Registration Document 2018

Including the annual financial report

AIRFRANCE KLM GROUP

The components of the Annual Financial Report are identified in the index by the following pictogram AFR

REGISTRATION DOCUMENT 2018
AIR FRANCE-KLM

INCLUDING THE ANNUAL FINANCIAL REPORT

Group profile

In its principal businesses of passenger and cargo transportation, low-cost operations and aircraft maintenance, Air France-KLM is a leading global player.

AMF AUTORITÉ DES MARCHÉS FINANCIERS

This Registration Document is an unofficial translation of the French *Document de Référence*, which was filed with the *Autorité des Marchés Financiers* on Monday April 8, 2019 pursuant to Article 212-13 of the AMF General Regulations. This unofficial translation has been prepared by Air France-KLM for the information and convenience of English-speaking readers and has not been reviewed by/registered with the AMF. No assurances are given as to the accuracy or completeness of this translation, nor any responsibility assumed for any misstatement or omission that may be contained therein. The French *Document de Référence* may be used for the purposes of a financial transaction if supplemented with an offering memorandum approved by the AMF. In the event of any ambiguity or discrepancy between this unofficial translation and the French *Document de Référence,* the French version shall prevail.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

2018 was a year of contrasts for Air France-KLM. The Group exceeded the 100 million passenger mark, posting excellent revenue in several areas of activity, particularly our low-cost and maintenance sectors. However, our financial results were negatively impacted by strikes at Air France during the first half of the year and by the rise in fuel prices.

Our Air France-KLM Group has undeniable assets. With 88,800 employees whose professionalism and commitment are recognized throughout the world, with brands with an exceptional reputation, with a large European and intercontinental network supported by powerful partners, Air France-KLM has everything it needs to become the European leader in our sector.

It is with this ambition, of which I am now even more convinced, that I took over the responsibility of CEO of our Group in September 2018.

My priority was to restore trust and to develop a new social dialogue within Air France. In

“With these ambitions for the Air France-KLM Group, and the exceptional commitment of our teams, I am convinced that we can become an industry leader in Europe once again, to the benefit of our employees, our customers, our shareholders, and indeed all stakeholders.”

just a few weeks, several agreements were signed with the various employee groups to ensure greater stability and build the fundamentals of an offensive strategy for our Group.

We have also simplified our managerial governance structure and clarified the strategic decision-making processes of the Air France-KLM Group. With the unanimous support of the Boards of Directors of Air France-KLM, Air France and KLM, this new governance will provide us with additional synergies and accelerate our development.

Air France, KLM, and Transavia each have an exceptional identity and history that underpin our group's DNA. By leveraging our three major brands and these powerful airlines and their domestic subsidiaries, Hop and KLM Cityhopper, we will bring more consistency and simplicity to our commercial offer. We owe our customers service excellence, products at the highest industry standards, as well as more transparent offers. In 2019, we will continue to optimize our network and rationalize and modernize our fleet, in order to offer ever more comfortable but also more fuel-efficient aircraft, and thus support the transition to a more sustainable future.

With these ambitions for the Air France-KLM Group, and the exceptional commitment of our teams, I am convinced that we can become an industry leader in Europe once again, to the benefit of our employees, our customers, our shareholders, and indeed all stakeholders.

Benjamin Smith
Chief Executive Officer of Air France–KLM

101.4
MILLION PASSENGERS

1.1
MILLION TONS OF CARGO

548
AIRCRAFT

318
DESTINATIONS

118
COUNTRIES SERVED

2,000
AIRCRAFT MAINTAINED FOR 200 AIRLINE CUSTOMERS

SELECTED FINANCIAL INFORMATION

Pursuant to Article 28 of Regulation (EC) No.809/2004 of April 29, 2004, the following information is incorporated by reference in this Registration Document *(See also Section 5.3 – Key financial indicators, page 208)*:

- the consolidated financial statements for the Air France-KLM Group relating to the financial year ended December 31, 2017 and the relevant Statutory Auditors' report as published in Sections 5.5 to 5.7 in chapter 5 of the Air France-KLM Group's 2017 Registration Document;
- the consolidated financial statements for the Air France-KLM Group relating to the financial year ended December 31, 2016 and the relevant Statutory Auditors' report as published in Sections 5.5 to 5.7 in chapter 5 of the Air France-KLM Group's 2016 Registration Document;
- the review of the financial situation and results for the financial year ended December 31, 2017 as published on pages 4 and 5 of the 2017 Registration Document; and
- the review of the financial situation and results for the financial year ended December 31, 2016 as published on pages 4 and 5 of the 2016 Registration Document.

Since January 1, 2018, the Air France-KLM Group has applied the following three new accounting standards *(see Section 5.6, Note 2 Restatement of the 2017 financial statements)*.

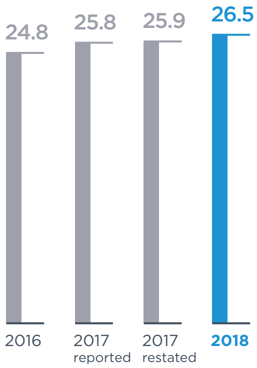
- IFRS 9 "Financial Instruments";
- IFRS 15 "Revenue Recognition from Contracts with Customers";
- IFRS 16 "Leases" (early adoption of the standard from January 1, 2018).

The IFRS 15 and 16 accounting standards have been applied retrospectively to the 2017 financial year.

As a result, the elements of selected financial information for 2017 are presented, firstly, as initially reported and, secondly, restated for the new accounting standards.

Revenues

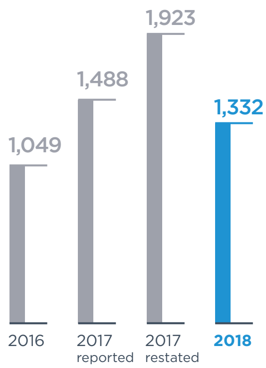
(in € billion)



Revenues stood at €26.5bn, up by 2.5% relative to 2017 restated due, notably, to the strong revenue growth in the low-cost and maintenance businesses.

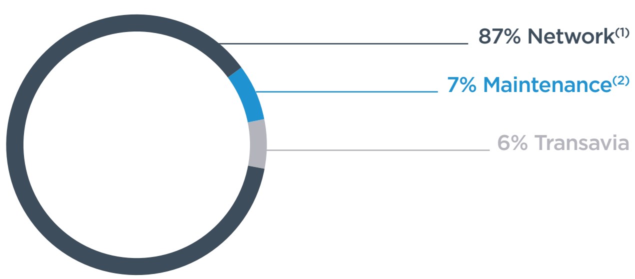
Income from current operations

(in € million)

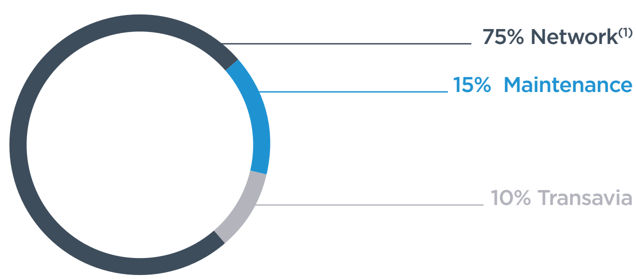


Income from current operations stood at €1,332 million, down by €591 million versus 2017 restated. This decline was mainly due to the net cost of the Air France strikes, evaluated at €335 million, and the €451 million impact of the higher oil price.

Revenue breakdown



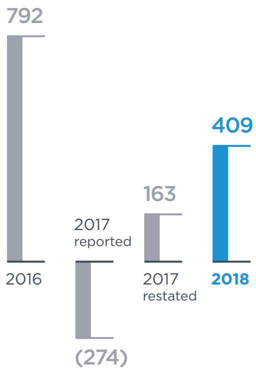
Breakdown of income from current operations



(1) Since 2017, the Passenger and Cargo activities have been regrouped under Network.
(2) Third-party revenues.

Net result, Group part

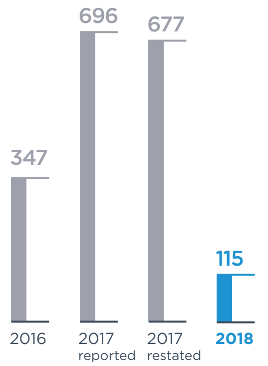
(in € million)



The net result, Group part stood at €409 million, €246 million higher than in 2017 restated.

Adjusted operating free cash-flow

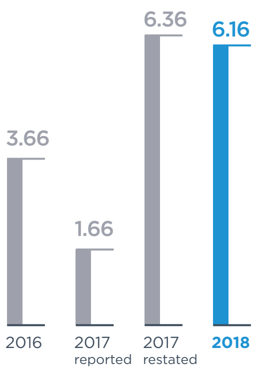
(in € million)



The Group generated €115 million of operating free cash-flow in 2018, down by €562 million relative to 2017 restated due to the strike impact and an increase in capex.

Net debt

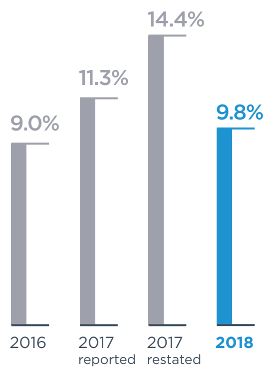
(in € billion)



Net debt stood at €6.16 billion at December 31, 2018, €200 million lower than its level at December 31, 2017 restated. In 2018, the Group pursued its strategy of reducing debt and improving its financial structure.

Return on capital employed (ROCE)

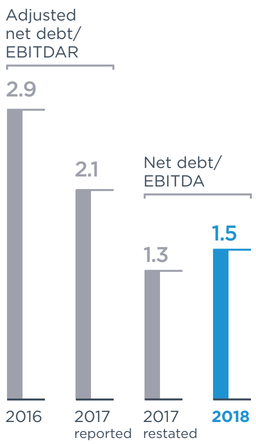
(at December 31)



The return on capital employed (ROCE) was 4.6 points lower at 9.8% at the end of 2018, down relative to 2017 restated, owing to the decline in operating income for the financial year.

Debt ratio

(at December 31)



Due to the fall in EBITDA over the financial year, the net debt/EBITDA ratio stood at 1.5x at December 31, 2018 compared with 1.3x at December 31, 2017 restated.

HIGHLIGHTS OF THE 2018 FINANCIAL YEAR

Air France joins the KLM-Kenya Airways joint-venture
Since March 25, 2018, Air France has been part of the joint-venture agreement existing since 1995 between KLM Royal Dutch Airlines and Kenya Airways (a SkyTeam member), thereby considerably reinforcing the Air France-KLM Group's capacity in East Africa.

Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic sign definitive agreements to strengthen their transatlantic partnership
On May 15, 2018, Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic sign definitive agreements establishing the governance as well as the commercial and operational terms of their future expanded transatlantic joint-venture.

At the end of the transaction, Air France-KLM will acquire a 31% stake in Virgin Atlantic, currently owned by Virgin Group, for £220 million. Virgin Group will retain a 20% stake and the Chairmanship of Virgin Atlantic. Delta will retain its 49% stake.

Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic will coordinate efforts to secure the required regulatory approvals.

The ambition of this expanded joint-venture is to become the preferred choice for customers travelling across the Atlantic by offering an extensive and balanced network, convenient flight schedules, competitive fares and reciprocal frequent flyer benefits, within the framework of the frequent flyer programs of each of the airlines.

Air France-KLM and China Eastern sign an extension to their joint-venture
In November 2018, after a first milestone in the expansion of the joint-venture in July, China Eastern having chosen AFI KLM E&M for the component support on its Boeing 787-9s, the three SkyTeam member airlines announce the extension of their joint-venture partnership to two additional routes, Paris-Wuhan and Paris-Kunming, from January 1, 2019, thereby offering their respective customers new code share routes and connecting opportunities.

A new frequent flyer program for Air France-KLM
Since April 1, 2018, Flying Blue, Air France-KLM's frequent flyer program, has proposed more simplicity and flexibility in the use of the program, a clearer reward scale and more choice when using Miles. Program members now earn Miles for every euro spent and can book Award tickets until the last seat available for sale. To move from one level to another, Flying Blue introduces Experience Points or XPs, calculated based on the type of flight (domestic, medium-haul, long-haul) and travel cabin.

An exclusive and personalized loyalty program for corporate customers

In October 2018, Air France-KLM also relaunches its Corporate Benefits Program for corporate customers. Corporate travel arrangements within international companies has never been so easy and flexible, thanks to the 14 exclusive benefits, designed around key values for business customers: service, flexibility, priority and recognition.

Change in governance

On May 15, 2018, following strikes at Air France *(see Note 3.1 in the consolidated financial statements page* ***226****)* and the negative result of the staff consultation on the wage agreement, Jean-Marc Janaillac steps down as Chairman and Chief Executive Officer of Air France-KLM and Chairman of the Air France Board of Directors.

Following the resignation of Jean-Marc Janaillac, in its meeting of May 15, 2018 the Board of Directors resolves to implement a transitional governance. Within this framework, the Board of Directors decides to:

- separate the functions of Chairman of the Board of Directors and Chief Executive Officer of Air France-KLM;
- appoint Anne-Marie Couderc as Chairman of the Board of Directors;
- appoint Frédéric Gagey as Chief Executive Officer;
- create a Management Committee (*Comité de Direction Collégiale* – CDC) composed of:
  - Frédéric Gagey, Chief Financial Officer of Air France-KLM, serving as Chief Executive Officer,
  - the Chief Executive Officer of Air France and the Chief Executive Officer of KLM, both serving as the Group's Deputy Chief Executive Officers.

At its meeting of August 16, 2018, the Air France-KLM Board of Directors appoints Benjamin Smith as Chief Executive Officer of Air France-KLM. Mr. Smith takes up his duties on September 17, 2018 leading, on this date, to the end of the Management Committee's functions.

During its meeting of October 29, 2018, following discussion and as recommended by the Appointments and Governance Committee, the Board of Directors confirms Anne-Marie Couderc's ongoing mandate as Chairman of the Air France-KLM Board of Directors.

On December 5, 2018, the Board of Directors co-opts Benjamin Smith as a Board director.

On December 12, 2018, as proposed by Benjamin Smith and with the agreement of the Air France-KLM Board of Directors, the Air France Board of Directors appoints Anne Rigail as Chief Executive Officer of Air France. She took up her duties on December 17, replacing Benjamin Smith who had been appointed interim Chief Executive Officer of Air France until the end of 2018.

HIGHLIGHTS OF THE BEGINNING OF THE 2019 FINANCIAL YEAR

Signature of employee agreements and simplification of the Air France brand portfolio.

In January 2019, three employee agreements are signed at Air France.

- on January 10, an agreement between Air France and its Cabin Crew staff, improving their working conditions while enabling better service delivery to customers;
- on January 11, 2019, the wage agreement signed with the unions representing Air France Ground Staff, providing for individual increases and enabling the financing of exceptional individual bonuses, thereby offering additional ways to recognize performance;
- on February 19, 2019, the signature of a Pilot staff category agreement with the SNPL provides the flexibility required to support Air France's new ambition, while foreseeing measures to improve flight safety, the commercial strategy, operational performance and pilots' daily lives and pay.

The Cabin Crew agreement also enables the launch of a project on the integration of Joon employees and aircraft. The simplification of the brand portfolio is an undeniable asset for all our employees, customers and partners.

In the same spirit of simplification, the flights operated by the regional fleet under the Hop! brand will henceforth be marketed under the name of Air France HOP. The Air France-KLM Group can thus rely on two powerful brands, Air France and KLM, supplemented by regional brands Air France HOP and KLM Cityhopper, together with a low-cost proposition via the Transavia brand, present in France and the Netherlands.

Air France-KLM simplifies and improves its governance

On February 19, 2019, the Air France-KLM Board of Directors unanimously approves the presentation of Benjamin Smith, Chief Executive Officer of Air France-KLM, outlining his ambitions, principles of managerial governance and the strategic decision-making processes at Group level, aimed at simplifying and improving the Group's governance to regain European airline leadership.

The key elements necessary to achieve the Group's long-term goals are:

- establish a CEO Committee to determine the strategic direction for all the Group's airlines and business units. This CEO Committee is chaired by Benjamin Smith. The other members of the Committee are Pieter Elbers (Chief Executive Officer of KLM), Anne Rigail (Chief Executive Officer of Air France) and Frédéric Gagey (Chief Financial Officer of Air France-KLM);
- increase collaboration across the Group to better capture synergies and efficiencies, aimed at improving overall Group profitability;
- celebrate the longstanding heritage, reputation and brand recognition of Air France, KLM and Transavia within their respective markets and reinforce the Group's position at its two hubs, Amsterdam Schiphol and Paris-Charles de Gaulle;
- simplify key Group operational processes in the following areas: fleet and network strategy, commercial and alliances strategy, human resources, procurement, digital and customer data management.

In agreement with the Supervisory Board of KLM, the Air France-KLM Board of Directors proposes the renewal of Pieter Elbers' mandate as Chief Executive Officer of KLM during the KLM Annual General Meeting in April.

Anne Rigail and Pieter Elbers are appointed Deputy Chief Executive Officers of Air France-KLM and both express their commitment to building the success of the Group alongside Benjamin Smith.

The Air France-KLM Board of Directors acknowledges the entry of Benjamin Smith to the Supervisory Board of KLM at KLM's next AGM.

Acquisition by the Dutch State of a shareholding in Air France-KLM

On March 1, 2019, the Dutch State gives notification that, on February 26, 2019, it crossed the 5% and 10% thresholds in Air France-KLM's share capital and voting rights and holds 60,000,000 shares, representing the same quantity of voting rights, i.e. 14.00% of the share capital and 11.91% of the voting rights in Air France-KLM. The Dutch State stipulates that it has no plans to purchase more shares in Air France-KLM or a controlling interest.

Issuance of convertible bonds

On March 20, 2019, Air France-KLM successfully places bonds convertible into new shares and/or exchangeable for existing shares (OCEANE) due in 2026 for a total amount of €500 million, representing 27,901,785 underlying shares.

1 PRESENTATION OF THE AIR FRANCE-KLM GROUP

1.1 MARKET AND ENVIRONMENT

1.1.1 The economic environment

Real GDP growth (%)	2017	2018 (estimates)
World	3.0	**3.0**
European Union	2.5	**2.0**
o/w United Kingdom	1.7	**1.3**
Euro zone	2.5	**1.9**
o/w France	2.3	**1.5**
o/w Netherlands	3.0	**2.6**
North America (USMCA countries)	2.3	**2.8**
o/w United States	2.2	**2.9**
Asia-Pacific	4.8	**4.5**
o/w China	6.9	**6.6**
o/w Japan	1.9	**0.8**
Middle East	0.9	**1.9**
Sub-Saharan Africa	2.6	**2.3**
Latin America (excl. Mexico and Venezuela)	1.6	**1.4**
o/w Brazil	1.1	**1.2**
o/w Argentina	2.9	**-2.6**

(source 1).

European growth slowed in 2018 due to rising oil prices in the first three quarters, Brexit uncertainties and the effect of the new US tariffs on exports *(source 2)*.

North America benefited from the US fiscal stimulus effect, along with a high employment rate and high wages *(source 3)*.

Asia was marked by the ongoing structural slowdown in Chinese growth on the back of the first customs tariffs imposed by the US administration. Japan and other Asian countries were impacted, their exports decreasing in line with weaker Chinese demand *(source 4)*.

The Middle East saw continued growth in 2018 thanks to rising oil prices for most of the year. However, the re-imposition by the US of sanctions on Iran weighed on growth in the region at the end of the year *(source 5)*.

Sub-Saharan Africa, with its substantial reliance on commodity exports, benefitted from higher oil prices. However, the strengthening in the US dollar towards the year end negatively impacted this region *(source 6)*.

Latin America was mainly impacted by the recession in Argentina, the latter having faced a currency crisis since the summer following the strengthening in the dollar *(source 7)*.

Overall, the emerging countries were impacted by the strengthening in the US dollar towards the close of the year *(source 8)*.

Oil prices

Brent (US$/bbl)	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Average price for the period	53.7	49.7	52.1	61.5	66.8	74.5	75.2	71.0

The production cut agreed between the member countries of OPEC and its allies like Russia had the expected effect of driving oil prices higher during 2017 and through to the 2018 third quarter.

A series of fluctuations in the oil price subsequently took place following the re-imposition of US sanctions on Iranian exports. Markets had initially feared a global production shortfall, compounded by the Venezuelan crisis, before confirmation that Iran would be able to export its oil to India and China. At the same time, OPEC had again begun to produce more to compensate for the loss of Iranian oil. The oil price collapsed to US$54 (barrel of Brent) at the end of 2018, the US having raised fears of global over-production *(source 9)*.

Currency exchange rates

For one Euro (average)	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4 (est)
USD	1.06	1.10	1.17	1.18	1.23	1.19	1.16	1.15
GBP	0.86	0.86	0.90	0.88	0.88	0.88	0.89	0.88
BRL	3.3	3.5	3.7	3.8	4.0	4.3	4.6	4.4
CNY	7.3	7.6	7.8	7.8	7.8	7.6	7.9	8.0
JPY	121	122	130	133	133	130	130	130
CHF	1.07	1.08	1.13	1.16	1.17	1.17	1.14	1.13

The US dollar had weakened against the euro in 2017 due to the impact of a coordinated economic recovery in the rest of the world and uncertainties linked to the new US administration. However, it saw a significant appreciation as of the 2018 second quarter following interest rate hikes by the Fed in response to higher inflation and employment *(source 10)*.

The UK pound has seen little volatility since the 2016 Brexit vote, despite uncertainty on the kind of deal to be agreed with the EU *(source 11)*.

The Brazilian Real weakened amidst uncertainties linked to the presidential election in 2018 but the new President, Jair Bolsonaro, finally increased business confidence in the fourth quarter with a slight appreciation in the currency.

The Chinese Yuan weakened during the 2018 second half, having been affected by the trade war with the US *(source 12)*.

The Japanese Yen strengthened in the 2018 second quarter, playing the role of a safe haven asset for investors relative to other regions *(source 13)*.

Having depreciated during the 2017 second half, the Swiss franc strengthened in the 2018 second half *(source 14)*.

1.1.2 The industry context and competition

From an economic standpoint, 2018 was a good year for air traffic worldwide with robust traffic growth (+6.5% in Revenue Passenger Kilometers) enabling an EBIT margin of 6.8%. The latter was marginally below its 2017 level (7.7%) but added US$6.0bn of earnings for equity holders despite a very strong increase in the fuel price (+31% in US$) *(source 15)*.

— **European medium-haul**

Strong market growth led by the five leading low-cost carriers

The number of passenger seats in Europe increased (+5.7%) *(source 16)*, mainly driven by the five leading European low-cost carriers, Ryanair, easyJet, Vueling, Wizz Air and Norwegian. The growth in their number of seats averaged 10.5%, i.e. 29.7% of the passengers carried in 2018 (+1.3 point versus 2017 *(source 16)*).

Air Berlin's assets purchased by the major European carriers

A wave of consolidation took place in 2018 with the assets of the former Air Berlin Group, which ceased operations in October 2017 and in December 2017 for its Austrian subsidiary Niki, being shared between the Lufthansa Group, easyJet and Ryanair.

The takeover of Niki by its former owner Niki Lauda under the Laudamotion name in January 2018 was followed by the purchase of 75% of this entity by Ryanair in August 2018. Ultimately, virtually all of Air Berlin's former capacity was purchased by its competitors.

— **European long-haul**

Exceptional market growth driven by the non-European airlines

In 2018, European long-haul capacity growth stood a robust 8.6%, one percentage point higher than in 2017, with the Middle Eastern (10.9%) and Asian (9.2%) networks posting the most rapid growth *(source 16)*.

Growth for the three main European airline Groups (Air France-KLM, Lufthansa Group and IAG) lagged the market at +4.8% in available seat-kilometers (ASK). The Air France-KLM Group remains the leading producer of long-haul available seat-kilometers in Europe (119 billion in 2018) ahead of Lufthansa Group (109 billion) and IAG (109 billion) *(source 16)*.

Strong growth from a low base for low-cost long-haul flights, despite their fragile economics

2018 was marked by substantial growth for the low-cost long-haul carriers, despite their fragile economics which, at the end of the year, forced Primera Air to cease operations and WOW Air to downsize its fleet by nearly 50% *(source 16)*.

The transatlantic segment was the most impacted, particularly by Norwegian (capacity +84% in 2018 relative to 2017 *(source 16)* and, to a lesser extent, by WOW Air and Level, although the market share in seats of these carriers remained limited at 7.5% in 2018.

Intense pressure from the Gulf State and Chinese carriers on the European routes

The Gulf State carriers (Emirates, Qatar Airways and Etihad) maintained their strong growth on the European routes *(source 18)* albeit with different growth models. Their growth however declined to +6% for Emirates (versus +15% in 2010-2016) and +10% for Etihad (versus +15% in 2010-2016). Qatar Airways posted growth of +27% (versus +18% in 2010-2016) *(source 16)*.

The Chinese Civil Aviation Authority relaxed its policy of allowing just one operator per long-haul route, leading to strong growth to Europe in 2018 (+18% in seats during 2018 versus 2017).

Connecting flights for the low-cost carriers

On the launch of connecting flights by easyJet and Ryanair *(sources 20, 21)*, easyJet significantly expanded the number of airports at which it offers connections but also the number of partner airlines. While such connections were initially mainly only offered between low-cost carriers, in what may be considered a new development, easyJet has since announced plans to also offer connections to flights with legacy carriers *(source 22)*. These connections had, however, already been bookable through travel platforms like Kiwi.com and Dohop that sell/distribute virtually interlined itineraries. A trend is emerging whereby the different airline players are looking to occupy a market where, in addition to traditional services (flight tickets, hotels), they offer other services and products during the different phases of a journey. Ryanair recently announced that it wants to become the "Amazon of Travel" and has, for example, launched Ryanair rooms and started to sell tickets for football matches *(sources 23, 24, 25)*.

While remaining positive, 2018 was characterized by a slowdown in air freight demand

International freight demand measured in Freight-Ton-Kilometers (FTK) increased by 4.0% in 2018 relative to 2017 (versus 10.5% in 2017 relative to 2016), while capacity measured in Available-Freight-Ton-Kilometers (AFTK) increased by 5.4% in 2018 (3.9% in 2017) *(sources 26, 27)*.

The slowdown in freight demand growth during 2018 was consistent with the typical pattern of inventory restocking cycles: air freight volumes had grown much faster than global merchandise trade during 2017, as businesses opted for the speed offered by air freight rapidly to restock their inventory levels *(source 27)*.

However, there now seems to be a more structural slowdown in demand following signs of weakness in global economic activity: the key demand drivers have softened since early 2018, particularly consumer confidence and the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) *(source 27)*.

All regions posted growth in 2018, except for Africa which witnessed a slowdown in most of its international markets. The strength of consumer spending and the wider US economy underpinned FTK growth for the US airlines last year *(source 27)*.

Sources

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1.2 STRATEGIC OUTLOOK

1.2.1 The Air France-KLM Group's ambition

The Group's business brings people, economies and cultures together, and drives economic growth and social progress. The Air France-KLM Group's ambition embraces this responsibility which guides its strategic priorities: Air France-KLM aims to become the leading airline group in Europe and one of the most powerful in the world, while undertaking its corporate and social responsibility as a global aviation player. As such, flight safety is both an absolute imperative that the Group owes to its customers and staff, and a daily commitment.

1.2.2 Air France-KLM model: a flight plan to create value

Air France-KLM has elected to present its business and value creation model. It addresses all of the Group's stakeholders, namely employees, shareholders, customers, suppliers, authorities, institutional and non-governmental organizations, and other local partners. As part of its day-to-day activities, the Group interacts with diverse stakeholders, while its business and operations have an array of (qualitative and quantitative) impacts. The value creation is represented through the outcomes of its activities and its impacts on society.

— Activities and services

As the leading group in terms of intercontinental traffic on departure from Europe, Air France-KLM is a major global air transport player. Its main businesses are passenger and cargo transportation through its network activities, low-cost transportation and aeronautical maintenance. Each activity relies on different brands which are positioned in complementary markets with their own specific operating models, supporting the Air France-KLM Group's goal by offering all customer segments transport offers tailored to their needs.

In 2018, Air France-KLM confirmed its major position in terms of traffic with 101 million passengers carried between both Europe and the rest of the world, and on intra-European routes on departure from the Group's natural markets.

The Group has built a strong presence in all the major markets. The Air France-KLM Group currently operates the largest network between Europe and the rest of the world. In 2018, it served 318 destinations in 118 countries around the world. Given its presence in all the major air transport markets, the Group's network is balanced, with no one market representing more than a third of network revenues. These markets also behave differently, enabling the Group to mitigate the negative impact of any developments or crises affecting some markets.

The network brands, Air France and KLM, are organized around the two intercontinental hubs of Paris-CDG and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe, and take advantage of numerous partnerships to offer a global network. These hubs connect transfer flows with point-to-point traffic. This large-scale optimized system gives small markets worldwide access, and offers a dense flight schedule tailored to the frequency needs of customers.

The Group also benefits from a balanced breakdown between transfer and point-to-point passengers. At Air France, connecting passengers represent more than 45% of total passengers while, at KLM, this figure is 65%. The point-to-point activity aims to provide efficient transportation solutions for domestic and intra-European travel.

Air France-KLM's expertise in the cargo business supports the Group's airline operations by making a material contribution to their economics while limiting the environmental footprint.

Transavia, the Group's low-cost brand, provides efficient intra-European transportation solutions and is a leader in hospitality, service and digital services. In 2018, Transavia served 239 routes in Europe, North Africa and the Middle East, departing from France and the Netherlands.

The Flying Blue frequent flyer program is the common denominator between all these brands, since Flying Blue miles can be redeemed on Air France and KLM services, as well as on Transavia flights.

The maintenance activity relies on the Group's undisputed excellence in managing large aircraft fleets, consolidating Air France-KLM's position as a leader of the MRO market. It ensures the airworthiness of the Air France and KLM fleets, and deploys an optimized maintenance policy for more than 200 clients.

— Turning our resources into assets…

Air France-KLM takes action to reconcile growth with environmental protection, social value and local development at its hubs and destinations. By implementing state-of-the-art technologies, investing in R&D and innovation and partnering with stakeholders, the Group strives to optimize the use of its different forms of capital and resources to make the most of them. This approach provides Air France-KLM with strong positioning in the aviation industry's competitive landscape.

Social and relationship capital: Air France-KLM continues to reinforce its commercial integration with its principal partners worldwide, like Delta Air Lines, Inc. and China Eastern Airlines and through the SkyTeam alliance, to offer value-added services and innovations whilst reinforcing its network and building mutual trust. Engaging with stakeholders through sound and regular dialogue is also key for Air France-KLM in terms of identifying emerging issues, tackling upcoming challenges and better understanding their expectations. Air France-KLM sees this as an opportunity to continue strengthening its local footprint, creating the basis for trust and long-term acceptance, and developing its activities.

Human capital: Air France-KLM is committed to the value of its workforce in the 118 countries where it operates. Through employees' collective dedication, professionalism and accomplishments, Air France-KLM is able to provide premium services and a caring journey, fostering lasting relationships with customers while operating in an efficient and safe manner.

Financial capital: Financial capital not only ensures Air France-KLM's financial sustainability, but its ability to accelerate its transformation while enabling value creation with all other forms of capital. Through the combined use of share capital, cash reserves and debt, the Group is able to fund its infrastructures, optimize its fleet, develop its staff, innovate through digital investments and benefit its supply chain and community relationships.

Industrial capital: Air France-KLM is modernizing its fleet with the inclusion of next-generation aircraft, thereby ensuring a higher standard of passenger comfort and improved energy efficiency. Through its fleet of more than 540 aircraft and its expanded and optimized network, Air France-KLM offers numerous connection opportunities, enabling value creation for the Group in the form of revenue from operations, customer satisfaction and infrastructural value for the home markets where it operates.

Intellectual capital: Air France-KLM has a portfolio of strong brands, positioned in complementary markets with their own specific operating models, aligned with customer expectations. The Group's airlines have a common frequent flyer program "Flying Blue", contributing to the attractiveness of the brands.

Environmental capital: the Group is endlessly innovating so as to be a reference in Corporate Social Responsibility. While relying on key natural resources, ground and flight operations have an impact on the environment, including noise and air pollution or waste. The Group strives to continuously improve all aspects of its activities to reduce its environmental footprint. In particular, it contributes to the establishment of a sustainable biofuels industry for aviation.

— ...to create positive outcomes and impacts on society

The value creation model shows the impact areas where Air France-KLM adds value through its core activities, and the contribution this makes to realizing certain United Nations Sustainable Development Goals.

A caring journey: Customer experience is a cornerstone of the business model to create a memorable journey. Together with suppliers and partners and with 15 million members of the frequent flyer program "Flying Blue", Air France-KLM strives to offer high-quality products and solutions by integrating new technologies and sustainability at every step of their journey for ever-more-personalized and innovative services.

A reliable journey: While safety and security are paramount and non-negotiable, operational excellence is also key to ensuring the highest level of customer satisfaction and a safe and pleasant travel experience. In this regard, Air France-KLM focuses on reliability and flight punctuality and develops innovative procedures such as self-boarding to maintain positive results.

An employee journey: Air France-KLM provides skilled and high-value jobs and supports the employability of its staff through continuous development and learning. The Group aims to create a safe and motivating environment for employees and is continually developing skills to ensure the professionalism of its staff, and to achieve the best results for its business and clients. It pursues a policy of promoting and raising awareness of diversity, with women representing 32% of the top 10% management level for ground staff.

A competitive journey: Solid operational and financial results fuel the activities and the future development of the Group. In 2018, Air France-KLM generated €26.5 billion of revenues and worked at reinforcing its financing structure to further accelerate transformation and deliver growth.

An inclusive journey: Air France-KLM contributes to inclusive and sustainable economic growth in France, the Netherlands and the areas where it operates. By working together with local partners, the Group creates new opportunities and supports projects that contribute to future generations and local communities with added social and economic value. With its supply chain and through €12 billion spent on procurement, Air France-KLM stimulates indirect employment and economic activity.

A responsible journey: Air France-KLM aims to reduce its environmental footprint by improving the operations and processes, partnering and innovating in the supply chain and mobilizing its staff and the industry. The Group reduced its noise footprint by 35% between 2000 and 2018. One of the highlights is the Group's contribution to the emergence of an international market for sustainable aviation. By integrating sustainability into its business and operations, Air France-KLM strives to make a substantial contribution to the United Nations Sustainable Development Goals that lie within the scope of its influence.

OUR FLIGHT PLAN TO CREATE VALUE

OUR AMBITION

TO BECOME THE LEADING AIRLINE GROUP IN EUROPE AND ONE OF THE MOST POWERFUL IN THE WORLD, ASSUMING ITS CORPORATE AND SOCIAL RESPONSIBILITY AS A GLOBAL AVIATION PLAYER

OUR PRIORITIES

1. Invest in and empower our people
2. Simplify our brand portfolio and embody the best of our home markets culture
3. Modernize our fleet and products for the benefit of our customers
4. Leverage our partnerships
5. Improve each business unit's contribution to the Group financial performance

OUR ACTIVITIES AND SERVICES

Network

Passenger network

European leader for long-haul traffic

- **85.6m** passengers
- **468** aircraft
- Expanded network organized around **two major European hubs**
- **54,700** employees

Cargo

"Belly- dominant" business model

- **1.1m** tons of goods transported
- **6** full-freighter aircraft
- **3,860** employees

Low cost

No.1 Low Cost in the Netherlands and at Paris-Orly

- **15.8m** passengers carried
- **74** aircraft
- **3,030** employees

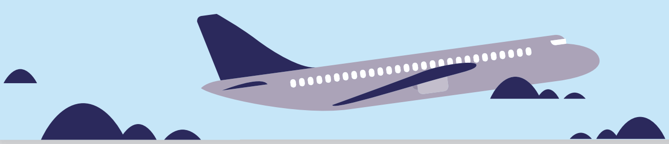
Maintenance

2nd largest global MRO (Maintenance, Repair, Overhaul)

- Undisputed excellence in the **maintenance of large aircraft fleets**
- Support on over **2,000 aircraft**, for more than 200 clients
- **13,460** employees

ONE IMPERATIVE

Flight safety



SOCIAL AND RELATIONSHIP CAPITAL

- A **diversified customer portfolio** and a network of suppliers, favoring local and sustainable players

→ The European pillar of the leading global airline partnership and commercial integration within the SkyTeam alliance

HUMAN CAPITAL

- 81,527 **innovative and fully committed employees** (full-time equivalent) with a **diverse culture** nurtured by more than 110 nationalities

→ Professional and dedicated ground staff, cabin and cockpit crews for a caring journey

FINANCIAL CAPITAL

- **A stable shareholding** structure with the French State, the Dutch State and two strategic partners, Delta Air Lines and China Eastern Airlines

→ A sound financing structure to further accelerate our transformation and deliver growth, in a market growing by 5%

INDUSTRIAL CAPITAL

- **Continuous modernization** of our fleet, slots and traffic rights enabling an **extensive network** in all major markets

→ An optimized fleet and network reinforcing our operational and environmental performances

INTELLECTUAL CAPITAL

- **Prestigious airline brands** with a **common frequent flyer program**, "Flying Blue", and a strong maintenance brand based on specific know-how and **leading-edge technologies**

→ Attractive brands offering high-quality products & services

ENVIRONMENTAL CAPITAL

- **Fuel**, contribution to the creation of a **sustainable alternative biofuels industry for aviation**

→ A player committed to contributing to positive change at industry level

TURNING OUR RESOURCES INTO ASSETS...

1

A CARING JOURNEY

- An improved offer through cabin retrofit, ground infrastructure investment, on-board connectivity
- Customer-centric approach to become the reference airline for **Customer Intimacy**
- Digital investment for **ever-more personalized services**

| **101 million** passengers carried

A RELIABLE JOURNEY

- **Focus on reliability and punctuality**
- Maintain **highest safety and quality standards**

| **318** destinations in **118** countries

AN EMPLOYEE JOURNEY

- **Develop careers and skill sets of employees**
- **Safe and motivating environment** to improve staff **involvement** and **well-being** at work

| **40** training hours per employee

CONTRIBUTING TO THE UN SDGs...

7 · 8 · 9 · 12 · 13

A COMPETITIVE JOURNEY

- A **strong performance** across all business segments
- Operating result driven by **revenue growth and cost discipline**

| Net debt / EBITDA ratio at **1.5x**

AN INCLUSIVE JOURNEY

- **Connecting people, economies and cultures**
- Contribution to **regional development** and global **economic growth** through **international trade and foreign investments**
- **Local employment**, with direct and indirect jobs around our hubs

| 3rd largest private sector employer in the Netherlands, with Air France's impact on French GDP at **>1%**

A RESPONSIBLE JOURNEY

- **Steady reduction in our environmental impact**
- **At the top** of the DJSI Europe and World indices **for 14 years running**

| 13.5% improvement in operational fuel efficiency per passenger/km between 2011 and 2018

1.2.3 Strategic orientations

The overarching ambition of the Air France-KLM Group is to become the leading airline group in Europe and one of the most powerful in the world, celebrating the assets of its two legacy brands, Air France and KLM. To accomplish this, the Air France-KLM Group aims to be *the first customer choice:*

- between Europe and intercontinental destinations;
- between its home markets – France and the Netherlands – and the rest of Europe.

Thanks to the professionalism of the Group's frontline staff, the quality of its products and services, and an improved operational performance, Air France and KLM maintain a daily focus on customers.

Five priorities have been identified to help achieve success.

Safety is paramount, a prerequisite that comes before all else. The Group reaffirmed its dedication to flight safety with a dedicated program launched in November 2018 at Air France, called Safety Attitude. The Group also acknowledges the importance of corporate and social responsibility as a global aviation player, having headed the Dow Jones Sustainability World Index for the fourteenth year running. The Group aims to limit its environmental impact through the use of modern and fuel-efficient aircraft, while being socially responsible in terms of procurement, HR policies promoting gender equality and the Air France Foundation.

1. *Invest in and empower our people*. As a service company, our people are our primary asset. They are the face of our company to our customers, and they represent our brands around the world. We will invest in additional training to ensure their skills are top notch, and further empower them through the use of digital tools, enabling them to surpass our customers' expectations.

   The relationship between the companies within the Group and staff is based on the principles of trust, respect, transparency and confidentiality. At Air France, new, balanced labour agreements have been reached with flight crew, cabin crew, and ground staff giving Air France the flexibility required to utilise the company's assets in the most optimal fashion. Air France is also the first French firm of its size to have reached an agreement to implement the Social and Economic Works Councils and professional elections.

   The implementation of enhanced digital tools for Air France-KLM employees, and the digitization of processes, is being accelerated to facilitate agile, collaborative work across the Group.

2. *Simplify our brand portfolio, and embody the best of our home market culture*. The Air France-KLM Group presently relies on two strong brands, Air France and KLM, which both have regional operations under the same banner, known as Air France HOP and KLM Cityhopper. The Group also offers its customers a low-cost option with the Transavia brand, present in both France and the Netherlands.

   Air France-KLM is in the process of simplifying its brand portfolio and clarifying the positioning of each brand. Both Air France and KLM are iconic national symbols in their home countries, where they are by far the most recognised airline brands and command a loyal following. In addition, they are symbols of their home countries abroad, very often perceived as the first choice to respectively France and the Netherlands, and also among the first to Europe.

3. *Modernize our fleet and products for the benefit of customers:* over the past few years, Air France and KLM have been improving their products and services to keep up with market demands: global lounge enhancements, new cabins, in-flight connectivity (WiFi). The Group aims at accelerating this process in order to position itself as an industry leader in this regard, to meet and exceed customer expectations each flight by offering an improved customer experience that is consistent across each airline's fleet and network. This will enable each Group airline to serve the market as appropriate, with products and services tailored to each segment.

   Current delivery of A350 and B787 aircraft will contribute to a modernized Air France-KLM fleet, in addition to an accelerated aircraft retrofit program with the goal of offering a full-flat Business Class product across the fleet as soon as possible. This also applies for in-flight connectivity.

   Our goal is to align our people, product and fleet through innovation, leading the way with our products and services, and by placing the customer at the forefront of everything that we do. All of us at Air France-KLM are brand ambassadors, and we must earn our customers' business every flight, every day.

4. *Leverage our partnerships:* the Air France-KLM Group continues to pursue its ambition to be the European pillar of the most seamlessly integrated airline partnership in the world. In addition to working alongside our two equity partners Delta Air Lines and China Eastern Airlines, and other joint-venture and commercial partners on key international markets, the Group also aims to develop new partnerships with key players of the travel value chain.

   Air France-KLM is reinforcing its commercial integration with its principal partners to benefit from an expanded market position, to leverage joint distribution networks, and to be able to offer customers a global proposition in each market *(see 1.3.1.5 Airline partnerships and alliances: expanding the Group's worldwide presence to respond to global air transport demand)*.

   The Group is therefore working on strengthening its current transatlantic joint-venture with Delta Air Lines, Inc.; Air France, KLM, Delta Air Lines, Inc., and Virgin Atlantic have agreed to create an expanded transatlantic joint-venture. With an expected implementation in 2019, this agreement will enable these companies in the joint-venture to offer their customers an enhanced, integrated offer on the transatlantic market, enabling them to achieve a forecasted market share of 25%. In this context, Air France-KLM will also purchase a 31% stake in Virgin Atlantic, while Delta Air Lines, Inc. has owned a 49% stake since 2013.

Looking to China, in addition to its standalone presence as the European leader in the market, Air France-KLM will rely on its Chinese partners – China Eastern, China Southern, and Xiamen Airlines – to fortify its position while aiming to further solidify the joint ventures established in recent years. This close cooperation enables the Group and its Chinese partners to develop and optimise service between Europe and China, and to offer customers an option to secondary Chinese cities. Air France-KLM and China Eastern signed an extension of their joint-venture in November 2018, thus continuing to develop their strategic commercial partnership aimed at offering an ever-expanding range of services to customers travelling between Europe and China.

In India, Air France-KLM is reinforcing its partnership with Jet Airways, a private Indian airline. In 2017, the codeshare agreement between the Group and Jet Airways was expanded to offer enhanced connectivity towards Europe and North America.

Lastly, the Group intends to pursue additional cooperation with the Spanish carrier Air Europa through a joint-venture agreement covering enhanced cooperation on flights between Europe and Central and South America.

5. *Improve each business units' contribution to the Group financial performance*. Both airlines will further optimize their fleet and operational performance to improve revenue and decrease costs, leveraging Group synergies to do so. Improved labor relations will also contribute to financial stability, while simplified and digitized processes will enhance operational and management agility.

   The Paris-Charles de Gaulle and Amsterdam-Schiphol hubs play a central role in the strategy of Air France-KLM, as well as that of its partners. The Group is strengthening measures aimed at improving their operational efficiency and efficacy, while supporting more profitable performance on long- and medium-haul operations to/from the Group hubs. For example, this involves continuing the operational excellence programs implemented for Air France and for KLM, with additional levers like employee autonomy or best practices of Group partners.

   Operational Efficiency is a key contributor to customer satisfaction and financial performance, and the Group is aiming for excellence in this area. Improvement in Operational Efficiency will come primarily from hub optimization initiatives, increased fleet utilization, and an approach aimed at streamlining organizational structures and making them more efficient and agile.

   In recent years, Air France-KLM has significantly rationalized its full freighter business to concentrate on transporting cargo in the bellies of passenger aircraft. This generates revenues which are key when it comes to balancing the profitability of the Group's routes. To seize opportunities in the air freight market, Air France-KLM continues to rescale its activity, focused on the utilization of long- and medium-haul aircraft bellies. The Group is putting the emphasis on digitization and the simplification of processes, and on a high level of service quality.

   Transavia will contribute to the growth of the Group, with a cost structure strictly aligned with the low-cost business model: maximizing the utilization of aircraft, simple product and fares, multiple options, a single aircraft type, a light organizational structure, outsourcing of a significant portion of the activities.

With the global growth forecast for the aviation maintenance industry at more than 4% over the next decade, the Engineering and Maintenance (E&M) business unit should be able to continue its development and consolidate Air France-KLM's leadership position in this segment. In this regard, Air France-KLM has an order book representing nearly five years of revenues. The Group's growth is being driven by the engine and component support businesses in particular, which are high added value activities deploying state-of-the-art industrial technologies. The growth in the global fleets of next-generation aircraft offer significant growth relays and AFI KLM E&M is capitalizing on the entry of the B787s and A350s into the Group fleet to develop a major role in these product lines. Lastly, Air France-KLM continues to expand its partnership portfolio in all continents, to remain as close as possible to customers.

1.3 ACTIVITIES

1.3.1 Network business (passenger and cargo): maintained commercial offensive and growth

The Network business corresponds to passenger and cargo transportation services on the scheduled flights of the airlines, Air France, KLM, HOP! and Joon. The Network business is the Air France-KLM Group's principal activity, representing approaching 87% of revenues.

2018 was marked by a maintained commercial offensive and by growth. The Group reaffirmed its European leadership position in terms of long-haul traffic. This achievement accompanied strategic advances, like the construction of the leading global alliance network with the reinforcement of joint-ventures on the North Atlantic with Delta Air Lines, Inc., in Asia with China Eastern Airlines and in India with Jet Airways.

2018 saw the ramp-up of major projects launched within the framework of "Trust Together". These involved, for example, the installation of connectivity in the Group's aircraft (medium-haul), the launch of cabin renovation on the A330s and the opening of new lounges, like the Air France Business lounge located in Hall L of Terminal 2E at Paris-Charles de Gaulle and KLM's Crown lounge in the non-Schengen zone at Schiphol.

The Group pursued its growth trajectory and was able to maintain activity despite a difficult social context at Air France and some significant operational disruption. Optimization, efficiency and simplification were the drivers behind flight schedule construction. Projects around fleet optimization and utilization, improved operational efficiency, the simplification of rotations, the product and fleet were thus launched and were subsequently reflected in the customer proposition.

In 2018, network capacity was built based on a combination of these different factors against an evolving economic backdrop (higher oil price, exchange rate variations), and to satisfy the expectations of the different customers (Leisure, Business) for new destinations, with increasingly exacting requirements in terms of the quality of operations.

The operational constraints were re-evaluated to optimize operational efficiency and increase levels of customer satisfaction.

Activity grew by taking advantage of new route opportunities while, when necessary, adjusting the network.

2018 proved to be a year of remarkable growth, with Air France and KLM serving 118 countries and 318 destinations.

1.3.1.1 Short and medium-haul operations at the heart of the Group's strategy

An expanded network with new routes, adjusted for zones in difficulty and ultra-competitive segments

The short and medium-haul network remains at the heart of the Group's strategy:

— on the French short-haul network, Air France HOP interlinks the French regions with daily flights from 36 airports. Additionally, the *La Navette* product responds to the specific needs of Business travelers by serving five cities to/from Paris-Orly (Marseilles, Toulouse, Nice, Bordeaux and Montpellier).

  To contend with the increased competition from the TGV and low-cost carriers, Air France HOP adjusted and restructured its schedule and production capacity while developing new route opportunities and maintaining its Business schedule. Capacity was thus limited by the size of aircraft module, the network was restructured, new routes were opened and the number of seasonal flights increased.

  To supplement its proposition, Air France HOP launched a partnership with Ouibus; this partnership is an opportunity to trial interoperability, offer passengers more connecting opportunities and expand the catchment areas. From the same perspective, Air France deployed the TGV Air product (combined train + aircraft proposition) at Orly;

— the medium-haul network is constructed around the Paris-CDG and Amsterdam-Schiphol hubs, offering multiple connecting opportunities in Europe. It proposes an attractive schedule of flights accompanied by a new fare offer adapted to the needs of all passengers, thanks to three price ranges irrespective of when tickets are purchased (Light, the simplest travel proposition, Standard the best value and Flex the most flexible). This new offer is available on the whole of the European network for both Air France and KLM.

  In 2018, the Group launched new routes on the short and medium-haul network;

— nine destinations on departure from Paris-Charles de Gaulle operated by Air France: Wroclaw (Poland), Bergen (Norway), Cork (Ireland), Catania (Italy) and Toulon (France), together with Dubrovnik (Croatia), Ibiza (Spain), Bari (Italy) and Cagliari (Italy) in the peak Summer season. The flights to Perpignan (France) were transferred from Orly to CDG during the summer holiday period;

— one destination on departure from Amsterdam-Schiphol operated by KLM: Växjö (Sweden);

— new routes on departure from the French regions operated by HOP! (Lorient-Lyon, Caen-Marseilles, Caen-Geneva, Metz-Nancy-Marseilles, Rennes-Brussels, Rennes-Strasbourg, Lille-Brest), an offer between the French provinces and Corsica which more than doubled, leisure "winter peak" flights on departure from Brest, Pau and Strasbourg, and operations around weekends (La Rochelle);

- in parallel, capacity was increased on rapidly-growing markets (additional frequencies to Morocco, e.g. Rabat: + four flights a week, Marrakech: + two flights a week and Berlin – Germany) while the optimization of aircraft utilization was implemented.

Within a context of heightened competition, the Group thus demonstrated its ability to adapt to evolving trends and seize opportunities. Agility and pragmatism have become the principles behind schedule construction, in terms of both opening new routes and adapting capacity, and offering seasonal destinations. These principles enable the generation of new growth and profit opportunities.

1.3.1.2 Long-haul operations: capacity growth, preservation of market share and fleet renewal

Key principles: capacity growth, preservation of market share and fleet renewal

In the long-haul operations, the Group increased its activity in 2018. Within a relatively favorable environment, the Group leveraged its balanced network by redeploying capacity to areas seeing rapid growth and opening new destinations in the business and leisure markets. It also benefited from the recovery in markets, like Japan, which had seen difficulties in recent seasons.

On its long-haul network, the Air France Group opened five new destinations, Seattle, Taipei, Nairobi, Fortaleza and Seychelles, and KLM two destinations, Fortaleza and Mumbai.

Change in capacity by geographical region

Air France-KLM mainly focused its growth on the Americas and Asia.

North America: capacity reinforced within the framework of the transatlantic joint-venture

Air France and KLM reinforced their services to Canada, with Air France adding a frequency on Montreal and KLM adding two weekly flights bound for Toronto and one flight to Calgary on departure from Amsterdam-Schiphol.

In the United States, Air France opened its Seattle service with three flights a week (in addition to the daily flight operated by its partner Delta Air Lines, Inc.) while reinforcing the destinations of New York and Detroit (adding a weekly frequency on each).

At the same time, on departure from Amsterdam, KLM offered an additional weekly frequency on the Minneapolis (4/7) and San Francisco routes together with six more frequencies on New York (i.e. twenty flights a week).

Central and South America – Caribbean/Indian Ocean: significant growth

In South America, Joon and KLM operated a new destination, Fortaleza, with two frequencies for Joon in the A340 and three for KLM, thereby offering a good weekly coverage for the Group's customers.

The service to Brazil was reinforced with the addition of new frequencies and numerous connecting opportunities in conjunction with the GOL hub strategy in Fortaleza.

Air France thus added three additional flights on Rio de Janeiro and KLM one flight.

KLM supplemented its offer by opening a frequency to Buenos Aires and Santiago de Chile (i.e. six flights a week), one on the Bogota-Cartagena route (i.e. four flights a week) and one flight to Aruba and Bonaire (Lesser Antilles) (i.e. seven flights a week). San José is now served by eight flights a week (four with Air France and four with KLM).

In the Caribbean/Indian Ocean, the growth picture was more mixed. The opening of the Seychelles service operated by Joon with three flights a week was noteworthy.

The re-opening of Juliana airport (Saint Martin in the Antilles) was a positive factor for the Group which continues to increase capacity aimed, in time, at a return to its level before Hurricane Irma in September 2017: two frequencies a week in the Summer then five in the Winter for Air France, three flights operated by KLM on the circular Saint Martin-Curaçao route).

In parallel, the Group adjusted its capacity on Havana.

Asia and the Middle East: a more mixed picture

Having opened Tehran to benefit from growth in the Iranian market, the Group subsequently confirmed the closure of the destination in view of the international context and the route's very disappointing financial results. This closure was accompanied by a reduction in frequencies on Riyad while maintaining three flights a week on departure from Paris. In addition, KLM decided to reduce its frequencies to Colombo and Luanda-Windhoek, and to close the Almaty and Astana (Kazakhstan) destinations as a continuation of the previous season, while Air France reduced its capacity on Canton to five flights a week.

At the same time, the Asia-Middle East region saw capacity growth via:

- increased frequencies on Cairo (+1/7), Malé (+1/7), Bangalore (+1/7), Mumbai (operated by KLM), Haneda (+2/7), Osaka, Hô Chi Minh Ville (+1/7) and Bangkok (+2/7), together with an additional flight on Seoul; Joon also operated flights to Mumbai and Cairo; and
- the opening of Taipei with three flights a week on departure from Paris, in addition to the Taipei-Manilla service operated by KLM.

Africa: adapting to the market dynamics

Air France adapted its schedule to take advantage of market opportunities: daily services to Accra and Ouagadougou and five frequencies a week on the Cotonou destination.

The extension to Air France of the joint-venture between KLM and Kenya Airways enabled the reinforcement of the Group's presence in East Africa, as reflected in the opening of Nairobi by Air France with three flights a week operated in B787-9s in addition to the weekly Kenya Airways flight.

KLM continued to serve the main African destinations on departure from Amsterdam with seven mostly-non-stop flights a week to Cape Town, Johannesburg, Accra, Lagos and Nairobi, and to Mauritius with three flights a week.

Fleet and product: renewal and modernization

With a long-haul fleet of 172 aircraft, Air France-KLM is pursuing its strategy of fleet renewal and modernization involving, notably, cabin upgrades and access to on board satellite connectivity, enabling an in-flight WiFi offer for customers.

The Air France Group fleet numbers 106 aircraft while the KLM fleet is composed of 66 aircraft.

Fifty-one Boeing aircraft are now equipped with the BEST Business and Leisure cabins (25 B777-200s, 19 B777-300s and seven B787-9s) with, in the Business cabin, the Cirrus full flat seat from Zodiac installed in a "four-front-facing" configuration, offering aisle access to everyone. In Economy, the Zodiac Z300 seat is fitted with an 11-inch Panasonic screen enabling customers to benefit to the full from the video offer. In *La Première*, on the B777-300s, the four suites are now much sought-after by customers.

The B787s joining the Air France fleet in 2017 and 2018 came ready-equipped with these BEST cabins with, notably, a completely-redesigned seat in Premium Economy, offering more space and enhanced comfort.

In parallel, Air France began the BEST retrofitting work on the 15-strong fleet of A330s, with the installation of the Stelia seat in Business, a configuration including 16 additional seats (36J/ 21W/ 167Y). The first aircraft is expected in February 2019.

The cabin interiors have been comprehensively revisited with the toilets, galley fittings and bar on the A330 all to sport a more modern, chic look. The seat colors and fabrics, headrests and accessories will also be renewed, to embody the Air France brand more effectively and create an individual identity for each travel cabin.

Consistent with the strategy, KLM continued to invest in its fleet and progressively phase out old aircraft to deploy more-modern models and improve the customer experience. KLM thus notably took delivery of three B787s.

KLM continued its fleet densification with, in particular, the retrofitting of its A330-200s cabins, contributing to the reduction in unit costs. At the same time, two B747-400s were retired from the fleet.

In 2018, KLM continued to upgrade its cabins and inflight services with more comfortable seats, improved catering and increased connectivity. Customers were able to enjoy an upgraded inflight entertainment system featuring wider touch screens and a more extensive choice of content and apps.

All passengers were able to use a new media app containing a comprehensive selection of newspapers and magazines. In parallel, the equipping of its A330s with full flat seats in *World* Business class continued.

All Business class customers on KLM long-haul flights (A330, B747, B777, B787) are thus now offered full flat seats.

Inflight connectivity, strong demand from customers

In 2018, Air France launched its new Air France CONNECT connectivity offer on board the aircraft equipped with WiFi, giving customers access to three WiFi Passes on their own devices (smartphones, tablets, laptops). These Passes enable customers to send and receive messages on Whatsapp, Facebook Messenger, iMessage and WeChat free of charge from their smartphones or tablets for the duration of their flights. Customers can also access the airfrance.com website and the Air France app to consult or modify their bookings, surf the internet and read or send emails. Broadband is also proposed. The Air France CONNECT offer will gradually be enhanced to offer customers additional services and entertainment like detailed information on their flights, a shopping offer and a wide choice of films, TV series and documentaries to view free of charge on their smartphones and tablets.

This offer is available on 22 long-haul and eight short and medium-haul aircraft, the aim being to equip 100% of the fleet by the end of 2020.

The B787s are delivered ready equipped for connectivity with Panasonic KU. On these aircraft, free of charge, customers have access to a connection portal from their personal devices, offering personalized information on their trips. They can also purchase internet access based on their requirements. Currently, the price is based on the quantity of data downloaded. Customers can pay for their internet access by credit card.

The A330s and B777s continue to be equipped with the Gogo 2KU broadband technology. Global Eagle and Orange Business Services will handle the installation of connectivity in the A320 family.

In addition to the WiFi already offered on board the B787s, KLM began to equip its A330-200 and B777-200 aircraft with WiFi connectivity.

On board gastronomy

Air France maintains its ambition of promoting the best French *savoir faire* by collaborating with internationally-renowned French chefs, like Anne-Sophie Pic, Régis Marcon, Guy Martin, Olivier Bellin and Michel Roth. Every three months, new dishes are devised with the help of a Michelin-starred chef and added to the *La Première* and Business menus on departure from Paris[1].

On departure from the outstations, chefs are also at the helm. On departure from New York, Shanghai and Tokyo bound for Paris, in the *La Première* cabin, the Michelin-starred chef is Jean-François Rouquette while, on departure from Buenos Aires in the Business cabin, it is the famous chef Olivier Falchi, hailing from the South of France and living in Argentina, and Babette de Rozières from the French Antilles. For Asian customers, Michelin-starred chef Zhao Guangyou is delighting customers on flights from Paris to China and Youn-Young Kim on flights to Seoul.

(1) Stockholm, Sofia, Bucharest, Algiers, Oran, Tunis, Warsaw, Rabat, Marrakesh, Casablanca, Kiev, St Petersburg, Athens, Istanbul, Moscow, Tel Aviv, Erevan, Amman.

To offer more choice and pleasure, in the Premium Economy and Economy cabins, Air France invites customers to pre-order from a choice of four *à la carte* menus to/from Paris (CDG and Orly) and on some flights to/from Lyons: *Menu Marché de Jean Imbert, Océan, Tradition, Lenôtre Selection*; three *à la carte* menus on departure from end-of-line outstations: *Italia, Océan* and *Tradition*, on departure from certain cities in the French Overseas Dominions, the USA, Africa and Asia.

This offer has just been expanded with a fifth menu, launched at the beginning of the year: My Fun Menu, responding in particular to demand from adolescents and young adults (13 to 20-year olds). This is a quirky and original menu with fresh products like a high-quality hamburger with a real burger bun and meat of French origin.

My Fun Menu is available on order on departure from Paris-CDG and Orly, on flights in the Premium Economy and Economy cabins for passengers over twelve years old, priced at €13 or 4,500 Miles.

On board service projects continued to be deployed in 2017 with a more personalized Business service on new flights bound for New York (Orly-JFK in May 2017) and on the Tokyo-Narita route in June 2017.

In parallel, Air France also worked on redefining the customer inflight experience for all the cabins, the idea being to provide a better-paced, more generous and more uniform service, with greater food service differentiation. Customers saw the first fruits of this brain-storming process at the end of 2018.

In terms of catering, for its World Business Class passengers, KLM expanded the new Anytime For You service launched on flights bound for Johannesburg and Bangkok in 2017; in 2018, customers also benefited from this service on the Tokyo route. After a full standard meal service at a fixed hour, customers have the option to order additional meals when it suits them best. KLM thus meets the needs of everyone by adapting its service to the timetable of passengers departing from different time zones. KLM also invested in the meals offered on its European flights.

1.3.1.3 Acceleration in customer-focused initiatives to become the number one for Customer Intimacy

Customer intimacy increasingly anchored in Air France's customer relations

In 2018, Air France reinforced its efforts to highlight the Company's reputation for customer intimacy. To inject a new momentum into the Attentive Customer Relationship, six hundred managers from the Paris-CDG hub were trained and 1,300 pursers began an innovative training program around motivation and taking the initiative. The latter were followed by the airline's cabin attendants as of October 2018; 900 air hostesses and stewards have already been trained, the program extending into 2019 and 2020. Numerous team-building initiatives again took place this year (1,000 hours/agents devoted to shared experience cafes around the customer-first mindset, 900 hours/agents for inspiration sessions in the customer-first culture groups) supported by a powerful in-house social network (3,000 members in the customer-first culture Yammer group) and the launch of a dedicated customer-first digital training platform, which is comprehensive and innovative.

Continuing the theme of initiatives linked to symmetrical attentions, two seminars were held during 2018 to inform the Employee Experience action plan on key moments in the employee journey, identified in 2017 by Human Resources.

Customer proximity via data was reflected in the use, over a full year, of the customer continuity tool enabling the sharing of relevant information concerning individual customers for the duration of their journeys. Twenty-thousand files were thus opened in the space of a year by one of the touch points on the customer journey.

Again in the area of customer data management, 2018 saw a total redesign of the Customer Directory, a generic customer form to which functionalities have been added enabling, for example, the creation of a customer continuity event, a complaint and a Flying Blue membership. This tool, which is accessible to the commercial teams, offers an ever-more-comprehensive vision of customers in the strict respect of the European data protection rules (GDPR – European General Data Protection Regulation).

Commercial gestures are at the heart of Air France's relationship strategy and their inclusion in enhanced customer information tools enabled the more effective steering of this engagement lever for staff and gave pleasure to customers.

In 2018, empowerment on board the Group's aircraft was a particular focus. More than 10,000 gifts were distributed on board to compensate or delight customers ("gift for care" project) while the Lab Empowerment experience involving the allocation of an individual budget to a sample of hostesses and stewards also proved successful.

As part of the same dynamic, a short-cycle feedback system was rolled out across Air France's long-haul flights enabling crews to immediately poll customer opinion on their flights and to implement on-the-spot management actions to further improve their experience on the return flight. This customer feedback is now an integral part of crew briefings.

Lastly, Air France has a Club composed of some 90 frequent flyer customer members who are asked to volunteer their input on different travel-related issues on a regular basis. Some twenty workshops took place in 2018 around topics relating to the customer experience.

In 2018, Air France was again to see its efforts rewarded with first prize in the transport category during the *Podium de la Relation Client* customer relations awards, presented annually by BearingPoint and KantarTNS.

KLM customers benefited from a further improvement in products and services during 2018, not only thanks to the company's investment in more personalized services and the increased reliance on digital technologies but also due to more alignment between KLM's operational processes and cooperation between KLM and its partners.

Since the launch of its new strategy in 2015, KLM has significantly improved the quality of its products and services. KLM has invested in staff training, new aircraft with more-comfortable cabins and in-flight entertainment systems, full flat seats for World Business Class, customer assistance via the social media and numerous digital automation tools for customers and commercial agents alike. The better alignment of these upgrades and KLM's operational processes in areas like disruption management, boarding and baggage handling enabled KLM to improve its NPS (Net Promoter Score) from 35 in January 2015 to 42 in December 2018.

Customers require personalized handling of their end-to-end journey, from booking to arrival, and in the event of service disruption. In 2018, KLM trained its staff in even-more-personalized customer relations. The company also deployed the European Data Protection Regulation (GDPR) to guarantee the security of customer and employee data. Furthermore, KLM launched the Voice of the Customer methodology to reply to feedback from customers more rapidly and in a more personalized manner.

Already amongst the most digitalized airlines in the world, KLM reinforced its 24/7 customer service with a series of digital platforms in ten languages. This development accelerated the transformation towards digital channels with 50% of boarding cards now issued via messaging applications and 30,000 customers a day receiving flight information on their mobile phones. KLM increased its revenues from the mobile channel by 86% in 2018.

Acceleration in digital development

Air France-KLM has long had a clear, uniform ambition: leadership in customer intimacy. To this end, the Group puts customers at the heart of everything it does and provides staff with the digital tools required to improve their day-to-day well-being. In recent years, it has laid the milestones to achieve its goals: building the largest and most effective social media team in the world and rolling out innovation like Louis, Air France's baggage chatbot and BlueBot, KLM's booking bot. 2018 was marked by an acceleration in digital development and the investment required to achieve the Group's ambition.

Digital: a powerful sales driver

In 2018, Air France and KLM generated revenues of €4.2 billion across the digital channels, covering 166 markets. Driven by changing customer behavior, digital channels also evolved into the largest sales touchpoint, offering ease, speed, efficiency and ample personalization opportunities for Air France-KLM customers.

Air France-KLM Digital is looking to use its sales powerhouse to attract more customers via best-in-class digital marketing tactics, by creating new personalized functionalities and ensuring the best value for money in the direct channels. To this end, projects launched or pursued in 2018 included the New Distribution Capabilities (NDC), a number of personalization initiatives and personalized bundling.

Major progress was also made on the E-Convergence project, which consists of merging the Air France and KLM back-ends to create the best digital experience for customers, thanks to a new architecture and efforts on load performance and best-in-class user experience techniques.

Digital supporting staff in efficiency and improving the customer experience

Digital also continues to help the Group's staff to work more efficiently and improve levels of customer satisfaction by anticipating their needs and delivering a personalized service in real time thanks to the analysis of requirements, automation, disruption programs and location-based services. In partnership with Apple, KLM has deployed 19,000 smart devices and thus reduced the amount of paper used on board its European flights (from 75kg to 0kg).

By issuing 20,000 tablets to staff, Air France has given them a 360° real-time view of the customer.

The Air France-KLM strategy consists of achieving a balance between human and Artificial Intelligence ("AI"). Artificial Intelligence is used in various fields where it helps the teams handle the growing volume of requests and respond to customer needs. AI is an empowerment tool, used in over 50% of social media responses at KLM. After analyzing hundreds of thousands of social media conversations, the AI system recommends the best possible reply to agents and sometimes can even reply autonomously (automation), thereby enabling agents to focus on more complex cases or on giving customers truly personal attention.

Artificial Intelligence will not only enable greater efficiency but also, in particular, a focus on what matters most: customer satisfaction with the Group's trademark warmth and personal approach.

AI helps with better crew planning in the event of service disruption.

Until recently, whenever aircraft have been grounded in the event of a storm or any other occurrence, KLM has planned crew timetables manually. AI now enables the very rapid establishment of different scenarios and their future repercussions, thereby improving efficiency and simplifying relationships with flight crews.

In 2018, KLM also continued to develop and invest in its AI tool for services on the social media, including automation and BlueBot (BB), a member of the KLM service family. Just like her 300 human colleagues, the AI tool is committed to giving customers the best-possible service. To book a flight, BB can be contacted on Messenger and via Google Home.

One year on, Louis the chatbot developed by Air France, is able to respond to more questions and can manage more than 10% of requests on the social media. In the summer of 2018, a new enhanced chatbot with Travel by Air France (travel guide) content was launched: Lucie helps customers plan their next trip in that 70% are unsure which destination to choose when planning holidays or a weekend away.

Data privacy

Big data and the cloud are hot topics. For years, big data has been part of Air France-KLM's way of working: for weather forecasts, logistical planning, baggage, etc. based on large data sets over longer periods. In the past year, big data has been a focus for fixing customer issues. Air France-KLM Digital thus leverages its experience to optimize not only internal processes but also to the benefit of customers. The same goes for the cloud. Without universally accessible customer data, it is impossible to run a good digital business (i.e. predictive maintenance and customer APIs).

Air France and KLM have updated all the privacy policies. Users can access their communication preferences at will. Air France-KLM Digital was established to be fully compliant with the new European Regulation on data privacy (GDPR) and took all the necessary steps to accomplish this before the May 25, 2018 deadline.

Innovation

Conversational platforms and, in particular, voice assistants, are a key focus in the Group's digital strategy. Both Air France and KLM are developing additional uses to offer their customers the best virtual voice experience.

In June 2018, Air France was the brand partner for the commercialization of Alexa (Amazon virtual voice assistant) in France: backed by the requirements expressed by customers, the Air France experience on Alexa is based on flight status and flight details.

In October 2018, KLM went live with four new voice-activated services for Dutch-speaking customers on Google Home. These services help customers to plan and prepare their trips with KLM. Two services were completely new:

- the Travel Guide: find a perfect destination via a short dialog with KLM (available in English and Dutch);
- Schiphol departure planner: tells you at what time to be at Amsterdam-Schiphol airport, at the security lines and at the boarding gate to make your flight. It also advises customers about what time they should leave home, whether by car or public transport (available in Dutch). Two services had already existed but were adapted in Dutch for Google Home:
  - book a flight: possibility of booking a ticket with KLM via a voice-activated system (available in English and Dutch),
  - pack Assistant: personalized advice on what to pack based on trip duration and the local weather forecasts (available in English and Dutch).

Mobile app

To take personalization further, two new top-notch functionalities were added to the Air France app:

- Follow My Bag: offers customers the opportunity to track their baggage through the three main stages of their trip: check-in, boarding, retrieval;
- Maps: with airport plans and the ability to geo-localize at the airport to find the way to the boarding gate (walking timeline for transit).

2018 was an exceptional year for the KLM app, particularly in terms of sales since the targets were reached in September.

- introduction of the latest payment methods: Google Pay and Apple Pay;
- new trials and launches: A/B testing, Paid Upgrade as new "next best action", mixed payment for ancillaries; etc.
- new additional services: special meals, on board WiFi, lounge access and ancillary bundles.

Augmented reality (AR): experimenting with functional and fun services

KLM launched a new AR hand baggage check-in on Messenger and the KLM app. This service uses a transparent, virtual KLM suitcase that is placed in reality on an actual suitcase to indicate whether the dimensions are appropriate for overhead compartments. This enables passengers to check, in the comfort of their own homes, whether their hand baggage is the correct size. KLM also introduced Tune Into Your Travel, making waiting time at airports more pleasurable. This AR travel channel – the first of its kind – aims to get passengers in the mood for their trips by using the Facebook cameras on their smartphones.

Virtual Reality (VR): enhancing the experience

Thanks to 360° videos available on airfrance.com and KLM's iFly, it is possible to live the travel experience prior to departure. Air France offers a visit to the 2F lounge or the cabin of an aircraft. VR headsets are also distributed to commercial representatives so they can "live" present the experience to their clients.

Key figures: Digital for the Group in 2018

576 million visits on the digital touchpoints – 1.6m per day
67% online check-ins
€4.2bn generated online (NTR)
39 million fans and followers on the social media
500+ agents dedicated to the social media: the largest team in the airline industry
40,000 iPads issued to employees and crews

The new Flying Blue program

Since April 1, 2018, Flying Blue, Air France-KLM's frequent flyer program, has proposed more simplicity and flexibility in the use of the program, a clearer reward scale and more choice in the use of Miles. Program members more earn Miles for every euro spent. The booking of Award tickets is no longer limited per flight but offered until the last seat available for sale. All seats on board Air France, KLM and Transavia flights can be booked with Miles. Lastly, to move from one level to another, Flying Blue has introduced Experience Points or XPs, calculated based on the type of flight (domestic, medium-haul or long-haul) and travel cabin. They determine the membership level and enable customers to benefit from additional advantages.

Adapted to simplify the member experience and reinforce the program's attractiveness, the new Flying Blue supports the Group's commercial offensive and its personalization strategy at the service of customers.

1.3.1.4 Cargo business: Air France-KLM, a major player in air freight

During the financial year, the Group carried 8.6 billion tons, up by 0.7%, of which 81% in the bellies of passenger aircraft and 19% in the full-freighter fleet, across a network of 316 destinations in 115 countries.

Backed by its powerful dual hubs of Paris-CDG and Amsterdam-Schiphol, Air France-KLM is well placed to offer its customers the benefit of access to major infrastructure in the European markets, Paris-CDG and Amsterdam-Schiphol ranking amongst the four largest European air freight hubs.

The organization of the business is fully integrated, enabling the Group to offer customers a single contact point, a single contract and a single network covering the Group's dual hubs.

On the North Atlantic, the Group benefits from the joint-venture agreement with Delta Air Lines, Inc. This agreement is reflected in significant commercial synergies over an entity representing more than 20% of the market share on this network: reinforced coordination of commercial strategies and closely integrated sales forces.

A belly-dominant business model

The priority is to optimize the economics of passenger aircraft bellies, the full-freighter fleet being used as a complement to cover the routes not served by passenger flights, products that cannot be carried in bellies and markets in which belly capacity is not adapted to demand.

Air France-KLM Cargo has implemented a transformation and adaptation program focused on revenues, costs, hub productivity and the quality of bellies and combis, to optimize the payload on its full-freighter fleet, which is now stabilized at six aircraft.

In 2018, strict control over costs combined with a dynamic market enabled an increased contribution from the cargo business to the Group's operating result, within a context of stable capacity (+0.1%) and a substantial improvement in unit revenues (+5.2% at constant currency).

1.3.1.5 Airline partners and alliances: expanding the Group's worldwide presence to respond to global air transport demand

Air transport demand is global and, to respond to this demand, Air France-KLM is pursuing an ambitious strategy aimed at expanding its commercial presence in every region of the world.

Airline alliances and partnerships are an integral part of Air France-KLM's commercial strategy. They also contribute to meeting customer expectations and creating value for shareholders by constituting an efficient way to build a global proposition. They reinforce the Group's market positioning thanks to an expanded and optimized network, thus increasing the network contribution on the revenue side. When permitted by the form of partnership and regulatory approvals, they may also enable operational synergies.

Strategic partnerships

In July 2017, Air France-KLM announced a further major step in the reinforcement of its strategic partnerships with, on one hand, the creation of a single global joint-venture between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic and, on the other hand, the intensification of its partnership with China Eastern Airlines. These two commercial alliances have been consolidated by equity links:

- Delta Air Lines, Inc. and China Eastern Airlines each own 8.8% of Air France-KLM's share capital, following reserved capital increases carried out during 2017, for a total of €751 million;
- in 2019, after approval by the relevant regulatory authorities, Air France-KLM will acquire a 31% stake in Virgin Atlantic for around £220 million.

The strategic, commercial and capitalistic reinforcement of these partnerships positions Air France-KLM as the European pillar of the leading global airline network.

Transatlantic joint-venture with Delta Air Lines, Inc.

In 2009, the Group implemented a joint-venture with Delta Air Lines, Inc. which was extended to Alitalia in 2010. The joint-venture contract was subsequently amended and renewed in 2012. As with most joint-ventures in the industry, it did not lead to the creation of a common company but rather the signature of a contract defining both the mechanism of an internal common income statement and organizations to manage all aspects of the partnership. The existence of an internal common income statement ensures that the partners implement all the actions contributing to an improved operating result for the activity, to their mutual benefit. Each company member of the joint-venture recognizes the revenues and costs relating to the joint-venture scope in their respective income statements. If necessary, a settlement mechanism between joint-venture members can compensate any imbalances in value creation based on a mechanism agreed between the parties. This mechanism contributes to "metal neutrality", enabling the different members to jointly manage capacity and look for overall optimization rather than the individual interests of each airline, ultimately increasing value for both the partners and customers.

The governance is composed of a CEO Committee, a Steering Committee and Working Groups.

The cooperation scope is very wide, covering all the flights between North America, Mexico and Europe through integrated cooperation and all the flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with the flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination.

With revenues exceeding US$13 billion and a market share of 22% in 2018, the joint-venture is a major player on the transatlantic, the leading market for international air transportation. Some 270 daily flights link the nine hubs: Paris, Amsterdam, Rome, Atlanta, New York, Detroit, Minneapolis, Cincinnati and Salt Lake City. Pricing and revenue management is centralized within a 60-strong team based in Amsterdam.

The coordination of the network has been reflected in the strengthening of the hub-to-hub services, the optimization of aircraft types assigned on each route and an increase in the number of destinations served by non-stop flights on both sides of the Atlantic with, notably, 26 destinations in North America and 27 in Europe. The sales forces have been regrouped in each region.

In May 2018, Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic signed an expanded joint-venture Agreement laying the foundations for a future combination of the existing joint-ventures between, firstly, Air France-KLM, Delta Air Lines, Inc. and Alitalia and, secondly, Delta Air Lines, Inc. and Virgin Atlantic, within a single joint-venture. This step will mark the expansion and strengthening of one of the most advanced partnership models in the airline industry. Following the granting of all the regulatory approvals, the expanded joint-venture will be launched during 2019.

Partnerships in China – a consolidated presence in the Chinese market

Air France and KLM benefit from a historic presence in China, bolstered by strong partnerships with two of the three largest Chinese carriers, through joint-ventures signed during the past decade. In 2006, KLM was the first to sign a joint-venture agreement with China Southern, thereby benefiting from its partner's vast domestic network operated on departure from the Guangzhou and Beijing hubs. This agreement was expanded to Xiamen Airlines, a subsidiary of China Southern, in 2015. For its part, in 2010, Air France signed a joint-venture agreement with China Southern, forged on the Paris-Guangzhou routes of the two partners, in combination with the development of their cooperation beyond these main hubs. In July 2018, Air France-KLM on one side, and China Southern and Xiamen Airlines on the other, committed to a new period of joint-venture cooperation by forming a single joint-venture which remains in force despite China Southern's announcement that it would be leaving the SkyTeam alliance, effective January 1, 2019. In 2012, Air France signed a joint-venture agreement involving the Paris and Shanghai routes with China Eastern Airlines, whose main base is in Shanghai, China's economic capital. This agreement was extended to KLM in 2016, when China Eastern Airlines inaugurated the Shanghai-Amsterdam route. In 2017, the partnership was further reinforced, aimed at enhanced commercial cooperation, when China Eastern Airlines acquired an 8.8% stake in Air France-KLM via a reserved capital increase. In November, Air France-KLM and China Eastern signed an agreement to extend their joint-venture, as of January 1, 2019, to two additional routes: Paris-Wuhan and Paris-Kunming. They will thus offer their respective customers new code-share routes and develop connecting opportunities. In total, the revenues on the routes operated between Europe and China by the member airlines of the two joint-ventures represented more than €1 billion in 2018.

Thanks to these partnerships, Air France-KLM can offer its customers access to some fifty destinations in China, and continues to work on a further expansion, enabling wide access to the Chinese provinces beyond its own networks comprising nine gateway destinations in Greater China.

Cooperation with Jet Airways

On November 29, 2017, Air France-KLM and Jet Airways signed a landmark Enhanced Cooperation Agreement for the joint development of their operations between Europe and India. This agreement strengthens the partnership built between the airlines since 2014. This cooperation had been expanded in 2016 with an extensive code-share agreement for connections between Europe and North America and between Jet Airways' hubs at Mumbai and Delhi in India via the Air France-KLM hubs at Paris-Charles de Gaulle and Amsterdam-Schiphol. The Enhanced Cooperation Agreement will see Air France, KLM and Jet Airways working together on developing their products and commercial propositions. Customers will thus benefit from multiple travel options and a seamless service across the three partners' networks spanning 44 cities in India and 106 destinations in Europe. This agreement complements the Air France-KLM and Delta Air Lines, Inc. transatlantic partnership between Europe and North America, offering access to over 200 destinations in North America and thereby establishing a global cooperation connecting the three continents, a first in the history of Indian aviation. The first year of the Enhanced Cooperation Agreement saw passenger business revenues on the flights governed by this partnership grow by 50% to reach over US$650 million.

Strategic partnership with GOL

In 2014, Air France-KLM and GOL Linhas Aéreas Inteligentes signed an exclusive long-term strategic partnership reinforcing their commercial cooperation between Brazil and Europe. In addition to the existing code share agreement, this partnership led to a US$100 million investment in GOL, of which US$52 million in the latter's share capital. It notably enables the maximization of synergies between the two groups and, particularly, connecting opportunities in the major Brazilian cities served by the Group. The partnership has led to a significant increase in the percentage of Air France and KLM passengers transferring to GOL flights, which is approaching 25%. Since April 2015, GOL has used its code on Air France-KLM flights between Europe and Brazil, and on European destinations beyond Paris and Amsterdam. The two partners cooperate on promoting sales in their home markets and, since November 2017, Air France has been GOL's GSA for the French market.

This GSA agreement will be extended to the European market over the course of 2019. In May 2018, Air France and KLM took a new step in their strategic development in Brazil with the opening of new routes to Fortaleza on departure from Paris and Amsterdam. These flights connect with GOL's new strategic hub in Fortaleza, offering increased connectivity for customers to the principal cities in North and North-Eastern Brazil.

Alitalia

Alitalia remains an integral part of the transatlantic joint-venture. Besides this joint-venture agreement, since the IATA Summer Season 2017, Air France-KLM and Alitalia have had limited code share cooperation on some domestic and medium-haul routes beyond their respective hubs.

Other joint-ventures and code shares

Air France-KLM uses various forms of partnerships, the choice depending on the balance between added value, complexity and regulatory approval.

The first level of interline cooperation is Traffic and Special Prorate Agreements (SPA) between the partner airlines, enabling the combination of their networks while maintaining their respective IATA codes and setting their own fares.

Within the framework of a code-sharing agreement, two partner airlines offer services on the same flight, each under their own code and setting their own fares. The operating carrier has operational control of the aircraft while the marketing partner, for sales purposes, uses its own flight number on its partner's flights. Any such agreement must comply with the safety and regulatory requirements set forth by the competent authorities.

There are two types of code sharing. In the first, under a block seat agreement, the marketing partner purchases a fixed amount of capacity from the operating carrier and has inventory control over the seat block. In the second, known as free flow, no division of capacity is set, the two airlines having as a general principle access to capacity on the relevant flights through negotiated fares per booking class; as such, inventory control remains the prerogative of the operating carrier.

Joint-ventures are the next level of integration in alliances and participate in the trend towards consolidation when the partners are seeking a higher level of joint optimization on a sub-scope of their network without envisaging a merger.

A joint-venture enables value creation thanks to the coordination of commercial activities:

- for customers, through a global network offer and increased connectivity, loyalty program benefits, a harmonized and seamless travel experience, and a coordinated sales and service offer;
- for partners, by leveraging their strengths leading to improved market positioning and enabling them to capture growth.

The partners define the joint-venture model and the sharing mechanisms: for decision-making and governance across the passenger value chain; for the activity ensuring equitable growth for each partner; and for the creation of financial value, while complying with competition law.

The final stages in cooperation consolidation and integration are mergers or equity interests, ensuring the development of the strategy over the long term and transforming strong global partnerships into assets.

Mergers require approval by the relevant authorities (e.g. Anti-trust Immunity). In some geographies, international rules impose limitations on equity shareholdings between different jurisdictions.

1.3.1.6 SkyTeam alliance

The three large alliances, SkyTeam (to which Air France and KLM belong), Star Alliance and oneworld, represent 60% of worldwide traffic. Among the top 50 airline carriers in the world, only sixteen do not belong to a global alliance, of which eight are low-cost carriers whose business models make them unlikely to become alliance members.

Since the inception of global alliances, their capacity in terms of the available seats offered by member airlines has grown by more than the industry average, with SkyTeam now the second largest alliance, behind Star Alliance and ahead of oneworld.

SkyTeam: a global alliance

SkyTeam, created in 2000, is a global alliance which numbered 20 airline members at December 31, 2018: Aeroflot, Aerolineas Argentinas, Aeromexico, Air Europa, Air France, Alitalia, China Southern, China Eastern Airlines, China Airlines, Czech Airlines, Delta Air Lines, Inc., Garuda Indonesia, Kenya Airways, KLM, Korean Air, Middle East Airlines, Saudi Arabian Airlines, Tarom, Vietnam Airlines and Xiamen Air.

SkyTeam enables its members to strengthen their brand awareness and extend their offer around the globe, thereby bolstering their commercial presence. As members of the SkyTeam alliance, Air France and KLM gain access to a global network of some 14,500 daily flights to 1,150 destinations in more than 175 countries.

The 730 million annual passengers benefit from a seamless travel experience on the flights of the member airlines and have access to 750 airport lounges around the world. The 220 million passengers who are members of frequent flyer programs can earn and burn air miles on all SkyTeam partner flights.

Airlines need to fulfil a series of specific membership requirements before becoming an alliance member, relating to operations, technologies and products. Members must be linked by bilateral agreements covering code sharing, loyalty programs and access to airport lounges.

While retaining their separate identities and brands, the airlines combine their networks to offer their customers multiple travel solutions and the related global services like faster earning of Miles, access to numerous airport lounges but also a more seamless customer service during the different stages of their journeys, thanks to the SkyPriority and SkyTransfer programs.

SkyTeam also provides an environment and tools enabling member airlines to generate operational cost synergies (e.g. co-located facilities, better use of airport lounges and notably the seven SkyTeam lounges and a converging IT platform, etc.).

Airlines must also be able to offer the products and services exclusive to the alliance. SkyTeam has notably developed Passes enabling travel at competitive fares, global contracts reserved for large companies or international events and a product dedicated to Marine and Offshore platform personnel.

SkyTeam's main governance body is the Alliance Board, composed of the Chairmen and Chief Executive Officers of the 20 member airlines. The Alliance Board meets twice a year to define the strategic orientations of the Alliance such as the introduction of new members, the definition of the customer experience and the positioning of the SkyTeam brand along with its related capex and operational budget.

The Executive Board, consisting of senior executives with direct commercial and operational roles, is appointed by the Alliance Board and translates the approved strategic orientations into action plans in a wide range of disciplines ranging from marketing, airport synergies, interface between information systems, the transfer product between member airlines, cargo and promoting the brand.

In parallel with their proprietary development projects, the member airlines commit to implementing the SkyTeam action plans by deploying the required internal resources and respecting the timelines set.

1.3.1.7 Key figures

Network business

	2018	2017	Change	Change at constant currency
Capacity *(in EASK million)*	**329,199**	323,239	+1.8%	
Total revenues *(in €m)*	**22,943**	22,584	+1.6%	+4.1%
Scheduled revenues *(in €m)*	**21,732**	21,554	+0.8%	+3.4%
Unit revenue per EASK *(in € cents)*	**6.60**	6.67	-1.0%	+1.5%
Unit cost per EASK *(in € cents)*	**6.30**	6.19	+1.8%	+3.6%
Income from current operations *(in €m)*	**994**	**1,555**	**(561)**	**-382**

The 2018 financial year saw by a 1.8% increase in capacity relative to the previous year.

Total revenue for the combined passenger and cargo businesses stood at €22,943 million in 2018, representing an increase of €359 million. This improvement was mainly due to the capacity growth in 2018 and to the unit revenue, which rose by 1.5% at constant currency.

The operating result was down by 36.2% relative to the previous year, mainly due to the significant impact of the strikes estimated at €335 million for Air France in 2018 and the increase in the fuel bill.

Passenger network business

	2018	2017	Change	Change at constant currency
Number of passengers *(in thousands)*	**85,619**	83,938	+2.0%	
Capacity *(in ASK million)*	**292,184**	286,127	+2.1%	
Traffic *(in RPK million)*	**255,405**	248,428	+2.8%	
Load factor	**87.4%**	86.8%	+0.6pt	
Total passenger revenues *(in €m)*	**20,655**	20,387	+1.3%	+3.9%
Scheduled passenger revenues *(in €m)*	**19,743**	19,623	+0.6%	+3.2%
Unit revenue per ASK *(in € cents)*	**6.76**	6.86	-1.5%	+1.1%

In 2018, the passenger business benefited from a buoyant commercial environment enabling a 1.1% increase in its unit revenue on a constant currency basis.

Total revenue rose by 1.3% and the number of passengers carried increased by 2.0%.

A dynamic commercial strategy and revenue management enabled the passenger business to increase its unit revenue by 1.1% at constant currency.

Destination region	Capacity in ASK (in million) 2018	Capacity in ASK (in million) 2017	Traffic in RPK (in million) 2018	Traffic in RPK (in million) 2017	Load factor (in %) 2018	Load factor (in %) 2017	No. of passengers (in thousands) 2018	No. of passengers (in thousands) 2017
North America	**66,223**	64,272	**58,858**	56,933	**88.9%**	88.6%	**8,257**	7,990
Latin America	**36,765**	33,870	**33,004**	30,365	**89.8%**	89.7%	**3,452**	3,170
Asia-Pacific	**62,079**	60,797	**56,157**	54,610	**90.4%**	89.8%	**6,419**	6,224
Africa-Middle East	**37,816**	38,430	**31,575**	31,735	**83.5%**	82.7%	**5,581**	5,681
Caribbean-Indian Ocean	**31,075**	31,031	**27,325**	27,085	**87.9%**	87.3%	**3,726**	3,708
Total long-haul	**233,957**	**228,339**	**206,919**	**200,723**	**88.4%**	**87.9%**	**27,435**	**26,767**
Short and medium-haul	**58,266**	**57,788**	**48,486**	**47,705**	**83.3%**	**82.6%**	**58,184**	**57,176**
Total	**292,184**	**286,127**	**255,405**	**248,428**	**87.4%**	**86.8%**	**85,619**	**83,938**

The long-haul network posted a robust performance with a load factor up by 0.5 of a point to 88.4%. Capacity increased by 2.5% to 233,957 million ASK.

