceases, adjusted for any impairment loss.

The Group's share of losses of an associate that exceeds the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity is not accounted for, unless the Group:

- Has incurred contractual obligations; or
- Has made payments on behalf of the associate.

Any surplus of the investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

Investments in which the Group has ceased to exercise significant influence or joint control are no longer accounted for by the equity method and are accounted at their fair value as other financial asset on the date of loss of significant influence or joint control.

Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits or losses resulting from intra-group transactions are also eliminated. Gains and losses realised on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group's interest in the entity, providing there is no impairment.

Scope of consolidation

A list of the significant subsidiaries is included in note 38 of the consolidated financial statements.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the exchange rate of the related hedge, if applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The financial statements of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- » Assets and liabilities are translated at the closing rate;
- » The statement of profit or loss and the cash flow statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- » All resulting translation differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity.

When control is given up, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used for the most significant currencies were as follows:

	Balance Sheet December 31, 2018 EUR	Average in Statement of profit or loss 2018 EUR	Balance Sheet December 31, 2017 EUR
1 US dollar (USD)	0.87	0.84	0.83
1 Pound sterling (GBP)	1.12	1.13	1.13
1 Swiss franc (CHF)	0.89	0.86	0.85
100 Japanese yen (JPY)	0.79	0.77	0.74
100 Kenya shilling (KES)	0.84	0.80	0.79

Business combinations

Business combinations are accounted for using the purchase method in accordance with IFRS 3 revised standard "Business combinations". The cost of a business combination is measured at the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquirer.

Any other costs directly attributable to the business combination are recorded in the statement of profit or loss.

When a business combination agreement provides for an adjustment to the cost contingent on future events, then the adjustment is taken into account when determining the cost if the adjustment is probable and can be measured reliably.

Where goodwill has been initially determined on a provisional basis, adjustments arising within twelve months of the acquisition date are recognised on a retrospective basis.

Goodwill acquired in a business combination is no longer amortised, but instead is subject to annual impairment test or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Segment reporting

The Company defines its primary segments on the basis of the Group's internal organisation, main revenue generating activities and the manner in which the Board of Managing Directors manages operations.

As from 2017, the Group has as its principal businesses: network activities, which include air transport of passengers and cargo activities, aircraft maintenance, leisure and any other activities linked to air transport.

Business segments

The activities of each segment are as follows:

» Network

Includes air transport of passengers and cargo activities:

- » Passenger main activity is the transportation of passengers on scheduled flights that have the Company's airline code. Passenger revenues include receipts from passengers for excess baggage and inflight sales. Other passenger revenues are derived from commissions from SkyTeam alliance partnership arrangements and revenues from block-seat sales; and
- » Cargo activities relate to the transportation of freight on flights under the Company's code and the sale of cargo capacity to third parties.

» Maintenance

Maintenance revenues are generated through maintenance services (engine services, component services and airframe maintenance) provided to other airlines and clients around the world.

» Leisure

This segment covers primarily the provision of charter flights and (low-cost) scheduled flights operated by transavia.com.

» Other

This segment covers primarily catering and handling services to third-party airlines and clients around the world.

Geographical segments

Revenues are allocated to geographical segments on the basis of destination as follows:

- » Direct flights: Revenue is allocated to the geographical segment in which the destination falls; and
- » Flights with stopovers: Revenue is allocated to the geographical segments in which the various sections of the route fall in accordance with IATA guidelines (based on weighted Passenger-kilometers).

The greater part of the Group's assets comprises aircraft and other assets that are located in the Netherlands. Inter-segment revenues are determined using the prices actually used for invoicing. These prices have been determined on a consistent basis.

Distinction between income from current operations and income from operating activities

The Group considers it relevant to the understanding of its financial performance to present on the face of the statement of profit or loss a subtotal within the income from operating activities. This subtotal, named "Income from current operations", excludes those elements that have less predictive value due to their nature, frequency and/or materiality. Such elements are as follows:

- » Sales of aircraft equipment and disposals of other assets;
- » Income from the disposal of subsidiaries and affiliates;
- » Restructuring costs when they are significant;
- » Significant and infrequent elements such as the recognition of badwill in the statement of profit or loss, the recording of an impairment loss on goodwill and significant provisions for litigation.

Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interests, Taxes, Depreciation, Amortisation and movements in provision): by extracting the main line of the statement of profit or loss which does not involve cash disbursement ("Amortisation, depreciation and movements in provision") from income from current operations, EBITDA provides a simple indicator of the Group's cash generation on operational activities.

EBITDAR (Earnings Before Interests, Taxes, Depreciation, Amortisation, movements in provision and Rents): this aggregate is adapted to sectors like the air transport industry which can finance a significant proportion of their assets using operating leases. It is obtained by subtracting aircraft operating lease costs from EBITDA (as defined above).

Operating free cash flow corresponds to the net cash-flow from operating activities net of purchase of (prepayments in) aircraft, property plant and equipment and intangible assets less the proceeds on the disposal of aircraft, property plant and equipment and intangible assets. It does not include the other cash flows linked to investment operations, particularly investments in subsidiaries and other financial assets and net cash flow from the operating activities of discontinued operations.

Operating free cash flow adjusted: this corresponds to operating free cash flow net of the repayment of lease debts.

Accounting policies for the balance sheet

Property, plant and equipment

Property, plant and equipment are stated initially at historical acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment loss. Flight equipment acquired in foreign currency is translated at the exchange rate applicable at the date of acquisition or the hedged rate where a hedging instrument has been used. Manufacturers' discounts are deducted from the acquisition cost.

The cost of major maintenance operations (airframes and engines excluding parts with limited useful lives) which are carried out in accordance with specifications and schedules defined by manufacturers and regulating authorities are capitalised when incurred. Other maintenance costs are expensed as incurred.

Depreciation

Property, plant and equipment are depreciated to estimated residual values using the straight-line method over average estimated useful lives.

Aircraft fixtures and fittings and spare parts are classified as separate components from the airframe and depreciated separately.

During the annual operational planning cycle, the Group reviews the depreciation methods, useful lives and residual values and, if necessary amends these.

The useful lives of property, plant and equipment are as follows:

Category	Useful life (years)
Aircraft	20 to 25
Aircraft fixtures and fittings, and spare parts	3 to 25
Land	Not depreciated
Buildings	10 to 40
Equipment and fittings	3 to 15
Other property and equipment	5 to 20

Lease contracts

Lease contracts as defined by IFRS 16 "Leases", are recorded in the balance sheet, which leads to the recognition of:

- An asset representing a right-of-use of the asset leased during the lease term of the contract; and
- A liability related to the payment obligation.

Financing arrangements with the following features are not eligible to an accounting treatment according to IFRS 16:

- The lessor has legal ownership retention as security against repayment and interest obligations;
- The airline initially acquired the aircraft or took a major share in the acquisition process from the OEMs; and
- In view of the contractual conditions, it is (virtually) certain that the aircraft will be purchased at the end of the lease term.

Since these financing arrangements are "in substance purchases" and not leases, the related liability is considered as a financial debt under IFRS 9 and the asset, as an owned asset, according to IAS 16.

Measurement of the right-of-use asset

At the commencement date, the right-of-use asset is measured at cost and comprises:

- The amount of the initial measurement of the lease liability, to which is added, if applicable, any lease payments made at or before the commencement date, less any lease incentives received;
- Where relevant, any initial direct costs incurred by the lessee for the conclusion of the contract. These are incremental costs which would not have been incurred if the contract had not been concluded; and
- Estimated costs for restoration and dismantling of the leased asset according to the terms of the contract.
  At the date of the initial recognition of the right-of-use asset, the lessee adds to its costs, the discounted amount of the restoration and dismantling costs through a return obligation liability as described in the paragraph on "Return obligation liability on leased aircraft". These costs also include maintenance obligations with regard to the engines and the airframe.

Following the initial recognition, the right-of-use asset must be depreciated over the useful life of the underlying assets (lease term for the rental component, flight hours or expected period until engine removal for the component relating to engine maintenance or on a straight-line basis for the component relating to the airframe until the date of the next major overhaul).

Measurement of the lease liability

At the commencement date, the lease liability is recognised for an amount equal to the present value of the lease payments over the lease term.

Amounts involved in the measurement of the lease liability are:

» Fixed payments (including in-substance fixed payments; meaning that even if they are variable in form, they are in-substance unavoidable);
» Variable lease payments that depend on an index or a rate, initially measured using the index or the rate in force at the lease commencement date;
» Amounts expected to be payable by the lessee under residual value guarantees;
» The exercise price of a purchase option if the lessee is reasonably certain to exercise this option; and
» Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured based on a process similar to the amortised cost method using the discount rate:

» The liability is increased by the accrued interests resulting from the discounting of the lease liability, at the beginning of the lease period; and
» Less payments made.

The interest cost for the period as well as variable payments, not taken into account in the initial measurement of the lease liability and incurred over the relevant period are recognised as costs. In addition, the lease liability may be remeasured in the following situations:

» Change in the lease term;
» Modification related to the assessment of the reasonably certain nature (or not) of the exercise of an option;
» Remeasurement linked to the residual value guarantees; and
» Adjustment to the rates and indices according to which the rents are calculated when rent adjustments occur.

Types of capitalised lease contracts

» Aircraft lease contracts

For the aircraft lease contracts fulfilling the capitalisation criteria defined by IFRS 16, the lease term corresponds to the duration of the contracts signed except in cases where the Group is reasonably certain of exercising the renewal options contractually foreseen. The accounting treatment of the maintenance obligations related to leased aircraft is outlined in the paragraph on "Return obligation liability on leased aircraft".

Aircraft lease contracts concluded by the Group do not include guaranteed value clauses for leased assts.

The discount rate used to calculate the lease debt corresponds, for each aircraft, is the implicit rate determined by the contractual elements and residual market values. This rate is based on the readily availability of current and future data concerning the value of aircraft. The implied rate of the contract is the discount rate that gives the aggregated present value of the minimum lease payments and the unguaranteed residual value. This present value should be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

Most of the aircraft lease contracts are denominated in US dollars. As from January 1, 2018, the Group put in place a cash flow from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. The effective portion of the foreign exchange revaluation of the lease debt in US dollars at the closing date is recorded in "other comprehensive income". This amount is recycled in revenues when the hedged item is recognised.

» Real-estate lease contracts

Based on its analysis, the Group has identified lease contracts according to the standard concerning surface areas rented in its hubs, lease contracts on building dedicated to the maintenance business, customised lounges in airports other than hubs and lease contracts on office buildings, including leasehold land when applicable.

The lease term corresponds to the non-terminable period. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the signature debt. The incremental borrowing rate is the rate that the lessee would pay to borrow the required funds to purchase the asset over a similar term, with a similar security and in a similar economic environment. This rate is achieved by the addition of the interest rate on government bonds and the credit spread. The coupon on government bonds is specific to the location, currency, period and maturity. The definition of the spread curve is based upon reference points, each point consisting of asset financing on assets other than aircraft.

» Other-assets lease contracts

The main lease contracts identified correspond to company cars, pools of spare parts and aircraft engines. The lease term corresponds to the non-terminable period. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the signature debt. The incremental borrowing rate is the rate that the lessee would pay to borrow the required funds to purchase the asset over a similar term, with a similar security and in a similar economic environment (refer to the paragraph above "Real estate lease contracts" regarding the method to determine the incremental borrowing rate).

Types of non-capitalised lease contracts
The Group uses the two exemptions foreseen by the standard allowing for non-recognition in the balance sheet: short-term lease contracts and lease contracts for which the underlying assets have a low value.

Short duration lease contracts
There are contracts whose duration is equal to or less than 12 months. Within the Group, they mainly relate to leases of:
» Surface areas in our hubs with a reciprocal notice-period equal to or less than 12 months;
» Accommodations for expatriates with a notice period equal to or less than 12 months; and
» Spare engines for a duration equal to or less than 12 months.

» Low-value lease contracts
Low-value lease contracts concern assets with a value equal to or less than USD 5,000. Within the Group, these include, notably, lease contracts on printers, tablets, laptops and mobile phones.

Sale and leaseback transactions
The Group qualifies as sale and leaseback transactions, operations which lead to a sale according to IFRS 15 "Revenue from Contracts with Customers". More specifically, a sale is considered as such if there is no repurchase option on the goods at the end of the lease term.

» Sale according to IFRS 15
If the sale by the vendor-lessee is qualified as a sale according to IFRS 15, the vendor-lessee must:
(i) de-recognise the underlying asset; and
(ii) recognise a right-of-use asset equal to the retained portion of the net carrying amount of the asset.

» Sale not according to IFRS 15
If the sale by the vendor-lessee is not qualified as a sale according to IFRS 15, the vendor-lessee keeps the goods transferred on its balance sheet and recognises a financial liability equal to the disposal price (received from the buyer-lessor).

Intangible assets

Goodwill
Goodwill is stated at cost less accumulated impairment losses. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associates. Goodwill on acquisition of subsidiaries is included in intangible assets. If the cost of acquisition is less than the fair value of the net identifiable assets, liabilities and contingent liabilities, the difference is recognised directly in the statement of profit or loss. Goodwill on acquisition of associates is included in investments in associates. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of profit or loss on disposal. The useful life of goodwill is indefinite.

Computer software
Computer software is stated at historical cost less accumulated amortisation and accumulated impairment losses. Only the costs incurred in the software development phase are capitalised. Cost incurred in respect of feasibility studies and research etc. and post-implementation and evaluation phases are charged to the statement of profit or loss as incurred. The costs comprise the cost of KLM personnel as well as external IT consultants.

Amortisation takes place over the estimated useful lives (mainly 5 years and with a maximum of 15 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortisation commences when the software is taken into use. Prior to this moment the cost are capitalised as prepaid intangible assets.
The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Impairment of assets
The Group's assets, other than inventories, deferred tax assets, assets arising from construction contracts, assets arising from employee benefits, financial assets that are within the scope of IFRS 9 and non-current assets held for sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, software with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to the relevant business and software to the business unit which uses the software.

An impairment loss is recognised in the statement of profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)), which correspond to the Group's Business segments.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs (or groups of CGUs) and then, to reduce the carrying amount of the other assets in the CGU (or group of CGUs) on a pro-rata basis.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. To determine the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Financial instruments: Recognition and measurement of financial assets and liabilities

Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are initially recorded at fair value. They are subsequently valued using the amortised cost method less impairment losses, if any. Regarding the impairment of trade receivables, the Group has chosen the simplified method approach. Considering its business and risks, trade receivables have already been depreciated to the same level equal to the expected loss.
The Group considers that the change in credit risk on the non-current financial assets since their initial recognition is limited due to the criteria defined (e.g. type of instrument, counterparty rating, and maturity). The impairment recorded by the Group consists of the expect credit loss over the 12 months following the closing date.
Purchases and sales of financial assets are booked for as of the transaction date.

Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control or joint control, which is presumed to exist when the Group holds more than 20% of the voting rights. Jointly controlled entities are entities whereby the Group together with one or more parties undertakes activities related to the Group's business that are subject to joint control.

Investments in associates and jointly controlled entities are accounted for by the equity method and are initially recognised at cost. The Group's investment includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, taking into account other than temporary losses (impairment). When the Group's share of losses in an associate/jointly controlled entity equals or exceeds its interest in the associate/jointly controlled entity, including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate/jointly controlled entity.

Unrealised gains on transactions between the Group and its associates/jointly controlled entities are eliminated to the extent of the Group's interest in the associates/jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/ jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in equity securities

Investments in equity securities qualifying as equity instruments are recorded at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price at the closing date. For non-quoted securities, the valuation is made on the basis of the financial statements of the entity.
The valuation of capital instruments is either in fair value through the statement profit or loss or in fair value through other comprehensive income:

- When the instrument is deemed to be a cash investment, i.e. it is held for the purposes of monetary transactions, its revaluations are recorded in "Other financial income and expenses"; and
- When the instrument is deemed to be a business investment, i.e. it is held for strategic reasons (as it mainly consists of investments in companies whose activity is very close to that of the Group) its revaluations are recorded in "Other comprehensive income" non-recyclable. Dividends are recorded in the statement profit or loss.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially (trade date), and are subsequently re-measured, at fair value. Fair values are obtained from quoted market prices in active markets or by using valuation techniques where an active market does not exist.
Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterpart, a legal right to offset exists and the cash flows are intended to be settled on a net basis.

Recognition of fair value gains and losses

The method of recognising fair value gains and losses on derivative financial instruments depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged.

All derivative financial instruments are held for hedging purposes. It is KLM's policy not to hold derivative financial instruments for trading purposes. The derivatives, which do not qualify for hedge accounting, are described as items not qualifying for hedge accounting in these notes to the financial statements.

Categories of hedging transactions

Derivatives are used to hedge the risks associated with changes in interest rates, foreign currency rates, fuel prices and ETS (Emission Trading Scheme).

Forward currency contracts and options are used to hedge exposure to exchange rate movements. The Group also uses interest rate swaps to manage its exposure to interest rate risk. Finally, the exposure to fuel price risks is covered by swaps or options on jet fuel and fuel related indices such as Gasoil and Brent. The risk related to ETS is hedged by forwards.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging relationships are documented as required by IFRS 9 "Financial Instruments".

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value adjusted for the market value of the Group's credit risk (DVA) and the credit risk of the counterparty (CVA). The calculation of the credit risk follows a common model based on default probabilities from CDS counterparties. The method of accounting for changes in fair value depends on the classification of the derivative instruments.

Hedging transactions fall into two categories:

1. Fair value hedges; and
2. Cash flow hedges.

1. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

2. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item will affect profit or loss. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

For options, only the intrinsic risk can be hedged. The time value is excluded as it is considered as a cost of hedging. The change in fair value of the option time value is recognised in other comprehensive income insofar as it relates to the hedged item. When the latter occurs (if the hedged item is transaction-related), the change in fair value is then recycled and charged and impacts the hedged item or is amortised over the hedging period (if the hedged item is time-related).

Regarding forward contracts, only the spot component is considered as a hedging instrument, since the forward element is considered as a hedging cost and accounted for similarly to the option time value.
The currency swap basis spread is also excluded from the hedging instrument and considered as a hedging cost.

Hedge effectiveness testing

At inception of the hedge and on an on-going basis at each reporting date or on a significant change in circumstances (whichever comes first), the following elements will be assessed:

» Economic relationship: hedge ratio should be aligned with Group guidelines.

In case of a significant change in circumstances the following elements will be assessed:

» Credit risk: change in credit risk of the hedging instrument or the hedge item must not be of such magnitude that it dominates the value change that results from the economic hedge relationship; and
» Need for rebalancing.

The documentation at inception of each hedging relationship sets out how it is assessed whether the hedging relationship meets the hedge effectiveness requirements.

If the hedge relationship no longer meets the criteria for hedge accounting, is sold, is terminated or exercised, then hedge accounting is discontinued prospectively.
The cumulative gain or loss previously recognised in equity remains there until the forecasted transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in equity is recognised immediately in profit or loss.

Fair value hierarchy

Based on the requirements of IFRS 7, the fair values of financial assets and liabilities are classified following a scale that reflects the nature of the market data used to make the valuations. This scale has three levels of fair value:

- Level 1: Fair value calculated from the exchange rate/price quoted on the active market for identical instruments;
- Level 2: Fair value calculated from valuation techniques based on observable data such as active prices or similar liabilities or scopes quoted on the active market; or
- Level 3: Fair value from valuation techniques which rely completely or in part on non-observable data such as prices on an inactive market or the valuation on a multiple basis for non-quoted securities.

Financial assets

The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt financial instruments are subsequently measured at amortised cost, fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'):

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition.

For financial assets at amortised cost, the Group applies the effective interest rate method and amortises the transaction cost, discounts or other premiums included in the calculation of the effective interest rate over the expected life of the instrument. Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9.
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

Cash and cash equivalents

Cash and cash equivalents cover all highly liquid instruments with original maturities of three months or less and include cash in hand, deposits held at call and on short-term with banks and bank overdrafts. Bank overdrafts are shown under "Financial liabilities" in "Current liabilities" in the balance sheet.
Where the Company has a practice and legally enforceable right to offset bank balances, the net balance is included under cash and cash equivalents or bank overdrafts as applicable. Cash and cash equivalents are stated in the balance sheet at fair value.

Financial liabilities

Financial liabilities are initially recognised at fair value. Transaction costs are included in this initial measurement. Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments, carried at amortised cost and calculated using the effective interest rate for the other financial debt. Under this principle, any redemption and issue costs, are recorded as debt in the balance sheet and amortised as financial income or expense over the life of the loans using the effective interest method.

Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled. Any costs that were attributable to financial liabilities are expensed through the statement of profit or loss.

Inventories

Inventories consist primarily of expendable aircraft spare parts, fuel stock and other supplies and are stated at the lower of cost and net realisable value. Cost, representing the acquisition cost, is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Deferred income

Advance ticket sales
Upon issuance, both Passenger and Cargo sales, including fuel and security surcharges, are recorded as deferred income under Advance ticket sales.