North America remains the Group's leading network with 28.3% of capacity and 28.4% of total traffic. Since the signature of the transatlantic joint-venture in 2017, the Group has cooperated with Delta Air Lines, Inc. and Alitalia on these routes. The different airlines maintained strict capacity discipline to contend with the intense competition on these lines. The number of passengers increased by 3.3% for Air France-KLM.

Asia-Pacific is the Group's number two network with 26.5% of capacity and 27.1% of total traffic. The Group carried 6.4 million passengers in its aircraft. Air France-KLM has a joint-venture with China Eastern notably on the Paris/Amsterdam-Shanghai routes. The Group also cooperates with China Southern and Xiamen Airlines via a joint-venture on several Chinese routes like Beijing and Guangzhou. This partnership reinforces Air France-KLM's European leadership on Shanghai, the largest business center in China. In 2018, the load factor stood at 90.5%, up by 0.7 of a point relative to the previous year.

Air France-KLM's capacity on the Latin American network rose by 8.6% in 2018 with a load factor 0.1 of a point higher. The economic difficulties in Brazil and Argentina were offset by strong demand from other countries.

Capacity on the Africa-Middle East network was down by 1.4% in 2018. The load factor thus gained 0.8 of a point to 83.5%.

The load factor on the Caribbean-Indian Ocean network increased by 0.6 of a point in 2018. All of the traffic indicators were stable in 2018 relative to the previous year.

The short and medium-haul network maintained its modest growth with the number of ASK up by 0.8% and a 0.7-point increase in load factor.

Cargo business

	2018	2017	Change	Change at constant currency
Tonnage transported *(in thousands)*	**1,137**	1,138	-0.1%	
Capacity *(in millions of ATK)*	**14,365**	14,354	+0.1%	
Traffic *(in millions of RTK)*	**8,657**	8,595	+0.7%	
Load factor	**60.3%**	59.9%	+0.4 pt	
Total cargo revenues *(in €m)*	**2,288**	2,197	+4.1%	+6.4%
Scheduled cargo revenues *(in €m)*	**1,988**	1,931	+3.0%	+5.3%
Unit revenue per ATK *(in € cents)*	**13.84**	13.45	+2.9%	+5.2%

During the financial year, the Group carried 8.6 billion tons, up by 0.7%, of which 81% in the bellies of passenger aircraft and 19% in the full-freighter fleet, across a network composed of 316 destinations in 115 countries.

In 2018, strict control over costs combined with a dynamic market enabled an increased contribution from the cargo business to the Group's operating result, within a context of stable capacity (+0.1%) and a substantial improvement in unit revenues (+2.9%).

1.3.2 Low-cost business (Transavia): simple product and fares

Transavia, the Air France-KLM Group's low-cost business, operates point-to-point flights on departure from the Netherlands and France.

The structure of Transavia's costs is strictly aligned with the low-cost business model: maximizing the utilization of aircraft, simple product and fares, multiple options, a single aircraft type, a light organizational structure, outsourcing of a significant portion of the activities. Its unit costs are thus comparable to those of the other low-cost operators at around 4.7 euro cents per ASK for an average flight distance of around 1,750 km.

At December 31, 2018, Transavia had an operational fleet of seven B737-700s and 67 B737-800s, of which 40 based in the Netherlands and 34 in France, and more than 3,000 full-time employees. In 2018, the Transavia network comprised more than a hundred destinations in Europe and North Africa. Flights were operated from six different bases, Amsterdam, Rotterdam, Eindhoven, Paris-Orly, Nantes and Lyons, offering a network of more than 225 routes.

2018 saw Transavia pursue its rapid growth with capacity expansion of 8.4%. Transavia carried 15.8 million passengers, up by 7% relative to 2017. Despite the capacity growth, the load factor increased by 1.4 point to 92%. Revenues reached €1.6 billion, growth of 12%. The unit revenue per ASK progressed by 3.6%. The operating result witnessed a substantial increase, reaching a level of €139 million, i.e. an increase of €21 million on the previous year and the best result since Transavia's launch. Transavia France posted a remarkable performance with capacity up by more than 20% and an operating margin of 9.1%, one percentage point higher than in 2017.

In the Netherlands, Transavia is now focused on the development of scheduled flights, with a capacity increase in ASK. In addition to this core business in point-to-point, Transavia continued to offer connecting flights thanks to the KLM hub in Amsterdam. In France, Transavia was the number one low-cost operator at Paris-Orly and accelerated its growth as planned, with the opening of fourteen new routes.

In 2019, the growth in Tranavia's capacity is set to continue with 28 new routes planned for the summer and 9.3% growth in ASK.

These good performances from Transavia are supported by the differentiation in its positioning relative to competitors, embodied in its brand promise: We Make Low Cost Feel Good. Transavia's success is based on the relationship of trust built up with customers.

From booking to the after-sales service, customers are the focus of Transavia's every concern. On booking, the website thus provides travelers with clear and transparent information via an easily-understandable fare structure based on three offers: basic, plus and max. Each offer confers the right to specific services.

The operational excellence of the flights also contributes to Transavia's good reputation with customers. In 2018, the company's operational performance won several awards. For example, in the OAG Punctuality League 2019, ranking the best on-time performance for the world's airlines, Transavia was named the leading European low-cost carrier. Over the full year, more than 80% of Transavia flights arrived on time.

In recent years, Transavia has developed multiple innovations to the benefit of the user experience, particularly in terms of improving customer relationships via a high-performance digital touchpoint. Every month, the Transavia websites welcome three million unique visitors, of whom 60% originate from a mobile terminal. Digital plays a key role the booking process: more than 60% of reservations take place using the website with a significant increase in the mobile proportion (26%). Transavia has a significant presence on the social media and the company numbers more than 1.2 million Facebook fans, 85,000 Instagram users and 50,000 Twitter users. It was the first airline to launch a customer service on WhatsApp. The company offers an effective and personalized customer service, with around 500 conversations a day, 7/7, and is committed to answering customer messages within 60 minutes. Customers are sensitive to this commitment since 80% of conversations end with "Thank you" and more than 60% of the contact with the company on the social media is on WhatsApp. In 2017, the company launched its Laura chatbot on Facebook Messenger, to facilitate the customer journey through to a ticket purchase and improve its responsiveness on an ongoing basis. In that it is more playful than the traditional FAQ, Laura's artificial intelligence enables travelers to obtain more rapid replies to simple questions and the Transavia teams to concentrate on more complicated requests. The results speak for themselves; since Laura's launch simple questions have been answered three times more rapidly.

In December 2018, Transavia France became the first French company to launch a vocal assistant on Google Home. In the Netherlands, Transavia rolled out this service in the summer of 2018. This assistant opens a new voice-command booking channel, as a complement to mobile, aimed at proposing a multichannel booking service.

All these services are contributing to an improvement in customer satisfaction. In 2018, the teams again stood out with a satisfaction level of 8.6/10 while Transavia won three quality labels. Skyscanner awarded the company the Traveller Trust Award for the best booking experience. In France, for the second year running, Transavia obtained the Capital Best Brands label for the quality of its service. Lastly, Transavia France won an award for the quality of its online customer service and, in March 2019, first prize in the Baromètre Qualiweb Tourism and Transport category, measuring the quality of its customer relations on the different online channels.

Transavia France also deployed solutions aimed at improving its operational and environmental performance thanks to the engagement of its teams and partnerships with innovative companies. Transavia France digitalized its cockpits by making all the operational documentation required by pilots available on iPads. To reduce its CO_2 emissions, Transavia France also maintained its partnerships with the OpenAirlines start-ups and Safetyline, and was awarded the Efficient Solution label by the Solar Impulse Foudation.

Lastly, Transavia is committed to a Corporate Social Responsibility (CSR) approach. For example, in both the Netherlands and France, the company supports organizations that help sick children with, respectively, the Peter Pan and Carlesimo associations.

Key figures

Transavia	2018	2017	Change
Number of passengers *(in thousands)*	**15,828**	14,773	+7.1%
Capacity *(in ASK million)*	**30,850**	28,456	+8.4%
Traffic *(in RPK million)*	**28,392**	25,793	+10.1%
Load factor	**92.0%**	90.6%	+1.4%
Total passenger revenues *(in €m)*	**1,611**	1,436	+12.2%
Unit revenue per ASK *(in € cents)*	**5.18**	5.00	+3.6%
Unit cost per ASK *(in € cents)*	**4.73**	4.58	+3.2%
Income from current operations *(in €m)*	**139**	118	+21

1.3.3 Maintenance business: a growth strategy for an MRO global leadership position

Aircraft maintenance is the Air France-KLM Group's third business with third-party revenues of €1.9 billion. These revenues realized with external clients represent a little over 44.2% of the total revenues in this business. In 2018, the AFI KLM E&M order book increased by US$0.6 billion, to a total of US$11.4 billion.

In the aircraft maintenance or MRO (Maintenance, Repair and Overhaul) market, Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) ranks number two globally amongst the multi-product players. The role of AFI KLM E&M is to ensure the airworthiness of the Air France and KLM fleets under competitive conditions, while consolidating its position as a leading MRO in its own market.

The Group operates in three major maintenance segments: airframe maintenance, engine maintenance and component support (electronic, mechanical, pneumatic, hydraulic, etc.). Airframe maintenance covers three sub-segments: line operations support which aims to verify the proper day-to-day functioning of systems and the integrity of the aircraft structure, heavy maintenance for in-depth checks involving the disassembly of cabins, equipment and some structural elements, and the realization of modification programs, particularly the retrofitting of cabins.

1.3.3.1 Business environment

An attractive market despite the growing constraints

According to estimates, the global MRO market, which comprises the maintenance and modification spending by aircraft operators either directly or through sub-contractors, will be worth US$83.2 billion in 2019 *(source: ICF International)*.

The trends in this business closely follow those of the commercial airline fleets globally and their utilization. In the short term, airlines tend to focus on adjusting their use of older-generation aircraft in that their costs, and particularly maintenance costs, are the highest. The MRO operators thus suffer from more volatile demand on older-generation aircraft than on the next-generation models.

The market is also characterized by increased pricing pressure resulting from fiercer competition between maintenance operators (MROs) and more exacting requirements from customer airlines. Furthermore, a growing number of airlines are looking to transfer the financing of spare parts to maintenance service providers within the framework of increasingly-large-scale contracts (in terms of revenue, duration, complexity, etc.). Lastly, the competition from Original Equipment and Engine Manufacturers (OEMs) and Original Aircraft Manufacturers (OAMs) has considerably increased in recent years.

Ever-fiercer competition

As with all the players in the aeronautics and air transport industry, the MRO operators are participating in a vast consolidation movement to reinforce economies of scale and contend with pricing pressure.

Against this backdrop, air framers, engine manufacturers and aircraft component manufacturers are continuing to develop their after-sales services to offer their clients increasingly-integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to a limited number of maintenance service providers seeking to expand their business activity on certain products. This trend is escalating, especially with the arrival of new aircraft like the E-jet, A350, B787, etc. Ultimately, this trend could result in reduced competition on the MRO market, with a seriously adverse effect on airline maintenance costs.

The ability to sustain balanced competitive conditions is a priority objective, both for AFI KLM E&M's business activity and to contain Air France and KLM maintenance costs.

This business is also experiencing a technological change which is influencing the products, processes, methods and competencies within the maintenance activities. This is notably the case with next-generation aircraft whose avionics dimension is playing an increasingly important role relative to mechanical systems: digital tools, composite structures, connectivity, etc. Innovation is an integral part of all the business processes.

1.3.3.2 AFI KLM E&M's position as a world leader

On the strength of its solid position as the number two global multi-product MRO by total revenue, AFI KLM E&M is pursuing its targeted development strategy based on its own specific features and the Group's objectives.

This strategy has two pillars: firstly, cutting costs and maintaining high standards of quality and performance and, secondly, growing the client portfolio in high value-added products and services.

In the past decade, this ambition has been reflected in more than €400 million of investment in modernizing AFI KLM E&M's industrial infrastructure at its principal maintenance sites: Toulouse, Amsterdam, Villeneuve-Le-Roi, Roissy and Orly.

A renewed ambition

As part of its continuous improvement efforts, AFI KLM E&M affirms its ambition of making AFI KLM E&M a benchmark brand in its market, an airline MRO player supported by a powerful global network.

In 2018, AFI KLM E&M again strengthened its global position on new-generation aircraft, with the consolidation of its B787 component support order book and strong growth for the A350, A320neo, B737MAX, and GEnx products. 2018 was also the year in which important steps were made on launching its service offer for the LEAP engine equipping the 737MAX and A320neo. The current order book status indicates that AFI KLM E&M is able to maintain and even reinforce its market position with the new aircraft generations.

This market success is supported by The MRO Lab innovation program focusing on strategic areas of the MRO sector, ranging from technician mobility and the customer experience through to the Internet of Things, Big Data applications, predictive maintenance and Artificial Intelligence.

In the digital field, PROGNOS® constitutes a major building block. Launched in 2016, the latter consists of a range of predictive maintenance solutions based on exploiting the data from aircraft systems with a view to improving maintenance models and processes. In the previous year, the PROGNOS® program had been further expanded with PROGNOS® for APU and PROGNOS® for Inventory while, in 2018, PROGNOS® for Engines was added. AFI KLM E&M capitalizes on the vast amount of data generated by the Air France and KLM fleets to develop its PROGNOS® solutions, and verify their operational relevance and performance before sharing such innovations with its customers.

In aircraft maintenance, adaptation projects also continued to reinforce AFI KLM E&M's competitiveness. Cost-saving initiatives were implemented to optimize activity on a site-by-site basis, strengthen external partnerships and deploy more efficient work organizations. All this was accompanied by efforts to match resources to the level of business activity and build new career paths.

Two strategies support the growth in the Engines and Components segments: positioning on products and services aligned with market expectations, and the development of a global MRO network.

In 2018, to support its fast-growing customer base in South-East Asia, AFI KLM E&M announced the creation of Singapore Component Solutions, a joint-venture with Sabena, for aircraft component repair in Singapore.

Contributing to the Flight Safety and Operational Efficiency programs

AFI KLM E&M's primary task is to guarantee the airworthiness of the Group's fleet and ensure regulatory compliance. To this end, AFI KLM E&M manages technical data, implements the maintenance policies, and ensures the permanent availability of the required skilled staff and technical resources.

AFI KLM E&M pursued the deployment of its Safety Management System (SMS), enabling the implementation of processes relating to Flight Safety in a systematic, cross-functional manner. This is done through regular meetings devoted to event analysis and the establishment and monitoring of action plans. The SMS is also based on a system of feedback encouraged by the deployment of a "safety mind-set" and supported by a network of local Flight Safety Officers.

AFI KLM E&M also realized a volunteer-driven oversight evaluation known as MLOSA (Maintenance Line Operations Safety Assessment) in its Paris plants. Consisting of a frontline campaign by a network of observers, this procedure enables the identification and reporting of situations which could present a high risk to Flight Safety. Given the success of this operation in the Airframe division, the approach has been extended to the Engines and Components divisions.

Airframe maintenance at the service of airlines

Line Operations support

AFI KLM E&M continues to market its services to customers in the line maintenance segment and to develop its business in its main bases as well as internationally.

Light Maintenance operations

Within the framework of AFI KLM E&M's continuous improvement efforts, the Light Maintenance operations, which are mostly executed in Amsterdam, Paris-CDG and Paris-Orly, continued to implement new processes to further reduce Turn Around Times and increase aircraft utilization, to the benefit of Air France and KLM.

At the same time, AFI KLM E&M expanded its iGO Solutions joint-venture operations by delivering high-performance support to its customers; Transavia for its B737 fleet and Air Caraïbes/French Blue for their A330 and A350 fleets.

Heavy Aircraft Maintenance

Heavy maintenance continues to undergo structural change in a market where prices remain low. A new maintenance master plan was thus implemented, designed to rationalize the aircraft maintenance operations by optimizing activity on a site-by-site basis (Paris-CDG, Amsterdam-Schiphol, Paris-Orly, Toulouse-Blagnac). 2017 also saw the end of restructuring at Paris-Orly with a dual objective: firstly, to regroup all the heavy maintenance and B777 modifications in one as opposed to two hangars and, secondly, the outsourcing of the aircraft painting operations.

In Amsterdam, in-depth work was also carried out on organizational structures based on the "hands on metal" concept, the aim being to maximize staff allocation to value-added tasks. In parallel, AFI KLM E&M increased its use of external partners to cut maintenance costs for the Group's fleets and obtain, in return, additional work in the high-growth Engine and Components segments.

From engineering to maintenance, AFI KLM E&M provides continuous support for the Group's airlines, as well as for an ever-growing number of customers, in defining and deploying new cabin products in both short and medium-haul and across the long-haul offering.

On KLM's A330 fleet, the installation of the new World Business Class cabin was completed in Amsterdam. On the B777-200, an additional four Economy class seats were added to the aircraft.

Within the framework of the Best program, the new B777 cabins were modified over the summer to add more Economy seats and reduce Business class capacity. This Quick Change operation, realized for the fourth time in 2018, again proved to be a real technical success.

Military Product

In mid- 2017, AFI KLM E&M saw the renewal of the Maintenance Contract for the four AWACS belonging to the French Air Force. In addition, AFI KLM E&M will also design and carry out the Cockpit Avionic Renovation for the same fleet.

Component Support: managing a global supply chain

Component Support covers the repair of a broad technological spectrum of aircraft parts, the management of technical and reliability standards and the management of the physical part of flows to/from customers' operating bases. The growth opportunities for this product are located in far-flung markets. AFI KLM E&M's customers are evolving towards service integration, requiring access to a spares pool. The Group is also deploying appropriate support services worldwide, with local logistics facilities, as well as asset management programs.

In 2018, within its global Component network, AFI KLM E&M accelerated the development of a component repair joint-venture in Singapore (SCS), in cooperation with Sabena Technics. This move testifies to the growing importance of the Asian market in the AFI KLM E&M order book.

The success of these offerings is reflected in the loyalty of AFI KLM E&M's customers. In 2018, a number of airline customers renewed their trust by prolonging or expanding their contracts with AFI KLM E&M. For example, LOT Polish Airlines, which has launched a component support service for the B787 and had signed a 737NG + MAX agreement back in 2017, has since extended the existing agreement to additional aircraft. In addition, Air Asia via Air Asia X also expanded its relationship with the signature of a contract for A330 support. 2018 enabled AFI KLM E&M to confirm its leadership position in the Chinese new generation wide body market segment with China Eastern's B787 and A350 aircraft, and the Juneyao 787 contract. Other next-generation aircraft contracts were also signed, e.g. on Norwegian's B737 MAX. Lastly, concerning APU maintenance via Air France-KLM subsidiary EPCOR, a number of long-term agreements were signed with Norwegian, Vietnam and LOT.

Engines: ramp-up in capability with the LEAP engines equipping the A320neo and B737 MAX

In 2018, AFI KLM E&M added the LEAP engine to its product portfolio. The LEAP is the engine equipping the A320neo and 737 MAX aircraft and will be one of the main engines for the fast-growing narrow-body fleets.

2018 also saw an expansion in the Engine Maintenance customer portfolio. Amongst the newly-signed contracts were Vietnam Airlines and Air Tahiti Nui for support on the GEnx, the expansion of GE90 support for Air China and several CFM56-7b and -5b support contracts. Another important development was the addition of two aircraft leasing companies as AFI KLM E&M engine support customers.

The Group offers engine support on the following engines:

- **CFM56**: the Group's workshops support one of the world's largest fleets of CFM56 engines, handling some 400 engines operated by various airlines. AFI KLM E&M is using its Amsterdam engine shop to position itself on the growing need for CFM56-7B support and the Orly engine shop for the CFM56-5 support requirements (-5A, -5B and -5C);
- **CF6-80**: by offering full-service maintenance at its Amsterdam engine shop, AFI KLM E&M is well positioned to support the CF6-80E1 equipping the A330s and the final phase in the life of the CF6- 80C2. AFI KLM E&M's long maintenance track record with these engines means that it currently offers the most suitable maintenance solutions. The progressive retirement from the fleet of the Group's B747-400 aircraft gives AFI KLM E&M access to recycled spare parts and enables the remaining potential of these engines to be used to support its customers' CF6- 80C2 fleets;
- **GE90**: on the strength of its state-of-the-art infrastructure, AFI KLM E&M offers the main alternative to the engine manufacturer for overhauls to this engine. Since 2012, AFI KLM E&M has had a new engine test cell at Paris-CDG. This test facility can test 300 engines per year, reducing processing time and offering a more cost-effective service for customers. This test facility, combined with significant expertise and proven experience, has attracted the interest of a growing number of airlines including LATAM, Philippines Airlines and Vietnam Airlines. AFI KLM E&M has signed major new long-term contracts with Aeroflot and Air China.

  In addition to its infrastructure, AFI KLM E&M is building its know-how and can offer customers the benefit of its GE90 operating experience with, for example, On-Site/On-Wing Support enabling remedial as well as preventive actions anywhere in the world. This support can be accompanied by GE90 Engine Monitoring, designed to detect technical problems upstream thereby limiting potential engine damage.
- **GP7200**: as of 2013, AFI KLM E&M implemented an investment program and staff training as part of the GP7200 maintenance program. The Group can also rely on its CRMA subsidiary in this respect since it is very well placed on this engine having been approved as a Primary Repair Source by the manufacturer, Engine Alliance. CRMA has become the world leader in the repair of engine combustion chambers and Turbine Center Frames (TCF), with cutting edge technologies;
- **GEnx**: In 2014, Air France-KLM chose the GE engine to equip its B787 fleet. In parallel, AFI KLM E&M became a member of the GEnx-1B repair network. The ramp-up of this capacity was realized in less than six months, making AFI KLM E&M the first non-OEM supplier to carry out, as of 2015, Quick Turn checks on this engine. In 2017, the AFI KLM E&M Zephyr test cell successfully passed the GEnx correlation test, enabling AFI KLM E&M to also perform engine test runs for its ten GEnx airline customers;
- **LEAP**: AFI KLM E&M is the first MRO able to offer a full portfolio of services for the engine powering the new B737MAX and A320neo fleets. AFI KLM E&M launched this new product in the spring of 2018 after obtaining approvals from the EASA and the Federal Aviation Administration (FAA) for engine line maintenance (on-wing and on-site) for the LEAP-1A and LEAP-1B engines. The industrialization program continues to be ramped up and, thanks to bilateral agreements between the EASA and the FAA, AFI KLM E&M will receive approval from the US authorities in the coming weeks and will thus be able to extend its service coverage to B737 MAX engines worldwide. In parallel, the Group is pursuing its development programs that will enable it to offer the same array of all-round services for the LEAP-1A engines equipping the A320neo.

AFI KLM E&M: an international network tailored to local requirements

AFI KLM E&M is pursuing its growth strategy on profitable markets and segments by deploying its network of subsidiaries (EPCOR, CRMA, KLM UK Engineering, Barfield, AMG, AFI KLM E&M Components China, Bonus Tech) and partnerships (ATI, SHS Technics, Spairliners, Max MRO Services, AAF Spares, iGO Solutions, Airfoils Advanced Solutions and Singapore Component Solutions), and leveraging the power of its global logistics network. The development of this MRO network guarantees AFI KLM E&M customers local access to the Group's full array of services, tailored solutions and local spare parts inventories. Similarly relations with suppliers are regularly re-evaluated.

AFI KLM E&M subsidiaries and joint-ventures

Engines

Located in the Greater Paris area, CRMA specializes in repairs to engine parts and, in particular; combustion chambers. Its positioning on the next-generation GE90 and GP7200 products has enabled CRMA to pursue the strong growth in its third-party customer activity. In 2016, CRMA launched Apollo, a vast project to expand its production capacity in response to its expanding activities and growing customer demand. The project involves adding an additional 2,500m² production area and investing heavily in new, state-of-the-art, engineering equipment. The project also includes a "flow optimization" component, again designed to improve the quality and Turn Around Time of its operations.

In 2018, significant progress was made in the joint-venture between Safran Aircraft Engines and Air France Industries KLM Engineering & Maintenance concerning the creation of a joint company, Airfoils Advanced Solutions, dedicated to the repair of aircraft engine compressor airfoils. Airfoils Advanced Solutions will repair high-pressure compressor blades and variable stator vanes, focusing on the CFM International CFM56 engines powering the A320 and B737, GE's GE90 engines powering the B777, and the Engine Alliance GP7200 for the A380.

AFI KLM E&M has optimized its US engine tear-down unit by forging a partnership with Bonus Tech. Since 2013, this joint-venture has operated as part of the MRO global network. Based in Miami, the partnership combines the know-how and the skills of Bonus Tech as a major player in the global engine tear-down market, with the industrial assets of AFI KLM E&M in the US: equipment, tooling and support.

Components

Barfield, an AFI KLM E&M subsidiary, is an FAA and EASA Certified Repair Station offering maintenance services to major passenger, cargo and regional airlines, serving mainly North, South and Central America, together with the Caribbean. Barfield has 450 employees based at its US sites: Miami, Atlanta, Phoenix and Louisville.

AAF Spares, a joint-venture with AvTrade, is specialized in the management of spare parts, enabling customer airlines to benefit from the know-how of the two entities in the management and optimization of their spares inventories.

Shanghai-based **AFI KLM E&M Components China** is a 100%-owned subsidiary initially specializing in A320 and 737 avionics systems.

EPCOR, based at Amsterdam-Schiphol, provides state-of-the-art services in Auxiliary Power Unit (APU) maintenance.

Located in India (Mumbai), **Max MRO Services Pvt. Ltd** is a market-leading component MRO.

In 2018, **Singapore Component Solutions**, the component repair joint-venture with Sabena Technics in Singapore, became one of the very first multi-product and multi-fleet MROs to set up a component aircraft repair shop at the Asian hub.

Hamburg-based **Spairliners** is a joint-venture set up by Air France and Lufthansa Technik to provide end-to-end component support for airlines operating the A380 and Embraer E-Jets.

Located in Dubai, the **AMES** maintenance center (a joint-venture with Safran Nacelles) handles engine nacelle repair and overhaul in the Middle East.

Airframe maintenance

In Morocco, **Aerotechnic Industries** (ATI) is a joint-venture between Royal Air Maroc (RAM) and Air France. Based at Casablanca airport, ATI operates three maintenance bays for heavy maintenance on medium-haul A320 and B737 aircraft.

At Norwich International Airport in the United Kingdom, **KLM UK Engineering Limited** delivers maintenance services for narrow-body and regional aircraft, together with an aircraft disassembly service.

Based at Dakar in Senegal, the **SHS Technics** joint-venture enables AFI KLM E&M to offer in line maintenance services to international airlines at Leopold Sedar Senghor airport.

Launched in 2016, the **iGO Solutions** joint-venture provides light maintenance services for AFI KLM E&M customers at Paris-Orly airport.

Corporate Social Responsibility as a lever in achieving sustainable levels of performance

As a major contributor to the Group's Sustainable Development goals, AFI KLM E&M has made the Corporate Social Responsibility dimension (CSR) an integral part of its management systems. Every process and project is thus enriched by listening to stakeholders, technological and other forms of innovation, an ergonomic work station program and a circular economy approach aimed at reducing the business's environmental footprint and gaining economic efficiency. AFI KLM E&M thus leverages this sustainable performance lever to the benefit of its customers and other stakeholders.

The MRO Lab ensuring the efficiency of the offer

Within the framework of The MRO Lab program, AFI KLM E&M is developing the tools to become a key player in industry innovation: building relationships with start-up incubators, partnerships with universities, participative innovation, etc. With its Participatory Innovation and FAB LAB programs supported by the creativity of its employees, AFI KLM E&M generates significant savings.

In 2018, this momentum enabled the emergence of more than 4,000 "DPI" participatory innovation ideas. At least 2,700 were selected, of which some have already been implemented. Employee events are organized to showcase employee achievements on the theme of innovation. Bringing together several hundred employees, these events enable them to share their ideas and envisage the benefits of new technologies for their own working environment. Similarly relations with suppliers are regularly re-evaluated.

The circular economy contributing to high standards of environmental and financial performance

Since 2013, as a member of the French Aviation Industry's Strategic Committee on the Circular Economy, Air France Industries has contributed to the establishment of the industry roadmap which was submitted to the French government in May 2015.

AFI KLM E&M is constantly seeking to factor the circular economy into its practices, for example within the framework of the REVERSE project devoted to cost optimization via the reuse of materials, recovery by tear down and the recycling of waste materials.

A material recycling procedure has been developed and, since 2016, has been permanently applicable in the Engines and Materials & Services businesses. The materials recovered will thus have five possible destinations: reuse, disassembly, sale in the surplus parts market, dismantling and reprocessing for sale within the framework of an Air France product line (non-aeronautic only) and the reprocessing of waste from reject materials not recovered by one of the previous measures.

This process has thus been applied for the handling of seats at the end of their useful lives in the Economy, Business and *La Première* classes. It enriches the Scrap program on the repair of aircraft and engine parts and has a significant environmental impact by, for example, reducing mineral extraction (titanium, nickel, etc.) for component manufacturing. It also generates savings by up-cycling products and giving them a new lease of life.

Apprenticeship to ensure the perpetuation of know-how

Within the framework of its apprenticeship policy, Air France Industries offers diverse paths to apprentices in accordance with their aspirations and training needs.

By passing on their know-how, the apprentice masters enable young people to acquire valuable experience that can increase their employability.

As part of its Corporate Social Responsibility approach, Air France Industries also welcomes "School of the Second Chance" (*École de la deuxième chance*) interns who have dropped out of formal education with no qualifications and are seeking a professional direction.

An Integrated Management System to ensure responsible performance.

To provide its clients with high-quality products and services, AFI KLM E&M has embarked on a program to monitor its operational processes aimed at a continuous improvement in its performance, effective compliance and the prevention of risks.

In June 2016, within the framework of the Single & Global Certification, Air France commissioned an audit, by Bureau Veritas Certification, of the ISO 14001 (Environment), ISO 22000 (Food Hygiene) and OHSAS 18001 (Occupational Health and Safety) standards across all its activities. For its maintenance activities, this audit was supplemented by the following standards: ISO 9001 (Quality), EN – Aircraft maintenance 9100 (Design), 9110 (Realization), 9120 (Storage) and ISO 15489 (Documentation).

Key figures

	2018	2017	Change	Change at constant currency
Total revenues *(€m)*	**4,349**	4,155	+4.7%	
Third-party revenues *(€m)*	**1,920**	1,801	+6.6%	11.0%
Income from current operations *(€m)*	**195**	252	-57	-42
Operating margin *(%)*	**4.5%**	6.1%	-1.6 pt	-1.4 pt

Aeronautics maintenance is the Air France-KLM Group's third business with third-party revenues of €1.9 billion in 2018, up by 6.6%. Revenues benefited from new Components and Engine contracts signed during the 2018 financial year. These revenues generated with third-party customers represent a little over 44% of the total revenues from this business.

The operating result stood at €195 million, down by €57 million, reflecting an operating margin of 4.5%.

In 2018, the AFI KLM E&M order book posted an increase of 5.7% to US$11.4 billion.

1.3.4 Fleet: maintaining a pro-active strategy of modernization and renewal

At December 31, 2018, the total Air France-KLM Group fleet, including non-operational aircraft, comprised 548 aircraft compared with 545 at December 31, 2017.

The main operational fleet consisted of 416 aircraft (412 aircraft at December 31, 2017), of which 172 were long-haul aircraft (170 at December 31, 2017), six were cargo aircraft (six aircraft at December 31, 2017) and 238 were medium-haul aircraft (236 at December 31, 2017) including 73 aircraft in the Transavia Group fleet (68 aircraft at December 31, 2017).

The regional fleet in operation comprised 121 aircraft (125 at December 31, 2017).

At December 31, 2018, the average age of the aircraft in the operational fleet was 11.3 years, of which 11.9 years for the long-haul fleet, 11.6 years for the medium-haul fleet, 15.8 years for the cargo fleet and 9.4 years for the regional fleet. This compared with 10.9 years at December 31, 2017, of which 11.5 years for the long-haul fleet, 11.1 years for the medium-haul fleet, 14.8 years for the cargo fleet and 9.7 years for the regional fleet.

At December 31, 2018, 38.7% of the total Group fleet was fully owned (36.9% at December 31, 2017), 17.0% was under finance lease (19.6% at December 31, 2017), and 44.3% under operating lease (43.5% at December 31, 2017).

Excluding operating leases, there were firm orders outstanding for 49 aircraft at December 31, 2018 after the delivery, in 2018, of 19 aircraft wholly owned by the Group. Options stood at 47 aircraft (47 at December 31, 2017).

Change in the Air France-KLM Group order book (1)	December 31, 2017	Deliveries during the period(2)	New orders	Option conversion	December 31, 2018
Main fleet	56	12	5	-	**49**
Regional fleet	7	7	-	-	**-**
Total	**63**	**19**	**-**	**-**	**49**

(1) Excluding operating leases.
(2) Transfers between the Group's airlines are excluded.

Change in the Air France-KLM Group's option portfolio (1)	December 31, 2017	Exercise during the period	Options cancelled or expired	New options	December 31, 2018
Main fleet	47	-	-	-	**47**
Regional fleet	-	-	-	-	**-**
Total	**47**	**-**	**-**	**-**	**47**

(1) Excluding operating leases.

Fleet management

Air France-KLM pursues a pro-active policy of fleet renewal and modernization, thereby contributing to the improvement in the fleet's energy efficiency and a reduction in its environmental footprint.

In 2018, for Air France in long-haul, the Group thus retired three A340s from its fleet list, replacing them with two new B787-9s. In medium-haul, four old generation A319s were withdrawn. Air France also took delivery of an additional new A320 Sharklet. For HOP!, seven ATR42/72-500s were withdrawn from the fleet and replaced by the first of seven additional new EMB190s while Transavia France took delivery of five B737-800s.

KLM also reinforced its B787-9 fleet with a further three units, making a total of 13 aircraft at the end of 2018.

KLM Cityhopper introduced five new EMB175s and two new EMB190s.

In 2019, Air France will continue to phase out its A340s, replacing them with two B787-9s, and will retire one of its oldest A319s.

2019 will also see the entry into the Air France Group fleet of the first three A350s.

Over the longer term, the modernization of the Air France-KLM fleet will be reflected in the phasing out of KLM's B747-400s and their replacement with B787-10s, and in the ongoing growth of its fleet of A350-900s. For its part, Transavia (France and the Netherlands) will see its fleet adapted to the growth market in the leisure segment.

The Group will continue to invest substantial sums in cabin refurbishment (A330, B777, A380), as well as in the satellite on board connectivity proposition, enabling customers to be offered an in-flight WiFi connection.

Air France-KLM Group fleet at December 31, 2018

Aircraft type	AF (incl. HOP & JOON)	KL (incl. KLC & Martinair)	Transavia France	Transavia NL	Owned	Finance lease	Operating lease	Total
Long-haul	**106**	**66**	**-**	**-**	**69**	**32**	**71**	**172**
B747-400	-	11	-	-	11	-	-	**11**
B777-300	43	14			11	24	22	**57**
B777-200	25	15			24	1	15	**40**
B787-9	7	13	-	-	5	3	12	**20**
A380-800	10	-	-	-	1	4	5	**10**
A340-300	6	-	-	-	6	-	-	**6**
A330-300	-	5	-	-	-	-	5	**5**
A330-200	15	8			11	-	12	**23**
Medium-haul	**115**	**50**	**34**	**40**	**77**	**28**	**134**	**239**
B737-900	-	5	-	-	1	1	3	**5**
B737-800	-	27	34	33	25	10	59	**94**
B737-700	-	18	-	7	4	6	15	**25**
A321	20	-	-	-	11	-	9	**20**
A320	43	-	-	-	3	5	35	**43**
A319	34	-	-	-	19	2	13	**34**
A318	18	-	-	-	14	4	-	**18**
Regional	**82**	**49**	**-**	**-**	**60**	**33**	**38**	**131**
ATR72-600	6	-	-	-	-	-	6	**6**
ATR72-500	1	-	-	-	-	-	1	**1**
ATR42-500	6	-	-	-	2	-	4	**6**
CRJ1000	14	-	-	-	14	-	-	**14**
CRJ700	11	-	-	-	11	-	-	**11**
EMB190	11	32	-	-	7	14	22	**43**
EMB175	-	17	-	-	3	14	-	**17**
EMB170	15	-	-	-	9	1	5	**15**
EMB145	18	-	-	-	14	4	-	**18**
Cargo	**2**	**4**	**-**	**-**	**6**	**-**	**-**	**6**
B747-400BCF	-	1	-	-	1	-	-	**1**
B747-400ERF	-	3	-	-	3	-	-	**3**
B777-F	2	-	-	-	2	-	-	**2**
Total AF-KLM	**305**	**169**	**34**	**40**	**212**	**93**	**243**	**548**

1.3.4.1 The Air France Group fleet

The Air France Group fleet totaled 339 aircraft at December 31, 2018, of which 257 aircraft in the main fleet and 82 in the regional fleet. The average age of the aircraft in the operational fleet was 12.2 years (11.8 years at December 31, 2017). Including the operational leases, firm orders stand at 40 aircraft.

The Air France Group fleet	Fleet at December 31, 2017	Aircraft entering[(1)] the fleet over the period	Aircraft withdrawn[(1)] over the period	Fleet at December 31, 2018
Long-haul fleet	107	6	7	**106**
Medium-haul fleet (including Joon and Transavia France)	147	12	10	**149**
Cargo	2	-	-	**2**
Regional fleet	88	1	7	**82**
Total	**344**	**19**	**24**	**339**

(1) Owned, operating lease and financial lease.

The Air France fleet

The Air France fleet comprised 206 aircraft at December 31, 2018, with 206 in operation (220 and 218 respectively at December 31, 2017). The fleet had 102 long-haul aircraft, 102 medium-haul aircraft and two freighters.

At December 31, 2018, the average age of the operational fleet was 13.1 years, with 12.4 years for the long-haul fleet, 13.8 years for the medium-haul fleet and 9.9 years for the cargo fleet. At December 31, 2017, the average age of the fleet had been 12.6 years, with 12.0 years for the long-haul fleet, 13.2 years for the medium-haul fleet and 8.9 years for the cargo fleet.

Within the fleet, 82 aircraft are fully owned (39.8%), 34 are under finance lease (16.5%) and 90 under operating lease (43.7%).

During the 2018 financial year, the company took delivery of two B787-9s while three A340-300s and four A319-100s were retired. Four A340-300Es, five A321-200s and one A320-200 joined the Joon fleet from Air France in 2018.

The Joon fleet

The Joon fleet is composed of 17 aircraft, transferred from the Air France fleet (seven aircraft at December 31, 2017).

The HOP! regional fleet

At December 31, 2018, the regional fleet comprised 82 aircraft with a maximum seat capacity of 100.

The average age of the fleet in operation is 12.3 years. The fleet is 65.9% wholly owned, 6.1% under finance lease and 28.0% under operating lease.

Pursuant to the modernization and rationalization strategy for the regional fleet, one EMB190 entered the fleet while seven ATR42-500s were retired.

The Transavia France fleet

The Transavia France fleet comprises 34 B737-800s (29 aircraft at December 31, 2017), of which 33 in operation. The average age of the aircraft in the fleet is 6.1 years. Of this fleet, 20.6% is fully owned, 11.8% is under finance lease and 67.6% under operating lease.

1.3.4.2 The KLM Group fleet

The KLM Group fleet totaled 209 aircraft at December 31, 2018, of which 160 in the main fleet and 49 in the regional fleet.

The average age of the aircraft in the operational fleet was 9.7 years (9.5 years at December 31, 2017).

Including the operational leases, firm orders stand at 21 aircraft.

The KLM Group fleet	Fleet at December 31, 2017	Aircraft entering[(1)] the fleet over the period	Aircraft withdrawn[(1)] over the period	Fleet at December 31, 2018
Long-haul fleet	66	3	3	**66**
Medium-haul fleet (including Transavia Netherlands)	89	2	1	**90**
Cargo (including Martinair)	4	-	-	**4**
Regional fleet	42	7	-	**49**
Total	**201**	**12**	**3**	**209**

(1) Owned, operating lease and financing lease.

The KLM fleet

At December 31, 2018, the KLM fleet comprised 116 aircraft (116 at December 31, 2017), all in revenue service, of which 66 long-haul aircraft and 50 medium-haul aircraft. Of this fleet, 43 aircraft were fully owned (37.1%), 18 aircraft were under finance lease (15.5%) and 55 under operating lease (47.4%).

At December 31, 2018, the average age of the aircraft in revenue service was 11.3 years, with 10.6 years for the long-haul fleet and 12.2 years for the medium-haul fleet. At December 31, 2017, the average age of the aircraft in the fleet had been 10.9 years, with 10.7 years for the long-haul fleet and 11.2 years for the medium-haul fleet.

During the 2018 financial year, the long-haul fleet was modernized with the entry of three B787-9s while two B747-400s were retired.

The regional fleet, KLM Cityhopper

The KLM Cityhopper fleet consists of 49 aircraft, all in operation at December 31, 2018. The aircraft in this regional fleet have an average age of 5.2 years. In this fleet, 12.2% of the aircraft are fully owned, 57.1% are under finance lease and 30.6% under operating lease.

During the financial year, five EMB175s and two EMB190s entered the fleet.

The Transavia Netherlands fleet

The Transavia Netherlands fleet consists of 40 aircraft, of which seven B737-700s and 33 B737-800s. In this fleet, 10.0% of the aircraft are under finance lease, 65.0% are under operating lease (including one aircraft belonging to Transavia Company, a subsidiary of the Air France-KLM Group) and 25.0% fully owned. The average age of the aircraft in the fleet is 9.8 years.

During the financial year, two B737-800s joined the fleet while one B737-800 was withdrawn.

The Martinair fleet

Martinair has a fleet of four fully-owned freighters. The average age of the aircraft in this fleet is 18.7 years.

2

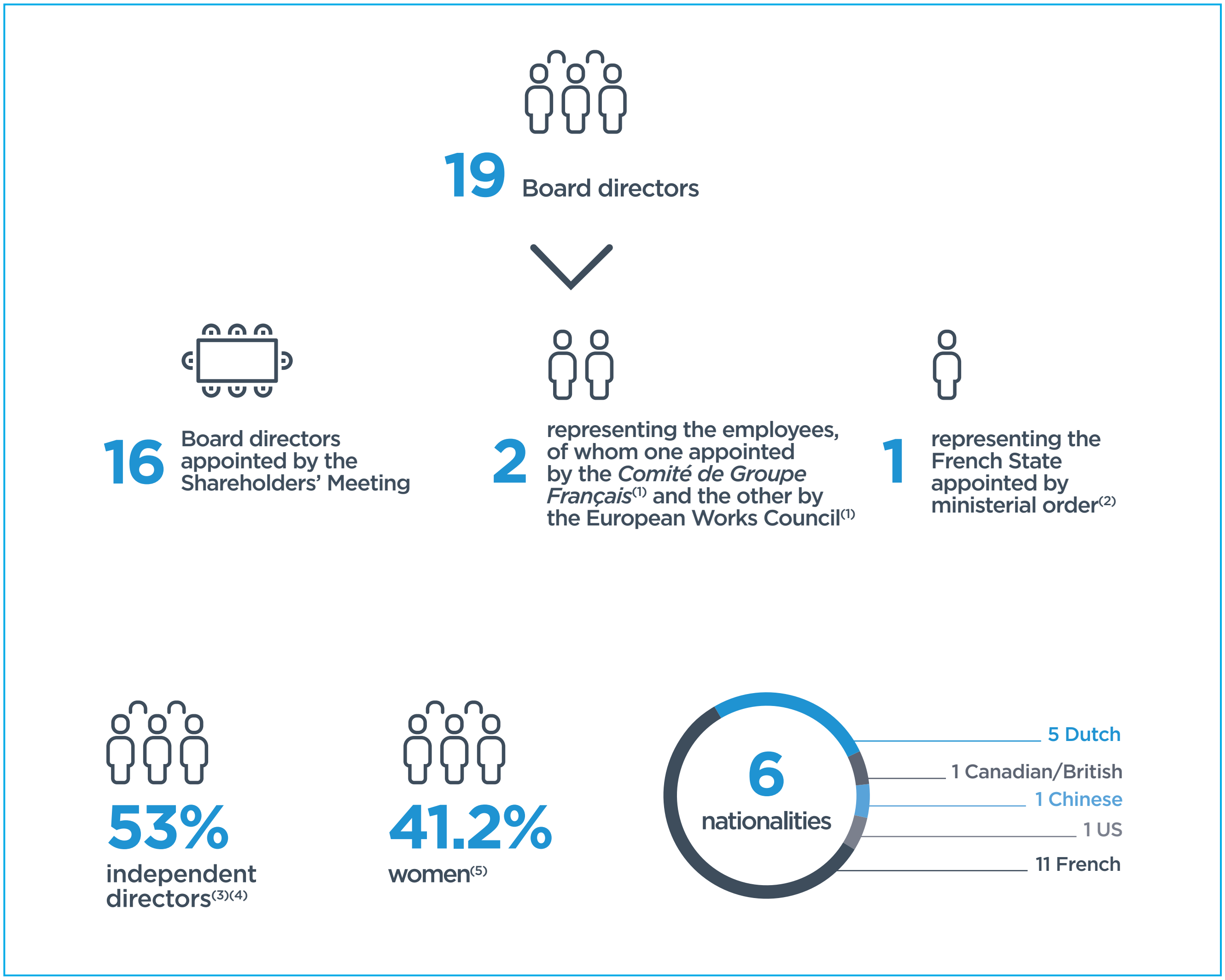
CORPORATE GOVERNANCE REPORT

This chapter constitutes the corporate governance report foreseen in the last paragraph of Article L. 225-37 of the *Code de Commerce* (French Commercial Code) and includes the information referred to in Articles L. 225-37-2 to L. 225-37-5 of the *Code de Commerce*.

Pursuant to the provisions of Article L. 225-37 of the *Code de Commerce*, this report will be presented to shareholders during the forthcoming Annual General Shareholders' Meeting of May 28, 2019.

2.1 COMPOSITION OF THE BOARD OF DIRECTORS

2.1.1 Composition of the Board of Directors at December 31, 2018



(1) Pursuant to the provisions of Article L.225-27-1 of the *Code de Commerce* (French Commercial Code), and Article 17-3 of the Articles of Incorporation.
(2) Pursuant to Article 4 of Ordinance No.2014-948 of August 20, 2014, relating to governance and to transactions involving the share capital of State-owned companies.
(3) Pursuant to the provisions of Article 8.3 of the AFEP-MEDEF Code, the Board directors representing the employee shareholders and the Board directors representing the employees are not taken into account for the calculation of this percentage.
(4) The proportion of independent directors at March 25, 2019 was 47%. This exceptional situation is linked to the acquisition of a shareholding by the Dutch State and is temporary *(see section 2.2.4 Independence of the Board directors)*.
(5) The Board directors representing the employees, appointed pursuant to Article L. 225-27-1 of the *Code de Commerce*, are not taken into account for the parity calculation in line with the provisions of the aforementioned Article.

Changes in the composition of the Board of Directors during the 2018 financial year

	Departure	Appointment	Reappointment
Board of Directors	**Jean-Marc Janaillac** Chairman and Chief Executive Officer May 15, 2018	**Anne-Marie Couderc** (1) Chairman of the Board of Directors May 15, 2018	**Isabelle Parize** May 15, 2018
	Louis Jobard May 15, 2018	**Paul Farges** May 15, 2018	
		Anne-Marie Idrac (2) May 15, 2018	
		François Robardet May 15, 2018	
		Benjamin Smith (3) December 5, 2018	
Audit Committee	**Anne-Marie Couderc** May 15, 2018	**Paul Farges** May 15, 2018	n/a
	n/a	**Isabelle Bouillot** December 5, 2018	
		Delta Air Lines, Inc. represented by George Mattson December 5, 2018	
		Isabelle Parize December 5, 2018	
Appointments and Governance Committee	n/a	n/a	n/a
Remuneration Committee	n/a	**Maryse Aulagnon** December 5, 2018	n/a
		Delta Air Lines, Inc. represented by George Mattson December 5, 2018	
Sustainable Development and Compliance Committee	n/a	**Anne-Marie Idrac** (Chair) December 5, 2018	n/a
		Karim Belabbas December 5, 2018	
		Leni Boeren December 5, 2018	
		Mathi Bouts December 5, 2018	
		Patrick Vieu December 5, 2018	
		Bing Tang December 5, 2018	

(1) Ms. Couderc, a Board director since May 19, 2016, was appointed Chairman of the Board of Directors on May 15, 2018.
(2) The Shareholders' Meeting of May 15, 2018 ratified the co-opting of Ms. Anne-Marie Idrac as an independent director by the Board of Directors during its meeting of November 2, 2017.
(3) Mr. Smith was co-opted as a Board director replacing Jean-Marc Janaillac on December 5, 2018.

Composition of the Board of Directors at December 31, 2018

Board directors	Gender	Nationality	Age	Number of shares held
	Personal information			
Board directors appointed by the Shareholders' Meeting				
Anne-Marie Couderc	Female	French	68	1,000
Benjamin Smith	Male	Canadian and British	47	50,000
Maryse Aulagnon	Female	French	69	1,500
Leni M.T. Boeren	Female	Dutch	55	2,000
Isabelle Bouillot	Female	French	69	230
Delta Air Lines, Inc. (represented by George Mattson)		US		37,527,410
Jaap de Hoop Scheffer (1)	Male	Dutch	70	1,025
Anne-Marie Idrac	Female	French	67	1,000
Isabelle Parize	Female	French	61	300
Hans N.J. Smits	Male	Dutch	68	1,000
Bing Tang	Male	Chinese	51	300
Alexander R. Wynaendts	Male	Dutch	58	1,000
Board directors appointed by the Shareholders' Meeting as proposed by the French State				
Jean-Dominique Comolli	Male	French	70	0
Patrick Vieu	Male	French	54	0
Board directors appointed by the Shareholders' Meeting representing the employee shareholders				
François Robardet	Male	French	61	757
Paul Farges	Male	French	47	816
Board director representing the State appointed by ministerial order				
Solenne Lepage	Female	French	46	0
Board director representing the employees appointed by the *Comité de Groupe Français*				
Karim Belabbas	Male	French	45	0
Board director representing the employees appointed by the European Works Council				
Mathi Bouts	Male	Dutch	59	0

(1) As indicated in the Independence of the Board directors section, upon the report of the Appointments and Governance Committee, during its meeting of March 25, 2019, the Board of Directors considered that, in view of the shareholding in Air France-KLM acquired by the Dutch State on February 26, 2019 *(see Highlights of the beginning of the 2019 financial year)*, Mr. de Hoop Scheffer, a Board director appointed as proposed by the Dutch State, no longer qualified as an Independent director *(see Section 2.2.4, Independence of the Board directors)*.

■ **Independent directors.**

Experience	Status within the Board			Participation in the Committees			
Directorships in listed companies	Date appointed	Expiry of term of office	Board experience	Audit Committee	Remuneration Committee	Appointments and Governance Committee	Sustainable Development and Compliance Committee
2	May 19, 2016	2020 AGM	3 years			X(Chair)	
1	December 5, 2018	2019 AGM	n/a				
2	July 8, 2010	2021 AGM	9 years	X(Chair)	X		
2	May 16, 2017	2021 AGM	2 years	X			X
1	May 16, 2013	2021 AGM	6 years	X	X		
2	October 3, 2017	2021 AGM	2 years	X	X		
1	July 7, 2011	2019 AGM	8 years		X(Chair)		
4	November 2, 2017	2021 AGM	2 years				X(Chair)
3	March 27, 2014	2022 AGM	5 years	X	X		
2	May 19, 2016	2020 AGM	3 years		X		
4	October 3, 2017	2021 AGM	2 years				X
2	May 19, 2016	2020 AGM	3 years			X	
1	December 14, 2010	2019 AGM	9 years		X	X	
1	May 21, 2015	2019 AGM	4 years				X
1	December 6, 2016	2022 AGM	3 years	X	X		
1	May 15, 2018	2022 AGM	1 year	X			
2	March 21, 2013	May 2019	6 years	X			
1	June 1, 2017	2019 AGM	2 years				X
1	October 10, 2017	2019 AGM	2 years				X

2.1.2 Presentation of the Board Directors at December 31, 2018

Board directors appointed by the Shareholders' Meeting

Nationality: French
Age: 68 years

First appointed as a Board director:
May 19, 2016

Expiry of current term of office:
2020 Shareholders' Meeting

Number of shares held in the Company's stock:
1,000 shares

Professional address:
Air France-KLM,
2 rue Robert-Esnault-Pelterie,
75007 Paris

Anne-Marie Couderc

Chairman of the Board of Directors
Independent director
Chair of the Appointments and Governance Committee

Expertise and professional experience

Born February 13, 1950, Anne-Marie Couderc is a graduate in private law and holds a French Professional Lawyer's Certificate (*Certificat d'Aptitude à la Profession d'Avocat*). Ms. Couderc began her career in 1972 as a lawyer with the Paris Bar. She then became Chief Legal Officer in Hachette's industrial division between 1979 and 1982, before fulfilling different management functions within the Lagardère Group from 1982 to 1995 In parallel, Anne-Marie Couderc has pursued a political career: having been elected to the Paris Council in 1983 she successively served as Advisor then Deputy to the Mayor of Paris between 1989 and 2001. Having been elected a Deputy of the French National Assembly in 1993, she subsequently joined the government in 1995 where she was appointed Secretary of State to the Prime Minister, responsible for Employment, then Minister for Employment and Social Affairs, responsible for Employment, until 1997.
In 1997, she was named Chief Executive Officer of Hachette Filipacchi Associés followed, from 2006 to 2010, by Secretary-General of Lagardère Active (press and audiovisual). From 2011 to 2017, she was Chair of Presstalis Group (press distribution). Since June 30, 2017 Ms. Couderc has been a company director.
Ms. Couderc has been Chairman of the Air France-KLM Board of Directors since May 15, 2018.

Other directorships and offices

French companies

- Chair of the Société Air France (G) Board of Directors since 2018;
- Director and President of the Remuneration Committee of Ramsay Générale de Santé since 2014;
- Director of Transdev since 2012 and Chair of the Audit Committee of Transdev SA since 2017;
- Director and Chair of the Remuneration and Nomination Committees of Plastic Omnium[1] since 2010;
- Member of the Supervisory Board of Ayming since December 2014;
- Director of two foundations: Veolia and ELLE;
- Member of the ESEC Council since November 2015.

Directorships and offices held in the last five years and having expired

French company

- Member of the MEDEF Executive Committee until 2018;
- President of Presstalis Group, until June 2017;
- Director and Chairman of the Board of Directors of Presstalis Group until June 2017.

(G) Company in the Air France-KLM Group.
(1) Listed company.

Nationality: British and Canadian
Age: 47 years

First appointed as a Board director:
December 5, 2018

Expiry of current term of office:
2019 Shareholders' Meeting

Number of shares held in the company's stock:
50,000 shares

Professional address:
Air France-KLM,
2 rue Robert-Esnault-Pelterie,
75007 Paris

Benjamin Smith

Chief Executive Officer
Board director

Expertise and professional experience

Born August 27, 1971, Benjamin Smith is a reputed senior airline industry executive at international level, having spent the past twenty years at Air Canada where he was President Airlines and Chief Operating Officer.
In 1990, in parallel with his studies, he started out as a customer service agent at Air Ontario before taking an entrepreneurial path in 1992 when he set up his own retail corporate travel agency which he ran successfully for eight years. In 1999, he also simultaneously took on a consultancy role for Air Canada before finally joining the Group in 2002.
As of his 2002 arrival, Benjamin Smith fulfilled a number of high-ranking positions at Air Canada including Head of network Planning before joining the executive management team in 2007 as Executive Vice-President and Chief Commercial Officer.
In 2014, he was appointed President Airlines (Air Canada, Rouge, Express, Cargo) and Chief Operating Officer of Air Canada with overall responsibility for commercial affairs, operations and customer relations for the Group. He was also responsible for Air Canada's commercial strategy.
On August 16, 2018, Benjamin Smith was appointed Chief Executive Officer of Air France-KLM. He was appointed a director within the Air France-KLM Board of Directors on December 5, 2018.

Other directorships and offices

French companies

- Director of Société Air France (G) since December 12, 2018.

Other

N/A [1]

Directorships and offices held in the last five years and having expired

N/A

(G) Company in the Air France-KLM Group.
(1) Benjamin Smith is expected to be appointed to the KLM Supervisory Board during the forthcoming KLM Annual General Shareholders' Meeting in April 2019.

2

Nationality: French
Age: 69 years

First appointed as a Board director:
July 8, 2010

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
1,500 shares

Professional address:
Finestate,
39 rue Washington,
75008 Paris

Maryse Aulagnon

Independent director
Chair of the Audit Committee and member of the Remuneration Committee

Expertise and professional experience

Born April 19, 1949, Maryse Aulagnon, Honorary Master of Petitions at the *Conseil d'État*, is a graduate of the *Institut des Sciences Politiques de Paris* and of the *École Nationale d'Administration* and holds a post-graduate degree (DESS) in Economic Sciences.

Having occupied various positions at the French Embassy in the United States and in a number of Ministerial cabinets (Budget, Industry), Ms. Aulagnon joined the CGE Group (now Alcatel) in 1984 as Director of International Business. She subsequently joined Euris as Chief Executive Officer on its creation in 1987.

Ms. Aulagnon was Chair of Affine Group SA[1] (office real estate), a company she founded in 1990, until December 18, 2018 and is currently focused on developing Finestate (MAB Finance).

Other directorships and offices

French companies

- Lead Director and Chair of the Remuneration Committee of Veolia Environnement[1];
- Member of the BPCE group's (Banques Populaires Caisses d'Epargne) Supervisory Board and Chair of the Appointments and Remuneration Committees.

Within the Affine Group:

- Chair and CEO of MAB-Finances SAS.

Non-French company

Within the Affine Group;

- Director of Holdaffine BV, Netherlands.

Directorships and offices held in the last five years and having expired

French companies

Within the Affine Group:

- Chair of Affine R.E.[1] until December 18, 2018;
- Chair of Promaffine SAS, CEO of ATIT (SC) and of Transaffine SAS, representative of Affine, Mab Finances and Promaffine within the employee representative bodies of the various Affine Group entities until January 1, 2017;
- Member of the Executive Committee of Concerto Development SAS until December 19, 2014;
- President of the Board of GESFIMMO (SA) until May 2017.

Non-French company

Within the Affine Group:

- Chair of the Board of Banimmo[1][2], Belgium, until November 8, 2018.

(1) Listed company.
(2) Banimmo is controlled by Affine (49.5%).

Nationality: Dutch
Age: 55 years

First appointed as a Board director:
May 16, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
2,000 shares

Professional address:
Air France-KLM,
2 rue Robert-Esnault-Pelterie,
75007 Paris

Leni M.T. Boeren

Independent director
Member of the Audit Committee and of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born December 23, 1963, Leni M.T. Boeren holds a Masters degree in Business Management from Erasmus University in Rotterdam (the Netherlands).

Ms. Boeren started her career in the financial sector at Paribas in 1983. She went on to work for Rabobank, where she held various positions through to 1992. She then moved to Robeco as head of the marketing and product management department from 1992 to 1997. She subsequently became a member of the Board of Directors of Amsterdam Exchanges NV followed, in 2000 to 2005, by her appointment as a member of the Executive Committee of Euronext NV, the result of the 2000 merger of the Paris (ParisBourse), Brussels (Brussels Exchanges) and Amsterdam (Amsterdam Exchanges) stock exchanges.

From January 2005 until December 2016, Leni Boeren was successively a member, Vice-Chair and Chair of the Management Board of Robeco Groep NV, an asset management firm. She was also responsible for Robeco's subsidiaries and held several Board positions. She also served as a member and Chair of the Board of DUFAS, the Dutch Fund and Asset Management Association (2009-2016).

Since February 2018, Ms. Boeren has been a member of the Executive Board of Van Lanschot Kempen N.V.(1), (Netherlands). She is Chief Executive Officer of Kempen Capital Management NV (Netherlands), one of Van Lanschot Kempen's core activities.

Other directorships and offices

Non-French companies

- Member of the Board of Directors of FCLTGlobal, USA, since 2019;
- Chair of the Executive Board of Kempen & Co NV (Netherlands) since 2018;
- CEO of Kempen Capital Management NV (Netherlands) since 2018;
- Member of the Van Lanschot Kempen N.V.(1) (Netherlands) Executive Board since 2018;
- Member of the Supervisory Board of Tata Steel Nederland BV, Netherlands, since 2014.

Directorships and offices held in the last five years and having expired

Non-French companies

- Chair of the Supervisory Board of Transtrend BV, Netherlands, until 2019;
- Within the Robeco Group: Chair of the Management Board of Robeco Groep N.V, Chair of the Management Board of Robeco Holding BV, Chairman and CEO of the Management Board of Robeco Institutional Asset Management BV, Chair of the Management Board of Robeco Nederland BV, (Netherlands), Chair of the Board of Directors of Boston Partners Global Advisors Inc., (USA), Director of Harbor Capital Advisors Inc., (USA) Vice-Chair of RobecoSAM AG (Switzerland) until 2016, Chair of the Management Board of Robeco Direct NV (Netherlands), until 2014;
- Member and Chair of the Board of DUFAS, Netherlands, until 2016;
- Member of the Sustainable Asset Management USA Inc. Board of Directors, USA, until 2016;
- Vice-Chair of the Supervisory Board and Chair of the Audit Committee of Tergooiziekenhuizen Blaricum-Hilversum Hospital, Netherlands, until 2014;
- Member of the Supervisory Committee and Remuneration Committee of NV Nuon Energy, Netherlands, until 2014.

(1) Listed company.

Nationality: French
Age: 69 years

First appointed as a Board director:
May 16, 2013

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
230 shares

Professional address:
China Equity Links,
9 avenue de l'Opéra,
75001 Paris

Isabelle Bouillot

Independent director
Member of the Remuneration Committee and the Audit Committee

Expertise and professional experience

Born May 5, 1949, Isabelle Bouillot holds an advanced degree in Public Law and is a graduate of the *Institut des Études Politiques de Paris* and the *École Nationale d'Administration*.

Having occupied various positions in the French Public Administration, including Economic Advisor to the President of the Republic between 1989 and 1991 and Budget Director at the Ministry of Economy and Finance between 1991 and 1995, Ms. Bouillot was Deputy Chief Executive Officer in charge of the financial and banking activities at the *Caisse des Dépôts et Consignations* between 1995 and 2000, then Chair of the Management Board of the Investment Bank of the CDC IXIS Group from 2000 to 2003. Since 2006, Ms. Bouillot has been President of China Equity Links (SAS).

Other directorships and offices

French companies

— President of China Equity Links since 2006;
— President of IB Finance;
— Member of the Gimar & Cie Supervisory Board.

Non-French companies

— Director of Saint Gobain China;
— President of CELPartners Ltd, Hong-Kong;
— Director of Yafei Dendistry Limited (2).

Directorships and offices held in the last five years and having expired

French company

— Director of Saint-Gobain (1), until June 2016.

Non-French companies

— Director of Crystal Orange Hotel Holdings Limited (2), until May 2017;
— Director of JD Holding Inc (2), until December 2016;
— Director of Umicore, Belgium, until May 2015.

(1) Listed company.
(2) Unlisted company registered outside France in which China Equity Links has an equity interest.

Delta Air Lines, Inc.

Board director
Member of the Remuneration Committee and the Audit Committee

Corporation formed under the laws of the State of Delaware having its registered office sis Delta Bld, Atlanta, GA USA 30354.

Nationality: US

First appointed as a Board director:
October 3, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
37,527,410 shares

Professional address:
1030 Delta Boulevard,
Atlanta, GA USA 30354

Other directorships and offices

Non-French companies

N/A

Directorships and offices held during the last five years and having expired

N/A

George N. Mattson

Nationality: US
Age: 52 years

Professional address:
1030 Delta Boulevard,
Atlanta, GA USA 30354

Permanent representative of Delta Air Lines, Inc.

Expertise and professional experience

Born on March 23, 1966, George Mattson is the permanent representative on Air France-KLM's Board of Directors of Delta Air Lines, Inc., a corporation formed under the laws of the State of Delaware having its registered office sis Delta Bld, Atlanta, GA USA 30354.

George Mattson is a retired partner at Goldman Sachs & Co where he had a nineteen-year career. He has extensive experience in M&A, corporate finance and the capital markets. During this period, he also acquired extensive knowledge of the airline sector.

He is now a private investor focused on acquiring and growing industrial companies. George Mattson has been a member of Delta's Board of Directors since 2012, where he chairs the Finance Committee and sits on the Personnel & Compensation and Corporate Governance Committees.

Other directorships and offices

Non-French companies

- Board member of Delta Air Lines, Inc.[(1)], USA;
- Board member of Injection Technologies Inc., Canada;
- Board member of Instant Channel Inc., USA;
- Board member of Tropic Ocean Airways, USA;
- Senior advisor of Comvest, Partners, USA;
- Senior advisor of Star Mountain Capital, USA.

Directorships and offices held during the last five years and having expired

Non-French company

- Chairman of Wilbanks Energy Logistics LLC, USA, until October 2015.

(1) Listed company.

Nationality: Dutch
Age: 70 years

First appointed as a Board director:
July 7, 2011

Expiry of current term of office:
2019 Shareholders' Meeting

Number of shares held in the Company's stock:
1,025 shares

Professional address:
Air France-KLM,
2 rue Robert-Esnault-Pelterie,
75007 Paris

Jaap de Hoop Scheffer

Independent director [(1)]
Chair of the Remuneration Committee

Expertise et professional experience

Born April 3, 1948, Jaap de Hoop Scheffer is a law graduate of Leiden University. Mr. de Hoop Scheffer started his diplomatic career in 1976, subsequently becoming Private Secretary to the Minister of Foreign Affairs (1980-1986). He then became a member of the Dutch Parliament (1986-2002), leader of the Christian Democratic Alliance (CDA) (1997-2001), Dutch Minister of Foreign Affairs (2002-2003) and Secretary General of NATO (2004-2009). Since 2012, Mr. de Hoop Scheffer has taught international politics and diplomacy in the Governance and International Affairs Faculty of Leiden University (Netherlands).

Other directorships and offices

Non-French companies

— Member of the Board of the Center for European Policy Studies, based in Brussels; Belgium;
— Member of the Advisory Board of the Dutch employers' association VNO-NCW, Netherlands;
— Member of the Board of Trustees of "Friends of Europe" based in Brussels, Belgium;
— Co-President of the Security & Defense Agenda, Brussels, Belgium;
— Member of the European Council on Foreign Affairs, based in London, United Kingdom;
— President of the Advisory Council on Foreign Affairs, Netherlands;
— President of the Netherlands Civil Honors Advisory Committee, Netherlands;
— Member of the Trilateral Commission.

Directorships and offices held in the last five years and having expired

Non-French companies

— Chairman of the Supervisory Board of the Rijksmuseum, Netherlands, until October 1, 2017;
— Member of the International Advisory Board of Royal Ten Cate NV, Netherlands, until October 2016;
— Vice-Chairman of the Franco-Dutch Cooperation Council, Netherlands, until 2015.

(1) As indicated in the Independence of the Board directors section, upon the report of the Appointments and Governance Committee, during its meeting of March 25, 2019, the Board of Directors considered that, in view of the acquisition of a shareholding in Air France-KLM by the Dutch State on February 26, 2019 *(see Highlights of the beginning of the 2019 financial year)*, Mr. de Hoop Scheffer, a Board director appointed as proposed by the Dutch State, no longer qualified as an Independent director *(see Section 2.2.4, Independence of the Board directors)*.

Nationality: French
Age: 67 years

First appointed as a Board director:
November 2, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
1,000 shares

Professional address:
Air France-KLM,
2 rue Robert-Esnault-Pelterie,
75007 Paris

Anne-Marie Idrac

Independent director
Chair of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born on July 27, 1951, Anne-Marie Idrac is a graduate of the *Institut d'Études Politiques*, the *École Nationale d'Administration* and the *Institut des Hautes Études de Défense Nationale*. Ms. Idrac has spent most of her career in the fields of the environment, housing, urban development and transport.

She was Chief Executive Officer at the Public Development Agency of Cergy-Pontoise, Director of Land Transportation at the Ministry of Equipment and Transport and subsequently Secretary of State for Transport. She occupied the positions of Chairman and CEO of the RATP (Paris Public Transport Authority) from 2002 to 2006, and Chairman and CEO of the SNCF (French State Railways) from 2006 to 2008. She was a Member of Parliament from 1997 to 2002, and Secretary of State for Foreign Trade from 2008 to 2010. Anne-Marie Idrac is a company director.

Other directorships and offices

French companies

- Board director of Bouygues [1];
- Board director of Saint-Gobain [1];
- Board director of Total [1].

Other

- Board director of the Fondation Robert Schuman.

Directorships and offices held in the last five years and having expired

French companies

- Member of the Supervisory Board of Vallourec [1] until 2015;
- President of the Aéroport de Toulouse-Blagnac Supervisory Board until May 2018.

Non-French Company

- Director of Mediobanca [1], Italy, until 2014.

(1) Listed companies.

Nationality: French
Age: 61 years

First appointed as a Board director:
March 27, 2014

Expiry of current term of office:
2022 Shareholders' Meeting

Number of shares held in the Company's stock:
300 shares

Professional address:
Odys SPRL
31 rue des Aduatiques 1040 Etterbeek Belgium

Isabelle Parize

Independent director
Member of the Remuneration Committee and the Audit Committee

Expertise and professional experience

Born June 16, 1957, Isabelle Parize is a graduate of the *École Supérieure de Commerce de Paris*. Having occupied various positions within Procter & Gamble between 1980 and 1993 including notably that of Marketing Manager, Health and Beauty Care, Ms. Parize joined Henkel Group in 1994. She was Managing Director of Schwarzkopf, Henkel France, from 1994 to 1998, then Senior Vice-President in charge of Europe, the Middle East and Africa and of strategic marketing (based in Germany) from 1998 to 2001. She subsequently became Managing Director of Canal+ Distribution and Chief Executive Officer of CanalSatellite in 2001. She then became President of the Fragrance division at Quest International (2005-07) and Managing Director then Vice-Chair of the company Betclic (2007-11) before joining Nocibé as President of the Managing Board (2011-16). She was Chair and Chief Executive Officer of Douglas Holding AG until October 2017.
Since October 2017, Isabelle Parize has been a company counsel and Board director.

Other directorships and offices

French companies

- Member of the Board of Directors of Robardet[(1)] from June 2018;
- Chair of Delsey HI SAS since November 2018;
- Chair of Delsey SA since January 2019.

Non-French company

- Associate of Odys SPRL, Belgium;
- Board member of DUSH Inc, Delsey Luggage Inc, Delsey Asia Linited, Delsey Hong Kong Ltd and Delsey Korea Holding Ltd.;
- Board director of Pandora[(1)] since January 2019.

Directorships and offices held in the last five years and having expired

French companies

- Nocibé/Douglas Group until January 2016:
  - Chair and Chair of the Managing Board of AI Perfume France,
  - CEO and Chair of the Managing Board of Parfumerie Douglas France,
  - Chair and CEO of Douglas Expansion,
  - Chair of Douglas Passion Beauté Achats DPB-Achats;
- Director of Sofipost SA until April 2014;
- Board member of Auchan Retail International until October 2018.

Non-French companies

- Nocibé/Douglas Group until October 2017:
  - Chair and Chief Executive Officer of Douglas Holding AG, Germany,
  - Member of the Supervisory Board of Douglas Holding AG, Germany,
  - Member of the Managing Board of Douglas GmbH, Parfümerie Douglas GmbH, Douglas Cosmetics GmbH, Kirk Beauty One GmbH, Kirk Beauty Two GmbH, Germany, Parfumerie Douglas Nederland BV, Douglas Investment BV, Netherlands, Parfümerie Douglas Ges mbH, Austria, Douglas Polska Sp.z.o.o, Poland, Douglas Spain SA and Parfumerie Iberia Holding SL, Spain, Parfümerie Douglas Portugal LDA, Portugal,
  - Member of the Supervisory Board of Beiersdorf AG[(1)], Germany until February 2016;
- Nocibé/Douglas Group until January 2016:
  - Chief Executive Officer of Parfumeria Douglas Portugal SA, Portugal,
  - CEO of Parfümerie Douglas GmbH and Douglas Cosmetics GmbH, Germany,
  - CEO of Douglas Monaco, Monaco;
- Board member of Beiersdorf[(1)] until January 2016.

Other

- Board member of the Invest in France Agency until April 2014.

(1) Listed companies.

Nationality: Dutch
Age: 68 years

First appointed as a Board director:
May 19, 2016

Expiry of current term of office:
2020 Shareholders' Meeting

Number of shares held in the Company's stock:
1,000 shares

Professional address:
Janssen de Jong Groep BV,
Science Park Eindhoven
5001 5692 EB,
Son en Breugel, Netherlands

Hans N.J. Smits

Board director
Member of the Remuneration Committee

Expertise and professional experience

Born March 13, 1950, Hans Smits holds a degree in civil engineering from the Technical University of Delft in the Netherlands (1968-1973) and an MBA in business administration from Erasmus University in Rotterdam (1973-1975). Mr. Smits began his career in the Delta Air Lines, Inc. Department of the Dutch Ministry of Transport, Public Works and Water Management where, from 1975 to 1986, he occupied a number of management positions. In 1986, he joined the Ministry of Economic Affairs as Vice Director-General for Services, Small and Medium-Sized businesses and Planning. From 1988 to 1992, he continued his career within the Ministry of Transport, Public Works and Water Management as Director-General for Transport then Secretary-General before being appointed President and Chief Executive Officer of Amsterdam-Schiphol Airport (1992-98). Between 1998 and 2002, he was Vice-Chairman then Chairman of the Rabobank Nederland Board of Directors. In 2003-4, he was a director of Arthur D. Little Benelux then, from 2005 to 2014, he was Chairman and CEO of Havenbedrijf Rotterdam NV ("Port of Rotterdam Authority").
Since 2014, Mr. Smits has been Chairman and Chief Executive Officer of Janssen de Jong Groep.

Other directorships and offices

Non-French company

- Chairman of the KLM N.V. (G) Supervisory Board, Netherlands;
- Member of the Supervisory Board of Odfjell S.E.[1], Norway.

Directorships and offices held in the last five years and having expired

Others

- Chairman and CEO of Havenhedrif Rotterdam NV (Port of Rotterdam Authority), Netherlands, until 2014;
- Chairman of the Supervisory Board of Erasmus University Rotterdam, Netherlands, until May 2018.

(G) Company in the Air France-KLM Group.
(1) Listed company.

Nationality: Chinese
Age: 51 years

First appointed as a Board director:
October 3, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
300 shares

Professional address:
China Eastern Airlines
2550 Hongqiao
International Airport
Shanghai 200335 P.R. China

Bing Tang

Director appointed as proposed by China Eastern Airlines
Member of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born on February 8, 1967, Bing Tang is an engineer by training and graduated from Nanjing University of Aeronautics and Astronautics majoring in electrical technology. He obtained a doctoral degree in national economics from the Graduate School of the Chinese Academy of Social Sciences.

Bing Tang has pursued his career in the civil aviation industry where he served as Executive Vice-President of MTU Maintenance Zhuhai Co., Limited, Chief of Administrative Office of China Southern Air Holding Company and President of Chongqing Airlines Company Limited. He occupied various managerial positions within China Southern until 2009, as well as within Shanghai Airlines where he has been Chairman since January 2012 and with China Eastern Airlines Corporation Limited where he has been a Director of the Board since June 2012. He has also been Vice-President of China Eastern Airlines Corporation Limited since February 2010. He was appointed as a senior executive of China Eastern Air Holding Company in May 2011.

Since December 2016, Mr. Tang has been Vice-President and party member at China Eastern Air Holding Company Limited(1). He has been a non-executive director of TravelSky Technology Ltd(1) since June 2018.

Other directorships and offices

Non-French companies

- Non-executive director of TravelSky Technology Ltd(1), since June 2018;
- Chairman of Shanghai Airlines, China, since January 2012;
- Board member of China Eastern Airlines Corporation Limited, China, since June 2012;
- Vice-President and party member of China Eastern Airlines Corporation Limited(1), China, since February 2010.

Directorships and offices held in the last five years and having expired

N/A

(1) Listed companies.

Nationality: Dutch
Age: 58 years

First appointed as a Board director:
May 19, 2016

Expiry of current term of office:
2020 Shareholders' Meeting

Number of shares held in the Company's stock:
1,000 shares

Professional address:
Aegon NV, Aegonplein 50,
2591 TV La Haye,
Netherlands

Alexander R. Wynaendts

Independent director
Member of the Appointments and Governance Committee

Expertise and professional experience

Born August 1, 1960, Alex Wynaendts holds an electrical engineering degree from the *École Supérieure d'Électricité* (1984) and an economics degree from the *Université Paris-Sorbonne* (1983). He has more than thirty years' experience of insurance and international finance.

Mr. Wynaendts began his career in banking with ABN AMRO in 1984, where he was responsible for commercial and investment banking operations in Amsterdam and London. Between 1992 and 1997, he held various positions with ABN AMRO in London. In 1997 he joined Aegon within the Group Business Development division. He joined Aegon's Executive Board in 2003 and was appointed Aegon's Chief Operating Officer in 2007.

Since April 23, 2008, Mr. Wynaendts has been Chairman and CEO of Aegon NV (1).

Other directorships and offices

Non-French companies

- Member of the Puissance NV Supervisory Board, Netherlands, since 2017;
- Chairman and CEO of Aegon N.V. (1), Netherlands, since 2008.

Others

- Board member of the Geneva Association, Switzerland;
- Chairman of the Supervisory Board of the Rijksmuseum in Amsterdam;
- Member of the Advisory Board of the Vumc Cancer Center in Amsterdam, Netherlands.

Directorships and offices held in the last five years and having expired

Others

- Chairman of the Supervisory Board of the Mauritshuis Museum in The Hague, Netherlands, until 2018;
- Vice-Chairman of the PEIF (Pan-European Insurance Forum) until 2018.

(1) Listed company.

Board directors appointed by the Shareholders' Meeting as proposed by the French State

Pursuant to Article 6 of French Ordinance No. 2014-948 of August 20, 2014 concerning governance and transactions involving the share capital of public sector companies and in that the French State has a direct holding of between 10% and 50% in the Air France-KLM share capital, one or several seats are reserved within the Board of Directors for members potentially proposed by the French State.

Nationality: French
Age: 70 years

First appointed as a Board director: December 14, 2010

Expiry of current term of office: 2019 Shareholders' Meeting

Professional address: Air France-KLM, 2 rue Robert-Esnault-Pelterie, 75007 Paris

Jean-Dominique Comolli

Board director appointed by the Shareholders' Meeting as proposed by the French State
Member of the Appointments and Governance Committee and of the Remuneration Committee

Expertise and professional experience

Born April 25, 1948, Jean-Dominique Comolli is a graduate of the *Institut des Sciences Politiques de Paris* and of the *École Nationale d'Administration* and holds a Masters degree in Economic Sciences.

Mr. Comolli began his career in 1977 as a civil administrator before becoming a technical advisor at the French Ministry of Budget under Laurent Fabius, then a member of Prime Minister Pierre Mauroy's and Laurent Fabius' staff. He then became Chief of Staff at the French Budget Ministry under Michel Charasse, before being appointed Director of Customs in 1989. Between 1993 and 2010, he was Chairman and Chief Executive Officer of Seita Vice-Chairman of Altadis until 2005 and Chairman of the Board of Altadis between 2005 and 2010.

In September 2010, Mr. Comolli was appointed Commissioner for State Holdings, a position he was to occupy until October 2012.

Mr. Comolli is currently an Honorary Civil Service Administrator.

Other directorships and offices

N/A

Directorships and offices held in the last five years and having expired

French company and public institution

- Director of the *Établissement Public de l'Opéra Comique* until December 2014;
- Director of France Télévisions, representing the French State.

Nationality: French
Age: 54 years

First appointed as a Board director:
May 21, 2015

Expiry of current term of office:
2019 Shareholders' Meeting

Professional address:
Conseil Général
de l'Environnement
et du développement
durable – 92055
Paris-La Défense Cedex

Patrick Vieu

Board director appointed by the Shareholders' Meeting as proposed by the French State
Member of the Sustainable Development and Compliance Committee

Expertise et professional experience

Born December 2, 1964, Patrick Vieu holds a history degree and a doctorate in philosophy, having graduated from the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.

Mr. Vieu began his career in 1993 at the French Transport Ministry where he occupied, notably, the functions of Deputy Director of Motorway and Infrastructure Concessions (1999-2004). He served as Director of Rail and Public Transport (2005-2008) then Director of Transport Services (2008-2011) at the Ministry of Ecology, Sustainable Development, Transport and Housing. In summer 2011, he became Project Director reporting to the Vice-President of the General Council for the Environment and Sustainable Development before being appointed Environment and Territories Advisor responsible for advising the French President on transport and sustainability issues in 2012. Since June 2014, Mr. Vieu has been Advisor to the Vice-President of the General Council for the Environment and Sustainable Development.

Other directorships and offices

N/A

Directorships and offices held in the last five years and having expired

N/A

Board directors representing the employee shareholders

Pursuant to Articles L. 225-23 of the *Code de Commerce*, L. 6411-9 of the *Code des Transports* and 17-2 of the Articles of Incorporation, in that the employees of Air France-KLM subsidiaries hold more than 3% of Air France-KLM's share capital, there are two representatives of the employee shareholders within the Board:

- one representative belonging to the flight deck crew category of staff; and
- one representative belonging to the other employee category of staff.

These Board directors representing the employee shareholders are elected by the Shareholders' Meeting having been proposed by the shareholders referred to in Article L. 225-102 of the *Code de Commerce*. The employee and former employee shareholders are invited to choose their candidates for each of the two colleges (flight deck crew and other employees), the appointment taking place based on a majority vote in two rounds of balloting. The candidate having obtained the absolute majority of the votes cast in each college, in either the first or second round, is then proposed to the Shareholders' Meeting.

Nationality: French
Age: 47 years

First appointed as a Board director:
May 15, 2018

Expiry of current term of office:
2022 Shareholders' Meeting

Number of shares in the Company's stock:
816 shares

Professional address:
Air France,
45 rue de Paris,
95747 Roissy Charles de Gaulle Cedex

Paul Farges

Board director representing the flight deck crew shareholders
Member of the Audit Committee

Expertise and professional experience

Born on February 9, 1971, Paul Farges holds two qualifications from the *École Nationale d'Aviation Civile*: a degree in Air Traffic Control Engineering and a diploma as an Airline Pilot (ATPL).
He began his career in 1994 as Head of the Aviation Sans Frontière (ASF) mission in Angola before becoming an air traffic controller at the *Centre en Route de la Navigation Aérienne* Nord from March 1995 to June 1998.
In 1999, he joined Air France where he was as a Pilot Officer on the B737 until 2001, then on the B747 from 2001 to 2007. He then became a Flight Captain on the A320 in 2007, before becoming an airline pilot instructor in 2017.
He also holds a Corporate Directors Certificate (Sciences-Po – IFA).

Other directorships and offices

N/A

Other directorships and offices held in the last five years and having expired

- Within the SNPL pilots' union:
  - Vice-President of the Air France section, and Head of International Affairs until October 2017;
  - Elected to the *Comité d'Etablissement*, until March 2015.

Nationality: French
Age: 61 years

First appointed as a Board director:
December 6, 2016

Expiry of current term of office:
2022 Shareholders' Meeting

Number of shares held in the Company's stock:
757 shares

Professional address:
Air France,
6 avenue Maxwell,
31109 Toulouse, Cedex

François Robardet

Board directors representing the current or former Ground Staff and Cabin Crew employee shareholders
Member of the Audit and Remuneration Committees

Expertise and professional experience

Born November 9, 1957, François Robardet is a graduate of the *École Nationale Supérieure des Arts et Métiers*. Mr. Robardet began his career in 1983 as a consulting engineer on management information systems within Compagnie Générale d'Informatique.

In 1993, he joined Air Inter as an IT project manager before moving to Air France in 1997.

Other directorships and offices

French entities

- Titular member (elected) of the Supervisory Board of the Aeropelican employee shareholder FCPE;
- Titular member (elected) of the Supervisory Board of the Horizon Epargne Actions diversified savings fund;
- Manager of SCI Arcole 3.

Other directorships and offices held in the last five years and having expired

N/A

Board director representing the French State appointed by ministerial order

Pursuant to Article 4 of French Ordinance No.2014-948 of August 20, 2014 concerning governance and transactions involving the share capital of public sector companies and Article 2 of the decree-law No.2014-949 of August 20, 2014 applying French Ordinance No.2014-948, in that the French State holds more than 10% of Air France-KLM's share capital, a seat may be reserved for the French State within the Board of Directors. Solenne Lepage was appointed Board director representing the French State by a ministerial order dated May 15, 2015.

Nationality: French
Age: 46 years

First appointed as a Board director:
March 21, 2013

Expiry of current term of office:
May 2019

Professional address:
Agence des Participations de l'État, Ministère de l'Économie et des Finances et de l'Industrie,
139 rue de Bercy,
75572 Paris Cedex 12

Solenne Lepage

Board director representing the French State
Member of the Audit Committee

Expertise and professional experience

Born February 7, 1972, Solenne Lepage holds a degree in philosophy and is a graduate of the *École Nationale des Chartes*, the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.

Having started her career in 2002 within the Ministry of the Economy and Finance as a deputy civil administrator reporting to the heads of various offices (Public Banks, Energy, Chemicals, European Coordination and Strategy), she was from 2006 to 2009 Client Relationship Manager for Large Companies in the banking and insurance sector at HSBC France. In 2009, she became Head of the "EDF and Other Shareholdings" office in the Agency for State Shareholdings.

Appointed Deputy Director, "Transport and Audiovisual" at the Agency for State Shareholdings in October 2012, Ms. Lepage was Director of Transportation Shareholdings at the Agency for State Shareholdings from August 2014 until October 2018. Since October 2018, she has been a Project Manager in the General Management of the Agency for State Shareholdings, reporting to the Commissioner of State Shareholdings.

Other directorships and offices representing the French State

French companies and public institutions

- Member of the Board of ADP Group(1) (ex-Aéroports de Paris) as a representative of the French State;
- Member of the Board of SNCF Mobilités (ex SNCF) as a representative of the French State;
- Member of the Board of Régie Autonome des Transports Parisiens (RATP) as a representative of the French State.

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Member of the Board of Réseau Ferré de France (now SNCF Réseau) until July 2015;
- Member of the Board of France Télévisions until September 2013;
- Member of the Board of Audiovisuel Extérieur de la France until September 2013;
- Member of the Supervisory Board of Aéroports de la Côte d'Azur until May 2013;
- Member of the Supervisory Board of Grand Port maritime du Havre, until March 2013;
- Director of Société de Financement et d'Investissement pour la Réforme et le Développement (SOFIRED) until January 2013.

(1) Listed company.

Board directors representing the employees

Pursuant to Article 17-3 of the Air France-KLM Articles of Incorporation and Article L. 225-27-1 of the *Code de Commerce*, there are two Board directors representing the employees within the Air France-KLM Board of Directors:

- on June 1, 2017, as stipulated in Article L. 2331-1 of the *Code du Travail* (French Employment Code), the *Comité de Groupe Français* appointed Mr. Karim Belabbas, a Support Technician Weight and Balance in the CDG hub Ground Operations, as a Board director, replacing Mr. Antoine Santero, a Board director representing the employees appointed by the *Comité de Groupe Français* on November 5, 2015, whose mandate expired at the end of the Annual General Shareholders' Meeting of May 16, 2017;
- on October 10, 2017, Air France-KLM's European Works Council appointed Mr. Mathi Bouts, a Senior Purser on KLM long-haul flights, as a second Board director representing the employees following the realization, on October 3, 2017, of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc.

Mr. Belabbas and Mr. Bouts were both appointed for two-year terms of office, expiring at the end of the Air France-KLM Annual General Shareholders' Meeting to be held during the year in which their terms of offices expire, i.e. at the end of the 2019 Annual General Shareholders' Meeting.

Nationality: French
Age: 45 years

First appointed as a Board director:
June 1, 2017

Expiry of current term of office:
2019 Shareholders' Meeting

Professional address:
Air France,
45 rue de Paris,
95747 Roissy Charles de Gaulle Cedex

Karim Belabbas

Board director representing the employees
Member of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born July 28, 1973, Karim Belabbas is a graduate of the *École Supérieure des Métiers de l'Aéronautique* in Montpelier (1998). He holds a university degree in aeronautics from Saint-Denis University (2001).
Having been an Air Traffic Operations Coordinator with Aéroport de Paris, Mr. Belabbas joined Air France in November 1999 as an Aircraft Leader.
Since 2005, Karim Belabbas has been a Support Technician Weight and Balance, CDG hub Ground Operations.

Other directorships and offices

N/A

Directorships and offices held in the last five years and having expired

N/A

Nationality: Dutch
Age: 59 years

First appointed as a Board director:
October 10, 2017

Expiry of current term of office:
2019 Shareholders' Meeting

Professional address:
KLM, AMS/AF,
PO Box 7700, 1117 ZL
Schiphol Airport,
Netherlands

Mathi Bouts

Board director representing the employees
Member of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born on June 29, 1959, Mathi Bouts holds a Bachelor in mathematics and philosophy from the Catholic University of Nijmegen (The Netherlands). He joined KLM in 1987 as a steward. He previously occupied the positions of Chairman of KLM's Works Council (where he was, in particular, member of the Financial Economic Committee) and Vice-Chairman of the Air France-KLM European Works Council until 2010. Since 2011, he has been Chair of the Dutch foundation MNO (*Stichting MultiNationale Ondernemingsradenoverleg*), a network of works Councils in multinationals.
Mathi Bouts has been a Senior Purser on KLM long-haul flights since 2017.

Other directorships and offices

Non-French company

— Chairman of the Dutch foundation MNO, Netherlands, since 2011.

Directorships and offices held in the last five years and having expired

Non-French company

— Member of the VNC Council Schiphol-Oost, Netherlands until 2017.

Board directors whose terms of office expired during the 2018 financial year

Nationality: French
Age: 65 years

First appointed as a Board director:
July 4, 2016

Expiry of term of office:
May 15, 2018

Number of shares held in the Company's stock:
1,000 shares

Professional address:
FNEGE
2 avenue Hoche
75008 Paris

Jean-Marc Janaillac

Chairman and Chief Executive Officer until May 15, 2018

Expertise and professional experience

Born April 26, 1953, Mr. Jean-Marc Janaillac is a graduate of the *École des Hautes Études Commerciales de Paris* (HEC) and of the *École Nationale d'Administration* (ENA). He was previously Chairman and Chief Executive Officer of Transdev (2012-16), an international group specialized in terrestrial transportation, President of the Executive Board of RATP Dev (2010-12) and Managing Director, Group Development, for RATP (2004-10). He was also Chairman and CEO of the Maeva tourism group (2000-02) and of the airline AOM (1997-2000). Mr. Janaillac also served as a Board director of Air France from 1989 to 1994.

Mr. Janaillac was Chairman and Chief Executive Officer of Air France-KLM and Chairman of the Société Air France Board of Directors until May 15, 2018.

Since October 2018, he has been a Senior Advisor with the Roland Berger consultancy firm. In December 2018, he was elected Chairman of the French Foundation for Management Education (*Fondation Nationale pour l'Enseignement de la Gestion des Entreprises* – FNEGE).

Other directorships and offices

French companies

— Manager of the *Société Civile Immobilière des Deux frères*;
— Manager of SCI Gabriola.

Non-French company

— Senior Advisor with the Roland Berger consultancy firm since October 2018.

Other

— Chairman of the French Foundation for Management Education (FNEGE) since December 2018.

Directorships and offices held in the last five years and having expired

French companies

— Chairman and Executive Officer of Transdev from 2012 to 2016;
— Chairman of Thello until 2016;
— Chairman of the Société Air France Board of Directors (G) until May 15, 2018;
— Chairman and Chief Executive Officer of Air France-KLM (1) (G) until May 15, 2018.

(G) Companies in the Air France-KLM Group.
(1) Listed company.

Louis Jobard

Board director representing the Flight Deck Crew shareholders, until May 15, 2018
Member of the Audit Committee

Expertise and professional experience

Born August 19, 1959, Louis Jobard holds a degree in Economic Sciences and Business Administration from Tours University (1979). Having been a private pilot instructor and commercial aviation pilot, Mr. Jobard joined Air France in March 1986 as a co-pilot on the B737-200, then on the B747. He became a Flight Captain on the B737-500 in 1995, then on the A310, A340 and A330 until 2007, and on the B747-400 until the withdrawal of this aircraft from the fleet in 2016. Mr. Jobard has since been a B777 Flight Captain.

Nationality: French
Age: 59 years

First appointed as a Board director:
May 20, 2014

Expiry of term of office:
2018 Shareholders' Meeting

Number of shares held in the Company's stock:
43,386 shares and
22,653 FCPE units

Professional address:
Air France,
45 rue de Paris,
95747 Roissy Charles
de Gaulle Cedex

Other directorships and offices

French entities

— Titular member (elected) of the Supervisory Board of the Concorde employee shareholder FCPE;
— Substitute member (elected) of the Supervisory Board of the Horizon Epargne Action FCPE;
— Chairman of the *Association de Prévoyance du Personnel Navigant*.

Directorships and offices held during the last five years and having expired

French company

— Vice-Chairman of the *Association de Prévoyance du Personnel Navigant* until June 2017.

2.2 ORGANIZATION AND FUNCTIONING OF THE BOARD OF DIRECTORS

2.2.1 Functioning of the Board of Directors

Corporate Governance Code

The Board of Directors functions according to the corporate governance principles in force in France as set forth in the AFEP-MEDEF Corporate Governance Code (hereinafter the "AFEP-MEDEF Code"), updated in June 2018 and available on the AFEP (www.afep.com) and MEDEF (www.medef.com) websites.

In application of Article L. 225-37-4, paragraph 8, of the *Code de Commerce* and in line with the recommendations of the AFEP-MEDEF Code, this section identifies in a summary table the AFEP-MEDEF Code recommendations that have not been adopted and explains the reasons for this choice *(see Section 2.4 Summary table of the AFEP-MEDEF's Comply or Explain recommendations not applied)*.

Internal Rules

On June 17, 2004, the Board of Directors adopted a set of Internal Rules based on the corporate governance principles established by the AFEP-MEDEF Code.

In addition to the respective missions and powers of the Chairman of the Board of Directors and the Chief Executive Officer, these Internal Rules specify the modalities for the organization and functioning of the Board, and establish the prerogatives and duties of Board directors as regards the rules on reporting, disclosure, confidentiality and conflicts of interest. They also determine the powers of each of the advisory Committees established within the Board.

The last update to the Internal Rules took place on March 12, 2019. It concerned the missions of the newly-created Sustainable Development and Compliance Committee and the changes to the AFEP-MEDEF Code having taken place in June 2018.

The Internal Rules are available on the website at http://www.airfranceklm.com (Governance section).

2.2.2 Change in governance taking place during 2018: separation of the functions of Chairman of the Board of Directors and Chief Executive Officer

The appointment of Mr. Benjamin Smith as Chief Executive Officer of Air France-KLM on August 16, 2018 terminated a period of transitional governance implemented by the Board of Directors following the consultation of Air France employees on the proposed wage agreement made public on May 4, 2018 and having led to Mr. Jean-Marc Janaillac stepping down as Chairman and Chief Executive Officer of Air France-KLM, effective May 15, 2018. This transition period enabled the finalization of the process to appoint a successor to Mr. Jean-Marc Janaillac.

On the implementation of the transitional governance, during its meeting of May 15, 2018, the Board of Directors decided to separate the functions of Chairman of the Board of Directors and Chief Executive Officer. During this transition period, the separate functions were fulfilled by i) a non-executive Chairmanship of the Board of Directors entrusted to Ms. Anne-Marie Couderc, independent director and Chair of the Appointments and Governance Committee, and ii) a General Management exercised by Mr. Frédéric Gagey, also Chief Financial Officer of the Group, within the framework of a Management Committee (*Comité de Direction Collégiale* – CDC) composed of three members taking collective decisions: Mr. Frédéric Gagey, Mr. Franck Terner, Chief Executive Officer of Air France and Mr. Pieter Elbers, Chief Executive Officer of KLM. The separation of the functions of Chairman of the Board of Directors and Chief Executive Officer thus enabled the Chairman of the Board of Directors, who had retained her duties as Chair of the Appointments and Governance Committee, to focus on the effective functioning of the Board and on the search for candidates for the position of Air France-KLM's Chief Executive Officer. For its part, the General Management organized around the Management Committee was responsible for the effective management of the Group's operational activities.

On August 16, 2018, the Board of Directors confirmed the separation of the functions of Chairman of the Board of Directors and Chief Executive Officer within the framework of the implementation of the long-term governance on the appointment of Mr. Benjamin Smith as the new Chief Executive Officer of Air France-KLM. Mr. Smith took up his duties on September 17, 2018, marking the disbanding of the Management Committee and the resignation of Mr. Frédéric Gagey. The confirmation of the separation of the functions of Chairman and Chief Executive Officer reflects the conclusions of the Board of Directors which considered that this form of governance was the best option for the Company at this stage in its development in that it enables the Company to benefit from a new dynamic with a Chairman of the Board of Directors who is dedicated to governance matters and a Chief Executive Officer, with recognized expertise in the air transport industry, who is focused on the Group's operations. The complementarity of their profiles and roles optimizes the Group's governance and ensures a balanced and respectful division of their respective missions. It also enables the effective coordination of the Board of Directors thanks to the presence of a Chairman who is exclusively devoted to its functioning and guarantees a more effective separation between the control and management functions.

During its meeting of October 29, 2018, the Board of Directors confirmed Ms. Anne-Marie Couderc's ongoing mandate as Chairman of the Board of Directors. Lastly, on December 5, 2018, the Board of Directors co-opted Mr. Benjamin Smith as a Board director of Air France-KLM.

The professional experience and expertise of the members of the Board of Directors is presented in *Sections 2.1.2 Presentation of the Board Directors at December 31, 2018 and 2.2.3 Rules applicable to the appointment and replacement of members of the Board of Directors*.

Powers and missions of the Chairman of the Board of Directors

In her capacity as Chairman, Ms. Anne-Marie Couderc organizes and steers the work of the Board of Directors, ensures the preservation of the corporate interests and oversees the effective functioning of the corporate bodies (Board of Directors, Committees and Shareholders' Meetings) in the respect of the principles of good governance. She also ensures that the Board of Directors devotes the time required to issues of interest to the Group's future and, more specifically, its strategy.

She has no executive responsibility but may represent the Group in its high-level relations, notably with the public authorities, major customers and partners, at both national and international level, in close collaboration with the Chief Executive Officer. She devotes her best efforts to promoting the values and image of the Group in all circumstances. Lastly, the Chief Executive Officer keeps her regularly informed of any significant events and situations relating to the life of the Group and she may ask him for any information relevant to the understanding of the Board and its Committees[1]. Ms. Couderc, an independent Board director, also retains her role as Chair of the Appointments and Governance Committee.

Powers and missions of the Chief Executive Officer

In his capacity as Chief Executive Officer of Air France-KLM, Mr. Smith is invested with the broadest powers to act in the Company's name in all circumstances within the limits of the corporate purpose and subject to those expressly attributed by law to the Shareholders' Meeting and the Board of Directors.

Furthermore, without prejudice to the legal provisions relating to the authorizations that must be granted by the Board of Directors (regulated agreements, securities, agreements and guarantees, divestment of equity interests and real estate, etc.), the Internal Rules require prior approval from the Board for operations by the Company and its Principal Subsidiaries whose amount is equal to or exceeds €150 million as outlined in points (i), (ii) and (iii) of paragraph (d) on the powers and missions of the Board of Directors below.

The Chief Executive Officer of Air France-KLM also chairs both the CEO Committee and the Group Executive Committee *(see sections 2.6 CEO Committee and 2.7 Group Executive Committee)*.

Powers and missions of the Board of Directors

The Board of Directors deliberates on any matters falling within the powers devolved to it by law and those stipulated by the Internal Rules or in application of the AFEP-MEDEF Code.

In particular, prior to any decision or deployment by the Company or principal subsidiary (Air France, KLM, and any other subsidiary, as may be decided by the Board of Directors, hereinafter known as the "Principal Subsidiaries" or individually "Principal Subsidiary"), the Board of Directors:

a) approves the Group's strategic orientations and reviews them as a whole at least once a year;

b) approves the budget including the investment plan;

c) without prejudice to the provisions of paragraph (d) below, approves any significant operations that are liable to affect the Group's strategy or modify its financial structure or scope of activity; the Chief Executive Officer is responsible for determining whether or not an operation is significant in nature;

d) approves the following operations by the Company and its Principal Subsidiaries when their amount is equal to or in excess of €150 million:

   (i) operating lease contracts, investments, the acquisition or sale of any assets including, specifically, the fleet, interests in companies formed or to be formed, participation in the formation of all companies, groups or organizations, subscriptions to all issues of shares, units or bonds,

   (ii) borrowings, issues of bonds and aircraft financing,

   (iii) granting of all exchanges with or without balancing cash adjustments involving the Company's assets, stocks or securities.

e) as recommended by the Appointments and Governance Committee (as provided in Article 8 of the Internal Rules), approves the appointment of the Chairman and Chief Executive Officer or Chief Executive Officer of any of the Principal Subsidiaries; and

f) as recommended by the Remuneration Committee (as provided in Article 9 of the Internal Rules), approves the compensation of the Chairman and Chief Executive Officer or Chief Executive Officer of any of the Principal Subsidiaries.

The Board ensures the proper running of the company and its Principal Subsidiaries, and approves the acquisition or sale of any controlling interests whenever their amount is equal to or in excess of €150 million.

(1) Article 1.2 of the Internal Rules of the Board of Directors.

2.2.3 Rules applicable to the appointment and replacement of members of the Board of Directors

Appointment and re-appointment of members of the Board of Directors

The modalities governing the appointment of Board directors are set forth in Article 17 of the Air France-KLM Articles of Incorporation and in the Internal Rules.

The Board of Directors is thus composed of between three and eighteen members, excluding the Board directors representing the employee shareholders and the Board directors representing the employees. The Air France-KLM Board directors are appointed by the Ordinary General Shareholders' Meeting with the exception of the Board director representing the French State (appointed by ministerial order[(1)]) and the two Board directors representing the employees (appointed, depending on the case, by the *Comité de Groupe Français* or the Air France-KLM European Works Council)[(2)].

As proposed by the Appointments and Governance Committee, the Board of Directors submits for approval by the Shareholders' Meeting the appointment, ratification of the co-opting and re-appointment of the Board directors. The proposals for the appointment, co-opting and re-appointment of Board directors formulated by the Board of Directors comply with the legal and regulatory provisions (including, notably, the rules on parity) and the recommendations formulated by the AFEP-MEDEF Corporate Governance Code (including, notably, the rules on the independence of Board directors)[(3)].

Pursuant to Article 8.2 of the Internal Rules of the Board of Directors referring to the provisions of the agreements signed on October 16, 2003 (Framework Agreement) leading to the business combination between Air France and KLM, the Appointments and Governance Committee submits to the Board of Directors proposals regarding:

a) the appointment as a Board director of the President of the KLM Supervisory Board;

b) the appointment as Board directors of two high-profile individuals residing in the Netherlands chosen after consultation and on the recommendation of the KLM Supervisory Board; and

c) the appointment as a Board director of a high-profile individual residing in the Netherlands, chosen after consultation and on the recommendation of the Dutch State.

Two Board directors are appointed by the Shareholders' Meeting as proposed by the French State, pursuant to Ordinance No.2014-948 of August 20, 2014.

Furthermore, pursuant to Articles L. 225-23 of the *Code de Commerce* (French Commercial Code), L. 6411-9 of the *Code des Transports* (French Transport Code) and 17-2 of the Air France-KLM Articles of Incorporation, two Board directors representing the employee shareholders are appointed by the Shareholders' Meeting as proposed by the employee (and former employee) shareholders referred to in Article L. 225-102 of the *Code de Commerce*:

- one representative belonging to the flight deck crew category of staff; and
- one representative belonging to the other employee category of staff.

The employee and former employee shareholders are invited to select their candidates for each of the two colleges (Flight Deck Crew and Other Employees), the appointment taking place based on a majority vote in two rounds of balloting. The candidate having obtained the absolute majority of the votes cast in each college, in either the first or second round, is then proposed to the Shareholders' Meeting[(4)].

Lastly, in that the Air France-KLM Board of Directors is composed of more than twelve directors, there are two directors representing the employees in the Board of Directors[(5)]. Pursuant to Article 17-3 of the Articles of Incorporation, the first Board director representing the employees is appointed by the *Comité de Groupe Français* as stipulated in Article L. 2331-1 of the *Code de Travail* (French Employment Code) while the second is appointed by the European Works Council of Air France-KLM. Each Board director representing the employees is appointed for a two-year term of office, expiring at the end of the Annual General Shareholders' Meeting taking place during the year in which their mandates expire[(6)].

Pursuant to the corporate governance principles as stipulated by the AFEP-MEDEF Corporate Governance Code, the duration of Board directors' terms of office is four years[(7)] and the expiration dates for these terms of office are staggered to facilitate the smooth renewal of the Board of Directors.

Furthermore, every Board director[(8)] must own at least ten shares for the duration of their term of office (Article 19 of the Air France-KLM Articles of Incorporation).

(1) Pursuant to Article 4 of Ordinance No. 2014-948 of August 20, 2014 relating to governance and to transactions involving the share capital of State-owned companies and Article 2 of decree No.2014-949 of August 20, 2014, in application of Ordinance No. 2014-948.
(2) Board directors appointed pursuant to Article L. 225-27-1 of the *Code de Commerce*, in accordance with the modalities foreseen by Article 17-3 of Air France-KLM's Articles of Incorporation.
(3) Article 8.3 of the AFEP-MEDEF Code notably provides that half the members of the Board of Directors must be independent directors *(see Section 2.2.4 Independence of the Board directors)*.
(4) The mandates of the two Board directors representing the employee shareholders will expire at the end of the Shareholders' Meeting approving the financial statements for the financial year ending December 31, 2021. The process to select new candidates, whose appointment will be submitted to the Shareholders' Meeting approving the financial statements for the financial year ending December 31, 2021, will be launched in January 2022.
(5) The Board of Directors includes two directors representing the employees pursuant to Article L. 225-27-1 of the *Code de Commerce*, the number of directors representing the employees being increased to two when the number of directors referred to Articles L. 225-17 and L. 225-18 of the *Code de Commerce* is more than twelve.
(6) On June 1, 2017, Mr. Karim Belabbas, a Support Technician Weight and Balance, CDG hub Ground Operations, was appointed by the *Comité de Groupe Français* while, on October 10, 2017, Mr. Mathi Bouts, a Senior Purser on KLM long-haul flights, was appointed by Air France-KLM's European Works Council as a second Board director representing the employees. Their mandates will expire at the end of the Shareholders' Meeting on May 28, 2019.
(7) With the exception of the Board directors representing the employees whose term of office is two years pursuant to Article 17-3 of the Articles of Incorporation.
(8) With the exception of the Board directors representing the employees and Board directors representing the employee shareholders (Article L. 225-25 paragraph 3 of the *Code de Commerce*) and the Board directors appointed by the French State or the Shareholders' Meeting as proposed by the State (Articles 5 paragraph 5 and 6 VI of Ordinance No.2014-948 of August 20, 2014).

Diversity policy applicable to members of the Board of Directors

As recommended by the Appointments and Governance Committee, in its meeting of March 12, 2019, the Board of Directors reviewed the criteria of the diversity policy applicable to the composition of the Board of Directors. The criteria and targets of this policy presented below take into account the results of the evaluation of the Board together with the matrix of competencies of the Board directors *(see below)*.

Selection criteria for Board directors

Within the framework of the appointment and re-appointment of Board directors, and to preserve its balanced composition, the Board prioritizes the following selection criteria:

- openness to the world, international professional experience and the diversity of nationalities. Air France-KLM was born from the business combination of two companies with different nationalities having global operations, leading to numerous international challenges;
- general management experience acquired within large French or international companies; the Group numbers more than 80,000 employees divided between three main businesses, Passenger, Cargo and Maintenance, across 116 countries;
- knowledge and practical experience of the transport and airline industries, and of tourism, since these are the areas in which the Group has its main businesses;
- the Board of Directors also ensures that the areas of expertise linked to the Group's strategic priorities are represented amongst its members, particularly in the fields of brand strategy, digital and customer relations, human resources and Corporate Social Responsibility (CSR).

Implementation of the diversity policy

The Board has set itself clear targets for the implementation of this diversity policy:

- maintain a balance between the Company's different stakeholders and the balanced representation of men and women;
- prioritize Board directors with independent mindsets;
- promote adhesion to the Group's fundamental values;
- ensure the availability of the Board directors.

The application of this policy yielded the following results during the recent changes to the composition of the Board of Directors:

Reinforcement of airline industry competencies:

The representatives of two airline companies, Delta Air Lines, Inc. and China Eastern Airlines, both shareholders in the Group, joined the Board. As competitors but also partners of the Group, they contribute practical and international experience that supplements that of the Board members. Mr. Farges and Mr. Bouts were also appointed as, respectively, a Board director representing the airline pilot employee shareholders and a Board director representing the employees. They bring to the Board of Directors their in-house perspective and professional skills obtained within the airline industry, the first being an airline pilot instructor and the second a senior purser on long-haul flights. Lastly, Mr. Smith, the Group's Chief Executive Officer, joined the Board of Directors, contributing his recognized experience of the airline industry, notably as a former director of Air Canada.

A better balance between nationalities and greater openness to the world:

With the arrival in the Board of Mr. Mattson, a US national, as the permanent representative of Delta Air Lines, Inc. and Mr. Tang, a Chinese national, appointed as proposed by China Eastern Airlines, the Board of Directors continues to expand its range of nationalities. These two Board directors bring to the Board in-depth experience of their respective markets. Five Board directors, Ms. Boeren, Mr. Bouts, Mr. Smits, Mr. Wynaendts and Mr. de Hoop Scheffer, hold Dutch nationality within the Board of Directors. Lastly, Mr. Smith, who holds dual Canadian and British nationality, also joined the Board of Directors.

The Board thus numbers six different nationalities and eight non-French Board directors (one Canadian-British director, five Dutch directors, one US director and one Chinese director), i.e. a proportion of 42%.

A balance favorable to the execution of the tasks of each of the Committees:

Based on criteria like gender representation, qualifications and professional experience, and nationality, the Board ensures a balance favorable to the execution of the tasks of each of the Committees.

Balance of competencies within the Board of Directors at December 31, 2018

In view of the matters addressed by the Board of Directors, the following table sets out by Board director the competencies deemed to be key to its effective functioning. During the evaluation of the Board, within the framework of the analysis of the individual Board directors' contributions to the work of the Board, a review of these competencies was the subject of a specific agenda item.

Competencies of the Board of Directors at December 31, 2018

Board director	Current main function	General Management	Transport	Air transport	Gover-nance	Interna-tional	Public Affairs	Finance	HR
Anne-Marie Couderc	Chairman of the Air France-KLM Board Company director	√			√		√		√
Benjamin Smith	Chief Executive Officer of Air France-KLM	√	√	√	√	√			√
Maryse Aulagnon	Chair and CEO of MAB Finances SAS	√			√			√	
Leni M.T. Boeren	Member of the Executive Board of Van Lanschot Kempen N.V. and Chair of the Kempen & Co N.V. Executive Board (Netherlands)	√			√	√	√	√	
Isabelle Bouillot	President of China Equity Links	√			√	√	√	√	
Delta Air Lines, Inc. (represented by George Mattson)	Airline company	√		√		√		√	
Jaap de Hoop Scheffer	Professor, Leyden University (Netherlands)	√			√	√	√		
Anne-Marie Idrac	Company director	√	√	√	√	√	√		
Isabelle Parize	Company counsel and Board director	√			√	√	√	√	
Hans N.J. Smits	Chairman of the Supervisory Board of KLM N.V. (Netherlands)	√			√				
Bing Tang	Vice-President of China Eastern Air Holding Company (China)	√	√	√	√				
Alexander R. Wynaendts	Chairman and CEO of Aegon N.V. (Netherlands)	√			√	√	√	√	
Jean-Dominique Comolli	Honorary Civil Administrator	√			√	√	√	√	
Patrick Vieu	Advisor to the Vice-President of the General Council for the Environment and Sustainable Development		√			√			√
François Robardet	Air France executive		√		√				
Paul Farges	Airline pilot instructor		√		√				
Solenne Lepage	Director of the Transportation Shareholdings Agency for State Shareholdings		√	√	√		√	√	
Karim Belabbas	Weight and Support Technician, CDG Hub Group Operations		√		√				√
Mathi Bouts	Senior Purser on KLM long-haul flights		√		√				√
Total number of Board directors		13	9	5	17	10	9	8	5

2.2.4 Independence of the Board directors

Situation at December 31, 2018

Having examined the situation of each Board director at December 31, 2018 in the light of the criteria stipulated by the AFEP-MEDEF Code, and as proposed by the Appointments and Governance Committee, the Board of Directors adopted the following position:

- eight directors (Ms. Aulagnon, Ms. Boeren, Ms. Bouillot, Ms. Couderc, Mr. de Hoop Scheffer, Ms. Idrac, Ms. Parize and Mr. Wynaendts) may be deemed to be independent in that:
  - none of these eight directors has a direct or indirect relationship with the company, its Group or its management that is such as to color their judgment (aside from the fact that the candidature of some of these individuals had been proposed to the Shareholders' Meeting either by KLM or by the Dutch government [1] pursuant to the agreements signed in October 2003),
  - there are no pre-existing business relationships that are significant in nature between the Group and each of these eight directors,
  - in her capacity as Chairman of the Board of Directors, Ms. Anne-Marie Couderc receives only fixed compensation and no variable compensation in the form of either cash or shares;
- the other Board directors are either representatives of the French State (Ms. Lepage) or directors whose candidature was proposed to the Shareholders' Meeting by the French State (Mr. Comolli and Mr. Vieu) or by Delta Air Lines, Inc. and China Eastern Airlines (Delta Air Lines, Inc. whose permanent representative is Mr. Mattson and Mr. Tang) [2], or representatives of the employee shareholders (Mr. Farges and Mr. Robardet), or representatives of the employees (Mr. Belabbas and Mr. Bouts), or senior executives or company officers of Air France-KLM, Air France and KLM (Mr. Smith and Mr. Smits) and, in this capacity, may not be deemed to be independent;
- in view of the above, and in application of the provision of the AFEP-MEDEF Code wherein directors representing the employee shareholders and directors representing the employees are not included in the calculation of the percentages of independent directors within the Board of Directors and its Committees (paragraphs 8.3 and 14.1 of the AFEP-MEDEF Code), the percentages of independent directors at December 31, 2018 were:
  - 53% of the Board of Directors,
  - 67% of the Audit Committee (chaired by an independent director),
  - 67% of the Appointments and Governance Committee (chaired by an independent director), and
  - 60% of the Remuneration Committee (chaired by an independent director) [3].

The Board considered that all the Board directors had competencies and professional experience that are useful to the company, irrespective of whether they are deemed to be independent in the light of the AFEP-MEDEF criteria.

(1) At December 31, 2018, the Dutch State was not a shareholder in Air France-KLM.
(2) Pursuant to the Memoranda of Understanding signed by these two companies with Air France-KLM on July 27, 2017.
(3) See situation at March 25, 2019, page 75.

Criteria to be evaluated pursuant to paragraphs 8.5 to 8.7 of the AFEP-MEDEF Code	Criterion 1 [1]	Criterion 2 [2]	Criterion 3 [3]	Criterion 4 [4]	Criterion 5 [5]	Criterion 6 [6]	Criterion 7 [7]	Criterion 8 [8]	Independent Board director
Maryse Aulagnon	√	√	√	√	√	√	√	√	Yes
Karim Belabbas	X	√	√	√	√	√	√	√	No
Leni M.T. Boeren	√	√	√	√	√	√	√	√	Yes
Isabelle Bouillot	√	√	√	√	√	√	√	√	Yes
Mathi Bouts	X	√	√	√	√	√	√	√	No
Jean-Dominic Comolli	√	√	√	√	√	√	√	X	No
Anne-Marie Couderc Chairman of the Board of Directors	X [9]	√	√	√	√	√	√	√	Yes
Jaap de Hoop Scheffer	√	√	√	√	√	√	√	√ [10]	Yes
Delta Air Lines, Inc. (represented by George Mattson)	√	√	X	√	√	√	√	X	No
Paul Farges	X	√	√	√	√	√	√	√	No
Anne-Marie Idrac	√	√	√	√	√	√	√	√	Yes
Solenne Lepage	√	√	√	√	√	√	√	X	No
Isabelle Parize	√	√	√	√	√	√	√	√	Yes
François Robardet	X	√	√	√	√	√	√	√	No
Benjamin Smith	X	√	√	√	√	√	√	√	No
Hans N.J. Smits	X	√	√	√	√	√	√	√	No
Bing Tang	√	√	X	√	√	√	√	X	No
Patrick Vieu	√	√	√	√	√	√	√	X	No
Alexander R. Wynaendts	√	√	√	√	√	√	√	√	Yes

(1) Employee or executive officer in the past five years.
(2) Cross directorships.
(3) Significant business relationships.
(4) Family ties.
(5) Statutory Auditors.
(6) Term of office not exceeding 12 years.
(7) Non-executive officer status.
(8) Major shareholder status.
(9) Anne-Marie Couderc, Chairman of the Air France-KLM Board of Directors, is also non-executive Chairman of the Air France Board of Directors.
(10) See situation at March 25, 2019 below.

Situation at March 25, 2019

Note that the situation of Mr. Jaap de Hoop Scheffer, appointed as proposed by the Dutch State[1] in application of the agreements of October 16, 2003 between the Dutch State, Air France and KLM, changed as of February 26, 2019, the date on which the Dutch State became a shareholder in Air France-KLM with 14% of the share capital *(see Highlights of the beginning of the 2019 financial year)*.

On March 25, 2019, having reviewed Mr. Jaap de Hoop Scheffer's situation in the light of the criteria stipulated in the AFEP-MEDEF Code, and as recommended by the Appointments and Governance Committee, the Board of Directors considered that Mr. Jaap de Hoop Scheffer no longer qualified as an independent Board director, in the same capacity as the representatives of the other major shareholders in the company (French State, Delta Air Lines, Inc. and China Eastern Airlines).

At March 25, 2019, the proportion of independent directors was thus 47%, i.e. below the 50% threshold foreseen by the AFEP-MEDEF Code for non-controlled companies. This divergence from the recommendations of the AFEP-MEDEF Code is due to an exceptional situation linked to the entry into the share capital of the Dutch State. This situation is temporary.

(1) Furthermore, in a letter of March 11, 2019, the Dutch State confirmed its recommendation to renew Mr. de Hoop Scheffer's Board director mandate for a four-year term of office.

Training for Board directors

Newly-appointed Board directors are encouraged to meet with the company's principal executives and are offered site visits to increase their understanding of the Group's business environment and activities. On their appointment, they are also sent a dossier including, notably, the Air France-KLM Articles of Incorporation, the Internal Rules, the Registration Document, the latest press releases issued by the company and a reminder of the stock market Compliance Rules.

On appointment and during their terms of office, individual Board directors (including the Board directors representing the employees and the employee shareholders) can benefit from the training that they deem necessary for the exercise of their mandates. This training is proposed and organized by the Company.

This training, which is paid for by the company, is mostly carried out via a program designed by a professional body and is aimed at gaining a better understanding of the functioning of the Board of Directors and their roles as Board directors. Accounting and financing modules are also proposed to enable them to improve their financial know-how. Pursuant to the applicable regulation, during its meeting of December 6, 2017, the Board of Directors decided to terminate the training program in French and English offered to the Directors representing the employees.

2.2.5 Other rules applicable to Board directors

Situation of conflicts of interest

Pursuant to the recommendations of the AFEP-MEDEF Code and Article 11 of the Internal Rules, it is mandatory for all Board directors to report to the Board any conflict of interest, whether actual or potential, owing to the positions they hold in other companies, and must abstain from taking part in the deliberation and voting on the related resolution. Every year, the Company sends the Board directors a questionnaire enabling confirmation that there are no conflicts of interest and the Company to be informed of any potential conflicts.

To the Company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the Board members with regard to the Company and their private interests and other duties. Note however that, as of December 31, 2018, the French State held 14.3% of the Air France-KLM share capital and 50.6% of the share capital of the ADP Group, with which Air France-KLM maintains a significant business relationship.

Furthermore, Delta Air Lines, Inc. and China Eastern Airlines, which each hold 8.8% of the Company's share capital, are major commercial partners of the Group *(see Section 2.8.5 Air France-KLM shareholder structure)*.

Thus, with the exception of the agreements listed below, there are no arrangements or agreements between the main shareholders, customers, suppliers or other parties, in accordance with which a member of the Board of Directors has been selected.

(i) the agreements signed on October 16, 2003 between Air France, KLM and the Dutch government;

(ii) the agreements signed on July 27, 2017 between, firstly, Air France-KLM and Delta Air Lines, Inc. and, secondly, between Air France-KLM and China Eastern Airlines *(see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines)*;

(iii) the Memoranda of Understanding signed on July 27, 2017 between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic laying the foundations for the future combination of the existing joint-ventures between Air France-KLM, Delta Air Lines, Inc. and Alitalia, and between Delta Air Lines, Inc. and Virgin Atlantic, within a single joint-venture *(see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines)*;

(iv) the joint-venture agreement signed on May 15, 2018 between Air France-KLM, Air France, Koninklijke Luchtvaart Maatschappij NV, Delta Air Lines, Inc. and Virgin Atlantic Airways Limited, within a single joint-venture *(see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines)*; and

(v) the Implementation Agreement signed on May 15, 2018 between Air France-KLM, Air France-KLM Finance, Air France, Koninklijke Luchtvaart Maatschappij NV, Delta, Virgin Atlantic, Virgin Atlantic Airways Limited and Sir Richard Branson concerning the realization of the single transatlantic joint-venture *(see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines)*.

As of December 31, 2018, there were no service level contracts binding any member of the Board of Directors to Air France-KLM or to one of its subsidiaries and foreseeing the granting of benefits under the terms of the contract.

With the exception of Delta Air Lines, Inc., (*see the Subscription Agreement signed on July 27, 2017 and outlined in Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines)*, the Board directors have accepted no restrictions concerning the sale of their shareholdings in Air France-KLM subject to respect of the rules relating to the prevention of insider trading and the statutory obligation to own at least ten shares in the Company during their terms of office[(1)].

(1) This obligation to hold at least ten shares in the Company for the duration of their terms of office is not applicable to directors representing the employee shareholders, directors elected by employees and directors representing the employees (Article L. 225-25 paragraph 3 of the *Code de Commerce*), nor to directors appointed by the French State or the Shareholders' Meeting as proposed by the State (Articles 5 paragraph 5 and 6 VI of Ordinance No.2014-948 of August 20, 2014).

Stock market and ethical compliance

The Compliance Rules, adopted by the Board of Directors on March 25, 2004, and as amended on November 17, 2017, remind notably company officers, senior executives of the Company, anyone with close personal ties with the latter and certain employees with access to inside information that they are required to refrain from trading in the company's shares for a minimum of (i) thirty calendar days prior to the publication of the full annual and half-year financial statements and (ii) a minimum of fifteen calendar days prior to the publication of the full quarterly financial statements, the day of their publication being included in these periods. They also reiterate the specific obligations (particularly relating to access to inside information) applying to senior executives, Board directors and anyone with access to inside information relating to Air France-KLM concerning the use of this information and their trading in the shares of Air France-KLM pursuant to the applicable laws and regulations relating to market abuse.

In the past five years, to the Company's knowledge, no Board director has been the subject of a fraud conviction or official public sanction by the statutory or regulatory authorities, associated with a bankruptcy or sequestration of goods, nor has, lastly, been prevented by a court from acting as a member of a management or supervisory body of an issuer or from involvement in managing the business of an issuer. This information is confirmed every year via a questionnaire sent to the Board directors.

2.3 ACTIVITIES AND FUNCTIONING OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

2.3.1 Activities and functioning of the Board of Directors

Board activity during the 2018 financial year

19 meetings
(11 in 2017)

of which **11**
extraordinary
(3 in 2017)

average of
3 hours
per meeting

91%
average attendance
by directors
(90% in 2017)

The minimum number of Board meetings is set at five per year. Prior to Board meetings, a dossier is circulated containing the agenda for the meeting together with any summaries or, where appropriate, full documentation on any issues requiring special analysis and/or prior consideration. The matters raised in meetings are usually the subject of presentations, followed by discussion.

Board meetings are conducted in French; however, individual directors may speak in French, English or Chinese with simultaneous interpretation.

During these meetings, the following matters were notably addressed:

- annual, half-year and quarterly financial statements;
- regular status reports on the Group's activity and financial situation;
- budget including the capex plan;
- financing plan;
- review of the financial, legal, operational, social and environmental risks;
- report on compliance;
- regular information on Air France and KLM activity and developments;
- information on the alliances;
- update on flight safety;
- implementation of the partnerships with, firstly, Delta Air Lines, Inc. and Virgin and, secondly, China Eastern Airlines;
- governance of the Group and notably: implementation of the transitional and long-term governance, independence of the Board directors, evaluation of the Board of Directors, appointment and training of the new Board directors, compensation of the top executives and succession plan for the Company officers;
- creation of the Sustainable Development and Compliance Committee;
- HR situation at Air France.

In June 2018, the Board of Directors held its annual meeting devoted to the Group's strategy, which took the form of a two-day seminar. Furthermore, for the third successive year, a meeting of the members of the Air France-KLM, Air France and KLM Boards of Directors was held to coincide with the Air France-KLM Annual General Shareholders' Meeting in May 2018.

Board director attendance

The attendance rates for individual directors at meetings of the Board of Directors during 2018 are presented below:

Board director	Board meeting attendance
Anne-Marie Couderc Chairman of the Board of Directors and Chair of the Appointments and Governance Committee	100%
Maryse Aulagnon Chair of the Audit Committee	89%
Karim Belabbas	100%
Leni M.T. Boeren	95%
Isabelle Bouillot	100%
Mathi Bouts	95%
Jean-Dominique Comolli	100%
Jaap de Hoop Scheffer Chair of the Remuneration Committee	84%
Delta Air Lines, Inc. (Represented by George Mattson)	100%
Paul Farges	91%
Anne-Marie Idrac	89%
Solenne Lepage	100%
Isabelle Parize	84%
François Robardet	100%
Benjamin Smith	100%
Hans N.J. Smits	68%
Bing Tang	58%
Patrick Vieu	100%
Alexander R. Wynaendts	74%
Jean-Marc Janaillac	100% (1)
Louis Jobard	100% (2)
Average attendance	**91%**

(1) Chairman and Chief Executive Officer of Air France-KLM until May 15, 2018.
(2) Board director representing the flight deck crew employee shareholders until May 15, 2018.

Agreements and commitments referred to in Articles L. 225-38 and L. 225-42-1 of the *Code de Commerce*

Agreements and commitments authorized and signed during the financial year

Transatlantic partnership between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic

On July 27, 2017, the Air France-KLM Board of Directors authorized the signature of agreements aimed at the reinforcement of Air France-KLM's strategic partnerships via, notably, the creation of a single, global transatlantic joint-venture between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic. These agreements also foresaw the consolidation of this commercial alliance through equity links:

— purchase by Air France-KLM from Virgin Group of 31% of the Virgin Atlantic share capital for £220.1 million, subject to obtaining all the required regulatory authorizations. Air France-KLM would also be represented within the Virgin Atlantic Board by three Board directors (i.e. the same number of Board directors as Delta Air Lines, Inc.) and would dispose, in certain conditions, of a put option relating to its shareholding, without a predefined expiry date, linked to the exit of the United Kingdom from the European Union (Brexit), in common with Delta Air Lines, Inc., whose exercise price would be equal to the acquisition price of the Air France-KLM shareholding in Virgin Atlantic, reduced by 10%;

— purchase by Delta Air Lines, Inc. of 10% of Air France-KLM's share capital within the framework of a reserved capital increase.

Following these agreements, pursuant to authorization by the Air France-KLM Combined Ordinary and Extraordinary Shareholders' Meeting of September 4, 2017, on October 3, 2017 Delta Air Lines, Inc, purchased a stake in Air France-KLM for €37.5 million, representing 10% of the share capital on that date and 8.76% of the current share capital, following a reserved capital increase. Since that date, Delta Air Lines, Inc. has had a representative within the Air France-KLM Board of Directors (i.e. Delta Air Lines, Inc. being represented by George Mattson).

Within the framework of the implementation of these agreements and pursuant to the provisions of Article L. 225-38 of the *Code de Commerce*, on March 14, 2018 and May 15, 2018 the Board of Directors authorized the signature of the following agreements:

- a Share Purchase Agreement (or SPA) between Air France-KLM Finance SAS and Virgin Investments Limited, allowing Air France-KLM, through its 100%-owned subsidiary Air France-KLM Finance SAS, to purchase a 31% stake in Virgin Atlantic for £220.1 million. Within this framework, a Disclosure Letter relating to the SPA and compensation from Virgin Investments to Air France-KLM linked to tax liabilities relating to the Virgin Atlantic Group (the "Tax Deed") were also agreed between the parties;
- a Shareholders' Agreement between Air France-KLM Finance, Delta Air Lines, Inc. and Virgin Investments Limited, Virgin Atlantic Limited and Sir Richard Branson organizing the shareholding in Virgin Atlantic;
- a Put and call Option Deed between Air France-KLM Finance, Virgin Investments and Delta Air Lines, Inc. relating to 31% of the Virgin Atlantic share capital;
- a Joint-Venture Agreement aimed at the implementation of a commercial joint-venture between Air France-KLM, Delta Air Lines Inc., Virgin Atlantic Airways Limited, Air France and KLM together with the related bilateral Transition Agreement to be signed with Delta Air Lines, Inc.; and
- an Implementation Agreement between Air France-KLM, Air France-KLM Finance SAS, Société Air France, KLM, Delta Air Lines, Inc., Virgin Atlantic Limited, Virgin Atlantic Airways Limited and Sir Richard Branson, concerning the realization of the transaction.

Since Delta Air Lines, Inc. is a Board director of Air France-KLM and Virgin Atlantic, the aforementioned contracts enter into the application scope for the regulated agreements procedure set forth in Article L. 225-38 of the *Code de Commerce*. Any agreement, directly or through a third party between, notably, the company and one of its Board directors, whether the latter has a direct or indirect interest, is subject to the prior authorization of the Board of Directors. Agreements between the company and another company are also subject to prior authorization by the Board of Directors if one of the Board directors of the company is an owner, an unlimited liability partner, a manager, a Board director, a member of the Supervisory Board or, in general, a director of this other company.

For more information on the July 2017 agreements between Air France-KLM, Delta Air Lines, Inc., and Virgin Atlantic, *see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines* in this Registration Document.

Commitments relating to the severance payment to the benefit of Benjamin Smith, Chief Executive Officer of Air France-KLM

On August 16, 2018, pursuant to the provisions of Article L. 225-42-1 of the *Code de Commerce*, the Air France-KLM Board of Directors authorized the granting of a severance payment to the benefit of Benjamin Smith, Chief Executive Officer of Air France-KLM, in some instances of forced termination and, namely, dismissal, non-renewal of his mandate as Chief Executive Officer or forced resignation.

In accordance with the recommendations of the AFEP-MEDEF Code, the basis of the severance payment is equivalent to two years of his annual fixed and variable compensation (based, as applicable, on the target variable compensation in the event of a termination during the first 24 months).

A coefficient (between 0 and 100% inclusive) will be applied to the basis of the severance payment based on the achieved performance criteria relating to the annual variable component of his compensation over the two last financial years of his mandate (or since his appointment, in the event of termination during the first 24 months). The Board will assess the achievement of these performance criteria.

For more information, please refer to *section 2.5.2 Compensation policy and compensation of the executive officers in 2018* in this Registration Document.

Agreements and commitments authorized and signed in previous financial years

There were no agreements or commitments authorized and signed over the course of previous financial years whose execution continued during the last financial year.

Evaluation of the functioning of the Board of Directors and its Committees

At least once a year, the Board of Directors conducts an evaluation of its functioning and organization, pursuant to Article 9 of the AFEP-MEDEF Code and Article 2 of the Board's Internal Rules. This evaluation is steered by the Appointments and Governance Committee. Every three years, the Board also calls on the services of an external consultant.

Concerning 2018, to evaluate the effective contribution of each Board director to its work, the Board of Directors carried out an auto-evaluation in the form of a questionnaire sent to every Board director, supplemented by individual interviews. These interviews were conducted by an external consultant and supported by a special Interview Guide. The following themes were addressed in the evaluation questionnaire:

- composition, organization, functioning and dynamic of the Board of Directors and its Committees;
- relationship between the Board of Directors and the Executive Management;
- effectiveness of the Board of Directors and its Committees;

- articulation of the work of the Board of Directors with those of the subsidiaries of Air France-KLM;
- main changes and areas requiring improvement.

In addition, the interviews with the individual Board directors covered the following topics:

- analysis of the Board of Directors' priorities for 2019;
- analysis of the individual areas of competence and the skills to be developed within the Board;
- analysis of the obstacles holding back the individual contributions to the work of the Board.

The results of the evaluation were handled under the seal of anonymity and gave rise to a presentation and discussion during the Board of Directors meeting of March 12, 2019.

As a general rule, the Board directors considered that the functioning of the Board had improved since the previous evaluation. The evaluation revealed the following positive points:

- the division of powers between the Chairman of the Board of Directors and the Chief Executive Officer is better adapted to the size and functioning of the Board *(see Section 2.2.2 Change in governance taking place in 2018: separation of the functions of the Chairman of the Board of Directors and the Chief Executive Officer)*;
- quality of the information received by the Board directors;
- induction process and training of the new Board directors;
- secretarial services to the Board, organization, duration and logistics of Board meetings, together with the digital tools (BoardNox) for the sharing of information;
- functioning of the advisory Committees to the Board.

During the 2018 financial year, a series of measures were thus put in place following the 2017 evaluation on the following themes:

- reinforcement of the links and coordination between the three Air France-KLM, Air France and KLM Boards;
- clarification of the respective missions of the Air France-KLM, Air France and KLM Boards and Committees;
- improvement in the induction process for new Board directors;
- reinforcement of cooperation within the Board of Directors;
- reminder of the roles and duties of Board directors, particularly in terms of confidentiality;
- ongoing diversification of the external contributors to Board meetings;
- broadening of the themes addressed by the Board to new operational and business matters;
- earlier preparation of the information circulated to the Board directors and in a more succinct format.

The results of the 2018 evaluation enabled the identification of a number of improvements to be monitored during 2019 and, notably:

- improvement in the format and planning of meetings to ensure a more effective response to the challenges facing the Group which changed during 2018 (duration, agenda items, sending of documentation);
- more information to be provided to the Board directors on competition, employee relations and external benchmarks;
- development of the debates on the various issues and strategic options;
- finalize the work on the succession plan for the key top executives.

2.3.2 Activities and functioning of the Committees

Audit Committee

96%
average attendance of Board directors

5
meetings

67%
independent directors

8
members

average duration
3 hours 10”
per meeting

Composition

At December 31, 2018, the Audit Committee was composed of the following eight members: Maryse Aulagnon (Chair of the Committee), Leni M.T. Boeren, Solenne Lepage, François Robardet, Paul Farges, Isabelle Parize, Isabelle Bouillot and Delta Air Lines, Inc. represented by George Mattson.

Isabelle Parize, Isabelle Bouillot and Delta Air Lines, Inc. represented by George Mattson became members of the Audit Committee on December 5, 2018.

The members of the Audit Committee benefit from financial and accounting competencies enabling them to exercise their functions.

At its meeting of November 9, 2011, the Board of Directors adopted the position whereby, pursuant to the provisions of Article L. 823-19 of the *Code de Commerce*, the Company’s Audit Committee includes at least one independent member with specific finance and accounting skills in the person of Ms. Aulagnon. It deemed that Ms. Aulagnon’s educational background and professional experience fulfill this requirement for specific financial competence, and that she has no relationships with the company, its Group or management that are such as to color her judgment. The seven other Committee members also have financial and/or accounting skills.

The principal executives responsible for accounting, legal affairs, finance, internal control and internal audit of Air France-KLM also attend meetings in an advisory capacity.

The Statutory Auditors attended all the meetings of the Audit Committee. At the request of the Chair of the Committee and pursuant to Article 15.3 of the AFEP-MEDEF Code, they were able to consult with Committee members outside the presence of the Group’s senior executives on the occasion of the review of the annual financial statements.

Missions

The Audit Committee’s principal missions are to review the interim and annual consolidated financial statements to inform the Board of Directors of their content, ensure that they are reliable and exhaustive and that the information they contain, including the forward-looking information provided to shareholders and the market, meets high standards of quality. The Committee also oversees the auditing of the annual financial statements. In particular, the Audit Committee reviews the:

- consolidation scope;
- relevance and consistency of the accounting methods used to draw up the financial statements;
- principal estimates made by the General Management of Air France-KLM;
- principal financial risks with the General Management of Air France-KLM and the material off-balance-sheet commitments;
- comments and recommendations made by the Statutory Auditors and, if applicable, any significant adjustments resulting from audits.

As necessary, the Audit Committee formulates recommendations to guarantee the integrity of the process to establish the financial information.

The Audit Committee monitors the effectiveness of the internal control and risk management procedures and, as necessary, Internal Audit, in terms of the processes relating to the establishment and treatment of the accounting and financial information, with no compromise to its independence. In this capacity, it reviews in particular the program and results of Internal Audit to ensure, notably, that in the event of any malfunctioning the appropriate action plans and follow-up monitoring are implemented. The Committee discusses with the Statutory Auditors and reviews their conclusions on the half-year and annual financial statements. It also pays particular attention to the audit points identified by the Statutory Auditors and ensures compliance with the legal and regulatory requirements for financial and accounting information.

The Audit Committee is responsible for steering the procedure to select the Statutory Auditors. It submits a recommendation to the Board of Directors when their appointment or re-appointment by the Shareholders’ Meeting is envisaged pursuant to Article L. 823-3-1 of the *Code de Commerce*. It proposes the selection procedure to the Board of Directors and, in particular, whether a call to tender is appropriate. It verifies the independence and quality of the Statutory Auditors' work, examines issues relating to their amount of fees for the execution of statutory audit assignments, reviews and approves the fees submitted by each of the Statutory Auditors on an annual basis and ascertains that the joint system of Statutory Auditors is effective.

The Committee also follows the realization by the Statutory Auditors of their assignment and notes the comments and conclusions of the Audit Office Control Board (*Haut Conseil du Commissariat aux Comptes*) following the verification carried out pursuant to Articles L. 821-9 and following of the *Code de Commerce*.

The Committee approves the supply of services other than the certification of the financial statements pursuant to the applicable regulation. It rules on this point having first analyzed the risks of any compromise to the independence of the Statutory Auditors and the safeguarding measures applied by the latter.

The Committee is also responsible for reviewing the Group's overall financial, accounting and fiscal policy and its implementation. It issues an opinion on the Group's significant financial operations.

The Audit Committee has access to the resources required to fulfill its mission and may, notably, be assisted by persons from outside the Company. Lastly, the Committee regularly reports to the Board of Directors on the execution of its missions. It also reports back on events subsequent to the certification of the financial statements, on the manner in which this certification process contributed to the integrity of the financial information and on the role it played in this process.

Activity

Board director	Audit Committee attendance
Maryse Aulagnon Chair of the Audit Committee	100%
Leni M.T. Boeren	80%
Anne-Marie Couderc Chair of the Appointments and Governance Committee	100% (1)
Paul Farges	100% (2)
Louis Jobard	100% (3)
Solenne Lepage	100%
François Robardet	100%
Average attendance	**96%**

(1) For the period from January 1 to May 15, 2018.
(2) For the period from May 15 to December 31, 2018.
(3) For the period from January 1 to May 15, 2018.

During the 2018 financial year, the Audit Committee met five times (as in 2017) with an attendance rate for members of 96% (93% in 2017). The duration of the meetings averaged three hours.

The following matters were notably reviewed by the Audit Committee during the 2018 financial year:

— Review of the financial statements

The Committee reviewed the quarterly, half-year and annual financial statements, and the budget, prior to their presentation to the Board of Directors. It conducted a detailed examination of the Statutory Auditors' summary reports on the half-year and annual financial statements as well as the significant points noted in audits. The main accounting options adopted were the subject of a special quarterly presentation. In 2018, for example, particular attention was paid to the impact of the adoption of the new IFRS 9, IFRS 15 and IFRS 16 accounting standards, the impact of oil price movements and of the strikes, and the redemption of the hybrid debt.

The review of the financial statements by the Audit Committee usually takes place two business days prior to their review by the Board of Directors.

— Review and monitoring of the budget

The Audit Committee reviews the budget prior to its presentation to the Board of Directors and oversees its tracking on a quarterly basis. This year, the Audit Committee examined the major points in the 2019 budget prior to its review of the detailed budget.

— Internal control, risk management and Internal Audit

During each of the Audit Committee meetings, Internal Audit gave a presentation on its quarterly activity report.

The Company applies high standards of financial disclosure and corporate governance, and maintains a rigorous level of internal control across the Group.

The Audit Committee reviewed the summary sheet of the main operational and/or strategic risks on a quarterly basis. The Committee also reviewed the financial risks (fuel and emission quotas, currency exchange rates, financing, etc.).

— Statutory Auditors

The Audit Committee approved the budget for the Statutory Auditors' fees prior to the opening of the financial year together with their final amount as of the closing date. The Committee also addressed the matter of the appointment or re-appointment of the Statutory Auditors within the framework of the duration of their mandates and in application of the new requirement to organize a call to tender on the appointment of a new Statutory Auditor (Article 16 of Regulation (EU) No.537/2014 of April 16, 2014).

— Approval of non-audit services

To execute this mission, the Audit Committee relies on an internal procedure deployed within the Group in 2004 and updated in 2016, pursuant to the provisions of Ordinance No. 2016-315 of March 17, 2016 relating to Statutory Auditors, and which came into force on June 17, 2016. This year, the Audit Committee authorized two agreements with the firms KPMG and Deloitte, covering the implementation of the IFRS 9, 15 and 16 accounting standards during the 2017 financial year for a budget of €975,000, together with a special audit on the application of the new IFRS accounting standards at the end of the first quarter 2018 for €640,000.

As foreseen by its annual work schedule, the Audit Committee also reviewed the following matters in 2018:

- tracking of the cash and financing situation;
- review of the financing and capex plan;
- review of the principal litigation, fiscal and financial risks;
- monitoring of the implementation of IFRS 9, IFRS 15 and IFRS 16;
- review of the compliance report (a task since devolved to the new Sustainable Development and Compliance Committee);
- fraud detection and prevention;
- monitoring of activity in the Group's subsidiaries;
- review of the management report;
- monitoring of changes in the KLM pension funds' assets and liabilities.

Remuneration Committee

94% average attendance of Board directors

6 meetings

57% independent directors

8 members

Composition

At December 31, 2018, the Remuneration Committee was composed of the following eight members: Jaap de Hoop Scheffer (Chair of the Committee), Isabelle Bouillot, Jean-Dominique Comolli, Isabelle Parize, Hans Smits, François Robardet, Maryse Aulagnon and Delta Air Lines, Inc. represented by George Mattson.

Maryse Aulagnon and Delta Air Lines, Inc. represented by George Mattson became members of the Remuneration Committee on December 5, 2018.

Missions

The Remuneration Committee is primarily responsible for formulating recommendations to the Board of Directors on the level of/changes to the remuneration of the executive officers. It may also be asked to comment on the remuneration of the Group's senior executives who are members of the Executive Committee and on the remuneration granted to individuals recruited for fixed terms, when the level of this remuneration is exceptionally high. The Remuneration Committee reviews and issues an option on the policy governing any stock subscription and share purchase option schemes or any other long-term incentive programs.

Activity

The Remuneration Committee met six times during the 2018 financial year (three meetings in 2017) and the attendance rate for members was 94% (89% in 2017).

Board director	Remuneration Committee attendance
Jaap de Hoop Scheffer Chair of the Remuneration Committee	100%
Isabelle Bouillot	100%
Jean-Dominique Comolli	100%
Isabelle Parize	100%
François Robardet	100%
Hans N.J. Smits	66%
Average attendance	**94%**

During the 2018 financial year and in view of the governance changes, the Remuneration Committee formulated a number of recommendations for the Board of Directors concerning:

- during its meeting of February 12, 2018, the modalities for the granting of directors' fees to the Company's Board directors;
- during its meetings of February 12, 2018 and March 12, 2018, the compensation policy in respect of 2018 for the Chairman and Chief Executive Officer of Air France-KLM, the Chief Executive Officer of Air France and the Chief Executive Officer of KLM;
- during its meetings of May 15, 2018 and October 29, 2018, the 2018 compensation for the members of the Management Committee during the transition period and the compensation for the Chairman of the Air France-KLM Board of Directors in respect of 2018;
- during its meeting of August 16, 2018, the compensation in respect of 2018 and the compensation policy in respect of 2019 for the new Chief Executive Officer of Air France-KLM;
- during its meeting of September 24, 2018, the modalities for the departure of the Chief Executive Officer of Air France.

The Committee was also consulted on the 2018 compensation for the Group's Chief Financial Officer. Furthermore, in his capacity as Chairman and Chief Executive Officer, the Committee formulated recommendations for Mr. Janaillac concerning the compensation of the members of the KLM Management Board.

(see Section 2.5 Compensation of the company officers hereinafter, established with the cooperation of the Remuneration Committee).

Appointments and Governance Committee

94% average attendance of Board directors

12 meetings

67% independent directors

3 members

Composition

At December 31, 2018, the Appointments and Governance Committee was composed of the following three members: Anne-Marie Couderc (Chair of the Committee), Jean-Dominique Comolli and Alexander R. Wynaendts.

Missions

The Appointments and Governance Committee is responsible for proposing candidates for the appointment and replacement of the Chairman of the Board of Directors, the other Board directors and the executive officers of Air France-KLM, and for the succession plans for the executive officers, particularly in the event of unforeseen vacancies. Having initiated, when necessary, the relevant enquiries, the Committee may submit any proposals it deems fit to the Board of Directors regarding the latter's composition. The Appointments and Governance Committee also formulates recommendations for the Board of Directors on the appointment of the Chief Executive Officers (CEOs) of the Principal Subsidiaries. Furthermore, it is consulted by Air France-KLM's Chief Executive Officer on the appointment of the other executive officers (Executive Vice-Presidents and members of the Management Board) and members of the Boards of Directors and Supervisory Boards of the Principal Subsidiaries. It establishes the succession plan for the executive officers and also formulates proposals to the Board of Directors concerning the diversity and appointment policy for Board directors.

The Appointments and Governance Committee makes recommendations regarding the governance principles for the Air France-KLM Group and reviews the consistency of the governance between the Company and its Principal Subsidiaries.

The Appointments and Governance Committee steers the annual evaluation of the functioning of the Board of Directors.

Lastly, prior to review by the Board of Directors, the Appointments and Governance Committee formulates proposals on the independence of members of the Board of Directors in the light of the criteria in the AFEP-MEDEF Code.

Activity

During the 2018 financial year, the Appointments and Governance Committee met twelve times (seven in 2017) with an attendance rate for members of 94% (100% in 2017).

Board director	Appointments and Governance Committee attendance
Anne-Marie Couderc Chair of the Appointments and Governance Committee	100%
Jean-Dominique Comolli	100%
Alexander R. Wynaendts	82%
Average attendance	**94%**

The Appointments and Governance Committee notably addressed the following matters:

- proposals relating to changes in the composition of the Board of Directors for submission to the Shareholders' Meeting of May 15, 2018;
- following the resignation of Jean-Marc Janaillac as Chairman and Chief Executive Officer on May 15, 2018, the implementation of a transitional governance with a separation of the functions of Chairman of the Board of Directors and Chief Executive Officer and the creation of a Management Committee *(see Section 2.2.2 Change in governance taking place in 2018: separation of the functions of Chairman of the Board of Directors and of Chief Executive Officer)*;
- steering of the selection process for a new Chief Executive Officer of Air France-KLM leading to the implementation of a long-term governance;
- following the departure of Franck Terner as Chief Executive Officer of Air France on September 27, 2018, oversight of the search process for a new Chief Executive Officer of Air France;
- assisted by a specialized consultancy, the establishment of a succession plan for the Group's principal directors. The Committee notified the Board of Directors that this plan had been established at its meeting of March 12, 2019. This plan will be regularly reviewed and updated;
- change in the composition of the Committees based on the changes in the composition of the Board of Directors during the 2018 financial year;
- recommendations on the appointment and re-appointment of members of the Air France Board of Directors and of the KLM Supervisory Board;
- auto-evaluation of the functioning of the Board of Directors by the Board directors carried out between December 2018 and January 2019. *(for more details, see Section 2.3.1 Activities and functioning of the Board of Directors)*.

Sustainable Development and Compliance Committee

50% independent directors

6 members

As proposed by the Appointments and Governance Committee, on December 5, 2018, the Board of Directors established the Sustainable Development and Compliance Committee and determined its composition, missions and functioning rules. The first meeting of this Committee took place on February 11, 2019.

Composition

The Sustainable Development and Compliance Committee is composed of the following six members: Anne-Marie Idrac (Chair of the Committee), Mathi Bouts, Bing Tang, Patrick Vieu, Karim Belabbas and Leni Boeren.

Missions

The Sustainable Development and Compliance Committee assists the Board of Directors in reviewing the Group's policies on compliance and sustainable development. It ensures that the Group promotes long-term value creation and takes the social and environmental issues involved in its activities into account in the establishment of the Group's strategy by submitting recommendations to the Board.

The Sustainable Development and Compliance Committee's mission is thus to:

- review the Group's CSR policy and its implementation;
- examine the extra-financial risks and specifically those relating to environmental, social and societal matters;
- review the extra-financial performance statement foreseen in Article L. 225-102-1 of the *Code de Commerce* including, in particular, the extra-financial performance criteria;
- review the Group's compliance program and monitor its implementation pursuant to the AFEP-MEDEF Code.

The Sustainable Development and Compliance Committee may also deal with any matters deemed appropriate by the Board of Directors.

Activity

The Sustainable Development and Compliance Committee was established on December 5, 2018. Its first meeting took place on February 11, 2019.

2.4 SUMMARY TABLE OF THE AFEP-MEDEF CODE'S COMPLY OR EXPLAIN RECOMMENDATIONS NOT APPLIED

The following table shows the recommendations of the AFEP-MEDEF Code which have not been applied and the reasons for this:

Provisions of the AFEP-MEDEF Code not applied	Reason
Meeting of the non-executive directors outside the presence of the executive or "in-house" officers	
"It is recommended that a meeting not attended by the Executive Officers be organised each year" (paragraph 10.3 of the AFEP-MEDEF Code)	The current practice is that the main matters concerning executive officers (such as their appointment, performance and compensation) are discussed by the Board of Directors outside the presence of the interested parties, after hearing the opinion of, as required, the Appointments and Governance or Remuneration Committees.
Termination of a company officer's employment contract	
"When an employee becomes a company officer, it is recommended to terminate his or her employment contract with the company or with a group company, whether through contractual termination or resignation. *Where the employment contract continues, it will be suspended as provided for under applicable legislation."* (paragraph 21.1 of the AFEP-MEDEF Code)	Within the framework of the transitional governance period (from May 15 to September 17, 2018), Mr. Frédéric Gagey was appointed interim Chief Executive Officer of Air France-KLM, while maintaining his duties as Chief Financial Officer of Air France-KLM. Since Mr. Gagey was to continue to perform his duties as Chief Financial Officer once the transition period had ended, his employment contract attached to his duties as Chief Financial Officer was maintained. It was, however, suspended during the transition period.
Annual variable compensation of the executive officers	
"The Board may decide to award annual variable compensation, the payment of which may be deferred if appropriate. *The rules for fixing this compensation must be consistent with the annual review of the performances of the executive officers and the corporate strategy. They depend on the director's performance and the progress made by the company. (...)"* (paragraph 24.3.2 of the AFEP-MEDEF Code)	In that he took up his duties in the last part of the 2018 financial year, the variable compensation for Air France-KLM's Chief Executive Officer in respect of 2018 does not include performance criteria.

Provisions of the AFEP-MEDEF Code not applied	Reason
Proportion of independent directors within the Board of Directors	
"The independent directors should account for half the members of the Board in widely held corporations without controlling shareholders." (paragraph 8.3 of the AFEP-MEDEF Code)	Since February 26, 2019, the situation of Mr. Jaap de Hoop Scheffer, representing the Dutch State, has changed following the entry into the share capital of the latter which has become a shareholder in Air France-KLM alongside the French State with 14% of the share capital. On March 25, 2019, having examined the situation of Mr. Jaap de Hoop Scheffer in the light of the criteria stipulated by the AFEP-MEDEF Code, and as recommended by the Appointments and Governance Committee, the Board of Directors considered that Mr. Jaap de Hoop Scheffer no longer qualified as an Independent director. At the date of this Registration Document, the proportion of independent directors is thus 47%, i.e. below the 50% threshold foreseen by the AFEP-MEDEF Code for non-controlled companies. This divergence is due to a new and exceptional situation, linked to the entry into the share capital of the Dutch State, a partner of the Group, which already had a representative within the Air France-KLM Board of Directors pursuant to the 2003 governance agreements. This situation is, however, temporary.
Remuneration Committee	
"It is recommended that the Chairman of the committee should be independent and that one of its members should be an employee director." (paragraph 17.1 of the AFEP-MEDEF Code)	As indicated above, Mr. Jaap de Hoop Scheffer may no longer be considered to be independent in the light of the criteria in the AFEP-MEDEF Code. At the date of this Registration Document, the Chair of the Remuneration Committee is thus no longer independent. This situation is, however, temporary.

2.5 COMPENSATION OF THE COMPANY OFFICERS

2.5.1 Board directors' fee modalities

Board directors receive fees in respect of their mandates whose maximum amount was set at €950,000 for the whole Board of Directors by the Shareholders' Meeting of May 15, 2018.

The modalities for the granting of directors' fees applied in respect of the 2018 financial year are those adopted, as proposed by the Remuneration Committee, by the Board of Directors during its meeting of February 19, 2014. These modalities, confirmed by the Board of Directors during its meeting of February 15, 2018, pursuant to the proposals submitted by the Remuneration Committee, are the following:

- €15,000 as fixed compensation;
- €25,000 as variable compensation mainly based on Board of Directors' meeting (nineteen meetings in 2018) and Shareholders' Meeting (one Shareholders' Meeting in 2018) attendance;
- additional directors' fees are also granted to non-resident directors (€7,000).

Special fees are granted to the Chairs and members of the Committees:

- for the Audit Committee, the Chair and members receive, respectively, additional fees of €12,000 and €8,000;
- for the other Committees, the Chair and members receive, respectively, additional fees of €7,500 and €5,000.

For directors joining or leaving the Board during the 2018 financial year, the directors' fees have been calculated *pro rata temporis* based on the number of Board of Directors, Committee and Shareholders' Meetings held during the period the director was in function.

In respect of the allocation rules for directors' fees set out above, all the Board directors, with the exception of the Chairman of the Board of Directors and the Chief Executive Officer, receive directors' fees pursuant to the attribution modalities set by the Board of Directors.

In view of the very large number of extraordinary meetings of the Board of Directors taking place during the 2018 financial year within the framework of the transitional governance period and the commitment by the different Board directors to participation in these meetings, during its meeting of October 29, 2018 the Board of Directors granted an extraordinary, additional payment of directors' fees (within the framework of the budget approved by the Shareholders' Meeting) based on the following modalities:

- a maximum variable amount of €7,500 granted to each member of the Board of Directors, with the exception of the Chairman of the Board of Directors and the Chief Executive Officer, calculated *pro rata temporis* based on their presence at the extraordinary meetings of the Board of Directors held during the transition period (i.e. as of May 16, 2018).

Modalities for the allocation and payment of directors' fees to representatives of the State and directors appointed as proposed by the French State

The allocation rules for directors' fees set out above are applicable to the State representatives and directors appointed as proposed by the French State.

Until the Shareholders' Meeting of May 21, 2015, all the directors' fees due to Board directors representing the French State were paid in full to the latter.

Since the Shareholders' Meeting of May 21, 2015, pursuant to Ordinance No.2014-948 of August 20, 2014 and Article 1 of the ministerial order of December 18, 2014, as amended by the ministerial order of January 5, 2018, the following rules have applied:

- for Board directors appointed directly by the French State, 100% of the directors' fees are paid to the French State (Art. 5 of the Ordinance);
- for Board directors appointed by the Shareholders' Meeting as proposed by the French State (Art. 6 of the Ordinance), there are two distinct cases:
  - for public officials of the French State, 100% of the directors' fees are paid to the State,
  - for those not acting in the capacity of public State officials, the directors' fees must be shared as follows:
    - 15% paid to the State,
    - 85% paid directly to the relevant director (subject to social charges and taxation).

Compensation granted to Board directors other than the executive officers and individual attendance records at Board of Directors meetings and the Shareholders' Meeting

The amounts of directors' fees and other compensation paid in respect of the 2018 and 2017 financial years to Board directors other than executive officers were as follows:

	Attendance at Board meetings and the Shareholders' Meeting (2018 financial year) (1)	Amount of compensation paid (in €)	
		In respect of the 2018 financial year	In respect of the 2017 financial year
Anne-Marie Couderc (2)	100%	**25,042**	51,654
Benjamin Smith (3)	100%	**n/a**	n/a
Peter Hartman (4)	n/a	**n/a**	30,385
Maryse Aulagnon	89%	**55,797**	46,231
Karim Belabbas (5)	100%	**47,500**	24,615
Leni M.T. Boeren	95%	**60,113**	39,615
Isabelle Bouillot	100%	**52,500**	41,154
Mathi Bouts (6)	95%	**45,684**	16,231
Jean-Dominique Comolli	100%	**57,500**	48,077 (9)
Delta Air Lines, Inc.	100%	**54,500**	16,231
Paul Farges (5) (7)	91% (1)	**32,281**	n/a
Jaap de Hoop Scheffer	84%	**55,910**	50,654
Anne-Marie Idrac	89%	**43,797**	6,154
Louis Jobard (5) (8)	100% (1)	**20,042**	48,000
Solenne Lepage	100%	**55,500**	48,000 (10)
Isabelle Parize	84%	**53,410**	48,154
Antoine Santero (2) (3)	n/a	**n/a**	13,462
Patrick Vieu	100%	**47,500**	38,077 (10)
Hans Smits	68%	**47,320**	40,462
Bing Tang	58%	**40,759**	14,308
Alexander R. Wynaendts	74%	**51,850**	46,231
François Robardet (5)	100%	**60,500**	53,000
Total		**907,505**	**720,695**

(1) Information given for the number of meetings convened during the period for which the director was in function, for directors whose mandates began or ended during 2018.
(2) Ms. Anne-Marie Couderc received directors' fees in her capacity as a Board director for the period from January 1 to May 15, 2018. Her compensation as Chairman of the Board of Directors from May 15, 2018 is detailed in Section 2.5.2.4.
(3) Mr. Benjamin Smith, Chief Executive Officer of Air France-KLM, was appointed as a Board director on December 5, 2018. He does not receive directors' fees in respect of his Board director duties.
(4) Director until May 16, 2017.
(5) The directors representing the employee shareholders and the director representing the French employees appointed by the *Comité du Groupe Français* receive compensation in respect of their employment contracts with Air France, with no link to their Board director mandates within Air France-KLM. Their directors' fees are, moreover, paid to their unions.
(6) Mr. Mathi Bouts receives compensation in respect of his employment contract with KLM, with no link to his Board director mandate within Air France-KLM.
(7) Director since May 15, 2018.
(8) Director until May 15, 2018.
(9) Mr. Comolli having been appointed as proposed by the French State, pursuant to the provisions of Article 6-V of the Ordinance dated August 20, 2014 and amended by Article 10 of Act No.2016-483 of April 20, 2016 and Article 1 of the ministerial order of December 18, 2014, as amended by the ministerial order of January 5, 2018, 15% of his directors' fees was paid to the General Directorate of Public Finances with the remaining 85% being paid directly to Mr. Comolli.
(10) Amount paid to the General Directorate of Public Finances.

2.5.2 Compensation of the executive officers in 2018

2.5.2.1 General principles

Based on the recommendations of the Remuneration Committee, the compensation of the Chairman of the Board of Directors and the Chief Executive Officer is set by the Board of Directors, pursuant to the provisions of the AFEP-MEDEF Code.

Pursuant to the Internal Rules, as recommended by the Remuneration Committee, the Board of Directors also approves the compensation of the Chief Executive Officers of the principal subsidiaries (Air France and KLM). Furthermore, the Remuneration Committee makes recommendations to the Chief Executive Officer regarding the compensation of the Group's Chief Financial Officer and reviews the compensation of the members of the KLM Management Board.

The Remuneration Committee formulates and reviews these compensation policies linked to performance targets on an annual basis.

These compensation policies establish the principles and criteria for determining, distributing and granting the fixed, variable and extraordinary components of the total compensation and benefits of any kind awarded, firstly, to the Chairman of the Board of Directors and, secondly, to the Chief Executive Officer. All of these elements are detailed in this section *(see Sections 2.5.2.2 and following)*, pursuant to the provisions of Article L. 225-37-2 of the *Code de Commerce* (French Commercial Code).

Given the adoption of the new Group governance during 2018 and in view of the profile and international experience of Mr. Smith, Chief Executive Officer of Air France-KLM from September 17, 2018, the Air France-KLM Board of Directors considered it necessary to modify the framework for the compensation of the Group's Chief Executive Officer which had been approved by the Shareholders' Meeting of May 15, 2018 and which had de facto become inapplicable. Within the framework of the legislation applicable to the senior executives of French listed companies, the Air France-KLM shareholders will be asked to vote on all the elements of Mr. Smith's compensation during the Annual General Shareholders' Meeting of May 28, 2019, in respect of both 2018 (Say on Pay *ex-post*) and the compensation policy set by the Board of Directors in early 2019 (Say on Pay *ex-ante*). Note that the payment of the variable elements of this 2018 compensation remains conditional on the result of this vote.

Elements of 2018 compensation

The elements of compensation paid or granted to Air France-KLM's different company officers in respect of the 2018 financial year, to be submitted to the vote by shareholders at the Annual General Shareholders' Meeting of May 28, 2019 in application of Article L. 225-100 of the *Code de Commerce* are detailed below:

- compensation paid or granted to Mr. Jean-Marc Janaillac, Chairman and Chief Executive Officer of Air France-KLM until May 15, 2018;
- compensation paid or granted to Ms. Anne-Marie Couderc, Chairman of the Board of Directors from May 15, 2018;
- compensation paid or granted to Mr. Frédéric Gagey, Chief Executive Officer from May 15 to September 17, 2018; and
- compensation paid or granted to Mr. Benjamin Smith, Chief Executive Officer from September 17, 2018.

2.5.2.2 Compensation of Mr. Jean-Marc Janaillac, Chairman and Chief Executive Officer of Air France-KLM until May 15, 2018

Compensation structure

The compensation for Mr. Janaillac, Chairman and Chief Executive Officer of Air France-KLM in respect of the period from January 1 to May 15, 2018, is composed of the following three elements:

1. fixed compensation;
2. short-term variable compensation linked to the performance for the previous financial year; and
3. long-term variable compensation.

Annual fixed compensation

In his capacity as Chairman and Chief Executive Officer of Air France-KLM in respect of the period from January 1 to May 15, 2018, Mr. Jean-Marc Janaillac's annual fixed compensation stood at €225,000 in 2018 (corresponding to fixed annual compensation of €600,000).

Annual variable compensation

The variable portion represents a percentage of the fixed portion, the amount being determined based on performance criteria. As recommended by the Remuneration Committee, these performance criteria are set and their achievement evaluated by the Board of Directors.

As proposed by the Remuneration Committee, during its meeting of March 14, 2018 the Board of Directors set the performance criteria for the 2018 financial year that were subsequently approved by the Annual General Shareholders' Meeting of May 15, 2018 within the framework of Article L. 225-37-2 of the *Code de Commerce* (Say on Pay *ex ante*). These criteria are as follows:

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

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

Evaluation of the 2018 performance criteria in respect of the period from January 1 to May 15, 2018:

The quantitative criteria relating to the financial criteria (COI and adjusted net debt) were evaluated based on the following rules, which remained unchanged on the previous year:

COI – % achievement relative to the budget	% achievement of the criteria
Level 1. <80% of budget	0%
Level 2.	proportionate
Level 3. 100% of the budget	100%
Level 4.	proportionate
Level 5. >120% of budget	143%

Adjusted net debt (€ million)	% achievement of the criteria
Level 1. > amount set in the budget +€300 million	0%
Level 2.	proportionate
Level 3. = amount set in the budget	100%
Level 4.	proportionate
Level 5. < amount set in the budget: -€300 million	143%

In addition to the rules outlined above, the performance of competitors in terms of current operating margins and share prices are also taken into account in the final evaluation of the achievement of the quantitative criteria. The achievement rate of the quantitative criteria may thus be adjusted depending on the performance gap relative to IAG and Lufthansa.

The qualitative performance is evaluated based on the following rules:

Qualitative performance criteria	% achievement of the criteria
1. Target not achieved	0%
2. Target partially achieved	50%
3. Target achieved	100%
4. Target exceeded	110%
5. Target comfortably exceeded	125%

Based on these rules, the achievement of the criteria for 2018 in respect of the period from January 1 to May 15, 2018 was set as follows:

	Achievement of the performance criteria in 2018	
	Performance realized in 2018 [1]	**Evaluation of the performance criteria**
Quantitative performance: Air France-KLM operating result *(Current Operating Income - COI)*	3%	This percentage takes into account the level of COI achieved by the Group and the performance relative to competitors.
Quantitative performance: Adjusted Net Debt (Adjusted Net debt before divestments and excluding impact of euro/dollar exchange rate on aircraft operating leases)	10%	The targets on this criterion were exceeded. Thus, the amount granted in respect of this criterion was set at the maximum, i.e. 10% of the fixed compensation.
Qualitative performance		
— definition of a new medium-term strategic plan for Air France-KLM and reduction in unit costs	6%	A medium-term strategic plan was established and a presentation on the results of the teams' work was made at the Board of Directors' strategy meeting on June 26 and 27, 2018. However, due to the departure of Mr. Janaillac, this strategic plan was neither presented to the market nor formally approved by the Board of Directors. The level of achievement of the cost-reduction criterion was set at 0%, this target announced to the market not having been achieved.
— successful implementation of new international strategic alliances in line with the targets defined in the business plan	9%	The amount granted in respect of this criterion was set at 9% of the fixed compensation. The agreements enabling the implementation of the transatlantic alliance between Delta Air Lines, Inc., Virgin and Air France-KLM were signed. The initial results of the alliance with Jet Airways are positive.
— improved effectiveness of the Group's governance	0%	Given the circumstances of Mr. Janaillac's departure, the performance on this criterion was set at zero.

(1) The achievement of these performance criteria enables the percentage of fixed compensation to be determined for the period from January 1 to May 15, 2018.

On the basis of the above, during its meeting of February 19, 2019, the Air France-KLM Board of Directors set Jean-Marc Janaillac's annual variable compensation in his capacity as Chairman and Chief Executive Officer of Air France-KLM for the period from January 1 to May 15, 2018 at €63,000, on the basis of the performance level achieved.

Payment of Mr. Janaillac's annual variable compensation is subject to prior approval of the aforementioned elements of compensation by the Air France-KLM Annual General Shareholders Meeting of May 28, 2019, in the conditions stipulated in Article L. 225-100 of the *Code de Commerce*.

Long-Term Incentive Plan

During its meeting of March 14, 2018, as proposed by the Remuneration Committee, the Board of Directors granted performance units (phantom shares) to the Chairman and Chief Executive Officer whose vesting was subject to a presence condition and performance conditions evaluated over a three-year vesting period. The plan was approved by the Annual General Shareholders' Meeting of May 15. 2018 within the framework of Article L. 225-37-2 of the *Code de Commerce* (Say on Pay *ex-ante*).

In that Mr. Janaillac stepped down as Chairman and Chief Executive Officer on May 15, 2018, the performance units granted to him in respect of the 2018 financial year became null and void and Mr. Janaillac did not benefit from any long-term variable compensation.

Summary of Mr. Jean-Marc Janaillac's compensation for the 2018 financial year in respect of the period from January 1 to May 15, 2018

In his capacity as Chairman and Chief Executive Officer until May 15, 2018, the Air France-KLM Board of Directors awarded Jean-Marc Janaillac fixed compensation of €225,000 *pro rata temporis* and variable compensation of €63,000, i.e. total compensation of €288,000 received in respect of the 2018 financial year, for the period from January 1 until May 15, 2018. Following his resignation on May 15, 2018, Mr. Janaillac received no performance units.

Mr. Janaillac did not receive a severance payment.

2.5.2.3 Presentation of the compensation structure for Mr. Frédéric Gagey, Chief Executive Officer of Air France-KLM from May 15 to September 17, 2018

Pursuant to the Board of Directors resolutions of May 15, 2018 and October 29, 2018, in respect of his duties as Chief Executive Officer of Air France-KLM during the interim period from May 15 to September 17, 2018, Mr. Gagey received an amount of fixed compensation equivalent to his fixed compensation as Chief Financial Officer *pro rata temporis* for the transitional governance period (from May 15 to September 17), increased by a total sum of €50,000, i.e. total fixed compensation of €250,000.

Mr. Gagey benefited from no variable compensation in respect of his duties as Chief Executive Officer during the transitional governance period.

2.5.2.4 Presentation of the compensation structure for Ms. Anne-Marie Couderc, Chairman of the Board of Directors from May 15, 2018

Pursuant to the Board of Directors resolutions of May 15, 2018 and October 29, 2018, the annual fixed compensation of the Chairman of the Board of Directors was set at €200,000. No directors' fees or variable compensation is paid in addition to this compensation.

Ms. Couderc thus received fixed compensation of €125.000 calculated *pro rata temporis* on the basis of her annual fixed compensation in respect of her duties as Chairman of the Board of Directors for the period from May 15 to December 31, 2018.

2.5.2.5 Presentation of the compensation structure for Mr. Benjamin Smith, Chief Executive Officer of Air France-KLM from September 17, 2018

Compensation structure

Given the adoption of the new Group governance during 2018 and in view of the profile and international experience of Mr. Smith, Chief Executive Officer of Air France-KLM from September 17, 2018, the Air France-KLM Board of Directors considered it necessary to modify the framework for the compensation of the Group's Chief Executive Officer, which had been approved by the Shareholders' Meeting of May 15, 2018 and which had de facto become inapplicable.

Within this context, the Board of Directors reviewed the compensation practices for similar functions at competitor airline companies internationally and took into account the compensation paid to Mr. Smith in respect of his duties at Air Canada, as well as his residency of Canada which required him to relocate to France. During its meeting of August 16, 2018, the Board of Directors thus set Mr. Smith's compensation in his capacity as Chief Executive Officer as follows.

Element	Payment modalities	Amounts	Comments
Annual fixed compensation	100% in cash	€900,000	This compensation was set by the Board of Directors during its meeting of August 16, 2018. In that Mr. Smith took up his duties on September 17, 2018, a *pro rata* has been applied to this amount.
Annual variable compensation	100% in cash paid after approval by the Shareholders' Meeting of May 28, 2019	€366,667	As proposed by the Remuneration Committee, in his capacity as Chief Executive Officer, Mr. Smith's variable compensation was set at €366,667 by the Board of Directors during its meeting of August 16, 2018. Given the date on which he took up his duties (September 17, 2018), this amount is not subject to performance criteria. Payment of the €366,667 is subject to prior approval by the Annual General Shareholders' Meeting of May 28, 2019.
Long-term variable compensation	Performance units granted subject to a three-year presence condition.	The maximum amount of performance units granted represents €333,000.	In his capacity as Chief Executive Officer, Mr. Smith was granted performance units equivalent to €333,000, payable in 2021 subject to fulfilment of a three-year presence condition except in the event of death or disability, or in some cases of forced termination. The number of performance units granted in 2018 will be calculated on the basis of Air France-KLM's opening share price on August 17, 2018, and their vesting in 2021 (subject to a presence condition) will be calculated based on the share price following the announcement of the annual results for the 2020 financial year.

Annual fixed and variable compensation

For the 2018 financial year, in his capacity as Chief Executive Officer, Mr. Smith's gross annual fixed compensation was set at €900,000 by the Board of Directors during its meeting of August 16, 2018. Mr. Smith thus received fixed compensation *pro rata temporis* for the period from September 17 to December 31, 2018 amounting to €262,500.

As announced on September 17, 2018, Mr. Smith has invested nearly half of his annual fixed compensation in the purchase of 50,000 Air France-KLM shares.

Mr. Smith benefits from variable compensation of €366,667, which was not made subject to performance conditions given the date on which he took up his duties (September 17, 2018).

Note that it was not possible to submit the structure of Mr. Smith's 2018 compensation, including the principle of his variable compensation and decided by the Air France-KLM Board of Directors on August 16, 2018, to a prior vote by the shareholders of Air France-KLM. His variable compensation will, however, be subject to a so-called Say on Pay *ex post* vote at the Annual General Shareholders' Meeting of May 28, 2019 with its payment remaining conditional on the result of this vote.

Long-Term Incentive Plan

During its meeting of August 16, 2018, in respect of the 2018 financial year for the period from September 17 to December 31, 2018, the Board of Directors awarded Mr. Smith performance units equivalent to an amount of €333,000, payable in 2021 subject to a three-year presence condition, except in the event of death or disability, or in some cases of forced termination. This long-term compensation, which was not made subject to performance conditions (unlike the long-term compensation for 2019 outlined in section 2.5.2.6) corresponds to deferred fixed compensation subject to Mr. Smith continuing to perform his duties at the time this compensation is paid.

The number of performance units awarded in 2018 will be calculated on the basis of the Air France-KLM opening share price on August 17, 2018 and their vesting in 2021 (subject to a presence condition) will be calculated based on the share price following the announcement of the annual results for the 2020 financial year.

Pursuant to law, payment of the variable component for 2018 and the performance units will be subject to approval by the Shareholders' Meeting.

Severance payment

In some cases of forced termination (namely dismissal, non-renewal of his mandate as Chief Executive Officer or forced resignation), the Board of Directors granted Mr. Smith a severance payment, pursuant to Article L. 225-42-1 of the *Code de Commerce*.

In accordance with the recommendations of the AFEP-MEDEF Code, the basis of such a severance payment will be two years of his annual fixed and variable compensation (based, as applicable, on the target variable compensation in the event of a termination during the first 24 months).

A coefficient (between 0% and 100%) will be applied to such an amount on the basis of the achieved performance criteria relative to the annual variable component of his compensation over the preceding two financial years of his mandate (or since his appointment, in the event of termination during the first two years). The Board will assess the achievement of the performance criteria.

This severance payment will be submitted for approval by the Air France-KLM Annual General Shareholders' Meeting on May 28, 2019.

In accordance with Article L. 225-42-1 of the *Code de Commerce*, the Board resolution evaluating the achievement of the performance criteria, at the time of termination, will be disclosed pursuant to the modalities and periods set by the regulation in force.

Benefits in kind

During the period from September 17 to December 31, 2018, Mr. Smith also enjoyed the usual benefits in kind (company car with chauffeur, supplementary pension scheme benefitting all Group personnel, supplementary health insurance and disability coverage, provision of free airline tickets, Group CEO civil liability insurance – D&O) and benefits consistent with the policies applied within the Group for senior manager expatriation and mobility (accommodation, relocation costs, school fees, and certain advisor fees).

Other

Mr. Smith does not benefit from an employment contract nor from a top-up pension plan, non-compete clause, stock options, or bonus shares.

Elements of compensation for the executive officers pursuant to AMF Recommendation No.2009-16, as amended on April 13, 2015

Summary table of the compensation, options and shares granted to each executive officer

(in €)	Financial year 2018	Financial year 2017
Mr. Janaillac, Chairman and Chief Executive Officer until May 15, 2018		
Compensation due in respect of the financial year	**288,000 (1)**	1,110,000
Multi-year variable compensation granted during the financial year	**N/A**	N/A
Stock options granted during the financial year	**N/A**	N/A
Performance shares granted during the financial year	**N/A**	N/A
Total	**288,000 (1)**	**1,110,000**

(1) For the period from January 1 to May 15, 2018.

(in €)	Financial year 2018	Financial year 2017
Mr. Gagey, Chief Executive Officer from May 15 to September 17. 2018		
Compensation due in respect of the financial year	**250,000 (1)**	N/A
Multi-year variable compensation granted during the financial year	**N/A**	N/A
Stock options granted during the financial year	**N/A**	N/A
Performance shares granted during the financial year	**N/A**	N/A
Total	**250,000 (1)**	**N/A**

(1) For the period from May 15 to September 17, 2018.

(in €)	Financial year 2018	Financial year 2017
Ms. Couderc, Chairman of the Board of Directors from May 15, 2018		
Compensation due in respect of the financial year	**125,000 (1)**	N/A
Multi-year variable compensation granted during the financial year	**N/A**	N/A
Stock options granted during the financial year	**N/A**	N/A
Performance shares granted during the financial year	**N/A**	N/A
Total	**125,000 (1)**	**N/A**

(1) For the period from May 15 to December 31, 2018.

(in €)	Financial year 2018	Financial year 2017
Mr. Smith, Chief Executive Officer from September 17, 2018		
Compensation due in respect of the financial year	**629,167 (1)**	N/A
Multi-year variable compensation granted during the financial year	**333,000 (2)**	N/A
Stock options granted during the financial year	**N/A**	N/A
Performance shares granted during the financial year	**N/A**	N/A
Total	**962,167**	**N/A**

(1) Fixed and variable compensation for the period from September 17 to December 31, 2018.
(2) Performance units payable in 2021 subject to a three-year presence condition.

Summary table of the compensation for each executive officer

Jean-Marc Janaillac Chairman and Chief Executive Officer until May 15, 2018	2018 financial year		2017 financial year	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	**225,000 (1)**	**225,000 (2)**	600,000	600,000
Variable compensation	**63,000 (1)**	**510,000 (3)**	510,000	252,167
Multi-year variable compensation	**N/A**	**N/A**	N/A	N/A
Extraordinary compensation	**N/A**	**N/A**	N/A	N/A
Directors' fees	**N/A**	**N/A**	N/A	N/A
Benefits in kind	**N/A**	**N/A**	N/A	N/A
Total	**288,000**	**735,000**	**1,110,000**	**852,167**

(1) For the period from January 1 to May 15, 2018.
(2) Payment of fixed compensation in respect of the 2018 financial year for the period from January 1 to May 15, 2018.
(3) Payment of the variable compensation in respect of the 2017 financial year.

Frédéric Gagey, Chief Executive Officer from May 15 to September 17, 2018	2018 financial year		2017 financial year	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	**250,000 (1)**	**250,000 (2)**	N/A	N/A
Variable compensation	**N/A**	**N/A**	N/A	N/A
Multi-year variable compensation	**N/A**	**N/A**	N/A	N/A
Extraordinary compensation	**N/A**	**N/A**	N/A	N/A
Directors' fees	**N/A**	**N/A**	N/A	N/A
Benefits in kind	**N/A**	**N/A**	N/A	N/A
Total	**250,000**	**250,000**	**N/A**	**N/A**

(1) For the period from May 15 to September 17, 2018.
(2) Payment of the fixed compensation in respect of the 2018 financial year for the period from May 15 to September 17, 2018.

Anne-Marie Couderc, Chairman of the Board of Directors from May 15, 2018	2018 financial year		2017 financial year	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	**125,000 (1)**	**125,000 (2)**	N/A	N/A
Variable compensation	**N/A**	**N/A**	N/A	N/A
Multi-year variable compensation	**N/A**	**N/A**	N/A	N/A
Extraordinary compensation	**N/A**	**N/A**	N/A	N/A
Directors' fees	**N/A**	**N/A**	N/A	N/A
Benefits in kind	**N/A**	**N/A**	N/A	N/A
Total	**125,000**	**125,000 (1)**	**N/A**	**N/A**

(1) For the period from May 15 to December 31, 2018.
(2) Payment of the fixed compensation in respect of the 2018 financial year from the period from May 15 to December 31, 2018.