Deferred gains on sale and leaseback transactions
This item relates to amounts deferred arising from sale and leaseback transactions.

Flying Blue frequent flyer program
KLM and Air France have a common frequent flyer program "Flying Blue". This program allows members to acquire "miles" as they fly on KLM, Air France or with other partner companies. These miles entitle members to a variety of benefits such as free flights with the two companies. The probability of air miles being converted into award tickets is estimated using a statistical method. The value of air miles is estimated based on the deferred income approach, based on its fair value. This estimate takes into consideration the conditions of the use of free tickets and other awards.

The estimated value of air miles is recorded as a deduction from revenues and recorded under the caption "Deferred income" as liability on the balance sheet at the same time the qualifying flight for which air miles are awarded is recognised.

The Group also sells miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of the miles sold representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognised as revenue immediately.

Deferred income taxes
Deferred tax assets and liabilities arising from the tax losses carried forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes are determined using the balance sheet liability method and calculated on the basis of the tax rates that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled. Except for goodwill arising from a business combination, deferred tax assets are recognised to the extent that is probable that taxable profit will be available against which the tax losses carried forward and the temporary difference can be utilised.

Deferred tax assets and deferred tax liabilities are set off only when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same authority.

A deferred tax asset is recognised for all deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that is not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be realised.
A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions for employee benefits

Pensions and other post-employment benefits
Pensions and other post-employment benefits relate to provisions for benefits (other than termination benefits) which are payable to employees on retirement. The provisions cover defined benefit pension plans, early-retirement schemes and post-employment medical benefits available to employees. The Group has various defined benefit and defined contribution pension plans, which are generally funded through payments to separately administered funds or to insurance companies.

The amount recognised as a liability or an asset for post-employment benefits at the balance sheet date is the net total of:
» The present value of the defined benefit obligations at the balance sheet date; and
» Minus the fair value of the plan assets at the balance sheet date.

The actuarial gain and losses are recognised immediately in other comprehensive income.

The present values of the defined benefit obligations are calculated using the projected unit credit method. The calculations of the obligations have been performed by independent qualified actuaries. This benefit/years-of-service method not only takes into account the benefits and benefit entitlements known at the balance sheet date, but also increases in salaries and benefits to be expected in the future. When a plan is curtailed or settled, gains or losses arising are recognised immediately in the profit or loss.

The determination of the liability or asset to be recognised as described above is carried out for each plan separately. In situations where the fair value of plan assets exceeds the present value of a fund's defined benefit obligations an asset is recognised if available. The service cost and the interest accretion to the provisions are included in the statement of profit or loss under "Employee compensation and benefit expense".

Other long-term employment benefits

The provision for other long-term employment benefits relates to benefits (other than pensions and other post-employment benefits and termination benefits) which do not fall within twelve months after the end of the period in which the employees render the related service. The provision covers jubilee benefits. The benefits are unfunded.

The amount recognised as a liability for other long-term employment benefits at the balance sheet date is the present value of the defined benefit obligations. Appropriate assumptions are made about factors such as salary increases, employee turnover and similar factors impacting the measurement of the obligations.

The service cost, the interest accretion to the provisions and the remeasurement of the net defined liability are included in the statement of profit or loss under "Employee compensation and benefit expense".

Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy.

The provision is recognised when, and only when, a formal employee termination plan has been drawn up and approved and there is no realistic possibility of it being withdrawn. Where the benefits fall due in more than 12 months after the balance sheet date the provision is the present value of the expenditures expected to settle the obligation.

Return obligation liability on leased aircraft

The Group recognises return obligation liabilities in respect of the required restoration or reinstalment obligations within the framework of the lease of aircraft to lessors. The constitution of these return obligation liabilities depends on the type of restoration or reinstalment obligations to fulfil before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These return obligation liabilities also consist of compensation paid to lessors in respect of wear of the limited life parts in the engines.

Overhaul and restoration works

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul are recognised as return obligation liabilities as of the inception of the contract. The counterpart of this return obligation liability is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

This liability is valued on commencement date at the discounted value of the expected cost of restoration. At the same time and for the same value, an additional asset component is recognised in the right-of-use asset for the aircraft lease on commencement date, which is amortised over the lease term.

Airframe and engine potentials reconstitution

The airframe and the engine potentials are recognised as a complement to the right-of-use assets since they are considered as full-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognised at the inception of the contract. When maintenance events aimed at reconstituting these potentials take place, the costs incurred are capitalised. These potentials are depreciated over the period of use of the underlying assets (flight hours for the engine potentials component or straight-line for the airframe potentials component).

This liability is valued on commencement date at the discounted value of the expected cost of reinstatement or compensation of the used productive potentials (both related to expected cost of the maintenance event required to reinstate the used potentials).

Compensation related to limited life parts

As the component approach is not applicable for limited life parts, costs related to the lessor's compensation are booked progressively as obligations as they are used during the lease term and based upon contractual data (e.g. cost of a limited life part).

Other provisions

Provisions are recognised when:

» There is a present legal or constructive obligation as a result of past events;
» It is probable that an outflow of economic benefits will be required to settle the obligation; and
» A reliable estimate of the amount of the obligation can be made.

The provisions are carried at face value unless the effect of the time value of money is material, in which case the amount of the provision is the present value of the expenditures expected to settle the obligation. The effect of the time value of money is presented as a component of financial income.

Emission Trading Scheme

European airlines are subject to the Emission Trading Scheme (ETS). In the absence of an IFRS standard or interpretation regarding ETS accounting, the Group chose the following scheme known as the "netting approach".

According to this approach, the quotas are recognised as intangible assets:

- Free quotas allocated by the State are valued at nil; and
- Quotas purchased on the market are accounted at the acquisition cost.

These intangible assets are not amortised.

If the difference between recognised quotas and real emissions is negative, then the Group recognises a provision. This provision is assessed at acquisition cost for acquired rights and, for the non-hedged part, with reference to the market price as of each closing date. At the date of the restitution of the quotas corresponding to real emissions, the provision is written-off and the intangible assets are returned.

Accounting policies for the statement of profit or loss

Revenues

Network

Revenues from air transport transactions, which consist of passenger and freight transportation, are recognised when the transportation service is provided. The transport service is also the trigger for the recognition of external expenses such as commissions paid to agents, certain taxes and volume discounts. The revenues however include (fuel) surcharges paid by passengers.

Both passenger tickets and freight airway bills are consequently recorded as "advance ticket sales". The booking of this revenue known as "ticket breakage" is deferred until the transportation date initially foreseen. This revenue is calculated by applying a statistical rate on tickets issued and unused. This rate is regularly updated.

The Group applies the exemption provided by IFRS 15 which allows the balance of the outstanding transactions to remain unspecified as well as their planned recognition date for the performance obligations related to contracts with an initial term set at one year or less. If the tickets are not used, the performance obligations related to passenger and freight transportation effectively expire within one year.

Passenger ticket taxes calculated on ticket sales are collected by the Group and paid to the airport authorities. Taxes are recorded as a liability until such time as they are paid to the relevant airport authority as a function of the chargeability conditions (on ticket issuance or transportation).

The Group considers that the company that issues the airway bill acts as principal since the latter has control over the achievement of the performance obligation. When the Group issues freight airway bills for its goods carried by another carrier (airline company or road carrier), the Group acts as principal. Therefore, at the time of transportation the Group recognises as revenue the amount invoiced to the customer in its entirety and recognises as chartering costs the amounts invoiced by the other carrier for the service provision.

Maintenance contracts

The main types of contracts with customers identified within the Group are:

» Sales of maintenance and support contracts

Some maintenance and support contracts cover the airworthiness of engines, equipment or airframes, an airframe being an aircraft without engines and equipment. The invoicing of these contracts is based on the number of flight hours or landings of the goods concerned by these contracts. The different services included within each of these contracts consist of a unique performance obligation due to the existing interdependence between the services within the execution of these contracts. The revenue is recognised: (i) if the level of completion can be measured reliably; (ii) if costs incurred and costs to achieve the contract can be measured reliably. As there is a continuous transfer of the control of these services, the revenue from these contracts is recognised as the costs are incurred.

As long as the margin on the contract cannot be measured in a reliable manner, the revenue will only be recognised at the level of the costs incurred. Forecast margins on the contracts are assessed through the forecast future cash flows that take into account the obligations and factors inherent to the contracts as well as other internal parameters to the contract selected using historical and/or forecast data. These forecast margins are regularly reviewed. If necessary, provisions are recorded as soon as any losses on completion of contracts are identified. Amounts invoiced to customers, and therefore mostly collected, which are not yet recognised as revenue, are recorded as liabilities on contracts (deferred revenue) on the balance sheet. Inversely, any revenue that has been recognised but not yet invoiced is recorded under assets on the balance sheet.

» Sales of spare parts repair and labour - Time & Material contracts

These services which relate to engines, equipment or airframes, an airframe being an aircraft without engines and equipment, are generally short-term. They consist of a unique performance obligation. The revenue is recognised as costs are incurred.

External expenses

External expenses are recognised in the statement of profit or loss using the matching principle which is based on a direct relationship between cost incurred and obtaining income related to the operation. Any deferral of cost in view of applying the matching principle is subject to these costs meeting the criteria for recognising them as an asset on the balance sheet. In order to minimise the financial risks involved with such transactions the Company makes use of financial derivatives such as fuel forward contracts, foreign currency options and swaps. The gains and losses arising from the use of the derivatives are included in these costs.

Gains/losses on disposals of property, plant and equipment

The gain on disposal of an item of property, plant and equipment is the difference between the net disposal proceeds and the carrying amount of the item. Gains/losses on disposal are netted.

Reversal of impairment losses on financial assets

This item represents increases in the carrying amounts of financial assets arising from reversals of previously recognised impairment losses. The amount of the reversal does not exceed the carrying amount of the assets that would have been determined had no impairment losses been recognised in prior years.

Other income and expense items

Cost of financial debt

Cost of financial debt includes interest on loans of third parties, financial debt and on lease debt using the effective interest rate method.

Income from cash and cash equivalents

Interest income includes interest on loans, interest-bearing marketable securities, short-term bank deposits and money at call. Interest income is recognised on an accrual basis.

Foreign currency exchange gains and losses

Foreign exchange gains and losses resulting from the translation of transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Fair value gains and losses

Fair value gains/losses represent the increases/decreases during the year in the fair values of assets and liabilities, excluding derivative financial instruments designated as cash flow hedges.

Share-based

Phantom shares

The Group has cash-settled long-term incentive plans in which it grants to its employees phantom shares. The phantom shares are shares, generating an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of shares. Phantom shares are accounted for as a liability at the fair value at each reporting date. The liability will be built up monthly during a 3-year vesting period.

The fair value of the phantom shares is measured at the AIR FRANCE KLM share closing price at the end of the month. Changes in the fair value of the liability are recognised as employee benefit expense in profit or loss.

Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, financial debts and fair value changes have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as investing activities. Interest paid is included in operating activities.

Accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the corresponding actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

Factors may exist which require the recognition of an impairment of certain assets and/or CGUs. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)), which correspond to the Group's business segments. Such impairment is based on estimates of the fair value less cost to sell and the value in use. The fair value less cost to sell is derived from assumptions in relation to the possible selling price of a certain asset. The value in use is based on the discounted value of the cash flows that the asset/CGU is expected to generate in the future. These future cash flows are based on the business plans for the coming years. The value in use also takes into account possible adverse developments, which may lead to impairment. It is possible that the Group may have to recognise additional impairment charges in the future as a result of changes in (market) conditions that may take place in future periods.

Useful lives of property, plant and equipment

The carrying amount of flight equipment and other property and equipment is determined by using estimates of the depreciation periods, which are derived from the expected technical and economic useful life of the assets involved. Due to advancing technology, evolving market circumstances and changes in the use of the assets involved, the expected technical and economic life of the asset may be subject to alteration.

Valuation of inventories

The Group records its inventories at cost and provides for the risk of obsolescence using the lower of cost or market principle. The expected future use of inventory is based on estimates about future demand and past experience with similar inventories and their usage.

Valuation of accounts receivable and the allowance for bad or doubtful debts

The Group periodically assesses the value of its accounts receivable based on specific developments in its customer base, taking into account the expected credit loss over the coming 12 months. The allowance for bad or doubtful debts is formed on the grounds of this assessment. The actual outcome may diverge from the assumptions made in determining the allowances.

Valuation of deferred tax assets and liabilities

In the process of estimating the value of deferred tax assets, in particular with regard to tax losses carried forward, assumptions are made regarding the degree to which these losses can be offset in the future. This is based, among other things, on business plans. In addition, in the preparation of the financial statements, assumptions are made with regard to temporary differences between the valuation for tax purposes and the valuation for financial reporting purposes. The actual outcome may diverge from the assumptions made in determining the current and deferred tax positions, e.g. as a result of disputes with the tax authorities or changes in tax laws and regulations.

Accounting for pensions and other post-employment benefits

Post-employment benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of future benefit cost over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the Group.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, mortality rates, and future healthcare cost. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14), projected benefit obligations, funding requirements and defined benefit cost recognised in profit or loss incurred. For details on key assumptions and policies see note 19.

It should be noted that when discount rates decline or rates of compensation increase pension and post-employment benefit obligations will increase. Defined benefit cost recognised in profit or loss and post-employment cost also increase, when discount rates decline, since this rate is also used for the expected return on fund assets.

Return obligation liability and other provisions

A return obligation liability and/or a provision will be recognised in the balance sheet when the Group has a present legal or constructive obligation to a third party as a result of a past event and it is probable that an outflow of economic benefits will require settling the obligation.

Management must make estimates and assumptions as at the balance sheet date concerning the probability that a certain obligation will materialise as well as the amount that is likely to be paid. Future developments, such as changes in market circumstances, or changes in legislation and judicial decisions may cause the actual obligation to diverge from the provision. The Group is involved in legal disputes and proceedings. Management decides on a case-by-case basis whether a provision is necessary based on actual circumstances. This assessment comprises both a determination of the probability of a successful outcome of the legal action and the expected amount payable.

Determination of fair value

The Group uses available market information and appropriate valuation techniques to determine the fair values of financial instruments. However, judgment is

required to interpret market data and to determine fair value. Management believes that the carrying value of financial assets and financial liabilities with a maturity of less than one year approximates their fair value.
These financial assets and liabilities include cash and cash equivalents, trade accounts receivable and trade accounts payable. Details of the assumptions used and the results of sensitivity analyses recognising these assumptions are provided in note 5.

Financial Risk Management

Risk management organisation and fuel hedging policy

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officer and the Chief Financial Officer of KLM, the Chief Executive Officer and the Chief Financial Officer of Air France and the Chief Financial Officer of AIR FRANCE KLM. The RMC meets each quarter to review AIR FRANCE KLM reporting of the risks relating to the fuel price, the principal currency exchange rates and interest rates, and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument.

The aim is to reduce the exposure of AIR FRANCE KLM and, thus, to preserve budgeted margins. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the treasury and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. In-house procedures governing risk management prohibit speculation. Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The treasury departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis. Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements. The instruments used are swaps and options.

The policy on fuel hedging is the responsibility of the fuel purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current financial year and the two following ones, is supplied to the executive managements. This mainly covers the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and the underlying used, average hedge levels, the resulting net prices and stress scenarios, as well as market commentary. Furthermore, a weekly AIR FRANCE KLM report consolidates the figures from the two companies relating to fuel hedging and to physical cost. The instruments used are swaps and options.

Financial Risk Management

The Group is exposed to the following financial risks:
1. Market risk;
2. Credit risk; and
3. Liquidity and solvency risk.

1. Market risk

The Group is exposed to market risks in the following areas:
a. Currency risk;
b. Interest rate risk; and
c. Fuel price risk.

a. Currency risk

Most of AIR FRANCE KLM revenues are generated in euros. However, because of its international activities, AIR FRANCE KLM incurs a foreign exchange risk. The principal exposure is to the US dollar, and then, to a lesser extent, to British pound sterling and the Japanese yen. Thus, any changes in the exchange rates for these currencies relative to the euro may have an impact on AIR FRANCE KLM's financial results.

With regard to the US dollar, since expenditures such as fuel, operating leases or component cost exceed the level of revenue, AIR FRANCE KLM is a net buyer. This means that any significant appreciation in the US dollar against the euro could result in a negative impact on the Group's activity and financial results. Conversely, AIR FRANCE KLM is a net seller of the Japanese yen and of British pound sterling, the level of revenues in these currencies exceeding expenditure. As a result, any significant decline in these currencies relative to the euro could have a negative effect on the Group's activity and financial results. In order to reduce its currency exposure, AIR FRANCE KLM has adopted hedging strategies. Both KLM and Air France hedge progressively their net exposure over a rolling 24-month period.

Aircraft are purchased in US dollars, meaning that AIR FRANCE KLM is highly exposed to a rise in the dollar against the euro for its aeronautics investments. The hedging policy plans the progressive and systematic

implementation of hedging between the date of the aircraft order and their delivery date.
Despite this active hedging policy, not all exchange rate risks are covered. AIR FRANCE KLM might then encounter difficulties in managing currency risks, which could have a negative impact on AIR FRANCE KLM business and financial results.

b. Interest rate risk
At both KLM and Air France, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, KLM and Air France have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. At the end of December 2018, KLM's net exposure to changes in market interest rates is neutral.

c. Fuel price risk
Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of AIR FRANCE KLM.

With the application of IFRS 9 as of January 1, 2018, the hedging strategy of the Group has evolved and involves now components of non-financial items (crude oil and gasoil are specified as components of jet fuel prices). These components are considered as separately identifiable and reliably measurable as required by IFRS 9.

Main characteristics of the hedge strategy:
» Hedge horizon: 2 years.
» Minimum hedge percentage:
Quarter underway to quarter 3: 60% of the volumes consumed;
Quarter 4: 50% of the volumes consumed;
Quarter 5: 40% of the volumes consumed;
Quarter 6: 30% of the volumes consumed;
Quarter 7: 20% of the volumes consumed; and
Quarter 8: 10% of the volumes consumed.
» The following components have been identified for risk management and (hedge) accounting purposes: Brent, gasoil crack and jet differential.
» Underlying: Brent, gasoil and jet.
At least 25% of volumes consumed during the two first quarters of the program (excluding the quarter underway) must be hedged in average distillates (jet fuel and gasoil).
» Instruments: Swap, call, call spread, three ways, four ways and collar.

2. Credit risk
Credit risks arise from various activities including investing and operational activities as well as hedging activities with regard to financial instruments. The risk is the loss that could arise if a counterpart were to default in the performance of its contractual obligations. The Group has established credit limits, based on geographical and counterparty risk, for its external parties, in order to mitigate the credit risk. These limits are determined on the basis of ratings from organisations such as Standard & Poor's and Moody's Investors Service.

As of December 31, 2018, KLM identified the following exposure to counterparty risk:

LT Rating (Standard & Poor's)	Total exposure in EUR millions
AAA	279
AA+	100
AA-	94
A+	325
A	575
Total	1,373

At December 31, 2018, the exposure consists of the fair market value of marketable securities, deposits and bonds.

3. Liquidity and solvency risk
Liquidity and solvency risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its short- and long-term obligations on time. All anticipated and potential cash flows are reviewed regularly. These include, among other things, operational cash flows, dividends, debt and interest payments and capital expenditure. The objective is to have sufficient liquidity, including committed credit facilities, available that are adequate for the liquidity requirements for the short- and long-term.

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

1. Property, plant and equipment

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost									
As at Jan. 1, 2018	3,988	2,061	6,049	660	443	190	1,293	486	7,828
Additions	606	428	1,034	27	27	11	65	127	1,226
Disposals	(211)	(226)	(437)	(12)	(12)	(4)	(28)	-	(465)
Other movements	-	77	77	1	-	-	1	(95)	(17)
As at Dec. 31, 2018	4,383	2,340	6,723	676	458	197	1,331	518	8,572
Accumulated depreciation									
As at Jan 1, 2018	1,862	889	2,751	338	327	140	805	-	3,556
Depreciation	210	215	425	34	26	9	69	-	494
Disposals	(206)	(223)	(429)	(11)	(11)	(4)	(26)	-	(455)
Other movements	137	67	204	-	(2)	-	(2)	-	202
As at Dec. 31, 2018	2,003	948	2,951	361	340	145	846	-	3,797
Net carrying amount									
As at Jan. 1, 2018	2,126	1,172	3,298	322	116	50	488	486	4,272
As at Dec. 31, 2018	2,380	1,392	3,772	315	118	52	485	518	4,775

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total Restated
Historical cost									
As at Jan. 1, 2017 Restated	3,922	1,887	5,809	626	459	187	1,272	218	7,299
Additions	338	457	795	28	36	11	75	6	876
Disposals	(506)	(310)	(816)	(4)	(52)	(2)	(58)	-	(874)
Other movements	234	27	261	10	-	(6)	4	262	527
As at Dec. 31, 2017	3,988	2,061	6,049	660	443	190	1,293	486	7,828
Accumulated depreciation									
As at Jan. 1, 2017 Restated	1,906	910	2,816	299	355	139	793	-	3,609
Depreciation	213	199	412	33	25	8	66	-	478
Disposals	(503)	(286)	(789)	(4)	(52)	(3)	(59)	-	(848)
Other movements	246	66	312	10	(1)	(4)	5	-	317
As at Dec. 31, 2017	1,862	889	2,751	338	327	140	805	-	3,556
Net carrying amount restated									
As at Jan. 1, 2017	2,016	977	2,993	327	104	48	479	218	3,690
As at Dec. 31, 2017	2,126	1,172	3,298	322	116	50	488	486	4,272

With the implementation of IFRS 16, finance leased aircraft are regarded as in substance purchases and therefore included as owned aircraft.

Property, plant and equipment include assets which are held as security for mortgages and loans as follows:

As at December 31,	2018	2017
Aircraft	44	49
Land and buildings	114	116
Other property and equipment	17	21
Carrying amount	175	186

Borrowing cost capitalised during the year amounts to EUR 7 million (2017 EUR 6 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 2.7% (2017 3.0%).

Land and buildings include buildings located on land which has been leased on a long-term basis. The book value of these buildings at December 31, 2018 amounts to EUR 190 million (December 31, 2017 EUR 213 million).

2. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2018	1,605	426	95	124	2,250
New contracts	-	-	39	20	59
Renewal or extension options	70	1	(2)	1	70
Disposals	(1)	-	-	-	(1)
Reclassifications	(2)	95	6	(4)	95
Amortisation	(322)	(86)	(21)	(22)	(451)
Other movements	-	(14)	-	-	(14)
As at December 31, 2018	1,350	422	117	119	2,008

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2017 Restated	1,562	372	103	139	2,176
New contracts	-	84	2	3	89
Renewal or extension options	361	-	6	2	369
Disposals	-	-	-	-	-
Reclassifications	-	31	-	-	31
Amortisation	(318)	(78)	(16)	(20)	(432)
Other movements	-	17	-	-	17
As at December 31, 2017	1,605	426	95	124	2,250

Information related to lease debt is available in note 14.

The table below indicates the rents resulting from lease and service contracts which are not capitalised:

As at December 31,	2018	2017 Restated
Variable rents	12	8
Short-term rents	86	73
Low value rents	3	2
Carrying amount	101	83

3. Intangible assets

	Goodwill	Software	Software under development	Total
Historical cost				
As at January 1, 2018	39	435	142	616
Additions	1	33	79	113
Disposals	-	(9)	(13)	(22)
Other movements	-	31	(31)	-
As at December 31, 2018	40	490	177	707
Accumulated amortisation and impairment				
As at January 1, 2018	29	193	-	222
Amortisation	1	61	-	62
Disposals	-	(9)	-	(9)
Other movements	-	-	-	-
As at December 31, 2018	30	245	-	275
Net carrying amount				
As at January 1, 2018	10	242	142	394
As at December 31, 2018	10	245	177	432
Historical cost				
As at January 1, 2017	39	438	92	569
Additions	-	10	108	118
Disposals	-	(55)	(15)	(70)
Other movements	-	42	(43)	(1)
As at December 31, 2017	39	435	142	616
Accumulated amortisation and impairment				
As at January 1, 2017	29	197	-	226
Amortisation	-	51	-	51
Disposals	-	(55)	-	(55)
Other movements	-	-	-	-
As at December 31, 2017	29	193	-	222
Net carrying amount				
As at January 1, 2017	10	241	92	343
As at December 31, 2017	10	242	142	394

As at December 31, 2018, software additions mainly relate to replacement of departure and flight control systems and aircraft maintenance systems.

4. Investments accounted for using the equity method

As at December 31,	2018	2017 Restated
Associates	6	4
Jointly controlled entities	15	19
Carrying amount	21	23

Investments in associates

	2018	2017 Restated
Carrying amount as at January 1	4	-
Movements		
Investments	1	5
Share of profit after taxation	1	4
Dividends received	-	(1)
Foreign currency translation differences	-	-
Other movements	-	(4)
Net movement	2	4
Carrying amount as at December 31	6	4

The share of profit/(loss) after taxation as at December 31 has been adjusted to reflect the estimated share of result of the associate for the year then ended.

The Group's interest in its main associate Transavia France S.A.S. can be summarised as follows:

As at December 31,	2018	2017 Restated
Country of incorporation	France	France
Percentage of interest held	4.49%	4.49%
Assets	1,067	523
Liabilities	996	443
Revenues	708	568
Profit/(loss) after taxation	6	46
Share of profit / (loss) after taxation	0	2

Transavia France S.A.S. (Transavia France) was an associate controlled by Air France (60%) and Transavia Airlines C.V. (40%) (Transavia). Transavia France had a negative equity and therefore both shareholders decided on a capital increase by Air France in November 2017. Transavia decided not to participate in this capital increase. As a result the Transavia interest in Transavia France decreased from 40% to 4.49%. Despite this Transavia concluded that the significant influence prior to the capital increase has not changed significantly after the transaction. As a result the Group continues equity accounting for its 4.49% interest in Transavia France.

The carrying amount of the 4.49% stake in Transavia France is EUR 3 million (2017 EUR 4 million) as at December 31, 2018.

In addition in November 2017 both shareholders agreed a put option whereby Transavia was granted the right to sell to Air France its 4.49% shareholding in Transavia France in 2020 at a fixed price depending on the average actual net results in 2018-2019 of Transavia France. Based on an assessment and sensitivity tests Transavia concluded that this option is currently out of the money and therefore the interest is valued at nil as per December 31, 2018.

Jointly controlled entities

The Group's interest in its principal jointly controlled entity, Schiphol Logistics Park C.V., which is an unlisted company, can be summarised as follows:

As at December 31,	2018	2017
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	25	29
Current assets	11	24
Profit after taxation	6	10
Share of profit after taxation	3	5

5. Other assets and liabilities

	ASSETS		LIABILITIES	
2018	Current	Non-current	Current	Non-current
Exchange rate risk				
Fair value hedges	30	69	(7)	(30)
Cash flow hedges	23	30	(11)	-
Items not qualifying for hedge accounting	8	8	-	-
Total exchange rate risk hedges	61	107	(18)	(30)
Interest rate risk				
Fair value hedges	-	-	-	-
Cash flow hedges	-	-	(1)	(23)
Items not qualifying for hedge accounting	-	10	-	(2)
Total interest rate risk hedges	-	10	(1)	(25)
Commodity risk hedges				
Cash flow hedges	74	30	(149)	(100)
Total commodity risk hedges	74	30	(149)	(100)
Total derivative financial instruments	135	147	(168)	(155)
Others	-	77	-	(73)
Total as at December 31, 2018	135	224	(168)	(228)

	ASSETS		LIABILITIES	
2017 Restated	Current	Non-current	Current	Non-current
Exchange rate risk				
Fair value hedges	25	64	(44)	(72)
Cash flow hedges	17	2	(38)	(26)
Items not qualifying for hedge accounting	11	4	(11)	(4)
Total exchange rate risk hedges	53	70	(93)	(102)
Interest rate risk				
Fair value hedges	-	10	-	(6)
Cash flow hedges	-	2	(2)	(32)
Items not qualifying for hedge accounting	-	2	-	(3)
Total interest rate risk hedges	-	14	(2)	(41)
Commodity risk hedges				
Cash flow hedges	175	36	(17)	(1)
Total commodity risk hedges	175	36	(17)	(1)
Total derivative financial instruments	228	120	(112)	(144)
Others	-	66	-	(72)
Total as at December 31, 2017 Restated	228	186	(112)	(216)

Exposure to exchange rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

As at December 31, 2018 the types of derivatives used, their nominal amounts and fair values are as follows:

	In millions of Euros							
	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Exchange rate risk hedges								
Fair value hedges								
Forward purchases								
USD	2,061	681	595	381	294	66	44	69
Forward sales								
USD	965	199	359	254	70	39	44	(7)
Total fair value hedges	3,026	880	954	635	364	105	88	62
Cash flow hedges								
Options								
CHF	51	51	-	-	-	-	-	(1)
GBP	11	-	11	-	-	-	-	-
JPY	32	32	-	-	-	-	-	(1)
Forward purchases								
USD	1,259	737	522	-	-	-	-	45
GBP	39	39	-	-	-	-	-	2
Other	-	-	-	-	-	-	-	-
Forward sales								
CHF	4	4	-	-	-	-	-	-
GBP	352	232	120	-	-	-	-	(1)
JPY	12	12	-	-	-	-	-	-
KRW	14	14	-	-	-	-	-	1
SGD	6	6	-	-	-	-	-	-
USD	45	45	-	-	-	-	-	(3)
Other	-	-	-	-	-	-	-	-
Total cash flow hedges	1,825	1,172	653	-	-	-	-	42
Items not qualifying for hedge accounting								
Forward purchases								
USD	215	90	95	30	-	-	-	16
Forward sales								
USD	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total items not qualifying for hedge accounting	215	90	95	30	-	-	-	16
Total exchange rate risk derivatives	5,066	2,142	1,702	665	364	105	88	120

The total fair value hedges of EUR 62 million relates to exchange rate hedging on future fleet purchases denominated in USD. Fair value adjustments included on the carrying amount of the hedge items amount to EUR 39 million and are recognised in the balance sheet in the line item property, plant and equipment. The related costs of hedging amount to EUR 23 mln and are recorded in other comprehensive Income.

Exposure to interest rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

	In local currency millions							In millions of Euros
As at December 31, 2018	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Interest rate risk hedges								
Fair value hedges								
Swaps	-	-	-	-	-	-	-	-
Total fair value hedges	-	-	-	-	-	-	-	-
Cash flow hedges								
Swaps	398	109	75	67	39	52	56	(24)
Total cash flow hedges	398	109	75	67	39	52	56	(24)
Items not qualifying for hedge accounting								
Swaps	147	22	23	20	18	12	52	8
Total items not qualifying for hedge accounting	147	22	23	20	18	12	52	8
Total interest rate risk derivatives	545	131	98	87	57	64	108	(16)

Exposure to commodity risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the price risks related to its purchases of fuel.

The nominal amounts of the Group's commitments on the crude and refined oil markets as at December 31, 2018 are shown below:

	In USD millions							In millions of Euros
	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Commodity risk hedges								
Cash flow hedges								
Swaps	319	270	49	-	-	-	-	43
Options	1,813	1,160	653	-	-	-	-	(188)
Total cash flow hedges	2,132	1,430	702	-	-	-	-	(145)
Total commodity risk derivatives	2,132	1,430	702	-	-	-	-	(145)

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2018, the breakdown of the Group's financial assets and derivative instruments, based on the three classification levels, is as follows:

	Level 1	Level 2	Total
Financial assets available for sale			
Shares	33	13	46
Assets at fair value through profit or loss			
Marketable securities	71	708	779
Deposits and marketable securities	-	70	70
Derivatives instruments (asset and liability)			
Currency exchange derivatives	-	120	120
Interest rate derivatives	-	(16)	(16)
Commodity derivatives	-	(145)	(145)

No significant changes in levels of hierarchy, or transfers between levels, have occurred in the reporting period.

For the explanation of the three classification levels, reference is made to "fair value hierarchy" paragraph in the accounting policies for the balance sheet section.

Sensitivity analysis

The sensitivity is calculated solely on the valuation of derivatives at the closing date of the period presented. The hypotheses used are coherent with those applied in the financial year ended as at December 31, 2018.

The impact on "other reserves" corresponds to the sensitivity of effective fair value variations for instruments and is documented in the hedged cash flow (options intrinsic value, fair value of closed instruments). The impact on the "income for tax" corresponds to the sensitivity of ineffective fair value variations of hedged instruments (principally time value of options) and fair value variations of transactions instruments. For fuel, the downward and upward sensitivity are not symmetrical when taken into account the utilisation, in respect of the policy of optional hedged instruments in which the risk profile is not linear.

For further information reference is made to the Financial Risk Management paragraph in the text to the notes to the consolidated financial statements.

Fuel price sensitivity

The impact on "income before tax" and "other reserves" of the variation of +/- USD 10 on a barrel of Brent is presented below:

	December 31, 2018		December 31, 2017	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Income before tax				
Other reserves	215	(217)	197	(183)

The fuel price sensitivity is only calculated on the valuation of derivatives at the closing date of each period presented.

Currency sensitivity

Values as of the closing date of all monetary assets and liabilities in other currencies are as follows:

	Monetary Assets		Monetary Liabilities	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
USD	684	506	346	328
JPY	-	-	245	235
CHF	-	-	333	320

The amounts of monetary assets and liabilities disclosed above do not include the effect of derivatives.

The impact on "change in value of financial instruments" and on "other reserves" of the variation of a 10% weakening in exchange rates in absolute value relative to the Euro is presented below:

	USD		JPY		GBP	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Change in value of financial instruments	(31)	(16)	21	21	(5)	-
Other reserves	(108)	(89)	3	3	29	22

The impact on "change in value of financial instruments on financial income and expenses" consists of:

» Change in value of monetary assets and liabilities (in accordance with IAS 21, including the effect of fair value and cash flow hedges);
» Changes in time value of currency exchange options (recognised in financial income);
» The changes in fair value of derivatives for which fair value hedges accounting is applied or no hedging accounting is applied.

The impact on "other reserves" is explained by the change in exchange rates on changes in fair value of currency derivatives qualified for cash flow hedging, recognised in "other reserves".

Interest rate sensitivity

The Group is exposed to the risk of changes in market interest rates. The variation of 100 basis points of interest rates would have an impact on income before tax of EUR nil million for 2018 (EUR nil million for 2017).

6. Other financial assets

	Debt investments at amortised cost		At fair value through profit or loss		At fair value through OCI		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Carrying amount as at December 31 2017	394		180		-		574	
Prospective first application of IFRS 9	-		-		6		6	
Reclassification first application of IFRS 9	-		(68)		68		-	
Carrying amount as at January 1	394	345	112	48	74		580	393
Movements								
Additions and loans granted	170	100	-	72	-		170	172
Loans and interest repaid	(45)	(25)	(1)	(7)	-		(46)	(32)
Change in scope of consolidation	-	-	-	61	-		-	61
Interest accretion	8	6	-	-	-		8	6
Foreign currency translation differences	16	(35)	(3)	6	-		13	(29)
Other movements	(3)	3	-	-	(28)		(31)	3
Net movement	146	49	(4)	132	(28)		114	181
Carrying amount as at December 31	540	394	108	180	46	-	694	574

	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, other loans and receivables	7	533	98	296
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	70	-	70	-
Other restricted deposits	1	-	2	-
Deposits on operating leased aircraft	-	26	-	25
Air France KLM S.A. shares	-	11	-	15
Kenya Airways Ltd. shares			-	61
Other non-consolidated entities			-	7
	71	37	72	108
At fair value through OCI				
Kenya Airways Ltd. shares	-	33		
Other non-consolidated entities	-	13		
	-	46	-	-
Carrying amount as at December 31	78	616	170	404

Following a debt and equity restructuring of Kenya Airways Ltd., the Group's stake decreased from 26.73% as at December 31, 2016 to 7.76% as at December 31, 2017 and the Group lost its ability to exercise significant influence on Kenya Airways in November 2017. Consequently, Kenya Airways is not an associate anymore and has become a financial asset in 2017. Following the implementation of IFRS 9 as per January 1, 2018 Kenya Airways has been included at fair value through other comprehensive income. There have been no changes in the Group's stake in Kenya Airways in 2018.

The carrying amounts of financial assets denominated in currencies other than the Euro are as follows:

As at December 31,	2018	2017
USD	408	172
GBP	-	-
Kenyan shilling	33	61
Total	441	233

The interest-bearing financial assets have fixed interest rates. The weighted average effective interest rates at the balance sheet date are as follows:

	December 31, 2018		December 31, 2017	
in %	EUR	USD	EUR	USD
Debt investments at amortised cost	0.1	2.7	-	2.2
At fair value through profit or loss	0.1	-	0.1	-

The triple A bonds and long-term deposits are held as a natural accounting hedge to mitigate the effect of foreign exchange movements relating to financial debt. Except as described below these securities are at the free disposal of the Company. Access to triple A bonds and long-term deposits, loans and receivables amounting to EUR 197 million (December 31, 2017 EUR 195 million) is restricted.

The maturities of debt investments are as follows:

As at December 31,	2018	2017
Debt investments at amortised cost		
Less than 1 year	7	98
Between 1 and 2 years	50	-
Between 2 and 3 years	179	37
Between 3 and 4 years	28	55
Between 4 and 5 years	56	2
Over 5 years	220	202
Total	540	394

The fair values of the financial assets are as follows:

As at December 31,	2018	2017
Debt investments at amortised cost		
Bonds, long-term deposits, loans and receivables	**540**	**419**
At fair value through profit or loss		
Restricted deposit EU Cargo claim	50	50
Restricted deposits	20	20
Deposits on operating leased aircraft	26	25
Kenya Airways Ltd. shares	-	61
AIR FRANCE KLM S.A. shares	11	15
Other financial assets	-	7
	107	**178**
At fair value through OCI		
Kenya Airways Ltd. shares	33	-
Other non-consolidated entities	13	-
	46	**-**
Total fair value	**693**	**597**

The fair values listed above have been determined as follows:

- Triple A bonds and long-term deposits: The fair values are based on the net present value of the anticipated future cash flows associated with these instruments;
- Deposits and commercial paper: The carrying amounts approximate fair value because of the short maturity of these deposits and commercial paper;
- Kenya Airways Ltd. shares: Quoted price as at close of business on December 31, 2018;
- AIR FRANCE KLM S.A. shares: Quoted price as at close of business on December 31, 2018 and December 31, 2017;
- Other assets: The carrying amounts approximate fair value because of the short maturity of these instruments or, in the case of equity instruments that do not have a quoted price in an active market, the assets are carried at cost.

The contractual re-pricing dates of the Group's interest bearing assets are as follows:

As at December 31,	2018	2017
Less than 1 year	77	105
Between 1 and 2 years	50	4
Between 2 and 3 years	179	47
Between 3 and 4 years	28	55
Between 4 and 5 years	56	2
Over 5 years	219	253
Total interest bearing financial assets	**609**	**466**

7. Inventories

As at December 31,	2018	2017
Carrying amount		
Maintenance inventories	247	189
Allowance for obsolete inventories	(67)	(63)
Maintenance inventories - net	180	126
Other sundry inventories	55	51
Total	**235**	**177**

8. Trade and other receivables

As at December 31,	2018	2017 Restated
Trade receivables	622	636
Reserve trade receivables	(27)	(15)
Trade receivables - net	595	621
Amounts due from:		
- AIR FRANCE KLM group companies	85	82
- associates and jointly controlled entities	3	3
- maintenance contract customers	270	267
Taxes and social security premiums	54	38
Other receivables	89	83
Prepaid expenses	178	134
Total	1,274	1,228

As at December 31,	2018	2017
< 90 days	588	595
90-180 days	2	9
180-360 days	2	15
> 360 days	3	2
Total trade receivables	595	621

In the financial year EUR 13 million (December 31, 2017 EUR 6 million decrease) increase of provision trade receivables has been recorded in other operating income and expenses in the consolidated statement of profit or loss.

Maintenance contract cost incurred to date for contracts in progress at December 31, 2018 amounted to EUR 318 million (December 31, 2017 EUR 210 million).

Advances received for maintenance contracts in progress at December 31, 2018 amounted to EUR 95 million (December 31, 2017 EUR 19 million).

9. Cash and cash equivalents

As at December 31,	2018	2017
Cash at bank and in hand	95	70
Short-term deposits	779	988
Total	874	1,058

The effective interest rates on short-term deposits are in the range from -0.48% to 3.35% (2017 range -0.45% to 1.65%). The short-term deposits are invested in money market instruments or in liquid funds with daily access to cash.

The part of the cash and cash equivalents held in currencies other than the Euro is as follows:

As at December 31,	2018	2017
USD	28	35
GBP	1	-
Other currencies	13	12
Total	42	47

The fair value of cash and cash equivalents does not differ materially from the book value.

10. Share capital

Authorised share capital

No movements have occurred in the authorised share capital since April 1, 2004. The authorised share capital of the Company is summarised in the following table:

	Authorised		
	Par value per share (in EUR)	Number of shares	Amount in EUR 1,000
Priority shares	2.00	1,875	4
Ordinary shares	2.00	149,998,125	299,996
A Cumulative preference shares	2.00	37,500,000	75,000
B Preference shares	2.00	75,000,000	150,000
C Cumulative preference shares	2.00	18,750,000	37,500
Total authorised share capital			562,500

Issued share capital

No movements have occurred in the issued share capital since April 1, 2004. No shares are issued but not fully paid.