Benjamin Smith, Chief Executive Officer from September 17, 2018	2018 financial year		2017 financial year	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	**262,500 (1)**	**262,500 (2)**	N/A	N/A
Variable compensation	**366,667 (1)**	**N/A**	N/A	N/A
Long-term variable compensation	**333,000 (1)**	**N/A**	N/A	N/A
Multi-year variable compensation	**N/A**	**N/A**	N/A	N/A
Extraordinary compensation	**N/A**	**N/A**	N/A	N/A
Directors' fees	**N/A**	**N/A**	N/A	N/A
Benefits in kind	**N/A**	**N/A**	N/A	N/A
Total	**962,167**	**262,500**	**N/A**	**N/A**

(1) For the period from September 17 to December 31, 2018.
(2) Payment of the fixed compensation in respect of the 2018 financial year for the period from September 17 to December 31, 2018.

Summary table of the situation of the executive officers

	Employment contract		Supplementary pension scheme *(see above)*		Indemnities or benefits due or potentially due on a cessation or change in function		Indemnities relating to a non-compete clause	
Executive officers	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Jean-Marc Janaillac, Chairman and Chief Executive Officer								
Initiation of mandate: July 4, 2016		X		X		X		X
End of mandate: May 15, 2018		X		X		X		X
Frédéric Gagey, Chief Executive Officer								
Initiation of mandate: May 15, 2018		X (1)		X		X		X
End of mandate: September 17, 2018		X (1)		X		X		X
Anne-Marie Couderc, Chairman of the Board of Directors								
Initiation of mandate: May 15, 2018		X		X		X		X
Benjamin Smith, Chief Executive Officer								
Initiation of mandate: September 17, 2018		X		X	X			X

(1) Mr. Gagey's employment contract relating to his Chief Financial Officer duties was suspended for the period during which he performed his duties as Chief Executive Officer, i.e. from May 15 to September 17, 2018, the period during which he nonetheless continued to perform his duties as Chief Financial Officer.

Loans and guarantees granted to the company officers

None.

Stock subscription or purchase options granted to the company officers of Air France-KLM

Air France-KLM did not put in place any stock subscription or purchase option schemes to the benefit of its company officers during the financial year, nor during the preceding financial years.

Stock subscription or purchase option schemes granted to the company officers of Air France-KLM and employees of the Air France-KLM Group by the subsidiaries

Air France and KLM have not recently put in place any stock subscription or purchase option schemes to the benefit of their employees. The last option plan implemented by KLM in 2007 became null and void in 2012.

Information on stock subscription or purchase option schemes granted to the employees of the Air France-KLM Group and exercised by them during the financial year

None.

Performance shares granted to the company officers of Air France-KLM

Air France-KLM and its subsidiaries did not establish a performance share scheme to the benefit of the Air France-KLM company officers during the financial year or previous financial years.

Elements of compensation submitted for approval by the Shareholders' Meeting

Pursuant to the provisions of Article L. 225-100 of the *Code de Commerce*, the elements of compensation paid or granted in respect of the 2018 financial year to:

- Mr. Janaillac, in his capacity as Chairman and Chief Executive Officer until May 15, 2018;
- Mr. Gagey, in his capacity as Chief Executive Officer from May 15 to September 17, 2018;
- Ms. Couderc in her capacity as Chairman of the Board of Directors from May 15, 2018; and
- Mr. Smith, in his capacity as Chief Executive Officer since September 17, 2018;

will be submitted to the vote by shareholders at the Annual General Shareholders' Meeting of May 28, 2019.

Compensation of Mr. Jean-Marc Janaillac in respect of the 2018 financial year, for the period from January 1 to May 15, 2018

The relevant elements of compensation are presented in the following table:

Elements of compensation paid or granted to Mr. Jean-Marc Janaillac, Chairman and Chief Executive Officer in respect of the 2018 financial year, for the period from January 1 to May 15, 2018	Amounts or book value submitted to the vote	Presentation
Fixed compensation	€225,000 (amount paid)	In his capacity as Chairman and Chief Executive Officer, Mr. Janaillac's gross annual fixed compensation was set at €600,000 (unchanged on 2017) by the Board of Directors during its meetings of February 15 and March 14, 2018, for the third consecutive year. In that Mr. Janaillac stepped down on May 15, 2018, a *pro rata* has been applied to this amount.
Annual variable compensation	€63,000	As proposed by the Remuneration Committee, in his capacity as Chairman and Chief Executive Officer, Mr. Janaillac's annual variable compensation was set at €63,000 by the Board of Directors during its meetings of February 15 and March 14, 2018. This amount corresponds to: — 3% of the fixed compensation in respect of the quantitative performance linked to Air France-KLM's COI; — 10% of the fixed compensation in respect of the quantitative performance linked to the adjusted net debt; — 6% of the fixed compensation in respect of the qualitative performance linked to the definition of a new medium-term strategic plan for Air France-KLM and a reduction in unit costs; — 9% of the fixed compensation in respect of the qualitative performance linked to the strengthening and development of the Group's international alliances; — 0% of the fixed compensation in respect of the qualitative performance linked to the effectiveness of the Group's governance.

Elements of compensation paid or granted to Mr. Jean-Marc Janaillac, Chairman and Chief Executive Officer in respect of the 2018 financial year, for the period from January 1 to May 15, 2018	Amounts or book value submitted to the vote	Presentation
Long-term variable compensation	N/A	During its meeting of March 14, 2018, as recommended by the Remuneration Committee, the Board of Directors granted performance units (phantom shares) to Mr. Janaillac. The amount of these performance units is determined with reference to the Air France-KLM share price at the end of a three-year period, subject to respect of presence and performance conditions evaluated over a three-year period. In that Mr. Janaillac stepped down before the three-year presence condition could be fulfilled, he benefits from no long-term variable compensation.
Multi-year variable compensation	N/A	Mr. Janaillac did not benefit from multi-year variable compensation.
Extraordinary variable compensation	N/A	Mr. Janaillac did not benefit from extraordinary compensation.
Stock options, performance shares (equity warrants, etc.)	N/A	No awards of this type were made during the 2018 financial year.
Directors' fees	N/A	Mr. Janaillac did not receive directors' fees.
Benefits of any kind	N/A	The material resources made available to Mr. Janaillac could not, in practice, be separated from the performance of his duties as Chairman and Chief Executive Officer.
Severance pay	N/A	Mr. Janaillac did not benefit from severance pay.
Non-compete indemnity	N/A	Mr. Janaillac did not benefit from a non-compete indemnity.
Supplementary pension scheme	N/A	Mr. Janaillac did not benefit from a supplementary pension scheme.

Compensation of Mr. Gagey in respect of the 2018 financial year, for the period from May 15 to September 17, 2018

The relevant elements of compensation are presented in the following table:

Elements of compensation paid or granted to Mr. Gagey, Chief Executive Officer, in respect of the 2018 financial year, for the period from May 15 to September 17, 2018	Amounts or book value submitted to the vote	Presentation
Fixed compensation	€250,000 (amount paid)	During its meetings of May 15 and October 29, 2018, the Board of Directors decided to pay Mr. Gagey, in his capacity as Chief Executive Officer for the transitional governance period (from May 15 to September 16, 2018), fixed compensation equivalent to his compensation as Chief Financial Officer, increased by €50,000.
Annual variable compensation	N/A	Mr. Gagey did not benefit from variable compensation in his capacity as Chief Executive Officer during the transitional governance period.
Multi-year variable compensation	N/A	Mr. Gagey did not benefit from multi-year variable compensation.
Extraordinary variable compensation	N/A	Mr. Gagey did not benefit from extraordinary compensation.
Stock options, performance shares (equity warrants, etc.)	N/A	No awards of this type were made during the 2018 financial year. Mr. Gagey did not benefit from any elements of long-term compensation.
Directors' fees	N/A	Mr. Gagey did not receive directors' fees.
Benefits of any kind	N/A	The material resources made available to Mr. Gagey (e.g. a company car) could not, in practice, be separated from the performance of his duties as Chief Executive Officer.
Severance pay	N/A	Mr. Gagey did not benefit from severance pay.
Non-compete indemnity	N/A	Mr. Gagey did not benefit from a non-compete indemnity.
Supplementary pension scheme	N/A	Mr. Gagey did not benefit from a supplementary pension scheme.

Compensation of Ms. Couderc in respect of the 2018 financial year, for the period from May 15 to December 31, 2018

The relevant elements of compensation are presented in the following table:

Elements of compensation paid or granted to Ms. Couderc, Chairman of the Board of Directors, in respect of the 2018 financial year, for the period from May 15 to December 31, 2018	Amounts or book value submitted to the vote	Presentation
Fixed compensation	€125,000 (amount paid)	In her capacity as Chairman of the Board of Directors, Ms. Couderc's gross annual fixed compensation was set at €200,000 by the Board of Directors during its meetings of May 15 and October 29, 2018. In that Ms. Couderc assumed her functions on May 15, 2018, a *pro rata* was applied to this amount: the fixed compensation paid to Ms. Couderc in respect of the 2018 financial year was thus calculated *pro rata temporis* based on the annual fixed compensation for the period from May 15 to December 31, 2018.
Annual variable compensation	N/A	Ms. Couderc does not benefit from variable compensation.
Multi-year variable compensation	N/A	Ms. Couderc does not benefit from multi-year variable compensation.
Extraordinary variable compensation	N/A	Ms. Couderc does not benefit from extraordinary compensation.
Stock options, performance shares (equity warrants, etc.)	N/A	No awards of this type were made during the 2018 financial year. Ms. Couderc does not benefit from any elements of long-term compensation.
Directors' fees	N/A	In her capacity as Chairman of the Board of Directors, Ms. Couderc does not receive directors' fees. Ms. Couderc received directors' fees in the gross amount of €25,042.11 in respect of her Board director duties for the period from January 1 to May 15, 2018. As of May 15, 2018, once she had been appointed Chairman of the Board of Directors, Ms. Couderc did not receive directors' fees.
Benefits of any kind	N/A	The material resources made available to Ms. Couderc (e.g. a company car) cannot, in practice, be separated from the performance of her duties as Chairman of the Board of Directors.
Severance pay	N/A	Ms. Couderc does not benefit from severance pay.
Non-compete indemnity	N/A	Ms. Couderc does not benefit from a non-compete indemnity.
Supplementary pension scheme	N/A	Ms. Couderc does not benefit from a supplementary pension scheme.

Compensation of Mr. Smith in respect of the 2018 financial year, for the period from September 17 to December 31, 2018

The relevant elements of compensation are presented in the following table:

Elements of compensation paid or granted to Mr. Smith, Chief Executive Officer from September 17, 2018	Amounts or book value submitted to the vote	Presentation
Fixed compensation	€262,500 (amount paid)	In his capacity as Chief Executive Officer, Mr. Smith's annual gross fixed compensation was set at €900,000 by the Board of Directors during its meeting of August 16, 2018 In that Mr. Smith took up his duties on September 17, 2018, a *pro rata* was applied to this amount: Mr. Smith's fixed compensation in respect of the 2018 financial year was thus calculated *pro rata temporis* for the period from September 17 to December 31, 2018.
Annual variable compensation	€366,667	As recommended by the Remuneration Committee, in his capacity as Chief Executive Officer, Mr. Smith's variable compensation was set at €366,667 by the Board of Directors during its meeting of August 16, 2018. In that he took up his duties during the last part of the 2018 financial year, this amount is not subject to performance criteria. Payment of the €366,667 is subject to prior approval by the Annual General Shareholders' Meeting of May 28, 2019.
Long-term variable compensation	€333,000	In his capacity as Chief Executive Officer, Mr. Smith was granted performance units equivalent to €333,000, payable in 2021 subject to a three-year presence condition, except in the event of death or disability, or in certain cases of forced termination. The number of performance units granted in 2018 will be calculated on the basis of the Air France-KLM opening share price on August 17, 2018 and their vesting in 2021 (subject to a presence conditions) will be calculated based on the share price following the announcement of the annual results for the 2020 financial year.
Multi-year variable compensation	N/A	Mr. Smith does not benefit from multi-year variable compensation.
Extraordinary variable compensation	N/A	Mr. Smith does not benefit from extraordinary compensation.
Stock options, performance shares (equity warrants, etc.)	N/A	No awards of this type were made during the 2018 financial year.
Directors' fees	N/A	Mr. Smith does not receive directors' fees.
Benefits of any kind	Yes	Mr. Smith benefits from the usual benefits in kind (company car with chauffeur, supplementary pension scheme benefiting all Group personnel, supplementary health insurance and disability coverage, provisions of free airline tickets, Group CEO civil liability insurance – D&O) and benefits consistent with policies applied within the Group for senior manager expatriation and mobility (accommodation, relocation costs, school fees and certain advisor fees).

Elements of compensation paid or granted to Mr. Smith, Chief Executive Officer from September 17, 2018	Amounts or book value submitted to the vote	Presentation
Severance pay	Two years of fixed and variable compensation	On August 16, 2018, the Board of Directors authorized the granting of a severance payment to Mr. Smith in some cases of forced termination (namely dismissal, non-renewal of his Chief Executive Officer mandate or forced termination). Pursuant to the AFEP-MEDEF recommendations, the basis of this severance payment is two years of his annual fixed and variable compensation (based, as applicable, on the target variable compensation in the event of a termination in the first 24 months). A coefficient (between 0% and 100%) will be applied to this amount on the basis of the achieved performance criteria for the annual variable component of his compensation over the preceding two financial years of his mandate (or since his appointment, in the event of termination during the first 24 months). The Board will assess the achievement of these performance criteria.
Non-compete indemnity	N/A	Mr. Smith does not benefit from a non-compete indemnity.
Supplementary pension scheme	N/A	Mr. Smith does not benefit from a collective supplementary pension scheme.

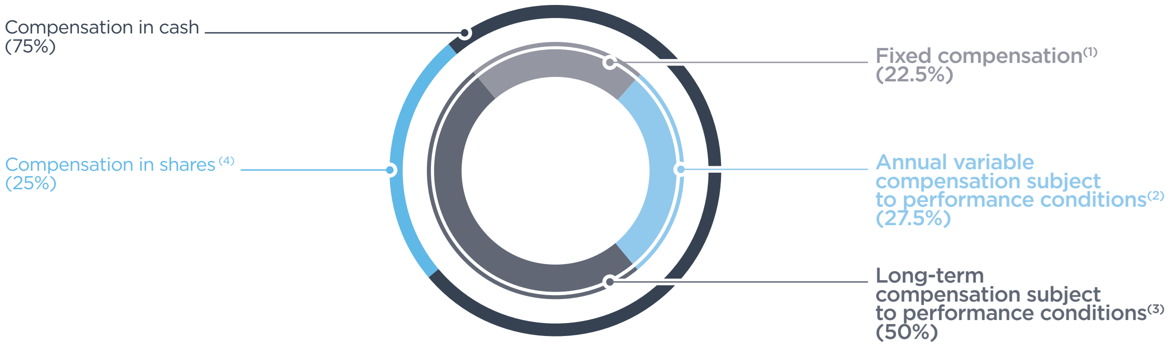
2.5.2.6 Principles and criteria for determining, distributing and granting the fixed, variable and extraordinary elements of total compensation and benefits of any kind granted to the Chief Executive Officer and Chairman of the Board of Directors in respect of the 2019 financial year (Article L. 225-37-2 of the *Code de Commerce*)

1. 2019 compensation policy for the Chief Executive Officer

As recommended by the Remuneration Committee, during its meeting of August 16, 2018, the Board of Directors set the compensation structure, composed of the fixed and long-term variable components and the benefits of any kind, of the Chief Executive Officer of Air France-KLM in respect of the 2019 financial year.

Within the framework of the 2019 compensation, the performance criteria linked to the variable and long-term compensation were set pursuant to the Board of Directors resolutions of February 19 and March 12, 2019.

Structure of the compensation for the Chief Executive Officer of Air France-KLM in respect of the 2019 financial year



(1) Amounting to €900,000.
(2) 122% of the fixed compensation on achievement of the targets, potentially rising to 150% should the targets be exceeded.
(3) Two long-term compensation plans conferring the right to the granting of performance units, each in the amount of €1 million.
(4) The specific long-term incentive plan will be paid in Air France-KLM shares.

— Annual compensation (fixed and variable)

In his capacity as Chief Executive Officer, Mr. Smith will receive annual fixed compensation of €900,000 and annual variable compensation of up to 122% of the fixed compensation for targets achieved, with a maximum of 150% in the event that the targets are exceeded.

The performance criteria for the annual variable compensation were set at 60% quantitative criteria relative to the Group's financial targets, and 40% qualitative criteria comprising individual targets. The definition of these qualitative criteria prioritizes reference to measurable indicators. These criteria are as follows:

	Breakdown of the variable portion Target: 122% of fixed compensation	 Maximum: 150% of fixed compensation
Quantitative performance: Air France-KLM operating result[1] *(Current Operating Income - COI)*	61%	79%
Quantitative performance: Adjusted Net Debt[1] (adjusted net debt before divestments and excluding impact of the euro/dollar exchange rate on aircraft operating leases)	12%	16%
Qualitative performance		
— employees: stability and social dialogue (indicator: improvement in the employee promoter score)[2][4]	12%	15%
— customer engagement (indicator: improvement in the Net Promoter Score)[3][4]	12%	15%
— definition of Air France-KLM's strategic orientations and their initial execution, to strengthen the Group's competitiveness	13%	13%
— implementation of the managerial governance; promote positive working relationships between the executive teams of Air France-KLM, Air France and KLM and other subsidiaries	12%	12%

(1) For confidentiality reasons, the amount set in the 2019 budget is not disclosed.
(2) EPS: internal indicator of employee satisfaction.
(3) NPS: Indicator of customer satisfaction.
(4) The EPS and NPS are internal indicators set each year by company, taking into account the historic figures and performance plans for these companies.

— Evaluation of the 2019 performance criteria

The quantitative criteria relating to the financial criteria (COI and adjusted net debt) will be evaluated based on the following rules.

COI – % achievement relative to the budget	% achievement of the criteria
Level 1. <80% of budget	0%
Level 2.	proportionate
Level 3. 100% of the budget	100%
Level 4.	proportionate
Level 5. >120% of budget	130%

In addition to the rules outlined above, the performance of competitors in terms of current operating margins and share prices are also taken into account in the final evaluation of the achievement of the COI-based performance. The achievement rate of the quantitative criteria may thus be adjusted (between -20% and +20%) depending on the performance gap relative to IAG and Lufthansa.

Adjusted net debt (€ million)	% achievement of the criteria
Level 1. > amount set in the budget +€300 million	0%
Level 2.	proportionate
Level 3. = amount set in the budget	100%
Level 4.	proportionate
Level 5. < amount set in the budget: -€300 million	130%

The qualitative performance is evaluated based on the following rules:

EPS/NPS	% achievement of the criteria
1. Target not achieved	0%
2. Target partially achieved	50%
3. Target achieved	100%
4. Target exceeded	110%
5. Target comfortably exceeded	125%

Purely qualitative criteria

Note that, for the purely qualitative criteria, for which there are no associated performance indicators, the achievement percentage is limited to 100%.

— Long-term Incentive Plan

From 2019, it is planned to award Mr. Smith annual performance units equivalent to €1 million, vesting after a period of three years following the grant, subject to the achievement of demanding performance conditions assessed over the entire vesting period. Payment of these performance units will be subject to a presence condition over the entire three years, except in the event of death or disability (without any performance conditions), or in certain cases of forced termination (the performance conditions remaining applicable).

Demanding performance conditions evaluated over a three-year period were set by the Board of Directors during its meetings of February 19 and March 12, 2019.

KPI	Performance	Vesting as a % of grant
1. Relative share performance index for Air France-KLM vs. sector (30%)(1)	>120	120%
	Between 80 and 100	Between 80% and 120%
	<80	0%
2. Index realized Air France-KLM ROCE vs. budget (40%)(2)	>120	120%
	Between 80 and 100	Between 80% and 100%
	<80	0%
3. Dow Jones Sustainability Index (30%)(3)	Position 1	120%
	Position 2	100%
	Position 3	80%
	Position 4 and lower	0%

(1) Defined as the performance on the Air France-KLM share in any fiscal year relative to the performance of the sector: Lufthansa (40%), IAG (35%), Ryanair (12,5%), easyJet (12,5%).
(2) Calculation is based on absolute ROCE.
(3) The Dow Jones Sustainability Index ("DJSI") results are announced in September of each year.

The number of performance units granted in 2019 will be calculated on the basis of the Air France-KLM opening share price on August 17, 2018. The payment of performance units from 2022 (subject to performance and presence conditions) will be calculated relative to the share price following the announcement of the results for the latest financial year.

— Specific Long-Term Incentive Plan

The Group intends to launch targeted strategic actions aimed at improving the medium and long-term operational performance, to the level of the best international airlines, while taking into account the environmental and societal issues concerning its growth. Accordingly, the specific Long-Term Incentive Plan applicable to Mr. Smith and a number of the Group's other managers and employees has been established pursuant to the Board of Directors resolutions of August 16, 2018 and March 12, 2019.

This plan provides for Mr. Smith to be granted, annually in 2019, 2020 and 2021, performance units equivalent to a sum of €1 million, payable in shares[1] at the end of a three-year period following the grant, subject to the achievement of specific performance conditions, evaluated over the entire vesting period. Note that that one performance unit will confer the right to one Air France-KLM share.

(1) During its meeting of March 12, 2019, the Air France-KLM Board of Directors decided that Mr. Smith would be paid in Air France-KLM shares and not in cash as mentioned in the press release of August 20, 2018.

The performance conditions which were set by the Board of Directors during its meetings of August 16, 2018 and March 12, 2019 are as follows:

	Performance	Vesting as a % of grant
1. Air France-KLM relative COI (80%) reduction in the performance gap with IAG and Lufthansa Group in 3 years (2019, 2020, 2021)	Air France-KLM over performing LH and IAG	Max (100%)
	Reduce gap with Lufthansa and IAG	100% to 50% (proportionate)
	Decreased gap with Lufthansa or IAG	50% à 0% proportionate
	Increased gap with Lufthansa and IAG	0%
2. CSR performance targets (20%)		See the evaluation rules below

Within the framework of the specific Long Term Incentive plan, the CSR performance criteria are as follows:

		Indicator	Targets
Environmental	1	Reduce CO_2 emissions ($g\ CO_2$/passenger/km, including market based measures)	Long-term target of -20% reduction in the 2011-2020 period: to be evaluated yearly and reported in the CSR report/check yearly if on track to reach this target
Environmental	2	Improve relationship with hub environment (notably on noise)	Keep noise footprint at the same level despite an increase in the number of movements: Air France-KLM noise footprint reported yearly
Social	3	Improve the employee promotor score (EPS)	Improvement of the EPS: monitored in Air France-KLM, Air France and KLM
Social	4	Increase diversity	Increase the percentage of female managers
Societal	5	Increase sustainable management of the supply chain	Track the risk management indicators for suppliers in compliance with the due diligence law (Human Rights & Fundamental Liberties, Health, Environment)
Societal	6	Sustainable initiatives at destinations	Develop environmental and societal initiatives and sponsorship

These criteria are evaluated in the following manner:

KPI	Performance	Vesting as a % of grant
KPIs with the same weight	Significantly above target	Max (100%)
	At target	50%
	Significantly below target	0%

Payment of these performance units will also be subject to a presence condition over a three-year period, except in the event of death or disability (without performance conditions) or in certain cases of forced termination (the performance conditions remaining applicable).

The number of performance units granted in 2019 will be calculated on the basis of the Air France-KLM opening share price on August 17, 2018. Payment of these performance units from 2022 (subject to performance and presence conditions) will be made in Air France-KLM shares (one performance unit conferring the right to one share).

— Severance payment and benefits in kind

Mr. Smith will continue to benefit from the severance payment granted by the Board of Directors in its meeting of August 16, 2018, subject to approval by the Shareholders' Meeting of May 28, 2019.

Mr. Smith will also benefit from the usual benefits in kind (company car with chauffeur, supplementary pension scheme benefitting all Group personnel, supplementary health insurance and disability coverage, provision of free airline tickets, Group CEO civil liability insurance – D&O) and benefits consistent with policies applied within the Group for senior manager expatriation and mobility (accommodation, relocation costs, school fees, and certain advisor fees).

— Other

Mr. Smith will not benefit from an employment contract nor from a top-up pension plan, non-compete clause, stock options, or bonus shares.

2. 2019 compensation policy for the Chairman of the Board of Directors

As recommended by the Remuneration Committee, during its meetings of October 29, 2018 and March 12, 2019, the Air France-KLM Board of Directors set the fixed and variable compensation granted to the Chairman of the Air France-KLM Board of Directors in respect of the 2019 financial year.

— Annual compensation (fixed and variable)

Ms. Couderc will benefit from gross annual fixed compensation of €200,000 in respect of her duties as Chairman of the Board of Directors.

Ms. Couderc will not benefit from variable or multi-year compensation.

— Long-term compensation or specific long-term incentive plan

Ms. Couderc will not benefit from a long-term incentive plan or from a specific long-term incentive plan

— Directors' fees

Ms. Couderc will not receive directors' fees in respect of her Board director duties.

— Severance pay

Ms. Couderc will not benefit from severance pay.

— Benefits in kind

The material resources made available to Ms. Couderc cannot, in practice, be separated from the performance of her duties as Chairman of the Board of Directors.

— Others

Ms. Couderc will not benefit from an employment contract nor from a top-up pension plan, non-compete clause, stock options, or bonus shares.

2.6 CEO COMMITTEE

At its meeting of February 19, 2019, the Board of Directors unanimously approved the presentation given by the Chief Executive Officer of Air France-KLM outlining, in particular, the principles of managerial governance aimed at simplifying and improving the Group's governance to reach European airline leadership *(See Highlights of the beginning of the 2019 financial year)*.

One of the key elements in attaining the Group's long-term goals is the establishment of a CEO Committee, which is responsible for determining the strategic orientations of all the Group's airline companies and operational entities.

The CEO Committee is chaired by Mr. Benjamin Smith, Chief Executive Officer of Air France-KLM, and has three other members reporting directly to Mr. Smith:

- Ms. Anne Rigail, Chief Executive Officer of Air France;
- Mr. Pieter Elbers, Chief Executive Officer of KLM; and
- Mr. Frédéric Gagey, Chief Financial Officer of Air France-KLM.

On the occasion of this meeting of the Air France-KLM Board of Directors, Ms. Anne Rigail and Mr. Pieter Elbers were appointed Deputy Chief Executive Officers of the Group.

2.7 GROUP EXECUTIVE COMMITTEE

Chaired by the Chief Executive Officer of Air France-KLM, the Group Executive Committee is composed of eleven members, plus a secretary:

- the Chief Executive Officer of Air France-KLM, the Chief Executive Officer of KLM, the Chief Executive Officer of Air France and the Chief Operating Officer of KLM; and
- the seven heads of the Group's functions.

		Relevant professional experience	
Members at December 31, 2018	**Age at December 31, 2018**	**Sector**	**Experience**
Benjamin Smith Chief Executive Officer, Air France-KLM	47 years	Air Transport	28 years
Pieter Elbers Chief Executive Officer, KLM	48 years	Air Transport	26 years
Anne Rigail Chief Executive Officer, Air France	49 years	Air Transport	27 years
Patrick Alexandre Executive Vice-President Commercial – Sales & Alliances, Air France-KLM	63 years	Air Transport	37 years
Pieter Bootsma Executive Vice-President Commercial – Strategy, Air France-KLM	49 years	Air Transport	23 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	55 years	Air Transport	23 years
René de Groot Chief Operating Officer, KLM	49 years	Air Transport	28 years
Marcel de Nooijer Executive Vice-President Cargo, Air France-KLM	50 years	Air Transport	23 years
Frédéric Gagey Chief Financial Officer, Air France-KLM	62 years	Public Service Air Transport	7 years 25 years
Jean-Christophe Lalanne Executive Vice-President Information Technology, Air France-KLM	57 years	Industry, IT Services Air Transport	21 years 14 years
Anne-Sophie Le Lay Corporate Secretary of Air France-KLM and Air France	47 years	Law Corporate law/ Governance, Automotive Industry Air Transport	6 years 17 years 1 year

Secretarial services to the Executive Committee are provided by the Air France-KLM Chief Executive Officer's Chief of Staff.

Information on the way in which the company seeks a balanced representation of men and women within the Air France-KLM Executive Committee

This information is provided in *Section 4.2.4 Fostering diversity and combating discrimination* in this Registration Document.

Information on the results for diversity within the top 10% of the positions with the highest level of responsibility.

This information is provided in *Section 4.2 Human resources* in this Registration Document

2.8 SHARE CAPITAL AND SHAREHOLDER STRUCTURE

2.8.1 Share capital

At December 31, 2018, the Air France-KLM share capital comprised 428,634,035 fully paid-up shares with a nominal value of one euro, held in registered or bearer form according to shareholder preference. Until April 2, 2016, each share had one voting right attached. In application of the Florange Act[1] as from April 3, 2016, in the absence of a provision to the contrary in the Air France-KLM Articles of Incorporation, all fully paid-up shares held in registered form in the name of the same shareholder for at least two years automatically benefit from a double voting right. There are no other specific rights attached to the shares.

Changes in the share capital over the last three financial years

The change in the share capital over the last three financial years is as follows:

Financial year ended	Total capital (in €)	Number of shares
December 31, 2016	300,219,278	300,219,278
December 31, 2017	428,634,035	428,634,035
December 31, 2018	428,634,035	428,634,035

(1) Furthermore, there are no securities not representing the share capital. Article 7 of Act No.2014-384 of March 29, 2014 for the Reconquest of the Real Economy.

The authorizations currently in force are summarized on the following table

Resolution	Delegation	Maximum amount of issues in nominal	Balance available at December 31, 2018
Authorizations granted by the Combined Ordinary and Extraordinary Shareholders Meeting of May 15, 2018			
No.12	Capital increase (outside the context of a public tender offer) maintaining preferential subscription rights for shareholders	€214 million in nominal (i.e. around 50% of the current share capital)[1]	€138,945,180 in nominal (i.e. around 32.5% of the current share capital)
No.13	Capital increase (outside the context of a public tender offer) without preferential subscription rights for shareholders but with a mandatory priority subscription period	€45 million in nominal (i.e. around 10.5% of the current share capital)	€45 million in nominal (i.e. around 10.5% of the current share capital)
No.14	Capital increase (outside the context of a public tender offer) without preferential subscription rights for shareholders but with an optional priority subscription period (authorization limited to the Company or one of its subsidiaries' issuances of securities giving access to capital securities to be issued in the future and issuances of shares within the framework of public exchange offers	€30 million in nominal (i.e. around 7% of the current share capital)	€30 million in nominal (i.e. around 7% of the current share capital)
No.15	Capital increase (outside the context of a public tender offer) through private placement with qualified investors/restricted group of investors	€30 million in nominal (i.e. around 7% of the current share capital)	€30 million in nominal (i.e. around 7% of the current share capital)
No.16	Increase in the number of securities to be issued in the event of a capital increase (outside the context of a public tender offer) with or without preferential subscription rights ("greenshoe")	15% of the initial issue (not to exceed the cap amounts set under resolutions 12, 13, 14 and 15)	15% of the initial issue (not to exceed the cap amounts set under resolutions 12, 13, 14 and 15)
No.17	Capital increase (outside the context of a public tender offer) to compensate contributions in kind granted to the Company	€30 million in nominal (i.e. around 7% of the current share capital)	€30 million in nominal (i.e. around 7% of the current share capital)
No.18	Capital increase (outside the context of a public tender offer) by capitalization of reserves, profits, issuance premiums, or other amounts eligible for capitalization	€150 million in nominal (i.e. around 35% of the current share capital) [charged against the cap amount of the 12th resolution, usable outside the context of a public tender offer]	€138,945,180 in nominal (i.e. around 32.5% of the current share capital)
No.19	Capital increase (within the context of a public tender offer) maintaining preferential subscription rights for shareholders	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 12th resolution, usable outside the context of a public tender offer]	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 12th resolution, usable outside the context of a public tender offer]
No.20	Capital increase (within the context of a public tender offer) without preferential subscription rights for shareholders but with a mandatory priority subscription period	€22.5 million in nominal (i.e. around 5.25% of the current share capital) [charged against the cap amount of the 12th and 13th resolutions, usable outside the context of a public tender offer]	€22.5 million in nominal (i.e. around 5.25% of the current share capital) [charged against the cap amount of the 12th and 13th resolutions, usable outside the context of a public tender offer]
No.21	Capital increase (within the context of a public tender offer) without preferential subscription rights for shareholders but with an optional priority subscription period (authorization limited to the Company or one of its subsidiaries' issuances of securities giving access to capital securities to be issued in the future and issuances of shares within the framework of public exchange offers)	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 12th and 14th resolutions, usable outside the context of a public tender offer]	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 12th and 14th resolutions, usable outside the context of a public tender offer]
No.22	Capital increase (within the context of a public tender offer) through private placement with qualified investors/restricted group of investors	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 12th and 15th resolutions, usable outside the context of a public tender offer]	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 12th and 15th resolutions, usable outside the context of a public tender offer]

Resolution	Delegation	Maximum amount of issues in nominal	Balance available at December 31, 2018
No.23	Increase in the number of securities to be issued in the event of a capital increase (within the context of a public tender offer) with or without preferential subscription rights ("greenshoe")	15% of the initial issue (charged against the cap amounts set under the resolutions 19, 20, 21 and 22)	15% of the initial issue (charged against the cap amounts set under the resolutions 19, 20, 21 and 22)
No.24	Capital increase (within the context of a public tender offer) to compensate contributions in kind granted to the Company	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 12th and 17th resolutions, usable outside the context of a public tender offer]	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 12th and 17th resolutions, usable outside the context of a public tender offer]
No.25	Capital increase (within the context of a public tender offer) by capitalization of reserves, profits, issuance premiums, or other amounts eligible for capitalization	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 12th and 18th resolutions, usable outside the context of a public tender offer]	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 12th and 18th resolutions, usable outside the context of a public tender offer]
Authorizations granted by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 15, 2018			
No.13	Capital increases reserved to members of a company or Group savings scheme.	2% of the share capital at the time of each issue [charged against the cap amount of the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 (as amended by the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 15, 2018), usable outside the context of a public tender offer]	2% of the share capital at the time of each issue [charged against the cap amount of the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 (as amended by the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 15, 2018), usable outside the context of a public tender offer]

(1) As amended by the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 15, 2018.

A common sub-cap of €15 million applies to resolutions 21 to 24 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. A common sub-cap of €22.5 million applies to resolutions 20 to 24 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. A common sub-cap of €30 million applies across resolutions 14 to 17 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. A common sub-cap of €45 million applies across resolutions 13 to 17 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. A common sub-cap amount of €75 million applies across resolutions 19 to 25 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. Lastly, a common cap amount reduced to €138,945,180 following the reserved capital increases of October 3, 2017 applies across resolutions 12 (as amended by the 12th resolution of the Shareholders' Meeting of May 15, 2018) to 18 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 and the 13th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 15, 2018.

The maximum amount of all the aforementioned capital increases is not autonomous and is charged against the cap amount set in the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 (as amended by the 12th resolution of the Shareholders' Meeting of May 15, 2018). As a result of the realization of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. on October 3, 2017, in a total amount of €75,054,820, the available balance at December 31, 2018 in respect of the 12th resolution was €138,945,180.

Increase in the total nominal cap on authorizations for capital increases

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's share capital with a total cap of €150 million, authorized in respect of its 12th resolution and applicable to all the delegations of competence and authorizations voted by the Shareholders' Meeting of May 16, 2017 (12th to 25th resolutions).

On May 15, 2018, the Combined Ordinary and Extraordinary Shareholders' Meeting increased the total cap amount in the 12th resolution of the Shareholders' Meeting of May 16, 2017 to

€214 million (i.e. around 50% of the current share capital). This cap is applicable to the delegation of competence to decide to proceed with a capital increase with a maintained preferential subscription right for shareholders as voted by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 in its 12th resolution (usable outside the context of a public tender offer) and, more generally, all the delegations of competence and authorizations to proceed with authorized capital increases which are charged against the overall cap as foreseen by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 (12th to 25th resolutions).

At December 31, 2017, the Company had used the authorization to proceed with a capital increase (outside the context of a public tender offer) with a maintained preferential subscription right for shareholders authorized in respect of the 12th resolution. This authorization was used during the Combined Ordinary and Extraordinary Shareholders' Meeting of September 4, 2017 within the framework of two capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. waiving the preferential subscription right for shareholders, each in the amount of €37,527,410 (i.e. a total amount of €75,054,820), at a subscription price of €10 per share (i.e. with a share premium of €9 per share) corresponding to 37,527,410 ordinary shares (i.e. a total of 75,054,820 shares). These two reserved capital increases were realized on October 3, 2017 *(see section 2.8.4 Reinforcement of Air France-KLM's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines)*. The total nominal amount of these two capital increases was charged against the total nominal cap of €214 million relating to the delegation of competence for capital increases which had been voted by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017, as amended by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 15, 2018. At December 31, 2018, none of the other capital increase authorizations had been used.

As a result, at December 31, 2018, given the amount of the two aforementioned capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc., in the sum of €75,054,820 whose amount was charged to the cap amount of the 12th resolution of the Shareholders' Meeting of May 16, 2017 (as amended by the 12th resolution of the Shareholders' Meeting of May 15, 2018), the total amount of capital increases likely to be realized may not exceed €138,945,180 in nominal.

Amendment to Air France-KLM's Articles of Incorporation

The Extraordinary Shareholders' Meeting, deliberating with a majority of two-thirds of the votes held by the shareholders present or represented, is the only entity authorized to amend the Articles of Incorporation in all their provisions pursuant to Article L. 225-96 of the *Code de Commerce*.

The Articles of Incorporation can be found on the website at http://www.airfranceklm.com (Finance/Publications/Articles of Incorporation).

Modalities for shareholders wishing to participate in the Shareholders' Meeting

The modalities for shareholders wishing to participate in Shareholders' Meeting are those stipulated by the regulation in force. They are set out in Article 30 of the Articles of Incorporation and the detailed conditions can be found in the documentation made available to shareholders ahead of the Shareholders' Meeting.

2.8.2 Securities conferring entitlement to shares

In 2018, there were no securities conferring entitlement to shares in circulation.

2.8.3 Authorization to buy back Air France-KLM's own shares

Every year, the Air France-KLM Board of Directors asks the Shareholders' Meeting for the authorization to buy back the company's own shares in the stock market, subject to a number of conditions.

During the 2018 financial year, the Group neither purchased nor sold Air France-KLM shares within the framework of these authorizations.

Within the framework of the collective labor agreement reached in August 2015 between KLM and the VNV pilots' union, Air France-KLM and KLM signed an agreement on December 8, 2016 with the VNV and an independent foundation established by the VNV for KLM pilots. Under this agreement, and in consideration for the gains resulting from the August 2015 agreement, on December 12, 2016 KLM financed the acquisition by the foundation of three million Air France-KLM treasury shares at the market price.

As of December 31, 2018, Air France-KLM held 1,146,379 of its own shares, i.e. 0.3% of the share capital, of which 1,116,420 shares held by KLM in respect of its various stock option plans. The valuation of the portfolio stood at €10.9 million at December 31, 2018.

2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines

During the 2018 financial year, Air France-KLM continued to reinforce its strategic partnerships with Delta Air Lines, Inc. (Delta) and China Eastern Airlines (CEA), launched in 2017.

On July 27, 2017, Air France-KLM announced, firstly, the creation of a global joint-venture between Air France-KLM, Delta and Virgin Atlantic and, secondly, the intensification of its partnership with CEA. These two commercial alliances were consolidated by equity links in 2017: Delta Air Lines, Inc. and China Eastern each acquired stakes in Air France-KLM within the framework of reserved capital increases authorized by the Combined Ordinary and Extraordinary Shareholders' Meeting of September 4, 2017 for a total of €751 million. In addition, Air France-KLM will acquire a 31% stake in Virgin Atlantic, in which Delta has a 49% stake, for around £220 million.

Within this framework, on July 27, 2017, Air France-KLM and CEA on one hand, and Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic, on the other, signed partnership agreements aimed at defining the principles of their closer cooperation:

- on July 27, 2017, Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic signed Memoranda of Understanding laying the foundations for a future combination of the existing joint-ventures between Air France-KLM, Delta Air Lines, Inc. and Alitalia, and between Delta Air Lines, Inc. and Virgin Atlantic, within a single joint-venture. Within this framework Air France-KLM will acquire a 31% stake in Virgin Atlantic, Delta Air Lines, Inc. already holding 49% of the latter since 2013, with the historic shareholder Richard Branson retaining 20%. These agreements foresee specific conditions intended to protect the interests of Air France-KLM in the event of any deterioration in the joint-venture's operating conditions linked to the United Kingdom's exit from the European Union (Brexit). The investment in Virgin Atlantic will be effective at the end of 2019 subject, notably, to obtaining of all the required regulatory authorizations (in particular, from the UK Civil Aviation Authority and, as necessary, the competent competition authorities). Air France-KLM will be represented within Virgin Atlantic by three Board directors, i.e. the same number as Delta Air Lines, Inc., and will, in certain conditions and in common with Delta Air Lines, Inc., hold a sell option relating to its shareholding linked to the United Kingdom's exit from the European Union, whose exercise price is equal to the acquisition price for the stake in Virgin Atlantic, reduced by 10%;
- Air France-KLM and CEA have also intensified their commercial cooperation and will reinforce their partnership within the framework of the existing joint-venture, through the signature on July 27, 2017, of a Marketing Agreement, aimed at defining the principles of their closer cooperation.

Furthermore, to proceed with the reserved capital increases, on July 27, 2017 China Eastern Airlines and Delta Air Lines, Inc. signed two Subscription Agreements with Air France-KLM, wherein both investors agreed to subscribe the new shares in the reserved capital increases and containing the following commitments:

- lock-ups on the stakes wherein China Eastern Airlines and Delta Air Lines, Inc. both undertake, during a five-year period, as of the settlement date (i.e. October 3, 2017), not to offer, sell, pledge or otherwise transfer or dispose of a number of 37,527 shares in Air France-KLM (as this number shall be adjusted for any share split or share consolidation of the Company) without the prior written consent of Air France-KLM, and subject to certain exceptions as set out in the Securities Note for the transaction authorized under No.17-441 dated August 17, 2017, section E.5;
- a standstill commitment wherein China Eastern Airlines and Delta Air Lines, Inc. both undertake, during a five-year period as of the settlement date (i.e. October 3, 2017), not to acquire or subscribe to any additional shares of the Company or other equity securities conferring access to the Air France-KLM share capital, directly or indirectly, which would have the effect of increasing the CEA and Delta stakes to above 10% of the Air France-KLM share capital, without the prior written consent of Air France-KLM, except in the case of (a) any person announcing their intention to launch a public offer (in cash, shares or a combination of both) for the Company, (b) the announcement by Air France-KLM or any competent authority of an upcoming change of control for Air France-KLM, it being specified that "control" shall be defined in accordance with Article L. 233-3 of the *Code de Commerce* or (c) the replacement of at least the majority of members of the Board of Directors, in the event this replacement is not recommended by the Board of Directors;
- an approval clause wherein, for the duration of this Subscription Agreement, China Eastern Airlines and Delta Air Lines, Inc. undertake to obtain the formal approval of the Company's Board of Directors if they wish to sell their Air France-KLM shares to another airline company. In addition, following the expiry of the above-mentioned five-year lock-up undertaking, in the event of a trade sale of Air France-KLM shares to a third party via an over-the-counter transaction, both CEA and Delta Air Lines, Inc. have undertaken to first give Air France-KLM the option of purchasing these shares, at the same pricing conditions.

On October 3, 2017, Eastern Airlines Industry Investment (Luxembourg) Company Limited, a wholly-owned subsidiary of CEA Global Holdings (Hong Kong) Limited, and Delta Air Lines, Inc. subscribed in cash to capital increases without shareholders' preferential subscription rights, each for a total (including issue premium) of €375,274,100, at a subscription price of €10 per share (including issue premium). The acquisition of these shareholdings was accompanied by the appointment of two directors to the Air France-KLM Board of Directors designated, firstly, by China Eastern Airlines and, secondly, by Delta Air Lines, Inc.

Lastly, on March 14 and May 15, 2018, within the framework of the implementation of the future single joint-venture between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic, and following authorization by the Air France-KLM Board of Directors *(see section 2.3.1 Activities and functioning of the Board of Directors - agreements and commitments referred to in Articles L. 225-38 and L. 225-42-1 of the Code de Commerce*, the following agreements were signed:

- a Share Purchase Agreement (or SPA) between Air France-KLM Finance SAS and Virgin Investments Limited, allowing Air France-KLM, through its 100%-owned subsidiary Air France-KLM Finance SAS, to purchase a 31% stake in Virgin Atlantic for £220,100,000. Within this framework, a Disclosure Letter relating to the SPA and compensation from Virgin Investments to Air France-KLM linked to tax liabilities relating to the Virgin Atlantic Group (the Tax Deed) were also agreed between the parties;
- a Shareholders' Agreement) between Air France-KLM Finance, Delta Air Lines, Inc. et Virgin Investments Limited, Virgin Atlantic Limited and Sir Richard Branson, organizing the shareholding in Virgin Atlantic;
- a Put and call Option Deed between Air France-KLM Finance, Virgin Investments and Delta Air Lines, Inc. relating to 31% of the Virgin Atlantic share capital;

- a Joint-Venture Agreement aimed at the implementation of a commercial joint-venture between Air France-KLM, Delta Air Lines, Inc., Virgin Atlantic Airways Limited, Air France and KLM together with the related bilateral Transition Agreement signed with Delta Air Lines, Inc.; and
- an Implementation Agreement between Air France-KLM, Air France-KLM Finance SAS, Société Air France, KLM, Delta Air Lines, Inc. Virgin Atlantic Limited, Virgin Atlantic Airways Limited and Sir Richard Branson, concerning the realization of the transaction.

2.8.5 Air France-KLM shareholder structure

Changes in the shareholder structure

On March 1, 2019, the Dutch State gave notification that, on February 26, 2019, it had crossed the thresholds of 5% and 10% in Air France-KLM's share capital and voting rights, and held 60,000,000 shares representing the same amount of voting rights, i.e. 14.0% of the Air France-KLM share capital and 11.91% of the voting rights. The following table shows the changes in the Company's shareholder structure at February 28, 2019 relative to December 31, 2018 and December 31, 2017.

	% of the share capital			% of exercizable voting rights			% of theoretical voting rights [1]		
	28/02/2019	31/12/2018	31/12/2017	28/02/2019	31/12/2018	31/12/2017	28/02/2019	31/12/2018	31/12/2017
Number of shares or voting rights	428,634,035	**428,634,035**	428,634,035	501,584,617	**501,646,800**	502,115,633	503,847,416	**503,909,599**	504,378,432
French State	14.3	**14.3**	14.3	22.7	**22.7**	22.7	22.6	**22.6**	22.6
Dutch State	14.0	**-**	-	12.0	**-**	-	11.9	**-**	-
Delta Air Lines, Inc.	8.8	**8.8**	8.8	7.5	**7.5**	7.5	7.4	**7.4**	7.4
China Eastern Airlines [2]	8.8	**8.8**	8.8	7.5	**7.5**	7.5	7.4	**7.4**	7.4
Employees (FCPE)	3.9	**3.9**	3.9	6.6	**6.7**	6.6	6.6	**6.7**	6.6
Treasury stock	0.3	**0.3**	0.3	-	**-**	-	0.4	**0.4**	0.4
Others	50.1	**64.0**	63.9	43.7	**55.6**	55.7	43.5	**55.4**	55.6

(1) The theoretical voting rights calculation takes into account all the voting rights including the double voting rights.
(2) Through Eastern Airlines Industry Investment (Luxembourg) Company Limited.

Since April 3, 2016, in application of French law, shareholders holding their shares in registered form for more than two years have benefited from a double voting right.

Shareholder analysis

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM has implemented a procedure for their identification on a quarterly basis.

The TPI (identifiable bearer shares) analysis was carried out on December 31, 2018 on the basis of the following thresholds: intermediaries holding a minimum of 100,000 shares and shareholders holding a minimum of 500 shares. Based on the TPI analysis carried out on December 31, 2018, Air France-KLM is more than 50% held by citizens of the European Union Member States and States party to the European Economic Area Agreement.

	Number of shares			% of the share capital		
	31/12/2018	31/15/2017	31/12/2016	31/12/2018	31/12/2017	31/12/2016
French State	**61,241,325**	61,241,325	52,763,693	**14.3%**	14.3%	17.6%
Dutch State	**-**	-	-	**-**	-	-
Delta Air Lines, Inc.	**37,527,410**	37,527,410	-	**8.8%**	8.8%	-
China Eastern Airlines (1)	**37,527,410**	37,527,410	-	**8.8%**	8.8%	-
Employees (FCPE)	**16,758,690**	16,781,090	18,981,625	**3.9%**	3.9%	6.3%
Treasury stock	**1,146,379**	1,146,376	1,149,203	**0.3%**	0.3%	0.4%
Other European shareholders	**170,442,494**	181,829,592	160,891,858	**39.8%**	42.4%	53.6%
Other non-European shareholders	**103,990,327**	92,580,832	66,432,899	**24.3%**	21.6%	22.1%
Total number of shares	**428,634,035**	428,634,035	300,219,278	**100%**	100%	100%

(1) Through Eastern Airlines Industry Investment (Luxembourg) Company Limited.

At December 31, 2018, Air France-KLM was 58.2% held by European residents.

Shareholder pacts

Air France-KLM is not aware of the existence of any shareholder pacts or agreements whose implementation could lead to a change of control.

Dividend policy

In the past three financial years, Air France-KLM distributed no dividends.

Financial Year	Earnings per share (in €)	Dividend paid (in €)
2016	2.59	-
2017	0.37	-
2018	**0.87**	**-**

2.8.6 A regular dialogue with individual shareholders and investors

The Air France-KLM Group keeps the market informed on its activity through monthly traffic figures and quarterly updates on the trend in its results and strategic orientations. All its regulated information is available on the www.airfranceklm.com website in French and English.

Relations with investors

The Investor Relations department maintains a dialogue with financial analysts and institutional investors. In addition to conference calls and information meetings scheduled to coincide with results announcements, the Group's management regularly meets with financial analysts and institutional investors during road-shows and conferences in Europe, the United States and Asia.

Relations with individual shareholders

The Individual Shareholder Relations Department has a pro-active policy on engaging with individual shareholders. The shareholders' newsletter, with updates on the Group's business activity and objectives, is circulated by email and is available on the website in French and English.

In partnership with the business press, the Group regularly takes part in information meetings exclusively for individual shareholders in the French regions. These are an opportunity for the Group to review its strategy, results and issues in the airline industry, and to address shareholder concerns. In 2018, the Group thus met with shareholders in Bordeaux and Strasbourg. Site visits are also organized.

The Individual Shareholder Relations Department can be reached by email at mail.actionnaire@airfranceklm.com.

Lastly, since 2000, the Individual Shareholders' Committee, has constituted a forum for discussion and suggestions on Air France-KLM's communication aimed at individual shareholders. Comprising twelve members, the Committee meets several times a year including one meeting devoted to planning the Shareholders' Meeting. It also participates in major company events.

In December 2018, *Le Revenue* magazine awarded the Air France-KLM Group the *Trophée d'Or* for the Best Digital Communication in the SBF120.

2.8.7 Legal and statutory investment thresholds

Pursuant to the option provided in Article L. 233-7 of the *Code de Commerce*, Article 13 of the Air France-KLM Articles of Incorporation stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's capital or voting rights or any multiple of this percentage, must notify Air France-KLM by registered mail with acknowledgement of receipt within fifteen days of the date on which this threshold is exceeded.

Notice must again be given under the same conditions each time a further 0.5% of the capital or voting rights is acquired or disposed up to 50%.

In the event of failure to comply with this notification obligation and at the request of one or more shareholders holding at least 0.5% of the capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings for a period of two years following compliance with notification procedures.

Furthermore, any shareholder (whether acting alone or in concert) acquiring more than 5% of Air France-KLM's share capital or voting rights is required to transfer these securities to registered form within fifteen days of the date on which the threshold is exceeded (Extraordinary Shareholders' Meeting of September 25, 1998).

The aforementioned obligations under the Articles of Incorporation do not replace the legal obligation to notify Air France-KLM no later than four trading days, and the French securities regulator the *Autorité des Marchés Financiers* (AMF) no later than five trading days, after the capital and voting right thresholds stipulated by law are exceeded.

Furthermore, if the 5%, 10%, 15%, 20% and 25% capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF within five stock market trading days of its intentions for the next six months. This notification is subject to the conditions and sanctions set forth in Article L. 233-14 of the *Code de Commerce*.

Shareholders	Declaration date	Number of shares (1)	% of the share capital (2)	Increase or reduction
The Capital Group Companies, Inc. (3)	May 10, 2018	22,539,295	5.26	I
The Capital Group Companies, Inc. (3)	June 14, 2018	26,302,671	6.14	I
The Capital Group Companies, Inc. (3)	February 28, 2019	24		R
Dutch State	March 1, 2019	60,000,000	14.0	I

(1) "Number of shares" represents the total number of shares held by the declaring shareholder following the declaration.
(2) "% of the share capital" represents the percentage of the share capital held by the declaring shareholder following the declaration.
(3) Acting as "investment advisor" on behalf of funds. The Capital Group Companies, Inc. aggregates the positions held by Capital Research and Management Company (CRMC) and Capital Group International, Inc. (CGI).

2.8.8 Identification of shareholders and statutory provisions concerning shareholders

Identification of holders of bearer shares

Pursuant to Articles L. 6411-2 to 5 and L. 6411-8 of the *Code des Transports* (French Transport Code), as amended by Act No.2004-734 of July 26, 2004, listed French air transport companies are authorized to include a provision in their Articles of Incorporation allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relating to their nationality. This is because, over time, changes in the shareholder structure of an air transport company whose shares are listed for trading on a regulated market could jeopardize its operating license as an EU air transport carrier, the retention thereof being conditional on EU interests holding a majority of the shares and maintaining effective control, or the traffic rights held by the Company as a French air transport company, pursuant to bilateral international agreements concluded between France and other States outside the European Union.

Identification and monitoring of shareholders

Articles 9 and following of the Air France-KLM Articles of Incorporation set the conditions under which the Board of Directors can or must decide either to reduce the 5% threshold above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form. Thus, when the 40% share capital or voting right threshold has been crossed by non-French shareholders, the Board of Directors can decide to reduce this 5% threshold to 10,000 shares.

Air France-KLM publishes a notice informing the shareholders and the public that non-French shareholders as defined by Article 14 of the Articles of Incorporation own, directly or indirectly, 45% of Air France-KLM's share capital or voting rights. If it appears that non-French shareholders as defined by Article 14 of the Articles of Incorporation represent, directly or indirectly, more than 45% of Air France-KLM's capital or voting rights on a long-term basis, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form. Following an amendment to the Articles of Incorporation in 2014, citizens of the European Union Member States and States party to the European Economic Area Agreement are considered to be French nationals.

Article 10 of the Air France-KLM Articles of Incorporation specifies the information that must be provided to Air France-KLM by shareholders, whether they are private individuals or corporate bodies, subject to the obligation to hold their shares in registered form. This information includes the nationality of the shareholder. Article 11 of the Articles of Incorporation specifies the conditions under which the Board of Directors may exercise its right to approve new shareholders.

Formal notice to sell and mandatory sale of shares

Article 14 of the Air France-KLM Articles of Incorporation stipulates the information that Air France-KLM must publish and circulate to inform the public that over 45% of the capital or voting rights is held by shareholders who are not of French nationality. Based on this threshold, Air France-KLM will be entitled to launch procedures requiring the sale of shares in order to safeguard its nationality. Articles 15 and 16 of the Articles of Incorporation, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations pursuant to the *Code de l'Aviation Civile* (French Civil Aviation Code) and the *Code des Transport* (French Transport Code). The terms for setting the sale price (market price) are foreseen by the *Code des Transports*.

2.8.9 Information on trading in the stock

2.8.9.1 Air France-KLM in the stock market

Air France-KLM shares are listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. The stock is a component of the CAC Next 20, the CAC Large 60 and the SBF 120.

Since February 2008, Air France-KLM's ADR program (American Depositary Receipt) has been traded on the OTC Pink Marketplace under the ticker AFLYY.

The Reuters code for the stock is AIRF.PA or AIRF.AS and the Bloomberg code AF FP.

Pursuant to Article 222-1 of the *Autorité des Marchés Financiers* (AMF) General Regulation, Air France-KLM SA having its registered office in France, its Home Member State, as defined by Directive 2004/109/EC of December 10, 2004, as amended (Transparency Directive), is France and the AMF is consequently its competent market authority as regards ensuring compliance with its regulated information obligations.

2.8.9.2 Stock market performance

Over the 2018 financial year, the share price declined by 32.6% compared with a fall of 10.5% for the CAC 40.

	2018	2017	2016
Share price high *(in €)*	**14.30**	14.65	8.84
Share price low *(in €)*	**6.78**	4.78	4.61
Number of shares in circulation	**428,634,035**	428,634,035	300,219,278
Market capitalization at December 31 *(in €bn)*	**4.1**	5.8	1.6

2.8.9.3 Transactions in Air France-KLM shares in the last 18 months

Air France-KLM shares

Euronext volumes	Trading days	Average price (in €)	Trading range (in €) High	Low	Volumes	Amount (in €m)
2017						
September	21	13.27	13.97	12.58	68,754,290	912.67
October	22	13.34	13.83	12.70	81,675,460	1,086.10
November	22	11.79	14.65	10.83	107,753,016	1,288.15
December	19	12.94	13.74	11.78	52,555,426	670.95
2018						
January	22	13.15	14.51	11.97	67,298,588	887.4
February	20	10.65	12.84	9.64	95,821,632	1,011.9
March	21	9.45	10.32	8.65	81,836,972	780.39
April	20	8.48	9.10	7.95	84,987,854	721.19
May	22	7.35	8.72	6.71	163,611,726	1,212.61
June	21	7.15	7.76	6.65	142,322,898	1,024.60
July	22	7.23	7.90	6.81	106,225,919	771.25
August	23	8.86	9.37	8.06	118,983,989	1,032.72
September	20	8.58	9.08	8.04	75,600,100	650.55
October	23	8.34	8.98	7.75	121,177,740	1,012.57
November	22	9.79	10.40	8.51	95,296,056	926.49
December	19	9.29	10.33	8.90	60,801,516	567.24
2019						
January	22	9.96	11.35	8.68	78,821,670	780.81

Source: NYSE Euronext.

Transactions in the Company's shares realized by the company officers

Summary of the transactions referred to in Article L. 621-18-2 of the *Code Monétaire et Financier* (French Monetary and Financial Code) executed during the 2018 financial year:

Relevant individual	Date of the transaction	Nature of the transaction	Number of shares	Unit price
Benjamin Smith, Chief Executive Officer of Air France-KLM *Declaration 2018DD577928*	September 21, 2018	Acquisition	50,000	€8.9822

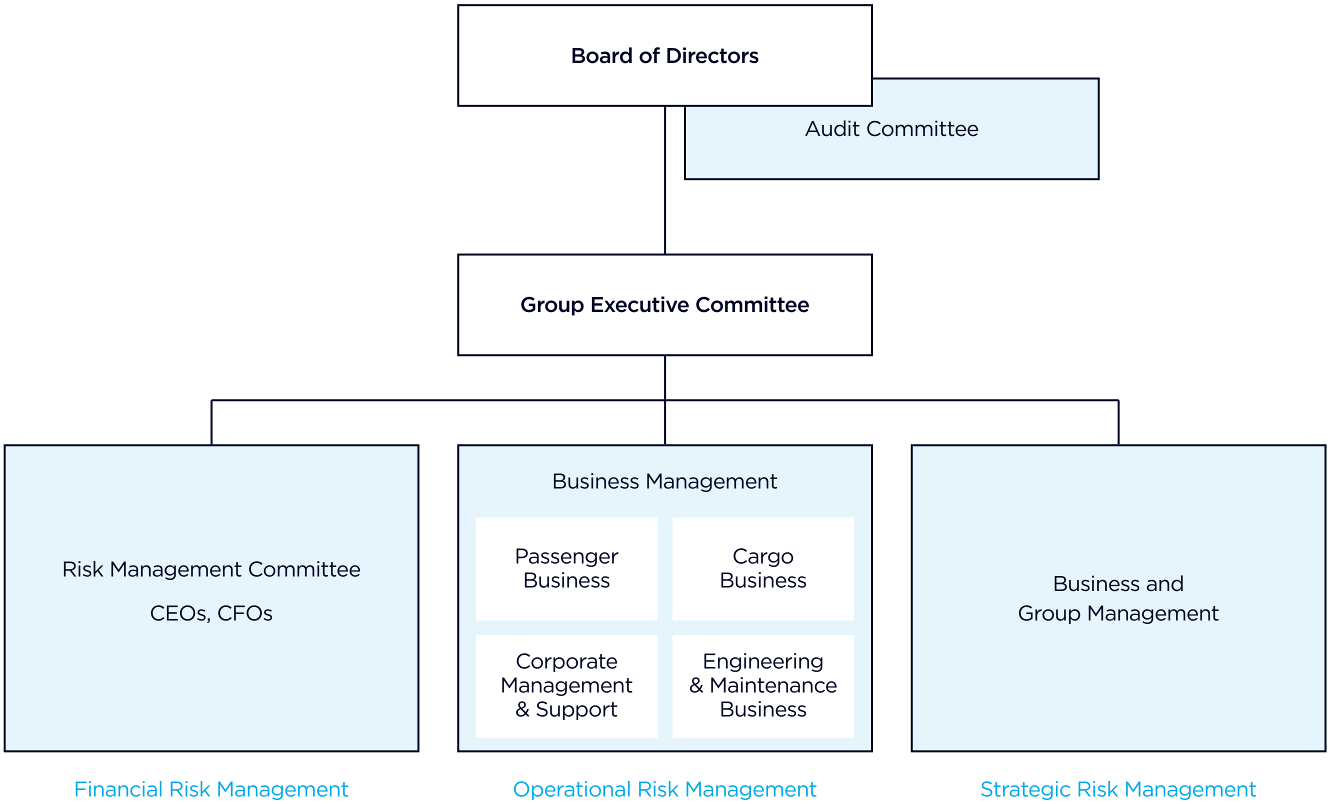
3 RISK AND RISK MANAGEMENT

3.1 ENTERPRISE RISK MANAGEMENT

The Air France-KLM Group is exposed to the general risks associated with the air transport industry and with airline operations, and has consequently implemented a system to identify, analyze, monitor, manage and control its risks.

3.1.1 Risk management process: the players and overall organization

Air France-KLM: the players and governance bodies involved in the risk management process



The risk management process aims to determine the events that could potentially impact the Group and prevent it from achieving its objectives, and to implement a risk management and reporting system.

The risk management process enables, on one hand, the different divisions and principal subsidiaries and, on the other hand, the Group Executive Committee and the Audit Committee to monitor the principal strategic and operational risks, their evolution over time and the measures in place to manage these risks. It thus aims to create and preserve value, and to safeguard the Group's assets and reputation.

Each Group entity is responsible for managing its risks and for producing regular reports.

The overall risk management process also serves as a basis for the Registration Document and makes a major contribution to establishing the annual audit program.

As a facilitator of risk management, Group Internal Audit regularly evaluates the risk management process. Its conclusions are the subject of presentations to the Group Executive Committee and the Audit Committee.

The Risk Management Committee also monitors the management of financial market risks that could have an impact on the financial statements (fuel price, currency exposure, etc.) on a quarterly basis. The risk management process complies with international regulatory standards including the European Union 8th Directive.

In addition to the usual insurance policies covering the industrial sites, the real estate assets and the ancillary activities, the Group's subsidiaries subscribe to specific airline insurance policies covering accidental or incidental damage to aircraft and the resulting costs, liability in relation to their passengers and general liability to third parties in connection with their activities.

3.1.2 Identification and evaluation of the risks

Risk mapping and risk universe procedures have been established and are regularly updated by Internal Audit.

The principal risks are ranked by nature and characterized with respect to their probability of occurrence and potential impact. The risk management procedures are outlined for each risk, together with the situation which is likely to result from their implementation.

Risk monitoring and reporting

Internal Audit produces a quarterly report for the Group Executive Committee and the Audit Committee on the Group's operational risks. The Audit Committee may decide to bring specific points to the attention of the Board of Directors. Reporting on strategic risks is part of the Strategic process.

The operational risk reporting process follows a bottom-up process starting in the different Air France and KLM divisions and the principal sub-subsidiaries. Every quarter, the Internal Control Coordinators who have been designated by the different businesses, entities and subsidiaries establish the risk sheets and send them to Internal Audit, the latter being responsible for their consolidation at company and Group level.

The risk sheets indicate and describe the inherent material risks and the action plans implemented for their mitigation or neutralization, together with an evaluation of their probability of occurrence and the resulting impact. The risk owners and those responsible for the procedures to control risks are specifically named. To ensure the reliability of the process, the risk sheets for each entity are systematically reviewed during regular meetings between Internal Audit and the relevant Executive Vice-Presidents.

The Group's operational risk sheets (summarizing the operational risks of the entities), which detail any new risks or those which have been withdrawn, and the main changes, are the subject of a presentation to the Group Executive Committee which approves them prior to their presentation and review by the Audit Committee.

In 2018, to complete the Extra-Financial Performance Statement, Air France-KLM established a specific working group responsible for reviewing and assessing the extra-financial risks for the Group (*see Section 4*). The most material risks are an integral part of the Group's operational risk sheet.

Generally speaking, the management of operational risks is at the heart of the steering procedure for the Air France-KLM Group's businesses. To this end, the additional contributions from Internal Control and the Integrated Management System (IMS) enable the consolidation of an increasingly-prevention-oriented approach. By virtue of the IMS, a risk-scoring matrix (frequency, gravity), an analysis methodology and the "Bowtie" tool are thus used, based on a homogeneous, multi-risk rationale.

Management of risks by the Risks-Insurance departments

Within Air France and KLM, each of the Risks-Insurance departments constitutes an integral part of the Internal Control process. They identify the insurable risks at the level of each company and their subsidiaries, draw up the insurance policies and contribute to the prevention recommendations.

3.2 RISK FACTORS AND THEIR MANAGEMENT

The system for managing risks liable to affect the Group's activity, as set out in section 3.1, aims to identify and analyze these risks, and reduce the probability of their occurrence together with their potential impact on the Group.

This section outlines the main risks to which Air France-KLM considers itself exposed (macro-economic and geopolitical risks, risks linked to the air transportation activity, risks linked to the Group's processes and legal risks), together with the management procedures implemented to mitigate each of these risks. Other risks of which the Group is currently not aware, or those that as of the date of this report it does not consider to be amongst the most significant, could also affect its activities.

3.2.1 Geopolitical and macro-economic risks

Competition in the short, medium and long-haul air passenger transportation market

Description of the risk

The air transport industry is extremely competitive. The liberalization of the European market in 1997 and the ensuing increased competition between carriers has led to a reduction in fares.

In short and medium-haul, the Group competes with other airlines and, in particular, the low-cost carriers which have seen very rapid growth over the last fifteen years. It also competes with alternative means of transportation like the high-speed TGV rail network. An extension to the high-speed rail networks in Europe is liable to have a negative impact on the Group's activity and financial results.

The competition is also very intense in long-haul, particularly on the routes between Europe and Asia, due to the development of new rapidly-growing players like the Gulf State airlines, or on the transatlantic routes due to the growth of the low-cost, long-haul carriers.

Mitigating principles and actions

The Group's different strategic plans seek to respond to these risks, particularly via the restructuring of the point-to-point operations, the accelerated development of Transavia, cost reduction, the product move up-market and the development of partnerships in large high-growth markets. In parallel, the Group is lobbying the authorities for a legal framework ensuring fair competition between carriers. (*See also Section 1.2 Strategic outlook, page **14***).

Furthermore, within the framework of the Open Skies agreement between Europe and the United States, European airlines are authorized to operate flights to the United States from any European airport. While this agreement potentially opens the way to increased competition for Paris-CDG and Amsterdam-Schiphol, it has also enabled Air France and KLM to expand their networks and strengthen cooperation within the SkyTeam alliance within the framework, notably, of a transatlantic joint-venture with their partners Delta Air Lines, Inc. and Alitalia.

Cyclical nature of the air transportation industry

Description of the risk

Local, regional and international economic conditions can have an impact on the Group's activities and, hence, its financial results. Periods of crisis or post-crisis with an unstable economic environment are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to accept delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions.

Mitigating principles and actions

Air France-KLM has a balanced international geographical network enabling it to limit its exposure to risk within a steadily-growing air transportation environment at global level.

Trend in the oil price

Description of the risk

The fuel bill is one of the largest cost items for airlines making oil price volatility a risk for the air transportation industry. A sharp increase in the oil price can have a very material negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies. Similarly, a sharp decline in fuel prices is favorable for airline profitability. However, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty.

Mitigating principles and actions

In addition to permanent efforts to reduce fuel consumption, the Group has implemented a policy of systematically hedging the fuel price risk, as outlined in *Section 3.2.5 – Financial market risks on page **136***.

Terrorist attacks, threats of attack, geopolitical instability, epidemics and threats of epidemics

Description of the risk

Since 2016, the security situation resulting from terrorist attacks perpetrated in France, elsewhere in Europe and in the Group's operational zones, together with world-wide politico-security events (Middle Eastern and African countries) have all represented a range of security risks negatively impacting the Group.

The occurrence of geopolitical instability, terrorist attacks or threats of attack, closure of airspace, military action, outbreaks of an epidemic or perception that an epidemic could occur (e.g. Influenza A) could have a negative impact on both the Group's passenger traffic, and thus its revenues, and on the level of operating expenses.

Mitigating principles and actions

In terms of security, the Group's airlines comply with European and international regulations and submit regular reports to the competent authorities of the measures and procedures in place.

The Group has no hedging in place for air transportation operating losses but is insured for the consequences of an attack on one of its aircraft, and has subscribed war and assimilated risks insurance.

The Group has implemented a series of safety and security management processes in line with the best sector practice.

a. Management of security risks

Protecting individuals and assets from assault, terrorist attacks and threatened attacks, and potential threats to their integrity of any nature is also a major priority for the Group. The Security departments in each Air France and KLM company establish the security policies, analyze the threats and take all the appropriate measures, particularly in relation to the factors involved in geopolitical instability.

b. Management of health risks

Each company is supported by a coordination structure responsible for prevention, crisis management, the circulation of health advice and liaising with the national and international authorities on outbreaks of epidemics or threats of epidemics. More recently, concerning the management of the health crises associated with the Ebola and Zika viruses, the companies have been supported by a dedicated coordination structure. Air France bases its food safety standards on the ISO 22000 norm. To ensure strict control over the quality of catering services, Air France notably carries out some hundred hygiene audits and around 15,000 in-house microbiological checks every year.

The Group has also developed emergency plans and temporary adaptation procedures enabling an effective response to diverse situations should an epidemic, geopolitical or other type of event occur. 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 the Group's businesses. These plans are regularly adjusted to take into account the lessons learnt from events experienced.

BREXIT

Description of the risk

The United Kingdom's exit from the European Union may take place on the basis of negotiated conditions and after a transition period ending December 31, 2020 or via a hard landing on March 29, 2019 ("hard Brexit"). On the latter hypothesis, there may be a number of consequences in terms of the economy, market access and statutory authorizations. Air France-KLM has relatively less exposure than the other European (LCCs) or British carriers.

Mitigating principles and actions

Air France and KLM have measures in place to ensure that a hard landing by the UK has no serious consequences for the Group's airlines and is maintaining close, regular contact with the EU and national authorities. Based on an internal, in-depth evaluation of the risks, even in the event of a no-deal scenario, Air France-KLM and the Group's airlines will be able to maintain their operations and maintenance activities without their being impacted. Customs and logistics issues will, however, require close monitoring and contingency planning.

Competition and market trends in aircraft, engine and component maintenance

Description of the risk

Airframers, engine manufacturers and aircraft component manufacturers are rapidly expanding their after-sales services 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 their business activity on certain products. This competition is putting pressure on the revenue side of the maintenance business due to increased competition in the sale of services and, on the cost side, owing to an aggressive OEM escalation policy. Ultimately, if it were to result in reduced competition in the aeronautics 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 E-jet, A350, B787, etc. The ability to maintain balanced competitive conditions is a priority objective, both for Air France-KLM's commercial activity in maintenance and to contain the Group's maintenance costs.

The MRO Market is showing healthy growth although most of this growth is outside the EU and especially in Asia. To maintain customer proximity and optimize the supply chain, further development of the AFI KLM E&M supply chain is needed via the expansion of local service centers and the regional industrial footprint.

Mitigating principles and actions

Air France-KLM is working on a number of initiatives to limit the impacts inherent to this risk:

- the involvement of the Maintenance teams in fleet renewal campaigns: procurement of licenses and the securing of industrial cooperation with OAMs/OEMs to be able to continue to develop Air France-KLM's commercial activity in maintenance;
- Air France-KLM's current strong market position has the scale and scope to serve as a basis for win-win partnerships with OEMs and other airlines;
- developing repair solutions and the use of Used Serviceable Materials, thereby reducing the dependence on certain OEMs;
- negotiation of the value added contributed by licenses.

Furthermore, at the request of the airlines, IATA is maintaining a watching brief on this issue.

3.2.2 Risks relating to the air transportation activity

Risks linked to airline safety

Description of the risk

Accident risk is inherent to air transportation which is why airline activities – passenger and cargo transportation, aircraft maintenance – are regulated by a series of European regulatory provisions, transposed into French and Dutch law. Compliance with these regulations governs whether an airline is awarded the AOC (Air Operator Certificate) which is valid for three years.

The national Civil Aviation Authority carries out a series of checks on the proper application of these rules covering notably the:

- designation of a senior executive and managers responsible for the principal operational functions;
- appropriate organization of the flight, ground, cargo and maintenance operations;
- deployment of a Safety Management System (SMS);
- implementation of a quality assurance system.

The materialization of this risk could have an impact on the Group's reputation and legal or financial consequences.

Mitigating principles and actions

For Air France-KLM, Flight Safety is the absolute priority. Safety is fundamental to maintaining the confidence of customers and staff and is a day-to-day imperative which determines the Group's activity and the long-term future of the air transportation industry.

All of the Group's businesses are subject to numerous checks and certifications, and meet extremely strict standards and the highest level of regulations in the industry, both at European level with the European Aviation Safety Agency (EASA), and globally with the International Air Transport Association (IATA), whose IOSA Operational Safety Audit is a benchmark within the industry and leads to certification which must be renewed every two years. In 2018, successful audits again took place for both airlines, renewing the certification as of 2019.

To reach the highest possible level of Flight Safety, each airline updates and reinforces its SMS which defines in concrete terms the conditions for the implementation of its risk management system. The SMS, which is an integral part of the organization, procedures and corporate culture, is supported by a commitment made at the highest level of management, and by training and awareness-raising programs for all staff (*See Section 4.4.1 – Flight Safety*).

This risk is covered by the aviation insurance policy.

Risks linked to the environment

Acceptability of air transportation growth

Description of the risk

Airlines accommodate their customers' increased need for mobility, while improving their own energy efficiency and maintaining noise hindrance at an acceptable level for those living near airports. There is increasing public pressure, at both local and global level, concerning flight-related environmental impacts from the aviation industry.

In this respect, the actions implemented by Air France-KLM to limit and reduce its environmental impacts directly influence its ability to manage and develop its activities ("license to grow") in all regions of the world and over the long-term.

The air transport industry is subject to a significant level of environmental legislation governing areas such as the exposure of people to aircraft noise and gas emissions, air quality, the treatment of waste products, and the introduction of taxes on airlines and obligations to ensure the compliance of their operations.

Such legislation may have an impact on the Group's operations and growth which could be reflected in more substantial costs and could lead to competitive distortions between airlines when applied solely to a specific geographical area.

Mitigating principles and actions

The airline industry is amongst the sectors that are mobilizing the most to reduce their carbon footprints and was the first sector to commit to collectively reducing its CO_2 emissions. As early as 2009, the International Air Transport Association (IATA) set an ambitious global commitment to stabilizing the CO_2 emissions from international aviation at the 2020 level (Carbon Neutral Growth as of 2020), and to reducing CO_2 emissions by 50% in 2050 relative to their 2005 level.

Air France-KLM is a member of the representative associations for the airline industry (IATA, ATAG, A4E, FNAM) which engage in lobbying activities directed at the relevant national, European and international authorities and bodies (ICAO, European Union, supervisory Ministries in France and the Netherlands) to promote effective solutions for the environment, but also to ensure that the measures which are put in place do not lead to any distortion in competition between the air transportation players. For example, Air France-KLM has always supported the implementation of a market-based mechanism for carbon emissions considering that, provided it is equitable, such a system is more effective from an environmental standpoint than a simple tax.

Regular discussion meetings take place with residents' associations, local elected representatives and the public authorities to address all the matters relating to the effects of air transportation activity around airports.

Climate change

Description of the risk

To meet the requirements of Article 173 III of Act No. 2015-992 of August 17, 2015 relating to the Energy Transition for Green Growth, the Group takes into account the financial risks linked to the effects of climate change and implements measures to mitigate them through a low-carbon strategy deployed in all components of its business.

Climate change will lead to more frequent extreme weather events that will have a greater or lesser impact on all world regions. Air operations depend on meteorological conditions and may be impacted by other natural phenomena (earthquakes, volcanic eruptions, floods, etc.) which may lead to operational disruption such as flight cancellations or delays and diversions. As a general rule, the duration of such adverse natural events tends to be short and their geographical range limited but they may require the temporary closure of an airport or airspace. They may have significant operational and financial repercussions for the Group's activity given the regulations requiring the Company to assist passengers in the European Union territory (e.g. passenger repatriation and accommodation).

Mitigating principles and actions

To adapt to the already-visible consequences of climate change such as more frequent extreme weather events, Air France-KLM has a policy in place to ensure safe operational and passenger handling conditions, and regularly conducts comprehensive risk analyses to optimize these arrangements.

Through its international operations, Air France-KLM is present in all continents and operates in different weather conditions, including the most extreme. It regularly reviews the operational risks to improve the existing procedures. The operation of a network balanced between the different continents and the flexibility linked to the composition of the fleet enable the financial consequences of these impacts to be minimized.

Within this context, Air France-KLM lobbies the French and European authorities, either directly or through representative bodies, to develop robust crisis management tools.

With its partners, the Group has deployed procedures aimed at guaranteeing its services as far as possible and also minimizing the consequences of these situations for its customers. In such circumstances, the Group deploys commercial measures to enable passengers to defer their travel if they so wish, or change their destination. The Group has no hedging in place for operating losses incurred due to such events.

The Group implements measures to mitigate the impact of climate change through a low-carbon strategy. The use of sustainable fuels is a promising avenue towards reducing CO_2 emissions from aviation and a key element in achieving Air France-KLM's CO_2 emission reduction targets as well as those of the aviation industry as a whole.

Carbon credit risk

Description of the risk

As an air operator, the Group is an emitter of carbon dioxide, meaning that it has, since 2012, been subject to the European Union emission quota system (EU-ETS or European Union Emission Trading Scheme). It is thus required to offset its emissions by purchasing carbon quotas in the financial markets.

As of 2021, the Group will be subject to the global carbon offsetting mechanism, adopted by the ICAO in October 2016.

The ICAO resolution stipulates that "CORSIA is to be the market-based measure applying to CO_2 emissions from international aviation", thereby avoiding the imposition of overlapping national and regional mechanisms. Air France-KLM and the other IATA airlines are lobbying for the CORSIA provisions to replace the EU-ETS as of 2021 for the scope of international flights.

Mitigating principles and actions

At financial level, the Group has implemented a carbon credit risk hedging strategy in the form of forward purchases, a strategy whose components are approved by the Risk Management Committee.

At operational level, the Group is also committed to exploring all avenues potentially reducing its fuel consumption and carbon emissions:

- at its own initiative: modernization of the fleet and engines, improved fuel management, fuel savings plan, reduction in weight carried, improvement in operational procedures; and
- in cooperation with the authorities: SESAR project (Single European Sky, optimization of air traffic control), improvement in operational procedures.

Furthermore, the Group supports and calls for research into the development and use of new more-environmentally-friendly fuels (biofuels).

The Group also uses an internal carbon price (price range) when taking a decision on whether to proceed with investments and projects, to factor the carbon risk into its decision-making scenarios.

(*For more details on Risks linked to the environment see Section 3.2.2 – Environmental issues*).

Loss of flight slots or lack of access to flight slots

Description of the risk

Due to the saturation of major European airports, air carriers must obtain flight slots which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers. Pursuant to this Regulation, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. The Regulation does not provide for any exemptions to this rule for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and no longer use their flight slots at the required 80% level during the period in question. The European Commission can, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots, as it has done on several occasions.

Any loss of flight slots or lack of access to flight slots due to airport saturation could have an impact in terms of market share, results and even growth.

Mitigating principles and actions

Air France-KLM applies the provisions of the European Regulation on the allocation of flight slots, guaranteeing an air carrier the ongoing use of these slots from one season to another provided they have been used for 80% of the time excluding exceptional circumstances. Air France and KLM also liaise with their national authorities to ensure the regular availability at their principal hubs of the capacity necessary to the Group's growth. This is particularly important at Schiphol Airport where growth capacity is currently limited.

Reinforcement of passenger compensation rights

Description of the risk

a. **European regulations**

Within the European Union, the rights of passengers in the event of flight delays, cancellation or denied boarding are defined by Regulation (EC) No.261/2004 of February 11, 2004 which came into force in 2005. It applies to all flights, whether scheduled or unscheduled, departing from an airport located in a European Union Member State and establishes the European rules for compensation and assistance on denied boarding, substantial delay, flight cancellation and class downgrading.

Numerous rulings by the European Court of Justice (ECJ) have contributed to reinforcing passenger rights by reducing the possibilities for airlines to invoke "extraordinary circumstances" to exempt them from the compensation foreseen in Regulation No.261/2004.

The ever-stricter regulations applying to the European airlines, but only partially applicable to airlines of third-party countries, only increase the existing distortions to competition. The emergence of companies specialized in passenger compensation is increasing the financial cost resulting from this risk. The amount of compensation is, however, the same for Air France-KLM, whether the customer contacts the company directly or via an intermediary.

b. **US regulations**

In the United States, the regulation increasing US airline passenger protections came into effect on August 23, 2011, and its provisions are now in force.

The US regulations in terms of passenger rights apply to all airlines operating in the US territory and/or marketing flights to/from the United States which means that Air France-KLM is concerned by these US protections.

c. **National regulations**

IATA has collated some fifty national regulations in a database to be able to monitor changes more effectively.

Mitigating principles and actions

To keep the effects of these regulations as much as possible within financially-acceptable limits, the Group lobbies the national and European institutions, both directly and indirectly through the air transportation industry's professional associations (IATA, A4E), to obtain reasonable obligations which create no competitive distortions or major additional costs which could lead it either to increase its fares or reduce costs.

Changes in international, national or regional regulations and legislation

Description of the risk

Air transportation activities remain highly regulated particularly with regard to the allocation of traffic rights for extra-community services and the conditions relating to operations (standards on safety, aircraft noise, CO_2 emissions, airport access and the allocation of slots). Within this context, the EU institutions can adopt regulations which may prove restrictive for airlines and are liable to have significant organizational and/or financial impacts. Any changes to regulations and legislation may increase the Group's operating expenses or reduce its revenues.

Mitigating principles and actions

The Air France-KLM Group actively defends its positions with the French and Dutch governments and European institutions, both directly and through industry bodies such as the Airlines for Europe association (A4E) regarding, firstly, changes to European and national regulations, and, secondly, a reasonable and balanced allocation of traffic rights to non-European airlines.

Regulatory authorities' inquiry into the commercial cooperation agreements between carriers

Description of the risk

Alliance operations and commercial cooperation are required to comply with the competition law in force. Airlines are required, particularly in Europe, to ensure that their operations are compliant with the applicable competition rules. At any time, the European Commission also has the right to open inquiries into any cases of cooperation it considers of interest to the European Community.

Mitigating principles and actions

In May 2015, the Directorate General for Competition (DG COMP) adopted a favorable decision pursuant to Article 101 of the Treaty on the Functioning of the European Union on the transatlantic joint-venture (Air France-KLM, Delta Air Lines, Inc., Alitalia).

In light of the final undertakings offered by the transatlantic joint-venture, the Commission authorized this agreement for a ten-year period as from the date of its adoption.

The US authorities had already published their conclusions, recognizing the benefits for competition of this joint-venture. In this regard, the joint-venture between Air France-KLM, Delta and Alitalia has benefited from anti-trust immunity (ATI) on departure from the United States since 2008.

Commitments made by Air France and KLM vis-à-vis the European Commission

Description of the risk

In 2003, for the European Commission to authorize the business combination between Air France and KLM, the two companies had to make a number of commitments, notably with regard to the possibility of making landing and takeoff slots available to competitors at certain airports. These commitments (read in combination with those made within the framework of the May 2015 decision relating to SkyTeam) were recently invoked by Norwegian to access slots at the Amsterdam-Schiphol hub to be able to operate four flights a week between Amsterdam and New York as of the Summer 2019 season.

Mitigating principles and actions

The Air France-KLM Group has ascertained that the eventual consequences of slot availability is unlikely to lead to a financial impact on its results for the relevant routes that is deemed to be material. Furthermore, Air France-KLM remains in regular touch with the Commission to discuss the need to maintain these commitments adopted nearly fifteen years ago.

3.2.3 Risks linked to the Group's processes

Failure of a critical IT system, IT risks and cyber criminality

The Group Executive Vice-President, Information Technology, assisted by the Group IT Committee and the Group Chief Information Security Officer, is responsible for managing the risks relating to their processes and defining, in particular, the IT and Telecommunications Security policy.

The IT and telecommunications systems are of primordial importance when it comes to the Group's day-to-day functioning. The IT applications, deployed in the operating centers or via cloud computing systems, are accessed via a network comprising thousands of work positions and a growing number of mobile devices. The information contained in all these systems is exposed to a growing number of threats. The information exchanged with customers and third parties is proliferating while aircraft are increasingly connected to the Information System. The number of laws and regulations to be taken into account is also growing.

This context requires a high level of security, which is guaranteed by the mandate of the Head of IT and his staff who are responsible for System security. Air France and KLM ensure the allocation of the resources required to counter such threats, secure the information and guarantee the regulatory compliance of the information systems.

Business continuity and regulatory compliance

Description of the risk

The 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 both inside and outside the Group. The materialization of one of these risks could have an impact on the Group's activity, reputation, revenues and costs, and thus its results.

Mitigating principles and actions

Air France-KLM monitors the secure functioning of the IT systems 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.

The infrastructures of the back-up operating centers and business continuity plans are tested regularly. The access controls to the IT systems and to the data exchanged within the company are governed by rules which meet international laws and standards.

Companies specializing in IT security, external auditors, Internal Audit and Internal Control all regularly evaluate the relevance and effectiveness of the solutions in place.

The risk of damage to the IT facilities and any resulting business interruption are covered by an insurance policy.

Data security

Description of the risk

Management of the Group's assets is supported by rigorous management of the required data, whose consistency and integrity presents a permanent challenge in IT projects, and in the operation of digital services. Frequent changes to both applications and processes call for the ongoing adaptation of IT management tools and methods, in coordination with the businesses and their regulatory and operational requirements.

Mitigating principles and actions

The 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 work station together with control over the data exchanged outside the Company all comply with rules pursuant to national, European and international standards. Campaigns to raise the awareness of all staff on the potential threats and encourage best practices are regularly carried out. Specialized companies, external auditors and Internal Audit all regularly evaluate the effectiveness of the solutions in place.

Data security is a priority for the Group, and specifically the protection of data of a personal nature pursuant to the relevant laws and regulations. The new EU General Data Protection Regulation (GDPR) is being applied via the GDPR and NIS compliance programs. Within each company, specialist teams ensure that the processing of personal information by the company complies with the relevant legislation.

In each Air France and KLM company, the Data Privacy Officers define the applicable policies, promote the data protection culture and ensure the effective fulfilment of the regulatory standards.

Cybercriminality

Description of the risk

As with any business making extensive use of modern communication and IT data processing technologies, the Group is exposed to threats of cyber-criminality.

Cyber-criminality refers to a wide range of different activities linked to the improper use of data and the Information System for personal, financial and psychological ends. Their heavy dependence on IT and communication technologies makes airlines vulnerable to cyber-criminality.

Mitigating principles and actions

To protect itself against this risk, the Group deploys substantial resources aimed at ensuring business continuity, data protection, the security of personal information pursuant to law and the safeguarding of at-risk tangible and intangible assets.

The Cybercrime program, approved by the Group's Audit 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. An audit of this program was realized in 2017 which confirmed the best practices in place and the orientations adopted. The recommended improvements have been added to the program. The Group complies with the Cyber standards of the Original Aircraft Manufacturers.

In 2018, the Group subscribed a cyber insurance policy to transfer a part of this risk.

Non-compliance with regulations, including competition and anti-bribery laws

Description of the risk

Non-compliance with regulations, like competition laws, anti-bribery laws, trade sanctions or export control regulations owing to the unethical behavior of employees can result in a negative impact on the Group's reputation, and lead to substantial fines and other legal proceedings.

Mitigating principles and actions

Various measures are in place to mitigate the risk of non-compliance with laws and regulations. The preventive measures include, for example, guidelines in the form of manuals, policies and instructions to clarify expected and acceptable behavior, training in the form of e-learning as well as personal training, and the ability to report any compliance concerns.

With regard to competition law, Air France-KLM has developed its policy to prevent anti-competitive practices by circulating a Competition Law Compliance Manual which is available in three languages.

Other prevention-based tools include dedicated training modules. Having completed this training and taken an evaluation test, employees sign an individual declaration promising to respect the competition rules applying to their functions.

Regarding corruption, further to the anti-bribery campaign at the end of 2017, ongoing efforts have been deployed to further strengthen the awareness and knowledge of employees regarding the prevention of bribery like, for example, presentations and discussions, improved access to compliance documents and communication by the Group's management.

For more detail see Section 4.5.3.