	Issued and fully paid			
	December 31, 2018		December 31, 2017	
	Number of shares	Amount in EUR 1,000	Number of shares	Amount in EUR 1,000
Included in equity				
Priority shares	1,312	3	1,312	3
Ordinary shares	46,809,699	93,619	46,809,699	93,619
		93,622		93,622
Included in financial liabilities				
A Cumulative preference shares	8,812,500	17,625	8,812,500	17,625
C Cumulative preference shares	7,050,000	14,100	7,050,000	14,100
		31,725		31,725
Total issued share capital		125,347		125,347

The rights, preferences and restrictions attaching to each class of shares are as follows:

Priority shares

All priority shares are held by AIR FRANCE KLM S.A. Independent rights attached to the priority shares include the power to determine or approve:

a. To set aside an amount of the profit established in order to establish or increase reserves (art. 32.1 Articles of Association (AoA));
b. Distribution of interim dividends, subject to the approval of the Supervisory Board (art. 32.4 AoA);
c. Distribution to holders of common shares out of one or more of the freely distributable reserves, subject to the approval of the Supervisory Board (art. 32.5 AoA);
d. Transfer of priority shares (art. 14.2 AoA).

Before submission to the General Meeting of Shareholders prior approval of the holder of the priority shares is required for:
a. Issuance of shares (art. 5.4 AoA);
b. Limitation of or exclusion from pre-emptive rights of the holders of other classes of shares (art. 5.4 AoA);
c. Repurchase of own shares (art. 10.2 AoA);
d. Alienation of own priority shares and C cumulative preference shares (art. 11.2 AoA);
e. Reduction of the issued share capital (art. 11.3 AoA);
f. Remuneration and conditions of employment of the Managing Directors (art. 17.4 AoA);
g. Amendments of the Articles of Association and/or dissolution of the Company (art. 41.1 AoA).

A Cumulative preference shares, B Preference shares, C Cumulative preference shares and Ordinary shares

Holders of preference and ordinary shares are entitled to attend and vote at shareholders meetings. Each share entitles the holder to one vote.

As at December 31, 2018 the State of the Netherlands held 3,708,615 A cumulative preference shares to which a voting right attaches of 5.9%. This has not changed since financial year 2006/07. For details of the right to dividend distributions attaching to each class of share see the section Other information.

11. Other reserves

	Hedging reserve	Remeasurement of defined benefit pension	Translation reserve	Other reserves	Total
As at December 31, 2016	45	(2,565)	-	329	(2,191)
First application of IFRS 9	(7)	-	-	-	(7)
As at January 1, 2017 Restated	38	(2,565)	-	329	(2,198)
Gains/(losses) from cash-flow hedges	81	-	-	-	81
Exchange differences on translating foreign operations	-	-	12	-	12
Remeasurement of defined benefit pension plans	-	831	-	-	831
Transfer to retained earnings	-	1,144	-	53	1,197
Tax on items taken directly to or transferred from equity	(21)	(206)	-	-	(227)
As at December 31, 2017 Restated	98	(796)	12	382	(304)
Prospective first application of IFRS 9	6	-	-	-	6
As at January 1, 2018	104	(796)	12	382	(298)
Gains/(losses) from cash-flow hedges	(312)	-	-	-	(312)
Exchange differences on translating foreign operations	-	-	1	-	1
Remeasurement of defined benefit pension plans	-	(209)	-	-	(209)
Transfer to retained earnings	-	-	-	40	40
Tax on items taken directly to or transferred from equity	78	49	-	-	127
As at December 31, 2018	(130)	(956)	13	422	(651)

The volatility from the KLM pension plans have reduced significantly after the transfer of the cockpit crew and cabin crew to a collective defined contribution pension schemes in 2017. However, the volatility in the value of fuel derivatives and the remeasurement of the current defined benefit pension plans remains for the ground staff pension plan and other smaller defined benefit pension plans. The non-cash changes in pension obligations together with the level of plan assets linked to the changes in actuarial assumptions (such as the current low discount rate) that need to be recognised in the Company's equity do not directly affect the statement of profit or loss.

Despite the de-risking of the cockpit and cabin crew pension plans the equity is still low per end 2018. Going forward the balance sheet and thus the equity need to be strengthened.

In the event that the Company's equity would become negative, the Company foresees no immediate issues given that its operational cash flow is strong enough and that this accounting situation has no consequences on the Company's operations and liabilities. Reference is made to the assessment of 'going concern' in the Risks and risk management section.

For an elucidation on the remaining volatility of defined pension plans, reference is made to the paragraph Risks linked to the impact of external economic factors on equity and Risks linked to pension plans in the Risks and risk management section.

The legal reserves consist of the following items:

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Most of the aircraft lease contracts are denominated in US dollars. As from January 1, 2018, the Group designated the cash flows from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. This limits the volatility of the foreign exchange variation resulting from the currency related revaluation of its lease debt. The effective portion of the foreign exchange revaluation of the lease debt in US dollars at the closing date is recorded in "other comprehensive income". This amount is recycled in revenues when the hedged item is recognised. This also included the fair value changes in equity investments which are deemed to be business investments.

Remeasurement of defined benefit plans

Comprises all actuarial gains and losses related to the remeasurement of defined benefit plans.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the consolidated figures of non-Euro foreign subsidiaries, as well as from the translation of the Company's net investment in foreign associates and jointly controlled entities.

Other legal reserve

The other legal reserve is maintained equal to the non-distributable reserves of investments accounted for using the equity method and the amount of development cost incurred on computer software and prepayments thereon at the balance sheet date, as required by Article 365.2 of Book 2 of the Dutch Civil Code.

12. Loans from parent company

	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
AIR FRANCE KLM S.A.	99	-	-	198
Total	99	-	-	198

AIR FRANCE KLM S.A., Air France and KLM have agreed that the proceeds of capital market transactions will be made available to Air France and KLM by means of intercompany loan agreements.

Loans from parent company – Current

On March 28, 2013, AIR FRANCE KLM S.A. issued a convertible bond of a principal amount of EUR 550 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to the Company by means of an intercompany loan facility, dated June 7, 2013, a total amount of EUR 198 million. This intercompany loan facility remains in place, despite the fact that the related bond has converted in the course of 2017. As at December 31, 2018, the Company has drawn EUR 99 million under the facility. The drawn amount bears a fixed interest rate of 2.03%. Over the undrawn amount of the facility the Company pays a commitment fee.

The Company may repay the drawn amounts at any time before the maturity date. Any advance repaid can be borrowed again. The carrying amount for the loan from parent company approximates the fair value.

For the guarantees from KLM to AIR FRANCE KLM reference is made to note 23.

13. Financial debt

	December 31, 2018			December 31, 2017		
	Future minimum lease payment	Future finance charges	Total financial lease liabilities	Future minimum lease payment	Future finance charges	Total financial lease liabilities
Lease obligations						
Within 1 year	246	14	232	364	9	355
Total current	246	14	232	364	9	355
Between 1 and 2 years	181	12	169	240	19	221
Between 2 and 3 years	211	9	202	176	14	162
Between 3 and 4 years	115	7	108	231	12	219
Between 4 and 5 years	143	6	137	104	9	95
Over 5 years	431	9	422	507	23	484
Total non-current	1,081	43	1,038	1,258	77	1,181
Total	1,327	57	1,270	1,622	86	1,536

The financial debt relate exclusively to aircraft leasing. At the expiry of the leases, KLM has the option to purchase the aircraft at the amount specified in each contract. The lease agreements provide for either fixed or floating interest payments. Where the agreements are subject to a floating interest rate, this is normally the 3 or 6 month EURIBOR or the USD LIBOR rate. The average interest rate, without taking into account the impact of hedging (and the deferred benefits arising from sale and leaseback transactions) is 1.70% (average fixed rate 2.28%, average floating rate 1.20%). Taking into account the impact of hedging the average interest rate is 1.96% (average fixed rate 2.13%, average floating rate 1.35%). After hedging 75% of the outstanding lease liabilities have a fixed interest rate.

The carrying amount for the financial debt approximates the fair value as at December 31, 2018. The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments. For the lease liabilities restricted deposits are used as collateral.

14. Lease debt

	December 31, 2018		December 31, 2017 Restated	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	338	1,160	311	1,370
Lease Debt - Real estate	22	130	20	114
Lease Debt - Others	9	110	22	108
Accrued interest	5	1	-	-
Total	374	1,401	353	1,592

Change in lease debt:

	As at January 1, 2018	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2018
Lease Debt - Aircraft	1,681	70	(320)	70	(4)	1,497
Lease Debt - Real estate	135	38	(24)	-	3	152
Lease Debt - Others	129	22	(32)	5	(4)	120
Accrued interest	-	-	-	-	6	6
Total	1,945	130	(376)	75	1	1,775

	As at January 1, 2017 Restated	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2017 Restated
Lease Debt - Aircraft	1,866	361	(326)	(220)	-	1,681
Lease Debt - Real estate	143	8	(16)	-	-	135
Lease Debt - Others	159	6	(21)	(15)	-	129
Accrued interest	-	-	-	-	-	-
Total	2,168	375	(363)	(235)	-	1,945

The lease debt maturity breaks down as follows:

	2018	2017 Restated
Less than 1 year	475	476
Between 1 and 2 years	426	470
Between 2 and 3 years	359	424
Between 3 and 4 years	291	358
Between 4 and 5 years	202	289
Over 5 years	321	521
Total	2,074	2,538
Including:		
- Principal	1,775	1,945
- Interest	299	593

15. Other financial liabilities

	2018	2017
Carrying amount as at January 1	1,146	1,293
Additions and loans received	63	91
Loans repaid	(37)	(188)
Foreign currency translation differences	27	(56)
Other changes	-	6
Net movement	53	(147)
Carrying amount as at December 31	1,199	1,146

The financial liabilities comprise:

	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	572	-	544
Other loans (secured/unsecured)	10	585	33	537
Total	10	1,189	33	1,113

The subordinated perpetual loans are subordinated to all other existing and future KLM debts. The subordinations are equal in rank. Under certain circumstances, KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium.

The Swiss Franc subordinated perpetual loans amounting to EUR 333 million as at December 31, 2018 (December 31, 2017 EUR 336 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

As at December 31,	2018	2017
Less than 1 year	10	33
Between 1 and 2 years	147	11
Between 2 and 3 years	227	148
Between 3 and 4 years	205	267
Between 4 and 5 years	-	105
Over 5 years	610	582
Total	1,199	1,146

The carrying amounts of financial liabilities denominated in currencies other than the Euro are as follows:

As at December 31,	2018	2017
USD	-	4
CHF	333	320
JPY	239	224
Total	572	548

The fair values of financial liabilities are as follows::

As at December 31,	2018	2017
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	527	511
Other loans (secured/unsecured)	597	508
Fair value	1,156	1,051

The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments.

The exposure of the Group's borrowing interest rate changes and the contractual re-pricing dates are as follows:

	<1 year	>1 and < 5 years	> 5 years	Total
As at December 31, 2018				
Total borrowings	533	64	603	1,200
Effect of interest rate swaps	(63)	-	63	-
	470	64	666	1,200
As at December 31, 2017				
Total borrowings	578	-	568	1,146
Effect of interest rate swaps	(63)	-	63	-
	515	-	631	1,146

The effective interest rates at the balance sheet date, excluding the effect of derivatives, are as follows:

	December 31, 2018		December 31, 2017	
in %	EUR	Other	EUR	Other
Cumulative preference shares	3.70	-	3.70	-
Subordinated perpetual loans	-	4.73	-	4.73
Other loans	1.58	-	1.58	-

The interest rates of the subordinated perpetual loans and other loans, taking into account the effect of derivatives, are as follows:

	Variable interest loans	Fixed interest loans	Average variable %-rate	Average fixed %-rate	Average %-rate
Subordinated perpetual loans	-	572	-	4.74%	4.74%
Other loans	533	64	1.69%	1.57%	1.68%

The variable interest rates are based on EURIBOR or the USD LIBOR rate.

In May 2018, KLM signed a new EUR 665 million Revolving Credit Facility for a period of 5 years, including two one-year extension options, with 12 international banks. No amounts were withdrawn in 2018 or 2017.

The total financial liabilities are as follows:

		As at December 31,	
	Note	2018	2017
Loans from parent company	12	99	-
Finance lease obligations	13	232	355
Lease debt	14	374	353
Other financial liabilities	15	10	33
Total current		715	741
Loans from parent company	12	-	198
Finance lease obligations	13	1,038	1,181
Lease debt	14	1,401	1,592
Other financial liabilities	15	585	537
Perpetual subordinated loan stock in YEN	15	239	208
Perpetual subordinated loan stock in Swiss francs	15	333	336
Cumulative preference shares	15	32	32
Total non-current		3,628	4,084
Total		4,343	4,825

The total movements in financial liabilities are as follows:

	Note	As at January 1, 2018	New financial debt	Reimburs-ment of financial debt	Currency translation differences	Other	As at December 31, 2018
Loans from parent company	12	198	-	(99)	-	-	99
Finance lease obligations	13	1,536	124	(424)	29	5	1,270
Lease debt	14	1,945	130	(376)	75	1	1,775
Other financial liabilities	15	570	63	(37)	(1)	-	595
Perpetual subordinated loan stock	15	544	-	-	28	-	572
Cumulative preference shares	15	32	-	-	-	-	32
Total		4,825	317	(936)	131	6	4,343

16. Net debt

As at December 31,	2018	2017 Restated
Current and non-current financial debt	4,337	4,827
Financial debt	4,337	4,827
Cash and cash equivalents	874	1,058
Restricted deposits	82	80
Cross currency element of CCIR swaps	8	5
Near cash	548	404
Financial assets	1,512	1,547
Total net debt	2,825	3,280

	2018	2017 Restated
Carrying amount as at January 1	3,280	3,951
Adjusted free cash flow	(320)	(360)
Repayment lease debt	(376)	(363)
New lease debt	130	375
Other (including currency translation adjustment)	111	(323)
Net movement	(455)	(671)
Carrying amount as at December 31	2,825	3,280

17. Deferred income

	December 31, 2018		December 31, 2017 Restated	
	Current	Non-current	Current	Non-current
Advance ticket sales	1,177	-	1,066	-
Sale and leaseback transactions	1	8	1	14
Flying Blue frequent flyer program	102	187	88	191
Others	21	10	13	2
Total	1,301	205	1,168	207

18. Deferred income tax

The gross movement in the deferred income tax account is as follows:

	2018	2017 Restated
Carrying amount as at January 1	(185)	(239)
Income statement expense/(benefit)	203	(171)
Tax (credited)/charged to equity	(127)	227
Other movements	2	(2)
Net movement	78	54
Carrying amount as at December 31	(107)	(185)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts of deferred tax assets recognised in the other tax jurisdictions (i.e. in the United Kingdom) and in Dutch subsidiaries not included in KLM income tax fiscal unity in the Netherlands are included in the deferred tax asset line within non-current assets on the balance sheet. Of the total amount involved, being EUR 25 million, EUR nil million is expected to be recovered in 12 months or less and EUR 4 million is expected to be recovered after more than 12 months. An amount of EUR 20 million related to taxes on remeasurement via other comprehensive income of defined benefit pension plans and will not be recycled through the statement of profit or loss.

The split between deferred tax assets, net (offset) deferred tax liabilities and current income tax liability is as follows:

As at December 31,	2018	2017 Restated
Deferred tax asset other tax jurisdictions	(25)	(30)
Net deferred tax asset Dutch tax fiscal unity (offset)	(82)	(155)
	(107)	(185)

The net deferred tax liability is built up as follows:

As at December 31,	2018	2017 Restated
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	60	208
Deferred tax assets to be recovered after more than 12 months	42	19
	102	227
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	2	2
Deferred tax liabilities to be settled over more than 12 months	18	70
	20	72
Net Deferred tax asset KLM income tax fiscal unity (offset)	(82)	(155)

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
2018					
Tax losses	253	(189)	-	(4)	60
Fleet assets	1	-	-	-	1
Provisions for employee benefits	39	-	(6)	(8)	25
Derivative financial instruments	(22)	-	75	(10)	43
Other	(4)	-	-	12	8
Total	267	(189)	69	(10)	137

	Restated carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Restated carrying amount as at December 31
Deferred tax assets					
2017 Restated					
Tax losses	343	(268)	(14)	192	253
Fleet assets	1	-	-	-	1
Provisions for employee benefits	45	-	(6)	-	39
Derivative financial instruments	(15)	-	(7)	-	(22)
Other	3	-	-	(7)	(4)
Total	377	(268)	(27)	185	267

	Carrying amount as at January 1	Income statement charge/ (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
2018					
Other tangible fixed assets	(10)	(3)	-	-	(13)
Pensions and benefits (asset)	92	17	(58)	(8)	43
Total	82	14	(58)	(8)	30

	Carrying amount as at January 1	Income statement charge/ (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
2017					
Other tangible fixed assets	(8)	(2)	-	-	(10)
Pensions and benefits (asset)	329	(437)	200	-	92
Maintenance liability	(131)	-	-	131	-
Other	(52)	-	-	52	-
Total	138	(439)	200	183	82

The Group has tax loss carry forwards in the Netherlands amounting to EUR 0.2 billion (December 31, 2017 EUR 0.8 billion) and in the United Kingdom amounting to EUR 23 million (December 31, 2017 EUR 23 million) for which a deferred tax asset has been recognised to the extent that expected future taxable profits in excess of the profit arising from the reversal of existing temporary differences, are sufficient for utilisation of those tax loss carry forwards. If these expected future taxable profits will not materialise, this could have a significant impact on the recoverability of these deferred tax assets.
Under income tax law in the Netherlands, the maximum future period for utilising tax losses carried forward is nine years. In the United Kingdom, this period is indefinite.

The Group has tax loss carry forwards in the United Kingdom in the amount of EUR 9 million (December 31, 2017 EUR 9 million) as well as deductible temporary differences for which no deferred tax asset has been recognised, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised. The unrecognised deferred tax assets relating to temporary differences amount to EUR 18 million (December 31, 2017 EUR 20 million).

19. Provisions for employee benefits

As at December 31,	2018	2017
Pension and early-retirement obligations	281	381
Post-employment medical benefits	27	32
Other long-term employment benefits	95	97
Termination benefits	9	13
Total Liabilities	412	523
Less: Non-current portion		
Pension and early-retirement obligations	263	288
Post-employment medical benefits	25	30
Other long-term employment benefits	90	93
Termination benefits	8	12
Non-current portion	386	423
Current portion	26	100

As at December 31,	2018	2017
Assets		
Pension assets non-current portion	331	590
Total assets	331	590

Pension plans

The Company sponsors a number of pension plans for employees world-wide. As per December 31, 2018, the major defined benefit plans include KLM ground staff based in the Netherlands, the United Kingdom, Germany, Hong Kong, and Japan. These plans are funded through separate pension funds which are governed by independent boards and are subject to supervision of the local regulatory authorities.
In addition to these major plans there are various relatively insignificant defined benefit and defined contribution plans for employees located in- and outside the Netherlands.

In August 2017, the Company and the KLM cabin crew unions agreed to modify the cabin crew plan. This modified plan qualifies as a defined contribution plan (collective defined contribution) and led to derecognition of the cabin crew pension asset. In 2017 an amount of EUR 311 million has been recorded in "Other non-current income and expenses" in the Consolidated statement of profit or loss. See note 29.

In December 2017, the Company and the KLM cockpit crew union agreed to modify the cockpit crew plan. This modified plan qualifies as a defined contribution plan (collective defined contribution) and led to derecognition of the cockpit crew pension asset. In 2017 an amount of EUR 1,399 million has been recorded in "Other non-current income and expenses" in the Consolidated statement of profit or loss. See note 29.
In addition a dowry payment amounting to EUR 194 million was agreed with the cockpit crew union of which EUR 120 million was paid in 2017 and EUR 74 million was paid in 2018. In 2017 the agreed dowry payment has been recorded in "Other non-current income and expenses" in the Consolidated statement of profit or loss. See note 29.

These modified pension plans for KLM cabin crew and KLM cockpit crew are a significant de-risking for the Group's risk profile and reduction of volatility in the balance sheet and avoid the Company to be potentially forced to make substantial additional pension payments.

Characteristics of ground staff plan

The pension plan relating to ground staff of the Company is a defined benefit plan based on the average salary with reversion to the spouse in case of death of the beneficiary. The retirement age as defined in the plan increased from 67 years to 68 years as per January 1, 2018. The average duration of the pension plan is 20 years.
The board of the pension fund is composed of members appointed by the employer, employees, pensioners and an external expert since September 1, 2018. The board is fully responsible for the execution of the plan. The Company can only control the financing agreement between the Company and the pension fund.

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 125% of the projected long-term commitment. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) applicable as per January 1, 2015. The impact of the nFTK among other things resulted in higher minimum required solvency levels. On the other hand, pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment.

If the coverage ratio is under the funding rules detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the threshold of 125% within 10 years and includes projected future return on investment. As a consequence, the existing recovery plan for the ground staff plan has been updated as per April 1, 2018.

If the threshold cannot be realised within 10 years additional contributions are payable by the Company and the employees. The amount of regular and additional employer contributions is not limited. The amount of possible additional employee contributions is limited to 2% of the pensionable contribution basis. A reduction of contribution is possible if the indexation of pensions is fully funded. Besides Dutch pension law, this reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the Dutch fiscal rules, among other things, a maximum pensionable salary of EUR 100,000 (EUR 105,075 as per January 1, 2018) and lower future accrual rate are applicable since 2015.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions for the yearly pension accrual are limited to 22% of the pensionable base. The funds, fully dedicated to the Company, are mainly invested in bonds, equities and real estate.

The required funding of this pension plan also includes buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk. For example, to reduce the sensitivity to a decline of the interest rate, a substantial part of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Investment strategy

The board of the aforementioned ground staff plan, consults independent advisors as necessary to assist them with determining investment strategies consistent with the objectives of the fund. These strategies relate to the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns. The fund uses asset and liability management studies that generate future scenarios to determine their optimal asset mix and expected rates of return on assets.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plan invests a large proportion of its assets in equities which is believed to offer the best returns over the long-term commensurate with an acceptable level of risk. Also a proportion of assets is invested in property, bonds and cash. The management of most assets is outsourced to a private institution, Blue Sky Group, under a service contract.

Developments 2018

In 2018 the financial markets were weak and plan assets decreased with EUR 188 million. The discount rate used to calculate the pension obligations slightly decreased from 1.90% to 1.85% which results in higher pension obligations. This was more than offset by positive adjustments in other assumptions, such as the use of the 2018 Generation mortality table. Consequently the defined benefit obligations slightly decreased with EUR 27 million.

The funding ratio (based on the average 12 months rolling policy coverage), as set by the Dutch Central Bank, is as follows as at December 31, 2018 (and as at December 31, 2017):

» Ground staff pension fund 116.6% (December 31, 2017: 115.3%)

As per year-end 2018 the ground staff pension fund is below the required coverage ratio and therefore has to issue an updated recovery plan before April 1, 2019. As a result of the 10 year rolling recovery plan no additional recovery payments are needed for 2019.

In October 2018 the High Court in the UK ruled in the Lloyds Bank case that UK pension schemes must equalise Guaranteed Minimum Pension (GMP) between men and women. KLM has a UK based pension scheme for which a best estimate calculation has been performed by external actuaries. The 2018 expense of EUR 3 million increase has been recorded in "Other non-current income and expenses" in the Consolidated statement of profit or loss. See note 29.

Recognition of pension assets and liabilities in the balance sheet

The funds have together a surplus totalling EUR 50 million as at December 31, 2018 (December 31, 2017 EUR 210 million).

No limit (i.e. after the impact of IAS 19 and IFRIC 14 "The limit on a defined benefit asset, minimum funding requirements and their interaction" on IAS 19) on the net assets recognised in the balance sheet is applied since, based on the current financing agreement between the ground staff pension fund and the Company, future economic benefits are available in the form of a reduction in future contributions. These net assets recognised are not readily available for the Company.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase and mortality rates. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between the ground staff pension fund and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14).

Assumptions used for provisions for employee benefits

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Pension and early-retirement obligations	
	As at December 31,	
in %	2018	2017
Weighted average assumptions used to determine benefit obligations		
Discount rate for year ended	1.83	1.92
Rate of compensation increase	1.60	1.14
Rate of price inflation	1.83	1.88
Weighted average assumptions used to determine net cost		
Discount rate for year ended	1.82	1.92
Rate of compensation increase	1.20	0.93
Rate of price compensation	1.86	1.80

For the main ground staff pension plan, the 2018 Generation mortality tables (with certain plan specific adjustments) of the Dutch Actuarial Association were used.

As from 2016, the Company refined its calculations, by retaining the adequate flows, on the discount rate used for the service-cost calculation. In the Euro zone, this leads to the use of a discount rate of 0.1% higher for the service-cost calculation compared to the one used for the discount of the benefit obligation.

	Pension and early-retirement obligations	
As at December 31,	2018	2017
Present value of wholly or partly funded obligations	8,816	8,843
Fair value of plan assets	(8,865)	(9,053)
Net liability/(asset) relating pension and other post-retirement obligations	**(49)**	**(210)**

	Pension and early-retirement obligations	
As at December 31,	2018	2017
Amounts in the balance sheet		
Liabilities	281	381
Assets	(331)	(590)

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Pension and early-retirement obligations	
	2018	2017
Carrying amount as at January 1	**8,843**	**18,539**
Current service cost	187	287
Interest expense	167	323
Past service cost	3	(6)
Curtailments/settlements	-	(9,876)
Actuarial losses/(gains) demographic assumptions	(108)	(11)
Actuarial losses/(gains) financial assumptions	37	171
Actuarial losses/(gains) experience adjustments	(39)	(162)
Benefits paid from plan/company	(271)	(401)
Exchange rate changes	(3)	(21)
Net movement	**(27)**	**(9,696)**
Carrying amount as at December 31	**8,816**	**8,843**

The 2018 past service cost fully relates to UK GMP. The EUR 3 million past service cost has been recorded in "Other non-current income and expenses" in the Consolidated statement of profit or loss. See note 29.

The movements in the fair value of assets of the wholly or partially funded pension plans in the year can be summarised as follows:

	2018	2017
Fair value as at January 1	**9,053**	**19,644**
Interest income	174	345
Return on plan assets excluding interest income	(339)	831
Employer contributions	97	259
Member contributions	65	163
Curtailments/settlements	-	(11,780)
Benefits paid from plan / company	(190)	(396)
Other	8	1
Exchange rate changes	(3)	(14)
Net movement	**(188)**	**(10,591)**
Fair value as at December 31	**8,865**	**9,053**

The 2017 balance of the settlements amounts to EUR 1,904 million. This includes EUR 1,399 million non-cash settlement expenses following the modification to a collective defined contribution pension plan for the cockpit crew plan and subsequent derecognition of the cockpit crew pension asset and the same modification related to the cabin crew pension plan for a non-cash settlement expense of EUR 311 million following the derecognition of the cabin crew pension asset. In addition, a non-current expense related to a dowry payment amounting to EUR 194 million was agreed for the cockpit crew pension plan. Reference is made to note 29.

The experience adjustments are as follows:

	2018	2017
Benefit obligation	(39)	(162)
Plan asset	(339)	831

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the discount rate is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2018	2017
0.25% increase in the discount rate		
Impact on service cost	(12)	(12)
Impact on defined benefit obligation	(404)	(412)
0.25% decrease in the discount rate		
Impact on service cost	13	13
Impact on defined benefit obligation	463	473

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the salary increase is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2018	2017
0.25% increase in the salary increase		
Impact on service cost	2	3
Impact on defined benefit obligation	25	29
0.25% decrease in the salary increase		
Impact on service cost	(2)	(2)
Impact on defined benefit obligation	(22)	(26)

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the pension increase rate is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2018	2017
0.25% increase in the pension increase rate		
Impact on service cost	11	11
Impact on defined benefit obligation	418	427
0.25% decrease in the pension increase rate		
Impact on service cost	(8)	(8)
Impact on defined benefit obligation	(316)	(332)

The major categories of assets as a percentage of the total pension plan assets are as follows:

in %	As at December 31, 2018	2017
Debt securities	52	50
Real estate	10	10
Equity securities	38	40

Debt securities are primarily composed of listed government bonds, equally split between inflation linked and fixed interest, at least rated BBB, and invested in Europe, the United States of America and emerging countries. Real estate is primarily invested in Europe and the United States of America and equally split between listed and unlisted. Equity securities are mainly listed and invested in Europe, the United States of America and emerging countries.

Post-employment medical benefits

This provision relates to the obligation the Company has to contribute to the cost of employees' medical insurance after retirement in the United States of America and Canada.

	Post-employment medical benefits	
As at December 31,	2018	2017
Present value of unfunded obligations	27	32
Net liability/(asset) relating pension and other post-retirement obligations	27	32

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Post-employment medical benefits	
	2018	2017
Carrying amount as at January 1	32	37
Interest expense	1	1
Actuarial losses/(gains) demographic assumptions	-	-
Actuarial losses/(gains) financial assumptions	(4)	(1)
Actuarial losses/(gains) experience adjustments	(2)	-
Past service cost	-	(1)
Benefits paid from plan/company	(2)	(2)
Exchange rate changes	2	(2)
Net movement	(5)	(5)
Carrying amount as at December 31	27	32

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Post-employment medical benefits As at December 31,	
in %	2018	2017
Weighted average assumptions used to determine benefit obligations		
Discount rate for year	4.45	3.65
Weighted average assumptions used to determine net cost		
Discount rate for year	3.65	3.60
Medical cost trend rate assumptions used to determine net cost *		
Immediate trend rate Pre 65	2.20	7.30
Immediate trend rate Post 65	2.20	7.30
Ultimate trend rate	3.70	3.90
Year that the rate reaches ultimate trend rate	2099	2074

* The rates shown are the weighted averages for the United States of America and Canada

Other long-term employee benefits

	2018	2017
Jubilee benefits	67	66
Other benefits	28	31
Total carrying amount	**95**	**97**
Less: Non-current portion		
Jubilee benefits	62	62
Other benefits	28	31
Non-current portion	**90**	**93**
Current portion	**5**	**4**

The provision for jubilee benefits covers bonuses payable to employees when they attain 25 and 40 years of service. The provision for other benefits relates to existing retirement entitlements.

Termination benefits

	2018	2017
Redundancy benefits		
Non-current portion	8	12
Current portion	1	1
Total carrying amount	**9**	**13**

Termination benefits relate to a provision for projected dismissal benefits (also called severance or termination indemnities) to current employees in case they voluntary choose to leave the Company.

20. Return obligation liability and other provisions

	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Other provisions: Legal and civil litigations	Other provisions: Other	Total
As at January 1, 2018	127	802	154	28	1,111
Additions and increases	23	6	7	43	79
Unused amounts reversed	-	-	(1)	(1)	(2)
Used during year	(18)	(6)	(12)	(24)	(60)
Foreign currency translation differences	14	21	-	-	35
Other changes	189	(141)	-	1	49
As at December 31, 2018	335	682	148	47	1,212
Current/non-current portion					
Non-current portion	323	678	1	3	1,005
Current portion	12	4	147	44	207
Carrying amount as at December 31, 2018	335	682	148	47	1,212

	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Other provisions: Legal and civil litigations	Other provisions: Other	Total
As at January 1, 2017 Restated	90	783	166	56	1,095
Additions and increases	44	3	31	21	99
Unused amounts reversed	(5)	(1)	(14)	-	(20)
Used during year	(3)	(12)	(29)	(31)	(75)
Foreign currency translation differences	(17)	(71)	-	-	(88)
Other changes	18	100	-	(3)	115
As at December 31, 2017	127	802	154	43	1,126
Current/non-current portion					
Non-current portion	119	798	145	2	1,064
Current portion	8	4	9	26	47
Carrying amount as at December 31, 2017 Restated	127	802	154	28	1,111

Return obligation and maintenance liabilities on leased aircraft

The movements in return obligation and maintenance liabilities (revaluation of future costs and change in discount rate) are booked in the components corresponding to the potential and restoration work performed on leased aircraft and recorded in right-of-use assets. Effects of accretion and foreign exchange translation of return obligation liabilities recorded in local currencies are recognised in "Other financial income and expenses" (see note 30).

The discount rate used to calculate these restitution liabilities relating to leased aircraft, determined on the basis of a short-term risk-free rate increased by a spread on risky debt (used for companies with high financial leverage), is 6.0 per cent as of December 31, 2018 versus 4.6 per cent as of December 31, 2017.

Other provisions

Legal and civil litigations

The provision as at December 31, 2018 relates to the Cargo anti-trust investigations in Europe for KLM and Martinair, anti-trust investigations in Switzerland and other Cargo related claims. For more details, reference is made to note 23 Contingent assets and liabilities.

Other

Other provisions include provisions for voluntary leave plans, onerous leases of aircraft and site restoration cost for land and buildings under long-term lease agreements.

21. Trade and other payables

As at December 31,	2018	2017 Restated
Trade payables	1,014	982
Amounts due to AIR FRANCE KLM Group companies	126	148
Taxes and social security premiums	316	291
Other payables	682	700
Accrued liabilities	97	61
Total	2,235	2,182

22. Commitments

As at December 31, 2018, KLM has commitments for previously placed orders amounting to EUR 1,898 million (December 31, 2017 EUR 2,434 million). EUR 1,827 million of this amount relates to aircraft (December 31, 2017 EUR 2,344 million) of which EUR 575 million is due in 2019. The balance of the commitments as at December 31, 2018 amounting to EUR 71 million (December 31, 2017 EUR 100 million) is related to Property, plant and equipment. As at December 31, 2018 prepayments on aircraft orders have been made, amounting to EUR 394 million (December 31, 2017 EUR 346 million).

23. Contingent assets and liabilities

Contingent liabilities

An assessment of litigation risks with third parties has been carried out with the Group's attorneys and provisions have been recorded whenever circumstances require.

Antitrust investigations and civil litigation

a. Actions instigated by the EU Commission and several competition authorities in other jurisdictions for alleged cartel activity in air cargo transport.

Air France, KLM and Martinair have been involved, since February 2006, with up to twenty-five other airlines in investigations initiated by the antitrust authorities in several countries with respect to allegations of anti-competitive agreements or concerted actions in the airfreight industry. As of December 31, 2016, most of these investigations and related public proceedings have been concluded, with the following exceptions:
On March 17, 2017, the European Commission announced that it would fine eleven airlines, including KLM, Martinair and Air France, for practices in the air cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006. This new decision follows the initial decision of the Commission of November 9, 2010. This decision, issued to the same airlines for the same alleged practices, was annulled on formal grounds by the General Court of the European Commission in December 2015.

The new fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million and is slightly lower than the initial fine imposed in 2010. On 29 May 2017, KLM submitted its appeal to the General Court of the EU. The appeal is still pending. While the decision is under appeal, there is no obligation to pay the imposed fines, but accrued interest is added as from June 2017.

In Switzerland, Air France and KLM are challenging a decision imposing a EUR 3.2 million fine before the relevant court. Taking into account the part thereof that external counsel assesses to be for the account of KLM, a provision of EUR 0.8 million was recorded.

As of December 31, 2018, the total amount of provisions in connection with antitrust cases amounts to EUR 146.7 million (including accrued interest).

b. Related civil lawsuits

Following the initiation of various investigations by competition authorities in 2006 and the EU Commission decision in 2010, several collective and individual actions were brought by forwarders and airfreight shippers in civil courts against KLM, Air France and Martinair, and the other airlines in several jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices as a consequence of the alleged anticompetitive behaviours.
Air France, KLM and/or Martinair remain defendants, either as main defendants or as third party interveners brought in these cases by other main defendants under "contribution proceedings". Where Air France, KLM and/or Martinair are main defendants, they have initiated contribution proceedings against other airlines.

c. Civil actions relating to the Passenger activity

Litigations concerning anti-trust laws

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including KLM and Air France. The plaintiffs allege the defendants participated in a conspiracy in the passenger air transport service from/to Canada on the cross-Atlantic routes, for which they are claiming damages. KLM and Air France strongly deny any participation in such a conspiracy.

d. Other

US Department of Justice investigation related to United States Postal Services

In March 2016, the US Department of Justice (DOJ) informed KLM and Air France of a civil inquiry regarding contracts with the United States Postal Service for the international transportation of mail by air. In September 2016, a Civil Information Demand from the DOJ has been received seeking certain information relating to these contracts. The DOJ has indicated it is investigating potential violations of the False Claims Act. KLM and Air France are cooperating with the DOJ investigation.

Other

The Company and certain of its subsidiaries are involved as defendant in litigation relating to competition issues, commercial transactions and labour relations. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that, with the exception of the matters discussed above, the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

Site cleaning up cost

The Group owns a number of Cargo and Maintenance buildings situated on various parcels of land which are the subject of long lease agreements.

At the expiry of each of these agreements the Company has the following options:

1. To demolish the buildings and clean up the land prior to return to the lessor;
2. To transfer ownership of the building to the lessor; or
3. To extend the lease of the land.

No decision has been taken regarding the future of any of the buildings standing on leased land. Therefore, it cannot be determined whether it is probable that site cleaning up cost will be incurred and to what extent. Accordingly, no provision for such cost has been established.

Guarantees

Bank guarantees and corporate guarantees given by the Company on behalf of the Company, subsidiaries, unconsolidated companies and third parties, amount to EUR 79 million as at December 31, 2018 (December 31, 2017 EUR 238 million).

Compared to last year the Company does not any longer provide any guarantees to holders of bonds that have been issued by AIR FRANCE KLM S.A.

Section 403 guarantees

General guarantees as defined in Book 2, Section 403 of the Dutch Civil Code have been issued by the Company on behalf of several subsidiaries in the Netherlands. The liabilities of these companies to third parties and unconsolidated companies amount to EUR 713 million as at December 31, 2018 (December 31, 2017 EUR 654 million).

Contingent assets

Other Litigation

The Company and certain of its subsidiaries are involved as plaintiff in litigation relating to commercial transactions and tax disputes. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such claims, either individually or on a combined basis, will not have a material favourable effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

24. Revenues

	2018	2017 Restated
Services rendered		
Passenger transport	7,822	7,492
Cargo transport	1,284	1,212
Network	9,106	8,704
Maintenance contracts	910	824
Charter and low cost business	910	875
Other services	29	27
Total revenues	10,955	10,430

25. External expenses

	2018	2017 Restated
Aircraft fuel	2,096	1,911
Chartering costs	184	159
Landing fees and route charges	775	797
Catering	206	209
Handling charges and other operating costs	605	580
Aircraft maintenance costs	949	941
Commercial and distribution costs	420	355
Insurance	20	21
Rentals and maintenance of housing	132	73
Sub-contracting	183	164
Other external expenses	350	361
Total external expenses	5,920	5,571

In aircraft fuel expenses an amount of EUR 262 million positive (2017 EUR 11 million positive) is included which was transferred from OCI to the consolidated statement of profit or loss.

26. Employee compensation and benefit expenses

	2018	2017 Restated
Wages and salaries	2,384	2,371
Social security premiums other than for state pension plans	249	243
Share-based remuneration	(1)	3
Hired personnel	207	159
Pension and early-retirement plan costs	216	165
Post-employment medical benefit costs	1	1
Other long-term employee benefit costs	3	10
Total employee compensation and benefit expenses	3,059	2,952

Pension and early-retirement plan cost comprises:

	2018	2017
Defined benefit plans	116	112
Defined contribution plans	100	53
Total	216	165

Defined benefit plans and early-retirement plan cost comprises:

	2018	2017
Current service cost	115	120
Interest expense	168	324
Interest income	(174)	(345)
Administration cost	7	13
Total	116	112

In the financial year 2018 the defined benefit cost recognised in profit or loss for the major defined benefit plans recognised in the statement of profit or loss amounted to EUR 116 million (2017 EUR 112 million) and the total contributions paid by the Group amounted to EUR 97 million (2017 EUR 139 million). The contributions paid in the financial year 2018 include additional deficit funding for the Dutch KLM plans amounting to EUR nil million (2017 EUR nil million) and in the United Kingdom amounting to EUR 10 million (2017 EUR 10 million).
The Group's projected defined benefit plans and early retirement plan cost for 2018 amount to EUR 148 million.
The Group's expected cash contributions for these plans amount to EUR 160 million.

Post-employment medical benefits cost comprises:

	2018	2017
Interest cost	1	1
Losses/(gains) arising from plan amendments	-	-
Total	1	1

Other long-term employee benefits comprise:

	2018	2017
Current service cost	5	5
Interest cost	1	1
Immediate recognition of (gains)/losses	3	(3)
Other	(6)	7
Total	3	10

Number of full-time equivalent employees:

	2018	2017
Average for year		
Flight deck crew	3,276	3,251
Cabin crew	8,403	8,161
Ground staff	18,141	17,986
Total	29,820	29,398

As at December 31,	2018	2017
Flight deck crew	3,353	3,236
Cabin crew	8,034	8,099
Ground staff	18,255	18,040
Total	29,642	29,375

27. Other income and expenses

	2018	2017 Restated
Capitalized production	214	245
Operating currency hedging recycling	(6)	16
Other expenses	(79)	(104)
Other income and expenses	129	157

28. Amortisation, depreciation and movements in provision

	2018	2017 Restated
Intangible assets	61	51
Flight equipment	424	412
Other property and equipment	69	66
Right-of-use assets	449	433
Movements in provision	29	23
Total amortisation, depreciation and movements in provision	1,032	985

On a periodic basis, the Group reviews the residual economic life of its property, plant and equipment. As a result the Group decided to extend the economic life of its owned Boeing 777-200 and KLM Boeing 737-800 aircraft from 20 to 25 years as per January 1, 2018. The related 2018 decrease in flight equipment depreciation amounts to EUR 25 million.