Operational performance and customer risks

Description of the risk

For customers, operational performance is a cornerstone of the product. In the day-to-day operations, where there is pressure on airlines and growing congestion in airports and airlines, and where regulations are increasingly complex (e.g. security), within a context of social unrest within the airline industry but also externally (air traffic controller and ground handler strikes), increased traffic volume brings with it a risk of sub-optimal operational performance or a lower standard of customer service, leading to an increase in the costs of operational performance and a reduction in levels of customer satisfaction.

Mitigating principles and actions

For both Air France and KLM, the operations control center is at the heart of operations and any disruption is managed in an integral manner. In 2018, numerous action plans were deployed on operational excellence, service disruption management and recovery, security, network agility, compensation procedure (EU261), crew and other critical resources. The goal is to reduce the number of distortions, reduce the impact on customers, improve customer satisfaction and reduce the costs of sub-optimal performance.

Working conditions and social dialogue

Description of the risk

Employees are at the heart of Air France-KLM and maintaining their trust is vital to enabling them to attain their highest standards of performance to the benefit of customers. Employee engagement and social stability is imperative for the long-term viability and success of the company.

The staff in the different Air France-KLM Group entities have different (local) HR contracts and policies which comply with the employment legislation in force in their respective countries. Strategic changes and changes impacting the working conditions of staff are applied pursuant to the legislation and protocols as defined for each of the entities comprising the Group.

The Air France-KLM Group recognizes the constraints and risks to which it is exposed and the need to adapt to a more rapid pace of change. At the same time, the Group seeks to preserve cohesion by fostering a constructive and transparent workplace dialogue and by pursuing a policy based on respect and responsibility.

Mitigating principles and actions

To ensure the effective coordination of the workplace dialogue, responsibilities and accountabilities are defined for each entity and category of staff. At Group level, coordination takes place between the different entities, specifically for transverse topics concerning categories of staff across several entities. Significant changes to the HR policies and collective labor agreements are approved at the highest level of management within the airlines and the Group.

Various initiatives aimed at improving the workplace dialogue are planned and implemented in the different Group entities

In Air France and KLM, an Employee Promotor Score indicator has been implemented to measure the engagement of employees. The results feed into local action plans aimed at improving employee engagement and opening up the dialogue between managers and their teams. Decreasing the distance between management and staff is key to understanding the needs and concerns of staff, tackling any issues in a pro-active manner and avoiding any escalation.

The level of employee engagement is included in the targets for the highest level of management within Air France-KLM. Continuous monitoring takes place and the methodology will be subject to ongoing improvement (*See Section 4.2 – Human Resources*).

Pension plans

Description of the risk

As per December 31, 2018, the Group's main commitment in terms of defined benefit schemes was the pension plan for Ground Staff based in the Netherlands.

Under IAS 19, the Air France-KLM Group is exposed to changes in external financial parameters (e.g. discount rates, future inflation rate) which could lead to annual fluctuations in its income statement and equity with no impact on cash. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions are recognized in equity and are not taken against profit and loss. The potential volatility is explained in Note 4 on "Accounting principles – Employee benefits" and in Note 29 "Other provisions" to the consolidated financial statements.

Note 29 to the consolidated financial statements presents the sensitivity of the defined benefit cost recognized in profit and loss and the defined benefit obligation to changes in the discount rate, and the level of increases to salaries and pensions.

Mitigating principles and actions

The KLM Ground Staff pension plan may create accounting volatility for the Group'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.

The current calculations led to the KLM Ground Staff pension plan figuring as an asset in the balance sheet at December 31, 2018, the assets in the funds being higher than the value of the defined benefit obligations.

3.2.4 Legal risks

Within the normal exercise of their activities, the company and its subsidiaries are involved in disputes which may give rise to provisions in the consolidated financial statements and information in the notes regarding potential liabilities (See also Note 30 in the Notes to the consolidated financial statements, *page **272***).

3.2.5 Financial market risks

Risks relating to the fuel price

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC and approved by the Board of Directors for the whole of the Air France-KLM Group.

The hedging strategy sets the time span of the hedges at two years (a rolling 24 months) and the target hedging ratio at 60%. Furthermore, the hedging is based on the use of simple futures or option-based instruments. These hedging instruments must be eligible for hedging pursuant to the accounting standards in force.

In respect of the application of IFRS 9, hedging by component has applied since January 1, 2018. Since the Group's fuel procurement is strongly correlated to the Jet Kerosene Cargoes CIF NEW index, components specific to this fuel risk are used (Brent ICE, Gasoil ICE, Jet CIF NWE) to align the fuel hedging accounting and the Group's risk management policy more effectively.

Within the framework of a dynamic approach, the Group has implemented the monitoring of indicators capping the potential maximum loss and the potential maximum gain (value of the portfolio prompting its restructuring).

Lastly, an indicator enabling the extreme risk of the portfolio to be measured has been deployed. The level of this Value at Risk indicator is calculated and analyzed every week and may also trigger a restructuring of the portfolio.

At December 31, 2018, the Air France-KLM Group's fuel exposure, based on futures prices at December 31, 2018 ($54.80 a barrel for 2019 and $56 a barrel for 2020), was as follows:

(in US$ million)	2019	2020
Gross expenditure before hedging	5,707	6,050
Hedge percentage	58%	29%
Gain on hedging	(321)	(193)
Net expenditure after hedging	6,028	6,243

Based on the forward curve at December 31, 2018, an increase of US$10 per barrel over 2019 would give an average price of US$64.76 per barrel and would lead to a US$425 million increase in the fuel bill after hedging, i.e. a total fuel bill of US$6,456 million for the Air France-KLM Group. Symmetrically, a fall of US$10 per barrel over 2019 would give an average price of US$44.76 per barrel and would lead to a US$411 million reduction in the fuel bill after hedging, i.e. a total expense of US$5,620 million.

Currency risk

Most of Air France-KLM's revenues are generated in euros. However, because of its international activities, the Group incurs currency exchange risks. The currency risk management for the Group's airline subsidiaries is centralized within each airline company while the currency risks incurred by investments by the Group's holding company are managed at holding company level.

The Group's main exposure relates to the US dollar. Since expenditure on items such as fuel and components exceeds the amount of overall revenues in US dollars, the Group is a net buyer of US dollars, representing a residual structural risk.

As a result, any significant appreciation in the US dollar against the euro could result in a volatile and negative impact on the Group's financial results.

Additionally, the Group is a net seller of other currencies, the level of its revenues in currencies other than the dollar exceeding its expenditure. This exposure is much lower than with the US dollar. A significant decline in these currencies against the euro could have a negative effect on the Group's financial results.

The risk management of the Group's overall currency exposure is carried out on the basis of a forecast net exposure for each currency. Currencies highly correlated to the US dollar are usually aggregated with the US dollar exposure.

Operational exposure

For each currency hedged, the time span of the hedging is a rolling 12 to 24-month period, the first four quarters being relatively more hedged than the following four. The RMC sets hedging targets for the US dollar, sterling and the yen.

2019 operational exposure ("Transaction risk")

(in millions of currencies at December 31, 2018)	US Dollar	Sterling	Yen
Net position before hedging	(2,779)	533	33,432
Currency hedge	1,682	(339)	(16,100)
Net position after hedging	(1,097)	194	17,332

For 2019, the maximum impact on income before tax of a 10% currency variation relative to the euro is shown in the following table. These results cannot be extrapolated due to the use of option-based instruments.

(in € million)	US Dollar	Sterling	Yen
10% increase relative to the euro	(123)	28	41
10% fall relative to the euro	158	(30)	(38)

Investment exposure ("Translation risk")

Aircraft are purchased in US dollars, meaning that the Group is exposed to an appreciation in the US dollar relative to the euro in terms of its investment in flight equipment.

The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

The net investments in US dollars figuring in the table below reflect the contractual commitments as of December 31, 2018.

(in € million)	2019	2020	2021	2022	2023	2024
Investments	(1,575)	(1,088)	(1,500)	(963)	(1,045)	(394)
Currency hedge	1,488	938	890	613	230	65
Hedge ratio	94%	86%	59%	64%	22%	17%

Exposure on the debt

Since the application of IFRS 16 as of January 1, 2018, the Group's aircraft operating leases, which are mostly denominated in US dollars, have been recognized in the Group's debt. For airlines generating US dollar revenues, the revaluation of this debt in US dollars is neutralized at the accounting level in that this debt is a natural hedge against the Group's US dollar revenues. For airlines not generating US dollar revenues, US dollar-denominated assets and currency hedges are in place to mitigate the exchange rate risk.

The exchange rate risk on non-operating lease debt (non-IFRS 16) is limited. At December 31, 2018, 78% of the Group's gross debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt.

The exchange rate risk on debt denominated in other currencies mostly concerns the yen (12%), the US dollar (6%) and the Swiss franc (5%).

Counterparty risk exposure

The rules concerning the management of counterparty risk are established by the RMC and applied within each company.

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of BBB+ (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality and ranking of their ratings. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the Air France-KLM parent company, are taken into account in the assessment of the overall exposure. A monthly report is established and circulated to the members of the General Management of the two airline companies. It is supplemented by real time information in the event of any real risk of a rating downgrade for counterparties.

Financing risk exposure

Financing strategy

The financing strategy is decided by the Group in coordination with the Air France Group and the KLM Group. The Air France-KLM Group's financing is mainly composed of bonds and debt collateralized by assets. For the bonds, the issuer is mainly Air France-KLM SA

Furthermore, in view of its investment program, particularly in the fleet, the Air France-KLM Group also plans to be active in the financing market. In the current market conditions, the Group thus intends to finance its forthcoming aircraft deliveries using collateralized debt. These financing or refinancing operations will, as usual, be the subject of requests for proposals.

Air France

To finance its investments, Air France prioritizes long-term resources by raising conventional bank debt secured by its assets (in the form of mortgage debt or finance leases) and, when available, by using export credit.

KLM

To finance its aircraft, KLM uses a number of different structures including traditional bank debt, finance leases and export credit.

In view of the application of prudential standards, the banks could continue to reduce their balance sheets in future years and consequently make a more limited volume of lending available to businesses.

The Group plans to mitigate this risk by adapting its financing strategy:

- more systematic recourse to financing in the market via Air France-KLM;
- diversification in the number of banking counterparties.

Air France-KLM

Air France-KLM has realized several bond issues. While the issues prior to 2014 had its subsidiaries Air France and KLM as guarantors, the issues since 2014 have been unsecured:

- an issue of plain vanilla bonds with a six-year maturity raising €500 million in December 2012, which was redeemed in January 2018;
- an issue of plain vanilla bonds with a seven-year maturity raising €600 million in June 2014;
- an issue of subordinated perpetual notes raising €600 million in March and April 2015. In accordance with IFRS, these securities were booked as equity. In September 2018, a tender offer was launched for their repurchase and €196.7 million of bonds were presented and accepted. The outstanding subordinated perpetual bonds therefore amount to €403.3 million, with a call feature at par and a coupon step up in 2020;
- an issue of plain vanilla bonds with a six-year maturity raising €400 million in October 2016;
- an issue of plain vanilla bonds with a ten-year maturity raising US$145 million via a private placement in December 2016.

Liquidity risk exposure

At December 31, 2018, the Group had credit facilities amounting to a total of €1.8 billion.

- On May 17, 2018, KLM signed a €665 million credit facility. This credit facility with a five-year duration was subscribed with a syndicate of ten banks and includes covenants calculated based on KLM's consolidated financial statements. As of December 31, 2018, the ratios were respected;
- on November 6, 2017, with 18 banks, Air France-KLM and Air France signed the renewal of their joint syndicated credit facility amounting to €1.1 billion, put in place in April 2015, whose first tranche was due to mature in April 2018. This new facility is composed of two tranches each amounting to €550 million, the first for an initial period of three years (accompanied by two one-year extension options) and the second for a five-year period. This credit facility includes covenants calculated based on Air France-KLM's financial statements. At December 31, 2018, the ratios were respected. In November 2018, a first one-year extension option was triggered.

Given the Group's €5 billion of cash resources at December 31, 2018 and the amount of available credit facilities (a total of €1.8 billion), Air France-KLM considers that it incurs no short or medium-term liquidity risk. It does, however, closely monitor its financing capability and the structure of its traditionally-negative working capital, which thus makes a positive contribution to the Group's cash requirements.

Interest rate risk

A portion of the overall debt is linked to floating rates and therefore incurs volatility risk, although this is limited by the fact that floating rate debt represents only a small proportion of the total debt.

Air France and KLM respectively use interest rate swap hedging strategies through derivatives contracts to convert their floating-rate debt exposure into fixed rate exposure.

After swaps, the Air France-KLM Group's fixed-rate debt exposure represents 72% of the overall total debt exposure. The interest rate on the Group's gross debt after swaps stood at 2.82% at December 31, 2018 (versus 3.09% at December 31, 2017).

Interest rate exposure

(in € million at December 31, 2018)	
Financial assets at floating rates	1,247
Financial liabilities at floating rates	3,384
Net exposure before hedging	2,137
Hedging	(1,418)
Net exposure after hedging	719

The Group's net exposure to interest rates after hedging stands at €719 million. A 100-basis point increase in interest rates over twelve months would therefore have an €7 million negative impact on the results.

Equity risk exposure

Air France and KLM's cash resources are not directly invested in the equity market or in equity mutual funds. However, at December 31, 2018, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth €325 million, principally comprising 1.1% of the Amadeus share capital. In November 2018, to protect the value of the totality of these shares, Air France-KLM extended a hedging transaction in the form of a collar maturing in November 2019.

Investment risks

The cash resources of Air France-KLM, Air France and KLM are invested so as to maximize the return for a very low level of risk. They are invested in money market mutual funds, and in debt securities and term deposits with highly-rated banks.

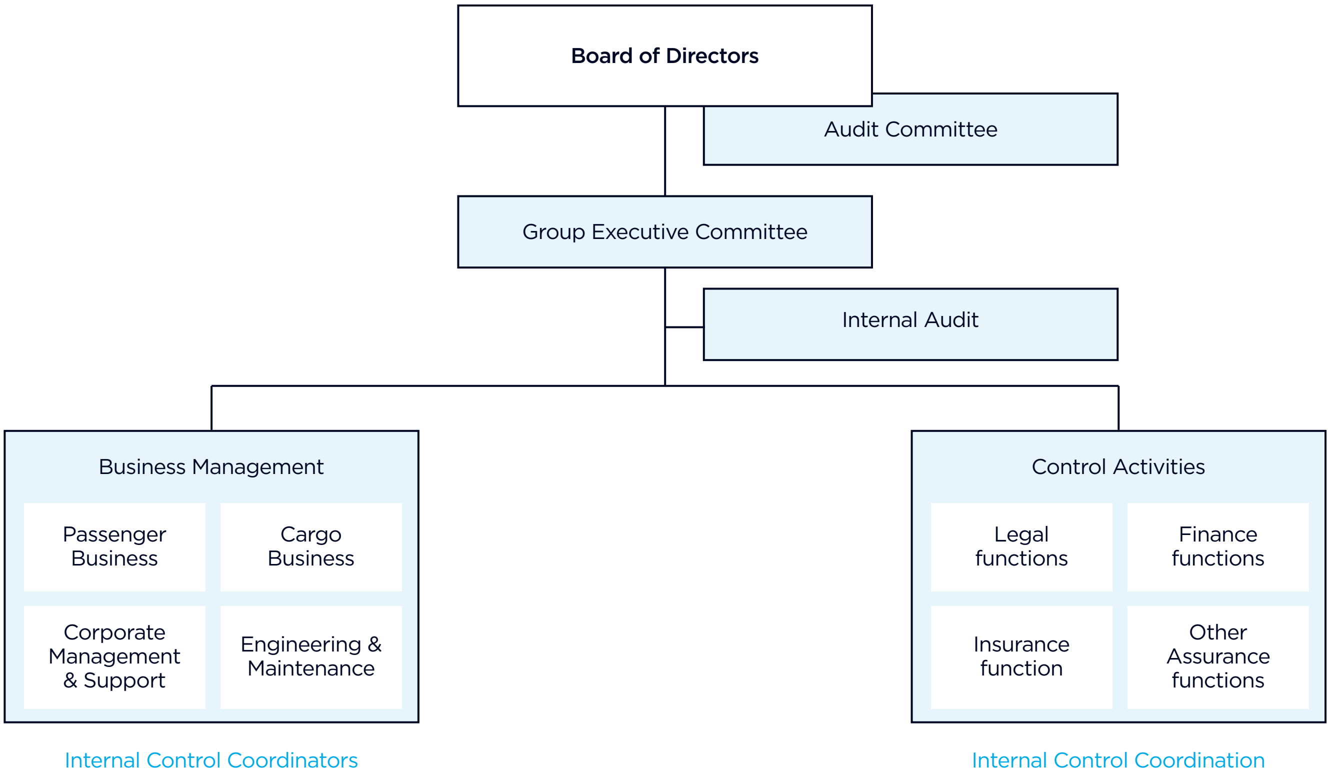
To reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in foreign-currency AAA and AA+ rated bonds.

3.3 ORGANIZATION AND FUNCTIONING OF INTERNAL CONTROL

3.3.1 Internal Control organization and tools

Internal Control network

An Air France-KLM Internal Control and Internal Audit function has been in place since 2005. Internal Control Coordinators have also been appointed in each Air France-KLM Group entity deemed to be significant by virtue of its impact on the Group's financial statements. There are some 50 Internal Control Coordinators.



This organization summarizes the organization in place in each of the two principal companies. It takes into consideration the structure of each of the Group's two companies characterized by the existence of three principal businesses: passenger (passenger transportation), cargo and maintenance, the subsidiaries of these two companies only representing a minority percentage of activity and revenues. Due to the interdependence of each of the businesses, this organization involves numerous transverse processes (sale of bellies of passenger aircraft to the cargo business, maintenance services relating to the aircraft of the passenger and cargo businesses, IT services, etc.).

- The Board of Directors is the corporate body that determines the orientations of the Group's activity and ensures their implementation; to this end, the Board works with the Group Executive Committee to ensure the successful operation of the Air France-KLM Group, supported by advice from the advisory committees mentioned in Section 2 above, *Conditions for preparing and organizing the work of the Board of Directors*;
- In December 2018, the Group Executive Committee was composed of eleven members (the Chief Executive Officer, three representatives from Air France and KLM and the seven heads of Group functions), plus a secretary to the Executive Committee. The Committee meets every two weeks, alternating between Amsterdam and Paris. Its competence covers the following areas: Finance, Commercial Passenger, Maintenance, Cargo, Information Technology, Human Resources, Strategy and Innovation, Public Affairs and International.

— Finance functions

A Group Finance division has been constituted around the Group's Chief Financial Officer, staffed by some thirty people (Financial Communication and Investor Relations, Consolidation & Accounting, Central Management Control and Mergers-Acquisitions & Financial Operations). This division submits to the Group Executive Committee and the Board the Group's overall financial policy and orientations (the latter being applied at the level of the Group's two principal companies, which each have their own financial functions) and track's the Group's financial performance.

In addition, some operations relating to the Air France-KLM holding company are entrusted to Air France, via a management mandate (notably treasury management).

— Insurance functions

The insurance functions are responsible for identifying at-risk sectors of the Group that might impact the operations and financial results so as to reduce their potential impact or transfer them either to insurers through insurance policies, particularly aviation policies, or to third parties under contractual mechanisms.

They also manage the claims and advise the Group's entities on reducing and controlling their risks.

There is an aviation insurance policy in place for the entire Air France-KLM Group to cover civil liability, damage to aircraft and risks of war, which constitute the major financial and legal risks of any airline.

— Legal functions

The legal departments of Air France-KLM, Air France and KLM perform a consulting mission for their management and decentralized organizations, notably in the areas of corporate law, transport law, contract law and insurance law. They cooperate to establish the Group's legal policy.

Legal Affairs draws up a systematic inventory of the disputes in process, to be able to assess the risks and constitute the corresponding provisions booked as liabilities.

— Compliance functions

The Compliance Officers within Air France-KLM, Air France and KLM pursue and monitor the implementation of the compliance framework components within the Groups. Within Air France and KLM, Data Privacy Officers are tasked with strengthening privacy compliance while Export Control Managers are responsible for securing trade compliance on the export of goods or technology. They report to the relevant governance bodies, like the Executive Committee and the Audit Committee. In addition, the Air France Compliance Committee and KLM Compliance Committee monitor the respective compliance programs. Various legal experts also provide advice on compliance with laws and regulations.

At the end of 2018, the Board of Directors decided to create a Sustainable Development and Compliance Committee, whose mission is to assist with in reviewing the Group's policies.

— Internal Audit

Air France-KLM's Internal Audit is an independent function intended to improve the Group's various processes. It helps the Group to achieve its stated objectives by providing a systematic and formalized approach with which to evaluate and strengthen the effectiveness of the decision-making, risk management, Internal Control and governance processes. The Internal Audit function objectively reviews the reliability of the overall Internal Control procedures implemented by the Group, as well as the controls in place for the processes specific to each business.

Given the Group's governance rules, each company has retained its own Internal Audit department; the coordination of Internal Audit at Group level has, nevertheless, been effective since the beginning of the 2005-06 financial year. The Group's Head of Internal Audit function, which is fulfilled by a Vice-President from within the airlines' Internal Audit departments, is responsible for overall coordination and has a functional reporting line into the Group's Chief Financial Officer. The Internal Control departments in the two sub-groups use identical methodologies (Group Charter, Group Audit Manual, etc.), while a common tool was adopted in early 2017 (Nasdaq Bwise).

The Internal Audit function carries out audits at the level of the Group and its subsidiaries (Air France and KLM). Audits are conducted in collaboration with the internal auditors of the two airlines.

The number of auditors' positions averaged 24 in FTE (excluding management).

The Internal Audit division reports on its work to the Group Executive Committee and to Air France-KLM's Audit Committee in a summary report presented quarterly.

To execute its mission, Internal Audit, which operates within the framework of the internal Audit Charter established by the Audit Committee of the Air France-KLM Group, either acts on its own initiative or intervenes at the request of the Group Executive Committee, the Audit Committee or the Board of Directors.

An annual program of missions is established and submitted for approval to the Group Executive Committee and to the Group's Audit Committee.

The Internal Audit function performs the following actions:

1. assurance Audit:
   a. operational Audit: to review the effectiveness, efficiency and general control of processes,
   b. information and Communication Technologies or Electronic Data Processing (EDP) Audit: to assess the effectiveness and efficiency of internal controls related to the information and communication systems,
   c. compliance Audit: to check compliance with laws and regulations and/or standards, procedures and/or policies issued by the Group,

   d. post audit: to check follow-up on findings in previous assurance audits;
2. consulting engagements: advisory services that are performed at the specific request of business management. When performing consulting services, the Internal Auditor must remain objective and not assume management responsibility;
3. fraud investigations: to prevent, detect and investigate significant suspected internal or external fraudulent activities;
4. enterprise Risk Management: to facilitate and improve the risk management process.

Once completed, the conclusions of the audits are summarized in a report highlighting the findings, the risks and the corresponding recommendations.

The audited entities then establish corrective action plans and a follow-up is conducted in the next few months.

The Air France-KLM Group's Internal Audit division has been awarded professional certification by the IFACI (*Institut Français de l'Audit et du Contrôle Interne*). This body has certified that, for the Group Internal Audit activities, all the procedures required to comply with the 2012 version of the Internal Audit Professional Practices Framework (PPF) and thus respect the international standards for Internal Audit have been implemented. This certification, which was renewed in 2018, is valid until July 2021.

Organization of responsibilities

The organization of the individual companies has been defined to ensure compliance with the principles of secure and effective operations. It specifically takes into account the regulatory requirements governing air transportation, notably with regard to air operations (*See Section 3.2.2 Risks linked to airline safety*), ground operations and engineering and maintenance, as well as airline catering and security.

The managers of the relevant entities and subsidiaries are required to apply these principles and organization at their level, and ensure that the organizational charts, job descriptions and procedures defined by business process are up to date. They must ensure their consistency and adequacy and verify that they are taken into account in the main information systems and appropriately integrated within the organization.

Internal Control tools

Charters and manuals

Air France, KLM and their respective subsidiaries have a Social Rights and Ethics Charter that enshrines their individual commitment to Corporate Social Responsibility by orienting its corporate and ethical policy towards respect for individuals at the professional, social and citizenship levels.

The Air France Group has also published a Charter for the prevention of harassment in the workplace, which complies with French legislation and is part of a contractual approach through agreements signed for the benefit of employees. The legal purpose of this Charter is to set forth the principles of prevention, define the actions, stress everyone's individual legal and human responsibilities and establish internal prevention procedures.

For its part, 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 the finance function (*See also Section 4.5.3*).

Manuals to prevent non-compliance

Staff have access to a series of manuals and policies on the intranet sites. With regard to the prevention of bribery, the Anti-Bribery Manual affirms the Air France-KLM Group's commitment to conducting business with loyalty, fairness, transparency, honesty and integrity, and in the strict respect of anti-corruption laws wherever its companies or subsidiaries exercise their activities. The manual establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations in the light of the anti-corruption legislation. The related Gift and Hospitality Policy ("Policy") sets out the rules and guidelines with regard to Gifts and Hospitality in more detail.

The Competition Law Compliance Manual emphasizes the objectives of integrity and transparency, and contains instructions on the prevention of anti-competitive agreements and the abuse of market power. *For more detail, see section 4.5.1.*

Internal Audit Charter

The wording of the Air France-KLM Group's new internal Audit Charter was established in 2017. This new Charter was signed by the Chairman and Chief Executive Officer, the Chair of the Audit Committee and the Head of the Group Internal Audit Division.

The internal Audit Charter defines the mission of the Audit division and guarantees its independence as well as the conditions by which the division functions.

In accordance with the International Institute of Internal Auditors (The IIA) rules, the Charter formalizes the position of audit within the business and defines its sphere of operation.

Internal Control Charter

The Internal Control Charter defines the commitments of the three top executives of Air France-KLM, Air France and KLM, and stipulates the main components of internal control within the Group: governance and the most important tools enabling its exercise, an outline of the overall Internal Control process and the different Internal Control activities (verification of the entity's environment, transactional controls (process) and overall IT control).

Procurement Manual

The organization of the Procurement function common to Air France and KLM is outlined in the Procurement Manual.

The Procurement function regularly updates the Quality reference system. This reference system comprises, notably, the purchasing Code of Ethics for Employees, which stipulates the rules of conduct for Air France-KLM buyers when dealing with suppliers or service providers, and informs all those involved in the process of the limits that must not be exceeded.

Quality reference system

The Air France and KLM quality assurance systems are based on the following principal external and internal standards:

- **External standards**

Operations: national regulations (based on European regulations) and applicable general laws, international standards (ICAO, IATA, etc.) or those that are specific to aeronautics maintenance (Part 145, etc.).

Passenger service: European and US regulations (Special Care Passengers), European commitments of the Association of European Airlines (AEA), service commitments of those involved in air transportation (airports).

Management, the environment, documentation, food security, health and safety in the workplace: ISO series 9001, 14001, 15489, 22000 and OHSAS 18001.

- **Internal standards**

These represent the application of the external standards, adapted to the processes of each company.

Regulatory level: operating, maintenance and safety manuals, etc., and the related general procedures, which are mostly subject to formal approval by the administrative authorities issuing the authorizations (DGAC, IVW-DL, FAA, etc.).

Management systems: the Air France Integrated Management System/IMS Manual and the KLM Integrated Safety Management System/Manual, together with the related general procedures like the Quality-Safety-Environment manuals of the entities, the manual on health and safety in the workplace, Flight Safety management, environmental management, management of the Company's food hygiene, together with the related general procedures.

Passenger service: standards, services signatures, the five attitudes, the PAMs (Passenger Airport Manuals), the general sale and after-sales conditions, together with the other procedures associated with customer service common to Air France and KLM.

3.3.2 Fundamental components of internal control established within the Group

Based on analysis of the potential major risks, taking into account changes inside and outside its operations, the Group has established and implemented the fundamental components of Internal Control, aimed at preventing and controlling, insofar as possible, risks that are both financial and non-financial in nature, and evaluating its ability to implement the appropriate remedial measures.

Operational procedures and processes

Management of the quality system

Both the Air France (Integrated Management System/IMS Manual) and KLM Integrated Safety Management System/Manual outline all the general provisions of the quality assurance system applied in the two companies, i.e. the overall organization, management processes, and the procedures and resources required to implement quality management and meet the expectations of customers and other stakeholders.

In each division of the two companies, an ISM/ISMS review takes stock of the operation of the ISM/ISMS management systems and measures the performance of the main steering processes.

In addition to the regulatory approvals enabling each company to carry out its activities, progress is recognized in the achievement of certification from independent bodies, notably, for example, for Air France:

- IOSA certification (IATA Operational Safety Audit) since September 2005, renewed for a sixth time in the autumn of 2016;
- Air France global IMS certification based on the ISO 14001/Environment, ISO 22000 certification for food health and OHSAS 18001/Vocational Health & Safety (renewed in autumn 2017);
- ISO 9001/Quality certification for a growing number of entities.

For KLM:

- the ISO 14001/Environment certification was renewed in 2018;
- IOSA certification (IATA Operational Safety Audit): The audit was performed in the autumn of 2018 and the renewal of the certificate itself will take place in March 2019.

Quality assurance

The control of the operational processes is based primarily on three monitoring methods:

Internal monitoring is carried out by the quality assurance departments articulated around:

- an audit and inspection program (covering, in particular, organization and management, flight operations, in-flight service, flight planning, ground handling and freight, hazardous merchandise, engineering and maintenance);
- regular monitoring of operations with incident analysis and routine use of debriefing;
- pro-active prevention processes.

External monitoring is carried out by the Civil Aviation Authorities (IVW-DL, DGAC, FAA, etc.) and specialized certification bodies, and takes the form of audits of the operating principles and of the Group's proprietary internal monitoring system. Air France and KLM are also regularly audited by their customers and partners.

Monitoring of partners

Control over sub-contractors and suppliers is undertaken within the framework of the regulatory monitoring program approved by the Civil Aviation Authorities.

Code share partnerships are subject to an additional requirement to comply with IOSA standards that are recognized by the profession as the ultimate reference in Flight Safety and Security. The general rule is that partners are IOSA certified except in the specific case when, for example, the size of aircraft excludes the airline from the IOSA scope. In this case, the partner airline is not IOSA certified, Air France and KLM implement a special technical monitoring process aimed at providing a reasonable assurance of an equivalent level.

In terms of control over the monitoring process, the supervision of the effective implementation of preventive/remedial actions resulting from this overall monitoring is ensured by the quality assurance departments, coordinated within each airline.

More generally, the sub-contractor control procedure addresses all the areas of risk. It is reflected in the realization of monitoring activities like audits, inspections and checks, sometimes carried out by the sub-contractors themselves. Monitoring is ensured on a quarterly basis. Since January 1, 2018, an expanded transverse action plan has been in place, taking into consideration the new legislation on the duty of vigilance.

Information systems

The control procedures cover the information and telecommunication systems.

These procedures aim to ensure the:

- reliability of the IT and telecommunications systems;
- integrity of the data through the appropriate resources, infrastructure and checks;
- continuity of IT services and the availability of data at the production sites through a local contingency strategy, secure architecture and a security system covering external access points;
- confidentiality of information within the framework of national laws and the security of IT infrastructures through the establishment of secure, monitored and effective accesses.

The managements of the two companies ensure that the resources and expertise required by the Information systems are developed within the framework of defined strategic objectives.

Project management and software application development tools are also deployed: the so-called Symphony method for common Air France-KLM projects was based on the Tempo (Air France) and Prince2/Steelband (KLM) methods. Air France-KLM has adopted an "Agile" development process based on the SCRUM and DEVOPS methodologies. The main aims are to generate business line added value more rapidly, accelerate "Time to Market", align IT and business line objectives by prioritizing value, not developing rarely-used functionalities, reducing the risks at the earliest-possible opportunity, streamlining the development and maintenance processes and increasing the effectiveness of the teams.

The work carried out in connection with Internal Control projects and the ongoing project to gradually establish a coordinated and optimized organization is leading to the launch of action plans designed to strengthen Internal Control, particularly with regard to risks like business continuity and personal data protection.

The Group's Information Technology division defines the policies establishing the framework for the functioning, security and consistency of the information systems deployed and has published a Security Information Manual (ISM – ISO 27001 standard), establishing a common security policy for information systems.

Procurement

The common Air France-KLM Procurement organization has been operational since September 1, 2008. Since 2013, it has been headed by a Group Chief Procurement Officer from KLM, seconded by an Air France Senior Vice-President, Procurement, and is structured around seven procurement teams. These procurement teams act in a transverse and coordinated manner for each of the Air France and KLM companies as well as for, when required, a number of the Group's airline subsidiaries.

The activity of the Procurement function aims to supply the entities with suitable products and services at the required time and at the best possible cost of ownership.

This is achieved by applying a procurement policy focused on the expertise of the buyers, with separate responsibilities (buyer, prescriber and supplier), the establishment of contracts and the use of web-based technologies.

The CPO Board, comprising the Group Chief Procurement Officer and Air France's Senior Vice-President, Procurement, coordinates the Procurement teams through regular meetings and presents the key performance indicators for combined procurement.

A Procurement Coordination Committee comprising the Heads of Procurement meets on a monthly basis (PMTM or Procurement Management Team Meeting) to develop joint programs and share best practices.

Within the framework of sub-contractor monitoring, a collaborative platform known as EcoVadis serves as a reference to establish the priorities and evaluate compliance with legislation on the duty of vigilance, based on risk mapping. The content of these evaluations helps to target the monitoring actions more effectively.

Prevention of ticketing fraud

A fraud prevention unit is responsible for preventing, insofar as possible, the risks relating to the:

- fraudulent use of illegally-purchased tickets (credit cards and other means of payment);
- protection of loyalty programs (individual and corporate clients) in terms of both earn and burn;
- internal fraud.

A fraud prevention activity report was submitted to the Audit Committee in October 2018.

Both Air France and KLM have put in place whistle-blower procedures and an e-learning anti-fraud training module aimed mainly at the sales teams.

Prevention of financial fraud

Due to the proliferation of cases of attempted fraud, the Group has strengthened its internal control processes with detailed instruction notes, two e-learning modules and a training session.

Evaluation and monitoring of Internal Control

When establishing its internal control framework and risk management process, Air France-KLM chose the COSO 2013 (Committee Of Sponsoring Organisation of the Treadway Commission) standard as its starting point. This COSO reference framework positions Internal Control in the light of the following three categories of objectives (operations/financial information/compliance) and defines the latter relative to five components:

- control environment;
- risk assessment;
- control activities;
- information and communication;
- monitoring activities.

Transactional controls (process) are realized via design effectiveness testing, followed by operational effectiveness testing.

Similarly, the IT general controls are the subject of a formalized annual evaluation, followed by monitoring of the ensuing action and remedial plans.

3.3.3 Internal control relating to the establishment and processing of financial and accounting information

Based on an analysis of the significant entries in the consolidated financial statements and an assessment of risks, the Group has identified the most important companies and, within these entities, the processes that make a predominant contribution to the establishment of the financial statements.

For each of these significant processes, process and key control documentation has been established, followed by the implementation of existence and effectiveness testing.

The Group's different major divisions and subsidiaries had thus evaluated the effectiveness of their Internal Control relating to financial information as at December 31, 2018.

Pursuant to Article L. 823-19 of the *Code de Commerce*, the Audit Committee oversees the process to establish the financial information and, when necessary, formulates recommendations to guarantee the integrity of the process to establish the financial information, the effectiveness of the Internal Control and risk management procedures and, as necessary, of Internal Audit, as regards the procedures required to establish and process the accounting and financial information, with no compromise to its independence. It also ensures the realization by the Statutory Auditors of their mission and respect by the Statutory Auditors of the conditions for their independence.

Financial procedures and processes and the accounting year end

Finance process

Investments are managed at the level of each company and the decision-making process is coordinated by the Group Investment Committee (GIC) through decision-making platforms (above €0.5 million) bringing together all the stakeholders (business line and management controllers at company and Group level). This Group Investment Committee is composed of Air France-KLM's Chief Financial Officer and the Chief Financial Officers of Air France and KLM.

All investments of more than €5 million, together with operations relating to the fleet and shareholding and divestment transactions, are submitted for approval to the Group Executive Committee by the Group's Management Controller and the Group's Chief Financial Officer.

The management of Air France-KLM's market risks is overseen by the Risk Management Committee (RMC), which meets each quarter and, after examining the Group reporting, determines the hedges to be set up during the coming quarters: the hedging ratios to be achieved, the time period for respecting these targets and, potentially, the preferred type of hedging instrument.

These decisions are then implemented in each company by the Treasury Management departments, pursuant to the procedures for the delegation of powers.

Regular meetings are organized between the Treasury Management departments of the two companies, to optimize the coordination of decision implementation (hedging instruments, the strategies planned and counterparties).

The fuel hedges are covered in a weekly report forwarded to the General Managements of the Air France-KLM Group, Air France and KLM. A summary of the cash positions of Air France, KLM and Air France-KLM is communicated weekly to the Air France-KLM Group's General Management.

The Air France-KLM, Air France and KLM cash positions are the subject of monthly reports to the Finance departments. These reports include the interest rate and currency positions, the portfolio of hedging operations, a summary of investments and financing by currency and a tracking statement of the risk exposure by counterparty. The Risk Management Committee sets the minimum thresholds in terms of the financial quality of counterparties, determines the maximum amount to be allocated to a single counterparty and is responsible for monitoring the quarterly positions.

The hedge strategies aim to reduce the exposure of Air France-KLM and therefore to preserve budgeted margins. The instruments used are futures, swaps and options. The internal risk management procedures prohibit instruments characterized as trading instruments unless expressly authorized by the Chief Financial Officer of Air France-KLM. All the instruments used must qualify as hedging instruments pursuant to the IAS/IFRS accounting rules. Generally speaking, no trading or speculation is authorized.

Any substantive change in the hedging strategy is the subject of a systematic presentation to the Audit Committee.

Accounting and financial statements process

The consolidated financial statements of the Air France-KLM Group are prepared on the basis of the data provided by the finance departments of the Air France-KLM holding company and its subsidiaries.

The Group is principally composed of the two operational sub-Groups, Air France and KLM, which prepare their own consolidated financial statements prior to their consolidation within the Air France-KLM financial statements.

It is imperative that the accounting information reported by the different companies complies with the Group's accounting rules, methods and standards as defined by the Group, and the presentation of the financial statements must comply with the format circulated by the Group.

All the companies within the Group refer to the Accounting Procedures Manual which is based on the International Financial Reporting Standards governing the establishment of the financial statements of European listed companies.

The consolidated financial statements are submitted to the General Management then presented to the Audit Committee every quarter. Furthermore, the half-year and annual financial statements are also reviewed by the Statutory Auditors prior to their formal closure.

The parent company's financial statements are closed annually, reviewed by the Statutory Auditors and presented to the Management and the Audit Committee.

Process for reporting passenger and cargo revenues

This process is performed in each of the companies and enables monthly revenue figures to be communicated to management. Furthermore, Air France and KLM have established a procedure known as the "progressive daily revenue" process making it possible to know the estimated amount of passenger revenues for the previous day.

In addition, departments of the Group, Air France and KLM analyze the results by market and by route (unit revenues per revenue passenger-kilometer, per available seat-kilometer, per revenue ton-kilometer etc.) at the level of the passenger and cargo businesses.

A monthly presentation on the level of transportation revenues (passenger and cargo) is also made to the Group Executive Committee by the senior managers of these entities.

The Shared Services Center (SSC) in Toulouse is in charge of commercial Passenger revenues for the companies Air France and KLM, while the Shared Services Center at Amsterdam-Schiphol is responsible for commercial Cargo revenues for the Group (Air France, KLM and Martinair).

For these two activities, service level agreements have been signed between Air France, KLM and Air France-KLM.

Management Control reporting process

The Group Management Control department coordinates the reporting process with the Management Controllers in the two sub-groups.

In liaison with the Group's principal divisions and subsidiaries, these three teams of controllers then analyze the past month's financial results and estimate the results for the coming months (forecast adjustment process) through to the end of the current financial year.

Once the accounting result for the month is known, Group Management Control produces a monthly document (management report) that summarizes the monthly key business, employee-related and financial data, both actual and for the coming months, in order to determine the outcome for the current financial year for the Group, the two sub-groups and each business line. The same applies to the figures on cash-flow, and the cash and debt positions.

In addition, a monthly report on the main financial KPIs is circulated to the members of the Air France-KLM Board of Directors.

This monthly Group management report is presented to the Group Executive Committee by the Group's Chief Financial Officer or the Group Management Controller (budget or medium-term target presentation, annual results).

In addition, management review meetings take place on at least a quarterly basis between the CEOs, CFOs and Executive Vice-Presidents of the Passenger, Cargo, Engineering & Maintenance and Transavia businesses.

4 CORPORATE SOCIAL RESPONSIBILITY: EXTRA-FINANCIAL PERFORMANCE STATEMENT

Pursuant to Article L. 225-102-1 of the French *Code de Commerce*, the Air France-KLM Group sets forth the main social, corporate citizenship and environmental issues relating to its activities and to Human Rights and business ethics, across the entire value chain, and stipulates the policies in force to prevent, identify and mitigate the occurrence of these risks.

All of this information is reviewed by one of the Group's Statutory Auditors, as a designated Independent Third Party. The reporting scope covers the Air France-KLM Group. Any differences in this scope are indicated in the text.

4.1 CREATING LONG-TERM VALUE FOR STAKEHOLDERS

4.1.1 The Group's business model

As a global business, Air France-KLM connects people, economies and cultures. Through its operational activities, the Group aims to create sustainable long-term value for all its stakeholders.

The Group's goal is to become the strongest airline Group in Europe and one of the most powerful globally, mainly around its two historic brands, Air France and KLM (*see Sections 1.1 Market and environment and 1.2 Strategic outlook*). To achieve this goal, the Group is focused on becoming its customers' airline of choice between Europe and intercontinental destinations and between its domestic markets – France and the Netherlands – and the rest of Europe. Thanks to the professionalism of its employees, the quality of its products and services and its operational efficiency, the Group is on track to realize this ambition. The business model sets out the Group's human and intangible assets, as well as the positive outcomes created in terms of customer experience, Employee Experience, operational excellence and financial performance, and the impacts on environment and on wider society, and its contribution to the United Nations Sustainable Development Goals (*see Section 1.2.2 The Air France-KLM model: a flight plan to create value*).

4.1.2 Identification of the key priorities in building long-term relationships

Building long-term relationships with the Group's stakeholders depends on an ongoing dialogue and a mutual understanding of the issues and challenges facing Air France-KLM and its environment.

Listening to stakeholders

The Group pays a great deal of attention to the expectations of its stakeholders like customers, employees and suppliers, and to local communities, associations, local authorities and representatives of civil society, such as NGOs. A number of initiatives also enable their perception to be evaluated on a regular basis, such as, but not limited to:

- internal barometers and meetings to gather employee suggestions;
- customer perception and satisfaction surveys;
- dialogue and evaluation of supplier CSR performance;
- exchange of best practices and working groups within the industry and with other large companies;
- discussions with shareholders and Socially Responsible Investment (SRI) investors together with recommendations from extra-financial ratings agencies;
- opinions and remarks gleaned from the dedicated email addresses, websites and the social media;
- feedback channels deployed to enable stakeholders (particularly employees, customers and local residents around airports) to communicate any comments and potential complaints.

In 2017, the Group carried out a materiality analysis, enabling it to evaluate its main priorities. More than 40,000 stakeholders were invited to participate in this survey with a response rate of approaching 10%: corporate and individual customers, the Group's employees and managers, shareholders, investors, suppliers, NGOs, governmental organizations, politicians, local representatives from the Paris and Schiphol regions, CSR experts (extra-financial rating agencies, certification bodies, etc.), CSR managers from leading companies and representatives of the airline sector and the Group's peers. For each topic the individuals polled ranked the level of priority to be accorded by Air France-KLM and their perception of the Group's current level of performance.

This first materiality analysis enabled the identification of the priorities deemed to be the most material for the Group, including customer satisfaction, operational safety, operational efficiency, fleet modernization, workplace relations and employee dialogue, vocational health and safety, Human Rights, climate change and CO_2 emissions. The detailed results showed that the Group and its stakeholders were in agreement on the perception of the priority nature of the issues. In 2019, the Group will conduct a new materiality analysis to evaluate the perception of the changes in governance and strategy.

Analysis of the extra-financial risks

In 2018, the Group completed this exercise by evaluating its main extra-financial risks and opportunities. A working Group, representing all the relevant divisions in Air France, KLM and the Group (amongst others, the corporate secretary, Internal Audit and control, strategy, financial communication, human resources, procurement, quality control, legal and compliance, sustainable development), reviewed the main environmental, social and corporate citizenship risks linked to its activities across the entire value chain. These risks were subsequently evaluated to establish an extra-financial risks matrix, with the following risks emerging as the most material:

- working conditions and employee dialogue;
- operational safety of stakeholders (customers, employees, etc.);
- CO_2 emissions;
- adaptation to climate change;
- business ethics.

Divided into the four dimensions of human relations, social, environment and business ethics, they are consistent with the results of the 2017 materiality matrix which illustrated the relative perceptions of internal and external stakeholders, and as compared with the CSR strategy developed by the Group.

These extra-financial risks are monitored on a permanent basis and integrated in the Group's operational risk sheets. They are outlined in Section 3 *Risk and risk management*. They are also an integral part of the Group's Sustainable Development strategy and are the subject of measures, monitoring procedures and action plans.

This analysis will be renewed every year.

4.1.3 Business responsibility at the heart of the strategy

Air France-KLM's goal is to achieve high standards of performance over the long term by reconciling profitable growth, environmental protection, social progress and the development of the regions in which it operates.

At the end of 2018, the Board of Directors decided to create a Sustainable Development and Compliance Committee, tasked with helping to review the Group's policies. This Committee thus ensures that non-financial priorities are taken into account when establishing the Group's strategy by submitting recommendations to the Board.

Governance

Sustainable Development governance is ensured by the management bodies at the highest level of the Group:

- the Board of Directors approves the strategic orientations and monitors their implementation;
- the Executive Committee determines the sustainable development policy and ensures that it is an integral part of the Group's strategic planning. It reviews the sustainable development strategy and performance on an annual basis. The Group's Corporate Secretary is responsible for the sustainable development strategy, human resources and compliance;
- at Air France, the Sustainable Development policy is steered by the Executive Vice-President, Corporate Secretary, who is a member of the Executive Committee. At KLM, this role is fulfilled by the Executive Vice-President, General Counsel & Corporate Center and member of the Executive Committee;
- Air France's Environment and Sustainable Development Department and KLM's Corporate Social Responsibility and Environmental Strategy department are tasked with implementing the sustainable development strategy. The two departments are closely coordinated and are responsible for steering the Group's strategy.

Commitments

The Group has long assumed its responsibilities as both an employer and airline Group, and in terms of corporate citizenship, and places sustainable development and innovation at the heart of its strategy. Its commitments are set forth in its Corporate Social Responsibility Statement, Social Rights and Ethics Charter and Climate Plan.

Air France-KLM's Corporate Social Responsibility strategy enshrines the respect of fundamental rights as defined in the leading international principles: Universal Declaration of Human Rights, the International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, and the Organization for Economic Cooperation and Development's (OECD) guiding principles.

Air France-KLM has been a signatory of the United Nations Global Compact since 2003 and is committed to respecting its ten principles in the areas of Human Rights, labor, the environment and anti-corruption, and to promoting this commitment to its partners. By integrating sustainability into its business and operations, the Group strives to contribute concretely to the UN Sustainable Development Goals within its scope of influence.

Air France-KLM's extra-financial performance is assessed annually, in particular by the RobecoSAM, Carbon Disclosure Project, Vigeo Eiris and ISS-Oekom Research rating agencies.

In 2018, for the fourteenth year running, the Group was a component of the Dow Jones Sustainability Indexes (DJSI World and DJSI Europe). The Group is the only airline company to be ranked in the DJSI Europe index. The Carbon Disclosure Project (CDP) awarded the Group a score of B (Management level) for the Climate Change questionnaire and the score of A- for the CDP Supplier Engagement Rating. ISS-Oekom Research granted

Air France-KLM "Prime" status: the Group is the only airline company to figure in the annual ranking of the large global companies deemed to be achieving the highest standards of ESG performance.

Thanks to its performance, the Group maintains its ranking in the FTSE4Good Index Series, the Euronext Vigeo Eiris indexes (Europe 120 and Eurozone 120) and the Ethibel Sustainability Index (ESI Excellence Europe). The Group is also a component of the Ethibel Excellence and Ethibel Pioneer Investment Registers. The Group has been awarded the Gold Medal by the Ecovadis CSR rating agency.

Extra-financial performance statement

The following concordance table enables the pinpointing of all the elements presented within the framework of the extra-financial performance statement (EFPS):

Elements of the EFPS	Chapter/Section
Strategy and business model	1.1 Market and environment 1.2 Strategy 1.2.2 Value creation model
Identification and description of the main extra-financial risks linked to the business	3.1.2 Identification and evaluation of the risks 3.2.2 Risks linked to the air transportation activities 3.2.3 Risks linked to the Group's processes 4.1.2 Identification of the key priorities in building sustainable relationships
Description of the policies, results and performance indicators	4.2 Human resources 4.3 Environmental issues 4.4 Customer trust 4.5 Ethics and compliance 4.6 Economic development and societal

The policies, measures in place and results for each of the extra-financial risks identified as the most material are outlined in Sections 4.2 to 4.6. The Group has also opted to report on other priorities and opportunities that deems to be important in view of its business activity and the expectations of its stakeholders. The table opposite summarizes all these risks, priorities and opportunities:

Dimensions	Risks identified as material	Other priorities and opportunities	Link to Section 3 Risks and risk management
4.2 Human resources	4.2.1 Working conditions and social dialogue		3.2.3 Working conditions and social dialogue
		4.2.2 Human capital development	
		4.2.3 Health and Safety in the workplace	
		4.2.4 Promoting diversity and combating discrimination	
4.3 Environmental issues	4.3.1 Carbon emissions		3.2.2 Acceptability of air transport growth
	4.3.2 Adaptation to climate change		3.2.2 Climate change
		4.3.3 Noise and local pollution	
		4.3.4 Waste and the circular economy	
		4.3.5 Biodiversity	
4.4 Customer trust	4.4.1 Operational safety of stakeholders		3.2.2 Risks linked to airline safety
		4.4.2 Data privacy and data protection	
		4.4.3 Accessibility of products and services	
4.5 Ethics and compliance	4.5.3 Business ethics		3.2.3 Non-respect of regulations
4.6 Economic development and societal		4.6.1 Local development 4.6.2 Subcontractors and suppliers	
4.6.3 Monitoring of the Duty of Vigilance Act			

4.2 HUMAN RESOURCES

Key facts and KPIs for 2018

Total staff (in FTE)	81,527 FTEs	
Working conditions and social dialogue	Employee Promoter Score monitored continuously throughout the different entities	
Human capital development	Training hours per employee	39.7 hours
Health and safety in the workplace	Frequency and gravity rates	See social indicators table (Section 4.2.5)
Fostering diversity and combating discrimination	% of women in managerial positions (1)	Women represent 32% of the top 10% management level for ground staff Women represent 5% of flight deck crew managerial functions Women represent 65% of cabin crew managerial functions
Fostering diversity and combating discrimination	% of women in total staff	45.3%

(1) Scope: Air France and KLM managers with French or Dutch contracts.

4.2.1 Working conditions and social dialogue

Context and strategy

As an airline Group at the service of customers, Air France-KLM's growth relies on the professionalism of its employees and on their levels of motivation and commitment. The working conditions and social dialogue within each entity constitute a key performance lever for the Group.

The 2018 financial year was marked by a difficult HR context within Air France and by a change of governance with the departure of the Chairman and Chief Executive Officer Jean-Marc Janaillac in May. A transitional governance was put in place followed, in September 2018, by the appointment of Benjamin Smith as Chief Executive Officer of Air France-KLM, and Chief Executive Officer of Air France until the appointment of Anne Rigail as Air France's Chief Executive Officer at the end of 2018.

The priority for the second half of the year was to re-establish social stability, build closer links with staff and restore trust. The agreements signed with the professional organizations late in 2018 and early in 2019 enabled the company to move forward together within a calmer context. They give the Group the perspective to work on defining its strategy to become a global leader by reuniting the conditions for strong, profitable and sustainable growth.

The Group seeks to preserve cohesion by fostering a constructive and transparent social dialogue and by pursuing a policy based on treating individuals with respect and responsibility towards customers. The objective shared by all companies within the Air France-KLM Group is the provision of working conditions enabling employees effectively to fulfil their functions. Due to differences in the companies or country legislation, the HR contracts and policies remain separate.

Measures and performance

Social dialogue and functioning of the representative bodies

Air France-KLM

For Air France-KLM, the coordination of the workplace dialogue takes place in each of the entities comprising the Group and within the Group's European Works Council, bringing together the representatives of staff whose head offices or entities are based in the European Community.

The Group's European Works Council (*Comité de Groupe Européen* – CGE) convened four times during 2018, for two plenary ordinary meetings and two extraordinary meetings. During these meetings, the following points were addressed: election of the new Committee, organization of the Group and the alliances, the Group's financial results, an update on Europe, the flight schedule, the reorganization in Greece, Project Blue (innovation incubator), the Customer Contact Center, Project FROM (international talent management), NDC (New Distribution Capability) and the divestment of Heathrow Cargo Handling.

In October, the meeting was attended for the first time by Benjamin Smith, Chief Executive Officer of Air France-KLM, with a view to meeting the members and discussing the Group and the activities of the European Works Council.

Furthermore, within the framework of the European Works Council, the Group's Strategic Committee met twice to discuss the Group's strategic orientations with the Chief Executive Officer.

Air France

At Air France, the 2018 first half was marked by a deterioration in employee relations during the first part of the year with the rejection of the salary agreement following the mandatory annual negotiations. An Air France inter-union body was created, demanding salary increases of 6%. In total, between February and May, customers were impacted by 15 days of strikes. During the second half of the year, the main priorities were regaining social stability in Air France by resolving the key issues.

The *Comité de Groupe Français* (CGF) met three times during 2018. In March 2018, following the renewal of the CGF's members, a new secretary was elected. During its subsequent meetings, the CGF was briefed on the following matters: results of the Air France Group, Servair operations and outlook, HOP! operations and outlook, the work of the Progexa consultancy firm on the situation of the Air France Group and the 2018 Winter flight schedules for Air France, Transavia France and Hop!.

In terms of the functioning of the employee representative bodies, nine meetings of the Air France Central Works Council (*Comité de Central d'Entreprise – CCE*) were organized in 2018. The elected representatives were consulted and/or kept abreast of the major orientations relating to the Company's overall situation and, notably, of Air France's results and HR policy, working conditions and employment.

KLM

Ten meetings of the KLM Works Council, attended by the President and Chief Executive Officer of KLM, were held during 2018. The same number of meetings were held between the management and the eight permanent committees, devoted to subjects like Health, the HR policies and Safety. This year, the KLM Works Council participated in two strategy meetings, with delegates from the Board of Directors and the Supervisory Board. Thirty-three requests for consultation and approval were handled in 2018. There was also extensive social dialogue between the Works Council and HR to co-create a shared people vision of the long-term future. HR translated this into a strategy which steers the change initiatives closely linked to this vision.

In addition, KLM's Works Council is in discussions with its own representatives and management on how to modernize employee participation within KLM.

New collective labor agreements

At Air France, in 2018, a number of important agreements were approved and signed following negotiation with the representative union bodies, and notably:

- one agreement on salary increases, signed on October 19, 2018 by the unions representing 76.4% of the employees who voted in the last union elections. The key provisions of the agreement include a general pay increase of 2%, retroactive to January 1, 2018, and a general pay increase of 2% on January 1, 2019;
- one agreement on professional gender equality;
- in accordance with France's Labor Law reform, three agreements on the implementation of the Social and Economic Works Council to take place after the forthcoming professional elections in March 2019;
- three Cabin Crew agreements including one on the development of the Quality of Life in the Workplace and Prevention of Cabin Crew Psychosocial Risks;
- twelve Pilot agreements including one on the entry into operational service of the B787 and Pilot secondments, in particular to Transavia France;
- one Ground Staff agreement on the Quality of Life in the Workplace.

KLM renewed its three collective labor agreements (Cabin Crew, Flight Deck Crew and Ground Staff), respectively in January, September and October 2018. Although their duration varies, the three CLAs all expire on May 31, 2019.

- the CLAs contain equivalent wage sections and an equal total wage cost increase of 4%: a flat percentage for Flight Deck Crews and a flat percentage combined with minimum raises for Cabin Crews and Ground Staff;
- the Cabin Crew and Flight Deck Crew CLAs contain a balance between wages and productivity. The Ground Staff CLA contains a balanced deal with measures to improve sustainable employability, the replacement of the outdated remuneration system for most ground staff and more opportunities to work part-time before retirement;
- the Fight Deck Crew CLA included a balanced deal on a change in the work and rest time regulation and increased flexibility. The Cabin Crew CLA agreed a balanced deal with a productivity increase due to fewer cabin staff on intercontinental flights.

Employee Experience

At Air France, the Flight Plan is a veritable road map setting forth the company's five strategic priorities. Promoted by the Executive Committee it establishes the direction of travel for projects and the framework for the measures deployed in each division. One of the strategic priorities aims to reinforce the Employee Experience, placing employee concerns at the heart of the business. This ambition finds its concrete manifestation in the commitments vis-à-vis employees at every key stage in their career paths. The main themes are as follows:

- support the development of staff: strengthen support for staff as of their recruitment and for change management. Facilitate access to vocational training and mobility. Develop a program to identify, retain and develop executive talent. Develop an agile management style that is collaborative, learning-oriented and innovative;

- promote and support initiative: support individual initiatives and innovation (intrapreneurship, Participative Innovation Program), create a digital HR platform to regroup the various digital applications in a single access point for staff and pursue the simplification of HR;
- promote team spirit: welcome new recruits, showcase the different professions within the company, offer support at key stages. Support sporting and events that reinforce cohesion (running, sustainability, Pride parades);
- reinforce motivation: continue recruitment in the various business lines. Strengthen relations between employees and managers by developing feedback and short-loop employee listening processes. Reinforce staff/manager interaction and develop continuous performance management;
- modernize the social dialogue: support employees and staff representatives in the implementation of the new representative bodies following the March 2019 elections. Continue the HR and contract-based negotiations (Three-Year Agreement on the Forward Planning of Jobs and Skills, Right to Disconnection);
- pursue our societal commitment: develop the anti-discrimination measures, foster equal opportunity. Maintain our actions to help young people (part-time courses, student work experience) and in local areas. Offer more staff the opportunity to take part in a Citizenship Day in March 2019 (Better Together);
- improve Health and Safety in the Workplace: strengthen the OHS culture amongst staff to reduce and sustain the fall in the number of accidents in the workplace.

KLM initiated a new phase in the transformation of its culture and workforce, with a stronger emphasis on engaging and developing people to enhance their levels of performance. Highlights of the year included work on Strategic Workforce Planning, the Winning Way of Working (transformation in the work environment), a more inclusive and diverse workforce and the first steps towards reducing absenteeism.

KLM's new strategy included a transformation of the organization: the roll-out of the High Performance Organization, now almost complete, reduced management layers and introduced more integrated and agile decision-making, while the new KLM Compass, KLM's leading vision document, connected people's values and behavior with the KLM purpose. All the collective labor agreements were modernized with digital tools now facilitating collaboration. KLM thus became more productive, effective and cost-efficient with several developments, like:

- decreasing the level of absenteeism, especially in the physically-demanding business units, by training managers on this topic and challenging employees to become owners of their return to work. Preventing absenteeism will again be the focus in 2019;
- in February 2018, the Employee Event & Pioneers Fair proved a great success with the maximum capacity of sixteen hundred employees attending the event. The purpose of the event was to give employees a memorable experience, connect employees and encourage engagement;
- KLM continued the digital transformation with a focus on employees: In 2018, 15 IT solutions were introduced, enabling employees to be responsible for their own HR matters, via "easy-to-deal-with" Apps. They also have more direct access to learning opportunities: Onboarding Experience, a new onboarding module implemented to bring (new) colleagues more rapidly up to speed in their functions, creating greater involvement and productivity;
- the Winning Way of Working (WWoW) program integrates real estate, culture and digitization and focuses on three main topics: a new working environment, improved services and a new way of collaborating with colleagues. Several KLM locations have already started the transformation to a WWoW;
- in 2017, the Team Development Program was set up starting at the top level to help new teams improve performance by breaking existing patterns and creating a context for continuous learning. Common team goals and objectives are identified and defined. Those goals are aligned with divisional goals and ultimately with the KLM ambition, the KLM Compass and Purpose. At the end of 2018 over 580 teams and more than 8,000 KLM colleagues had participated in this program;
- 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 the 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, and digital and Engineering & Maintenance resourcing. Numerous divisions began implementing this plan in 2018.

KLM's renewed organization-wide focus on sustainability also inspired ideas on ways to make KLM a more welcoming and inspiring employer for every single employee, with the offer of various opportunities for professional development.

In general, the aim is to stimulate staff and facilitate activities that help them to discover and develop their talents so they can make better choices in an ever-changing environment. This makes co-workers more adaptable, and adaptable workers make for an adaptable company.

Employment and mobility

In terms of Human Resources, employability and professional mobility are priorities.

At Air France, recruitment on permanent contracts within Air France nearly doubled in 2018 versus 2017, across all professions and profiles (executives/non-managerial staff, Ground Staff/Cabin Crew). The main professions concerned were maintenance, IT, hub customer relations, pilots and cabin crew. The company's pro-active approach to internship was maintained with a further increase in the intake of interns. Overall, in 2018, 1,397 people were hired on permanent contracts, 818 on fixed-term contracts and 1,238 interns were recruited (*see the social indicators for the Group*).

KLM empowers employees to be "the best of themselves" by creating an optimal and engaged workforce adapted to strategy execution and acting in line with the KLM Compass. The KLM Transition Center aims to help employees who have been made redundant to find new jobs within KLM or externally. Since the establishment of the KLM Transition Center in June 2016, KLM has supported over 600 employees in search of new jobs either inside KLM or outside the company. The tight labor market makes finding new young talent a challenge. Nevertheless, KLM was able to hire 21 new Young Potentials in 2018. KLM also offered 878 interns the opportunity to gain valuable work experience and prepare them for the labor market. The high number of applications for both the Development Programs (1,836) and internships (approximately 1,200) testifies to KLM's attractiveness as an employer. Mobility has top priority and KLM has succeeded in transferring a significant number of staff internally to other jobs. In addition, there were a substantial number of external hires (*see the social indicators for the Group*).

Employee Promoter Score

Both Air France and KLM started using the Employee Promoter Score (EPS), the in-house version of the Net Promoter Score used to measure customer satisfaction. At organizational level, a selection of employees is asked whether they would recommend Air France or KLM as an employer. The results are shared with all staff.

At Air France, despite the company traversing a turbulent period, the Employee Promoter Scores (EPS) for February (45) and October (39) showed a strong base of employee engagement, surpassing the 2018 target of 37.

At KLM the average EPS score was 61 in 2018. Beyond the KLM-wide EPS question, managers have also started to work with EPS at a team level. In addition, around 35% of the teams began using EPS to determine whether team members would recommend their teams to someone else and to measure engagement. EPS helps to engage leaders and team members in a dialogue around issues that need addressing.

4.2.2 Human capital development

Context and strategy

The effective management of skills within an organization makes a positive contribution to engagement, which in turn helps to achieve the company's objectives. For each specific category, training programs are developed at Air France and KLM to give employees the opportunity to learn and develop. Whenever possible, relevant training programs are organized transversally across domains or entities in order to share experience and learn from each other. In 2018, preparations were made to develop a new Learning Management system to be used by the different entities in the Group which, in future, will make it possible to manage new skills development across the Group in a standardized way.

Measures and performance

Air France

At Air France, 95% of employees benefited from training in 2018.

New conditions for access to training were developed like My Learning self-service training modules for all employees, Massive Open Online Courses, Manager Cafes and days dedicated to the HR and manager networks.

During 2018, the training plan supported all recruitment, specifically the hiring of flight crews (hostesses, stewards and pilots), but also new executives and technicians.

An ambitious training policy is key to supporting the Employment policy and the company's strategy, and is based on a series of general principles that are reaffirmed on an annual basis and form an integral part of the Employee Experience:

- guarantee access to training for everyone;
- ensure the visibility of everyone's skills, notably by developing graduate training and certifying diplomas;
- manage the economic balances.

In 2018, the recognition of employee skills via the Validation of Previous Experience scheme continued through a partnership with a network of prestigious universities and programs at all levels of the company and its professions. Support for mobility, vocational retraining and training to meet the need for advanced professional capabilities are also a priority.

KLM

In KLM, a number of processes were optimized and new initiatives were launched in 2018.

Since 2018, all ground staff have had the opportunity to spend 1.93% of their annual salary on professional development. This is in addition to the one-off €7 million Development and Training Fund for ground staff introduced in November 2017, i.e. €1,750 (including VAT) per person.

In 2018, Talent Management supported the management teams in looking at and valuing their people using the Deepening Dialogue method.

To support the KLM Care program, an emergency response program in the event of an accident involving a KLM aircraft, a Care Introduction Training program has been developed and eight Care Events were organized as a refresher for 300 KLM volunteers. Three separate Safety modules for different target groups (Passenger Services, Apron Services and Baggage Services) were also launched, to raise employee awareness of unsafe situations in their own working environment. More than 4,000 employees have used the e-learning programs.

At Inflight Services, some 3,200 cabin crew members were trained during one of the learning initiatives. Around 225 new members of cabin crew staff were welcomed to KLM's Initial Training Program. New Asian crew colleagues, World Business Class Cabin Attendants, Pursers and Senior Pursers were also trained.

Within Flight Safety Training, 1,500 training courses were established, resulting in 41,000 training days. A new tool was introduced to enable crew to hone their flight safety knowledge: 95% of the total population (9,800) is now using the tool.

In the Cargo division, classroom training was replaced by a "HoloLens" virtual reality training program, representing an improvement on many levels. The invested time was reduced by 25%. Furthermore, when measuring the effect of the training, it was clear that the new skills were transferred more successfully.

Agility

The New Ways of Working #Agile program, launched in November 2016, made significant progress in 2018. The program focuses on promoting a different agile way of working within the current organization's multidisciplinary teams (Business and IT colleagues) with a primary focus on software developments, ensuring the supporting principles, values, mindset and leadership roles. In 2018, 355 product teams, organized in 24 "Agile Release Trains", representing 2,800 people, adopted the Agile working methods in their daily practice.

To ensure Agile sustainability in Air France-KLM, the domains have to pursue a continuous improvement, spread the agile mindset and practices more widely and, beyond the software-related developments, embed the Agile capabilities/enablers and monitor the overall progress on the Agile transformation to be able to support and adapt where necessary.

4.2.3 Health and safety in the workplace

Context and strategy

Safeguarding employee health and safety in the workplace is a major priority for Air France-KLM and an area in which there can be no compromise. Evaluating and analyzing the risks then deploying the appropriate prevention measures enables the Group's airlines continuously to improve via pro-active measures in this area.

Measures and performance

Air France

Health and safety management

After stable results in 2017, 2018 saw a reduction in the frequency rate for vocational accidents but also in the severity rate.

The Health and Safety and Quality of Life in the Workplace unit within the Human Resources Division gained a new Head and enabled the development of numerous initiatives involving prevention, communication, the coordination of the medical and social network and the Health and Safety preventer units across the professions. Progress was achieved.

For Air France, along with Flight Safety, Vocational Health and Safety is an absolute priority. Aware of the progress still required, the company reaffirmed its long-term commitment to the following five priority themes:

- preventing serious accidents since the physical and mental integrity of employees and partners must be a primary business concern;
- reinforcing compliance with/respect of regulations, in both the realization of operations and the management of infrastructures and equipment;
- developing ergonomic approaches and reducing the incidence of musculoskeletal disorders;
- improving the quality of life in the workplace and the prevention of psychosocial risks since the well-being of everyone contributes to the Company's levels of performance and customer satisfaction;
- consolidating the Health and Safety at work management system: sustainable respect of the OHSAS 18001 requirements constitutes a cornerstone of continuous improvement.

Supported by its internal network, Air France's occupational health department ensured the clinical and psychological screening of the company's employees and advised on the prevention of vocational risks in both individual and collective information sessions.

The monitoring of Air France's Health and Safety Policy is of vital importance as testified by the tracking of performance indicators, the Health and Safety committees in every division and a Health and Safety review during Executive Committee meetings.

Health and safety prevention and quality of life at work

The monitoring of the Quality of Life in the Workplace agreements and the prevention charters with employees and the professional organizations was ensured throughout the year.

Prevention is at the heart of the Safety in the Workplace approach deployed within Air France.

The inclusion of the occupational safety dimension in project management, the development of ergonomic approaches during the design/organization of infrastructures and processes, and during the deployment of new tools, all enable the potential risks to be anticipated and encourage the collective appropriation by organizations.

The reporting process on occupational health and safety has been consolidated, enabling feedback on significant safety-related incidents and their handling to be shared. Regular in-depth analyses, realized internally or by calling on external partners, to pinpoint the trends and risks and thus supplement the accident-prevention system, are discussed during meetings of the various steering bodies. Voluntary feedback is encouraged since this is a key driver in prevention.

Both operational staff and executives are trained in preventing the risks associated with each profession; this training is also a good way to encourage the circulation of best practices.

Regular forums and seminars on vocational health and safety enable issues to be discussed and the in-field realities to be shared with a view to prevention, mobilization and the promotion of a safety-first culture.

The air transport industry environment requires constant adaptation and innovation on the part of its players. To respond to this imperative of organizational agility, the company is committed to improving its organization and working conditions.

Air France has undertaken to develop the Quality of Life in the Workplace, supported by a network of Quality of Life in the Workplace advisors having benefited from qualification-based training. Two new company agreements were signed in 2018 for, respectively, Ground Staff and Cabin Crew while a Quality of Life in the Workplace agreement for Pilots is in the negotiation process. Multiple initiatives are in place to enable employees to benefit from conditions permitting a balance between their personal and professional lives, assistance for staff who are carers for family members and, notably, organization in the form of remote working.

KLM

Vocational health and safety management

Within KLM, safety and compliance are managed via a system of processes and procedures known as the Integrated Safety Management System (ISMS). The ISMS ensures that KLM is and remains compliant, and a continuous improvement in operational, occupational and environmental safety and operational security. The ISMS identifies hazards, threats and safety issues, collects and analyses data, assesses safety risks, implements mitigations and monitors the results. The ISMS supports the pro-active and even predictive mitigation of risks in order to keep accident and incident rates below an acceptable level. In 2018, the Safety Assurance on the mitigation measures significantly improved with the management of all risks in the “Q-pulse” IT system.

In the spring of 2018, the ISO14001 certification was renewed based on the latest version of the standard and on the ISO “High Level Structure” Management System. In November, the IOSA audit was carried out and, depending on the results, the certification should be renewed in March 2019.

In 2018, eight serious occupational accidents were recorded. These were accidents like slipping, tripping and collisions with operational vehicles. Some of these accidents resulted in employee absenteeism. All eight accidents were investigated by the KLM Integrated Safety Services Organization - ISSO, a central independent organization reporting directly to the COO.

Health and safety training and initiatives

Following the successful introduction campaign for the revised Safety & Security Policy Statement and the Safety Review Board-endorsed approach on the results of the 2017 Safety Culture Questionnaire, 2018 kicked off with four major KLM-wide Safety & Security Themes:

- Challenge each other;
- Be Fit;
- Reporting;
- Just Culture.

Four working groups were established under the guidance of the Integrated Safety Services Organization (ISSO) to develop and implement the communication, promotion and training on all four themes. Supervision of the overall plan was established with the Safety & Security Promotion platform, a bi-weekly meeting attended by all divisions with, in addition, representatives from Learning & Development and Corporate Communication for overall learning and communication support and guidance.

- as one of the major KLM-wide Safety & Security Themes, ‘Be Fit’ resulted in a dual program with the Centre of Expertise Health an KLM Health Services. Several initiatives were organized by the divisions and ISSO to promote a healthy way of life and working environment;
- development and a first trial of a new, easily-accessible and usable Safety reporting App for all devices and all KLM personnel supported by the “See it, Say it” campaign;
- development of a Just Culture Toolbox for training and inspiration purposes.

The ISMS Training plan was further implemented, including the launch of a new line facilitator course and the roll out of Just Culture training in all layers of KLM.

Managing occupational health and safety risks

In 2018, a structured process for updating and developing policy was introduced to revise and implement KLM’s Occupational Safety and Health (ARBO) policy. In accordance with the KLM goals and objectives for 2018, some twelve Occupational Safety policies were drawn up including the recommended implementation provisions and plans. Five “ARBO” policies have already been approved by the Safety Review Board and agreed by the KLM Works Council. Based on these new policies, KLM:

- started implementing the policy regarding control of physical load in the work environment within the divisions;
- appointed Prevention officers in all business units as of the summer of 2018 to ensure the correct implementation of the mitigation measures concerning Occupational risks and to support business unit efforts to ensure a safe and healthy work environment.

In the fall of 2018, the KLM Board endorsed a program known as "KLM 100 years and beyond *veilig en gezond* (safe and sound)", aimed at increasing the preventive efforts to further improve sustainable employability.

For Flight Deck and Cabin Crew members, an e-learning module on "Fatigue" is in the development process.

KLM continuously invests in prevention, to improve working conditions and to promote a healthy lifestyle for its employees. In addition to a number of ongoing activities, new initiatives were launched in 2018, their goal being to provide an integral framework for the KLM organization and employees in order to optimally contribute to their health and employability with an impact on the company's productivity and operations.

KLM is reviewing and updating the company policy with regard to Health in close cooperation with the relevant stakeholders, including the Works Council. This is to ensure that the company's policy is kept up to date. KLM is also working on the realization of digital access (Health Portal) for employees, to be able to use preventive as well as curative Health interventions, in accordance with employee behavior as outlined in the KLM Compass.

In addition to the start-up of new initiatives, there are a number of ongoing activities, for example in the area of lifestyle programs (losing weight) or physical resilience (Hello Fysio). Programs have also been initiated within various divisions, aimed at promoting the sustainable employability of KLM employees. A great deal of attention is paid to the dialogue between employees and their managers. This is an important way to create a breeding ground for changing behavior to encourage a sustainable improvement in the levels of health.

Since the inception of the Expertise Reintegration Center in 2016, KLM has been increasingly successful in finding alternative employment for people who have been unable to return to their original jobs due to disability. Not only are they found suitable positions within KLM but the company has also seen a sharp increase in the redeployment of incapacitated employees outside KLM. KLM owes this success to the dedicated support of its Reintegration officers and a better program with various providers for a better match on the external labor market.

4.2.4 Fostering diversity and combating discrimination

Context and strategy

As a signatory of the United Nations Global Compact, Air France-KLM is committed to respecting the universal principles relating to the respect of Human Rights.

In the Corporate Social Responsibility Statement and Social Rights and Ethics Charter, the Group affirms its commitment to fostering a climate of trust and mutual respect in a working environment where no form of discrimination or harassment is tolerated. Various initiatives are implemented at Air France and KLM to support this commitment.

Measures and performance

Air France-KLM

Air France-KLM strives for a balanced representation of men and women in the Group Executive Committee. Concretely, in the event of the recruitment and/or appointment of new Group Executive Committee members, and in candidates of an equal level, there is a preference for female candidates.

Air France

Equal opportunities

In 2018, Air France pursued its policy of promoting and raising awareness of diversity and the need to combat discrimination. The company continues to support all forms of action to encourage equal opportunity, equality between men and women, the vocational integration of young people, the employment of seniors and the transmission of knowledge and skills, and the maintained employment and recruitment of persons with disabilities.

The commitment to fostering equal opportunity applies to all the collective recruitment and internal selection processes, and to professional development.

For Air France, professional gender and wage equality between women and men is a major business priority and an area in which the company would like to make progress in terms of human resources management. On March 7, 2018, this undertaking was reflected in the signature with the unions of a fifth agreement on Professional Equality between Women and Men.

To ensure equal treatment between women and men, a series of male-female comparative indicators are tracked annually within the framework of an audit carried out with each division of the company (training, careers, vocational safety, remuneration, etc.).

Special wage equalization and equitable salary management measures are in place, together with an annual audit of male and female comparative remuneration.

Furthermore, in support of Air France's pro-active policy, an internal Women For Tomorrow network has been created to reinforce the recognition of women within the Group. Air France is also a member of the *Elles Bougent* external network, composed of female business mentors, to encourage young girls to join the engineering and technical professions.

Lastly, in the summer of 2018, Air France participated in the Paris Gay Pride March and Gay Games, and supported World Aids Day in partnership with the airline's *Personn'ailes* association for LGBT and Gay-Friendly staff.

Vocational integration of young people

A number of initiatives are also supported by Air France in favor of young people in the airport catchment area and their access to training and employment like *Tous En Stage*, an innovative scheme offering children business experience, and Article 1 and *Nos Quartiers ont des Talents*, mobilizing more than 100 mentors from within the company.

To facilitate the long-term vocational integration of young interns within the company who are unlikely to be recruited on permanent contracts, various support measures directed at external employment are organized at the end of their internship contracts (organization of job-seeking forums, workshops on how to set up a company and job-seeking techniques, availability of dedicated job offer websites, etc.).

Policy on disability

In 2018, Air France hired 42 new employees with disabilities. The Company also ensured the maintained employment of staff with disabilities through more than 200 support programs and the adaptation of posts.

Furthermore, the Company also continues to call on the services of businesses and organizations in the adapted and sheltered employment sector, with procurement spending entrusted to this sector amounting to a little over €19 million in 2018.

Air France implements the provisions of the 2018-20 agreement on the employment and retention of persons with disabilities.

In 2018, Air France's employment rate for workers with disabilities (including both direct employment and indirect employment through procurement from the sheltered sector) exceeded the legal threshold of 6% to stand at 6.38%.

KLM

Gender equality and equal opportunities

KLM embraces the power of diversity and inclusion, because a diverse work force performs better than one which is more homogenous and because it is a more accurate reflection of society and KLM's customers. In 2018, KLM implemented the Diversity Circle, which includes Board members, to lead the way in the realization of the diversity objectives. Diversity and inclusion are also themes in internal communication, recruitment, and team composition. KLM also supported the Women on Board network (see below).

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 community. The program aims to create more sustainable jobs for people with work limitations, such an illness or disability. As part of this Inclusive Aviation Program, KLM this year introduced a dedicated job coach to raise awareness and streamline processes within KLM. In this way KLM continues to show its commitment to the vocational integration of disabled persons. In total, the Inclusive Aviation Program is targeting the recruitment of more than 100 individuals by the end of the 2019 first half. On October 11, KLM took part in Coming Out Day, to underline the importance of diversity and the inclusion of LGBTI colleagues. By raising a rainbow flag at several offices, KLM expressed its support. To coincide with this event, a meeting was organized by KLM Over the Rainbow, the KLM network for employees with an LGBTI background numbering more than 300 members in 2018. Among the sixty attendees were KLM's Chief Executive Officer Pieter Elbers and Aart Slagt, Executive Vice-President HR. This interactive session provided insight into what KLM needs to work on in order to create an optimal working climate for everyone. The importance of various teams and an atmosphere and culture where everyone can be themselves is high up the management's agenda. This initiative saw the emergence of numerous ideas to give diversity and inclusion at KLM more substance.

The KLM Compass links the company's purpose to a set of values and shows the balanced need for both masculine and feminine labelled behavior. Women on Board, the KLM network for female employees, 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 organizes events featuring speakers and workshops that align with the KLM Compass. The events themselves have been diverse and inspiring. Past events have featured seminars about leadership, female DJs in a man's world and the shocking prevalence of a subconscious gender bias.

In 2018, Women on Board numbered more than 1,000 women from all divisions and levels of KLM. Men can also join the network.

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

A small Group of enthusiastic and committed employees has drawn up an integral plan connected to KLM's growth ambitions and based on best practices in the corporate world. The Board of Directors fully supports this plan and has given a mandate to find ways to promote gender diversity. A Diversity Circle, consisting of both KLM Executive Committee and Women on Board members has taken responsibility for executing the plan.

From 2019 onwards, there will be a specific 2025 target in the Flight Plan for the number of women at the top levels of KLM. This means coordinated action is needed 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 for managerial and executive positions.

4.2.5 Social indicators for the Group

4.2.5.1 Consolidated social data for the Air France-KLM Group

	Air France-KLM Group			
	2016	2017	2018	18/17 in %
Total staff (Full Time Equivalent) at 12/31	**82,175**	**80,595**	**81,527**	**+1.2%**
Scope of Social reporting	**97%**	**96%**	**98%**	**+2%**
Total staff (headcount, permanent and fixed-term contracts) (1)	**87,917**	**87,312**	**88,888**	**+1.8%**
Ground staff	54,969	53,185	**53,985**	+1.5%
Cabin crew	24,757	25,859	**26,153**	+1.1%
Flight deck crew	8,191	8,268	**8,750**	+5.8%
Staff under permanent contract	**84,565**	**82,283**	**83,994**	**+2.1%**
Recruitment under permanent contract at 12/31 (2)	1,660	2,815	**4,153**	+47.5%
Recruitment under fixed-term contract at 12/31 (3)	3,747	6,289	**5,920**	-5.9%
Departures at 12/31	9,123	10,156	**10,535**	+3.7%
of which redundancies (incl. economic)	323	247	**337**	+36.4%
Percentage of women at 12/31 (4)	44.1%	45.3%	**45.3%**	+0%
Percentage of part-time employees at 12/31	29.0%	29.7%	**29.7%**	+0%
Breakdown of staff by age at 12/31				
≤ 29 years	5,654	7,501	**9,091**	+21.2%
Between 30 and 39 years inclusive	18,666	17,145	**16,246**	-5.2%
Between 40 and 49 years inclusive	33,219	32,348	**31,758**	-1.8%
50 Years and above	30,378	30,318	**31,793**	+4.9%
Breakdown of staff by geographical area at 12/31				
Europe (except France and the Netherlands)	3,475	3,041	**3,373**	+10.9%
North & South America	1,805	1,560	**1,634**	+4.7%
Caribbean/Indian Ocean (including French overseas territories) (5)	749	718	**711**	-1.0%
Asia/Pacific	1,425	1,645	**1,625**	-1.2%
Africa/Middle East	1,206	1,170	**1,167**	-0.3%
The Netherlands	29,747	30,217	**30,600**	+1.3%
Continental France	49,510	48,961	**49,778**	+1.7%

(a) Air France Group: Air France and Air France subsidiaries.
Air France subsidiaries: Blue Connect, Bluelink, Bluelink International CZ, CRMA, Sodexi, HOP!, Joon and Transavia France.
(b) KLM Group: KLM and KLM subsidiaries.
KLM subsidiaries: Cygnific, KLM UK Engineering Limited, KLM Cityhopper BV, Transavia Netherlands, KLM Catering Services Schiphol BV and Int. Airline Services.
(1) (2) (3) (4) (5): See Note on the Methodology.

Air France Group [a]				KLM Group [b]			
Air France Group		of which Air France		KLM Group		of which KLM	
2017	2018	2017	2018	2017	2018	2017	2018
51,198	**51,707**	**44,947**	**44,728**	**29,397**	**29,818**	**22,863**	**23,147**
96%	**99%**	**100%**	**100%**	**97%**	**97%**	**100%**	**100%**
53,804	**54,959**	**47,954**	**48,124**	**33,508**	**33,929**	**28,199**	**28,344**
34,002	**34,693**	30,586	**30,903**	19,183	**19,292**	15,881	**15,868**
15,004	**15,147**	13,748	**13,311**	10,855	**11,006**	9,479	**9,517**
4,798	**5,119**	3,620	**3,910**	3,470	**3,631**	2,839	**2,959**
51,072	**52,280**	**45,589**	**45,819**	**31,211**	**31,714**	**26,856**	**27,265**
1,634	**3,241**	885	**1,687**	1,180	**912**	718	**629**
4,386	**4,085**	3,340	**3,021**	1,903	**1,835**	1,029	**798**
7,846	**8,223**	6,000	**5,899**	2,310	**2,312**	1,181	**1,239**
168	**246**	98	**92**	79	**91**	36	**32**
45.5%	**45.5%**	46.1%	**45.9%**	45.1%	**45.2%**	44.4%	**44.4%**
22.5%	**21.6%**	23.7%	**23.1%**	41.3%	**42.9%**	42.3%	**44.0%**
4,328	**5,366**	3,424	**3,911**	3,173	**3,725**	1,944	**2,203**
10,453	**9,714**	8,763	**7,694**	6,692	**6,532**	5,193	**5,125**
22,087	**22,028**	19,929	**19,881**	10,261	**9,730**	9,003	**8,517**
16,936	**17,851**	15,838	**16,638**	13,382	**13,942**	12,059	**12,499**
1,736	**2,071**	1,135	**1,120**	1,305	**1,302**	918	**891**
1,138	**1,194**	1,138	**1,194**	422	**440**	417	**436**
671	**662**	670	**661**	47	**49**	47	**49**
576	**542**	575	**541**	1,069	**1,083**	769	**733**
735	**724**	735	**724**	435	**443**	435	**443**
48	**52**	48	**52**	30,169	**30,548**	25,552	**25,728**
48,900	**49,714**	43,653	**43,832**	61	**64**	61	**64**

4.2.5.2 Other social data for the Air France Group (according to local legislation)

Air France (100% of the staff headcount, registered and paid at the end of the calendar year) [(a)]

	2017	2018	18/17
Absenteeism [(1)]			
Due to illness	3.77%	**3.80%**	+0.8%
Due to work accidents	0.75%	**0.71%**	-5.3%
Maternity leave	0.53%	**0.44%**	-17%
Health and safety			
Total workplace accidents [(2)]	2,365	**2,148**	-9.2%
Number of fatal workplace accidents	0	**0**	
Frequency rate of workplace accidents [(3)]	*32.97%*	***29.94%***	*-9.2%*
Severity rate of workplace accidents [(3)]	*1,00%*	***0.92%***	*-8.0%*
Training			
Number of training hours by employee [(4)]	35.54	**37.08**	+4.3%
Disabled staff [(5)]			
Total staff with disabilities	1,861	**1,971**	+5.9%
Total staff with disabilities recruited during year	29	**42**	+44.8%
Yearly spending in the sheltered sector in €m [(6)]	19	**19**	0.0%
Signed collective agreements	**38**	**40**	**+5.3%**

(a) Data in italics concerns only Air France in Continental France and the French overseas territories.

Air France subsidiaries

	2017	2018	18/17
Scope of reporting for Air France subsidiaries	**87%**	**89%**	**+2.3%**
Health and safety			
Total workplace accidents [(2)]	286	**627**	+119.2%
Number of fatal workplace accidents [(2)]	N/A*	**0**	N/A*
Frequency rate of workplace accidents [(3)]	N/A*	**58.1%**	N/A*
Severity rate of workplace accidents [(3)]	N/A*	**1.38%**	N/A*
Training			
Number of training hours by employee [(4)]	50.92	**53.05**	+4.2%
Disabled staff [(5)]			
Total staff with disabilities	139	**141**	+1.4%
Total staff with disabilities recruited during the year	2	**6**	+200.0%
Signed collective agreements	**31**	**38**	**+22.6%**

(1) (2) (3) (4) (5): See Note on the Methodology.
N/A: Not Available.

4.2.5.3 Other data for the KLM Group (according to local legislation)

KLM (100% of the staff headcount, registered and paid at the end of the calendar year)[a]

	2017	2018	18/17
Absenteeism[1]			
Due to illness	6.89%	**6.86%**	-0.4%
Due to workplace accidents	0.10%	**0.11%**	+10.0%
Maternity leave	0.39%	**0.37%**	-5.1%
Health and safety			
Total workplace accidents[2]	177	**169**	-4.5%
Number of fatal workplace accidents	0	**0**	
Frequency rate for workplace accidents[3]	3.98	**3.75**	-5.8%
Severity rate of workplace accidents[3]	0.18	**0.20**	+11.1%
Training			
Number of training hours by employee[4]	40.72	**36.22**	-11.1%
Disabled staff[5]			
Total staff with disabilities	750	**791**	+5.5%
Signed collective agreements	**0**	**3**	**+300.0%**

(a) KLM: data concerns KLM without international staff.

KLM Subsidiaries

	2017	2018	18/17
Scope of reporting for KLM subsidiaries	**85%**	**87%**	**+2.4%**
Health and safety			
Total workplace accidents[2]	53	**75**	+41.5%
Number of fatal workplace accidents	0	**0**	
Frequency rate for workplace accidents[3]	5.26	**6.56**	+24.7%
Severity rate of workplace accidents[3]	0.42	**0.35**	-16.7%
Training			
Number of training hours by employee[4]	69.18	**80.86**	+16.9%
Disabled staff[5]			
Total staff with disabilities	94	**89**	-5.3%
Signed collective agreements	**1**	**7**	**+600.0%**

(1) (2) (3) (4) (5): See Note on the Methodology.

4.2.5.4 Note on the methodology for the reporting of the social performance indicators

In 2005-06, under the aegis of the Disclosure Committee, and validated by the college of Statutory Auditors, the Air France-KLM Group's social performance indicators were defined to comply with the requirements of the French New Economic Regulations law (*Les Nouvelles Régulations Économiques*, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Work on optimizing these indicators was undertaken in 2018 to align the Grenelle II reporting with the new requirements linked to the transposition of the Directive on the Extra-Financial Performance Statement.

Since the 2007-08 financial year, the Group has chosen to appoint one of its Statutory Auditors, KPMG Audit, a department of KPMG SA, to be responsible for verifying a selection of its reported social indicators.

As of 2018 and in application of the provisions of Article L. 225-102-1 of the *Code de Commerce*, it is the responsibility of our Independent Third Party to determine the compliance of the Extra-Financial Performance Statement and the accuracy of the published CSR information.

Reporting scope

The Air France-KLM Group's social reporting consolidation scope is based on the number of employees (expressed as headcount) on the payroll at the end of the calendar year.

The reporting scope covers 98% of the average employees in the Air France-KLM Group at the end of the 2018 calendar year, expressed in full-time equivalent.

The subsidiaries of Air France and KLM over which the Group exercises control at the 50% minimum, whose acquisition dates back at least one full year and which have at least 250 employees, are included in this social reporting scope.