29. Other non-current income and expenses

The other non-current income and expenses show a negative amount of EUR 13 million. This mainly relates to EUR 24 million for voluntary leave plans at KLM, partly offset by proceeds from the sale of the Jet Center activities and positive results from the sale of Boeing 747 engines.

The 2017 other non-current income and expenses showed a negative amount of EUR 1,849 million. This includes, among other things, EUR 1,399 million non-cash settlement expenses following the modification to a defined contribution pension plan for the cockpit crew plan and subsequent derecognition of the cockpit crew pension asset and the same modification related to the cabin crew plan for a non-cash settlement expense of EUR 311 million following the derecognition of the cabin crew pension asset. In addition a non-current expense related to a dowry payment amounting to EUR 194 million was agreed for the cockpit crew plan, of which EUR 120 million was paid in 2017. See note 19.

2017 other non-current expenses relate to, on balance, EUR 24 million provisions for Cargo related claims and lawyers' fees, new voluntary leave plans amounting to EUR 11 million, offset by positive pension plan amendments of EUR 15 million and positive results on sale of assets amounting to EUR 25 million (mainly Boeing 747 engines and sale of Fokker 70s) and an increase in the fair value of Kenya Airways amounting to EUR 50 million following the financial restructuring of that financial fixed asset in 2017.

30. Cost of financial debt

	2018	2017 Restated
Cost of financial debt		
Loans from third parties	44	56
Finance leases	30	39
Interest on lease debt	120	136
Other interest expenses	1	7
Total gross cost of financial debt	195	238
Income from cash and cash equivalents		
Loans to third parties	18	10
Total income from cash and cash equivalents	18	10
Net cost of financial debt	177	228

	2018	2017 Restated
Foreign currency exchange gains/(losses)	27	1
Fair value gains/(losses)	(97)	363
Other Financial income and expenses	(41)	(45)
Total other financial income and expenses	(111)	319

The fair value results recorded in the fiscal year mainly consist of the unrealised revaluation of other balance sheet items amounting to EUR 97 million negative. In 2017 this was EUR 363 million positive and mainly related to the IFRS 16 implementation. Most of the aircraft lease contracts are denominated in US dollars. As from January 1, 2018, the Group designated the cash flows from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. This limits the volatility of the foreign exchange variation resulting from the currency related revaluation of its lease debt. Since IFRS 9 cannot be applied retrospectively, the restated 2017 other fair value gains mainly includes a positive unrealised foreign exchange impact related to US dollar debt volatility of EUR 271 million. The ineffective/time value portion of fuel, interest rate and foreign currency exchange derivatives amounts to EUR 1 million negative (2017: EUR 13 million negative) and revaluation of Air France KLM S.A. shares amounts to EUR 5 million negative (2017: EUR 9 million positive).
Other financial income and expenses mainly include additions of EUR 39 million (2017: EUR 45 million) to (maintenance) provisions resulting from the discounting effect in provision calculations.

31. Income tax expense/benefit

	2018	2017 Restated
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	203	(171)
Benefit from previously unrecognised tax losses	-	-
Reduction of tax losses carried forward	-	-
Total tax (income)/expenses	203	(171)

The applicable average tax rate in the Netherlands for the financial year 2018 is 25% (2017 25%).

The average effective tax rate is reconciled to the applicable tax rate in the Netherlands as follows:

in %	2018	2017
Applicable average tax rate in The Netherlands	25.0	25.0
Impact of:		
Profit free of tax/Non-deductible expenses	1.2	0.1
Derecognition / (recognition) of tax losses	-	-
Differences in foreign tax rate changes	-	-
Effective tax rate	26.2	25.1

32. Share-based payments

Phantom shares

The movement in the number of phantom performance shares granted is as follows:

	2018	2017
As at January 1	527,273	548,095
Granted	152,130	135,814
Forfeited	(34,321)	(2,565)
Exercised	(96,614)	(154,071)
As at December 31	548,468	527,273

The date of expiry of the phantom shares is as follows:

As at December 31,	2018	2017
Phantom shares expiry date		
April 1, 2018	-	43,362
April 1, 2019	41,123	65,621
April 1, 2020	103,552	136,130
April 1, 2021	126,350	142,723
April 1, 2022	142,396	139,437
April 1, 2023	135,047	-
Carrying number	548,468	527,273

The phantom shares generate an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of the shares. The number of vested phantom shares depends on the following criteria: AIR FRANCE KLM total shareholders return (30%), KLM Group Return on Capital Employed (40%) and AIR FRANCE KLM position in the Dow Jones Sustainability Index (30%). The maximum number of phantom shares that may be granted to an individual employee in any year is related to their job grade.

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. Phantom shares are forfeited when employees leave the Company's employment.

Under the Long-Term Incentive plan 2014, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2014. The first tranche has vested for 76.4% per April 2014. The second tranche has vested for 70.2% in April 2015. The third tranche has vested for 108.6% in April 2016. The 2014 plan has an intrinsic value of EUR 0.4 million as at December 31, 2018.

Under the Long-Term Incentive plan 2015, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2015. The first tranche has vested for 70.2% per April 2015. The second tranche has vested for 108.6% in April 2016. The third tranche has vested for 116.0% in April 2017. The 2015 plan has an intrinsic value of EUR 1.0 million as at December 31, 2018.

Under the Long-Term Incentive plan 2016, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2016. The first tranche has vested for 108.6% per April 2016. The second tranche has vested for 116.0% per April 2017. The third tranche has vested for 114.0% in April 2018. Note that the total number of phantom performance shares vested over the three years cannot exceed the amount of phantom performance shares granted. The 2016 plan has an intrinsic value of EUR 1.2 million as at December 31, 2018.

Under the Long-Term Incentive plan 2017, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2017. The first tranche has vested for 116.0% per April 2017. The second tranche has vested for 114.0% per April 2018. The third tranche is still conditionally awarded.

Under the Long-Term Incentive plan 2018, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2018. The first tranche has vested for 114.0% per April 2018. The second and third tranche are still conditionally awarded.

33. Supervisory Board remuneration

(Amounts in EUR)	2018			2017		
	As Supervisory Board member	As Committee member	Total	As Supervisory Board member	As Committee member	Total
H.N.J. Smits	42,500	3,000	45,500	42,500	3,000	45,500
I.P Asscher-Vonk (until April 21, 2017)	-	-	-	8,172	1,000	9,172
P.C. Calavia	26,500	-	26,500	26,500	-	26,500
A. Dautry (until April 26, 2018)	8,465	-	8,465	26,500	-	26,500
F. Enaud	26,500	3,000	29,500	26,500	-	26,500
M.T.H. de Gaay Fortman (as from April 21, 2017)	26,500	4,000	30,500	17,972	3,000	20,972
C.C. 't Hart	26,500	2,000	28,500	26,500	2,000	28,500
F. Pellerin (as from April 26, 2018)	15,943	-	15,943	-	-	-
J. Peyrelevade	26,500	4,000	30,500	26,500	4,000	30,500
P.F. Riolacci	26,500	-	26,500	26,500	-	26,500
A.J.M. Roobeek	26,500	2,000	28,500	26,500	2,000	28,500
Total	252,408	18,000	270,408	254,144	15,000	269,144

For further information on the remuneration policy relating to Supervisory Board members, see the Remuneration Policy and Report in the Board and Governance section. The remuneration paid to the Supervisory Board is not linked to the Company's results.

Other transactions with Supervisory Board members

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Supervisory Board.

34. Board of Managing Directors remuneration

Base salary

(amounts in EUR)	2018	2017
P.J.Th. Elbers	520,000	475,000
R.M. de Groot	345,000	325,000
E.R. Swelheim	335,000	315,000
Total	1,200,000	1,115,000

Following a Supervisory Board decision the base salary of the Board of Managing Directors has been increased as from 2018. Despite the increase compared to 2017, the base salary of the Board of Managing Directors remains significantly below the median of the applicable market benchmark as well as below that of previous KLM CEOs in the case of Mr. Elbers.

Short-term incentive plan

	2018	2017
(amounts in EUR)	Short-term incentive plan	Short-term incentive plan
P.J.Th. Elbers	383,600	446,500
R.M. de Groot	146,970	195,000
E.R. Swelheim	142,710	189,000
Total	673,280	830,500

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2018 in accordance with the remuneration policy and its proposal has subsequently been endorsed by the Supervisory Board.

For 2018 and 2017, the Board of Managing Directors did not receive any payments under the Company-wide profit sharing scheme.

During the 2018 transition period between the former and current AIR FRANCE KLM Chief Executive Officer, Mr. Elbers joined the temporary AIR FRANCE KLM "Committee Directive Collegial" (CDC). The AIR FRANCE KLM Board of Directors decided to give a compensation for this temporary and additional duty. For Mr. Elbers this amount was EUR 30,000 which is included in the EUR 383,600 in the above table.

For a description of the short-term incentive plan, we refer to the Remuneration Policy and Report in the Board and Governance Section.

Other allowances and benefits in kind

In addition to the base salary, the members of the Board of Managing Directors were entitled to other allowances and benefits including a company car and customary plans such as disability insurance, telephone cost and a fixed monthly allowance of EUR 440 for business expenses not otherwise reimbursed.

Pensions

Pension cost (post-employment benefit)

(amounts in EUR)	2018	2017
P.J.Th. Elbers	28,606	28,883
R.M. de Groot	25,135	25,281
E.R. Swelheim	18,472	18,486
Total	72,213	72,650

Pension allowance (short-term benefit)

(amounts in EUR)	2018	2017
P.J.Th. Elbers	129,104	114,184
R.M. de Groot	80,578	73,615
E.R. Swelheim	87,447	80,361
Total	297,129	268,160

Given the Dutch fiscal rules, as described above, the members of the Board of Managing Directors receive a pension allowance for the pensionable salary above EUR 105,075 (2018). This gross pension allowance can, after wage tax, either be used to participate in the KLM net pension savings scheme (defined contribution plan) or paid out as net allowance.

External Supervisory Board memberships

According to the remuneration policy the Board of Managing Directors may retain payments they receive from other remunerated positions with a maximum number of 2 positions per Managing Director. The amount ceded to the Company amounts to EUR 15,000 (December 31, 2017 EUR 32,713) and includes remunerated position in connection with directorships in Transavia.

Other transactions with members of the Board of Managing Directors

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Board of Managing Directors.

Total remuneration (base salary, short-term incentive plan and pensions)

(amounts in EUR)	2018	2017
P.J.Th. Elbers	1,066,590	1,069,847
R.M. de Groot	602,963	624,176
E.R. Swelheim	588,909	608,127
Total	2,258,462	2,302,150

Long-term incentive plan

As an incentive to make a longer-term commitment to the Company, phantom shares are granted to members of the Board of Managing Directors on the basis of their reaching agreed personal performance targets.

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding phantom shares are forfeited.

The maximum number of phantom shares granted to the Chief Executive Officer is 10,000 and to the Managing Director 6,000. For further information see note 32.

The current and former members of the Board of Managing Directors have the following positions with respect to the phantom shares granted under the KLM long-term incentive plan at December 31, 2018:

(Amounts in EUR)	Number of phantom shares granted	Expiry date	Number of phantom shares forfeited	Number of phantom shares exercised	Average share price at exercise	Number of phantom shares conditional	Number of phantom shares vested	Total outstanding as at December 31, 2018
P.J.Th. Elbers								
April, 2013	6,000	April 1, 2018	910	5,090	12.99	-	5,090	-
April, 2014	7,500	April 1, 2019	1,120	6,380	9.39	-	6,380	-
April, 2015	10,000	April 1, 2020	174	-		-	9,826	9,826
April, 2016	10,000	April 1, 2021	-	-		-	10,000	10,000
April, 2017	10,000	April 1, 2022	-	-		2,333	7,667	10,000
April, 2018	10,000	April 1, 2023	-	-		6,199	3,801	10,000
	53,500		2,204	11,470		8,532	42,764	39,826
R.M. de Groot								
April, 2015	4,500	April 1, 2020	78	4,422	9.29	-	4,422	-
April, 2016	6,000	April 1, 2021	-	-		-	6,000	6,000
April, 2017	6,000	April 1, 2022	-	-		1,400	4,600	6,000
April, 2018	6,000	April 1, 2023	-	-		3,720	2,280	6,000
	22,500		78	4,422		5,120	17,302	18,000
E.R. Swelheim								
April, 2013	4,500	April 1, 2018	682	3,818	8.76	-	3,818	-
April, 2014	4,500	April 1, 2019	672	-		-	3,828	3,828
April, 2015	6,000	April 1, 2020	104	-		-	5,896	5,896
April, 2016	6,000	April 1, 2021	-	-		-	6,000	6,000
April, 2017	6,000	April 1, 2022	-	-		1,400	4,600	6,000
April, 2018	6,000	April 1, 2023	-	-		3,720	2,280	6,000
	33,000		1,458	3,818		5,120	26,422	27,724
Total	109,000		3,740	19,710		18,772	86,488	85,550

Cost of phantom shares is based on IFRS accounting standards and does not reflect the value of the phantom shares at the vesting date.

The 2018 phantom shares cost for the current Board of Managing Directors members is for Mr. Elbers EUR 16,222 negative (2017: EUR 325,825), of which EUR 111,022 negative relates to the technical revaluation of the phantom shares portfolio following the 2018 decrease of the AIR FRANCE KLM share price from EUR 13.58 as per December 31, 2017 to EUR 9.48 per December 31, 2018. For Mr. de Groot the cost is EUR 13,310 (2017: EUR 128,680), of which EUR 33,944 negative relates to the technical revaluation of the portfolio and for Mr. Swelheim EUR 25,991 negative (2017: EUR 205,574), of which EUR 76,625 negative relates to the technical revaluation of the portfolio.

As at December 31, 2018 Mr. Elbers, Mr. de Groot, and Mr. Swelheim had no interest in AIR FRANCE KLM S.A.

The 2018 remuneration, including phantom shares cost, of the Board of Managing Directors amounts to EUR 2,229,559 (2017: EUR 2,962,229). For Mr. Elbers the remuneration amounts to EUR 1,050,368 (2017: EUR 1,395,672), of which EUR 111,022 negative relates to the technical revaluation of the phantom shares portfolio following the 2018 decrease of the AIR FRANCE KLM share price. For Mr. de Groot this amounts to EUR 616,273 (2017: EUR 752,856), of which EUR 33,944 negative relates to the technical revaluation of the portfolio and for Mr. Swelheim EUR 562,918 (2017: EUR 813,701), of which EUR 76,625 negative relates to the technical revaluation of the portfolio.

35. Related party transactions

The Group has interests in various associates in which it has either significant influence in but not control or joint control over operating and financial policy. Transactions with these parties, some of which are significant, are negotiated at commercial conditions and prices, which are not more favourable than those which would have been negotiated with third parties on an arm's length basis. In addition dividends have been received from those interests (see note 4). The following transactions were carried out with related parties:

	2018	2017
Sales of goods and services		
AIR FRANCE KLM Group companies	199	143
Associates	-	-
Other related parties	71	50
Purchases of goods and services		
AIR FRANCE KLM Group companies	383	262
Associates	-	-
Other related parties	34	37

For details of the year-end balances of amounts due to and from related parties see notes 8 and 21. For the AIR FRANCE KLM loans see note 12. Other than AIR FRANCE KLM S.A., no loans were granted to or received from related parties during 2018 and 2017.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors, see note 32 to 34. For information relating to transactions with pension funds for the Group's employees see note 19.

36. Primary segment reporting

2018	Network	Maintenance	Leisure	Other	Eliminations	Total
Revenues						
Revenues External	9,106	910	910	29	-	10,955
Revenues Internal	134	781	7	210	(1,132)	-
Total revenue	**9,240**	**1,691**	**917**	**239**	**(1,132)**	**10,955**
EBITDA	1,751	137	192	25	-	2,105
Income from current operations	932	63	75	3	-	1,073
Other non-current income and expenses						(13)
Financial Income and expenses						(288)
Income tax benefit						(203)
Share of results of equity shareholdings						4
Profit for the year						573
Amortisation, depreciation and movements in provision	(819)	(74)	(117)	(22)	-	(1,032)
Other financial income and expenses	(70)	(6)	(13)	(22)	-	(111)
Assets						
Intangible assets	178	53	19	182	-	432
Flight equipment	3,239	544	399	(20)	-	4,162
Other property, plant and equipment	129	112	4	368	-	613
Right-of-use assets	1,507	98	286	117	-	2,008
Trade receivables	563	(1)	32	-	-	594
Other assets	424	635	287	1,955	-	3,301
Total assets	6,040	1,441	1,027	2,602	-	11,110
Liabilities						
Deferred revenues on sales	1,392	107	114	-	-	1,613
Other liabilities	4,520	1,207	777	1,987	-	8,491
Total liabilities	5,912	1,314	891	1,987	-	10,104

2017 Restated	Network	Maintenance	Leisure	Other	Eliminations	Total
Revenues						
Revenues External	8,704	824	875	27	-	10,430
Revenues Internal	126	754	2	208	(1,090)	-
Total revenue	**8,830**	**1,578**	**877**	**235**	**(1,090)**	**10,430**
EBITDA	1,717	133	191	23	-	2,064
Income from current operations	953	49	72	5	-	1,079
Other non-current income and expenses						(1,849)
Financial income and expenses						91
Income tax benefit						171
Share of results of equity shareholdings						11
Loss for the year						**(497)**
Amortisation, depreciation and movements in provision	(764)	(83)	(119)	(19)	-	(985)
Other financial income and expenses	234	(2)	49	38	-	319
Assets						
Intangible assets	175	52	23	144	-	394
Flight equipment	2,828	440	375	61	-	3,704
Other property, plant and equipment	113	96	5	354	-	568
Right-of-use assets	1,733	100	328	89	-	2,250
Trade receivables	611	18	19	(27)	-	621
Other assets	476	596	217	2,339	-	3,628
Total assets	**5,936**	**1,302**	**967**	**2,960**	**-**	**11,165**
Liabilities						
Deferred revenues on sales	1,271	66	105	-	-	1,442
Other liabilities	4,914	316	787	2,885	-	8,902
Total liabilities	**6,185**	**382**	**892**	**2,885**	**-**	**10,344**

37. Secondary segment reporting

Revenues by destination 2018	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	2,459	388	923	2,304	1,455	7,529
Other passenger revenues	94	15	38	87	59	293
Total passenger revenues	2,553	403	961	2,391	1,514	7,822
Scheduled cargo	11	23	204	537	316	1,091
Other cargo revenues	2	4	36	95	56	193
Total cargo revenues	13	27	240	632	372	1,284
Total network revenues	2,566	430	1,201	3,023	1,886	9,106
Maintenance	910	-	-	-	-	910
Other revenues	939	-	-	-	-	939
Total maintenance and other	1,849	-	-	-	-	1,849
Total revenues by destination	4,415	430	1,201	3,023	1,886	10,955

Revenues by destination 2017 Restated	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	2,317	371	950	2,167	1,464	7,269
Other passenger revenues	70	11	30	67	45	223
Total passenger revenues	2,387	382	980	2,234	1,509	7,492
Scheduled cargo	13	19	202	507	310	1,051
Other cargo revenues	2	3	31	78	47	161
Total cargo revenues	15	22	233	585	357	1,212
Total network revenues	2,402	404	1,213	2,819	1,866	8,704
Maintenance	824	-	-	-	-	824
Other revenues	902	-	-	-	-	902
Total maintenance and other	1,726	-	-	-	-	1,726
Total revenues by destination	4,128	404	1,213	2,819	1,866	10,430

Geographical analysis of assets: the major revenue-earning asset of the Group is the fleet, the majority of which are registered in the Netherlands. Since the Group's fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

38. Subsidiaries

The following is a list of the Company's significant subsidiaries as at December 31, 2018:

Name	Country of incorporation	Ownership interest in %	Proportion of voting power held in %
Transavia Airlines C.V.	the Netherlands	100	100
Martinair Holland N.V.	the Netherlands	100	100
KLM Cityhopper B.V.	the Netherlands	100	100
KLM Cityhopper UK Ltd.	United Kingdom	100	100
KLM UK Engineering Ltd.	United Kingdom	100	100
European Pneumatic Component Overhaul & Repair B.V.	the Netherlands	100	100
KLM Catering Services Schiphol B.V.	the Netherlands	100	100
KLM Flight Academy B.V.	the Netherlands	100	100
KLM Health Services B.V.	the Netherlands	100	100
KLM Equipment Services B.V.	the Netherlands	100	100
Cygnific B.V.	the Netherlands	100	100

KLM Royal Dutch Airlines Company balance sheet

In millions of Euros	Note	December 31, 2018	December 31, 2017 Restated
After proposed appropriation of the result for the year			
ASSETS			
Non-current assets			
Property, plant and equipment	39	3,733	3,336
Right-of-use assets	40	1,577	1,746
Intangible assets		407	367
Investments accounted for using the equity method	41	474	392
Other non-current assets	5	239	203
Other financial assets	42	449	372
Deferred income tax assets	52	-	64
Pension assets	19	331	590
		7,210	7,070
Current assets			
Other current assets	5	159	252
Other financial assets	42	56	95
Inventories		189	140
Trade and other receivables	43	1,787	1,891
Cash and cash equivalents	44	242	383
		2,433	2,761
TOTAL ASSETS		9,643	9,831
EQUITY			
Capital and reserves			
Share capital	45	94	94
Share premium		474	474
Other reserves	45	(651)	(304)
Retained earnings		1,088	556
Total attributable to Company's equity holders		1,005	820
LIABILITIES			
Non-current liabilities			
Loans from parent company	46	-	198
Loans from subsidiaries	47	19	39
Financial debt	48	483	675
Lease debt	49	1,114	1,243
Other non-current liabilities	5	240	214
Other financial liabilities	50	1,100	1,027
Deferred income	51	204	201
Return obligation liability and other provisions	53	881	951
		4,041	4,548
Current liabilities			
Trade and other payables	54	2,420	2,480
Loans from parent company	46	99	-
Loans from subsidiaries	47	33	33
Financial debt	48	164	297
Lease debt	49	291	291
Other current liabilities	5	197	132
Other financial liabilities	50	7	30
Deferred income	51	1,186	1,066
Return obligation liability and other provisions	53	200	134
		4,597	4,463
Total liabilities		8,638	9,011
TOTAL EQUITY AND LIABILITIES		9,643	9,831

The accompanying notes are an integral part of these Company financial statements

KLM Royal Dutch Airlines Company statement of profit or loss

In millions of Euros	2018	2017 Restated
Profit / (loss) from investments accounted for using equity method after taxation	83	175
Profit / (loss) of KLM N.V. after taxation	489	(673)
(Loss) / income for the year after taxation	572	(498)

The accompanying notes are an integral part of these Company financial statements

Notes to the Company financial statements

General

The Company financial statements are part of the 2018 financial statements of KLM Royal Dutch Airlines (the "Company").

Significant accounting policies

The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Principles for the measurement of assets and liabilities and the determination of the result

In determining the principles to be used for the recognition and measurement of assets and liabilities and the determination of the result for its separate financial statements, the Company makes use of the option provided in Section 362 (8) of Book 2 of the Dutch Civil Code. This section permits companies to apply the same principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements as those applied for the consolidated EU-IFRS financial statements.

The Company makes use of the option provided in Section 402 of Book 2 of the Dutch Civil Code. This section permits companies to present a condensed company statement of profit or loss given that the Company's financial information is consolidated in the Consolidated financial statements of the ultimate parent company AIR FRANCE KLM S.A.

Subsidiaries are accounted for using the equity method and investments accounted for using the equity method, over which significant influence is exercised, are stated on that basis. The share in the result of these investments comprises the share of the Company in the result of these investments. Results on transactions, where the transfer of assets and liabilities between the Company and its investments and mutually between these investments themselves, are not incorporated insofar as they can be deemed to be unrealised.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).
For notes and/or details, which are not explained in the notes to the Company financial statements reference is made to the notes and/or details of the Consolidated financial statements.

39. Property, plant and equipment

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost									
As at Jan. 1, 2018	3,277	1,673	4,950	605	349	157	1,111	419	6,480
Additions	449	311	760	27	20	10	57	105	922
Disposals	(188)	(212)	(400)	(8)	(6)	(3)	(17)	-	(417)
Other movements	-	79	79	-	-	-	-	(2)	77
As at Dec. 31, 2018	3,538	1,851	5,389	624	363	164	1,151	522	7,062
Accumulated depreciation and impairment									
As at Jan. 1, 2018	1,687	783	2,470	303	255	116	674	-	3,144
Depreciation	167	172	339	32	23	7	62	-	401
Disposals	(188)	(211)	(399)	(8)	(6)	(3)	(17)	-	(416)
Other movements	136	66	202	-	(2)	-	(2)	-	200
As at Dec. 31, 2018	1,802	810	2,612	327	270	120	717	-	3,329
Net carrying amount									
As at Jan. 1, 2018	1,590	890	2,480	302	94	41	437	419	3,336
As at Dec. 31, 2018	1,736	1,041	2,777	297	93	44	434	522	3,733

With the implementation of IFRS 16, finance leased aircraft are regarded as in substance purchases and therefore included as owned aircraft.

The assets include assets which are held as security for mortgages and loans as follows:

As at December 31,	2018	2017
Aircraft	44	49
Land and buildings	114	116
Other property and equipment	17	21
Carrying amount	175	186

Borrowing cost capitalised during the year amounted to EUR 7 million (2017 EUR 6 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 2.7% (2017: 3.0%).

Land and buildings include buildings located on land which has been leased on a long-term basis.
The book value of these buildings as at December 31, 2018 was EUR 190 million (December 31, 2017 EUR 202 million).

40. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2018	1,251	374	80	119	1,746
New contracts	-	-	40	19	59
Renewal or extension options	47	-	-	-	47
Disposals	(1)	-	-	-	(1)
Reclassifications	1	74	(2)	1	74
Amortisation	(248)	(65)	(17)	(21)	(351)
Other movements	1	-	6	(4)	3
As at December 31, 2018	1,051	383	107	114	1,577
Net value					
As at January 1, 2017 Restated	1,201	243	92	128	1,664
New contracts	-	78	-	3	81
Renewal or extension options	290	-	1	6	297
Disposals	-	-	-	-	-
Reclassifications	-	19	-	-	19
Amortisation	(240)	(56)	(13)	(18)	(327)
Other movements	-	12	-	-	12
As at December 31, 2017	1,251	374	80	119	1,746

Information related to lease debt is available in note 49.

The table below indicates the rents resulting from lease and service contracts which are not capitalised:

As at December 31,	2018	2017 Restated
Variable rents	13	8
Short-term rents	83	72
Low value rents	3	2
Carrying amount	99	82

41. Investments accounted for using the equity method

As at December 31,	2018	2017 Restated
Subsidiaries	453	369
Associates	6	4
Jointly controlled entities	15	19
Carrying amount	474	392

	2018	2017 Restated
Subsidiaries		
Carrying amount as at January 1	369	215
Movements		
Investments	-	-
Share of profit/(loss) after taxation	82	168
OCI movement	10	(4)
Dividends received	(5)	(11)
Foreign currency translation differences	1	1
Other movements	(4)	-
Net movement	84	154
Carrying amount as at December 31	453	369

For details of the Group's investments in subsidiaries see note 38 to the consolidated financial statements. For details of the Group's investments in associates and jointly controlled entities see note 4 to the consolidated financial statements.

42. Other financial assets

	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, other loans and receivables	5	377	94	273
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	50	-	-	-
Other restricted deposits	1	-	1	-
Deposits on operating leased aircraft	-	16	-	17
AIR FRANCE KLM S.A. shares	-	11	-	15
Kenya Airways Ltd. Shares			-	61
Other non-consolidated entities			-	6
	51	27	1	99
At fair value through OCI				
Kenya Airways Ltd. Shares	-	33		
Other non-consolidated entities	-	12		
	-	45	-	-
Carrying amount	56	449	95	372

For Kenya Airways see note 6.

43. Trade and other receivables

As at December 31,	2018	2017 Restated
Trade receivables	549	576
Reserve trade receivables	(23)	(14)
Trade receivables - net	526	562
Amounts due from:		
- subsidiaries	667	794
- AIR FRANCE KLM group companies	76	75
- associates and jointly controlled entities	3	4
- maintenance contract customers	264	260
Taxes and social security premiums	48	30
Other receivables	81	80
Prepaid expenses	122	86
Total	1,787	1,891

Maintenance contract cost incurred to date for contracts in progress at December 31, 2018 amounted to EUR 283 million (December 31, 2017 EUR 210 million). Advances received for maintenance contracts in progress at December 31, 2018 amounted to EUR 95 million (December 31, 2017 EUR 19 million). The maturity of trade and other receivables is within one year.

44. Cash and cash equivalents

As at December 31,	2018	2017
Cash at bank and in hand	72	49
Short-term deposits	170	334
Total	242	383

The effective interest rates on short-term deposits are in the range from -0.48% to 3.35 % (2017 range -0.45% to 1.65%). The short-term deposits are invested in money market instruments or in liquid funds with daily access to cash.

45. Share capital and other reserves

For details of the Company's share capital and movements in other reserves see note 10 and 11 to the consolidated financial statements. For details of the Company's equity see the consolidated statement of changes in equity.

The Company has other reserves relating to hedging, remeasurement of defined benefit plans, translation and other legal reserves. Reference is made to note 11.

46. Loans from parent company

As at December 31,	2018	2017
Non-current portion	-	198
Current portion	99	-
Carrying amount	99	198

For the loans with AIR FRANCE KLM reference is made to note 12. For the guarantees from KLM to AIR FRANCE KLM reference is made to note 23.

47. Loans from subsidiaries

As at December 31,	2018	2017
Non-current portion	19	39
Current portion	33	33
Carrying amount	52	72

48. Financial debt

As at December 31,	2018	2017
Non-current portion	483	675
Current portion	164	297
Carrying amount	647	972

49. Lease debt

	December 31, 2018		December 31, 2017 Restated	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	262	886	241	1,053
Lease Debt - Real estate	17	120	19	96
Lease Debt - Others	7	108	31	94
Accrued Interest	5	-	-	-
Total	291	1,114	291	1,243

Change in lease debt:

	As at January 1, 2018	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2018
Lease Debt - Aircraft	1,293	48	(244)	53	(3)	1,147
Lease Debt - Real estate	116	38	(19)	-	3	138
Lease Debt - Others	125	20	(31)	5	(4)	115
Interests	-	-	-	1	4	5
Total	1,534	106	(294)	59	-	1,405

	As at January 1, 2017 Restated	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2017 Restated
Lease Debt - Aircraft	1,409	290	(239)	(167)	-	1,293
Lease Debt - Real estate	128	1	(13)	-	-	116
Lease Debt - Others	148	11	(20)	(14)	-	125
Interests	-	-	-	-	-	-
Total	1,685	302	(272)	(181)	-	1,534

The lease debt maturity breaks down as follows:

	2018	2017 Restated
Less than 1 year	369	373
Between 1 and 2 years	338	371
Between 2 and 3 years	294	336
Between 3 and 4 years	242	292
Between 4 and 5 years	163	240
Over 5 years	243	404
Total	1,649	2,016
Including:		
- Principal	1,405	1,534
- Interest	244	482

50. Other financial liabilities

	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	571	-	544
Other loans (secured/unsecured)	7	497	30	451
Total	7	1,100	30	1,027

51. Deferred income

	December 31, 2017		December 31, 2017 Restated	
	Current	Non-current	Current	Non-current
Advance ticket sales	1,064	-	962	-
Sale and leaseback transactions	1	6	-	8
Flying Blue frequent flyer program	102	187	88	191
Others	19	11	16	2
Total	1,186	204	1,066	201

52. Deferred income tax

The gross movement in the deferred income tax account is as follows:

	2018	2017 Restated
Carrying amount as at January 1	(64)	(87)
Movements:		
Income statement expense/(benefit)	172	(215)
Tax (credited)/charged to equity	(135)	230
Other movements	27	8
Net movement	64	23
Carrying amount as at December 31	-	(64)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

As at December 31,	2018	2017 Restated
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	43	198
Deferred tax assets to be settled after 12 months	96	49
	139	247
Deferred tax liabilities:		
Deferred tax liabilities to be settled in 12 months or less	3	2
Deferred tax liabilities to be settled after 12 months	136	181
	139	183
Carrying amount	-	(64)

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at January 1	Income statement (charge) /credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets					
2018					
Tax losses	228	(158)	-	(27)	43
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	1	-	-	-	1
Derivative financial instruments	(25)	-	77	(11)	41
Other	29	-	-	11	40
Total	247	(158)	77	(27)	139

	Carrying amount as at January 1	Income statement (charge) /credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets					
2017 Restated					
Tax losses	285	(225)	(14)	182	228
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	1	-	-	-	1
Derivative financial instruments	(9)	-	(16)	-	(25)
Other	36	-	-	(7)	29
Total	327	(225)	(30)	175	247

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2018					
Other tangible fixed assets	(9)	(3)	-	-	(12)
Pensions & benefits (asset)	155	17	(58)	-	114
Other	37	-	-	-	37
Total	183	14	(58)	-	139

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2017					
Other tangible fixed assets	(6)	(3)	-	-	(9)
Pensions & benefits (asset)	392	(437)	200	-	155
Maintenance liability	(131)	-	-	131	-
Other	(15)	-	-	52	37
Total	240	(440)	200	183	183

Tax fiscal unity

The Company, together with other subsidiaries in the Netherlands, has entered into a fiscal unity for the purpose of filing consolidated corporation tax and VAT returns. As a result, every legal entity in this tax group is jointly and severally liable for the tax debts of all the legal entities forming the group.

53. Return obligation liability and other provisions

	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Other provisions			
			Employee Benefit	Legal Issues	Other	Total
As at January 1, 2018	116	538	271	135	25	1,085
Additional provisions and increases in existing provisions	23	-	14	3	36	76
Unused amounts reversed	-	-	-	-	(1)	(1)
Used during year	(18)	(4)	(94)	(7)	(18)	(141)
Foreign currency translation differences	8	16	2	-	-	26
Other changes	(4)	55	(15)	-	-	36
As at December 31, 2018	125	605	178	131	42	1,081
Current/non-current portion						
Non-current portion	125	601	152	1	2	881
Current portion	-	4	26	130	40	200
As at December 31, 2018	125	605	178	131	42	1,081

	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Other provisions			
			Employee Benefit	Legal Issues	Other	Total
As at January 1, 2017 Restated	84	506	205	135	48	978
Additional provisions and increases in existing provisions	43	-	211	19	18	291
Unused amounts reversed	(5)	-	-	-	-	(5)
Used during year	-	(7)	(140)	(19)	(28)	(194)
Foreign currency translation differences	(17)	(41)	(7)	-	-	(65)
Other changes	11	80	2	-	(13)	80
As at December 31, 2017	116	538	271	135	25	1,085
Current/non-current portion						
Non-current portion	114	534	171	129	3	951
Current portion	2	4	100	6	22	134
As at December 31, 2017	116	538	271	135	25	1,085

54. Trade and other payables

As at December 31,	2018	2017 Restated
Trade payables	931	905
Amounts due to subsidiaries	456	538
Amounts due to AIR FRANCE KLM Group companies	119	143
Taxes and social security premiums	276	253
Employee related liabilities	453	519
Accrued liabilities	148	88
Other payables	37	34
Total	2,420	2,480

Other notes

For information relating to contingency assets and liabilities, including guarantees, see note 23.

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 32 to 34.

Amstelveen, March 28, 2019

The Board of Managing Directors

Pieter J.Th. Elbers
René M. de Groot
Erik R. Swelheim

The Supervisory Board

Hans N.J. Smits
Philippe C. Calavia
François Enaud
Marry de Gaay Fortman
Cees C. 't Hart
Fleur Pellerin
Jean Peyrelevade
Pierre-François Riolacci
Annemieke J.M. Roobeek

Other information

Independent Auditors' Report

To: the General Meeting of Shareholders and the Supervisory Board of KLM Royal Dutch Airlines ("Koninklijke Luchtvaart Maatschappij N.V.")

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

In our opinion:

» the accompanying consolidated financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2018 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

» the accompanying company financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2018 of KLM Royal Dutch Airlines ("the Company") based in Amstelveen. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1. the consolidated balance sheet as at December 31, 2018;
2. the following consolidated statements for 2018: the statement of profit or loss, the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as December 31, 2018;
2. the company statement of profit or loss for 2018; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of KLM Royal Dutch Airlines in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality
- Materiality of EUR 50 million
- 0.5% of revenue
Group audit
- 98% of revenue
- 95% of total assets
Key audit matters
- Revenue recognition for issued but unused passenger tickets
- Provisions for litigation and contingent liabilities
- Transition to and implementation of IFRS 16 for leased aircrafts
Opinion
- Unqualified

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 50 million (2017: EUR 50 million). The materiality is determined with reference to revenues (0.5%). We consider revenues as the most appropriate benchmark because of the volatility of the profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 2 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

KLM Royal Dutch Airlines is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of KLM Royal Dutch Airlines.

Our group audit mainly focused on significant components that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements. We have considered in this respect, amongst others, the Company's business volatility and its environment. Our group audit covered the Company's network (air transport of passengers and cargo), aircraft maintenance, leisure and other activities.

We have:

» performed audit procedures ourselves in respect of areas such as litigations and claims, implementation of new accounting standards, accounting for associates and joint ventures, the group's tax position, intangible assets, property, plant and equipment and external expenses;

» selected 9 components (2017: 11 components) to perform audits for group reporting purposes on a complete set of financial information as well as 6 components (2017: 3 components) to perform audit procedures for group reporting purposes on selected account balances. In comparison, more procedures were performed at group level that were performed by component auditors in prior year.
The group audit team provided detailed instructions to all component auditors who were part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. For all components in scope of the group audit, we held physical meetings with the auditors of the components. We visited the components included in the network (air transport of passengers and cargo), aircraft maintenance, leisure and other activities. During these visits the audit approach, the findings and observations reported to the group audit team were discussed in more detail. Also file reviews were performed for most of these components; and

» performed analytical procedures on components not in scope for audit procedures to validate our assessment that there are no significant risks of material misstatement within these components.

By performing the procedures mentioned above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

The audit coverage as stated in the section 'Summary' can be further specified as follows:

Total revenues

98%	0%
Audit of the complete set of financial information	Audit selected accounts at component or group level

Total assets

80%	15%
Audit of the complete set of financial information	Audit selected accounts at component or group level

Consideration of fraud in the audit of financial statements

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management and the Supervisory Board. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

- fraud risk in relation to the revenue recognition specifically focused on issued but unused passenger tickets as explained in the related key audit matter; and
- fraud risk in relation to management override of controls.

We have not identified and addressed any other fraud risks which could have a material impact on the financial statements.

Our audit procedures included:

- inquiries of management, those charged with governance and others within the Company notably legal counsel, internal audit and other senior officers regarding their process for identifying and responding to the risk of fraud, the internal communication regarding their views on business practices and ethical behaviour and whether they have knowledge of any actual, suspected or alleged fraud affecting the Company;
- obtaining an understanding based on inquiries and inspection of minutes of relevant meetings and reports of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Company and the internal control that management has established to mitigate these risks;
- evaluating whether unusual or unexpected relationships have been identified in performing analytical procedures, including those related to revenue accounts, that may indicate risks of material misstatement due to fraud; and
- determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level or at the assertion level by:
  - detailed testing of certain selected journal entries in revenue accounts and/or certain selected non-routine transactions, which included verification of source documentation; and
  - evaluating the selection and application of accounting policies and whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud, including retrospective review of estimates made in prior period.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Consideration of laws and regulations in the audit of financial statements

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general and sector experience, through discussion with management and those charged with governance (as required by auditing standards) and discussed the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations within our audit team and remained alert to any indications of non-compliance throughout the audit.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the auditing standards. Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non compliance.

The potential effect of these laws and regulations on the financial statements varies considerably:

- the Company is subject to laws and regulations that directly affect the financial statements, such as relevant tax laws and financial reporting standards and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items; and
- the Company is subject to other, sector specific, laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. There are many laws and regulations that the Company has to comply with. In our audit we identified the following areas of laws and regulation as those most likely to have such an effect in the financial statements: Trade sanctions and

export controls sanctions regulation, Anti-bribery and corruption regulation, Anti-competition regulation and Data Privacy regulation.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of the directors, those charged with governance and other management and inspection of (board) minutes and regulatory and legal correspondence, if any. These are part of our procedures on the related financial statement items.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In comparison to prior year, pensions and early retirement obligations are no longer considered a key audit matter anymore primarily due to the amendment of the KLM Cabin Crew and KLM Cockpit Crew as defined contribution plans since the year 2017.

In addition, we identified the transition to and implementation of IFRS 16 in particular for aircraft leases as a key audit matter due to the significant impact on the financial position and the consolidated statement of profit or loss and other comprehensive income for 2018 and 2017.

Revenue recognition for issued but unused passenger tickets

Description

Revenue from passenger transport amounts to EUR 7,822 million. The revenue related to passenger transport is recognised when the transportation service is provided in accordance with IFRS 15.

On issuance, passenger tickets are recorded as "Advance ticket sales". However, a portion of these sales relate to tickets that have been issued and paid but which will never be used and, consequently, should be recognised as revenue. The revenue recognition is based on a statistical rate which is regularly updated. The rate is determined by the Company based on historical data taken from the information systems and adjusted for non-recurring and specific events of the periods considered, if any.

We considered revenue recognition for issued but unused passenger tickets to be a key audit matter due to the importance of management judgment in determining the recognition assumptions. There is a risk that revenue may be overstated due to fraud through manipulation of the estimated percentage of tickets which will never be used.