Note that the number of employees for Air France and KLM and its subsidiaries comprises their entire workforces including staff employed internationally:

- for the 2018 financial year, the Air France consolidated subsidiaries are: Blue Connect, BlueLink, BlueLink International CZ, CRMA, HOP, Joon, Sodexi and Transavia France, representing 89% of the employees of the subsidiaries in the Air France Group;
- for the 2018 financial year, the KLM consolidated subsidiaries are: Cygnific, KLM UK Engineering Limited, KLM Cityhopper BV, Transavia Netherlands, KLM Catering Services Schiphol BV and Int. Airline Services, representing 87% of the employees in the subsidiaries of the KLM Group.

In 2018, Blue Connect and Joon were included in the reporting scope for the Air France subsidiaries while there were no subsidiaries withdrawn.

The KLM reporting scope did not change compared to 2017 with no subsidiaries being either included or withdrawn.

The reference number of employees for calculating the coverage rate of the social reporting is the average number of employees in Full Time Equivalent during 2018 derived from the Management Control division's BFC tool.

The reporting period for the Group's social information is based on the calendar year to ensure consistency with the social performance indicators of other French companies.

Reporting tools

The indicators are compiled and consolidated using the Osyris (Operating SYstem for reporting on Sustainability) reporting software at the disposal of contributors from Air France, KLM and their subsidiaries across the entire reporting scope. Precise definitions of each indicator and user guides for contributors have been produced and are available in the Osyris tool.

Consistency tests have been incorporated within the tool. The data are verified and approved locally at the level of each subsidiary by a manager who is responsible for the HR statistical data.

This system is supplemented by a general coordination to launch the process and by a general reporting procedure which defines the process for compiling, calculating and consolidating the indicators, based on an instruction memorandum circulated by the Air France-KLM Group's Finance division.

The consolidation of the Air France-KLM Group's social information is carried out by Air France's CSR department.

Details and methodology- comments on changes in the indicators

"Consolidated social data for the Air France-KLM Group" table

This table presents the indicators relating to the number of employees, recruitment and departures, the proportion of female employees and the percentage of staff working part time. These indicators are consolidated at the level of the Air France-KLM Group.

The notes below refer to the references in the social indicator tables (*Section 4.2.5*).

Employees

Note 1: The number of people employed by the Group (expressed as headcount) on both permanent (CDI) and fixed-term contracts (CDD) on December 31 of the reference year.

- **Air France and Air France subsidiaries**

Note that, Hop!, employees absent for long periods are booked in the Hop! headcount even if they are no longer paid. This practice differs from that of the other entities.

Recruitment under permanent contracts

Note 2: The indicator concerns employees hired on permanent contracts (CDI).

For Air France, the calculation of the number of employees recruited on permanent contracts includes those initially recruited on fixed-term contracts (CDD) transferring to permanent contracts (CDI) during the year.

For KLM, only employees recruited directly on permanent contracts are taken into account.

Recruitment under fixed-term contracts

— Air France and Air France subsidiaries

Note 3: In 2018, HOP! harmonized its accounting method with that of Air France: at Hop! and Air France, each new fixed-term contract now generates a hire.

Percentage of women – Organization of working time

Note 4: These indicators enable the percentage of women to be evaluated relative to the workforce and the proportion of part-time employees on both permanent and fixed-term contracts at December 31 of the reference year.

Employees by geographical zone at December 31

Note 5: For 2018, the Air France Group employees in the French Overseas Departments and Territories, i.e. 628 employees, are included in the Caribbean-Indian Ocean geographical zone.

"Other social data" tables

The indicators reported in the "Other social data" tables are subject to different qualification and legal reporting obligations in France and the Netherlands, meaning that they are not comparable and need to be presented separately for Air France and KLM. The subsidiaries concerned in these tables are listed in the reporting scope section above.

Absenteeism – Health and safety in the workplace

A significant portion of the work-related accidents reported by Air France is due to cases of barometric otitis and musculoskeletal disorders which are recognized as work-related accidents in France whereas they are recorded as sick leave by KLM in accordance with Dutch law.

The absenteeism rate is not communicated for the Air France and KLM subsidiaries (around 15% of the Air France-KLM Group headcount), the monitoring measures being in the verification process at the level of these entities. Measures will be taken to progressively expand the reporting scope of this indicator in the coming years.

— Air France

Note 1: The absenteeism rates are calculated based on the hours of absence expressed as a ratio of the hours theoretically worked (excluding leave). For Air France flight crew, absenteeism is broken down into days then converted into hours by multiplying by five hours.

The absenteeism rate for accidents in the workplace also takes into account travel-related accidents.

— KLM and KLM subsidiaries

Note 1: Since the 2014 financial year, the absenteeism rates due to work-related accidents or illness have been reported separately.

The absenteeism rates are calculated by expressing the number of calendar days of absence as a percentage of the calendar days theoretically worked. Absenteeism is tracked on the basis of figures declared by the KLM entities in the Netherlands.

Health and safety – work-related accidents

There are significant differences in the definition criteria for work-related accidents between France and the Netherlands (*see also paragraph on absenteeism*).

— Air France and Air France subsidiaries together with KLM and KLM subsidiaries

Note 2: Work-related accidents taken into account are work-related accidents involving time off work (at least one day of absence from work). Travel-related accidents are not included in the indicator but are the subject of specific monitoring and action plans.

Frequency and severity rates

— Air France and Air France subsidiaries

Note 3: The frequency and severity rates are calculated:

- for ground staff, based on the actual paid hours worked;
- for flight crews, based on the hours of "commitment".

The number of days of sick leave recorded for the year corresponds only to the accidents having taken place during the financial year. Part-time working for health reasons is booked as sick leave. The total period of sick leave is booked in the month of the accident.

This year, for the first time, the frequency and severity rates for work-related accidents in Air France subsidiaries (around 7% of the Air France-KLM Group's headcount) have been reported. The relatively high frequency rate for accidents in the workplace at Air France subsidiaries is explained by:

- the substantial number of cases of barometric otitis within accidents in the workplace;
- the proportion of flight crew represented across the Air France subsidiaries. Flight crew on permanent and fixed-term contracts effectively amount to 44.6% of the total headcount in the subsidiaries even though these staff are subject to barometric otitis which is recognized as an accident in the workplace in France;
- since the network of airline subsidiaries is focused in particular on short and medium-haul flights, the flight crews as a whole have to contend with more pressure changes leading to otitis;
- the youth of the Joon subsidiary in which, despite vocational health and safety training, staff in their first two years as flight crew suffer from a higher incidence of otitis.

— KLM and KLM subsidiaries

Note 3: The frequency and severity rates are calculated for all staff based on the hours theoretically worked.

The days lost for work-related accidents are tracked based on figures declared by the KLM entities in the Netherlands.

Training

Note 4: The "Number of training hours by employee" indicator is calculated based on all the training sessions, divided by the average monthly headcount.

— **Air France and Air France subsidiaries**

Note 4: The "Number of training hours by employee" indicator does not include the number of hours of training at Bluelink International CZ since this data was not available.

— **KLM and KLM subsidiaries**

Note 4: The hours of training dispensed to KLM Group administrative employees and the hours of training given to employees of the Transavia Netherlands subsidiary (less than 10% of the Air France-KLM Group headcount) are not booked in the "Training Hours" indicator due to there being no information population process in place. Measures will be taken to progressively expand the reporting scope of these indicators in the coming financial years.

Number of disabled employees

— **Air France and Air France subsidiaries**

Note 5: For Air France, the number of disabled employees are those who, based in Continental France and the French Overseas Departments and Territories, were present for at least one day during the year and for whom a valid certificate, pursuant to French law (Article L. 5212-2 of the French Labor Code), is available. In 2017, the criterion of being present at least one day during the year changed relative to the criterion used in previous years, i.e. present on the payroll at December 31. The change in this criterion enables greater consistency with the DOETH declaration (mandatory declaration of employees with disabilities).

Note that the data for international employees is reported based on local legislation.

The number of disabled employees recruited corresponds to the number of permanent and fixed-term employment contracts signed during the year; an employee recruited on a fixed-term contract who then transfers to a permanent contract during the year will be reported twice.

Note that the rate of employment of disabled employees for 2018 was not yet known on the date the figures for the reporting of the social indicators were produced for the management report and the Registration Document.

— **KLM and KLM subsidiaries**

Note 5: The definition of a disabled person varies according to the local legislation governing the entities in the Netherlands and the United Kingdom.

For KLM and KLM's Dutch subsidiaries, an individual is deemed to be disabled if unable to carry out his or her work or any other work at an equivalent salary level. This requires the employer and the employee to look for another position with a salary as near as possible to the previous level and gives the employee the right to government benefits to compensate for any difference.

For KLM's UK subsidiaries, the reported number of employees with disabilities refers to the employees on the payroll at December 31, 2018, for whom a valid certificate, pursuant to national legislation, is available.

— **Air France**

Note 6: "Yearly spending in the sheltered sector" indicator. This concerns revenues expressed in millions of euros generated with companies in the protected sector. This is an estimated figure as of the date of publication, ahead of the final submission of the declarations within the framework of the DOETH (mandatory declaration of employees with disabilities).

4.3 ENVIRONMENTAL ISSUES

The Group aims to capture its share of air transport industry growth globally over the next few years. With regard to the positioning of France and the Netherlands in the transition to a zero-carbon society by 2050 and the increasingly frequent occurrence of extreme climate events, the acceptability, at political level but also in terms of wider society, of the Group's growth depends on its ability to reduce its environmental impact.

Within a context where, unlike other modes of transportation, commercial aviation currently has no adequate alternative to fossil fuels and no disruptive technology is envisaged in the coming decades, Air France-KLM needs to maintain its efforts in this area and respond to the environmental expectations of its stakeholders.

See also paragraph 3.2.2 in Section 3 Risk and risk management.

Key facts and KPIs for 2018

Carbon emissions Adaptation to climate change	Emission efficiency (1) Target 2020: 20% reduction in CO_2 emissions (g CO_2/passenger/km) by 2020 compared to 2011 (operational and economic measures)	3.21 liters/passenger/100 km 80 g CO_2/passenger/km 13.5% reduction since 2011 (operational measures only)
Carbon emissions Adaptation to climate change	Average age of the Air France-KLM fleet	11.3 years
Noise	Global noise energy per movement (2)	42% reduction since 2000
Air quality	NO_X emissions Flight and ground operations	2018: 9,854 tons 2017: 10,298 tons 2018/2017: 4% reduction (*see environmental indicator table Section 4.3.6*)
Waste and the circular economy	% of hazardous waste recycled	2018: 71% 2017: 64% 2018/2017: +7 pts (*see environmental indicator table Section 4.3.6.2)*
Biodiversity	Support for projects aimed at protecting biodiversity around its hubs and destinations	

(1) Fuel efficiency is expressed as a ratio in liters of fuel per 100 RPK (revenue passenger-kilometer). It is calculated using the actual jet fuel consumed and the number of passengers flown over the actual planned flight distance. For international flights, the fuel burned is distributed between passengers and freight based on mass. The flight distance is on average 6% longer than the great circle distance due to various restrictions (no fly zones, local air traffic management, weather conditions, etc.). The standard mass for a passenger plus luggage amounts to 100kg (ICAO standard). The "passenger" and "kilometer" data taken into account for Transavia Netherlands are those for 2017 because the 2018 data were not available for the 2018 reporting campaign.
(2) Air France-KLM Noise Energy per Movement equals the Global Noise Energy calculated in kJ divided by the total number of movements (take-off and landing).

4.3.1 Carbon emissions

Context and strategy

Aviation contributes between 2% and 3% of the greenhouse gas emissions of human origin. However, with the expected growth in global air traffic over the coming decades, aviation's contribution will increase if no action is taken.

In 2009, the International Air Transport Association (IATA) set an ambitious worldwide commitment to reduce the CO_2 emissions from air transportation:

- 1.5% average annual fuel efficiency improvement until 2020;
- carbon neutral growth from 2020 onwards;
- a 50% reduction in net aviation CO_2 emissions by 2050 relative to 2005 levels.

Air France-KLM is aware that aviation impacts the climate and endorses these targets. The Group has implemented a Climate Action Plan to reduce its impact on climate change. The plan is composed of six main mitigating priorities, on the basis of which targets have been identified and action plans established:

- pursue fleet modernization and contribute to aeronautics research;
- mobilize all the Group's internal and external players around ambitious action plans enshrining eco-design principles;
- promote the emergence of sustainable aviation fuels and participate in research into renewables;
- support NGO-led environmental programs;
- give customers information on their travel-related CO_2 emissions and the opportunity to offset these;
- support the implementation of the global climate agreement (CORSIA) and effective carbon pricing to which the aviation sector would make a just and equitable contribution.

For flight operations, Air France and KLM are targeting a 20% improvement in energy efficiency by 2020 relative to 2011 (in g. of CO_2/passenger/km including the market-based measures).

Measures and performance

Greenhouse gas emissions: Scopes 1, 2 and 3

The most significant portion of greenhouse gas emissions (GHG) is generated by Air France-KLM's direct activities (scope 1), and mainly by flight operations which represent 99.7% of the Group's total direct emissions. The ground operations (testing bench, runway vehicles, etc.) represent 0.3%. To minimize its impact on the environment, Air France-KLM mainly focuses on fleet renewal, improving operational efficiency, promoting and using sustainable aviation fuels, and carbon offsetting.

The ground operations, like the aircraft maintenance and tertiary activities, also generate indirect greenhouse gas emissions (scope 2) through electricity consumption in buildings (electricity and climate comfort). The Group implements actions to reduce the ground energy consumption.

The indirect Scope 3 greenhouse gas emissions mostly come from the upstream phase (extraction, production, distribution, etc.) in aviation kerosene production and carbon emissions from vehicles and runway equipment. The other scope 3 components are the purchasing of goods and services, passengers traveling to and from airports by road, and home-to-work employee commuting. Air France and KLM are examining these components with a view to reducing emissions. Every four years, Air France calculates the total scope 3 emissions in the GHG reporting, pursuant to Article L. 229-25 of the Energy Transition for Green Growth Act. The next GHG reporting campaign will be completed in 2019. For the air operations, scope 3 emissions represent around 16% of total emissions (scopes 1, 2 and 3).

Every year, the Group reports 100% of its scope 1 and 2 CO_2 emissions, and the scope 3 emissions resulting from the upstream phase in aviation kerosene production (according to the assessment made by the Group, these emissions represent approximately half of the total scope 3 emissions). These emissions are published in the form of indicators presented in the environmental indicator tables, accompanied by a definition of the respective scopes (*see Section 4.3.6*).

Fuel use reduction

The Group identifies and implements all the possible fuel saving measures, subject to strict rules for flight safety. So that the Group can improve its energy efficiency and reduce its carbon footprint all the departments in every Group airline are involved in the Fuel Plan.

Fleet modernization: by investing in a modern, more fuel-efficient fleet, the Group improves both its economic and environmental performance. Air France's A340s and KLM's 747-400s are gradually being replaced by B787-9s and 10s, and the introduction of the first Air France A350-900s is planned for 2019. In 2018, the average age of the fleet was 11.3 years. For more information on the Group's fleet *see Section 1.5.4.*

Weight reduction: the lighter the aircraft, the less fuel it consumes. All Air France-KLM departments are working to reduce weight on board. This includes reducing the weight of seats, galley equipment, onboard products such as cargo and flight deck paperwork, spare magazines, and carrying limited stocks of liquids.

Route and flight path optimization: Improvements in fuel efficiency are made through the optimization of routes and flight paths, a reduction in aircraft waiting times and optimized altitudes.

Flight operations optimization: pilots are trained to apply the most-fuel-efficient procedures possible: flight plan precision, speed adjustments and optimized procedures and, on the ground, taxiing with one engine.

Sustainable aviation fuel

The use of sustainable aviation fuels is a promising solution to reducing the CO_2 emissions from aviation. They are key to achieving Air France-KLM's CO_2 emission reduction targets as well as those of the aviation industry as a whole. Unlike other forms of transportation, the commercial aviation industry has no alternative to fossil fuels and, moreover, no ground-breaking technologies are envisaged for commercial aviation in the coming decades.

The Group's goal is to contribute to the establishment of a sustainable fuels industry for aviation. Air France and KLM have demonstrated the feasibility of operating aircraft powered by biofuel, both safely and sustainably. They have established innovative partnerships with corporate customers, suppliers, airports and logistics partners, to develop a new sustainable biofuels industry for aviation. Strong governmental support accompanied by incentives are nonetheless required for both more extensive deployment and the creation of economically-viable production facilities for producers and operators alike.

Defining demanding sustainability criteria

The Group supports the use of various sustainable raw materials provided their production meets strict standards such as a material reduction in CO_2 emissions, a minimal impact on biodiversity, no competition with food production or access to food resources, and a positive impact on local development. Air France and KLM have been members of the Roundtable on Sustainable Biomaterials (RSB) since 2008, in their capacity as founder members of the Sustainable Aviation Fuel Users Group (SAFUG).

Stimulating the industry

Air France and KLM are members of working groups and support research projects aimed at the creation of a biofuels market for aviation. For example:

- Air France has joined forces with the ATAG (Air Transport Aviation Group) to promote, with the French Civil Aviation Research Council, greater knowledge of biofuels for aviation and thus raise public authority awareness of the need to support a French biofuels industry. Air France is also actively participating in the establishment of the French national road map on aviation biofuels managed by the National Alliance for Coordination of Research on Energy (ANCRE);
- in 2018, KLM started investing in 120,000 liters of biojet fuel per year on flights bound for the new Swedish destination, Växjö. KLM guarantees that it will purchase 5% biojet fuel based on all flights to and from Växjö. Together with Södra and the City of Växjö, KLM and SkyNRG will also investigate the feasibility of producing biojet fuel in the region around Växjö;
- during the World Efficiency Trade Show in December 2017, Air France signed an Engagement for Green Growth (*Engagement pour la Croissance Verte* - ECV) with the French Ministry for Ecological and Inclusive Transition, the French Ministry of Transport and the French Ministry of the Economy and Finance, along with four other major French industrial companies (Airbus, Safran, Suez and Total). This ECV aims to promote the emergence of sustainable aviation biofuel industries, in economically viable conditions that fully integrate circular economy principles. The idea is to support and rapidly create the conditions for implementing these industries in France. An official report is made on a quarterly basis to the French authorities.

Supporting regulatory incentives in France, the Netherlands and at international level

Air France and KLM are actively involved (KLM co-chairing) in the Advanced European Biofuel Flightpath European initiative. They are also members of the ART Fuels Forum. Created and financed by the European Commission, this forum of experts aims to shape strategies and policies for market deployment, and examine the conditions for promoting alternative sustainable biofuels, notably including aviation. It brings together EU policy makers, fuel production and transport consumption stakeholders, and the main international cooperation players, to facilitate the formulation of policies aimed at reducing the barriers to the deployment of biofuel development.

Air France is participating in the Ini-FCA French Future Alternative Fuels Initiative, led by the French Civil Aviation Authority (DGAC). At the CORAC (Council for Civil Aeronautical Research), the company actively participates in formulating a biofuels strategy involving coordinated actions to further technological research and innovation towards the attainment of ecological transition objectives, within a global context.

KLM is actively involved in the BioPort Holland, a collaboration between the Dutch Government and several private parties with a collective ambition of launching sustainable aviation fuel production in the Netherlands.

Innovating in the supply chain

In 2010, KLM created the SkyNRG venture to develop a sustainable fuel supply chain from purchase to delivery. SkyNRG is now the world leader in bio-kerosenes, supplying more than fifteen airline companies globally including Air France and KLM. In 2016, KLM signed a three-year contract for the supply of sustainable biofuel at Los Angeles airport and is planning to continue this initiative in the coming years. All KLM flights from Los Angeles airport will be operated with biofuel produced by the local World Energy (former AltAir Fuels) refinery and supplied by SkyNRG.

Involving customers and partners

As part of its WWF-NL partnership and the Green Deal commitment, KLM launched the Corporate BioFuel program in 2012, a first for aviation. In 2018, Air Traffic Control The Netherlands, Arcadis and Södra joined the Program.

In France, Air France mobilizes the partners in the biofuel value chain around the Engagement for Green Growth.

Emission offsetting

Mandatory offsetting

Since 2012, the Group has been subject to the application of the European Emission Trading Scheme for greenhouse gas emission quotas (EU-ETS). The EU-ETS scope is limited to intra-European flights until the end of 2023. The EU-ETS should be considered a first step towards a global system whose main principles were approved by ICAO in October 2016, and specified in the SARP (Standard And Recommended Practices) rulebook agreed by the ICAO Council in 2018.

CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) is a historic agreement wherein aviation is the first economic sector to address climate change at global level. This global market-based mechanism aims to limit the CO_2 emissions from international aviation by targeting carbon neutral growth relative to the 2020 reference. Air France, KLM and the other airline members of IATA continue to work on defining the implementation conditions of this agreement.

For the implementation of CORSIA, the calculation of the CO_2 emission reference data began on January 1, 2019 (average of 2019 and 2020 emissions): all operators across all countries must now declare the CO_2 emissions from their international flights.

CORSIA offsetting will begin with a first phase from 2021 to 2026, based on States volunteering to contribute, with seventy-six countries, representing 76% of international aviation activity, having already declared their intention to participate. The following phase, staggered over 2027 to 2035, will be mandatory and will concern virtually all States (with the exception of a minority of the exempt States, unless they volunteer).

This new system aims to supplement the basket of mitigation measures already deployed by the industry to reduce the CO_2 emissions from international aviation. This basket includes technical and operational improvements, together with progress on producing and using sustainable alternative fuels for aviation.

The Group expects this system to ensure simplicity, environmental integrity and an acceptable cost-efficiency ratio, and to establish fair competition between the airlines and avoid having a patchwork of local or regional regulations; in this regard, the CORSIA provisions should be included in the EU-ETS regulation as of 2021 for the scope of international flights.

Voluntary offsetting

Air France and KLM also offer their customers the opportunity to offset their CO_2 emissions on a voluntary basis, by making CO_2 emission calculators available to customers on their websites. These calculators are directly linked to an evaluation system, enabling passengers to offset the carbon emissions associated with their travel, should they so wish.

Air France partners the GoodPlanet Foundation's Solidarity Action Carbon Program for the financing of carbon offsetting projects aimed at promoting renewables to replace non-renewable energies in Peru, Bolivia and India, and at implementing waste recycling projects in Madagascar. These offsetting projects are systematically evaluated and registered for accreditation by the most exacting international labels, particularly the Gold Standard (GS) and the Voluntary Carbon Standard (VCS). In 2018, Air France launched a new partnership with the organization A Tree for You (*see Section 4.4.5 Biodiversity*).

KLM's compensation service CO2ZERO enables passengers to offset their carbon emissions. The contribution of customers will be directly invested in a Gold Standard for the Global Goals-certified carbon offsetting project in Panama that focuses on planting new trees, maintaining existing forests and supporting the local community.

Ground energy consumption

Electricity consumption in buildings dedicated to ground operations, like the aircraft maintenance and tertiary activities, generates indirect greenhouse gas emissions (scope 2). Air France and KLM are targeting a 20% improvement in ground operation energy efficiency by 2020 (relative to the 2011 level), by optimizing energy consumption and increasing the use of renewable energies.

Having reached the 2020 target in 2017, Air France has set a new target for the same date, 2020, corresponding to a 26% reduction in electricity consumption (expressed in kWh/m^2) compared to 2011 as the base year. This result is notably due to an improvement in equipment, such as lighting, and the integration of this target in supplier contracts.

Initiatives to reduce energy consumption are in place at all Air France sites. For example, at Valbonne in southern France where the bulk of the IT servers are located, 100% of the heating need of the tertiary buildings comes from the recycling of heat generated by the air conditioning system. In the Cargo warehouses, a new energy-efficient lighting system has replaced the traditional system, enabling an 80% saving (reduction in energy and maintenance costs) and avoiding the emission of 285 tons of CO_2 a year.

Since 1989, KLM has deployed a range of electrical power-saving measures in the KLM buildings in the Netherlands, enabling a 2% annual reduction in its energy consumption. In 2016, KLM signed a fifth multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs, with the objective to reduce the Company energy consumption 2% annually through to 2020.

Environmental management/ISO 14001 certification

Air France and KLM's Environmental Management Systems (EMS) have been ISO 14001 certified, respectively, since 2008 and 1999, for all air and ground operations in metropolitan France and the Netherlands. This certification was renewed for a three-year period in 2017 for Air France and in 2018 for KLM. Internal and external audits verify the effective implementation of the Environmental Management System.

In addition to compliance with the regulations in force, the Environmental Management System is used to drive an improvement in environmental performance and innovation, both within the Group and at its suppliers.

4.3.2 Adaptation to climate change

Context and strategy

In its 2018 report, the Intergovernmental Panel on Climate Change (IPCC) assesses the latest level of knowledge on climate change and its consequences, together with the potential for adaptation to limit the vulnerability of human societies. At the November 2018 United Nations COP24 climate change conference in Katowice, nearly 23,000 delegates decided on the rulebook to enable a two-year monitoring process for State-related emissions from 2024.

For air transportation, the impacts of climate change could have consequences for the routes and destinations served. The size of the Air France-KLM network, with services balanced between the different continents and the flexibility linked to fleet composition, are all assets when it comes to minimizing the economic consequences of these impacts and adapting schedules to market requirements.

Measures and performance

Present in all continents, the Group already operates in all weather conditions. It has thus deployed the procedures and resources to ensure operations in extreme climate conditions.

The more frequent emergence of extreme climate events could, however, affect flight operations (re-routing, flight cancellations and delays, etc.). In response, Air France and KLM have developed programs in which employees receive special training on the management of emergency situations. The two companies also work with airports to ensure the best-possible operational and passenger handling conditions and, in such circumstances, deploy commercial measures to enable passengers to defer their travel if they so wish, or change their destinations.

4.3.3 Noise and local pollution

Noise

Context and strategy

Airlines need to accommodate their customers' increased demand for mobility, while maintaining noise hindrance at an acceptable level for those living near airports. Air France-KLM has formalized its commitment to noise mitigation by making it a requirement enshrined in its Corporate Social Responsibility Statement.

Fleet modernization and improvements in operational procedures are the two pillars of the Group's noise reduction strategy. All the aircraft in the Air France-KLM fleet meet the criteria established by the ICAO Chapter 4 Noise Standard, the most demanding norm covering the acoustic quality of civil aircraft. Fleet renewal enabled a 35% reduction in the Air France-KLM Group's noise footprint between 2000 and 2018, whereas the number of aircraft movements increased by 16% over the same period.

Measures and performance

Specific solutions are also sought to reduce the noise emissions from aircraft.

Air France and KLM are committed to ensuring a permanent dialogue with stakeholders in all territories. They meet with the representatives of local communities, the airport authorities and air traffic control to identify measures enabling a reduction in noise hindrance potentially affecting the inhabitants of areas located near airports.

In the Netherlands, KLM participates in the *Alders Table* which addresses issues surrounding noise. For the region around Schiphol, KLM is a member of the *Omgevinsgraad Schiphol* (ORS). In France, this dialogue is mainly conducted within the context of the CCEs (Environmental Consultative Commissions) and CCARs (Advisory Residents' Assistance Commissions) in which Air France participates at all the French airports where it has operations.

Air France has been actively involved in a Night Flights working Group, overseen by the Prefect of the Paris-Charles de Gaulle airport region. This working Group notably proposed new "dead of night" continuous descent procedures and welcomed the commitment to retiring noisy aircraft including Air France's B747 aircraft. Lastly, the punctuality of flights scheduled for late at night or early in the morning is the subject of a specific monitoring procedure.

In 2018, the Air France Group's contribution (Air France, Transavia France and HOP!) to the Airport Noise Tax (TNSA) paid to the French State amounted to €18 million. Its proceeds are allocated to the financing of sound-proofing for homes situated around the main airports.

Around Schiphol, all the noise nuisance measures have been implemented. Over the past two decades, KLM has contributed most of the total €754 million in noise taxes, devoted to the sound-proofing and compensation for loss of value in property around Schiphol airport.

Air quality

Context and strategy

The Air France-KLM Group monitors its atmospheric emissions for both flight and ground operations, including low altitude emissions which impact the quality of the air around airports. The indicators cover emissions of CO_2, SO_2, NO_X, HC and Volatile Organic Compounds (VOC).

Most of these gas and particle emissions come from aircraft movements. The remainder is produced by ground operations and the maintenance activities, airport logistics and road travel by passengers, employees and suppliers.

Measures and performance

Air France-KLM reduces its local emissions via a number of levers:

- a modern fleet with more energy-efficient aircraft;
- ground vehicles and runway equipment which are more respectful of the environment;
- optimized operational procedures for the ground operations: taxiing time, taxiing using just one engine, the use of ground power units (GPUs) to ensure the functioning of on-board systems, replacing the Auxiliary Power Units (APUs) on kerosene-powered aircraft.

At Air France, an increased budget for 2018 enabled investment in runway equipment meeting the new environmental standards in force and the development of electrical energies. For ground vehicles, hybrid petrol and electric engines are prioritized when renewing the fleet. Similarly, Air France is accelerating the use of electric power converters (ACUs) for the air conditioning of aircraft on the ground. This enables a reduction in emissions due to the use of thermal ACUs, APUs and GPUs.

Since over 80% come to work by car, Air France has deployed a Mobility Plan for its employees based in the Île-de-France region, aimed at reducing the pollutant emissions linked to their travel. This is thus a major priority for the company, in terms of both the environment and vocational health and safety.

In 2018, the action plan in place was based on the following initiatives:

- promoting public transport;
- making temporary offices available;
- encouraging remote working for positions allowing this: 2,807 employee remote workers in France in 2018, i.e. an increase of 30% relative to 2017. These unrealized commutes to/from work represent approaching 5.6 million kilometers and a saving of 1,355 tons of CO_2;
- installing charging terminals for electric vehicles in its car parks;
- participating in the development of a new car share platform available free of charge to employees of Air France and those of ten other companies;
- raising employee awareness on the link between air quality and methods of commuting to/from work.

Other areas are also being studied like carpooling and the development of environmentally-friendly transportation methods like cycling.

In 2018, the other relevant entities in France launched the construction of their own mobility plans for development in 2019.

4.3.4 Waste and the circular economy

Context and strategy

Air France-KLM handles many forms of waste, mostly arising from flight operations or maintenance, within a context of strict regulatory obligations. Across the entire supply chain, the Group strives to minimize waste and increase the proportion that is recycled or reprocessed. Air France and KLM base their actions on the four principles of the circular economy: rethink, reduce, reuse and recycle.

Air France has set itself a target of recycling or reprocessing 100% of non-hazardous waste and 60% of hazardous waste by 2020. KLM has already achieved its 2020 objective of reprocessing or recycling 100% of non-hazardous waste and continues to work on eliminating 50% of residual waste by 2030.

Measures and performance

Inflight waste

Air France and KLM run programs aimed at a constant improvement in the overall management of flight waste: waste prevention, increasing the recycled portion, eco-designing items and the identification of appropriate reprocessing facilities. For example, a significant proportion of reusable obsolete equipment, like trays, drawers, blankets and trolleys, is recycled.

At KLM, the use of smaller packaging for products has been a focus of efforts. On all the European flights, on-board waste is sorted and trolleys have been adapted to collect plastic and cardboard cups. Glass, cans, aluminum lids, paper, EPS boxes, PET plastic bottles and other forms of plastic are also sorted and recycled by the catering teams.

Action to combat food waste

Air France-KLM handles the food waste coming from flight operations in the respect of a permanent commitment to guaranteeing food safety and security, within a context of strict regulation. The regulations vary depending on the context of each station and are often very exacting, like the European Regulation requiring the incineration of any elements having been in contact with food on flights arriving from outside the EU.

Two main levers enable a reduction in food waste: the adjustment of the catering embarked on flights and a strict policy of merchandise inventory management.

Based on statistics and historic flight load factors, and on passenger habits, the number of meals actually embarked is regularly re-evaluated. This re-evaluation prevents waste arising and reduces production and transportation costs. This also reduces the onboard weight, resulting in lower CO_2 emissions.

To regularly renew the in-flight service proposition, some products are offered to passengers for a limited period. At the end of this period some products are served in the Air France lounges while others may be donated to charitable organizations (*Restos du Cœur*, *Mie de Pain*, Red Cross).

Lastly, the products that are not distributed to passengers but can be conserved, are recovered and reinserted in the flow of meal trays prepared for the following flights. In this case, cost saving is combined with the quest for waste minimization.

Aeronautical waste

Air France and KLM have a procedure for recycling metal aeronautical waste. Wherever possible, the cradle-to-cradle principle is applied to reintegrate waste in a new production cycle. The process foresees procedures to reuse and recycle spare parts. This program has been extended to other types of waste: furniture, equipment, pallets and blankets.

At Air France, the move up-market for the medium and long-haul cabins with the installation of new seats has been accompanied by the implementation of a recycling and dismantling process for the old seats ranging from the reuse and recycling of components to the recovery of foams and metals.

Hazardous waste from the maintenance activities is the subject of a comprehensive tracing system and its management is harmonized in the different maintenance sites. This approach is also reflected in the optimized management of suppliers and costs, and the search for more relevant solutions in the light of regulatory changes.

Promoting the principles of the circular economy

The two companies are working on initiatives to up-cycle waste for new uses like, for example, the recycling of used uniforms.

A permanent recycling system is now in place for Air France uniforms and overalls. Staff are invited to adopt good recycling practice by depositing uniforms and overalls in secure containers in the Air France premises. Having been collected and recycled they are transformed into energy in the form of heating pellets, the residues being used to manufacture cement. In total, since September 2018, 7.5 tons of textiles have been collected and recycled at the Roissy site. Furthermore, employees have launched the 100% Uniforms upcycling initiative, offering a collection of non-aeronautical accessories (pouches, etc.).

To avoid the destruction of products and promote reuse, in January 2017 Air France signed a framework agreement with the *Agence du Don en Nature* (ADN). By donating new re-modeled and recycled products like crockery and blankets respectively, Air France supports the work of the ADN association which collects and redistributes new non-food everyday products to combat exclusion in France. Fifty-one pallets of crockery were donated to the ADN in 2017, and nearly 1,500 Air France bags in 2018.

KLM sorts 14 types of waste, with paper, wood, plastic and metal being its main residual forms. In cooperation with partners, KLM upcycles old cargo straps into bags, pillows and laptop cases, recycles uniform fibers in cabin carpets and furniture, and is upcycling old furniture.

4.3.5 Biodiversity

Context and strategy

The impact of air transportation on biodiversity is linked to the effects of climate change induced by the CO_2 emissions it generates. The Group supports a number of projects and initiatives aimed at protecting biodiversity around its hubs and outstations.

The investment in other projects, aimed at advancing knowledge and preserving biodiversity, also contributes to a better understanding of the issues around sustainable biofuel production. Although certain types of biofuel for road transportation can have a negative impact on biodiversity, the Air France-KLM Group is committed to guaranteeing the use of biofuels with the lowest impact on the food chain, biodiversity and local communities.

Measures and performance

Support for the HFCP program in Madagascar

Since 2008, Air France has chosen to support a REDD (Reducing Emissions from Deforestation and forest Degradation) project by contributing to The Holistic Forestry Conservation Program (HFCP) in Madagascar.

In 2018, ten years after its launch, the program attained one of its objectives by achieving carbon certification. The sale of the associated carbon credits will supplement the financing of the third phase which will secure project viability over the longer term in terms of support for local communities engaged in preserving their environment. The success of the program demonstrated the effectiveness of coordination between four types of players – the Madagascan State, Air France, public sector lending agencies and the NGO EtcTerra. The Communication of the HFCP results has had a knock-on effect with other countries and players, who have all committed to programs aimed at combating deforestation which is responsible for 15% of global greenhouse gas emissions.

Projects supported through customer offsetting

Alongside the French Civil Aviation Authority (*Direction Générale de l'Aviation Civile* – DGAC), Air France is a founder member of the A Tree For You association which provides a link, in total transparency, between donators and tree-planting projects everywhere in the world. Developed in 2018, the Trip And Tree by Air France program enables passengers to volunteer to reduce their environmental footprint by planting trees. This reforestation program is an integral part of the online process when purchasing tickets and will be gradually rolled out in 2019. Having been selected by a committee of recognized and independent experts, these projects also comprise a citizenship dimension with the creation of jobs in these countries.

KLM contributes to combating deforestation via its CO2ZERO-projects in Panama and several African countries. The Gold Standard for the Global Goals-certified project in Panama, CO2OL Tropical Mix turns formerly degraded pasture land into mixed forestry by planting a blend of mainly native tree and some exotic species. In addition to the numerous environmental benefits such as biodiversity protection and ecosystem restoration, the project's activities integrate capacity building and create long-term employment with a sustainable source of income for the local population, helping them to improve their living conditions.

An association to promote the preservation of airport biodiversity

HOP! has initiated an innovative, collaboration-based project to study and preserve the biodiversity around airports, an area specific to air transportation. With reserved plant cover zones averaging 73% (representing 340 km^2 at national level for all the infrastructures welcoming aircraft), aviation can play a role in the preservation of Western Europe's natural habitat which is the most under threat.

The project, which was launched under the aegis of an independent scientific committee composed of multidisciplinary academics (Natural History Museum, CNRS, conservatories), became the HOP! Biodiversity association in 2015 and regrouped some twenty partners at the end of 2018: Air France, HOP!, Air Corsica, Air Saint-Pierre, the National History Museum, the French Civil Aviation Authority (DGAC) and sixteen airports, including the three ADP airports and two of its aerodromes. All have made this project an integral part of their sustainable development policies and the in-field commitment has been recognized by the French Ministry of Ecology, Sustainability and Energy as part of the National Strategy for Biodiversity since 2016.

Contributing to combating the traffic in protected species

Air France and KLM are signatories of the Buckingham Palace Declaration which formalizes their resolute commitment to combatting illegal trading in protected species.

For many years, the Group has been committed to combating this illegal trade. For example, its Cargo division has already carried out a number of initiatives, notably employee training and awareness raising for customers, and participates in working groups with international bodies and associations (World Organization for Animal Health – OIE, IATA, United for Wildlife).

In 2018, an awareness-raising program was rolled out for frontline operational staff to help them spot and report suspicious behavior or baggage to the relevant authorities. Air France also provides information for its customers, particularly on its commercial website under Prohibited and Regulated Goods.

Air France is behind a working Group set up at the end of 2017, bringing together Paris Aéroport, the Customs authorities, Chronopost and WWF, to plan joint, coordinated initiatives at the Paris-CDG hub.

4.3.6 Environmental indicators

4.3.6.1 Flight Operations

Environmental indicators		Unit	2016	2017	Air France-KLM Group 2018	18/17
Consumption						
Consumption of raw materials	Fuel √	ktons	8,681	8,733	**8,753**	+0.2%
Emissions						
Greenhouse gas emissions (Scope 1 GHG protocol)	CO_2 (3) √	ktons	27,344	27,506	**27,571**	+0.2%
Greenhouse gas emissions (Scope 3 GHG protocol)	CO_2 (3)	ktons	N/A	5,239	**5,683**	+8.4%
Emissions of substances contributing to acidification and eutrophication	NO_x low altitude *(<3,000 ft)*	ktons	9.8	9.8	**9.3**	-5.1%
	SO_2	ktons	12.7	12.5	**12.1**	-3.2%
	SO_2 low altitude *(<3,000 ft)*	ktons	0.93	0.90	**0.88**	-2.2%
In-flight fuel jettison	Occurence of fuel jettison	nbr	N/A (4)	28	**42**	+50.0%
	Fuel jettison	tons	N/A (4)	1,146	**1,179**	+2.9%
Other emissions	HC low altitude *(<3,000 ft)*	ktons	0.8	0.7	**0.6**	-14.3%
Noise impact						
Global noise energy indicator		10^{12} kJ	1.65	1.64	**1.68**	+2.4%

√ Figures verified by KPMG for 2018 (reasonable level of assurance).
(1) Air France Group scope: all flights under AF and A5 code operated by Air France, Joon and HOP!, all flights under TO code operated by Transavia France.
(2) KLM Group scope: all flights operated by KLM, KLM Cityhopper, Martinair and Transavia.
(3) CO_2 emissions represent 98% for air transport (Carbon base at January 31, 2019: www.bilans-ges.ademe.fr/).
(4) Data not available in 2016.

	Air France Group [1]				KLM Group [2]			
	2016	2017	2018	18/17	2016	2017	2018	18/17
	4,883	4,921	**4,961**	+0.8%	3,798	3,812	**3,792**	-0.1%
	15,382	15,500	**15,628**	+0.8%	11,962	12,006	**11,943**	-0.5%
	N/A	2,952	**3,221**	+9.1%	N/A	2,287	**2,462**	+7.7%
	6.2	6.2	**6.1**	-1.6%	3.6	3.5	**3.2**	-8.6%
	6.4	6.1	**5.8**	-4.9%	6.3	6.4	**6.3**	-1.6%
	0.51	0.48	**0.46**	-4.2%	0.42	0.42	**0.42**	0.0%
	N/A [4]	13	**28**	+115.4%	12	15	**14**	-7.0%
	N/A [4]	522	**778**	+49%	493	624	**401**	-35.7%
	0.6	0.5	**0.5**	0.0%	0.2	0.2	**0.1**	-50.0%
	1.00	1.00	**0.99**	-1.0%	0.65	0.64	**0.69**	+7.8%

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4.3.6.2 Ground Operations

Environmental indicators		Unit	2016	2017	2018	18/17
				Air France-KLM Group		
Consumption						
Water consumption		m^3	546,622	549,863	**542,570**	-1.3%
Electricity consumption		MWh	297,768	284,835	**278,724**	-2.1%
Consumption of other energies		MWh	375,972	375,336	**358,317**	-4.6%
Emissions						
Greenhouse gas emissions (Scope 1 GHG Protocol)	CO_2	tons	63,255	64,458	**62,367**	-3.2%
Greenhouse gas emissions (Scope 2 GHG Protocol)	CO_2	tons	N/A	49,097	**55,481**	+13.0%
Greenhouse gas emissions (Scope 3 GHG Protocol)	CO_2	tons	N/A	19,106	**19,014**	0.0%
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC	tons	78	72	**71**	-1.4%
	Emissions of HC	tons	126	126	**127**	+0.8%
Emissions of substances contributing to acidification and eutrophication	NO_X	tons	511	523	**495**	-5.3%
	SO_2	tons	6.8	6.8	**6.1**	-10.3%
Waste						
Waste production	Quantity of non-hazardous industrial waste	tons	19,896	21,529	**23,221**	+7.9%
	Quantity of hazardous industrial waste	tons	6,445	5,699	**5,427**	-4.8%
	% of hazardous industrial waste recovered	%	69%	64%	**71%**	+7pts

(1) Air France and its subsidiaries (Joon, HOP!, Sodexi, CRMA, BlueLink and Transavia France).
(2) KLM and its subsidiaries: KLM Cityhopper BV (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS), KLM Health Services (KHS), Cygnific BV, Transavia NL and Martinair.

Air France Group (1)				KLM Group (2)			
2016	2017	2018	18/17	2016	2017	2018	18/17
390,629	388,720	**380,342**	-2.2%	155,993	161,143	**162,228**	+0.7%
210,721	202,335	**198,916**	-1.7%	87,047	82,501	**79,808**	-3.3%
185,560	188,289	**171,547**	-8.9%	193,412	187,047	**186,770**	-0.1%
21,679	22,822	**20,722**	-9.2%	41,576	41,636	**41,645**	0.0
N/A	20,600	**18,450**	-10.4%	N/A	28,497	**37,031**	+29.9%
N/A	7,929	**7,421**	-6.4%	N/A	11,177	**11,593**	+3.7%
42	49	**46**	-6.1%	36	23	**25**	+8.7%
75	78	**76**	-2.6%	51	48	**51**	+6.3%
321	339	**306**	-9.7%	190	184	**189**	+2.7%
3.1	2.9	**2.3**	-20.7%	3.7	3.9	**3.8**	-2.6%
4,025	5,686	**6,146**	+8.1%	15,871	15,843	**17,075**	+7.8%
3,985	3,744	**3,359**	-10.3%	2,459	1,955	**2,068**	+5.8%
56%	50%	**57%**	+7pts	90%	90%	**93%**	+3pts

4.3.6.3 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined to comply with the requirements of the French New Economic Regulations law (*Les Nouvelles Régulations Économiques*, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Work on optimizing these indicators was undertaken in 2018 to align the Grenelle II reporting with the new requirements linked to the transposition of the Directive on the Extra-Financial Performance Statement.

As of 2018 and in application of the provisions of Article L. 225-102-1 of the *Code de Commerce*, it is the responsibility of our Independent Third Party to determine the compliance of the Extra-Financial Performance Statement and the accuracy of the published CSR information.

Furthermore, the data relating to the "Fuel consumption" and "CO_2 emissions" indicators linked to the Flight Operations have been verified with the highest level of assurance, reasonable assurance (indicated by the symbols √), since 2007-08.

Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- all the commercial flights under the AF and A5 codes operated by Air France, Joon and HOP!, and the TO codes operated by Transavia;
- all the commercial flights under the KLM code operated by KLM and its subsidiaries KLM Cityhopper BV (KLC), Martinair and Transavia.

For the ground operations, the consolidation scope for the environmental reporting covers nearly 100% of the sites in France and the Netherlands (some very small subsidiaries being excluded). The international outstations are not taken into account (partially for the French Overseas Departments and Territories).

- The Air France consolidated subsidiaries: HOP!, CRMA, Sodexi, Blue Link and Transavia France.

Furthermore, for Air France, the indicators in the French stations are not reported when there is no detail available on the charges invoiced by airports. The contribution from the relevant stations is, however, marginal compared with the reported data.

- The KLM consolidated subsidiaries: KLC (KLM Cityhopper), KES (KLM Equipment Services), KCS (KLM Catering Services), KHS (KLM Health Services), Transavia, Martinair and EPCOR (for a portion of the indicators).

Reporting tools

The environmental indicators are assembled at local level via two reporting tools: Osyris (Enablon software) for Air France and CaeSaR for KLM, respectively used in each Air France and KLM subsidiary.

The reliability of the reporting process is supported by definitions of each indicator and tool user guides made available to the contributors. Consistency tests have also been implemented.

The consolidation of the Air France-KLM Group's environmental data is carried out by the Air France CSR department.

Details and methodology, comments on variations

At Air France-KLM Group level, the regulatory requirements and the reporting and consolidation principles are outlined in a document called the Environment Instruction Memo, which is updated annually. The modalities for the assembly of the data and for the calculation and consolidation methodologies are defined in procedures which are specific to Air France and KLM, and are harmonized whenever possible.

Within the framework of an improvement-based approach, methodological details are provided on some indicators, and particularly on their definitions. When these changes have a significant impact on the data, comparison with the figures for previous years is not meaningful.

When the data is not available, the figure reported for the year (N) is estimated based on the value reported for the previous year (N-1).

The reporting period for the Group's environmental data is based on a rolling twelve-month period from October 1 N-1 until September 30 N.

Flight operations

CO_2 emissions

As of 2017, the direct and indirect CO_2 emissions of the greenhouse gas Protocol have been reported. The indirect emissions are solely scope 3 emissions for the flight operations (upstream emissions from Jet fuel). According to Ademe, the CO_2 emissions correspond to 98% of all the greenhouse gas emissions from kerosene combustion.

CO_2 emissions of the greenhouse gas Protocol scope 1 (direct emissions)

The Air France- KLM Group's CO_2 emissions were stable between 2017 and 2018, in line with the Group's activity.

Note that there are differences between the scope of the reported CO_2 emissions and those in the European Emissions Trading Scheme for greenhouse gas emission quotas (EU-ETS), so comparison is not meaningful.

CO_2 emissions of the greenhouse gas Protocol scope 3 (indirect emissions)

These emissions are generated during the production, transportation and distribution of kerosene. The emission factor for scope 3 calculations is the ICAO full life cycle GHG emissions factor (89gCO2e/MJ for jet fuel A1)

SO_2 and SO_2 low altitude (LTO) emissions

Note: the "low altitude" and "LTO" for Landing-TakeOff cycle denominations are equivalent.

The calculation of the SO_2 emissions from flight operations is based on the average sulfur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms which is applied, respectively, to all fuel used during the year by KLM and its subsidiaries, and by Air France and its subsidiaries.

The differences between 2017 and 2018 are mainly the result of changes in the level of sulfur content in kerosene.

NO_X and HC low altitude emissions (LTO)

The methodology used for the calculation of low altitude emissions (i.e. below 3,000 feet) is common to Air France and KLM. It is based on the LTO (Landing-TakeOff) cycle and on engine data communicated by the ICAO (International Civil Aviation Organization). The taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology. Note that, since the actual taxiing time is not available for Transavia France, the standard ICAO values have been used for this subsidiary.

In-flight fuel jettison

An exceptional operation (less than one flight in 10,000 per year) involving the jettisoning of a quantity of fuel in flight to avoid an overloaded plane on landing whenever a flight is aborted. Each operation is carried out in close coordination with air traffic control under strict conditions governing geographical location (avoiding urban zones) and altitude (generally at or above 2,000 meters).

The Air France process to manage the In-flight fuel jettison was improved in 2018 ensuring a more precise report. With the new process, the 2017 values are higher than those reported last year. The updated values for 2017 show a decrease of 9% in the number of events, and a 30% reduction in the volume of fuel dumped.

Total noise energy

This indicator was established by the Air France-KLM Group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC (*Direction Générale d'Aviation Civile* or French Civil Aviation Authority). The flights concerned are those which are operated, franchised and chartered under the AF or KLM codes, with the exception of code shares.

The trend in noise energy and traffic is determined by comparing the total noise energy calculated for the calendar year with the value for the year 2000. The number of movements and the Noise energy per aircraft gives the trend.

Ground operations

Water consumption

The consumption of water is taken into account for all ground activities. Water used on board flights is not included.

Electricity consumption

For the Air France Group, the decline in consumption is mainly due to a change in the ADP invoicing method (move to flat rate invoicing) for the baggage sorting system at Paris-Charles de Gaulle.

Consumption of other energies

The indicator includes the following uses of energy consumed:

- natural gas for heating buildings, maintenance hangars and cargo warehouses. The conversion factor of gas is determined by taking into account the quality of gas specific to France and the Netherlands;
- superheated and iced water for climate comfort. For Air France, superheated and iced water is supplied by ADP (*Aéroports de Paris*) at the Orly and Roissy sites. The KLM facilities do not consume this type of energy;
- kerosene (Jet fuel A1) for testing engines;
- non-road diesel fuel for a portion of the Air France runway equipment;
- petrol and diesel fuel for Air France and ground support equipment (Air France and KLM).

Emissions from ground operations (CO_2, SO_2 and NO_X)

The CO_2 emission calculation is also based on the greenhouse gas Protocol scope 1 for direct emissions (combustion of natural gas, fuel from ground service equipment (GSE) and engine testing). The indirect emissions are those in the greenhouse gas Protocol scope 2 (indirect emissions linked to electricity generation and heating and cooling) and the greenhouse gas Protocol scope 3 (indirect emissions linked to the upstream for all energies).

The CO_2, SO_2 and NO_X emissions and their trends are linked to the energy consumption listed above.

For the Air France-KLM Group, the variations in SO_2 emissions are mostly explained by the fluctuation of levels of sulfur content in the Jet fuel used for testing engines from one year to another. For Air France, NO_X emissions related to engine testing are calculated based on a methodology similar to the one used for Flight Operations, which reflects the actual testing conditions.

The figures are based on the European standards EURO 1 to 6 for light vehicles, and Stage I to IV for diesel engines (European Directive 97/68/EC for non-road mobile machinery), setting the emission limits based on engine power.

For KLM, the NO_X emissions from gas installations, vehicles and GSE are determined by direct measurements, from manufacturer data or external databases.

VOC emissions (Volatile Organic Compounds)

VOC emissions are calculated based on the direct emissions of solvents contained in the products used. VOCs contained in disposed waste are excluded.

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fueling.

Non-hazardous waste

Non-hazardous waste is monitored and reported based on own measurements and data provided by contracted waste management suppliers. The scope of KLM includes KLM Catering Services and thus includes catering waste, unlike the Air France scope.

Hazardous industrial waste

Hazardous industrial waste is monitored and reported based on data provided by contracted waste management suppliers. If the quantity of hazardous waste has not been communicated at the end of the reporting period, the quantity mentioned in the specification slip is taken into account. This quantity is, however, estimated to be marginal.

The reprocessing of hazardous waste complies with the EU Regulation.

4.4 CUSTOMER TRUST

For Air France-KLM, customer satisfaction is a key priority and the Group is developing numerous initiatives to improve the customer's end-to-end travel experience. Customer satisfaction is measured notably through the Net Promoter Score (NPS), the reference indicator driving customer recommendations. Performance indicators and tools have been developed to track the results on a daily basis.

Customer satisfaction is above all based on their trust in the Group's activities. As a responsible airline Group, Air France-KLM must ensure the safety and health of its customers, employees and partners. This commitment covers flight safety, the safety of the food services offered on board and in the lounges, the protection of personal data and also occupational health and safety (*see Section 4.2.3*). The Group is also committed to facilitating access to its products and services, particularly for passengers with disabilities and those with reduced mobility.

Key facts and KPIs

Flight safety	IOSA certification	2018: Air France and KLM renewed the IOSA certification
Food safety	ISO 22000 certification	2018: Air France certified ISO 22000
Data and IT systems protection	Manage the cybersecurity risks and protect business and personal data	Cybersecurity programs supported at the highest level of Group management
Data privacy	Ensure personal data privacy	2018: implementation of the new European GDPR (General Data Protection Regulation)
Products and services accessibility	Provide a comfortable, convenient and reliable travel to all passengers: specific services for Passengers with Disabilities or Reduced Mobility (PDRM)	Air France Saphir and KLM Cares programs 2018: More than 1.1 million PDRM passengers welcomed

4.4.1 Operational safety of stakeholders

Flight safety

Context and strategy

Flight safety is paramount for Air France-KLM. It is key to retaining the trust of both customers and staff, and imperative for the long-term viability of its operations and of air transportation as a whole.

All of the Group's activities are subject to numerous checks and certifications, in particular with the International Air Transport Association (IATA), whose IOSA Operational Safety Audit is a benchmark within the industry. The IOSA audits for the renewal of Air France and KLM certification were carried out at the end of 2018.

See also section 3.2.2 in Section 3 Risk and risk management.

Measures and performance

To achieve the highest attainable standard of flight safety, each airline continuously updates and reinforces their respective Safety Management Systems (SMS) which concretely define the measures in place to manage aviation risks.

Vocational training is oriented towards the core air transport operations and is primarily focused on the required safety knowledge and skills. Safety training for pilots, cabin crews, professional training for maintenance and ground staff and training to maintain the skills of pilots.

Air France's Integrated Management System

More generally, Air France has developed and is pursuing the deployment of an Integrated Management System (IMS), enabling synergies between all the progress-oriented and risk management approaches: Flight Safety, Health and Safety in the Workplace, Customer Service Quality, Operational Performance, Environment and Sustainable Development, Food Safety and Security. In 2016, Air France's Global Certification was confirmed, covering the following international standards: ISO 14001/Environment, ISO 22000/Food Hygiene, OHSAS 18001/Vocational Health & Safety.

The IMS is the vector for the steering and management of the businesses, aimed at an ongoing improvement in results. It ensures compliance with the legal, regulatory and standards-based requirements while enabling the analysis and management of risks within the framework of a coordinated approach. The IMS aims to ensure safe functioning, transverse consistency and overall steering oriented towards the ongoing improvement of all the processes in these areas.

The documents used during management reviews are the IMS Performance contracts of the entity. During 2017, the priority given to control over sub-contractor activities was clearly formalized in these contracts and was supplemented and developed in 2018 to reflect the new legislation.

Annual target-based contracts are signed between the division's Executive Vice-President or Vice-President and the CEO. Their monitoring takes place twice a year. These targets are also used for the setting of collective and individual targets.

To measure the attainment of these targets, indicators are established and deployed. The product indicators are safety management (like compliance indicators) and safety performance indicators. Quarterly committee meetings are held in the operational divisions and at corporate level, during which presentations are made on progress on the action plans and indicators, and additional action is decided.

In 2018, in that this is an area in which relentless progress must be made and there is no room for compromise, the Group set itself a goal of developing an even stronger safety-first culture. To attain this goal, a number of actions were launched aimed at:

- improving its knowledge of the in-field realities through LOSA (Line Operation Safety Audit) -type observation campaigns and expanding the information sources input to the risk model (audits, flight analysis, external surveillance, etc.);
- reinforcing trust between the different players to further encourage engagement through concrete and high-profile management actions to promote safety-first practice;
- stepping up inter-business line co-ordination.

2018 also saw the structuring of a major initiative, the Safety Attitude program, to be deployed across the company and tasked with establishing the main principles for 2019. This program which is staggered over several years, will underscore the vital importance of human and organizational factors: mobilization of the line management, a culture of transparency, respect of procedures and the effectiveness of training initiatives.

KLM's Integrated Safety Management System

KLM deploys a similar approach to that of Air France.

To reach its objective of achieving a leadership position on safety, KLM has developed an Integrated Safety Management System (ISMS), covering occupational safety, operational safety and security, and environmental safety. This ISMS is outlined in KLM's Integrated Safety Management Manual (ISMM) and has been approved by the Dutch civil aviation authorities (amongst others the Human Environment and Transport Inspectorate (ILT)).

KLM aims to continuously improve its integrated, performance-based Safety Management System based on the evaluation of risks and results, enabling risk-based decisions can be taken at all levels of KLM. Its Safety Culture program, which includes promotion, communication, theoretical and practical training and learning interventions, is continuously updated and deployed throughout the company to enhance safety awareness and the relevant safe attitude and behavior at all levels. The establishment of the Integrated Safety Services Organization (ISSO) in October 2016 further professionalized this integrated approach to safety and compliance throughout the company, increased the level of expertise in all domains across all the safety and compliance processes, and advanced KLM's ISMS to the next level.

The Corporate Safety Committee within the KLM Board of Directors meets every quarter to analyze the Safety indicators for KLM. The results of an in-flight observation campaign, the LOSA (Line Operations Safety Audit), a practice already used by other airlines in the United States, Asia and Australia, were published at the end of 2017 and are the subject of an action plan which forms an integral part of the ongoing process to improve flight safety.

In 2018, KLM increased its focus on Occupational Safety Hazards by renewing the main Occupational Safety Policy's to provide structure for required mitigating action. Also in 2018, KLM renewed its Environmental Safety ISO 14001 certificate and subsequently started to fulfill the ISO High Level Structure Management System requirements.

Integrate a company-wide awareness

Building a company-wide awareness of the prerequisite for a safety culture across all the companies in the Air France-KLM Group is a gradual yet ongoing process which is producing positive results.

At Air France the Safety Attitude program was launched in 2018. Furthermore, an "AirSafe" training program covering the human factors behind errors was established within Air France and deployed in 2018. To the same end, the bi-annual Flight Safety workshops, a communication initiative, are attended by 1,200 people, and aim to reinforce the awareness of potentially at-risk situations.

In KLM, to monitor and manage all these complex Safety Management System processes and support the relevant employees, an Information System was implemented in 2017. In 2018, the main focus was on "Just Culture" principles. A structured program starting at the top level within KLM is being implemented in each level of the company up to and including the work force.

Food safety

Context and strategy

Every year, the Air France-KLM Group serves some 85 million meals and snacks to its customers and flight crews. The company aims to guarantee food services that are healthy and are hazard-free for the consumer. The related regulations are, moreover, increasingly exacting. This is why food safety is a key priority for the Group. Air France and KLM both deploy quality-control procedures to comply with these requirements.

Measures and action plans

Risk control relating to food safety is managed by a centralized department at Air France. The management system is based on four processes. One is cross-cutting and applies to the whole area: regulatory intelligence, risk analysis and definition of the measures to control these risks, employee training in best hygiene practice, establishment and updating of the reference standards, monitoring of the action plans, etc. The three other processes are operational and are detailed based on the activity: on board services, water on board and services in the lounges.

The processes are deployed across all the relevant business lines in which food security reference frameworks enable the circulation of information. These reference frameworks ensure the application of the measures within their individual business lines and report back on the functioning and effectiveness of the measures relating to Food Safety together with the related action plans.

In addition, all food suppliers are referenced based on very strict specifications and are the subject of close monitoring. Some hundred hygiene audits of world-wide caterers and around 15,000 in-house microbiological checks are carried out every year to monitor food supplies, together with between 400 and 500 annual analyses of water for a total volume of 19,000 tons of water embarked on departure from Paris.

Results and performance

Dating back to 2006, Air France became the first airline in the world to attain ISO 22000 certification. An annual audit carried out by an external body verifies that the management system complies with the standard and with regulatory requirements. Internal audits are also realized based on a three-year plan across all the relevant business lines.

A series of key indicators, one per operational process, form part of a monthly dashboard presented to the Executive Committee. Any malfunctioning flagged, notably by flight crews or customers, is also studied to be able to implement remedial and/or preventive measures. Throughout the year, numerous meetings of in-house steering bodies are held, enabling the monitoring of current events in this area. These bodies also track performance via indicators and the action plans, with a view to ensuring a continuous improvement.

4.4.2 Data privacy and data protection

Data and IT systems protection

Context and strategy

Passenger booking, flight schedule management, baggage checking, ticket prices, aircraft maintenance, crew information: IT is at the heart of all our activities. Privacy and data protection constitutes a major economic and professional challenge for the business and for customer trust.

Measures and action plans

Air France-KLM manages its cybersecurity risks with the national authorities and cooperates with the appropriate European Agencies (EASA, ENISA). The Group also takes part in the cybersecurity workshops of the main air transportation professional associations (IATA, A4E, GIFAS) and contributes to research with associations specialized in cybersecurity (CLUSIF, CESIN, CIGREF, R2GS, European Aviation ISAC).

Permanent benchmarks and the work of an independent cyber rating agency enable Air France-KLM to be compared with other companies in the air transportation industry. In December 2018, the Group ranked amongst the leading large companies. Air France-KLM also uses the expertise of leading consultants on the cybersecurity market and actively cooperates with companies with which its Information System is connected.

To offer the best level of protection on the ground and in the air, the Air France-KLM Group has been developing four major cybersecurity programs in recent years:

- a program directed at more efficient cybersecurity measures, to be able to adapt to the unfolding cyber threats;
- an awareness-raising program for all staff;
- a program to ensure regulatory conformity;
- a program to support digital transformation to offer a simplified user experience.

Results and performance

An annual presentation on these programs is made to the Executive Committee and to the Audit Committee, guaranteeing sponsorship at the highest level of the company. These programs are supported by Cybersecurity Governance composed of:

- a cybersecurity regulatory framework for IT on the ground and onboard systems (safety policy based on a series of international ISO 27000 regulations and other standards or regulations concerning the company's business);
- an annual monitoring plan for risks linked to the digital technologies (audits) and testing of the Cyber Crisis mechanism overseen by the Operations Control Center and the Authorities;
- there are three executive committees with complementary views. The Group's IT Executive Committee evaluates the coherence between the cyber risks and investment in IT. The Cyber Plane Committee chaired by the accountable manager, decides on the orientations to be adopted to reduce the potential cyber risks for flights. Lastly, the Safety Performance Committee, chaired by the Head of Safety, evaluates the effective mitigation of generic safety risks and, consequently, cybersecurity;
- a report on the residual cybersecurity risk in the major operational risks sheet managed by the Internal Control Department.

See also paragraph 3.2.3 in Section 3 Risk and risk management.

4

Data privacy

Context and strategy

In 2018, a new European Regulation to protect personal data, the GDPR (General Data Protection Regulation), came into force. It replaced the existing laws in both France and the Netherlands with, on one hand, extended rights for data-subjects and, on the other hand, strengthened accountability and obligations for data controllers, requiring proof of compliance on personal data protection.

As data controllers, Air France and KLM chose to deploy a broad-ranging program to ensure the implementation of the GDPR requirements across all businesses and at every level of the organization. This program led to the construction of more rigorous cybersecurity policies as well as a strengthened personal data management framework to ensure compliance with privacy by design and by default principles.

Measures and action plans

A Governance Board is convened, in which the Data Privacy Officers from both Air France and KLM take part, and works in close cooperation with the existing Boards to ensure full operational compliance. The program rolled out new tools and frameworks within the business processes to manage the GDPR requirements. To ensure precise procedures to guarantee legal compliance, these requirements and the compliance mechanisms were the subject of an in-depth review by external lawyers.

Results and performance

By 2018, the Air France-KLM Group had attained an adequate level of GDPR compliance, the Group's employees and suppliers having succeeded in changing their practices to ensure respect of all the requirements in their day-to-day activities. All the Group's projects and contracts are underpinned by a robust GDPR framework to which the management has committed. The embedding of the overall framework will continue in 2019, to incorporate the new guidelines as published by the Data Protection Authorities.

See also paragraph 3.2.3 in Section 3 Risk and risk management.

4.4.3 Accessibility of products and services

Context and strategy

The Group has undertaken to provide comfortable, convenient, and reliable air travel that is accessible to all of its passengers. Passengers with disabilities or reduced mobility (PDRM) are welcomed, providing that air travel is not counter to medical advice.

This calls for the appropriate assistance involving a degree of complexity owing to differences between the EU and US regulations. In the US, the responsibility falls solely to the airline and there are no reporting requirements for US citizens and passengers on flights to/from the US. In the EU, however, it is the airport authority that is responsible for the end-to-end assistance of PDRMs during their journeys through airports, and passengers are invited to report to the airline 48 hours before departure, the airline then being responsible for forwarding this information to the airport authority 36 hours prior to departure. At Paris-CDG, for example, where 80% of PDRM passengers are traveling with Air France, Paris Aéroport (ADP Group) oversees special assistance for passengers via its *Passerelle CDG* and Samsic services. At Amsterdam Schiphol Airport, Axxicom Airport Caddy is the supplier.

Measures and action plans

The Air France dedicated assistance service for passengers with reduced mobility, known as Saphir (*Service d'Assistance aux Personnes Handicapées pour les Informations et la Réservation*), offers an array of services, such as easy booking procedures, airport assistance, baggage assistance and special equipment on board. Based in Nice and Marseilles, with a dozen of dedicated advisors, Saphir received more than 90,000 calls in 2018: phone and online services enable ticket bookings and the provision of the appropriate assistance. A special phone assistance service for the hard of hearing or deaf customers is also offered. Some nineteen other Customer Relations Centers around the world are on hand to process requests from PDRM customers.

Air France has also long been a partner to multiple associations dedicated to disability and has developed strong links with the national and European authorities in this field to design and develop service improvements.

KLM Cares offers assistance in the planning and booking of flights. At the airport and in flight, KLM offers specially-adapted facilities to ensure a seamless travel experience.

Both Air France and KLM cabin crews are trained in assisting persons with disabilities in order to make their flights as comfortable and pleasant as possible.

Results and performance

The number of people with disabilities or reduced mobility flying with the Group is growing year on year.

Nearly 540,000 PDRM customers traveled with Air France in 2018 : more than half of these PDRM passengers fly on long-haul flights and more than 80% of PDRM passenger traffic takes place at Paris-CDG. KLM saw a year-on-year increase in the number of passengers with reduced mobility: 596,000 in 2018, of which the majority of the growth was in wheelchair passengers. The Net Promotor Score, which measures customer satisfaction, stands ten points higher for this passenger category than for other KLM passengers.

At Air France, a Key Customer Club that includes PDRM passengers has been created to collate feedback from the latter cohort and help improve services, including better a better flow of information, both up-stream and during the journey, for both customers and frontline staff, in connection with Air France's Attentive Relationship. New initiatives have also been deployed, such as the upgraded pages on Air France's website devoted to PDRMs providing a wealth of travel tips, or pushing tailored information to all passengers based on their types of disabilities.

For customer-facing staff, awareness-workshops focusing on the appropriate forms of words and actions to use with PDRM customers have been launched, together with online tools to facilitate their care.

4.5 ETHICS AND COMPLIANCE

As an international Group with operations all over the world and employing a large number of staff, Air France-KLM undertakes to respect both ethical values and legislation. This includes respect for Human Rights and the fight against corruption and the practices of tax fraud and tax evasion.

As a signatory of the United Nations (UN) Global Compact, the Group supports its principles and encourages partners and suppliers to make the same commitments.

Key facts and KPIs

A commitment to respecting Human Rights	Signatory of the United Nations (UN) Global Compact since 2003
Business ethics	Anti-bribery training
Tax strategy	Compliance with the OECD's Base Erosion and Profit Shifting Action Plan including the Country-by-Country Report

4.5.1 Group reference texts

Social Rights and Ethics Charter

The Group's Social Rights and Ethics Charter affirms the Group's commitment to fostering a climate of trust and mutual respect in the workplace, a safe and healthy work environment and social dialogue. The Charter applies to all Air France and KLM employees and to those in their European subsidiaries.

Corporate Social Responsibility Statement

Air France-KLM's commitment to environmental protection, social equity and local development is set out in its Corporate Social Responsibility Statement. The Group is committed to fostering fair practices with all its stakeholders.

Further guidance on business conduct

The importance of respecting ethical principles in everyday business conduct is underscored in a number of documents. Manuals and guidance applying to all staff are also available on topics like anti-bribery and fair competition while there are specific codes for other areas like the procurement functions.

The procurement divisions have provided pro-active support by establishing a Sustainable Development Charter for procurement. As the application of ethical, social and environmental principles constitutes an important criterion when selecting suppliers, the latter must confirm their respect of these principles. Since 2015, this Charter has been supplemented by a Supplier Code of Conduct which specifies the commitments on Human Rights, health and safety, the environment and ethics.

4.5.2 Respect of Human Rights

In its Social Rights and Ethics Charter, the Group undertakes to respect Human Rights and oppose all forms of child and forced labor. Employees have the right to working conditions that respect their health, safety and dignity, and which guarantee social dialogue.

Within the framework of its activities, the Group has identified the risk factors relating to Human Rights. The measures put in place to mitigate these risks fall into a number of different areas: health and safety of individuals, equal opportunity, achieving a better work/life balance and data protection procedures to protect the personal data of customers and employees (*see Sections 4.2, 4.4.1, 4.4.2, 4.4.3, 4.6.3*).

In its relationships with suppliers, the Group is committed to ensuring that the principles of fundamental social rights are properly respected, everywhere in the world. Suppliers are invited to sign a Sustainable Development Charter based on the principles of the United Nations Global Compact (*see Sections 4.6.2 and 4.6.3*).

4.5.3 Business ethics

Context and strategy

The prevention of bribery and anti-competitive behavior is an important factor in fair business practice. As unethical or inappropriate behavior can have considerable negative consequences, preventing unfair practices is key.

The Air France-KLM Group's commitment to conducting business with loyalty, fairness, transparency, honesty and integrity, and in the strict respect of the anti-corruption laws in all the countries where its companies or subsidiaries exercise their activities, is affirmed in the Anti-Bribery Manual. It acts as a Code of Conduct for all employees and establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations with regard to the anti-corruption legislation.

In addition to the Anti-Bribery Manual, a Gift and Hospitality Policy has been introduced. This Policy aims to provide clear guidelines for staff, including financial limits, on giving and receiving gifts and hospitality. Both the Anti-Bribery Manual and the Gift and Hospitality Policy document are available to all staff in three languages.

In terms of anti-competitive practices, Air France-KLM maintains its policy aimed at the prevention of anti-competitive acts by circulating a Competition Law Compliance Manual.

The KLM Group has implemented a KLM Code of Conduct which contains an overview of the rules governing the KLM Group's business conduct and suppliers working with the KLM Group. The KLM Code of Conduct covers the following areas: Safety, Business Integrity, Social Responsibility and reporting Violations. The KLM Group has also deployed a Code of Ethics for the Finance Function.

Measures and action plans

Compliance program and governance bodies: the Compliance activities are based on compliance programs, executed within the context of compliance frameworks. New legislation or requirements, relating, for example, to anti-bribery or data privacy are taken into account when establishing the compliance programs and given additional emphasis via awareness-raising campaigns. Dedicated processes or projects may also be set up to secure compliance.

Compliance functions: the Group has deployed an organization dedicated to compliance. The Compliance Officers within Air France-KLM, Air France and KLM are tasked with pursuing the implementation of the Compliance programs within the Group. They are supported by a network of compliance representatives in the subsidiaries. Depending on the type of business transactions and complexity within the departments or entities, subject matter experts and, where assigned, compliance representatives facilitate compliance with specific legislation and the roll-out of the relevant compliance program elements.

Training and awareness: one important element of the compliance program is training and awareness. Topics that require greater awareness and transcend businesses, like the prevention of bribery and anti-competitive behavior, are brought to the attention of employees through awareness-raising campaigns. These are supplemented by dedicated training that is available to individual employees. Employees can always raise questions or concerns with the Compliance Officers and legal experts.

Whistle-blower procedure: since all employees are required to respect these rules, employees in all the Group's entities are encouraged to discuss any compliance concerns with their line managers. They can also contact a Compliance Officer directly. Employees also have the option of filing a concern or report via the Whistle Blower procedures. These procedures also include the possibility of reporting any serious situations relating to the duty of vigilance (Human Rights, fundamental freedoms, health and safety, environment), pursuant to the legal requirements.

Results and performance

Following the anti-bribery e-learning training campaign at the end of 2017, efforts have been deployed to further strengthen the anti-bribery awareness and knowledge of staff through, for example, information meetings and discussions, improved access to compliance documents and communication by the Group's General Management.

Reports under the Whistleblowing procedures are investigated and appropriate corrective actions are taken and implemented.

See also Section 3.2.2 Risks relating to the air transportation activity.

4.5.4 Tax strategy

Group tax policy

Air France-KLM recognises the important role of taxation in its strategy. The Group undertakes to act with integrity and transparency in all tax matters.

Air France-KLM's tax policy aims to act at all times in accordance with the applicable local and international laws (bilateral tax treaties, OECD and UN guidelines) and to prevent fiscal evasion. Air France-KLM complies with the OECD's Base Erosion and Profit Shifting Action Plan and files all required transfer pricing documents, including a Country-by-Country Report. Air France-KLM fully complies with the letter and spirit of the tax law and regulations.

Due to the operation of income tax treaty rules dealing with international air transport activities, Air France-KLM appropriately reports most of its airline income in France and the Netherlands, with only a relatively small component being reported in foreign jurisdictions.

The filing of tax returns is made in a timely and accurate manner that meets the fiscal obligations of Air France-KLM to the tax authorities and taxes due are paid in time.

Tax is an integral part of the Finance function of the airlines. Tax affairs are managed in a way which takes into account the Group's corporate reputation. Air France-KLM also participates in the development of tax policies by taking part in public consultations. On March 14, 2019, a fiscal partnership was signed between the French tax authorities and Air France-KLM, the consolidating entity of the French tax group. This represents a step forward in a reciprocal trust process between the French administration and the Group.

Air France-KLM also seeks a transparent relationship with the tax authorities of the countries in which it operates.

Risk management and the Anti-Tax-Avoidance rules

Air France-KLM operates with a minimum level of risk with respect to tax matters and complies with the anti-tax-avoidance rules in line with the requirements of the European Directive (EU) 21016/1164 transposed into French Law on October 23, 2018 (Act No. 2018-898).

The Tax Affairs department seeks to anticipate and reduce the tax risks to a low level by ensuring that reasonable care applies in relation to all processes that could materially affect its compliance with its tax obligations including anti-tax-avoidance practices.

4.6 ECONOMIC DEVELOPMENT AND SOCIETAL

Air France-KLM strives to add economic and social value in the areas where it operates, around its hubs and destinations. By working together with local partners, the Group creates new business opportunities and supports projects that contribute to the future generations and local communities.

As a major purchaser of diverse products and services, the Group integrates ethical and sustainability criteria in its supply chain by sourcing products and services that minimize the environmental footprint and have a positive social impact.

Key figures and KPIs

Local development	Total budget allocated to community projects	€15 million
Local development	Sheltered sector: procurement spending (Air France)	€19 million
Sub-contracting and suppliers	% of suppliers having signed the Sustainable Development Charter	2018: 67% 2019 target: 70%
Sub-contracting and suppliers	Number of suppliers assessed on EcoVadis	2018: 355 2019 target: 405

4.6.1 Local development

Context and strategy

The Group's direct and indirect activities contribute to economic development at national level in France and the Netherlands, and specifically around its Paris and Amsterdam hubs. These hubs offer multiple connections and form an extensive, high-quality network that generates an attractive business environment.

With more than 90% of the Group's employees based in France and the Netherlands, Air France-KLM is a significant contributor to job creation in the regions where the two hubs are located. The Group's activities also generate numerous indirect and induced jobs around its hubs and in the countries served: catering, ground-handling and cleaning, and also subcontracted services required for the operation of aircraft. More than three-quarters of the services subcontracted by Air France-KLM are based in Europe.

The hubs provide highly attractive business environments while airport proximity generates the development of other activities like hotels and congresses, company show-rooms, commercial and marketing functions, innovative activities and business services.

The Group makes a significant contribution towards to promoting France and the Netherlands as destinations: it is the number one air carrier for international tourists visiting France.

KLM's extensive network has contributed to making the Netherlands an attractive location for both Dutch and international companies. The Air France Group, with operations at 44 French airports (mainland France and overseas), reinforces the appeal of the regions contributes to the growth in local activity (€614 million of procurement contracts in 2018).

Historically, Air France-KLM has also played an active role in promoting international development worldwide, particularly through its support of NGOs and projects sponsored by its employees.

Measures and action plans

Contributing to national and local development

For many years, the Group has supported the development of small and medium-sized companies: Air France's procurement with SMEs amounted to €368 million in 2018. The Group is constantly working to support innovation and start-ups via initiatives such as the creation of an innovation counter, and participation in business incubators.

Air France-KLM works alongside its national and local stakeholders to shape sustainable areas. In 2018, during the French national debate known as *Les Assises du Transport Aérien*, Air France worked with the public authorities to build the future of air transportation, strengthening competitiveness and defining the strategy for the French flag.

At local level, Air France and KLM are involved in various initiatives to strengthen economic attractiveness, encourage sustainable development and create social value. In 2018, Air France worked in cooperation with local officials and companies on the foundation of the *Club des Acteurs du Grand Roissy*.

Creating social value

Air France and KLM support and contribute to skills development, the vocational integration of young people and the social integration of individuals excluded from the jobs market. This also includes promoting access to training leading to professions in the airline industry through a number of different associations and educational programs for young people.

Air France is a founding member and partner of four organizations involved in information and training programs on aviation careers (*AirEmploi*, Jeremy, AFMAé, and Engineers for Schools). Every year, Air France welcomes interns and students for their end-of-study training courses. The company also implements skill-based sponsorship initiatives, mobilizing in-house teams and leveraging the expertise of associations like *Mozail RH*, the *Nos Quartiers ont du Talent* association and Article 1.

KLM supports a number of education programs aimed at attracting and motivating future talent through collaboration with ROCs, Schiphol Aviation College, the Amsterdam University of Applied Sciences and JINC. The KLM Maintenance division offers internships to students training in aeronautical mechanics: more than 100 ROC students benefited from internships at KLM in 2018. KLM also pursued its partnership with Schiphol Aviation College, and has contributed to the employment of eight people.

Air France and KLM continue to support workers with disabilities by working with sheltered sector companies, on multiple projects (e.g. within Air France, the upkeep of green spaces at some sites, the shipment of packages of uniforms, the packaging of headphones offered on board, etc.), and entrusting them with highly-critical services (four sheltered sector suppliers work with the IT department).

Both Air France and KLM encourage employees' initiatives in social projects and volunteering. A first Air France's citizenship Solidarity Day has taken place involving 1,000 employees who volunteered to assist 43 aid associations in 10 regions, in areas ranging from care for children through to the environment, disability, intergenerational sharing, education and combatting insecurity. This initiative will be renewed in 2019.

Social partnerships

Air France provides practical support to development projects through five longstanding partnerships: Air France Corporate Foundation, Air France Humanitarian Aid Department, Acting for Life, *Aviation Sans Frontières*, *Gawad Kalinga*.

In 2018, the Air France Foundation supported 76 projects across 57 countries. Since its inception in 1992, the Foundation has facilitated the realization of 1,417 projects in favor of childhood, mostly sponsored by Air France employees. More than 3,200 employees are involved in volunteer work, skill-sharing and donation projects within the Friends of Air France Foundation network.

In 2018, Acting for Life, which has been supported by the company for more than forty years, ran 38 development projects in Africa, Asia, Latin America, Middle East and Oceania. The emergency aid organization *Aviation Sans Frontières* carried more than 1,400 sick children on Air France flights in 2018 and close to 8,500 packages of drugs and minor medical supplies were shipped to 26 destinations.

For many years, Air France has been involved in promoting sustainable and responsible tourism within the travel professional ecosystem, especially those involved with *Agir Pour Un Tourisme Responsible* (ATR). Air France is committed to raising awareness among its passengers with promotional films on responsible tourism aboard Air France aircraft, in partnership with a responsible tour operator, Double Sens. Air France also acts as an information conduit notably on the devastation caused by child sex tourism, by financing ECPAT International's prevention campaign and diffusing literature during long-haul flights.

In the event of environmental disasters, Air France and KLM Cargo contributes wherever possible to the delivery of emergency items.

The KLM Takes Care program partners Wings of Support and five other organizations: WWF, the Ocean Cleanup, Close the Gap, the Red Cross and Giro555. In 2018, the Wings of Support foundation was the main charity to be backed by KLM, in support of local projects at KLM destinations. Both KLM flight crew and ground staff are actively involved in the work of the foundation.

Lastly, Air France-KLM "Flying Blue" passengers can support NGO projects by donating "Flying Blue" Miles. 85 million Miles, i.e. 3,552 tickets, were donated by "Flying Blue" members to NGO partners in 2018.

Results and performance

National and regional economic impact

Air France Group:

- €22 billion of economic spin-offs in France, resulting from the Group's activity;
- 1.1% of French GDP;
- 359,000 jobs induced by Air France's activities.

While Air France generates more than 50% of its revenues outside the national territory, 93% of its employees pay social contributions in France.

With more than 37,100 employees in the Île-de-France, Air France is a leading private sector employer in the Paris region.

KLM Group:

- third largest private sector employer in the Netherlands in 2018 with more than 33,000 of the 65,000 directly-generated jobs in the Schiphol catchment area.

Contribution to the sheltered sector

Procurement in the sheltered sector represented €19 million of Air France procurement in 2018.

Air France is one of the French leaders in terms of share of turnover dedicated to sheltered sector companies.

Contribution to community projects

In 2018, Air France-KLM supported NGOs or other social and environmental initiatives by donating €15 million. The Group is working on a process to quantify the positive impact generated by its financial support more effectively.

4.6.2 Sub-contracting and suppliers

Context and strategy

As a service company, Air France-KLM's business activity is heavily dependent on procurement which represented €12 billion in 2018. Fuel purchasing amounts to some 37.5% of this expenditure, followed by aircraft maintenance and components, airport and navigation fees and airport handling.

Given the significant proportion of external expenses relative to total revenues, optimizing, innovating and making the supply chain more sustainable are priorities for the Group and contribute to improving profitability. Procurement department puts forward an ambitious policy and encourages responsible practices in its process. For a number of years, its procurement policy has aimed to incorporate Corporate Social Responsibility principles into relations with suppliers by reinforcing control over ethical, social, environmental and supply chain risks.

Measures and action plans

Pursuing a responsible procurement policy throughout the whole process

The Procurement process takes place in the following manner:

- the buyer sends the supplier a supplier questionnaire, addressing a number of themes such as safety, environmental management and HR policy;
- the supplier signs the Sustainable Development Charter for suppliers based on the principles of the UN Global Compact or provide their own equivalent document which may be approved following analysis. Since 2015, this Charter has been supplemented by a Supplier Code of Conduct;
- tender documentation, in many cases, list the criteria enabling the evaluation of the environmental impact of the product or service, which are then taken into account during the evaluation of the different supplier proposals. This is an integral part of the assessment of the total cost of ownership and the life cycle analysis;
- the supplier contract includes an ethical and environmental clause based on the relevant products and services.

To supplement the existing process, the Procurement function has entered into a contract with EcoVadis, a company specialized in the evaluation of suppliers based on Corporate Social Responsibility criteria.

The risk mapping process takes into account the different sectors of procurement and the countries in which the suppliers are based. It takes place at the beginning of the procurement process:

- buyers must systematically verify the positioning of each supplier in the risk map;
- there are six levels of risk. In the event of a "high" or "severe level" of risk, suppliers are contacted by EcoVadis or an equivalent organization on the following four themes: environment, social, ethics and sustainable procurement;
- in the other cases, suppliers are encouraged to have themselves evaluated. The latter can then share their scores with other companies, which may prove a competitive advantage in terms of winning bids and contracts;
- following the evaluation, suppliers having failed to reach an acceptable level will need to put in place corrective measures to meet the Procurement requirements. At Air France, these cases are discussed during the quarterly Steering Committee meetings, overseen by the Procurement and CSR departments.

Empowering the buyers

Air France-KLM buyers are largely committed to respecting the Group's social responsibility. On their first day in office, they sign a Code of Ethics outlining the ethical rules to be followed when dealing with suppliers. In light of the Anti-Bribery legislation, a reminder of the Code of Ethics has been sent to the prescribers. These documents, the Procurement Sustainable Development Charter and the Code of Ethics are available on the Procurement website.

On the other hand, an internal process has been established to develop the buyer's skills with web links providing more information on best environmental practices, trainings and seminars. All of the staff in the Procurement function have completed an anti-corruption e-learning module. All new buyers receive training on the department's CSR commitments, the duty of vigilance and the anti-bribery processes, and on how to use a sustainability scoring tool (EcoVadis). The Procurement function encourages a watching brief to be maintained on information relating to CSR (news, legislation, events, conferences, webinars, etc.) and the sharing of experience. The 2018 Procurement Action Plan sets out the CSR undertakings as a strategic lever; the Plan has been circulated to the team and to new team members.

Mobilizing and innovating with suppliers

The Supplier Relations Management Program (SRM) is based on building long-term relationships between Air France-KLM and its strategic suppliers. The program enables issues like Corporate Social Responsibility to be central to discussions and to move forward together on these points.

The Procurement function sees its suppliers as bona fide partners in mutually-beneficial growth. In this capacity, it supports their quest for innovative solutions and analysis of the environmental impact of products. During the drafting of a product specification, the prescriber and buyer work together to identify the environmental and social characteristics, thereby encouraging the supplier to not only develop the environmental performance of its products but also engage in a wider commitment to sustainability.

Following the project launched in 2017, Air France launched a new ambitious Purchase Plan 2018 aimed at capturing more innovation with its suppliers, and especially with small and medium size businesses and start-ups. Air France entrusts a significant part of its purchases to SMEs. The Procurement department also ensures that its relations with SMEs are of high quality. To promote and protect this eco system, Air France is a member of the SME Pact.

Every year, an action plan is developed within the context of its relations with SMEs (Midcaps, start-ups and VSBs). The actions initiated in 2017 and pursued in 2018 allowed Air France to attain the A rating level of excellence assigned by the partner committee of the SME Pact. These actions included a reduction in payment terms thanks to the extension of the Tradeshift platform dedicated to the buyer-supplier relationship, but also the stepping up and deployment of innovation such as a “start-up Kit” to be able to work more nimbly with start-ups and the realization of POCs (“Proof of Concept” trials), and the Digital Factory.

The KLM fuel purchasing department is very active in the acquisition of Sustainable Aviation Fuel so that it is possible to operate daily flights from Los Angeles to Amsterdam partly fueled with bio kerosene.

Measures in favor of responsible catering

Serving close to 85 million meals and snacks every year, Air France-KLM implements measures to promote responsible catering.

For its catering procurement, in partnership with its supplier Servair, Air France prioritizes local, seasonal products that are also sustainable, and particularly products sourced from organic agriculture and of certifiable, protected origin (AOP/AOC). For example, children’s meal trays include a number of organic components.

Whenever feasible, KLM chooses products and partners that share the sustainable mission, in order to contribute to the overall objective of attaining the Sustainable Development Goals. The catering policy focuses on environmental preservation in production areas and takes Human Rights, working conditions and animal welfare. It is applied to all flights departing from Amsterdam Schiphol Airport and, where possible, includes responsible products in catering from destinations. For KLM, it is important that the ingredients in meals, such as fish, chocolate, palm oil and soy, are sourced responsibly. To this end, KLM is a member of the Responsible Soy (RTRS) and Sustainable Palm Oil (RSPO) Round Tables and offers certified products on board its aircraft such as MSC-certified fish, “better life” egg and chicken and UTZ certified coffee. As an airline Group and given its activities, the Group does not take specific action to combat food insecurity. Note, however, that the Group donates a number of products from in-flight catering not distributed to passengers to charitable associations (*see Section 4.3.4 Action to combat food waste*).

Results and performance

Air France-KLM maintains an ongoing dialogue with suppliers on its website (www.af-klm.com/procurement), where suppliers can find information on the Group’s policy and commitment to sustainability.

Every year, the Group measures the percentage of suppliers who have signed the Sustainable Development Charter. In 2018, this figure stood 67%. The Group has set a target of 70% for 2019.

The number of companies whose CSR performance was evaluated on EcoVadis increased by 9% in 2018, from 325 to 355. Furthermore, as part of a continuous improvement process, in 2019 the company’s goal is to evaluate 50 additional suppliers. In 2018, 55 “high risk” suppliers flagged by the risk mapping process were evaluated.

4.6.3 Monitoring of Act No. 2017-399 known as the Duty of Vigilance Law

The Air France-KLM Group is subject to the obligations introduced by the Act of March 27, 2017 relating to the duty of vigilance for parent companies and ordering companies.

In response to the regulatory requirements, the Group has launched a number of initiatives aimed at consolidating a vigilance plan in compliance with the legal provisions, it being understood that the Group already has processes in place enabling it to comply directly or indirectly with the requirements of the new Act. In particular, having established verification processes in the areas required to be covered by the vigilance plan, the Group has ensured that it is in a position to benefit, as effectively as possible, from the contributions of its various entities. In 2018, Air France-KLM pursued its actions and focused on measuring their effectiveness within the Group and its subsidiaries.

Identification and regular risk evaluation procedures

The identification and evaluation of the various risks relating to the duty of vigilance are part of the overall risk management process established within the Air France-KLM Group. As a facilitator of risk management, Group Internal Audit regularly evaluates the risk management process and its conclusions are the subject of presentations to the Group Executive Committee and the Audit Committee.

The Air France-KLM Group’s overall sub-contracting management system applies to all risk areas. It is based on contract reviews, compliance monitoring and supervision acts such as audits, inspections and controls, carried out by the subcontractors themselves where appropriate.

In 2018, the Group conducted a review of the non-financial risks generated by its activities. This analysis validated the relevance and the comprehensiveness of the measures and action plans aimed at the effective prevention, control and mitigation of the non-financial risks deemed to be the most material.