Our response

Our procedures primarily consisted of:

» evaluation of the operating effectiveness of key controls implemented by the Company that we considered the most relevant in determining the statistical rates for "Advance ticket sales". Based on the procedures performed we concluded that we could rely on the selected controls for the purpose of our audit;

» assessing the appropriateness and consistency of the methodology adopted by the Company;

» agreeing the statistical rate calculations, for the estimated percentage of tickets which will never be used, with the underlying data from the information systems;

» comparing actual revenue from unused passenger tickets with prior year-end estimates;

» analysing the age of deferred revenue on ticket sales presented on the consolidated balance sheet to assess the appropriateness of the revenue recognized in the period.

In determining the statistical rate used for revenue recognition management relies on the Company's IT systems. As a response we have included IT specialists in our audit team to evaluate the relevant IT controls.

Our observation

Based on our procedures performed for revenue recognition for issued but unused passenger tickets we consider that management judgment is reasonable and revenue recognition accounting and disclosure (note 24) is in accordance with EU-IFRS, including the transition guidance for IFRS 15.

Provision for litigation and contingent liabilities

Description

The Company is involved in several governmental, judicial or arbitration procedures and litigations, particularly concerning anti-trust laws. The outcome of these procedures and litigations depends on future events. The Company's positions taken are inherently based on the use of assumptions and judgments.

We considered the measurement of the litigation provisions and the related disclosure to be a key audit matter due to the uncertainty surrounding the outcome of current procedures, the high degree of estimates and judgment required and the potentially material nature of the impact of provision amounts on consolidated net income and equity should these estimates change.

Our response

Our audit procedures included, amongst others, management's use of external counsel, the assessment of management's process for the identification, evaluation and disclosure of claims, proceedings and investigations and the recording and continuous re-assessment of the related (contingent) liabilities and provisions and disclosures, in accordance with EU-IFRS.

We also inquired with both legal and financial staff in respect of claims, proceedings and investigations, inspected relevant documentation such as the minutes of the Audit Committee, the Supervisory Board and the Executive Committee and obtained legal confirmation letters from a selection of external legal counsel.

Furthermore, we challenged the estimates and assumptions applied by the Company in determining the need to recognise a provision and, where applicable, its amount.

Based on these items, we assessed the estimates and positions adopted by the Company. We also assessed the appropriateness of the disclosures in note 23 to the consolidated financial statements including for those claims for which a provision could not be reasonably estimated.

Our observation

We consider the estimates and management's judgment applied for the litigation provision and contingent liabilities to be reasonable and determined that the related disclosure (note 23) is in accordance with EU-IFRS.

Transition to and implementation of IFRS 16 for leased aircraft

Description

In 2018 the Company transitioned to and early adopted the new IFRS 16 – Leases standard. The accounting of the leased aircraft is considered a key audit matter due to the first-time adoption of IFRS 16 which involves key judgments and it has a significant impact on the financial position and the consolidated statement of profit or loss and other comprehensive income for 2018 and 2017.

We considered the determination of the related debt, including the determination of the lease term and the discount rate, the classification of the aircraft contracts as either a lease or in substance owned and the related disclosure to be a key audit matter due to the high degree of judgment and the potentially material nature of the impact on the balance sheet and statement of profit or loss.

Our response

Our procedures included, among others, evaluating the group's lease accounting policies that have been applied retrospectively for the transition to and implementation of IFRS 16 for leased aircraft. This includes an assessment of the key judgments made by management such as the lease term and the discount rate used, including the assessment of extension options and the classification of the contracts as either a lease or in substance owned.

We validated the measurement of the lease debt and the related right-of-use assets based on the contractual obligations, assessment of extension options, the initial direct costs incurred by the lessee and estimate of costs to be incurred by the lessee for dismantling and removing the underlying asset. We challenged management's assumptions, such as the applied lease term and discount rate, applied by the Company in determining the lease debt and related right-of-use asset, by inspecting the enforceable period in the lease contracts, including, amongst others, the evaluation of extension options, and determination of the rate implicit in the lease.

We also assessed the appropriateness of the disclosures in notes of the consolidated financial statements which include the restatement of the 2017 financial statements including the impact from the transition, the Right-of-use assets (note 2) and the Lease debt (note 14).

Our observation

Based on our procedures performed for transition to and implementation of IFRS 16 for leased aircraft, we consider that management key judgments are reasonable and the accounting and disclosures (note 2 and 14) are in accordance with EU-IFRS, including the transition guidance for IFRS 16.

Report on the other information included in the annual report

In addition to the financial statements and our auditors' report thereon, the annual report contains other information that consists of:
- Report of the Board of Managing Directors;
- Board and Governance;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- section 'Miscellaneous'..

Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Managing Directors is responsible for the preparation of the other information, including the Management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

KLM Royal Dutch Airlines engaged us, Deloitte Accountants B.V. and KPMG Accountants N.V., to perform a joint audit. We were re-engaged by the General Meeting of Shareholders as auditors of KLM Royal Dutch Airlines on April 26, 2018 for the audit of the year 2018, and have operated as statutory auditors ever since financial year 2005/06.

Description of responsibilities regarding the financial statements

Responsibilities of Board of Managing Directors and the Supervisory Board for the financial statements

The Board of Managing Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Managing Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Managing Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Managing Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Managing Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Managing Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditors' report. This description forms part of our auditor's report.

Amstelveen/Amsterdam, March 28, 2019

KPMG Accountants N.V.
E.H.W. Weusten RA

Deloitte Accountants B.V.
M.J. van de Vegte RA

Appendix: Description of our responsibilities for the audit of the financial statements

Appendix to our auditors' report on the financial statements 2018 of KLM Royal Dutch Airlines

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managing Directors;
- concluding on the appropriateness of the Board of Managing Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Provisions of the articles of association on the distribution of profit

Unofficial translation of article 32 of the articles of association of KLM Royal Dutch airlines

1. Out of the profit established in the adopted financial statements, an amount may first be set aside by the meeting of priority shareholders in order to establish or increase reserves. The meeting of priority shareholders shall only do so after consultation of the Board of Managing Directors and the Supervisory Board.

2. So far as possible and permitted by applicable statute, the remainder of the profit shall be distributed as follows:
   a. the holders of priority shares shall receive first the statutory interest percentage prevailing on the last day of financial year concerned, with a maximum of 5% of the paid up amount per priority share; if and to the extent that the profit is not sufficient to make the full aforementioned distribution on the priority shares, in subsequent years a distribution to the holders of priority shares shall first be made to recompense this shortfall entirely before the following paragraph may be given effect;
   b. next the holders of cumulative preference shares-A shall receive 6% of the par value of their cumulative preference shares-A or - in the case of not fully paid-up shares - of the obligatory amount paid thereon; in the event and to the extent the profit is not sufficient to fully make the aforementioned distribution on the cumulative preference shares-A, the deficiency shall, to the extent possible and permitted by applicable statute, be distributed out of the freely distributable reserves with the exception of the share premium reserves; in the event and to the extent that the aforementioned distribution on the cumulative preference shares-A can also not be made out of such reserves, there shall in the following years first be made a distribution to the holders of cumulative preference shares-A to the effect that such shortfall is fully recovered before effect is given to what is provided hereinafter in this paragraph 2;
   c. next the holders of preference shares-B shall receive 5% of the par value of their preference shares-B or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon;
   d. next the holders of preference shares-B shall receive ½% of the par value of their shares or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon for each per cent of the ratio (expressed as a percentage) of the profit to the operating revenues mentioned in the adopted consolidated profit and loss account, with the understanding that this dividend percentage shall not be in excess of 5% of the nominal amount of the issued common shares;
   e. subsequently, on each cumulative preference share-C of a series a dividend shall be paid which is equal to a percentage of the amount which has been paid up on the share, calculated by taking the arithmetic average of the effective yield on the government loans to be described below under letter (f), as published in the Officiële Prijscourant of Euronext Amsterdam N.V. for the last five (5) stock exchange days prior to the day on which a cumulative preference share-C of the series in question was issued for the first time, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series;
   f. government loans mentioned under the letter (e) of this paragraph shall be deemed to mean the government loans to the debit of the State of the Netherlands with a (remaining) life of seven to eight years. If the effective yield on these government loans has not been published in the Officiële Prijscourant of Euronext Amsterdam N.V., as the time of the calculation of the dividend percentage, then the government loans referred to under the letter (e) shall be deemed to be the government loans to the debit of the State of the Netherlands with a (remaining) life which is as close as possible to a (remaining) life of seven to eight years, the effective yield of which has been published in the Officiële Prijscourant of Euronext Amsterdam N.V. at the time of the calculation of the dividend percentage as stated above, on the proviso that the maximum (remaining) life is eight years;
   g. on the date on which the cumulative preference shares-C of the series in question have been outstanding for eight years, for the first time, and thereafter every subsequent eight years, the dividend percentage of cumulative preference shares-C of the series in question will be adjusted to the effective yield of the government loans referred to in the preceding subparagraphs which is valid at that time, calculated in the manner as described in the foregoing, but on the proviso that the average referred to shall be calculated over the last five (5) exchange days prior to the day as of which the dividend percentage shall be adjusted, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series. If the dividend percentage is adjusted in the course of a financial year, then for the calculation of the dividend over that financial year, the

percentage which applied before the adjustment shall apply up to the day of adjustment, and as from that day, the adjusted percentage;

h. if and to the extent that profits are not sufficient to make full payment of the dividend on the cumulative preference shares-C referred to in this paragraph, the shortfall will be paid and charged to the reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. If and to the extent that the payment referred to in this paragraph cannot be charged to the reserves, then a payment will be made from the profits to the holders of cumulative preference shares-C such that the shortfall is fully paid up before the provisions stated in the following letters of the paragraph are applied. For the application of the provisions stated under this present letter (h), the holders of the various series of cumulative preference shares-C shall receive equal treatment. No further payment shall be made on the cumulative preference shares-C than those determined in this Article, in Article 11 paragraph 6 and in Article 42; interim payments made in accordance with the provisions of paragraph 4 of this Article for a financial year will be deducted from the payments made pursuant to this paragraph;

i. if, in the financial year for which the payment referred to above takes place, the amount paid in on the cumulative preference shares-C of a certain series has been reduced, the payment will be reduced by an amount equal to the aforementioned percentage of the amount of the reduction calculated from the time of the reduction;

j. if the profits over a financial year have been established and in that financial year one or more cumulative preference shares-C have been withdrawn with repayment, then those who were listed in the registry referred to in Article 9 as holders of those cumulative preference shares-C at the time of such withdrawal shall have an inalienable right to payment of profits as described hereinafter. The profits which are to be paid (if possible) to such a holder of cumulative preference shares-C shall be equal to the amount of the payment to which such a holder would be entitled to the grounds of the provisions of this paragraph if, at the time at which profits were determined, he were still a holder of the aforementioned cumulative preference shares-C calculated in proportion to the duration of the period during which he was a holder of those cumulative preference shares-C in said financial year, from which payment shall be deducted the amount of the payment which was made pursuant to the provisions of Article 32;

k. if, in the course of a given financial year, issuance of cumulative preference shares-C has taken place, then for that financial year the dividend on the shares in questions will be decreased in proportion to the time passed until the first day of issuance;

l. the remainder will be received by the holders of common shares in proportion to the par value of their common shares to the extent the general meeting of shareholders does not make further appropriations for reserves in addition to any reserves established pursuant to paragraph 1 of this Article.

3. On the recommendation of the Board of Managing Directors and after approval of such recommendation by the Supervisory Board and the meeting of priority shareholders, the general meeting of shareholders may decide that payments to shareholders shall be wholly or partly effected by issuing shares of the same type of capital stock of the company as the type of the shares to which these payments relate.

4. As far as possible and subject to the approval of the Supervisory Board, the meeting of priority shareholders may resolve to distribute one or more interim dividends against the expected dividend, provided that an interim statement of assets and liabilities demonstrates that the company meets the requirements of Article 105, paragraph 2 Book 2 of the Dutch Civil Code. This interim statement of assets and liabilities shall be drawn up, signed and made public according to the specifications contained in paragraph 4 of the statutory provision mentioned above.

5. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by law, resolve to make a distribution to the holders of common shares out of one or more of the freely distributable reserves with the exception of the share premium reserves.

6. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by applicable statute, decide to make, as an advance payment on the distribution referred to in paragraph 2 of this Article, distributions out of the freely distributable reserves, with the exception of the share premium reserves.

7. No other distributions than the distributions provided for in this Article and in Article 42 are made on the priority shares and preference shares.

Appropriation of profit and distribution to shareholders

It is proposed that the net profit for 2018 amounting to EUR 571,760,000 be appropriated as follows:

Transfer to reserves	
Retained earnings	EUR 553,268,581
Dividend distributions	
Priority shareholders 2017	794
Priority shareholders 2018	794
Ordinary shareholders 2018	18,489,831
Total dividend distributions	EUR 18,491,419
Total transfer to reserves/ dividends	EUR 571,760,000
Interest expenses	
A cumulative preference shareholder 2017 (6%)	1,057,500
A cumulative preference shareholder 2018 (6%)	1,057,500
C cumulative preference shareholder 2017 (0.82%)	115,465
C cumulative preference shareholder 2018 (0.82%)	115,465
Total interest expenses	EUR 2,345,930

Miscellaneous

Five-Year Review

(in millions of EUR, unless stated otherwise)	2018	2017 Restated*	2016	2015	2014
Consolidated statement of profit or loss					
Passenger	7,822	7,496	7,114	7,143	6,847
Cargo	1,284	1,211	1,123	1,376	1,505
Other revenues	1,849	1,723	1,563	1,386	1,291
Revenues	10,955	10,430	9,800	9,905	9,643
Expenses	(8,850)	(8,366)	(8,197)	(8,640)	(8,629)
EBITDAR			1,603	1,265	1,014
Aircraft operating lease costs			(414)	(354)	(283)
EBITDA	2,105	2,064	1,189	911	731
Amortisation, depreciation and movement in provisions	(1,032)	(985)	(508)	(527)	(556)
Income from current operations	1,073	1,079	681	384	175
Financial income and expenses	(288)	91	(99)	(322)	(208)
Other non-current income and expenses	(13)	(1,849)	3	71	676
Pre-tax income	772	(679)	585	133	643
Income tax expenses	(203)	171	(69)	(42)	(253)
Net result after taxation of consolidated companies	569	(508)	516	91	390
Share of results of equity shareholdings	4	11	3	(37)	(49)
Profit/(loss) for the year	573	(497)	519	54	341
Consolidated balance sheet					
Current assets	2,596	2,861	2,617	2,321	2,314
Non-current assets	8,514	8,304	6,411	6,404	6,185
Total assets	11,110	11,165	9,028	8,725	8,499
Current liabilities	4,652	4,350	3,737	4,001	4,218
Non-current liabilities	5,452	5,994	4,303	4,328	4,272
Group equity	1,006	821	988	396	9
Total liabilities	11,110	11,165	9,028	8,725	8,499

* 2017 restated following implementation of IFRS 9, 15 and 16 in 2018

(in millions of EUR, unless stated otherwise)		2018	2017 Restated*	2016	2015	2014
Key financial figures (KLM Group)						
Result for the year as percentage of revenues		5.2	(4.8)	5.3	0.5	3.5
Earnings per ordinary share (EUR)		12.22	(10.64)	11.03	1.14	7.26
Result for the year plus depreciation				1,034	565	880
Capital expenditures (net)		(1,290)	(1,012)	(755)	(340)	(420)
Adjusted net debt/EBITDAR ratio				2.9	3.6	4.3
Net debt/EBITDA ratio		1.3	1.6			
Dividend per ordinary share (EUR)		0.395	-	0.36	-	-
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		26,601	26,179	26,073	26,460	26,657
Outside The Netherlands		3,219	3,219	3,929	3,955	4,054
Employed by KLM		**29,820**	**29,398**	**30,002**	**30,415**	**30,711**
Total agency staff		2,592	2,274	1,874	1,928	1,983
Total KLM Group		32,412	31,672	31,876	32,343	32,694
Traffic (KLM Company)						
Passenger kilometers	**	107,676	103,487	97,737	93,228	91,477
Revenue ton freight-kilometers	**	3,696	3,727	3,722	3,730	3,764
Passenger load factor (%)		89.1	88.4	87.2	86.4	86.5
Cargo load factor (%)		64.4	63.3	64.5	65.1	66.4
Number of passengers (x 1,000)		34,170	32,689	30,399	28,562	27,740
Weight of cargo carried (kilograms)	**	466	471	479	483	491
Average distance flown per passenger (in kilometers)		3,151	3,166	3,215	3,264	3,298
Capacity (KLM Company)						
Available seat-kilometers	**	120,815	117,066	112,065	107,851	105,755
Available ton freight-kilometers	**	5,758	5,883	5,772	5,734	5,671
Kilometers flown	**	462	451	433	422	419
Blockhours (x 1,000)		689	674	644	630	625
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.0	7.0	7.0	7.4	7.2
Cargo (per RTK)		22.5	21.7	21.6	23.9	24.2
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		20,670	20,409	20,476	20,898	20,979
Outside The Netherlands		2,431	2,397	2,444	2,619	2,744
Employed by KLM		23,101	22,806	22,920	23,517	23,723

* 2017 restated following implementation of IFRS 9, 15 and 16 in 2018
** in millions

Glossary of terms and definitions

Adjusted free cash flow
Free cash flow minus redemption payments on lease debt.

Available Ton Freight Kilometer (ATFK)
One metric ton (1,000 kilograms) cargo capacity flown a distance of one kilometer.

Available Seat Kilometer (ASK)
One aircraft seat flown a distance of one kilometer.

Cargo load factor
Total Revenue Ton Freight Kilometers (RTFK) expressed as a percentage of the total Available Ton Freight Kilometers (ATFK).

Average capital employed
The sum of property, plant and equipment, right-of-use assets, intangible assets, investments accounted for using the equity method, other financial assets (excluding shares, marketable securities and financial deposits), minus related provisions (excluding for pensions, cargo litigation and restructuring) and working capital (excluding market value of derivatives). The capital employed for the year is obtained by taking the quarterly average of the capital employed. Before implementation of IFRS 16 (financial years up to and including 2016) the average capital employed included the aircraft under operating leases (based on seven times the amount of operating leases for the year).

Code sharing
Service offered by KLM and another airline using the KL code and the code of the other airline.

Earnings per ordinary share
The profit or loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding.

EBITDA
The earnings before interests, taxes, depreciation, amortization and movements in provisions. EBITDA provides a simple indicator of the cash generation during the year.

Free cash flow
This corresponds to the cash available after investments in (prepayments in) aircraft, other tangible fixed assets and intangible fixed assets less the proceeds of disposals.

Net debt
The sum of current and non-current financial liabilities, current and non-current loans from parent company, current and non-current finance lease obligations, current and non-current lease debt, less cash and cash equivalents, short-term deposits and commercial paper and held-to-maturity financial assets.

Passenger load factor
Total Revenue Passenger-Kilometers (RPK) expressed as a percentage of the total Available Seat-Kilometers (ASK).

Revenue Ton Freight Kilometer (RTFK)
One metric ton (1,000 kilograms) of cargo flown a distance of one kilometer.

Revenue Passenger Kilometer (RPK)
One passenger flown a distance of one kilometer.

Return on capital employed
The sum of income from current operations minus dividends received, the share of results in equity shareholdings and after taxation divided by the average capital employed. Before implementation of IFRS 16 (financial years up to and including 2016) the sum of income from current operations was also adjusted for the portion corresponding to financial charges in operating leases (34%).

Warning about forward-looking statements

This Annual Report contains, and KLM and its representatives may make, forward-looking statements, either orally or in writing, about KLM and its business. Forward-looking statements generally can be identified by the use of terms such as 'ambition', 'may', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or similar terms. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate management's beliefs, and assumptions made by management about future events. Any such statement is qualified by reference to the following cautionary statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including:

- The airline pricing environment;
- Competitive pressure among companies in our industry;
- An economic downturn;
- Political unrest throughout the world;
- Changes in the cost of fuel or the exchange rate of the Euro to the USD and other currencies;
- Governmental and regulatory actions and political conditions, including actions or decisions by courts and regulators or changes in applicable laws or regulations (or their interpretations), including laws and regulations governing the structure of the combination, the right to service current and future markets and laws and regulations pertaining to the formation and operation of airline alliances;
- Developments affecting labour relations;
- The outcome of any material litigation;
- The future level of air travel demand;
- Future load factors and yields;
- Industrial actions or strikes by KLM employees, Air France employees or employees of our suppliers or airports;
- Developments affecting our airline partners;
- The effects of terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics, hostilities or war, including the adverse impact on general economic conditions, demand for travel, the cost of security and the cost and availability of aviation insurance coverage and war risk coverage;
- The effects of natural disasters and extreme weather conditions;
- Changing relationships with customers, suppliers and strategic partners;
- Developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the documents we file with or furnish to relevant agencies, could cause actual outcomes and results to differ materially from those that have been or may be projected by or on behalf of us. We caution that the foregoing list of important factors is not exhaustive. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained our filings. We do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

KLM Royal Dutch Airlines