See Section 3 Risk and risk management.

Measures deployed to prevent and mitigate the risks and monitoring mechanisms

Air France-KLM's policy enshrines the respect of fundamental rights as established in the leading international principles: Universal Declaration of Human Rights, International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, and the Organization for Economic Cooperation and Development's (OECD) guiding principles.

Air France-KLM has been a signatory of the United Nations Global Compact since 2003 and is committed to respecting and promoting its ten principles in the areas of Human Rights, labor, the environment and anti-corruption. This undertaking is reaffirmed each year by the Group's top management.

The duty of vigilance is a multi-risk approach. The management of identified risks is at the heart of the steering of the Air France-KLM Group's business activities, based on a rational of prevention and homogeneous management via common methods and tools.

Human Rights and fundamental liberties

In its Corporate Social Responsibility Statement, the Group undertakes to scrupulously respect Human Rights, oppose child and all forms of forced or compulsory labor, apply laws and ask its service providers and suppliers to uphold these principles.

The Social Rights and Ethics Charter affirms the Group's commitment to fostering a climate of mutual trust and respect amongst staff, and ensuring a safe working environment. The Group undertakes to apply the labor legislation of the European Union and its Member States and all national collective agreements, and to respect the trade union rights in all the relevant countries.

In view of its organization, the Group delegates to its subsidiaries the responsibility of respecting and promoting the content of these commitments locally, in the respect of the national provisions and legislation specific to each country.

See Section 4.2 Human resources.

Health and safety

For Air France-KLM, the health and safety of both customers and staff is an absolute priority.

Flight safety is paramount for the Group. It is key to retaining the trust of customers and imperative for the long-term viability of its operations. All the Group's activities are the subject of multiple checks and certifications, comply with extremely strict norms and achieve the highest standards in the industry.

Both companies deploy Safety Management Systems, which are integral to their business organizations, processes and corporate cultures.

See Section 3 Risk and risk management and Section 4.4 Customer trust.

Safeguarding health and safety in the work place is a human priority to which the Group responds by preventing vocational risks and improving the quality of life in the workplace

See Section 4.2 Human resources.

The Group must guarantee its customers and flight crew safe catering services and, to this end, has put in place a Food Hygiene and Safety process to respond to the regulatory requirements linked to the preparation and supply of meals.

See Section 4.4 Customer trust.

Environment

Air France-KLM's Climate Action Plan embodies the Group's strategy and main priorities for reducing its impact on climate change.

The Air France and KLM Environmental Management Systems (EMS) aim to prevent and mitigate the environmental impacts of their operations. They have ISO 14001 certification and internal and external audits enable their effective deployment.

See Section 4.3 Environment.

Supply chain

In its relations with sub-contractors and suppliers, Air France-KLM ensures that the fundamental social rights and principles, and environmental protection provisions, are properly respected everywhere in the world. A supplier selection process has been implemented to respond to the duty of vigilance requirements. To this end, Air France-KLM's Procurement function provides awareness training on these risks for its buyers.

A risk-mapping process is in place with, for each segment and procurement domain, an evaluation of the environmental, social and ethical risks. Risk is also evaluated by country.

Signature of the Sustainable Development Charter is mandatory and is included in the appendix to all new or renewed contracts. Failing this, the signed Air France-KLM questionnaire is acceptable, as is an equivalent commitment covering four areas: environment, social, ethical and supply chain.

In the segments most exposed to risks, suppliers are asked to submit an evaluation of their CSR performance, carried out by a specialized organization or the equivalent. The CSR performance analysis must obligatorily address four domains: environment, social, ethics, supply chain. The "supplier supply chain" criteria provides visibility for tier 2 suppliers.

Suppliers failing to reach an acceptable level are required to put in place a remedial action plan. Independent in-situ audits may also be triggered.

Independently of the level of risk, all suppliers are encouraged to carry out evaluations of their CSR performance.

In 2018, at the Group's request, 355 suppliers has their CSR performance evaluated.

See Section 4.5 Business Ethics.

Listening to stakeholders and whistle blower mechanism

In 2017, Air France-KLM realized a materiality analysis of its main issues by questioning a representative panel of internal and external stakeholders. This analysis enabled the identification of those issues deemed to be priorities in the light of both the strategy and stakeholder expectations.

Several processes enable the Group to regularly evaluate the perception of stakeholders and to understand the related risks. The Group also has a number of feedback channels in place enabling stakeholders (particularly employees, customers and local residents around airports) to communicate any complaints.

See Section 4.1.2.

The Air France-KLM Group has updated the scope of its internal whistle-blower procedures to enable employees to report any situations arising within the scope of the Act of March 27, 2017 relating to the duty of vigilance of parent companies and ordering companies. For reports under the Whistleblowing procedure please refer to paragraph 4.5.3 Business ethics.

4.7 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED NON-FINANCIAL PERFORMANCE STATEMENT IN THE MANAGEMENT REPORT

This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

For the year ended 31 December 2018

To the shareholders,

In our capacity as statutory auditor, appointed as an Independent Third Party of Air France-KLM SA, certified by the French Accreditation Committee (*Comité Français d'Accréditation* or COFRAC) under number 3-1049[1], we hereby report to you on the consolidated non-financial performance statement for the year ended 31 December 2018 (hereinafter the "Statement"), included in the Group management report, in accordance with the legal and regulatory provisions of Articles L. 225 102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de Commerce*).

Responsibility of the Company

It is the Management Board's responsibility to prepare a Statement in accordance with legal and regulatory provisions, including a presentation of the business model, a description of the main non-financial risks, a presentation of policies applied to mitigate these risks and the outcomes of those policies, including key performance indicators.

The Statement has been prepared applying the procedures of Company, (hereinafter the "Guidelines"), the most significant aspects of which are presented in the Statement and available upon request, at the Company's headquarters.

Independence and quality control

Our independence is defined by the provisions of Article L. 822-11-3 of the French Commercial Code (*Code de Commerce*) and the French Code of Ethics (*Code de Déontologie*) for Statutory Auditors. Moreover, we have implemented a quality control system that includes documented policies and procedures to ensure compliance with applicable ethical rules, professional standards, laws and regulations.

Statutory Auditor's responsibility

On the basis of our work, it is our responsibility to express a limited assurance opinion about whether:

- the Statement complies with the provisions of Article R. 225-105 of the French Commercial Code (*Code de Commerce*);
- the information provided (hereinafter the "Information") is fairly presented in accordance with Article R. 225-105-I (3) and II of the French Commercial Code (*Code de Commerce*) concerning policy outcomes, including key performance indicators and actions relating to the main risks;

It is our responsibility to express, at the request of the Company and outside of the scope of accreditation, reasonable assurance that air operations fuel consumption and associated CO_2 emissions, selected by the Company and identified with the symbol √ in chapter 4 "Corporate Social Responsibility" of the management report have been prepared, in all material respects, in accordance with the Guidelines.

However, it is not our responsibility to express an opinion on:

- the Company's compliance with any other applicable legal and regulatory provisions, relating, in particular, to the duty of care requirement and the fight against corruption and tax evasion;
- the compliance of products and services with applicable regulatory provisions.

(1) Scope available at www.cofrac.fr.

Nature and scope of our work

We performed our work described below in compliance with Article A.225-1 et seq. of the French Commercial Code (*Code de Commerce*), defining the conditions under which the Independent Third Party performs its engagement, and with the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes* or CNCC) relating to this engagement, and with ISAE 3000 (International standard on assurance engagements other than audits or reviews of historical financial information).

We conducted work to form an opinion on the Statement's compliance with legal and regulatory provisions and the fair presentation of the Information therein:

- we gained an understanding of the activity of all companies in the consolidation scope, of the Company's exposure to the main social and environmental risks relating to the business activity and, if applicable, of its effects on respect for Human Rights and the fight against corruption and tax evasion, including any related policies and their outcomes;
- we assessed the appropriateness of the Guidelines in terms of their relevance, completeness, reliability, neutrality and clarity, by taking into consideration, where relevant, the sector's best practices;
- we verified that the Statement covers every category of information required under Article L. 225-102-1, Paragraph III concerning social and environmental matters, as well as respect for Human Rights and the fight against corruption and tax evasion;
- we verified that the Statement presents the business model and the main risks relating to the activity of all companies in the consolidation scope, including – if relevant and proportionate – risks due to its business relationships, products or services, in accordance with the disclosures required under Article R. 225-105-I, and policies, due diligence procedures and outcomes, including key performance indicators;
- we verified that the Statement presents the disclosures required under article R. 225-105-II if they are relevant given the main risks or policies presented;
- we obtained an understanding of the process for identifying, prioritizing and validating the main risks;
- we enquired about the existence of internal control and risk management procedures implemented by the company;
- we verified that the Statement covers all companies in the consolidation scope in accordance with Article L. 233-16, within the limits specified in the Statement;
- we assessed the data collection process implemented by the entity to ensure the completeness and fair presentation of the policy outcomes and key performance indicators that must be mentioned in the Statement;
- for key performance indicators and the other quantitative outcomes[1] that we considered the most important, we set up:
  - analytical procedures to verify that data collected are correctly consolidated and that any changes to the data are consistent,
  - tests of details based on sampling to verify that definitions and procedures are correctly applied and to reconcile data with supporting documents. The work was carried out with a selection of entities contributing[2] to the reported data and represents between 61% and 100% of consolidated data of key performance indicators and outcomes selected for these tests;
- we referred to documentary sources and conducted interviews to corroborate the due diligence procedures that we deemed the most important[3] (organization, policies, actions, qualitative outcomes);
- we assessed the overall consistency of the Statement based on our understanding of the Company.

We believe that the sampling methods and sample sizes we have used, based on our professional judgment, are sufficient to provide a basis for our limited assurance opinion. A higher level of assurance would have required us to carry out more extensive procedures.

Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the Statement cannot be totally eliminated.

(1) **Social indicators**: Total staff at 31/12 and distribution by age, gender and geographical area, Percentage of women among the top 10% management levels, Number of recruitments and Number of departures, Absenteeism due to illness and work accidents, Frequency rate of workplace accidents with lost time, Severity rate of workplace accident, Training hours by employee, Total staff with disabilities, Signed collective agreements.
Environmental indicators for ground operations: Water consumption, Electricity consumption, Other energies consumption, Quantity of non-hazardous industrial waste, Quantity of hazardous industrial waste, Percentage of hazardous industrial waste recovered, Emissions of volatile organic compounds, Direct emissions of CO_2, Emissions of SO_2 and NO_X.
Environmental indicators for air operations: CO_2 emissions per passenger and per km, Total fuel consumption and CO_2 emissions, Emissions of NO_X and SO_2 low altitude, Global noise energy indicator.

(2) **Environment**: Air France in France and KLM Schiphol for ground operations; Air France, HOP!, KLM and KLC for air operations.
Social: Air France in France, HOP!, KLM in the Netherlands and KLM Catering Services.

(3) Collective labor agreements signed in 2018, Results in terms of skills development, Results from the Employee Promotor Score related to employees engagement, Measures to reduce the Group's impact on climate change, Measures to reduce noise impact, Anti-corruption mechanisms, Results in improving accessibility for people with disabilities, Data protection and cybersecurity mechanisms.

Means and resources

Our work drew on the skills of eight individuals. To assist us in conducting our work, we called on our firm's sustainable development and Corporate Social Responsibility specialists. We conducted around ten interviews with the individuals responsible for preparing the Statement.

Opinion

Based on our work, and given the scope of our responsibilities, we have no material misstatements to report that would call into question the Statement's compliance with the applicable regulatory provisions, or the fair presentation of the information, taken as a whole, in accordance with the Guidelines.

Reasonable assurance on a selection of CSR information

Nature and scope of our work

With regard to the information selected by the Company and identified with the symbol √, we conducted the same procedures as those described in the paragraph "Nature and scope of our work" for the most important Information. However, these procedures were more in-depth, particularly regarding the number of tests.

Consequently, the selected sample represents 93% of environmental information identified with the symbol √.

We believe that these procedures enable us to express reasonable assurance regarding the information selected by the Company and identified with the symbol √.

Conclusion

In our opinion, the information selected by the Company and identified with the symbol √ has been prepared, in all material respects, in accordance with the Guidelines.

Paris-La Défense, February 18, 2019

KPMG SA

Jean-Paul Vellutini Partner	Eric Jacquet Partner	Fanny Houlliot Partner Sustainability Services

5

FINANCIAL REPORT

5.1 INVESTMENTS AND FINANCING

During the 2018 financial year, the Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €2,758 million and proceeds on disposals to €133 million. With net cash-flow from operating activities amounting to €3,712 million, the Group generated positive operating free cash-flow of €1,087 million.

At December 31, 2018, the Group's cash position amounted to €4.44 billion, including €74 million of investments with maturities of above three months, €265 million of cash pledges and €522 million of bond deposits. In addition, the Group had credit facilities of €1.8 billion subscribed by Air France, KLM and Air France-KLM, fully available at December 31, 2018 (*see also Section 3 – Liquidity risk, page **138***).

Net debt stood at €6.16 billion (€6.36 billion at December 31, 2017). The detailed net debt calculation can be found in *Note 33 in the Notes to the financial statements, page **279***).

5.1.1 Investments

(in € million)	2018	2017 restated
Acquisition of intangible assets	**(253)**	(248)
Investment in flight equipment	**(2,173)**	(2,090)
Other property, plant and equipment	**(332)**	(224)
Acquisitions of subsidiaries, of shares in non-controlled entities	**(9)**	(9)
Loss of control over subsidiaries, disposal of shares in non-controlled entities	**6**	8
Proceeds on disposal of property, plant and equipment and intangible assets	**133**	124
Dividends received	**6**	9
Net decrease (increase) in Investments between 3 months and 1 year	**4**	(262)
Net cash-flow used in investing activities	**(2,618)**	**(2,692)**

Investment in flight equipment included advance payments and balances on the delivery of aircraft purchases, capitalized aircraft modifications, spare parts procurement and maintenance costs eligible for capitalization. Investment in intangible assets related to the purchase of software and capitalized IT development. Other investments in tangible assets mostly included the acquisition of industrial equipment for the flight operations, maintenance and IT.

5.1.2 Financing

(in € million)	2018	2017 restated
Capital increase	**-**	747
Repurchase of perpetual (including premium)	**(211)**	-
Issuance of debt	**539**	741
Repayment of debt	**(665)**	(332)
Repayment of financial lease debt	**(735)**	(691)
Payments on lease debts	**(972)**	(984)
New loans	**(195)**	(137)
Repayment on loans	**89**	54
Dividends and coupons paid on perpetual	**(38)**	(38)
Net cash-flow from financing activities	**(2,188)**	**(640)**

On October 3, 2017, Air France-KLM announced the successful realization of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. The 75,054,098 related shares were admitted to the regulated market of Euronext Paris and Amsterdam. These capital increases, totaling €747 million, had been approved by the Shareholders' Meeting of September 4, 2017.

Excluding commercial paper, the financing put in place during 2018 mostly related to asset financing for 13 aircraft (17 in 2017).

5.1.3 Structure of the financial debt and reimbursement profile

Structure of the financial debt

The Group's gross debt stood at €6.56 billion at December 31, 2018, of which €4.21 billion is guaranteed by pledged or mortgaged assets amounting to €5.74 billion, representing 42.6% of the net book value of the relevant assets (*see also Note 38.1 in the notes to the consolidated financial statements, page 293*). After hedging, 72% of the gross debt (excluding lease debt) is at fixed rates and 78% (excluding lease debt) is denominated in euros. The average cost of the debt is 2.82% (*see also Section 3.3 – Financial market risks, page 136*).

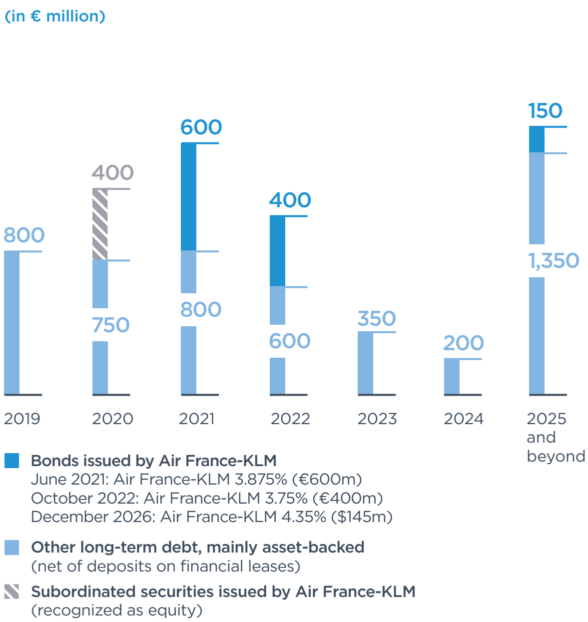
The structure of the debt is as follows:

- market financing (bonds and perpetual subordinated loan stock): €1.55 billion;
- capital lease commitments: €3.55 billion;
- other borrowings including bank debt and accrued interest: €1.31 billion.

Reimbursement profile for debt and subordinated securities, excluding lease debt and KLM perpetuals

The debt reimbursement maturities are progressive over time.

Debt reimbursement profile [(1)]



(1) Excluding operating lease debt payments and KLM perpetual debt.

5.2 COMMENTS ON THE FINANCIAL STATEMENTS

5.2.1 Consolidated results at December 31, 2018

Restatement of the 2017 financial statements

Since January 1, 2018, the Group has applied three new accounting standards: IFRS 9 "Financial Instruments", IFRS 15 "Revenue Recognition from Contracts with Customers and IFRS 16 "Leases". As a result, the 2017 financial statements have been restated for the purposes of comparison.

These restatements are outlined in *Note 2 in the Notes to the consolidated financial statements on page* ***220***.

Scope at December 31, 2018

At December 31, 2018, the consolidation scope was composed of 77 fully consolidated companies, 19 companies consolidated using the equity method and one joint-venture. The two main subsidiaries, Air France and KLM, represent 91% of revenues and 74% of the balance sheet. The other subsidiaries are principally involved in air transportation (HOP!, KLM Cityhopper), maintenance and low-cost transportation (Transavia).

As far as possible, the changes in the like-for-like figures have been estimated on a constant currency basis.

(in € million)	2018	2017 restated	Change
Revenues	**26,515**	25,867	648
EBITDA	**4,217**	4,763	(546)
Income from current operations	**1,332**	1,923	(591)
Income from operating activities	**1,320**	16	(1,304)
Net income from continuing operations	**411**	171	240
Net income/(loss) from discontinued operations	**-**	(8)	8
Net income, Group part	**409**	163	246
Basic earnings/(loss) per share, Group *(in €)*	**0.87**	0.37	0.50

Revenues

Consolidated revenues for the period amounted to €26.5 billion, an increase of 2.5% and +5.1% on a constant currency basis. The 2018 financial year was characterized by a 1.5% increase in unit revenues on a constant currency basis, thanks to the performance of Transavia (+3.6%) and the passenger (+1.1%) and cargo transportation activities (+5.2%), both these activities being included in the "network" business. In addition, Air France-KLM increased its overall capacity by 2.4% (EASK). Air France and KLM increased their passenger capacity by 2.1%, while Transavia capacity grew by 8.4%. Lastly, cargo transportation capacity was stable (ATK +0.1%) Revenues from the network business rose by 1.6% while maintenance revenues increased by 6.6%. Transavia revenues grew by 12.2%.

Operating expenses

Operating expenses increased by 5.2% to €25.2 billion.

External expenses increased by 7.3% to €15.2 billion versus €14.2 billion over the previous twelve months. Excluding fuel, external expenses were up by 6.0% relative to the previous twelve months.

The breakdown of external expenses was as follows:

(in € million)	2018	2017	% Change	% change at constant currency
Aircraft fuel	**4,958**	4,507	10.0	4.4
Chartering costs	**577**	515	12.0	10.1
Landing fees and en route charges	**1,893**	1,905	(0.6)	(2.3)
Catering	**783**	784	(0.1)	(1.7)
Handling charges and other operating costs	**1,948**	1,753	11.1	9.1
Aircraft maintenance costs	**2,413**	2,327	3.7	(0.3)
Commercial and distribution costs	**1,034**	935	10.6	8.1
Other external expenses	**1,618**	1,462	10.67	10.0
Total	**15,224**	**14,188**	**7.3**	**4.0**

The main changes were as follows:

- **aircraft fuel:** fuel expense for the year rose by 10% (constant currency), mainly due to a higher fuel bill after hedging (-€666 million) and the increase in capacity (-€101 million), partially offset by a currency effect (+€240 million) and improved efficiency (+€76 million);
- **chartering costs:** The costs incurred in leasing aircraft capacity from other airlines. Their increase in 2018 is explained, firstly by the operational difficulties at HOP! and, secondly, by the strike at Air France;
- **landing fees and en route charges:** These costs are incurred for air navigation services and the use of airports;
- **catering costs:** These costs comprise the services supplied on board the Air France-KLM Group's own aircraft;
- **handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. The increase in these costs is explained by the compensation paid to customers owing to the Air France strike in 2018;
- **aircraft maintenance costs:** They include the maintenance procurement and consumption for the Group's aircraft and for the third-party activity; their progression was in line with the growth in this activity;
- **commercial and distribution costs:** their rise was mainly explained by the increase in fees paid to distributors;
- **other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. Their increase is mainly explained by the rise in sub-contracting, particularly at IT level.

Salaries and related costs increased by 1.8% to €7.76 billion versus €7.62 billion in 2017. Average headcount was up by 1.4% to 84,714 employees.

Taxes other than income taxes stood at €166 million in 2018 versus €158 million in 2017, up by 5.1%.

Other income and expenses stood at net income of €851 million versus net income of €862 million at December 31, 2017. They included:

- capitalized maintenance and IT development costs amounting to €906 million in 2018 against €923 million in 2017;
- a result from joint-ventures of €(57) million in 2018 against €(108) million in 2017;
- €(16) million from currency hedges in 2018 versus +€10 million at December 31, 2017;
- a €(19) million expense booked in respect of CO_2 quotas versus €(22) million in the previous financial year.

EBITDA

EBITDA amounted to €4,217 million (versus €4,763 million at December 31, 2017).

The contributions to EBITDA by business segment were as follows:

(in € million)	2018	2017 restated	% Change
Network	**3,305**	3,915	(15.6)
Maintenance	**509**	494	3.0
Transavia	**365**	326	12.0
Others	**38**	28	35.7
Total	**4,217**	**4,763**	**(11.5)**

Amortization, depreciation and provisions

Amortization, depreciation and provisions totalled €2.89 billion in 2018 versus €2.84 billion in 2017.

Income/(loss) from current operations

The result from current operations was positive to the tune of €1,332 million (versus €1,923 million at December 31, 2017).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

	2018		2017 restated	
(in € million)	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Network	**22,943**	**994**	22,585	1,555
Maintenance	**1,920**	**195**	1,801	252
Transavia	**1,611**	**139**	1,436	118
Others	**38**	**4**	42	(2)
Total	**26,512**	**1,332**	**25,864**	**1,923**

The unit cost per EASK (equivalent available seat-kilometer) rose by 2.1%. This change was the combined result of a 3.2% increase due to the higher fuel price and a 1.7% decline on currency variation.

Income/(loss) from operating activities

The result from operating activities was a €1,320 million profit (€16 million in 2017).

Over the 2018 financial year, the result from operating activities included, notably:

- asset sales of +€33 million;
- adjustment to the provision for the cargo fine amounting to €(8) million;
- restructuring costs amounting to €(19) million.

In 2017, they had included, notably, the:

- result on sales of aircraft and aeronautical equipment, and other property, plant and equipment, amounting to +€18 million;
- impact of the transformation of the KLM pilot and cabin crew pension schemes amounting to €(1,904) million;
- restructuring costs of €(24) million;
- adjustment to the provision for the cargo fine amounting to €(60) million;
- impact of the dilution in Kenya Airways involving a reclassification from equity affiliates to available-for-sale securities, amounting to +€43 million.

These operations are detailed in *Note 11 to the financial statements, page **246***.

Net cost of financial debt

The net cost of financial debt fell to €(426) million versus €(536) million during the previous financial year. This is explained by a:

- €48 million decline in interest on financial debt, mainly due to the reimbursement of €500 million of bonds paying a coupon of 6.25% on January 18, 2018;
- €37 million reduction in interest on lease debt.

Other financial income and expenses

Other net financial income and expenses amounted to a negative result of €(271) million in 2018, versus a positive €649 million in 2017. The breakdown was as follows:

- a foreign exchange loss of €(191) million (versus a gain of €803 million in 2017). The foreign exchange loss for the 2018 financial year notably included a €100 million unrealized foreign exchange loss on return obligation liabilities and provisions on leased aircraft given the appreciation in the dollar and a €101 million foreign exchange loss on debt, of which €56 million relating to the Japanese yen and €46 million to the US dollar. In 2017, the foreign exchange result had mainly included a €778 million gain linked to the US dollar, of which €482 million on lease debt and €240 million of return obligation liabilities on leased aircraft together with a foreign exchange gain of €78 million on the debt in Japanese yen;
- a €55 million variation in fair value of financial and equity instruments revalued through profit and loss in 2018 (negative variation of €(17) million in 2017. This concerned notably the change in fair value on the Amadeus shares collar amounting to €12 million and a €41 million gain on the time value of the dissymmetric barrier option structures;
- a negative other item of €(130) million (loss of €(138) million in 2017) mainly corresponding to the accretion effect on long-term provisions.

Net income/(loss) – Group part

Income taxes stood at €(227) million versus a €21 million gain in 2017. The effective tax rate as of December 31, 2018 was 36.5% (versus -16% in 2017).

Share of profits/(losses) from associates contributed a profit of €15 million in 2018 versus €21 million in the previous year. This was principally the result from the Servair Group.

There was no result from discontinued operations in 2018 whereas it had amounted to €(8) million in 2017.

The net income, Group part stood at income of €409 million in 2018 versus income of €163 million in 2017.

The contributions to the net result by quarter were, respectively, €(269) million at March 31, 2018, €110 million at June 30, 2018, €786 million at September 30, 2018 and €(218) million at December 31, 2018.

Basic earnings per share, Group part amounted to €0.87 at December 31, 2018 versus €0.37 at December 31, 2017.

5.2.2 Investments and financing of the Group

Operating cash-flow was positive to the tune of €3.71 billion (€4.10 billion at December 31, 2017).

Capital expenditure on tangible and intangible assets amounted to €2.62 billion over the financial year (€2.42 billion in 2017) of which €1,076 million of investment in the fleet, €642 million in maintenance, €309 million in spare parts, €146 million in cabin retrofitting and €585 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets amounted to €133 million versus €124 million at December 31, 2017.

After taking into account net capital expenditure on tangible and intangible assets, operating free cash-flow stood at €1.09 billion (€1.66 billion in 2017). After the reimbursement of lease debt, adjusted operating free cash-flow was €115 million in 2018 (€677 million in 2017).

At December 31, 2018, the Group had €4.44 billion of net cash, of which €3.58 billion in cash and cash equivalents. Furthermore, the Group has undrawn credit facilities amounting to a total of €1.8 billion.

Net financial debt amounted to €6.16 billion at December 31, 2018 (€6.36 billion at December 31, 2017).

5.2.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2018.

As a holding company, Air France-KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo by the two operational companies and the supply of services invoiced to Air France and KLM. Its expenses mostly comprise financial communication expenses, Statutory Auditors' fees, the expenses linked to the compensation of company officers and the staff made available by Air France and KLM. At December 31, 2018, the operating result was a loss of €(1) million (compared with €(5) million in 2017).

The net result was a €(38) million loss, mainly due to the financial costs on the bond issues together with the costs of undrawn credit lines.

Pursuant to the provisions of Article 39-5 and Article 223 quinquies of the French Tax Code relating to expenses in the statement of general expenses excluded from non-tax-deductible expenses, note that no amount was recognized during the financial year.

Pursuant to the provisions of Article 39-4 and Article 223 quater of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable for the company Air France-KLM

At December 31, 2018, accounts payable stood at €13 million of which €5 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At December 31, 2017, accounts payable stood at €13 million of which €8 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.2.4 Equity as of December 31, 2018

Equity attributable to equity holders of Air France-KLM amounted to €1,865 million against €2,420 million as of December 31, 2017, after restatement for the new IFRS 9, IFRS 15 and IFRS 16 accounting standards. The €(555) million variation was mainly explained by:

- €(142) million on re-measurements of defined benefit pension plans (net of tax);
- €(582) million on the Group's cash-flow hedges (net of tax);
- €(211) million from the reimbursement of perpetuals;
- a positive net result of €411 million.

5.3 KEY FINANCIAL INDICATORS

Adjusted operating result and adjusted operating margin

Since the Group applies IFRS 16 with regard to leases, the adjusted operating result and adjusted operating margin calculations are no longer relevant.

Restated net result

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

(in € million)	2018	2017 restated
Net income, Group part	**409**	163
Net income from discontinued operations	**-**	8
Change in fair value of financial assets and liabilities (derivatives)	**(53)**	(43)
Unrealized foreign exchange gains and losses, net	**23**	(790)
Non-current income and expenses	**12**	1,907
Depreciation of shares available for sale	**18**	(320)
Restated net income/(loss), Group part	**409**	**1,356**
Restated net income/(loss) per share, Group part *(in euros)*	**0.87**	3.08

Financial cover ratios

Net debt/EBITDA ratio

	2018	2017 restated
Net debt *(in €m)*	**6,164**	6,359
EBITDA *(in €m)*	**4,217**	4,763
Net debt/EBITDA	**1.46**	**1.34**

EBITDA/net cost of financial debt ratio

	2018	2017 restated
EBITDA *(in €m)*	**4,217**	4,763
Net cost of financial debt *(in €m)*	**426**	536
EBITDA/net cost of financial debt	**9.90**	**8.89**

Return on Capital Employed (ROCE)

Return on capital employed measures the return on invested capital by expressing a result after tax as a percentage of capital employed. The calculation methodology is as follows:

- the calculation of the capital employed is based on an additive method by identifying the relevant balance sheet items. The capital employed for the year is obtained by taking the average of the capital employed on the opening and closing balance sheets;
- the adjusted result after tax corresponds to the sum of the operating result adjusted for dividends received and the share of profits/(losses) of associates.

(in € million)	Dec 31, 2018	Dec 31, 2017 restated	Dec 31, 2017 restated	Dec 31, 2016 restated
Goodwill and intangible assets	1,410	1,338	1,338	1,285
Flight equipment	10,167	9,636	9,636	8,760
Other property, plant and equipment	1,503	1,418	1,418	1,400
Right-of-use assets	5,243	5,724	5,724	5,558
Investments in equity associates	311	301	301	292
Other financial assets excluding shares available for sale, marketable securities and financial deposits	133	113	113	107
Provisions excluding pension, cargo litigation and restructuring	(3,141)	(2,779)	(2,779)	(2,763)
WCR, excluding market value of derivatives	(6,124)	(5,889)	(5,889)	(5,582)
Capital employed	**9,502**	**9,852**	**9,852**	**9,057**
Average capital employed (A)	**9,677**		**9,455**	
Income from current operations	1,332		1,923	
Dividends received	(2)		(3)	
Share of profits/(losses) of associates	15		21	
Normative income tax	(400)		(577)	
Income from current operations after tax (B)	**945**		**1,364**	
ROCE (B/A)	**9.8%**		**14.4%**	

Cost of capital

	2018	2017
Cost of stockholders' equity	**12.0%**	12.1%
Marginal cost of debt, post tax	**2.9%**	2.7%
Percentage of stockholders' equity/target debt		
Stockholders' equity	**37%**	50.9%
Debt	**63%**	49.1%
Weighted average cost of capital after taxation	**6.3%**	**7.5%**

Net cost per EASK

To analyze the cost performance of each transportation activity, the Group divides the net cost of this activity by the capacity produced, expressed in ASK for the passenger business and Transavia, and in ATK for the cargo business. To analyze the company's overall cost performance, the Group uses the net cost per EASK. This net cost is obtained by dividing the total net cost by the capacity produced expressed in equivalent available seat-kilometers (EASK). The net cost is calculated by subtracting the revenues other than those generated by the three transportation activities (passenger, cargo and Transavia) from total operating expenses. The capacity produced by the three transportation activities is combined by adding the capacity of the passenger business (in ASK) to that of Transavia (in ASK) and the cargo business (in ATK) converted into EASK based on a separate fixed factor for Air France and for KLM.

	2018	2017 restated
Revenues *(in €m)*	**26,515**	25,867
Income/(loss) from current operations *(in €m)*	**1,332**	1,923
Total operating expense *(in €m)*	**(25,183)**	(23,944)
Network business – other network revenues *(in €m)*	**1,211**	1,030
Third-party revenues in maintenance *(in €m)*	**1,920**	1,801
Transavia – other revenues *(in €m)*	**12**	14
Other businesses *(in €m)*	**38**	42
Net cost *(in €m)*	**22,002**	**21,057**
Capacity produced, reported in EASK	**360,049**	351,695
Net cost, per EASK *(in € cents)*	**6.11**	**5.99**
Gross change		+2.1%
Currency effect on net costs *(in €m)*		(343)
Change at constant currencies		+3.8%
Fuel price effect *(in €m)*		665
Change on a constant currency and fuel price basis		+0.6%
Net cost per EASK on a constant currency and fuel price basis	**6.11**	**6.07**

5.4 SUBSEQUENT EVENTS AND OUTLOOK FOR 2019

5.4.1 Subsequent events

There were no significant events arising subsequent to the accounting year end (see Note 3.2 in the Notes to the consolidated financial statements).

5.4.2 Outlook for 2019

The global context remains uncertain given the current geopolitical environment and fuel price trends. In 2019, the Air France-KLM Group plans selectively to increase capacity for the Passenger network by 2% to 3% (in available seat-kilometers). Transavia should continue to see growth at a sustained pace of 9% to 11% (in available seat-kilometers).

The Group will continue to work on yield improvement within the context of an anticipated fuel bill increase. Based on the current data for the Passenger network, the Group expects a first quarter 2019 unit revenue down relative to last year's level due, notably to the Easter shift.

The Group will pursue its initiatives to reduce unit costs, with a targeted reduction for 2019 of between -1% to 0%[1] at constant currency and fuel price. The fuel bill is expected to increase by €650 million in 2019 compared to 2018, to €5.5 billion euros, based on the forward curve of February 15, 2019.

For the 2019 financial year, capital expenditure is planned at the level of €3.2 billion and the Group is targeting a net debt/EBITDA ratio below 1.5x.

For more information on the future outlook, see Section 1.2 Strategic outlook. Due to their nature, the achievement of these targets is subject to numerous risks and uncertainties which are liable to lead to differences between the announced targets and their effective realization. The most significant risks are outlined in Section 3.2 Risk factors and their management.

(1) In 2019, the Group will report a Unit cost per ASK indicator instead of Unit cost per EASK.

CONTENT

5.5 Consolidated financial statements

5.6 Notes to the consolidated financial statements

5.5 CONSOLIDATED FINANCIAL STATEMENTS

5.5.1 Consolidated income statement

Period from January 1 to December 31 (in € millions)	Notes	2018	2017 restated [1]
Sales	**6**	**26,512**	**25,864**
Other revenues		**3**	3
Revenues		**26,515**	**25,867**
External expenses	7	**(15,224)**	(14,188)
Salaries and related costs	8	**(7,759)**	(7,620)
Taxes other than income taxes		**(166)**	(158)
Other income and expenses	10	**851**	862
EBITDA [2]		**4,217**	**4,763**
Amortization, depreciation and provisions	9	**(2,885)**	(2,840)
Income from current operations		**1,332**	**1,923**
Sales of aircraft equipment		**4**	18
Other non-current income and expenses	11	**(16)**	(1,925)
Income from operating activities		**1,320**	**16**
Cost of financial debt	12	**(465)**	(570)
Income from cash and cash equivalents		**39**	34
Net cost of financial debt		**(426)**	(536)
Other financial income and expenses	12	**(271)**	649
Income before tax		**623**	**129**
Income taxes	13	**(227)**	21
Net income of consolidated companies		**396**	**150**
Share of profits (losses) of associates	21	**15**	21
Net income from continuing operations		**411**	**171**
Net income from discontinued operations [3]		**-**	(8)
Net income for the period		**411**	**163**
Non-controlling interests		**2**	-
Net income – Group part		**409**	163
Earnings per share – Equity holders of Air France-KLM *(in euros)*			
— basic	14	**0.87**	0.37
— diluted		**0.87**	0.37
Net income from continuing operations – Equity holders of Air France-KLM *(in euros)*			
— basic	14	**0.87**	0.39
— diluted		**0.87**	0.39
Net income from discontinued operations – Equity holders of Air France-KLM *(in euros)*			
— basic	14	**-**	(0.02)
— diluted		**-**	(0.02)

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

(1) *See Note 2 in notes to the consolidated financial statements.*
(2) *See Note 4.9 in notes to the consolidated financial statements.*
(3) The net result from discontinued operations as of December 31, 2017 represents an adjustment to the result on the disposal in 2016 of 49.99% of the Servair Group share capital and the revaluation of the shares retained.

5.5.2 Consolidated statement of recognized income and expenses

Period from January 1 to December 31 (in € millions)	Notes	2018	2017 restated (1)
Net income for the period		**411**	**163**
Cash flow hedges and cost of hedging			
Effective portion of changes in fair value hedge and cost of hedging recognized directly in other comprehensive income		**(231)**	244
Change in fair value and cost of hedging transferred to profit or loss		**(621)**	(9)
Currency translation adjustment		**-**	7
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	13.2	**270**	**(57)**
Total of other comprehensive income that will be reclassified to profit or loss		**(582)**	**185**
Remeasurements of defined benefit pension plans (2)		**(191)**	774
Fair value of equity instruments revalued through OCI		**(24)**	9
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	13.2	**49**	**(221)**
Total of other comprehensive income that will not be reclassified to profit or loss		**(166)**	**562**
Total of other comprehensive income, after tax		**(748)**	**747**
Recognized income and expenses		**(337)**	**910**
Equity holders of Air France-KLM		**(338)**	910
Non-controlling interests		**1**	-

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

(1) *See Note 2 in notes to the consolidated financial statements.*
(2) Remeasurement of defined benefit pension plans is composed of €(379) million related to the difference between the expected and actual return on assets (2017: €(854) million) and €188 million related to the change in actuarial assumptions (2017: €80 million).

5.5.3 Consolidated balance sheet

Assets (in € millions)	Notes	December 31, 2018	December 31, 2017 restated[1]	January 1, 2017 restated[1]
Goodwill	15	**217**	216	218
Intangible assets	16	**1,194**	1,122	1,066
Flight equipment	18	**10,167**	9,636	8,760
Other property, plant and equipment	18	**1,503**	1,418	1,400
Right-of-use assets	20	**5,243**	5,724	5,558
Investments in equity associates	21	**311**	301	292
Pension assets	22	**331**	590	1,462
Other financial assets	23	**1,487**	1,242	1,064
Deferred tax assets	13.4	**544**	417	598
Other non-current assets	26	**264**	239	448
Total non-current assets		**21,261**	**20,905**	**20,866**
Other short-term financial assets	23	**325**	421	130
Inventories	24	**633**	557	566
Trade receivables	25	**2,191**	2,164	1,893
Other current assets	26	**1,062**	1,243	1,078
Cash and cash equivalents	27	**3,585**	4,673	3,938
Total current assets		**7,796**	**9,058**	**7,605**
Total assets		**29,057**	**29,963**	**28,471**

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

(1) *See Note 2 in notes to the consolidated financial statements.*

Liabilities and equity (in € millions)	Notes	December 31, 2018	December 31, 2017 restated[1]	January 1, 2017 restated[1]
Issued capital	28.1	**429**	429	300
Additional paid-in capital	28.2	**4,139**	4,139	2,971
Treasury shares	28.3	**(67)**	(67)	(67)
Perpetual	28.4	**403**	600	600
Reserves and retained earnings	28.5	**(3,051)**	(2,693)	(3,557)
Equity attributable to equity holders of Air France-KLM		**1,853**	**2,408**	**247**
Non-controlling interests		**12**	12	12
Total equity		**1,865**	**2,420**	**259**
Pension provisions	29	**2,098**	2,202	2,119
Return obligation liability and other provisions	30	**3,035**	3,055	2,948
Financial debt	31	**5,733**	5,919	7,271
Lease debt	32	**3,546**	3,940	4,402
Deferred tax liabilities	13.4	**4**	12	(17)
Other non-current liabilities	35	**459**	361	284
Total non-current liabilities		**14,875**	**15,489**	**17,007**
Return obligation liability and other provisions	30	**492**	230	446
Current portion of financial debt	31	**826**	1,378	1,002
Lease debt	32	**989**	993	1,032
Trade payables		**2,460**	2,365	2,359
Deferred revenue on ticket sales		**3,153**	3,017	2,639
Frequent flyer programs	34	**844**	819	810
Other current liabilities	35	**3,548**	3,246	2,912
Bank overdrafts	27	**5**	6	5
Total current liabilities		**12,317**	**12,054**	**11,205**
Total liabilities		**27,192**	**27,543**	**28,212**
Total equity and liabilities		**29,057**	**29,963**	**28,471**

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

(1) *See Note 2 in notes to the consolidated financial statements.*

5.5.4 Consolidated statement of changes in stockholders' equity

(in € millions)	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Perpetual	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non-controlling interests	Total equity
December 31, 2016	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,520)**	**1,284**	**12**	**1,296**
First application of IFRS 9, IFRS 15 and IFRS 16						**(1,037)**	**(1,037)**	**-**	**(1,037)**
January 1, 2017 – restated (1)	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(3,557)**	**247**	**12**	**259**
Gain/(loss) on cash-flow hedges	-	-	-	-	-	178	178	-	178
Fair value of equity instruments through OCI	-	-	-	-	-	9	9	-	9
Remeasurements of defined benefit pension plans	-	-	-	-	-	553	553	-	553
Currency translation adjustment	-	-	-	-	-	7	7	-	7
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**747**	**747**	**-**	**747**
Net result for the period	-	-	-	-	-	163	163	-	163
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**910**	**910**	**-**	**910**
Capital increase	-	129	1,168	-	-	(18)	1,279	-	1,279
Change in scope	-	-	-	-	-	(3)	(3)	-	(3)
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	-	(25)
December 31, 2017 – restated (1)	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,693)**	**2,408**	**12**	**2,420**
December 31, 2017	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,693)**	**2,408**	**12**	**2,420**
Gain/(loss) on cash-flow hedges	-	-	-	-	-	(582)	(582)	-	(582)
Fair value of equity instruments through OCI	-	-	-	-	-	(24)	(24)	-	(24)
Remeasurements of defined benefit pension plans	-	-	-	-	-	(141)	(141)	(1)	(142)
Currency translation adjustment	-	-	-	-	-	-	-	-	-
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(747)**	**(747)**	**(1)**	**(748)**
Net result for the period	-	-	-	-	-	409	409	2	411
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**(338)**	**(338)**	**1**	**(337)**
Perpetual	-	-	-	-	(197)	(14)	(211)	-	(211)
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	-	(25)
Other	-	-	-	-	-	19	19	(1)	18
December 31, 2018	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(3,051)**	**1,853**	**12**	**1,865**

The accompanying notes are an integral part of these consolidated financial statements.
The amounts included in other comprehensive income are presented net of tax.

(1) *See Note 2 in notes to the consolidated financial statements.*

5.5.5 Consolidated statement of cash flows

Period from January 1 to December 31 (in € millions)	Notes	2018	2017 restated [1]
Net income from continuing operations		**411**	171
Net income from discontinued operations [2]		**-**	(8)
Amortization, depreciation and operating provisions	9	**2,885**	2,840
Financial provisions	12	**127**	129
Loss (gain) on disposals of tangible and intangible assets	11	**(33)**	(35)
Loss (gain) on disposals of subsidiaries and associates	11	**-**	(31)
Derivatives – non monetary result		**(49)**	41
Unrealized foreign exchange gains and losses, net		**190**	(790)
Share of (profits) losses of associates	21	**(15)**	(21)
Deferred taxes	13	**204**	(52)
Other non-monetary items	40.1	**(254)**	1,564
Financial capacity		**3,466**	**3,808**
(Increase)/decrease in inventories		**(31)**	5
(Increase)/decrease in trade receivables		**(39)**	(331)
Increase/(decrease) in trade payables		**69**	68
Change in other receivables and payables		**247**	549
Change in working capital requirement		**246**	**291**
Net cash-flow from operating activities (A)		**3,712**	**4,099**
Acquisition of subsidiaries, of shares in non-controlled entities	40.2	**(9)**	(9)
Purchase of property plant and equipment and intangible assets (B)	19	**(2,758)**	(2,562)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	11	**6**	8
Proceeds on disposal of property plant and equipment and intangible assets (C)	11	**133**	124
Dividends received		**6**	9
Decrease (increase) in net investments, more than 3 months		**4**	(262)
Net cash-flow used in investing activities		**(2,618)**	**(2,692)**

Period from January 1 to December 31 (in € millions)	Notes	2018	2017 restated [1]
Capital increase		-	747
Perpetual	28.4	**(211)**	-
Issuance of debt	31	**539**	741
Repayment on debt	31	**(1,400)**	(1,023)
Payments on lease debts (D)	32	**(972)**	(984)
New loans		**(195)**	(137)
Repayment on loans		**89**	54
Dividends and coupons on perpetual paid		**(38)**	(38)
Net cash-flow from financing activities		**(2,188)**	**(640)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		**7**	(33)
Change in cash and cash equivalents and bank overdrafts		**(1,087)**	**734**
Cash and cash equivalents and bank overdrafts at beginning of period	27	**4,667**	3,933
Cash and cash equivalents and bank overdrafts at end of period	27	**3,580**	4,667
Income tax (paid)/reimbursed (flow included in operating activities)		**(35)**	(11)
Interest paid (flow included in operating activities)		**(465)**	(548)
Interest received (flow included in operating activities)		**12**	14

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

(1) *See Note 2 in notes to the consolidated financial statements.*
(2) The net result from discontinued operations as of December 31, 2017 represents an adjustment to the result on the disposal in 2016 of 49.99% of the Servair Group share capital and on the revaluation of the shares retained.

Period from January 1 to December 31 (in € millions)	Notes	2018	2017 retraité [1]
Net cash-flow from operating activities	(A)	**3,712**	4,099
Purchase of property plant and equipment and intangible assets	(B)	**(2,758)**	(2,562)
Proceeds on disposal of property plant and equipment and intangible assets	(C)	**133**	124
Operating free cash-flow [2]	33	**1,087**	**1,661**
Payments on lease debts	**(D)**	**(972)**	**(984)**
Operating free cash-flow adjusted [2]		**115**	**677**

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

(1) *See Note 2 in notes to the consolidated financial statements.*
(2) *See Note 4.9 in notes to the consolidated financial statements.*

5

5.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BUSINESS DESCRIPTION

As used herein, the term "Air France-KLM" refers to Air France-KLM SA, a limited liability company organized under French law. The term "Group" is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world.

The Group's core business is network activities which includes passenger transportation on scheduled flights and cargo activities. The Group's activities also include aeronautics maintenance, "low-cost" passenger transportation (Transavia) and other air-transport-related activities.

The limited company Air France-KLM, domiciled at 2, rue Robert Esnault-Pelterie 75007 Paris, France, is the parent company of the Air France-KLM Group. Air France-KLM is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

The presentation currency used in the Group's financial statements is the euro, which is also Air France-KLM's functional currency.

NOTE 2. RESTATEMENT OF 2017 FINANCIAL STATEMENTS

Since January 1, 2018, the Air France-KLM Group has 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 applied the classification and measurement of financial instruments and impairment sections of the standard retrospectively. Hedge accounting has been applied on a prospective basis except for the treatment of the cost of hedging (time value of the options, forward points of the forward foreign exchange contracts, basis spread of cross currency swaps) which has been applied retrospectively.

- **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. Within this framework, none of the simplification measures proposed in the standard has been used.

- **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 capitalization exemptions proposed by the standard – lease contracts with a duration equal or less than 12 months and lease contracts for which the underlying asset has a low value in new which has been defined by the Group below US$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 income statement 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";
- 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 recognized in "other comprehensive income" insofar as it relates to the hedged item, whereas it had previously been recorded in the income statement 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 inefficiency 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 hedged item is recognized;
- 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 recognized 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 recognized and a cost corresponding to the chartering is recorded. The Group effectively considers that the airline having sold the service has the primary responsibility for contract execution and is free to set the price of transportation to its end customer. The part of the transportation effected by another airline is managed by the airline having sold the goods transportation service. We have thus concluded that the airline having sold the goods transportation service acts as principal.

  Previously, only the commission had been recognized in revenues for the part operated by another airline;
- the frequent flyer program "Flying Blue" is considered as a performance obligation.
- 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;
- purchase of spare parts on behalf of third parties: each operation is analyzed to determine if the Group is acting as principal or as agent.

  Previously, the margin had been recognized as revenue.

  If the Group purchases according to a third party's instructions (specifications, quantities, etc.), the Group does not bear the inventory risks and does not define the supply policy.

The main changes induced by IFRS 16 are the following:

- capitalization of aircraft lease contracts fulfilling the capitalization 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 customization 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 involved 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 hedge relationship for its revenues in US dollars via the lease debt in US dollars in order to limit the volatility of the foreign exchange variation resulting from the revaluation of its lease debt. The effective portion of the foreign exchange revaluation of the lease debt in US dollar at the closing rate is recorded in "other comprehensive income". This amount is recycled in turnover when the hedged item is recognized.

  In accordance with IFRS9, the hedging relationship was designated prospectively and has been set up at Group level as from January 1, 2018. The comparative accounts, restated in 2017, are therefore impacted by the debt volatility in US dollar on the line "other financial income and expenses".

  Marginally, for companies in the Group that do not have a revenue in US dollar, derivatives have been designated as hedging instrument;
- capitalization 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, customized lounges in airports other than the hubs and rented office buildings. The lease term corresponds to the non-terminable period of the contract. Most of the contracts do not provide renewal options. 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;
- capitalization of the other-asset leases.

  As a result of the Group's analysis, the main lease contracts identified correspond to company cars, pools of spare parts and engine lease contracts. The lease term corresponds to the non-terminable period of the contract. Most of the contracts do not provide renewal options. The discount rate used to calculate the right-of-use asset and the lease debt is determined, for each asset, according to the incremental borrowing rate at the commencement of the contract;

— 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 utilization).*
  Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul ("C Check") are recognized as provisions as of the inception of the contract. The counterpart of these provisions 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,
- *airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines).*
  The airframe and the engine potentials are recognized 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, recognized in its totality at the inception of the contract. When maintenance events aimed at reconstituting these potentials take place, the costs incurred are capitalized. 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),
- *compensation related to limited life parts (engine components).*
  As the component approach is not applicable for limited life parts, costs related to the lessor's compensation are booked progressively as provisions 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 adjusted balance sheet as of January 1 and December 31, 2017 is also presented.

The impacts of these three new standards are summarized hereafter:

Impact on the consolidated income statement

(in € millions) Period from January 1 to December 31, 2017	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Sales	**25,784**	**-**	**83**	**-**	**-**	**25,867**
External expenses	(14,285)	-	(88)	185	-	(14,188)
Salaries and related costs	(7,624)	-	-	4	-	(7,620)
Taxes other than income taxes	(158)	-	-	-	-	(158)
Other income and expenses	635	-	-	-	227	862
EBITDAR	**4,352**	**-**	**(5)**	**189**	**227**	**4,763**
Aircraft operating lease costs	(1,088)	-	-	1,088	-	-
EBITDA	**3,264**	**-**	**(5)**	**1,277**	**227**	**4,763**
Amortization, depreciation and provisions	(1,776)	-	3	(902)	(165)	(2,840)
Income from current operations	**1,488**	**-**	**(2)**	**375**	**62**	**1,923**
Income from operating activities	**(419)**	**-**	**(2)**	**375**	**62**	**16**
Net cost of financial debt	(214)	(1)	-	(321)	-	(536)
Other financial income and expenses	116	17	-	502	14	649
Income before tax	**(517)**	**16**	**(2)**	**556**	**76**	**129**
Income taxes	229	19	1	(207)	(21)	21
Net income of consolidated companies	**(288)**	**35**	**(1)**	**349**	**55**	**150**
Net income from continuing operations	**(267)**	**35**	**(1)**	**349**	**55**	**171**
Net income from discontinued operations	**(8)**	**-**	**-**	**-**	**-**	**(8)**
Net income	**(275)**	**35**	**(1)**	**349**	**55**	**163**
Earning per share (basic)	(0.81)	0.09	(0.00)	0.94	0.15	0.37
Earning per share (diluted)	(0.81)	0.09	(0.00)	0.94	0.15	0.37

Impact on the consolidated statement of recognized income and expenses

(in € millions) Period from January 1 to December 31, 2017	Published accounts	IFRS 9 impact	IFRS 15 & 16 impact	Restated accounts
Net income for the period	**(275)**	**35**	**403**	**163**
Fair value adjustment on available-for-sale securities	38	(38)	-	-
Cash flow hedges and cost of hedging	167	68	-	235
Currency translation adjustment	9	(2)	-	7
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	(41)	(16)	-	(57)
Total of other comprehensive income that will be reclassified to profit or loss	**173**	**12**	**-**	**185**
Remeasurements of defined benefit pension plans	774	-	-	774
Fair value of equity instruments revalued through OCI	-	9	-	9
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	(205)	(16)	-	(221)
Total of other comprehensive income that will not be reclassified to profit or loss	**569**	**(7)**	**-**	**562**
Total of other comprehensive income, after tax	**742**	**5**	**-**	**747**
Recognized income and expenses	**467**	**40**	**403**	**910**
— Equity holders of Air France-KLM	467	40	403	910
— Non-controlling interests	-	-	-	-

Impact on the consolidated balance sheet

Only the financial statements impacted by IFRS 9, IFRS 15 and IFRS 16 are presented hereafter.

(in € millions) Balance sheet as of December 31, 2017	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Asset						
Flight equipment	9,921	32	-	(79)	(238)	9,636
Other property, plant and equipment	1,492	-	-	(74)	-	1,418
Right-of-use assets	-	-	-	4,508	1,216	5,724
Deferred tax assets	234	(10)	38	81	74	417
Trade receivables	2,136	-	28	-	-	2,164
Other current assets	1,264	(1)	23	(60)	17	1,243
Equity and liabilities						
Return obligation liability and other provisions (1)	2,198	-	(109)	-	1,196	3,285
Financial debt (1)	7,442	(4)	-	(141)	-	7,297
Lease debt (1)	-	-	-	4,933	-	4,933
Deferred revenue on ticket sales	2,889	-	128	-	-	3,017
Other current liabilities	3,100	-	147	-	-	3,247
Equity	3,015	25	(77)	(416)	(127)	2,420
— Holders of Air France-KLM	3,002	25	(77)	(415)	(127)	2,408
— Non-controlling interests	13	-	-	(1)	-	12

(1) Current and non-current.

After the publication of the 2018 half year financial statements, adjustments relating to the implementation of IFRS 16 were made, which changed the opening balance sheet of January 1, 2017 especially in the Right-of-Use assets and the lease debts.

(in € millions) **Balance sheet as of January 1, 2017**	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Asset						
Flight equipment	9,119	(26)	-	(94)	(239)	8,760
Other property, plant and equipment	1,480	-	-	(80)	-	1,400
Right-of-use assets	-	-	-	4,443	1,115	5,558
Deferred tax assets	176	6	33	288	95	598
Trade receivables	1,868	-	25	-	-	1,893
Other current assets	1,105	(1)	23	(54)	5	1,078
Equity and liabilities						
Return obligation liability and other provisions (1)	2,327	-	(106)	9	1,164	3,394
Financial debt (1)	8,452	(4)	-	(175)	-	8,273
Lease debt (1)	-	-	-	5,434	-	5,434
Deferred tax liabilities	(12)	-	(5)	-	-	(17)
Deferred revenue on ticket sales	2,517	-	122	-	-	2,639
Other current liabilities	2,775	-	146	(2)	(7)	2,912
Equity	1,296	(17)	(76)	(763)	(181)	259
— Holders of Air France-KLM	1,284	(17)	(76)	(763)	(181)	247
— Non-controlling interests	12	-	-		-	12

(1) Current and non-current.

After the publication of the 2018 half year financial statements, adjustments relating to the implementation of IFRS 16 were made, which changed the opening balance sheet of January 1, 2017 especially in the Right-of-Use assets and the lease debts.

Impact on the consolidated statement of cash flows

(in € millions) Period from January 1 to December 31, 2017	Published accounts	IFRS 9 impact	IFRS 15 impact	IFRS 16 impact – contracts capitalization	IFRS 16 impact – maintenance of leased aircraft	Restated accounts
Net income	(275)	35	(1)	349	55	163
Other items of the financial capacity	2,903	(35)	(4)	609	172	3,645
Financial capacity	**2,628**	**-**	**(5)**	**958**	**227**	**3,808**
Change in working capital requirement	270	-	5	7	9	291
Net cash-flow from operating activities	**2,898**	**-**	**-**	**965**	**236**	**4,099**
Net cash-flow used in investing activities	**(2,456)**	**-**	**-**	**-**	**(236)**	**(2,692)**
Net cash-flow from financing activities	**325**	**-**	**-**	**(965)**	**-**	**(640)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(33)	-	-	-	-	(33)
Change in cash and cash equivalents and bank overdrafts	**734**	**-**	**-**	**-**	**-**	**734**
Cash and cash equivalents and bank overdrafts at beginning of period	3,933	-	-	-	-	3,933
Cash and cash equivalents and bank overdrafts at end of period	4,667	-	-	-	-	4,667

NOTE 3. SIGNIFICANT EVENTS

3.1 Events occurring during the period

Repurchase of subordinated perpetual notes

On September 12, 2018, Air France-KLM announced the final results of its tender offer launched on September 3, 2018 to repurchase any and all of its € 600 million subordinated perpetual notes issued in 2015. Notes for a nominal amount of €194.5 million were presented and accepted for repurchase. In addition to this public transaction, €2.2 million of notes were purchased over the counter ("*de gré à gré*" agreement) at the same price. After completion of the tender offer, the nominal amount of the outstanding notes stood at €403.3 million.

Strike impact

On February 22, 2018, the Air France unions launched strike action. During the 2018 financial year, there were 15 days of strikes. The impact on "income from current operations" is estimated at €(335) million in 2018 financial year.

3.2 Subsequent events

There have been no significant events since the closing of the financial year.

NOTE 4. ACCOUNTING POLICIES

4.1 Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2018 were established in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Commission on the date these consolidated financial statements were established.

IFRS, as adopted by the European Union, differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially if the Group had applied IFRS as published by the IASB.

The consolidated financial statements were approved by the Board of Directors on February 19, 2019.

Change in accounting principles

— **IFRS standards which are applicable on a mandatory basis and for early application to the 2018 financial statements**

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

— Standard IFRS 9 "Financial Instruments"

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

The Group applied the classification and measurement of financial instruments and impairment sections of the standard retrospectively. Hedge accounting has been applied on a prospective basis except for the treatment of the cost of hedging (time value of the options, forward points of the forward foreign exchange contracts, basis spread of cross currency swaps) which has been applied retrospectively.

The main impacts, qualitative and quantitative, resulting from the application of this standard are indicated in Note 2 Restatement of accounts 2017.

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

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

The Group has chosen to apply IFRS 15 retrospectively to each previous period in which financial information is presented, in accordance with 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 impacts, qualitative and quantitative, resulting from the application of this standard are indicated in Note 2 Restatement of accounts 2017.

IFRS standard for early application in the 2018 financial statements

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

The Group has chosen to apply IFRS 16 retrospectively to each prior reporting period for which the financial information is presented in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The main impacts, qualitative and quantitative, resulting from the application of this standard are indicated in Note 2 Restatement of accounts 2017.

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.

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.

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 this amendment and interpretation.

- **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 recognized 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 capitalization.

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.

Amendments 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.

4.2 Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main areas of estimates are disclosed in the following notes:

- *4.6. Revenue recognition related to deferred revenue on ticket sales;*
- *4.7. Frequent flyer program;*
- *4.11. Financial instruments;*
- *4.13./14. Tangible and intangible assets;*
- *4.15. Lease contracts;*
- *4.19. Pension assets and provisions;*
- *4.20./21. Return obligation liability and provision for leased aircraft and Other provisions;*
- *4.24. Current and deferred tax.*

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable that provide the basis for these assumptions..

The consolidated financial statements for the financial year have thus been established on the basis of the financial parameters available at the closing date. Concerning the non-current assets, the assumptions are based on a limited level of growth.

These accounting estimations are based upon the latest available, reliable information.

The actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.3 Consolidation principles

Subsidiaries

In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial figures 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 income statement separately from Group stockholders' equity and the Group's net income, 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 recognized in equity. In a partial disposal resulting in loss of control, the retained equity interest is re-measured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this re-measurement and the gain or loss on the sale of the equity interest, including all the items initially recognized in equity and reclassified to profit and loss.

Interest in associates and joint ventures

In accordance with IFRS 11 "Join Arrangements", the Group applies the equity method to partnerships over which it exercises control jointly with one or more partners (joint-venture). 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 with whom control is shared.

In cases of a joint activity (joint operation), the Group recognizes 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 over 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 per cent of the voting rights.

The consolidated financial statements include the Group's share in the net result of associates and joint ventures 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 exceeding the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity are not accounted for, unless the Group:

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

Any surplus in 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 assets 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 and losses resulting from intra-Group transactions are also eliminated.

Gains and losses realized 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.

4.4 Translation of foreign companies' financial statements and transactions in foreign currencies

Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

- except for the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency exchange rates in effect at the closing date;
- the income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period;
- the resulting foreign currency exchange adjustment is recorded in the "Translation adjustments" item included within equity;
- goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign exchange rate in effect at the closing date.

Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the closing date.

Non-monetary assets and liabilities denominated in foreign currencies assessed on an historical cost basis are translated using the rate in effect at the transaction date.

The corresponding exchange rate differences are recorded in the Group's consolidated income statement. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in Note 4.11. "Financial instruments".

4.5 Business combinations

Business combinations completed on or after April 1, 2010

Business combinations completed on or after April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 "Business Combinations". In accordance with this standard, for a first consolidation, all assets and liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition (except for non-current assets classified as assets held for sale which are measured at fair value less costs to sell).

Goodwill corresponding, at the acquisition date, to the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable assets acquired and the liabilities assumed at the acquisition date, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Costs other than those related to the issuance of debt or equity securities are recognized immediately as an expense when incurred.

For individual acquisitions, the Group has the option of using the "full" goodwill method, where goodwill is calculated by taking into account the fair value of non-controlling interests at the acquisition date rather than their proportionate interest in the fair value of the assets and liabilities of the acquiree.

If the fair values of the identifiable assets acquired and liabilities assumed exceed the consideration transferred, the resulting negative goodwill is recognized immediately in the income statement.

Contingent considerations or earn-outs are recorded in equity if the contingent payment is settled by delivery of a fixed number of the acquirer's equity instruments (according to IAS 32). In all other cases, they are recognized in liabilities related to business combinations. Contingent payments or earn-outs are measured at fair value at the acquisition date. This initial measurement is subsequently adjusted through goodwill only when additional information is obtained after the acquisition date about facts and circumstances existing on that date. Such adjustments are made only during the 12-month measurement period that follows the acquisition date and insofar as the initial measurement had still been presented as provisional. Any other subsequent adjustments which do not meet these criteria are recorded as receivables or payables through the income statement.

In a step acquisition, the previously-held equity interest in the acquiree is remeasured at its acquisition-date fair value. The difference between the fair value and the net book value must be accounted in profit or loss as well as elements previously recognized in other comprehensive income.

Business combinations carried out before April 1, 2010

Business combinations carried out before April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 (2004) "Business Combinations". In accordance with this standard, all assets, liabilities assumed and contingent liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition.

Goodwill arising from the difference between the acquisition cost (which includes any equity instruments issued by the Group to gain control over the acquired entity and other costs potentially dedicated to the business combination), and the Group's interest in the fair value of the identifiable assets and liabilities acquired, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the fair value of identifiable assets acquired and liabilities assumed exceed the cost of acquisition, the resulting negative goodwill is recognized immediately in the income statement.

4.6 Sales

Passenger and freight transportation

Sales related to air transportation operations, which consist of passenger and freight transportation, are recognized as revenue when the transportation service is provided, net of any discounts granted (Refer to Note 6). The transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents, booking fees and credit card commissions.

Both passenger tickets and freight airway bills are consequently recorded as "Deferred revenue upon issuance date". 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 recognizes as revenue the amount invoiced to the customer in its entirety as well as chartering costs invoiced by the other carrier for the service provision.

Maintenance

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

- **Sales of maintenance and support contracts – Power by the hour 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 an unique performance obligation due to the existing interdependence between the services within the execution of these contracts.

The revenue is recognized: (i) if the level of completion can reliably be measured; (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 recognized 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 recognized 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 recognized as revenue, are recorded as liabilities on contracts (deferred revenue) at the year end. Inversely, any revenue that has been recognized but not yet invoiced is recorded under assets on the balance sheet at the year end.

- **Sales of spare parts repair and labor – 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 an unique performance obligation. The revenue is recognized as costs are incurred.

- **Third-party procurement**

The Group also purchases equipment on behalf of third-parties. In such a situation, the revenue recognition method is as follows:

- when the Group serves as a broker between its suppliers and end customers, the Group acts as an agent and hence, recognizes the margin that results from this operation as revenue;
- when the Group puts in place Sale & Lease back agreements, the Group recognizes the proceeds on disposal as well as a net book value.

4.7 Loyalty programs

The airlines of the Group have a common frequent flyer program “Flying Blue”. This program enables members to acquire Miles as they fly with Air France, KLM and airline partners and from transactions with non-airline partners (credit card companies, hotels, car rental agencies). These Miles entitle members to a range of benefits such as free flights with the two companies and their airline partners or other free services with non-airline partners.

Miles are considered as separate elements of a sale of a ticket with multiple elements and one part of the price of the initial sale of the ticket is allocated to these Miles and deferred until the Group’s commitments relating to these Miles have been met.

The deferred amount due in relation to the acquisition of Miles by members is estimated:

- according to the fair value of the Miles, defined as the amount for which the benefits could be sold separately;
- after taking into account the redemption rate, corresponding to the probability that the Miles will be used by members, using a statistical method.

With regard to the re-invoicing of Miles between the partners in the program, the margins realized on sales of these Miles are recorded immediately in the income statement.

4.8 Distinction between income from current operations and income from operating activities

The Group considers it is relevant to the understanding of its financial performance to present in the income statement a subtotal within the income from operating activities. This subtotal, entitled “Income from current operations”, excludes unusual elements that do not have predictive value due to their nature, frequency and/or materiality, as defined in recommendation No. 2009-R. 03 from the French National Accounting Council.

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 income statement, the recording of an impairment loss on goodwill and significant provisions for litigation.

4.9 Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization): by excluding the main line of the income statement which does not involve cash disbursement ("Amortization, depreciation and provision") from income from current operations, EBITDA provides a simple indicator of the cash generated by the Group's current operational activities. It is thus commonly used for the calculation of the financial coverage and enterprise value ratios.

Operating free cash-flow: this corresponds to the net cash-flow from operating activities net of purchase of property plant and equipment and intangible assets to which are added the proceeds on the disposal of 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 payment of lease debts.

4.10 Earnings per share

Earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM, adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially-dilutive ordinary shares.

4.11 Financial instruments

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 amortized cost method less impairment losses, if any.

Regarding the impairment of trade receivables, the Group has chosen the simplified method approach. Indeed the automated invoicing and settlement processes concerning the clients of the Passenger and Cargo businesses significantly limit the credit risk. Besides, the Group uses credit insurance to reduce the risk of default that can exist regarding trade receivables held on the clients of the Maintenance activity.

The Group considers that the change in credit risk on the non-current financial assets since their initial recognition is limited due to the current selection criteria (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 in equity instruments

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 equity instruments is either in fair value through the income statement or in fair value through other comprehensive income. Indeed:

- 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";
- 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 income statement.

Derivative financial instruments

The Group uses various derivative financial instruments to hedge its exposure to the risks incurred on shares, exchange rates, changes in interest rates or fuel prices and the ETS (Emission Trading Scheme).

Forward currency contracts and options are used to hedge exposure to exchange rates.

The Group also uses interest rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

The exposure to fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Finally, the risk related to the 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 relationship 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. There are three classifications:

- *derivatives classified as fair value hedge*: changes in the fair value of the derivative are recorded through the income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized through the income statement;
- *derivatives classified as cash-flow hedge*: the changes in fair value of the derivative are recorded in other comprehensive income for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or losses until the termination of the derivative. When the termination occurs, the residual ineffective portion is recycled on the hedged item;
- *derivatives classified as trading*: changes in the fair value of the derivative are recorded as financial income or losses.

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 recognized 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 impacts the hedged item or is amortized over the hedging period (if the hedged item is time-related).

The difference in time value between non-aligned structured options and the related "vanilla" ("aligned") options is recognized in the profit and loss account.

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.

Convertible bonds

Convertible bonds are deemed to be financial instruments comprising two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all the coupons due on the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Group's equity is calculated by the difference between this value and the bond's nominal value at issuance.

The difference between the financial expense recorded and the amounts effectively paid out is added, at each closing date, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

Financial assets, cash and cash equivalents

Financial assets at fair value through profit and loss

Financial assets include financial assets at fair value through profit and loss (French mutual funds such as SICAVs and FCPs, certificates, etc.) that the Group intends to sell in the near term to realize a capital gain, or that are part of a portfolio of identified financial instruments managed collectively and for which there is evidence of a practice of short-term profit taking. They are classified in the balance sheet as current financial assets. Furthermore, the Group has opted not to designate any assets at fair value through the income statement.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Financial debt

Financial debt is recognized initially at fair value. Subsequent to the initial measurement, financial debt is recorded at amortized cost calculated using the effective interest rate. Under this principle, any redemption and issue premiums, as well as issue costs, are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans using the effective interest method.

Fair value hierarchy of the financial assets and liabilities

The table presenting a breakdown of financial assets and liabilities categorized by value (*see Note 36.4*) meets the amended requirements of IFRS 7 "Financial Instruments: Disclosures". The fair values are classified using a scale which 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 an active market for identical instruments;

Level 2: fair value calculated from valuation methods based on observable data such as the prices of similar assets and liabilities or scopes quoted on an active market;

Level 3: fair value calculated from valuation methods which rely completely or in part on non-observable data such as prices on an inactive market or multiple-based valuation for non-quoted securities.

4.12 Goodwill

Goodwill corresponds, at the acquisition date, to the aggregation of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable amounts acquired and the liabilities assumed at the acquisition date.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations taking place prior to April 1, 2004 were not modified at the time international standards were adopted, on April 1, 2004, in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards".

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset in the balance sheet.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. As discussed in Note 4.16, once recorded the impairment may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired exceeds the consideration transferred, there is negative goodwill which is recognized and immediately reversed in the Group's income statement.

At the time of the sale of a subsidiary or an equity affiliate, the amount of the goodwill attributable to the entity sold is included in the calculation of the income from the sale.

4.13 Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.

Software development costs are capitalized and amortized over their useful lives. The Group has the tools required to enable the tracking by project of all the stages of development, and particularly the internal and external costs directly related to each project during its development phase.

Identifiable intangible assets acquired with a finite useful life are amortized over their useful lives from the date they are available for use.

Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, impairment as described in Note 4.16 is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in Note 4.22 and the "Risks on carbon credit" paragraph in Note 36.1. As such, the Group is required to purchase CO_2 quotas to offset its emissions. The Group records the CO_2 quotas as intangible assets. These assets are not depreciable.

Intangible assets with a finite useful life are amortized on a straight-line basis over the following periods:

Software and Information Technology development	1 to 5 years
Licences	Duration of contract
Customer files	5 to 12 years

Information Technology (IT) development is amortized over the same useful life as the underlying software. In some well documented cases, Information Technology (IT) development may be amortized over a longer period.

4.14 Property, plant and equipment

Principles applicable

Property, plant and equipment are recorded at their acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

Pursuant to IAS 23, the financial interest attributed to advance payments made on account of investments in aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. As prepayments on investments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on aircraft airframes and engines, excluding parts with limited useful lives).

Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life which is between 20 and 25 years.

During the operating cycle, and when establishing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major aircraft airframe and engine overhaul (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft spare parts (maintenance business) which enable the use of the fleet are recorded as fixed assets and are amortized on a straight-line basis over the estimated residual lifetime of the aircraft/engine type on the world market. The useful life is limited to a maximum of 30 years.

Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight-line method over their useful lives as follows:

Buildings	20 to 50 years
Fixtures and fittings	8 to 20 years
Flight simulators	10 to 20 years
Equipment and tooling	3 to 15 years

4.15 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;
- 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 (Original Equipment Manufacturers);
- 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 aeronautical 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;
- 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 or provision as described in Note 4.20. 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 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 recognized 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;
- payments of penalties for terminating or not renewing the lease, if the lease term reflects the lessee exercising this option.

The lease liability is subsequently measured based on a process similar to the amortized 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;
- 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 recognized 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;
- adjustment to the rates and indices according to which the rents are calculated when rent adjustments occur.

Types of capitalized lease contracts

- **Aircraft lease contracts**

For the aircraft lease contracts fulfilling the capitalization 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. For example, this may be the case if substantial cabin customization has taken place whereas the residual lease term is significantly shorter than the useful life of the cabins. The accounting treatment of the maintenance obligations related to leased aircraft is outlined in the Note 4.20.

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

The discount rate used to calculate the lease debt corresponds, for each aircraft, to the implicit interest rate induced by the contractual elements and residual market values. This rate is easy to calculate due to the 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.

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Since most of the aircraft lease contracts are denominated in US dollars, starting from January 1, 2018 the Group put in place a cash-flow hedge for its US dollar revenues via the lease debt in US dollars. Consequently, the revaluation of the Group's debt at the closing rate is accounted for in "Other comprehensive income".

— 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, customized lounges in airports other than hubs and lease contracts on office buildings.

The lease term corresponds to the non-terminable period. Most of the contracts do not provide renewal options. 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 engines. The lease term corresponds to the non-terminable period. Most of the contracts do not provide renewal options. 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-capitalized 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;
- 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 US$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. 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-recognize the underlying asset, (ii) recognize a right-of-use asset equal to the retained portion of the net carrying amount of the asset.

— Not a sale 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 maintains the goods transferred on its balance sheet recognizes a financial liability equal to the disposal price (received from the buyer-lessor).

4.16 Impairment test

In accordance with IAS 36 "Impairment of Assets", tangible fixed assets, intangible assets, right-of-use assets and goodwill are tested for depreciation if there is an indication of impairment, and those with an indefinite useful life are tested at least once a year on September 30.

For this test, the Group deems the recoverable value of the asset to be the higher of the market value less cost of disposal and its value in use. The latter is determined according to the discounted future cash-flow method, estimated based on budgetary assumptions approved by management, using an actuarial rate which corresponds to the weighted average cost of the Group's capital and a growth rate which reflects the market hypotheses for the appropriate activity.

The depreciation tests are carried out individually for each asset, except for those assets to which it is not possible to attach independent cash flows. In this case, these assets are regrouped within the CGU to which they belong and it is this which is tested. The CGUs correspond to the Group's business segments: network, maintenance, leisure and others which are homogeneous asset groups whose use generates identifiable cash inflows.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is recognized. The impairment of a CGU is charged in the first instance to goodwill, the remainder being charged to the other assets which comprise the CGU, prorated to their net book value.

4.17 Inventories

Inventories are measured at the lower of their cost and net realizable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

4.18 Treasury shares

Air-France-KLM shares held by the Group are recorded as a deduction from the Group's consolidated equity at the acquisition cost. Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group's income statement.

4.19 Employee benefits

The Group's obligations in respect of defined benefit pension plans, including termination indemnities, are calculated in accordance with IAS 19 Revised "Employee Benefits", using the projected units of credit method based on actuarial assumptions and considering the specific economic conditions in each country concerned. The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.

The Group recognizes in other comprehensive income the actuarial gains or losses relating to post-employment plans, the differential between the actual return and the expected return on the pension assets, the impact of any plan curtailment is recognized in the income statement. The gains or losses relating to termination benefits (mainly jubilees) are recognized in the income statement.

The Group recognizes all the costs linked to pensions (defined benefit plans and defined pension costs) in the income from current operations (salaries and related costs).

— **Specific information related to the recognition of some pension plan assets:**

Pension plans in The Netherlands are generally subject to minimum funding requirements ("MFR") that can involve the recognition of pension surpluses.

These pension surpluses constituted by the KLM sub group are recognized in the balance sheet according to the IFRIC 14 interpretation (IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction").

4.20 Return obligation liability and provision 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 utilization)

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul ("C Check") are recognized as provisions as of the inception of the contract. The counterpart of these provisions 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.

Airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines)

The airframe and the engine potentials are recognized 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, recognized in its totality at the inception of the contract. When maintenance

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events aimed at reconstituting these potentials take place, the costs incurred are capitalized. 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).

Compensation related to limited life parts (engine components)

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

4.21 Other provisions

The Group recognizes a provision in the balance sheet when it has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material. The effect of the time value of money is presented as a component of "Other financial income and expenses".

Restructuring provisions are recognized once the Group has established a detailed and formalized restructuring plan which has been announced to the parties concerned.

The Group recognizes client compensation as costs, i.e. by applying IAS 37. Indeed the Group considers that this represents legal compensation to indemnify customers for damage suffered, whether or not the revenue was recognized.

4.22 Emission Trading Scheme

Since January 1, 2012, European airlines have been included in the scope of companies subject to the Emission Trading Scheme (ETS). In the absence of IFRS standards or interpretations governing ETS accounting, the Group has adopted the accounting treatment known as the "netting approach".

According to this approach, the quotas are recognized as intangible assets in the following way:

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

These intangible assets are not amortized.

If the allocated quotas are insufficient to cover the actual emissions then the Group recognizes a provision. This provision is assessed at the acquisition cost for the acquired rights and, for the non-hedged portion, with reference to the market price as of each closing date.

At the date of the restitution to the State of the quotas corresponding to actual emissions, the provision is written-off in exchange for the intangible assets returned.

4.23 Capital increase costs

Capital increase costs are deducted from paid-in capital.

4.24 Current and deferred taxes

The Group records deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the exceptions described in IAS 12 "Income Taxes".

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity's tax position.

Deferred tax assets relating to temporary differences and tax losses carried forward are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

Deferred tax assets corresponding to fiscal losses are recognized as assets given the prospects of recoverability resulting from the budgets and medium-term plans prepared by the Group. The assumptions used are the same as those used for the impairment tests on assets (see Note 4.16).

A deferred tax liability is also recognized for the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event recorded directly in other comprehensive income. In such a case, they are recorded directly in other comprehensive income.

Impact of the Contribution on Added Value of Enterprises

The CAVE (Contribution on Added Value of Enterprises/*Cotisation sur la Valeur Ajoutée des Entreprises – CVAE*) is calculated by the application of a rate to the added value generated by the company during the year. As the added value is a net amount of income and expenses, the CAVE meets the definition of a tax on profits as set out in IAS 12.2. Consequently, the expense relating to the CAVE is presented under the line "tax".

4.25 Non-current assets held for sale and discontinued operations

Assets or groups of assets held for sale meet the criteria for this classification if their carrying amount is recovered principally through a sale rather than through their continuing use.

This condition is considered to be met when the sale is highly probable and the asset (or group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets were classified as assets held for sale.

The Group determines on each closing date whether any assets or groups of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".

Any liabilities related to these assets are also presented on a separate line in liabilities on the balance sheet.

Assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented separately from the results from continuing operations in the income statement.

NOTE 5. CHANGE IN THE CONSOLIDATION SCOPE

— **Year ended December 31, 2018**

No significant acquisitions or disposals took place during the twelve-month period ended December 31, 2018.

— **Year ended December 31, 2017**

Joon, a new airline within the Air France Group was created to operate in the low-cost segment of the Network business. Joon launched its operations in November 2017.

In November 2017, Kenya Airways finalized its debt and equity restructuring. This resulted in a decrease of the Group's capital interest in Kenya Airways from 26.73 per cent to 7.76 per cent and the Group lost its significant influence over Kenya Airways. Consequently Kenya Airways is no longer an associate and is presented as a financial asset.

NOTE 6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

The segment information is prepared on the basis of internal management data communicated to the Executive Committee, the Group's principal operational decision-making body.

The Group is organized around the following segments:

Network: Passenger network and Cargo operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (excluding Transavia), including flights operated by other airlines under code-sharing agreements. Since the end of 2017, the activities of Joon have contributed to the network performance. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third-party airlines and services linked to IT systems. The revenues also including income from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties and transportation of shipments on behalf of the Goup by other airlines.

Maintenance: maintenance operating revenues are generated through maintenance services provided to other airlines and customers worldwide.

Transavia: the revenues from this segment come from the "low-cost" activity realized by Transavia.

Other: the revenues from this segment come from various services provided by the Group and not covered by the four segments mentioned above.

The results of the business segments are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond to the EBITDA, current operating income and to the income from operating activities. Other elements of the income statement are presented in the "non-allocated" column.

Inter-segment transactions are evaluated based on normal market conditions.

Geographical segments

— activity by origin of sales area

Group activities by origin of sale are broken down into eight geographical areas:

- Metropolitan France;
- Benelux;
- Europe (excluding France and Benelux);
- Africa;
- Middle East, Gulf, India (MEGI);
- Asia-Pacific;
- North America;
- Caribbean, West Indies, French Guyana, Indian Ocean, South America (CILA).

Only segment revenue is allocated by geographical sales area.

— Activity by destination

Group activities by destination are broken down into seven geographical areas:

- Metropolitan France;
- Europe (excluding France) and North Africa;
- Caribbean, West Indies, French Guyana and Indian Ocean;
- Africa (excluding North Africa), Middle East;
- North America, Mexico;
- South America (excluding Mexico);
- Asia and New Caledonia.

6.1 Information by business segment

Year ended December 31, 2018 (in € millions)	**Network**	**Mainte-nance**	**Transavia**	**Other**	**Non allocated**	**Total**
Total sales	22,983	4,349	1,618	247	-	29,197
Intersegment sales	(40)	(2,429)	(7)	(209)	-	(2,685)
External sales	**22,943**	**1,920**	**1,611**	**38**	**-**	**26,512**
EBITDA [(1)]	3,305	509	365	38	-	4,217
Income from current operations	994	195	139	4	-	1,332
Income from operating activities	949	198	140	33	-	1,320
Share of profits (losses) of associates	1	2	-	12	-	15
Net cost of financial debt and other financial income and expenses	-	-	-	-	(697)	(697)
Income taxes	-	-	-	-	(227)	(227)
Net income from continuing operations	**950**	**200**	**140**	**45**	**(924)**	**411**
Depreciation and amortization for the period	(2,228)	(310)	(209)	(34)	-	(2,781)
Other non-monetary items	(212)	3	(85)	(30)	47	(277)
Total assets	**16,769**	**4,051**	**1,483**	**495**	**6,259**	**29,057**
Segment liabilities	9,632	1,537	822	33	4,069	16,093
Financial debts, lease debts, bank overdrafts and equity	-	-	-	-	12,964	12,964
Total liabilities	**9,632**	**1,537**	**822**	**33**	**17,033**	**29,057**
Purchase of property, plant and equipment and intangible assets	**2,002**	**407**	**193**	**151**	**5**	**2,758**

(1) *See Note 4.9 in notes to the consolidated financial statements.*

The non-allocated assets, amounting to €6.2 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €3.6 billion, pension assets of €0.3 billion, financial assets of €1.1 billion, deferred tax of €0.5 billion, income taxes of €0.2 billion and derivatives of €0.5 billion.

The non-allocated segment liabilities, amounting to €4.1 billion, mainly comprise pension provisions for €2.1 billion, a portion of other provisions for €0.1 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €0.7 billion.

Financial debts, lease debts, bank overdrafts and equity are not allocated.

Year ended December 31, 2017 (restated) [2] (in € millions)	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	22,626	4,155	1,438	250	-	28,469
Intersegment sales	(41)	(2,354)	(2)	(208)	-	(2,605)
External sales	**22,585**	**1,801**	**1,436**	**42**	**-**	**25,864**
EBITDA [1]	3,915	494	326	28	-	4,763
Income from current operations	1,555	252	118	(2)	-	1,923
Income from operating activities	(351)	251	116	-	-	16
Share of profits (losses) of associates	-	4	-	17	-	21
Net cost of financial debt and other financial income and expenses	-	-	-	-	113	113
Income taxes	-	-	-	-	21	21
Net income from continuing operations	**(351)**	**255**	**116**	**17**	**134**	**171**
Depreciation and amortization for the period	(2,256)	(276)	(193)	(31)	-	(2,756)
Other non-monetary items	(1,769)	32	54	467	135	(1,081)
Total assets	**16,776**	**3,775**	**1,469**	**316**	**7,627**	**29,963**
Segment liabilities	9,080	1,328	680	33	4,185	15,306
Financial debts, lease debts, bank overdrafts and equity	-	-	-	-	14,657	14,657
Total liabilities	**9,080**	**1,328**	**680**	**33**	**18,842**	**29,963**
Purchase of property, plant and equipment and intangible assets	**1,696**	**455**	**268**	**143**	**-**	**2,562**

(1) *See Note 4.9 in notes to the consolidated financial statements.*
(2) *See Note 2 in notes to the consolidated financial statements.*

The non-allocated assets, amounting to €7.6 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €4.7 billion, pension assets of €0.6 billion, financial assets of €1.1 billion, deferred tax of €0.4 billion, income taxes of €0.1 billion and derivatives of €0.7 billion.

The non-allocated segment liabilities, amounting to €4.2 billion, mainly comprise pension provisions for €2.2 billion, a portion of other provisions for €0.2 billion, tax and employee-related liabilities of €1.4 billion and derivatives of €0.4 billion.

Financial debts, lease debts, bank overdrafts and equity are not allocated.

6.2 Information by geographical area

External sales by geographical area

Year ended December 31, 2018

(in € millions)	Metropolitan France	Benelux	Europe (except France and Benelux)	Africa	Middle-Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Network	6,235	2,446	4,782	1,051	571	2,083	3,143	1,421	21,732
Other Network sales	419	204	220	68	20	155	75	50	1,211
Total Network	**6,654**	**2,650**	**5,002**	**1,119**	**591**	**2,238**	**3,218**	**1,471**	**22,943**
Scheduled Transavia	718	766	93	2	11	2	5	2	1,599
Transavia-other sales	3	-	-	-	-	-	9	-	12
Total Transavia	**721**	**766**	**93**	**2**	**11**	**2**	**14**	**2**	**1,611**
Maintenance	1,044	764	26	-	-	2	84	-	1,920
Others	10	28	-	-	-	-	-	-	38
Total	**8,429**	**4,208**	**5,121**	**1,121**	**602**	**2,242**	**3,316**	**1,473**	**26,512**

Year ended December 31, 2017 (restated) (1)

(in € millions)	Metropolitan France	Benelux	Europe (except France and Benelux)	Africa	Middle-Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Network (1)	6,196	2,265	4,731	1,110	579	2,068	3,141	1,465	21,555
Other Network sales	375	191	177	63	18	100	64	42	1,030
Total Network	**6,571**	**2,456**	**4,908**	**1,173**	**597**	**2,168**	**3,205**	**1,507**	**22,585**
Scheduled Transavia	568	721	111	2	10	3	5	2	1,422
Transavia-other sales	5	-	-	-	-	-	9	-	14
Total Transavia	**573**	**721**	**111**	**2**	**10**	**3**	**14**	**2**	**1,436**
Maintenance	991	698	23	-	-	-	89	-	1,801
Others	14	28	-	-	-	-	-	-	42
Total	**8,149**	**3,903**	**5,042**	**1,175**	**607**	**2,171**	**3,308**	**1,509**	**25,864**

(1) *See Note 2 in notes to the consolidated financial statements.*

Traffic sales by geographical area of destination

Year ended December 31, 2018

(in € millions)	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guyana, Indian Ocean	Africa (except North Africa) Middle East	North America, Mexico	South America, (except Mexico)	Asia, New Caledonia	Total
Network	1,734	4,804	1,617	2,860	4,616	2,231	3,870	21,732
Scheduled Transavia	24	1,459	-	116	-	-	-	1,599
Total	**1,758**	**6,263**	**1,617**	**2,976**	**4,616**	**2,231**	**3,870**	**23,331**

Year ended December 31, 2017 (restated) [(1)]

(in € millions)	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guyana, Indian Ocean	Africa (except North Africa) Middle East	North America, Mexico	South America, (except Mexico)	Asia, New Caledonia	Total
Network	1,798	4,699	1,640	2,971	4,506	2,147	3,794	21,555
Scheduled Transavia	23	1,345	-	54	-	-	-	1,422
Total	**1,821**	**6,044**	**1,640**	**3,025**	**4,506**	**2,147**	**3,794**	**22,977**

(1) *See Note 2 in notes to the consolidated financial statements.*

NOTE 7. EXTERNAL EXPENSES

Period from January 1 to December 31 (in € millions)	2018	2017 restated [(1)]
Aircraft fuel	**4,958**	4,507
Chartering costs	**577**	515
Landing fees and air route charges	**1,893**	1,905
Catering	**783**	784
Handling charges and other operating costs	**1,948**	1,753
Aircraft maintenance costs	**2,413**	2,327
Commercial and distribution costs	**1,034**	935
Other external expenses	**1,618**	1,462
Total	**15,224**	**14,188**
Excluding aircraft fuel	**10,266**	9,681

(1) *See Note 2 in notes to the consolidated financial statements.*

A portion of external expenses, mainly aircraft fuel and maintenance, is sensitive to fluctuations in the US dollar exchange rate. The hedges covering this currency exposure are presented in Note 10.

NOTE 8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

Period from January 1 to December 31 (in € millions)	2018	2017 restated (1)
Wages and salaries	**5,328**	5,192
Social contributions	**1,097**	1,066
Pension costs on defined contribution plans	**670**	597
Pension costs of defined benefit plans	**219**	226
Cost of temporary employees	**241**	192
Profit sharing	**191**	324
Other expenses	**13**	23
Total	**7,759**	**7,620**

(1) *See Note 2 in notes to the consolidated financial statements.*

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). This multi-employer plan being assimilated with a French State plan, it is accounted for as a defined contribution plan in "pension costs linked to defined contribution plans".

As of December 31, 2017, the line "Other expenses" includes the share based compensation to KLM pilots amounting to €27 million.

Average number of employees

Period from January 1 to December 31	2018	2017
Flight deck crew	**7,983**	7,746
Cabin crew	**21,973**	21,502
Ground staff	**51,570**	51,347
Temporary employees	**3,188**	2,927
Total	**84,714**	**83,522**

NOTE 9. AMORTIZATION, DEPRECIATION AND PROVISIONS

Period from January 1 to December 31 (in € millions)	2018	2017 restated [(1)]
Amortization		
Intangible assets	**160**	140
Flight equipment	**1,160**	1,254
Other property, plant and equipment	**195**	194
Right-of-use assets	**1,266**	1,168
	2,781	**2,756**
Depreciation and provisions		
Inventories	**2**	9
Trade receivables	**43**	3
Risks and contingencies	**59**	72
	104	**84**
Total	**2,885**	**2,840**

(1) *See Note 2 in notes to the consolidated financial statements.*

The amortization changes for intangible and tangible assets are presented in notes 16, 18, and for right-of-use assets in Note 20.

The changes relating to inventories and trade receivables are presented in notes 24, 25 and 26.

The movements in provisions for risks and charges are detailed in Note 30.

NOTE 10. OTHER INCOME AND EXPENSES

Period from January 1 to December 31 (in € millions)	2018	2017 restated
Capitalized production	**906**	923
Joint operation of routes	**(57)**	(108)
Operations-related currency hedges	**(16)**	10
Other	**18**	37
Other income and expenses	**851**	**862**

NOTE 11. OTHER NON-CURRENT INCOME AND EXPENSES

Period from January 1 to December 31 (in € millions)	2018	2017
Restructuring costs	**(19)**	(24)
Modification on pensions plans	**(5)**	(1,889)
Cargo claim	**(8)**	(60)
Disposals of subsidiaries and affiliates	**-**	3
Other	**16**	45
Other non-current income and expenses	**(16)**	**(1,925)**

Year ended December 31, 2018

Restructuring costs

These mainly include the new provision relating to the Voluntary Departure Plan for KLM cabin crew.

Modification of pension schemes

In 2018 the High Court in the UK ruled in the Lloyds Bank case that UK pension schemes must equalize Guaranteed Minimum Pension (GMP) between men and women. The Group has two UK based pension schemes for which a best estimate calculation has been performed by external actuaries. The 2018 one-off expense is a €5 million increase of the Defined Benefit Obligation.

Cargo claim

The provision for the cargo claim was adjusted by a net amount of €(8) million.

Other asset disposal

This line mainly includes the sale of Vilgénis real estate in the Paris area, France and the activities of Jet Center at Amsterdam Airport Schiphol.

Year ended December 31, 2017

Restructuring costs

This line mainly included an additional contribution to the Air France and KLM Voluntary Departure Plans and the costs linked to the closure of the Transavia The Netherlands Munich base as of October 2017.

Modification of pension schemes

In 2016, the KLM Pilot Pension Fund Board decided to convert the accrued spouse's pension into additional old age pension. In 2017, the Dutch Ministry of Finance refused to validate the change without the formal approval of all the spouses. As a consequence, the accrual rate has been decreased from 1.28% to 1.11% as from July 1, 2017. The one-off financial impact of this scheme change represented a €15 million profit.

In August 2017, KLM and the Cabin unions agreed to modify the pension scheme for KLM Cabin Crew in the Netherlands. This modified pension scheme was qualified as a collective defined contribution scheme and led to the derecognition of the cabin pension asset. The pension asset, based on actuarial assumptions as of August 1, 2017, amounted to €311 million. The impact of the derecognition of this asset was a €311 million loss.

In December 2017, KLM and the KLM Cockpit Crew Union agreed to modify the Cockpit Crew pension plan. This modified plan qualified as a collective defined contribution plan and led to the derecognition of the cockpit pension asset. This pension asset, based on specific actuarial assumptions as of December 15, 2017, amounted to €1,399 million. Within the framework of the agreement, KLM agreed on a dowry payment of €194 million, to the pension fund, of which €120 million was paid in 2017 and €74 million in 2018. The impact of the derecognition of this asset and this additional contribution was a €1,593 million loss.

Cargo claim

The provision for the cargo claim was adjusted by a net amount of €(60) million.

Other

As per November 16, 2017, Kenya Airways was no longer an equity affiliate and was reclassified to financial asset at fair value through the income statement. The line "Other" mainly included the revaluation of the 7.76 per cent shareholding in Kenya Airways at fair value, the recycling of the current translation adjustment reserve and the net book value of the pair of slots at Heathrow airport. The operation generated a one-off profit of € 43 million. See Note 23 for additional information on the accounting treatment of Kenya Airways.

NOTE 12. NET COST OF FINANCIAL DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

Period from January 1 to December 31 (in € millions)	**2018**	**2017 restated** (1)
Income from marketable securities	**3**	6
Other financial income	**36**	28
Financial income	**39**	**34**
Interest on financial debt	**(141)**	(189)
Interest on lease debt	**(293)**	(330)
Capitalized interests and other non-monetary items	**(20)**	(34)
Other financial expenses	**(11)**	(17)
Gross cost of financial debt	**(465)**	**(570)**
Net cost of financial debt	**(426)**	**(536)**
Foreign exchange gains (losses), net	**(191)**	803
Financial instruments and change in fair value of hedged shares	**55**	(17)
Net (charge)/ release to provisions	**(5)**	1
Other financial income and expenses	**(130)**	(138)
Other financial income and expenses	**(271)**	**649**
Total	**(697)**	**113**

(1) *See Note 2 in notes to the consolidated financial statements.*

Net cost of financial debt

Financial income mainly consists of interest income on financial assets accounted at the effective interest rate and of the result on disposal of financial assets at fair value recorded through the income statement.

Foreign exchange gains (losses)

As of December 31, 2018, the foreign exchange losses mainly include an unrealized currency loss of €100 million on return obligation liabilities and provisions on aircraft in US dollars and an unrealized currency loss of €101 million on debt, of which €56 million relates to the debt in Japanese Yen and €46 to the debt in US Dollar.

As of December 31, 2017, the foreign exchange gain mainly included €778 million non-realized gain on US Dollar of which €482 million on lease debts and €240 million on return obligation liabilities and provisions on aircraft, and €78 million non-realized gain on the debt in Japanese Yen.

Financial instruments and change in fair value of hedged shares

As of December 31, 2018, this line mainly includes a gain on the hedged Amadeus shares of €12 million and a gain on the non-aligned time value of dissymmetrical options with barriers for an amount of €41 million.

As of December 31, 2017, it mainly includes a gain on the hedged Amadeus shares of €30 million and a loss on the non-aligned time value of dissymmetrical options with barriers for an amount of €44 million.

Others

As of December 31, 2018 and 2017, this line comprises the accretion effect on long-term provisions amounting to €121 million and €129 million respectively.

NOTE 13. INCOME TAXES

13.1 Income tax charge

Current income tax expenses and deferred income tax are detailed as follows:

Period from January 1 to December 31 (in € millions)	2018	2017 restated (1)
Current tax (expense)/income	**(23)**	**(32)**
Change in temporary differences	**(45)**	(26)
CAVE impact	**3**	3
(Use/de-recognition)/recognition of tax loss carry forwards	**(162)**	76
Deferred tax income/(expense) from continuing operations	**(204)**	**53**
Total	**(227)**	**21**

(1) *See Note 2 in notes to the consolidated financial statements.*

The current income tax charge relates to the amounts paid or payable in the short term to the tax authorities for the period, in accordance with the regulations prevailing in various countries and any applicable treaties.

In 2017, the Finance Law initiated a gradual reduction in the French income tax rate to 25.83 per cent in 2022. The impact of this change in tax rate was reflected in a reduction in the deferred tax assets and created a deferred tax charge of €15 million.

— **French fiscal Group**

In France, tax losses can be carried forward for an unlimited period. However, there is a limitation on the amount of fiscal loss recoverable each year to 50 per cent of the profit for the period beyond the first million euros. The recoverability of the deferred tax losses corresponds to a period of seven years, consistent with the Group's operating visibility.

— **Dutch fiscal Group**

In The Netherlands, tax losses can be carried forward over a period of nine years without limitation in the amount of recovery allowed each year.

As of December 31, 2018, the recoverability of the deferred tax losses corresponds to a period of one year.

13.2 Deferred tax recorded in equity (equity holders of Air France-KLM)

Period from January 1 to December 31 (in € millions)	2018	2017 restated (1)
Treasury shares	**-**	**-**
Coupons on Perpetual	**13**	**13**
Other comprehensive income that will be reclassified to profit and loss	**270**	**(57)**
Gains and losses on cash-flow hedge	**270**	(57)
Other comprehensive income that will not be reclassified to profit and loss	**49**	**(221)**
Equity instruments	**-**	-
Pensions	**49**	(221)
Total	**332**	**(265)**

(1) *See Note 2 in notes to the consolidated financial statements.*

13.3 Effective tax rate

The difference between the standard and effective tax rate applied in France is detailed as follows:

Period from January 1 to December 31 (in € millions)	2018	2017 restated (1)
Income before tax	**623**	129
Standard tax rate in France	**34.43%**	34.43%
Theoretical tax calculated based on the standard tax rate in France	**(214)**	(44)
Differences in French/foreign tax rates	**78**	(66)
Non-deductible expenses or non-taxable income	**1**	(13)
Variation in unrecognized deferred tax assets	**(88)**	171
Impact of change in income-tax rate	**-**	(15)
CAVE impact	**(11)**	(15)
Other	**7**	3
Income tax expenses	**(227)**	**21**
Effective tax rate	**36.5%**	-16.0%

(1) *See Note 2 in notes to the consolidated financial statements.*

In 2018, the applicable tax rate for the French fiscal Group is 34.43% vs. 44.43% in 2017. Last year, this tax rate included a one-time additional contribution of 10 per cent.

Deferred tax is calculated in accordance with the timeline of repayment and the applicable tax rate of each terms.

Deferred taxes have been calculated with a tax rate gradually decreasing to 25.83 per cent in 2022. The impact of this change in tax rate is presented in the line "impact of change in income-tax rate".

The current tax rate applicable in The Netherlands is 25 per cent.

13.4 Variation in deferred tax recorded during the period

(in € millions)	January 1, 2018 restated (1)	Amounts recorded in income statement	Amounts recorded in OCI	Re-classification and other	December 31, 2018
Flight equipment	(1,235)	27	-	-	**(1,208)**
Right-of-use assets	(1,650)	102	-	520	**(1,028)**
Pension assets	(76)	(24)	59	-	**(41)**
Financial debt	740	(24)	-	(2)	**727**
Lease debt	1,405	(163)	23	(410)	**855**
Deferred revenue on ticket sales	202	18	-	(49)	**171**
Debtors and creditors	(52)	(58)	246	6	**142**
Provisions	400	69	(6)	(57)	**406**
Others	(242)	11	(3)	(14)	**(248)**
Deferred tax corresponding to fiscal losses	913	(162)	-	13	**764**
Deferred tax asset/ (liability) net	**405**	**(204)**	**319**	**7**	**540**

(1) *See Note 2 in notes to the consolidated financial statements.*

(in € millions)	January 1, 2017 restated [(1)]	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Re-classification and other	December 31, 2017 restated [(1)]
Flight equipment	(1,189)	(30)	(16)	-	-	(1,235)
Right-of-use assets	(1,598)	255	-	-	(307)	(1,650)
Pension assets	(315)	436	(197)	-	-	(76)
Financial debt	787	(69)	-	-	22	740
Lease debt	1,589	(491)	-	-	307	1,405
Deferred revenue on ticket sales	248	(46)	-	-	-	202
Debtors and creditors	(48)	39	(43)	-	-	(52)
Provisions	576	(169)	(6)	-	(1)	400
Others	(273)	52	(16)	-	(5)	(242)
Deferred tax corresponding to fiscal losses	838	76	-	-	(1)	913
Deferred tax asset/ (liability) net	**615**	**53**	**(278)**	**-**	**15**	**405**

(1) *See Note 2 in notes to the consolidated financial statements.*

— French fiscal group

The deferred taxes recognized on fiscal losses for the French fiscal group amount to €693 million as of December 31, 2018, with a basis of €5,039 million. As of December 31, 2017, the amount was €669 million, with a basis of €4,864 million. The increase of the deferred taxes recognized on fiscal losses is mainly explained by Transavia France entering the French fiscal group as of January 1, 2018.

The total deferred-tax position of the French fiscal group is a net asset of €527 million.

— Dutch fiscal group

The deferred taxes recognized on fiscal losses for the Dutch fiscal group amounts to €60 million as of December 31, 2018 versus €196 million as of December 31, 2017 with respective bases of €241 million and €786 million.

13.5 Unrecognized deferred tax assets

	December 31, 2018		December 31, 2017 restated [(1)]	
(in € millions)	Basis	Tax	Basis	Tax
Temporary differences	**887**	**229**	910	234
Tax losses	**4,947**	**1,278**	4,608	1,187
Total	**5,834**	**1,507**	**5,518**	**1,421**

(1) *See Note 2 in notes to the consolidated financial statements.*

— **French fiscal group**

As of December 31, 2018, the cumulative effect on the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €1,497 million (corresponding to a basis of €5,780 million), of which €1,272 million relating to tax losses and €225 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

As of December 31, 2017, the cumulative effect on the limitation of deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €1,411 million (corresponding to a basis of €5,464 million), of which €1,181 million relating to tax losses and €230 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

— **Dutch fiscal group**

As of December 31, 2018, the Dutch fiscal group has no non-recognized deferred tax assets.

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry forwards of the Air France and KLM subsidiaries not belonging to the fiscal groups, in particular in the United States of America and the United Kingdom.

NOTE 14. EARNINGS PER SHARE

14.1 Income for the period – Equity holders of Air France-KLM per share

Reconciliation of income used to calculate earnings per share

The results used to calculate earnings per share are as follows:

— **Results used for the calculation of basic earnings per share**

As of December 31 (in € millions)	2018	2017 restated [1]
Net income for the period – equity holders of Air France-KLM	**409**	163
Net income from continuing operations – equity holders of Air France-KLM	**409**	171
Net income from discontinued operations – equity holders of Air France-KLM	**-**	(8)
Coupons on perpetual	**(37)**	(25)
Basic net income for the period – equity holders of Air France-KLM	**372**	138
Basic net income from continuing operations – equity holders of Air France-KLM	**372**	146
Basic net income from discontinued operations – equity holders of Air France-KLM	**-**	(8)

(1) *See Note 2 in notes to the consolidated financial statements.*

The earnings per share before dilution (basic earnings per share) corresponds to the net result divided by the weighted average number of shares in circulation during the financial year, excluding the weighted average number of treasury shares.

— **Results used for the calculation of diluted earnings per share**

As of December 31 (in € millions)	2018	2017 restated [1]
Basic net income for the period – equity holders of Air France-KLM	**372**	138
Basic net income for the period for continuing operations – equity holders of Air France-KLM	**372**	146
Basic net income for the period for discontinued operations – equity holders of Air France-KLM	**-**	(8)
Net income for the period – Equity holders of Air France-KLM *(taken for calculation of diluted earnings per share)*	**372**	138

(1) *See Note 2 in notes to the consolidated financial statements.*

For the calculation of the diluted earnings per share, the weighted average number of shares in circulation is adjusted for the potential dilutive effect of all equity instruments issued by the Group, in particular stock option plans and performance shares. The dilution resulting from the exercise of stock option plans and performance shares is based on the IAS 33 methodology.

Since the perpetual subordinated loan is considered to be preferred shares, the coupons are included in basic earnings per share.

Reconciliation of the number of shares used to calculate earnings per share

As of December 31	2018	2017
Weighted average number of:		
— ordinary shares issued	**428,634,035**	371,734,062
— treasury stock held regarding stock option plan	**(1,116,420)**	(1,116,420)
— other treasury stock	**(29,956)**	(31,678)
Number of shares used to calculate basic earnings per share	**427,487,659**	**370,585,964**
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**427,487,659**	**370,585,964**

The change in the number of ordinary shares issued is disclosed in Note 28.1.

14.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of December 31, 2018.

14.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

NOTE 15. GOODWILL

15.1 Detail of consolidated goodwill

As of December 31

	2018			2017		
(in € millions)	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Network	**196**	**-**	**196**	197	-	197
Maintenance	**25**	**(4)**	**21**	23	(4)	19
Total	**221**	**(4)**	**217**	**220**	**(4)**	**216**

15.2 Movement in net book value of goodwill

As of December 31 (in € millions)	2018	2017
Opening balance	**216**	**218**
Currency translation adjustment	**1**	(2)
Closing balance	**217**	**216**

NOTE 16. INTANGIBLE ASSETS

(in € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of December 31, 2016	**280**	**109**	**1,496**	**1,885**
Additions	-	-	248	248
Disposals	-	-	(72)	(72)
Reclassification	-	-	(36)	(36)
Amount as of December 31, 2017	**280**	**109**	**1,636**	**2,025**
Additions	-	-	253	253
Disposals	-	-	(66)	(66)
Reclassification	-	-	(106)	(106)
Amount as of December 31, 2018	**280**	**109**	**1,717**	**2,106**
Depreciation				
Amount as of December 31, 2016	**(6)**	**(108)**	**(705)**	**(819)**
Charge to depreciation	-	-	(140)	(140)
Releases on disposals	-	-	21	21
Reclassification	-	(1)	36	35
Amount as of December 31, 2017	**(6)**	**(109)**	**(788)**	**(903)**
Charge to depreciation	-	-	(160)	(160)
Releases on disposals	-	-	45	45
Reclassification	-	-	106	106
Amount as of December 31, 2018	**(6)**	**(109)**	**(797)**	**(912)**
Net value				
As of December 31, 2017	274	-	848	1,122
As of December 31, 2018	**274**	**-**	**920**	**1,194**
Including:				
— Network	263			
— Other	5			
— maintenance	5			
— Cargo	1			

The intangible assets mainly comprise:

— the KLM and Transavia brands and slots (takeoff and landing) acquired by the Group as part of the acquisition of KLM. These intangible assets have an indefinite useful life as the nature of the assets means that they have no time limit;

— software and capitalized IT costs.

NOTE 17. IMPAIRMENT

Year ended December 31, 2018

Concerning the methodology followed for the impairment test, the Group has allocated each item of goodwill and each intangible fixed asset with an indefinite useful life to Cash Generating Units (CGUs), corresponding to its business segments (see "Accounting Policies").

The recoverable value of the CGU assets has been determined by reference to their value in use as of December 31, 2018. The tests were realized for all the CGUs on the basis of a three-year Group plan, approved by the management.

The discount rate used for the test corresponds to the Group's weighted average cost of capital (WACC). This stood at 6.3 per cent as at December 31, 2018 versus 7.5 per cent as at December 31, 2017.

After the aforementioned test, no impairments were recognized on the Group's other CGUs.

A 50-basis point increase in the WACC would have no impact on the tests results per Group CGU as of December 31, 2018. A 50-basis point decrease in the long-term growth rate would also have no impact on the value of the CGUs as of the same date. The same holds true for a 50-basis point decrease in the target operating margin.

Year ended December 31, 2017

As of December 31, 2017, no impairment was recognized on the Group's CGUs.

NOTE 18. TANGIBLE ASSETS

	Flight equipment				Other tangible assets					
(in € millions)	Owned aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	Total
Gross value										
December 31, 2016 (1)	**15,432**	**590**	**1,875**	**17,897**	**2,591**	**1,210**	**115**	**921**	**4,837**	**22,734**
Acquisitions	420	1,384	16	1,820	13	24	153	34	224	**2,044**
Disposals	(1,160)	-	(179)	(1,339)	(25)	(9)	-	(16)	(50)	**(1,389)**
Fair value	-	371	-	371	-	-	-	-	-	**371**
Reclassification	1,190	(1,434)	294	50	52	30	(93)	6	(5)	**45**
Currency translation	-	-	-	-	(1)	(4)	-	-	(5)	**(5)**
Others	(127)	78	-	(49)	9	-	(19)	(2)	(12)	**(61)**
December 31, 2017 restated (1)	**15,755**	**989**	**2,006**	**18,750**	**2,639**	**1,251**	**156**	**943**	**4,989**	**23,739**
Acquisitions	344	1,873	35	2,252	24	46	157	47	274	**2,526**
Disposals	(1,134)		(171)	(1,305)	(60)	(25)		(36)	(121)	**(1,426)**
Fair value	-	(159)	-	(159)	-	-	-	-	-	**(159)**
Reclassification	1,170	(1,671)	311	(190)	71	35	(126)	24	4	**(186)**
Currency translation	-	-	-	-	-	1	-	-	1	**1**
Others	(34)	-	3	(31)	2	-	-	2	4	**(27)**
December 31, 2018	**16,101**	**1,032**	**2,184**	**19,317**	**2,676**	**1,308**	**187**	**980**	**5,151**	**24,468**
Depreciation										
December 31, 2016 (1)	**(8,400)**	**-**	**(737)**	**(9,137)**	**(1,732)**	**(937)**	**-**	**(768)**	**(3,437)**	**(12,574)**
Charge to depreciation	(1,107)	-	(84)	(1,191)	(97)	(61)	-	(36)	(194)	**(1,385)**
Releases on disposal	1,115	-	95	1,210	23	8	-	16	47	**1,257**
Reclassification	(74)	-	2	(72)	(5)	11	-	6	12	**(60)**
Currency translation	-	-	-	-	-	3	-		3	**3**
Others	101	-	(25)	76	-	(1)	-	(1)	(2)	**74**
December 31, 2017 restated (1)	**(8,365)**	**-**	**(749)**	**(9,114)**	**(1,811)**	**(977)**	**-**	**(783)**	**(3,571)**	**(12,685)**
Charge to depreciation	(1,022)		(95)	(1,117)	(92)	(61)	-	(42)	(195)	**(1,312)**
Releases on disposal	1,059	-	116	1,175	58	24	-	35	117	**1,292**
Reclassification	(60)	-	(1)	(61)	(1)	3	-	-	2	**(59)**
Currency translation	-	-	-	-	-	-	-	-	-	**-**
Others	51	-	(84)	(33)	-	(1)	-	-	(1)	**(34)**
December 31, 2018	**(8,337)**	**-**	**(813)**	**(9,150)**	**(1,846)**	**(1,012)**	**-**	**(790)**	**(3,648)**	**(12,798)**
Net value										
December 31, 2017 restated (1)	7,390	989	1,257	9,636	828	274	156	160	1,418	**11,054**
December 31, 2018	**7,764**	**1,032**	**1,371**	**10,167**	**830**	**296**	**187**	**190**	**1,503**	**11,670**

(1) *See Note 2 in notes to the consolidated financial statements.*

Aeronautical assets under construction mainly comprise advance payments, engine maintenance work in progress and aircraft modifications.

Note 38 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in notes 37 and 38.

NOTE 19. CAPITAL EXPENDITURES

The detail of capital expenditures on tangible and intangible assets presented in the consolidated cash-flow statements is as follows:

As of December 31 (in € millions)	2018	2017 restated [1]
Acquisition of tangible assets	**2,513**	2,304
Acquisition of intangible assets	**253**	248
Accounts payable on acquisitions and capitalized interest	**(8)**	10
Total	**2,758**	**2,562**

(1) *See Note 2 in notes to the consolidated financial statements.*

NOTE 20. RIGHT-OF-USE ASSETS

The table below presents the right-of-use assets per category:

(in € millions)	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As of January 1, 2017 restated [1]	**3,653**	**1,123**	**515**	**267**	**5,558**
New contract		264	2	3	**269**
Change in contract	923	28	49	21	**1,021**
Reclassification	-	26	5	(4)	**27**
Amortization	(784)	(245)	(98)	(41)	**(1,168)**
Others	-	17	-	-	**17**
As of December 31, 2017 restated [1]	**3,792**	**1,213**	**473**	**246**	**5,724**
New contract	27	118	249	34	**428**
Change in contract	99	71	2	-	**172**
Disposals	(1)	(4)	-	1	**(4)**
Reclassification	(3)	169	6	35	**207**
Amortization	(795)	(289)	(122)	(60)	**(1,266)**
Others	18	(9)	(23)	(4)	**(18)**
As of December 31, 2018	**3,137**	**1,269**	**585**	**252**	**5,243**

(1) *See Note 2 in notes to the consolidated financial statements.*

Information related to lease debt is available in Note 32.

The table below indicates the rents resulting from lease and service contracts which are not capitalized[1]:

As of December 31 (in € millions)	2018	2017
Variable rents	**27**	21
Short term rents	**123**	111
Low value rents	**23**	19

(1) See Note 4.15 Lease contracts.

NOTE 21. EQUITY AFFILIATES

Movements over the period

The table below presents the movement in investments in associates and joint ventures:

(in € millions)	Maintenance	Catering	Other	Total
Carrying value of share in investment as of December 31, 2016	**49**	**218**	**25**	**292**
Share in net income of equity affiliates	4	10	(4)	**10**
Distributions	-	-	(6)	**(6)**
Change in consolidation scope	1	-	1	**2**
Other variations	2	(4)	5	**3**
Capital increase	-	-	2	**2**
Currency translation adjustment	-	-	(2)	**(2)**
Carrying value of share in investment as of December 31, 2017	**56**	**224**	**21**	**301**
Share in net income of equity affiliates	2	7	6	**15**
Distributions	-	-	(4)	**(4)**
Change in consolidation scope	-	-	-	**-**
Other variations	-	-	(2)	**(2)**
Capital increase	-	-	1	**1**
Currency translation adjustment	1	-	(1)	**-**
Carrying value of share in investment as of December 31, 2018	**59**	**231**	**21**	**311**

Maintenance

As of December 31, 2018 and 2017, the equity affiliates in the maintenance business mainly comprise joint-venture partnerships entered into by the Group to develop its maintenance activities worldwide. These partnerships, whose country localizations and percentages of interest are presented in Note 42.2, have been concluded either with airlines or with independent players in the maintenance market.

Servair Group

The Servair Group is the French number one in aviation catering. With about 45 establishments in 26 countries and approximately 10,000 employees, Servair has a leading position in Paris and Africa. Servair numbers approximately 120 air carrier customers worldwide and proposes a set of services grouped around three core businesses: inflight and collective catering, airport services and additional services like engineering and the integration of services.

Following the acquisition of Gategroup by HNA on December 22, 2016, Air France and Gategroup finalized the agreement for the sale to Gategroup of 49.99% of the Servair share capital. At the conclusion of this transaction, the operational control of Servair was transferred to Gategroup in application of the governance planned in the agreements between Air France and Gategroup. As a consequence, the Servair Group has been consolidated according to the equity method since December 30, 2016.

According to the standard IFRS 10, the Servair shares were revalued at their fair value. The latter was determined on the basis of the transaction value and amounted to €218 million.

The simplified income statement of the Servair Group as of December 31, 2018 is as follows:

Simplified income statement

Period from January 1 to December 31

(in € millions)	2018	2017
Sales	**863**	869
Income from current operations	***48***	*48*
Non-current items	**(2)**	(15)
Income from operating activities	***46***	*33*
Financial result	**-**	(1)
Income before tax	***46***	*32*
Income taxes	**(18)**	(17)
Share of profits (losses) of associates	**(13)**	4
Net result	**15**	**19**

Other

As of December 31, 2018 and 2017, the equity affiliates linked to the Group's other businesses are mainly joint-venture partnerships entered into by the Group in the airport business. The localizations of the activities and the percentages of interest in these partnerships are presented in Note 42.2.

NOTE 22. PENSION ASSETS

As of December 31

(in € millions)	2018	2017
Opening balance	**590**	**1,462**
Net periodic pension (cost)/income	**(96)**	(1,789)
Contributions paid to the funds	**84**	128
Fair value revaluation	**(247)**	789
Closing balance	**331**	**590**

The analysis on the pension assets is presented in Note 29.

NOTE 23. OTHER FINANCIAL ASSETS

As of December 31

(in € millions)	2018 Current	2018 Non-current	2017 restated (1) Current	2017 restated (1) Non-current
Equity instruments				
Equity instruments at fair value through OCI	-	89	-	102
Equity instruments at fair value in P&L (2)	-	301	-	298
Assets – Debt instruments at fair value in P&L				
Marketable securities	41	32	41	32
Cash secured	265	-	269	-
Financial asset – at amortized cost				
AAA Bonds	5	517	93	286
Deposit on lease contracts	-	85	-	86
Deposit on lease with bargain option	2	341	9	333
Other loans and deposits	12	147	9	130
Gross value	**325**	**1,512**	**421**	**1,267**
Impairment at opening date	-	(25)	-	(22)
New impairment charge	-	(5)	-	(6)
Reversal	-	2	-	9
Change in scope	-	-	-	1
Other	-	3	-	(7)
Impairment at closing date	**-**	**(25)**	**-**	**(25)**
Total	**325**	**1,487**	**421**	**1,242**

(1) *See Note 2 in notes to the consolidated financial statements.*
(2) Including €301 million of secured financial assets as of December 31, 2018 versus €298 million as of December 31, 2017.

Equity instruments

(in € millions)	Fair value	% interest	Stock-holder's equity	Net income	Classification methodology	Stock price (in €)	Closing date
As of December 31, 2018							
Amadeus [1]	301	1.11%	ND [2]	ND [2]	Income statement	60.84	December 2018
Alitalia-CAI	-	1.00%	ND [2]	ND [2]	OCI	NA [3]	December 2018
Kenya Airways [1]	33	7.76%	ND [2]	ND [2]	OCI	0.07	December 2018
Other	56	-	-	-		-	-
Total	**390**						
As of December 31, 2017							
Amadeus [1]	298	1.11%	ND [2]	ND [2]	-	60.11	December 2017
Alitalia-CAI	-	1.00%	ND [2]	ND [2]	-	NA [3]	December 2017
Kenya Airways [1]	61	7.76%	ND [2]	ND [2]	-	0.13	December 2017
Other	41	-	-	-		-	-
Total	**400**						

(1) Listed company.
(2) Not-available.
(3) Not-applicable.

No dividend has been paid by the equity affiliates in 2018.

— **Year ended December 31, 2017**

Following a debt and equity restructuring within Kenya Airways Ltd., the Group's capital interest decreased from 26.73 per cent as at December 31, 2016 to 7.76 per cent as at December 31, 2017. The Group lost its ability to exercise significant influence over Kenya Airways in November 2017. Consequently, Kenya Airways has been accounted for as a financial asset at fair value through the income statement. See Note 11.

The capital interest in Kenya Airways is considered as a business investment and the change in the fair value has been recognized through Other Comprehensive Income.

Transfer of financial assets that are not derecognized in their entirety

Transfer of receivables agreement

The Group entered into a loan agreement secured by Air France's 1 per cent housing loans. For each of the CILs (*Comités Interprofessionnels du Logement*), Air France and the bank concluded, in July 2012, a tripartite receivables delegation agreement with reference to the loan agreement. Through this agreement, the CILs commit to repaying the bank directly on each payment date. These are imperfect delegations: in the event of non-repayment by the CILs, Air France remains liable to the bank for repayments of the loan and interest.

As of December 31, 2018, the amount of transferred receivables stood at €101 million (versus €104 million as of December 31, 2017). The associated loan stood at €79 million as of December 31, 2018 (versus €81 million as of December 31, 2017).

Loan of shares agreement

In May and June 2016, the Group entered into a loan of shares agreement on Amadeus shares. This loan was linked to the hedging transaction to protect the value of Amadeus shares.

The entire 1.11 per cent Amadeus shareholding is covered by this hedge contract.

Transfer of financial assets that are derecognized in their entirety

Since 2011, the Group has established non-recourse factoring agreements concerning passenger and cargo trade receivables.

These agreements apply to receivables originating in France and other European countries for a total transferred amount of €2.6 billion as of December 31, 2018, against €3.2 billion as of December 31, 2017.

The change relative to the previous financial year is mainly due to the ending of factoring on travel and freight agency sales. As of the end of 2018, factoring is only used for credit card sales.

NOTE 24. INVENTORIES

As of December 31 (in € millions)	2018	2017
Aeronautical spare parts	**654**	587
Other supplies	**127**	122
Production work in progress	**14**	7
Gross value	**795**	**716**
Opening valuation allowance	**(159)**	(153)
Charge to allowance	**(11)**	(14)
Use of allowance	**9**	5
Currency translation adjustment	**-**	1
Reclassification	**(1)**	2
Closing valuation allowance	**(162)**	**(159)**
Net value of inventory	**633**	**557**

NOTE 25. TRADE ACCOUNTS RECEIVABLES

As of December 31 (in € millions)	2018	2017 restated [1]
Airlines	**500**	391
Other clients:		
— Network	**1,002**	1,122
— Maintenance	**716**	656
— Other	**128**	109
Gross value	**2,346**	**2,278**
Opening valuation allowance	**(114)**	(85)
Charge to allowance	**(49)**	(62)
Use of allowance	**6**	23
Currency translation adjustment	**(1)**	2
Reclassification	**3**	8
Closing valuation allowance	**(155)**	**(114)**
Net value	**2,191**	**2,164**

(1) *See Note 2 in notes to the consolidated financial statements.*

NOTE 26. OTHER ASSETS

As of December 31

(in € millions)	2018 Current	2018 Non-current	2017 restated (1) Current	2017 restated (1) Non-current
Suppliers with debit balances	**97**	**-**	159	-
State receivables (including income tax)	**247**	**-**	157	-
Derivative instruments	**225**	**253**	490	206
Prepaid expenses	**239**	**-**	150	-
Other debtors	**255**	**11**	288	33
Gross value	**1,063**	**264**	**1,244**	**239**
Opening valuation allowance	**(1)**	**-**	(1)	-
Closing valuation allowance	**(1)**	**-**	**(1)**	**-**
Other	**1,062**	**264**	**1,243**	**239**

(1) *See Note 2 in notes to the consolidated financial statements.*

As of December 31, 2018, derivatives include €173 million relating to foreign exchange on aircraft and €110 million relating to foreign exchange on debt and operating, against respectively €119 million and €33 million as of December 31, 2017.

NOTE 27. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

As of December 31

(in € millions)	2018	2017
Liquidity funds (SICAV) (assets – debt instruments)	**874**	2,261
Bank deposits and term accounts (assets – debt instruments)	**1,923**	1,772
Cash in hand	**788**	640
Total cash and cash equivalents	**3,585**	**4,673**
Bank overdrafts	**(5)**	(6)
Cash, cash equivalents and bank overdrafts	**3,580**	**4,667**

NOTE 28. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA

28.1 Issued capital

As of December 31, 2018, the issued capital of Air France-KLM comprised 428,634,035 fully paid-up shares. Each share with a nominal value of one euro is entitled to one vote. However, since April 3, 2016, shareholders who have owned their shares for at least two years have benefited from double voting rights.

The number of issued shares held is as follows:

As of December 31

In number of shares	2018	2017
At the beginning of the period	**428,634,035**	**300,219,278**
French State	**61,241,325**	61,241,325
Delta Air Lines	**37,527,410**	37,527,410
China Eastern Airlines	**37,527,410**	37,527,410
Employees and former employees	**16,758,690**	16,781,090
Treasury shares	**1,146,379**	1,146,376
Others	**274,432,821**	274,410,424
At the end of the period	**428,634,035**	**428,634,035**
of which:		
— number of shares issued and paid up	**428,634,035**	428,634,035
— number of shares issued and not paid up	-	-

On October 3, 2017, within the framework of the reserved capital increase, 37,527,410 new shares were issued due to the entry into the share capital of Delta Air Lines and 37,527,410 new shares were issued due to the entry into the share capital of China Eastern Airlines. These shares were issued with a €338 million share premium for each issuance.

In a decision published on October 16, 2017, Air France-KLM proceeded with the early redemption of the OCEANEs maturing on February 15, 2023. On this occasion, almost all the holders requested the conversion of their securities into shares. Consequently, a total of 53,359,937 new shares were issued to this end, with a share premium of €496 million. After deducting the issuance costs, the net increase in share premium for these two transactions stood at €1,168 million.

The shares comprising the issued capital of Air France-KLM are subject to no restrictions or priorities concerning dividend distribution or reimbursement of the issued capital.

Authorized stock

The Combined Ordinary and Extraordinary Shareholders' Meetings of May 16, 2017 and May 15, 2018 authorized the Board of Directors, for a period of 26 months from the date of the Meeting of May 16, 2017 (i.e. until July 15, 2019), to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital, limited to a total maximum nominal amount of €214 million.

On September 4, 2017, the Combined Ordinary and Extraordinary Shareholders' Meeting delegated to the Board of Directors the power of the Shareholders' Meeting to decide on two reserved capital increases. At its meeting of September 4, 2017, making use of these delegations, the Board of Directors decided on a capital increase of €37,527,410 reserved to Delta Air Lines, Inc. and a capital increase of €37,527,410 reserved to China Eastern Airlines. These two capital increases were successfully realized on October 3, 2017, for a total nominal amount of €75,054,820.

The total nominal amount of these two capital increases was charged against the overall nominal cap amount of €214 million for the delegation of capital increases. As a result, Air France-KLM currently has an overall cap amount to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital, of €138,945,180.

Breakdown of the share capital and voting rights

The breakdown of the share capital and voting rights is as follows:

	% of capital		% of voting rights	
As of December 31	**2018**	**2017**	**2018**	**2017**
French State	**14**	14	**23**	23
Delta Air Lines	**9**	9	**7**	7
China Eastern Airlines	**9**	9	**7**	7
Employees and former employees	**4**	4	**7**	7
Other	**64**	64	**56**	56
Total	**100**	**100**	**100**	**100**

The line "Employees and former employees" includes the shares held by employees and former employees identified in the "*Fonds Communs de Placement d'Entreprise* (FCPE)".

28.2 Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of the equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

28.3 Treasury shares

	Treasury shares	
	Number	**In € millions**
December 31, 2016	**1,149,203**	**(67)**
Change in the period	(2,827)	
December 31, 2017	**1,146,376**	**(67)**
Change in the period	-	-
December 31, 2018	**1,146,376**	**(67)**

All the treasury shares are classified as a reduction of equity.

28.4 Perpetual subordinated bond

In order to consolidate its financial structure during the "Perform 2020" implementation period, in early April 2015 the Group issued a perpetual subordinated bond for a total amount of €600 million. These securities, which have no maturity date and bear an annual coupon of 6.25 per cent, have a first repayment option in October 2020, at the issuer's discretion.

These securities are classified as equity, in accordance with the IFRS rules. The loan is subordinated to all other existing and future Air France-KLM debt.

On September 3, 2018 Air France-KLM launched a tender offer to repurchase any and all of this perpetual bond, the final results being announced on September 12, 2018. Notes for a nominal amount of €194.5 million were presented and accepted for repurchase. In addition to this public operation, €2.2 million of perpetual bonds were purchased by "*de gré à gré*" or over-the-counter agreement at the same price. As a result, the nominal amount of the outstanding notes after completion of the tender offer is €403.3 million.

On October 1, 2018 and October 3, 2017, Air France-KLM disbursed coupons of €37 million relating to this instrument.

28.5 Reserves and retained earnings

(in € millions)	December 31, 2018	December 31, 2017 restated (1)
Legal reserve	**70**	70
Distributable reserves	**-**	15
Pension defined benefit reserves (2)	**(1,527)**	(1,386)
Derivatives reserves (2)	**(309)**	222
Equity instruments reserves (2)	**(19)**	56
Other reserves	**(1,675)**	(1,833)
Net income (loss) – Group share	**409**	163
Total	**(3,051)**	**(2,693)**

(1) *See Note 2 in notes to the consolidated financial statements.*
(2) After deferred tax.

As of December 31, 2018, the legal reserve of €70 million represents 16 per cent of Air France-KLM's issued capital. French company law requires a limited company (*société anonyme*) to allocate five per cent of its unconsolidated statutory net income each year to this legal reserve until it reaches ten per cent of the Group's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year.

The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Hedging reserves are composed as follows (before the effect of deferred tax):

(in € millions)	December 31, 2017 restated (1)	Variation of intrinsic value	Cost of hedging	Recycling in income statement	December 31, 2018	Recycling allocated by rubric
Fuel	468	(211)	(75)	(649)	**(467)**	External expenses
Interest rate	(35)	1	3	13	**(18)**	Cost of financial debt
Currency exchange	(25)	82	30	16	**103**	Other income and expenses
Change on revenues	-	(126)	-	6	**(120)**	Sales
Emission trading scheme	13	67	-	-	**80**	
Other	4	-	(4)	-	**-**	
Total	**425**	**(187)**	**(46)**	**(614)**	**(422)**	

(1) *See Note 2 in notes to the consolidated financial statements.*

NOTE 29. RETIREMENT BENEFITS

(in € millions)	Retirement benefits
Amount as of December 31, 2016	**2,119**
of which: Non-current	*2,119*
New provision	331
Use of provision	(248)
Fair value revaluation	12
Currency translation adjustment	(12)
Amount as of December 31, 2017	**2,202**
of which: Non-current	*2,202*
New provision	137
Use of provision	(190)
Fair value revaluation	(55)
Currency translation adjustment	1
Reclassification	3
Amount as of December 31, 2018	**2,098**
of which: Non-current	*2,098*

Pension costs are recorded in the line "salary costs", except for plans amendments and curtailments with a significant impact, which are recorded under "Other non-current income and expense". In addition curtailments of pension plans due to restructuring are recorded under "Other non-current income and expense".

The plan amendments, curtailments and settlements in 2017 and 2018 are presented in Note 29.3.

29.1 Characteristics of the main defined benefit plans

The Group has a large number of retirement and other long-term benefit plans for its employees, several of which are defined benefit plans. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular countries in which the employees are located.

Pension plan related to KLM Ground Staff – The Netherlands

The pension plan related for the Ground Staff of the KLM entity is a defined benefit plan based on average salary with reversion to the spouse on the beneficiary's death. As of January 1, 2018, the retirement age as defined in the plan increased from 67 years to 68 years.

The Board of the pension fund is composed of members appointed by the employer, employees and an external expert since September 1, 2018. The Board is fully responsible for the execution of the plan. KLM can only control the financing agreement between KLM and the pension fund.

To satisfy the requirements of Dutch regulations and the rules set between the employer and the Board of the pension fund, the plan imposes a mandatory funding level of approximately 125 per cent of the projected long-term obligation. 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) in force as of January 1, 2015. One impact of the nFTK is a requirement for higher minimum solvency levels. On the other hand, pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan that also includes the projected future return on investment.

Based on the criteria under Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Ground Staff pension fund is 116.6 per cent as of December 31, 2018 versus 115.3 per cent as of December 31, 2017.

If the coverage ratio is under the funding ratio detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the 125 per cent threshold within ten years and includes projected future returns on investment. As a consequence, the existing recovery plan for the Ground Staff plan was updated as of April 1, 2018. If the threshold cannot be realized within ten years, additional contributions are payable by the company and the employee. The amount of regular and additional employer contributions is not limited. Any additional employee contributions are limited to two per cent of the pensionable contribution basis.

A reduction in contributions is possible if the pension indexation is fully funded. Besides Dutch Pension Law, this reduction is not limited and can be performed either by a reimbursement in contributions, or a reduction in future contributions. Since 2015, the new Dutch fiscal rules have foreseen a maximum pensionable salary which amounts to EUR 105,075 as of January 1, 2018, and a lower future accrual rate for pensions.

The return on plan assets, the discount rate used to value the obligations and the longevity and characteristics of the active population are the main factors impacting both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contribution for the yearly pension accrual is limited to 22 per cent of the pension base.

The funds, fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most of the assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks. For example, to reduce the sensitivity to a decline in interest rates, a substantial part of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Pension plan related to KLM Flight Deck crew – The Netherlands

In December 2017, KLM and the KLM Flight Deck Crew union agreed to modify the pension plan for the KLM Cockpit Crew in the Netherlands. This modified pension plan qualifies as a collective defined contribution scheme and led to the derecognition of the KLM Flight Deck Crew pension asset.

The pension asset, based on actuarial assumptions on the date of the plan's transformation (December 15, 2017), amounted to €1,399 million. In addition, KLM agreed to a dowry payment of € 194 million (€ 120 million has been paid in 2017 and € 74 million in 2018). The total derecognition amounting to €1,593 million has been recorded under "Other non-current income and expenses" as described in Note 11.

Pension plan related to Cabin Crew – The Netherlands

In August 2017, KLM and the KLM Cabin Crew union agreed to modify the pension plan for the KLM Cabin Crew in the Netherlands. This modified pension plan qualifies as a collective defined contribution scheme and led to the derecognition of the KLM Cabin Crew pension asset.

The pension asset, based on actuarial assumptions, on the date of the plan's transformation (August 1, 2017), amounted to €311 million. The derecognition was recorded under "Other non-current income and expenses" as described in Note 11.

Air France pension plan (CRAF) – France

The employees covered by this plan are the Air France ground staff affiliated to the CRAF until December 31, 1992.

The participants receive, or will receive on retirement, an additional pension paid monthly or a lump sum based on the monthly annuity and definitively calculated based on the data known as of December 31, 1992 and expressed in the form of points. The value of each point is reevaluated every year based on the weighted increases seen in the CNAV and ARRCO schemes over the last twelve months.

Until 2009, the CRAF had the legal form of a supplementary pension institution (pursuant to the "Sécurité Sociale" Code). With this status, the CRAF was responsible, on behalf of the Air France ground staff employed in France, for managing the pension plan resulting from the merging of the Air France ground staff plan with the mandatory pension plan for the private sector.

Following the 2003 law on pension reform foreseeing the disappearance of supplementary pension institutions as of December 31, 2009, the CRAF's Board of Directors opted to transform it into an institution managing supplementary pensions. The CRAF is now responsible for the administrative functions linked to the plan.

The pension rights were not amended by this reform. Air France is directly responsible for the pension obligations.

As of December 31, 2009, all the funds managed by the CRAF had been transferred to two insurance companies. On December 31, 2012, one of the insurance contracts was terminated and its funds were transferred to the other, which thus became the only insurer. This guarantees a capital of 17 per cent equal to the amount of capital invested in units of account in its collective fund, this percentage being automatically set to increase over time.

The annual payments made by Air France to the insurance company are governed by the agreement signed with the employee representative bodies on December 14, 2009. The minimum annual payment defined by this agreement amounts to €32.5 million as long as the life annuity guaranteed by insurers does not reach 85 per cent of the benefits payments for this plan without future revaluations. If the value of the funds falls below 50 per cent of the total obligations calculated for funding purposes, Air France is required to make an additional payment to achieve a minimum 50 per cent coverage rate. As of December 31, 2018 the coverage rate is 52,16%.

The funds are invested in bonds, equities and general assets of the insurance company. Studies of assets/liabilities allocation are carried out regularly, to verify the relevance of the investment strategy.

Air France end of service benefit plan (ICS) – France

Pursuant to French regulations and the company agreements, every employee receives an end of service indemnity on retirement.

In France, this indemnity depends on the number of years of service, the professional category of the employee (flight deck crew, cabin crew, ground staff, agent, technician and executive) and, in some cases, on the age of the employee at retirement.

On retirement, employees consequently receive an end of service indemnity based on their final salaries over the last twelve-months and on their seniority. The indemnity is only payable to employees on their retirement date.

There is no mandatory minimum funding requirement for this scheme. Air France has nevertheless signed contracts with three insurance companies to partly pre-finance the plan. Air France has sole responsibility for payment of the indemnities, but remains free to make payments to these insurance companies.

The relevant outsourced funds are invested in bonds and equities.

As of December 31, 2018, the KLM ground staff pension plan and the two French plans presented above represented a respective 71 per cent and 19 per cent of the Group's pension liabilities and 88 per cent and 6 per cent of the Group's pension assets.

29.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation were made as of December 31, 2018 and 2017. These calculations include:

- assumptions on staff turnover and the life expectancy of the plan beneficiaries;
- assumptions on salary and pension increases;
- assumptions on retirement ages varying from 55 to 68 years depending on the localization and the applicable laws;
- inflation rates determined with reference to the inflation swaps applied to the Group's cash-flows and based on the duration of the schemes:

As of December 31	2018	2017
Euro zone – Duration 10 to 15 years	**1.60%**	1.65%
Euro zone – Duration 15 years and more	**1.75%**	1.80%

- discount rates used to determine the actuarial present value of the projected benefit obligations.

  The discount rates for the different geographical areas are thus determined based on the duration of each plan, taking into account the average trend in interest rates on high quality bonds, observed on the main available indices. In some countries, where the market regarding this type of bond is not sufficiently broad, the discount rate is determined with reference to government bonds. Most of the Group's benefit obligations are located in the Euro zone, where the discount rates used are as follows:

As of December 31	2018	2017
Euro zone – Duration 10 to 15 years	**1.45%**	1.25%
Euro zone – Duration 15 years and more	**1.85%**	1.90%

  The duration of between 10 and 15 years mainly concerns the plans located in France while the duration of 15 years and beyond mainly concerns the KLM ground staff plan located in The Netherlands.

- Discount rates used to determine the actuarial present value of the service cost.

  Since January 1, 2016, by using adequate flows, the Group has refined its calculations on the discount rate used for the service-cost calculation. In the Euro zone, this implies using a discount rate for the service-cost calculation 15bp higher than the one used to discount the obligation.

- On average, the main assumptions used to value the liabilities are summarized below:

  the rate of salary increase (excluding inflation) is 1.18 per cent for the Group as of December 31, 2018 against 1.20 per cent as of December 31, 2017;

  the rate of pension increase (excluding inflation) is 1.14 per cent for the Group as of December 31, 2018 against 1.06 per cent as of December 31, 2017.

- The sensitivity of the pension obligations to a change in assumptions, based on actuarial calculations, is as follows:

Sensitivity to changes in the inflation rate

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2018	Sensitivity of the assumptions for the year ended December 31, 2017
25 bp increase in the inflation rate	**240**	250
25 bp decrease in the inflation rate	**(230)**	(238)

Sensitivity to changes in the discount rate

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2018	Sensitivity of the assumptions for the year ended December 31, 2017
100 bp increase in the discount rate	**(1,754)**	(1,793)
100 bp decrease in the discount rate	**2,284**	2,356

Sensitivity to changes in salary increase (excluding inflation)

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2018	Sensitivity of the assumptions for the year ended December 31, 2017
25 bp increase in the salary increase rate	**67**	73
25 bp decrease in the salary increase rate	**(63)**	(66)

Sensitivity to changes in pension increase

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2018	Sensitivity of the assumptions for the year ended December 31, 2017
25 bp increase in the pension increase rate	**439**	451
25 bp decrease in the pension increase rate	**(336)**	(352)

29.3 Evolution of commitments

The following table details the reconciliation between the benefits obligation and the plan assets of the Group and the amounts recorded in the financial statements for the years ended December 31, 2018 and December 31, 2017.

(in € millions)	As of December 31, 2018 Netherlands	France	Others	December 31, 2017 Netherlands	France	Others
Benefit obligation at beginning of year	**8,346**	**2,277**	**889**	**17,994**	**2,211**	**950**
Service cost	**120**	**70**	**13**	123	67	24
Interest cost	**155**	**28**	**22**	309	31	25
Employees' contribution	**64**	**-**	**1**	162	-	1
Plan amendments and curtailment	**-**	**5**	**6**	(5)	6	(2)
Settlements (mainly transformation of Cockpit and Cabin pension plans)	**-**	**-**	**-**	(9,875)	-	-
Benefits paid	**(256)**	**(101)**	**(38)**	(390)	(115)	(41)
Transfers of assets/liability through balance sheet	**17**	**-**	**3**	-	-	-
Actuarial loss/(gain) demographic assumptions	**(100)**	**3**	**(17)**	-	(36)	(11)
Actuarial loss/(gain) financial assumptions	**54**	**(41)**	**(29)**	163	105	9
Actuarial loss/(gain) experience gap	**(37)**	**(7)**	**(11)**	(135)	7	(27)
Change in currency exchange rates	**1**	**-**	**(6)**	-	1	(39)
Benefit obligation at end of year	**8,364**	**2,234**	**833**	**8,346**	**2,277**	**889**
including benefit obligation resulting from schemes totally or partly funded	***8,152***	***2,148***	***763***	*8,151*	*2,199*	*788*
including unfunded benefit obligation	***212***	***86***	***70***	*195*	*78*	*101*
Fair value of plan assets at beginning of year	**8,667**	**650**	**583**	**19,259**	**657**	**582**
Actual return on plan assets	**(161)**	**(32)**	**2**	1,155	23	37
Employers' contributions	**84**	**33**	**17**	247	39	17
Employees' contributions	**64**	**-**	**1**	162	-	1
Settlements (mainly transformation of Cockpit and Cabin pension plans)	**-**	**-**	**-**	(11,779)	-	(1)
Benefits paid	**(171)**	**(61)**	**(29)**	(376)	(68)	(29)
Transfers of assets/liability through balance sheet	**-**	**-**	**24**	-	-	-
Change in currency exchange rates and others	**-**	**(1)**	**(6)**	(1)	(1)	(24)
Fair value of plan assets at end of year	**8,483**	**589**	**592**	**8,667**	**650**	**583**
Amounts recorded in the balance sheet (1)						
Pension asset	**330**	**-**	**1**	590	-	-
Provision for retirement benefits	**(211)**	**(1,645)**	**(242)**	(269)	(1,627)	(306)
Net amount recognized	**119**	**(1,645)**	**(241)**	**321**	**(1,627)**	**(306)**
Net periodic cost:						
Service cost	**120**	**70**	**13**	123	67	24
Net interest cost/(income)	**(10)**	**20**	**7**	(27)	22	9
Plan amendments, curtailment and settlement	**-**	**5**	**6**	1,899	6	(1)
Actuarial losses/ (gain) recognized in income statement	**3**	**-**	**(1)**	(3)	1	-
Net periodic cost	**113**	**95**	**25**	**1,992**	**96**	**32**

(1) All the obligations are recorded as non-current liabilities, except for the pension plans for which the balance is a net asset and therefore fully recorded as a non-current asset.

Amendments, curtailment and settlement of pension plans

— As of December 31, 2018

Modification of pension schemes in UK

In 2018 the High Court in the UK ruled in the Lloyds Bank case that UK pension schemes must equalize Guaranteed Minimum Pension (GMP) between men and women. The Group has two UK based pension schemes for which a best estimate calculation has been performed by external actuaries. The 2018 one-off expense is a €5 million increase of the Defined Benefit Obligation.

— As of December 31, 2017

Modification of pension schemes

After the amendments to the KLM Flight Deck Crew pension plan relating to the reversion, the accrual rate was decreased from 1.28% to 1.11% as of July 1, 2017. The impact of this change was a €15 million profit.

The KLM Cabin Crew and Flight Deck Crew pension plans were changed to collective defined contribution schemes as of August 1, 2017 and December 15, 2017. This change led to the derecognition of the pension assets for the two plans. This charge amounted to €1,904 million and has been recorded under "Other non-current income and expenses" (*see Note 11*).

Change in consolidation scope

No changes in the consolidation scope in 2018

29.4 Asset allocation

The weighted average allocation of the funds invested in the Group's pension and other long-term benefit plans is as follows:

	Funds invested as of December 31, 2018		Funds invested as of December 31, 2017	
	France	The Netherlands	France	The Netherlands
Equities	**31%**	**38%**	33%	40%
Bonds	**46%**	**52%**	47%	47%
Real estate	**-**	**10%**	-	9%
Others	**23%**	**-**	20%	4%
Total	**100%**	**100%**	**100%**	**100%**

The equity portion is mainly invested in active markets in Europe, the United States and the emerging countries.

The bonds primarily comprise government bonds, rated at least BBB, and invested in Europe, the United States of America and the emerging countries.

The real estate assets are mainly located in Europe and the United States of America.

The Group's pension assets do not include assets occupied or used by the Group.

29.5 Expected cash flows and risks linked to the pension obligations

The employer contributions flows relating to the defined benefit pension plans amount to €210 million for the year ending December 31, 2018. The weighted average duration of the obligation is 17 years.

The funding, capitalization and matching strategies implemented by the Group are presented in Note 29.1.

As indicated above, the fiscal rules for accruing pensions and the new Financial Assessment Framework, as part of the Dutch pension law, in The Netherlands changed as of January 1, 2015. Amongst other things, this resulted in a requirement for higher minimum solvency levels. For the Group, the risk could be that, in the event of a long term shortage of KLM ground staff, based on existing or future financing agreements, KLM could be required to make additional cash payments (the actual funding ratios are presented in Note 29.1). On the other hand, as from 2015, pension funds now have more time to recover from immediate and material shortages through a rolling ten-year recovery plan.

For 2019, this additional payment risk concerning the pension plan related to ground staff is mitigated by the solvency levels and the rolling ten year recovery plan noted since December 31, 2018.

NOTE 30. RETURN OBLIGATION LIABILITY AND PROVISION FOR LEASED AIRCRAFT AND OTHER PROVISIONS

(in € millions)	Return obligation liability on leased aircraft	Maintenance on leased aircraft	Restructuring	Litigation	Others	Total
Amount as of December 31, 2016 restated (1)	**1,929**	**633**	**277**	**432**	**123**	**3,394**
of which:						
— non-current	1,820	628	-	424	76	**2,948**
— current	109	5	277	8	47	**446**
New provision	10	73	19	79	118	**299**
Use of provision	(9)	(12)	(133)	(74)	(142)	**(370)**
Reversal of unnecessary provisions	(1)	(5)	(2)	(30)	7	**(31)**
New lease/Change in lease	28	-	-	-	-	**28**
Currency translation adjustment	(202)	(31)	-	-	(1)	**(234)**
Accretion impact	119	8	-	-	2	**129**
Reclassification	58	11	(2)	-	3	**70**
Amount as of December 31, 2017 restated (1)	**1,932**	**677**	**159**	**406**	**111**	**3,285**
of which:						
— non-current	1,921	669	-	383	82	**3,055**
— current	11	8	159	23	29	**230**
New provision	6	80	34	26	131	**277**
Use of provision	(8)	(20)	(140)	(33)	(126)	**(327)**
Reversal of unnecessary provisions	-	-	(5)	(6)	-	**(11)**
New lease/Change in lease	85	1	-	-	-	**86**
Currency translation adjustment	70	27	-	-	-	**97**
Accretion impact	92	23	-	-	6	**121**
Reclassification	-	5	-	-	(6)	**(1)**
Amount as of December 31, 2018	**2,177**	**793**	**48**	**393**	**116**	**3,527**
of which:						
— non-current	2,145	778	-	47	65	**3,035**
— current	32	15	48	346	51	**492**

(1) *See Note 2 in notes to the consolidated financial statements.*

The movements in provisions for litigation and other risks and charges with an impact on the income statement are charged to the lines of the income statement corresponding to the nature of the expenses.

30.1 Provisions

30.1.1 Return obligation liability and provision on leased aircraft

The movements in return obligation liabilities and provisions (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 the right-of-use assets. Effects of accretion and foreign exchange translation of return obligation liabilities and provisions recorded in local currencies are recognized in "Other financial income and expenses" (*see Note 12*).

The discount rate used to calculate these restitution liabilities and provisions 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.

30.1.2 Restructuring provisions

The movements in restructuring provisions with a significant impact on the income statement are charged to "Other non-current income and expenses" (*see Note 11*).

As of December 31 2018 and 2017, the restructuring provisions mainly concern the Voluntary Departure Plans at Air France and its regional subsidiaries, and at KLM and Martinair.

30.1.3 Litigation

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.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities, in case of a tax audit, could reasonably challenge a tax position adopted by the Group or one of its subsidiaries.

In the normal course of its activities, the Air France-KLM Group, its subsidiaries Air France and KLM and their subsidiaries are involved in litigation cases, some of which may be significant.

30.1.4 Litigation concerning anti-trust laws in the air-freight industry

Air France, KLM and Martinair, a wholly-owned subsidiary of KLM since January 1, 2009, 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 air freight industry.

As of December 31, 2017, most of these investigations had been terminated following the entry into plea agreements between Air France, KLM and Martinair and the appropriate competition authorities providing for the payment of settlement amounts or fines, with the exception of the proceedings initiated by the European Commission, and by the Swiss antitrust authority, which are still pending.

In Europe, the decision of the European Commission of 2010 against eleven air cargo carriers, including the companies of the Group, Air France, KLM and Martinair, was annulled by the General Court of the European Union on December 16, 2015 because it contained a contradiction regarding the exact scope of the practices sanctioned. On March 17, 2017, the European Commission issued a new decision against the aforementioned cargo carriers, including Air France, KLM and Martinair. The total amount of fines imposed in respect of this decision at the Air France-KLM Group level is €325 million. This amount has been slightly reduced by €15.4 million as compared to the initial decision owing to a lower fine for Martinair due to technical reasons. On May 29 and 30, 2017 the Group companies filed an appeal against this decision before the General Court of the European Union. The Group has maintained a provision covering the total amount of these fines.

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court. The Group has provisioned the totality of this fine.

As of December 31, 2018, the total amount of provisions in connection with proceedings which have yet to give rise to definitive decisions amounts to €328 million.

30.1.5 Other provisions

Other provisions relate principally to provisions for onerous contracts, provisions for the portion of CO_2 emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

30.2 Contingent liabilities

The Group is involved in several governmental, judicial and arbitration procedures for which in most cases provisions have not been recorded in the financial statements in accordance with the applicable accounting rules. Indeed, with respect to most cases the Group is not in a position at this stage of these procedures to give a reliable estimate of the potential loss that would be incurred in connection with these disputes.

30.2.1 Litigations concerning anti-trust laws in the air-freight industry

Following the initiation of various investigations by the competition authorities in 2006 and the European Commission decision in 2010, several collective and individual actions were brought by forwarders and air-freight shippers in the civil courts against Air France, KLM and Martinair, and other cargo operators, in a number of jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to alleged competition law infringement.

Air France, KLM and/or Martinair remain defendants, either as main defendants (in particular in The Netherlands, Norway and South Korea) or as third party interveners brought in these cases by other main defendants under "contribution proceedings". Where Air France, KLM and/or Martinair are the main defendants, they have also initiated contribution proceedings against other airlines.

Although significant amounts have been reported by the media, plaintiffs are mostly claiming for unspecified and/or insufficiently substantiated damages against defendants taken as a whole (and not individually) and the EU decision to which the plaintiffs refer to is still not definitive.

The Group companies and the other airlines involved in these lawsuits continue to vigorously oppose all such civil claims.

30.2.2 Litigations concerning anti-trust laws in the passenger sector

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including Air France and KLM. The plaintiffs allege that the defendants participated in a conspiracy in the passenger air transport service from Canada on the cross-Atlantic routes, for which they are claiming damages. Air France and KLM strongly deny any participation in such a conspiracy.

30.2.3 Other litigations

Rio-Paris AF447 flight

Following to the crash in the South Atlantic Ocean of the Rio-Paris AF447 flight, a number of legal actions for damages have been brought by heirs of the victims in the United States and Brazil and, more recently, in France.

Damages to heirs of the victims are covered by third-party liability insurance subscribed by Air France.

In 2011, Air France and Airbus were indicted as legal entities for unintentional manslaughter and therefore are exposed to applicable fines under the French criminal code. Air France is challenging its implication in this criminal case.

US Department of Justice investigation related to United States Postal Service

In March 2016, the US Department of Justice (DOJ) informed Air France and KLM 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. Air France and KLM are cooperating with the DOJ investigation.

Except for the matters specified under the paragraphs 30.1 and 30.2, the Group is not aware of any governmental, judicial or arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

NOTE 31. FINANCIAL DEBT

As of December 31

	2018			2017 restated [1]		
(in € millions)	Non current	Current	Total	Non current	Current	Total
Perpetual subordinated loan in Yen	239	-	**239**	229		**229**
Perpetual subordinated loan in Swiss francs	333		**333**	315		**315**
Bonds	1,131	-	**1,131**	1,128	500	**1,628**
Debt on financial lease with bargain option	2,907	640	**3,547**	3,129	649	**3,778**
Other debt	1,123	140	**1,263**	1,118	154	**1,272**
Accrued interest	-	46	**46**	-	75	**75**
Total – Financial debt	**5,733**	**826**	**6,559**	**5,919**	**1,378**	**7,297**

(1) *See Note 2 in notes to the consolidated financial statements.*

Change in financial debt

(in € millions)	December 31, 2017 restated (1)	New financial debt	Non monetary change	Reimburs-sement of financial debt	Currency translation adjustment	Other	December 31, 2018
Perpetual subordinated loan	544	-	-	-	27	1	**572**
Bonds	1,628	1	-	(500)	16	(14)	**1,131**
Debt on financial lease with bargain option	3,778	426	4	(735)	74	-	**3,547**
Other long-term debt	1,272	140	4	(165)	3	9	**1,263**
Accrued interest	75	-	-	-	-	(29)	**46**
Total	**7,297**	**567**	**8**	**(1,400)**	**120**	**(33)**	**6,559**

(1) *See Note 2 in notes to the consolidated financial statements.*

(in € millions)	January 1, 2017 restated (1)	New financial debt	Non monetary change	Reimburs-sement of financial debt	Currency translation adjustment	Other	December 31, 2017 restated (1)
Perpetual subordinated loan	600				(56)		544
Bonds	2,153	16				(541)	1,628
Debt on financial lease with bargain option	4,084	589	8	(691)	(68)	(144)	3,778
Other long-term debt	1,347	187	6	(332)	(11)	75	1,272
Accrued interest	89					(14)	75
Total	**8,273**	**792**	**14**	**(1,023)**	**(135)**	**(624)**	**7,297**

(1) *See Note 2 in notes to the consolidated financial statements.*

31.1 Perpetual subordinated bond

31.1.1 Perpetual subordinated loan in Japanese Yen

The perpetual subordinated loan in Japanese Yen was issued by KLM in 1999 for a total amount of JPY 30 billion, i.e. €239 million as of December 31, 2018.

Until 2019, this perpetual subordinated loan is subject to the payment of a coupon of 5.28 per cent on a notional of USD 248 million.

The loan is for an undetermined duration but can be redeemed early for its nominal value at the Group's discretion as of August 28, 2019. This redemption of the loan will not lead to the payment of an indemnity. However, an indemnity will be due if the loan is reimbursed in a currency other than the yen.

This debt is subordinated to all other existing and future KLM debts.

31.1.2 Perpetual subordinated loan in Swiss francs

The perpetual subordinated debt in Swiss francs was issued by KLM in two tranches, one in 1985 and one in 1986 in a total original nominal amount of CHF 500 million. In 2015, this loan was subject to a partial redemption by mutual agreement amounting to CHF 44 million.

Following the repurchases made by KLM, the total outstanding amount is CHF 375 million, i.e. €333 million as of December 31, 2018.

This bond is reimbursable on certain specific dates, at the Group's discretion, at a price situated between its nominal value and 101.25% (as a function of the bond and the anticipated reimbursement date).

This bond is subject to the payment of a coupon deemed to be fixed rate (5.75% on CHF 270 million and of 0.75% on an amount of CHF 105 million).

This debt is subordinated to all other existing and future KLM debts.

31.2 Bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Reimbursement date	Coupon
Bond issued in 2012	14 December 2012	€ 500	18 January 2018	18 January 2018	6.25%
Bond issued in 2014	4 June 2014	€ 600	18 June 2021	-	3.875%
€ Bond issued in 2016	5 October 2016	€ 400	5 October 2022	-	3.75%
$ Bond issued in 2016 [1]	12 December 2016	$ 145	15 December 2026	-	4.35%

(1) Bonds issued to Asian institutional investors via an unlisted private placement.

31.3 Other debt

Other debt breaks down as follows:

As of December 31

(in € millions)	2018	2017
Reservation of ownership clause and mortgage debt	**646**	768
Other debt	**617**	504
Total	**1,263**	**1,272**

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national Civil Aviation Authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgage a right to enforce the security (by order of a judge), the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

Other debt mainly corresponds to bank borrowings. It also includes €16 million related to debt issuing expenses on financial debt.

31.4 Maturity analysis

The financial debt maturities break down as follows:

As of December 31

(in € millions)	2018	2017
Maturities in		
Y+1	**1,077**	1,534
Y+2	**897**	858
Y+3	**1,548**	892
Y+4	**683**	1,511
Y+5	**828**	931
Over 5 years	**2,335**	2,329
Total	**7,368**	**8,055**
Including:		
— principal	**6,559**	7,297
— interest	**809**	758

As of December 31, 2018, the expected financial costs amount to €259 million for the 2019 financial year, €448 million for the 2020 to 2023 financial years, and €101 million thereafter.

As of December 31, 2018, it has been considered that the perpetual subordinated loan stocks would be reimbursed according to their most probable maturities:

- probable exercise date of the issuer call for the perpetual subordinated loans.

The bonds issued in 2014 and 2016 will be reimbursed on their contractual maturity date (*see Notes 31.3*).

31.5 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

As of December 31

(in € millions)	2018	2017
Euro	**4,820**	5,507
US Dollar	**541**	693
Swiss franc	**341**	329
Yen	**857**	768
Total	**6,559**	**7,297**

31.6 Credit lines

As of December 31, 2018, the Group holds undrawn credit lines amounting to €1,805 million. The two main undrawn credit lines amount, respectively, to €1,140 million for the Air France-KLM holding company and Air France and €665 million for KLM.

On November 6, 2017, Air France-KLM and Air France signed with 18 international banks the early renewal of their €1.1 billion joint syndicated revolving credit facility established in April 2015, whose first tranche was due to mature in April 2018. The new credit facility was composed of two tranches, each amounting to €550 million, the first for an initial period of three years (with two one-year extension options) and the second for a duration of five years.

This credit facility is subject to financial covenants calculated based on the Air France-KLM Group's consolidated financial statements. These financial covenants were respected as of December 31, 2018.

On May 17, 2018, KLM signed a €665 million revolving credit facility with twelve international banks. This new credit facility has a duration of five years. The financial covenant ratios are calculated based on the KLM Group's consolidated financial statements and are respected as of December 31, 2018.

NOTE 32. LEASE DEBT

As of December 31 (in € millions)	2018 Non current	2018 Current	2018 Total	2017 restated [1] Non current	2017 restated [1] Current	2017 restated [1] Total
Lease debt – aircraft	2,657	821	**3,478**	3,171	822	**3,993**
Lease debt – real estate	654	119	**773**	551	123	**674**
Lease debt – other	234	30	**264**	218	48	**266**
Accrued interest	1	19	**20**	-	-	**-**
Total – Lease debt	**3,546**	**989**	**4,535**	**3,940**	**993**	**4,933**

(1) *See Note 2 in notes to the consolidated financial statements.*

Change in lease debt

(in € millions)	December 31, 2017 restated [(1)]	New contracts and renewals of contracts	Reimbur-sement	Currency translation adjustment	Others	December 31, 2018
Lease Debt – Aircraft	3,993	129	(781)	146	(9)	**3,478**
Lease Debt – Real estate	674	251	(136)	-	(16)	**773**
Lease Debt – Others	266	59	(55)	9	(15)	**264**
Interests	-	-	-	1	19	**20**
Total	**4,933**	**439**	**(972)**	**156**	**(21)**	**4,535**

(1) *See Note 2 in notes to the consolidated financial statements.*

(in € millions)	January 1, 2017 restated [(1)]	New contracts and renewals of contracts	Reimbur-sement	Currency translation adjustment	Others	December 31, 2017 restated
Lease Debt – Aircraft	4,389	923	(837)	(482)	-	3,993
Lease Debt – Real estate	725	51	(104)	(3)	5	674
Lease Debt – Others	319	26	(43)	(31)	(5)	266
Total	**5,433**	**1,000**	**(984)**	**(516)**	**-**	**4,933**

(1) *See Note 2 in notes to the consolidated financial statements.*

The lease debt maturity breaks down as follows:

As of December 31,

(in € millions)	2018	2017 restated [(1)]
Y+1	**1,236**	1,228
Y+2	**1,090**	1,157
Y+3	**921**	989
Y+4	**744**	847
Y+5	**490**	677
Over 5 years	**1,124**	1,276
Total	**5,605**	**6,174**
Including:		
— principal	**4,535**	4,933
— interest	**1,070**	1,241

(1) *See Note 2 in notes to the consolidated financial statements.*

NOTE 33. NET DEBT

As of December 31

(in € millions)	Note	2018	2017 restated [1]
Current and non-current financial debt	31	**6,559**	7,297
Current and non-current lease debt	32	**4,535**	4,933
Accrued interest	31 and 32	**(67)**	(76)
Deposits related to financial debt	23	**(343)**	(342)
Deposits related to lease debt		**(85)**	(86)
Derivatives impact on debt		**7**	19
Gross financial debt (I)		**10,606**	**11,745**
Cash and cash equivalents	27	**3,585**	4,673
Marketable securities [2]	23	**74**	73
Cash secured [2]	23	**265**	269
Triple A bonds [2]	23	**522**	379
Other		**1**	(2)
Bank overdrafts	27	**(5)**	(6)
Net cash (II)		**4,442**	**5,386**
Net debt (I-II)		**6,164**	**6,359**

(1) *See Note 2 in notes to the consolidated financial statements.*
(2) Included in "other financial assets".

As of December 31

(in € millions)	Note	2018	2017 restated [1]
Opening net debt		**6,359**	**8,821**
Operating free cash, cash-flow excluding discontinued activities		**(1,087)**	(1,661)
Perpetual		**197**	-
Coupons on perpetual paid		**38**	38
Disposal of subsidiaries, of shares in non-controlled entities		**(6)**	(8)
Acquisition of subsidiaries, of shares in non-controlled entities		**9**	9
New lease debts (new and renewed contracts)	32	**439**	1,000
Unrealized exchange gains and losses on lease financial debts through OCI		**121**	-
Currency translation adjustment		**66**	(606)
Capital increase		**-**	(747)
Amortization of OCEANE optional part		**-**	16
Reclassification		**3**	(524)
Other		**25**	21
Closing net debt		**6,164**	**6,359**

(1) *See Note 2 in notes to the consolidated financial statements.*

As at December 31, 2017, the line "Reclassification" related to the early redemption of the OCEANEs and the conversion into shares. Both transactions are presented in Note 28.

NOTE 34. LOYALTY PROGRAM

Within Air France-KLM, there are two loyalty programs: “Flying Blue” and BlueBiz.

As of December 31, 2018 the deferred revenues relating to the outstanding miles of the “Flying Blue” program amounts €763 million. This will be recognized as revenue once the miles are redeemed.

The “Flying Blue” program is as follow:

“Flying Blue” – Deferred revenues

(in € millions)	2018	2017
As of January 1	**747**	**734**
Accumulation	**302**	280
Redemption	**(286)**	(267)
As of December 31	**763**	**747**

NOTE 35. OTHER LIABILITIES

As of December 31

	2018		2017 restated	
(in € millions)	Current	Non-current	Current	Non-current
Tax liabilities	**825**	**-**	809	-
Employee-related liabilities	**1,059**	**-**	1,233	-
Non-current asset payables	**93**	**-**	79	-
Derivative instruments	**329**	**339**	174	228
Deferred income	**633**	**18**	533	22
Prepayments received	**434**	**-**	268	-
Other	**176**	**102**	150	111
Total	**3,548**	**459**	**3,246**	**361**

As of December 31, 2018, derivatives include €38 million relating to foreign exchange on aircraft and €52 million relating to foreign exchange on debt and operating, against respectively €187 million and €144 million as of December 31, 2017.

Non-current deferred income mainly relates to long-term contracts in the maintenance business.

NOTE 36. FINANCIAL INSTRUMENTS

36.1 Risk management

— Market risk management

The aim of the Air France-KLM Group's risk management strategy is to reduce its exposure to such risks. Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which is composed of the Chief Financial Officer and Senior Vice-President Financial Operations of Air France-KLM and the Chief Financial Officers of Air France and of KLM.

The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, the principal currency exchange rates and counterparties. During these meetings, it decides on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the Treasury Management departments within each company, in compliance with the procedures governing the delegation of powers. Each company centralizes the management of the market risks of its subsidiaries.

Regular meetings are organized between the Treasury Management departments of the two companies on the hedging instruments used, strategies planned and counterparties.

In order to implement the strategy most appropriate to each circumstance, any type of instrument may be used provided it qualifies as hedging within IFRS. Any exception to this rule must be approved by the Risk Management Committee. As a general rule, no trading or speculation is allowed.

The treasury management departments of each company circulate weekly information on the level of cash and cash equivalents to their respective General Managements. The level of the Group's consolidated cash is communicated every week and the end on the month to the Group's General Management.

Every month, a detailed report including, amongst other information, the 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 send to the General Managements.

The hedging strategy on fuel and emission permits is fully under the responsibility of the Treasury Management departments. The General Managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of the positions, the percentages hedged as well as the breakdown of the instruments and underlying used, the average hedge levels and the resulting net prices. All this data covers rolling 24 months. Furthermore, a weekly Air France-KLM Group report (known as the Fuel Hedge report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update.

— Currency risk

Most of the Air France-KLM Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The management of the currency risk for the subsidiaries of the two companies is centralized by each company. The principal exposure relates to the US dollar. Since the expenditure on items such as fuel and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars. As the result, any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Inversely Air France-KLM Group is a net seller of other currencies, the level of revenues in these currencies exceeding its expenditure. This exposure is far less significant than with the US dollar. As a result, any significant decline in these currencies against the euro would have a negative effect on the Group's financial results. The management of the Group's exchange rate risk is carried out on the basis of the forecast net exposure for each currency.

Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.

For each currency hedged, the time span of the hedging is a rolling 24-month period, the first four quarters having more hedging than the following four. The RMC sets the hedging targets for the dollar, sterling and the yen.

Air France uses some zero-cost structured options, as hedging instruments. These options generate volatility in the financial result because on their non-aligned time value, unlike vanilla options whose time value is aligned. Changes in aligned time values are recorded in the consolidated statement of comprehensive income, in accordance with IFRS 9.

Aircraft are purchased in US dollars, meaning that the Group is exposed to an appreciation in the dollar relative to the euro in terms of its investment in flight equipment. The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

The exchange rate risk on the Group's financial debt is limited. At December 31, 2018, 77 per cent of the Group's debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt. The exchange rate risk on debt denominated in other currencies mostly concerns the Yen 12%, the US dollar 6% and the Swiss franc 5%.

As of January 1, 2018, the Group has applied IFRS16 meaning that aircraft leases mostly denominated in US dollars, are accounted for in the Group's debt. These loans have been requalified as hedging for the network's future revenues in USD dollars. Consequently, the impact of foreign exchange differences in US dollars is accounted in other comprehensive income. For both Transavia and KLM Cityhopper which have no US dollar revenues, hedging programs specific to these commitments have been defined.

— Interest rate risk

A portion of the debt is contracted at floating rates. However, to limit its volatility Air France and KLM have used option and swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates; after swaps, the Air France-KLM Group's debt contracted at fixed rates represents 72 per cent of the overall total. The interest rate on the Group's gross debt after swaps stood at 2.82 per cent at December 31, 2018 versus 3.09 per cent at December 31, 2017.

— Fuel price risk

The fuel bill is one of the largest cost items for airlines making oil price volatility a risk for the air transport industry. A sharp increase in the oil price can have a very material negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies. Similarly, a sharp decline in fuel prices is favorable for airline profitability.

However, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty.

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC for the whole of the Air France-KLM Group.

The hedging strategy, approved by the Board of Directors, sets the time span of the hedges at two years (a rolling 24 months) and the target hedging ratio at 60 per cent. Furthermore, the hedging is based on the use of simple futures or option-based instruments. These hedging instruments must also be compatible with IFRS 9.

With the application of IFRS 9 as of January 1, 2018, the hedging strategy of the Group has evolved and involves now component 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: two years rolling

Minimum hedge percentage, to reach at the end of the current quarter:

- quarter underway: 60% of the volumes consumed;
- quarter 1 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;
- quarter 8: 10% of the volumes consumed.

Increment of coverage ratios: 10% by quarter

Underlyings: Brent, Gas Oil and Jet Fuel

Instruments: Swap, call, call spread, three ways, four ways and collar.

Implementation of monitoring indicators on positions:

To ensure more effective monitoring of the marked-to-market positions and a dynamic management of its exposure, the Group uses the VAR (Value at Risk) metric to help measure the risk incurred by its portfolio. This monitoring is also reinforced by taking into account the maximum loss and maximum gain which limit the scale of variation of this same portfolio and enable the appropriate reaction.

— Risks on carbon credit

To meet its regulatory obligations, the CO_2 emission quota acquisition strategy has been monitored and reviewed during every RMC meeting since October 2011. Its implementation led to the progressive hedging of the future requirement through the use of forwards contracts meaning that the 2019 requirement and a portion of the 2020 requirement are hedged.

Underlyings: EUA, EUAA and CER quotas.

Instruments: Forwards, delivery and payment during the quarter preceding the compliance application date.

— Investment risks

The cash resources of Air France, KLM and Air France-KLM are currently invested over a short-term time horizon, primarily deposits, money market mutual funds and certificates mainly rated A1/P1, the other lines being rated A2/P2.

Lastly, in order to reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in high-quality foreign-currency denominated bonds.

— Equity risks

The Air France-KLM Group holds a limited number of shares which are listed for trading.

The value of these investments may vary during their period of ownership. These investments are accounted for using either the equity method (associates) if the Group has the ability to exercise significant influence, or at their fair value. If the fair value cannot be determined from a practical point of view, the value of the investment is measured at its acquisition cost.

As of December 31, 2018, the Group continues to own 4.95 million shares in Amadeus IT Holding SA, the totality of these shares being covered by a hedging transaction. This hedge transaction (collar) enables the Group to protect the value of these shares. In November 2018, Air France-KLM rolled over a hedging transaction in the form of a collar maturing in November 2019, to protect the value of the totality of these shares.

The treasury shares held by Air France-KLM are not deemed to be investments. Furthermore, the treasury shares are not deemed to be exposed to risk, since any variation in the value of these shares is only recognized directly in equity when they are sold in the market, with no impact on the net result.

— Counterparty risk management

The rules concerning the management of counterparty risk are established by the RMC and applied by the companies.

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of BBB+ (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their rating. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the Air France-KLM parent company, are taken into account in the assessment of the overall exposure. A monthly report is established and circulated to the members of the General Management in the two companies. It is supplemented by real time information in the event of any real risk of a rating downgrade for counterparties.

The transactions involving potential counterparty risk are as follows:

- financial investments;
- derivative instruments;
- trade receivables;
  - counterparty risk linked to financial investments and derivative instruments is managed by the Risk Management Committee which establishes limits by counterparty, for all instruments except investments in money market funds (OPCVM) for which the counterparty risk is deemed not to be significant. The Group's counterparty-risk reporting is circulated each month to the executive managements, the risk being measured at the fair market value of the various instruments. Any exceeding of a limit immediately results in the implementation of corrective measures;
  - the counterparty risk linked to derivative instruments is taken into account in the valuation of their market value as described in Note 4.11. Derivative instruments are governed by the ISDA and FBF compensation master agreements. Within the framework of these agreements, compensation (in the event of default) must be made by counterparty for all the derivatives governed by each type of agreement;
  - counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of the customers comprising the trade receivables portfolio.

The Group has identified the following exposure to counterparty risk:

Total exposure (in € millions)

LT Rating (Standard & Poors)	As of December 31, 2018	As of December 31, 2017
AA	**135**	247
A	**2,429**	2,076
BBB	**17**	130
Total	**2,581**	**2,453**

This presentation does not include money market funds (OPCVM) and current accounts.

— Liquidity risk

The liquidity risk relates to the credit lines held by the Group, as described in Note 31.6.

36.2 Derivative instruments

As of December 31, 2018, the fair value of the Group's derivative instruments and their expected maturities are as follows:

(in € millions)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	78	52	26	-	-	-	-
	Liability	(542)	(297)	(245)	-	-	-	-
Interest rate derivative instruments	Asset	21	1	1	8	-	8	3
	Liability	(35)	(5)	(4)	(9)	(5)	(2)	(10)
Currency exchange derivative instruments	Asset	285	95	82	41	42	14	11
	Liability	(89)	(25)	(16)	(12)	(6)	-	(30)
Amadeus instrument (1)	Asset	13	13	-	-	-	-	-
	Liability	(1)	(1)	-	-	-	-	-
Carbon credit derivative instruments	Asset	81	64	17	-	-	-	-
	Liability	(1)	(1)	-	-	-	-	-
Total	**Asset**	**478**	**225**	**126**	**49**	**42**	**22**	**14**
	Liability	**(668)**	**(329)**	**(265)**	**(21)**	**(11)**	**(2)**	**(40)**

(1) *See Note 31.2.1.*

As of December 31, 2017, the fair value of the Group's derivative instruments and their expected maturities were as follows:

(in € millions)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	504	412	92	-	-	-	-
	Liability	(25)	(24)	(1)	-	-	-	-
Interest rate derivative instruments	Asset	22	1	1	-	10	-	10
	Liability	(45)	(2)	(4)	(5)	(11)	(7)	(16)
Currency exchange derivative instruments	Asset	152	64	15	15	16	28	14
	Liability	(332)	(148)	(81)	(29)	(26)	(15)	(33)
Amadeus shares derivative instrument	Asset	5	5	-	-	-	-	-
	Liability	-	-	-	-	-	-	-
Carbon credit derivative instruments	Asset	13	8	5	-	-	-	-
	Liability	-	-	-	-	-	-	-
Total	**Asset**	**696**	**490**	**113**	**15**	**26**	**28**	**24**
	Liability	**(402)**	**(174)**	**(86)**	**(34)**	**(37)**	**(22)**	**(49)**

(1) *See Note 31.2.1.*

36.2.1 Commodity risk linked to fuel prices

The Group's commitments on Brent, Gas Oil and Jet CIF are presented below, at their nominal value:

As of December 31, 2018

(in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Commodity risk (cash-flow hedging operating flows)								
Swap	869	632	237	-	-	-	-	(80)
Options	3,311	2,148	1,163	-	-	-	-	(384)
Total	**4,180**	**2,780**	**1,400**	**-**	**-**	**-**	**-**	**(464)**
Price after hedge USD/ Metric Tons		**650**	662	-	-	-	-	-

Further to the significant decrease in the Brent price over the period, the fair value is negative.

No inefficiencies on fuel hedging have been recognized because of the hedging by component.

The price after hedge of the total fuel expenses is equal to the market price, to which unitary into-plane costs and hedge results have been added. The hedge results reflects the payout of the hedging strategy based on the forward curve as of December 31, 2018. The hedge results include realized over-effectiveness, option premiums, results of unwound structures and exclude time value.

As of December 31, 2017

(in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Commodity risk (cash-flow hedging operating flows)								
Swap	1,118	900	218	-	-	-	-	192
Options	2,611	1,753	858	-	-	-	-	287
Total	**3,729**	**2,653**	**1,076**	**-**	**-**	**-**	**-**	**479**

Fuel hedge sensitivity

The impact on "income before tax" and on "gains/(losses) taken to equity" of a variation in the fair value of the fuel hedges following a +/- USD 10 variation in the price of a barrel of Brent is as follows:

As of December 31

(in € millions)	2018 Increase of USD 10 per barrel of Brent	2018 Decrease of USD 10 per barrel of Brent	2017 Increase of USD 10 per barrel of Brent	2017 Decrease of USD 10 per barrel of Brent
Income before tax	**-**	**-**	-	-
Gains/(losses) taken to equity	**563**	**(564)**	525	(497)

36.2.2 Exposure to interest rate risk

To manage the interest rate risk on its short and long-term borrowings, the Group uses instruments with the following nominal values:

As of December 31, 2018

(in € millions)	Nominal	Balance sheet item of underlying items	Maturity below 1 year	Maturities between 1 and 5 years: 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Operations qualified as cash-flow hedging	**1,768**		**136**	**75**	**67**	**39**	**226**	**1,225**	**(28)**
Rate swaps	1,618	Financial debt	136	75	67	39	226	1,075	(29)
Options	150	Financial debt	-	-	-	-	-	150	1
Operations qualified as fair value hedging	**200**		**-**	**-**	**200**	**-**	**-**	**-**	**6**
Rate swaps	200	Financial debt	-	-	200	-	-	-	6
Operations qualified as fair value through profit and loss	**147**		**22**	**23**	**20**	**18**	**12**	**52**	**8**
Rate swaps	147	Financial debt	22	23	20	18	12	52	8
Total	**2,115**		**158**	**98**	**287**	**57**	**238**	**1,277**	**(14)**

As of December 31, 2017

(in € millions)	Nominal	Balance sheet item of underlying items	Maturity below 1 year	Maturities between 1 and 5 years: 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Operations qualified as cash-flow hedging	**1,115**		**101**	**73**	**39**	**190**	**78**	**634**	**(32)**
Rate swaps	965	Financial debt	101	73	39	190	78	484	(32)
Options	150	Financial debt	-	-	-	-	-	150	-
Operations qualified as fair value hedging	**379**		**-**	**-**	**-**	**226**	**-**	**153**	**10**
Rate swaps	379	Financial debt	-	-	-	226	-	153	10
Operations qualified as fair value through profit and loss	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Other	-		-	-	-	-	-	-	(1)
Total	**1,494**		**101**	**73**	**39**	**416**	**78**	**787**	**(23)**

In 2018, given the perfect economic relationship between hedging instruments and hedged items, no ineffectiveness has been recognized on interest rate hedging strategies.

Taking into account the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

As of December 31 (in € millions)	2018 Before hedging: Base	2018 Before hedging: Average interest rate	2018 After hedging: Base	2018 After hedging: Average interest rate	2017 Before hedging: Base	2017 Before hedging: Average interest rate	2017 After hedging: Base	2017 After hedging: Average interest rate
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	**2,662**	**1.4%**	**2,662**	**1.4%**	2,367	0.2%	2,367	0.2%
Fixed-rate financial liabilities	**7,702**	**5.0%**	**8,765**	**4.5%**	8,953	5.0%	9,499	5.0%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	**1,247**	**0.1%**	**1,247**	**0.1%**	2,571	0.2%	2,571	0.2%
Floating-rate financial liabilities	**3,384**	**1.4%**	**2,321**	**1.7%**	3,316	1.5%	2,770	1.6%
Without-rate financial assets	**1,495**	**-**	**1,497**	**-**	1,382	-	1,382	-
Without-rate financial liabilities	**7**	**-**	**9**	**-**	(28)	-	(28)	-

As of December 31, 2018 and December 31, 2017, without-rate financial assets mainly include cash and the revaluation of Amadeus shares at their fair value.

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. A 100-basis point variation (increase or decrease) in interest rates would have an impact of €10 million on the financial income for the year ended December 31, 2018 versus €2 million for the year ended December 31, 2017.

36.2.3 Exposure to exchange rate risk

The nominal amounts of futures and options linked to exchange rates are detailed below given the nature of the hedging operations, (*see Note 28.5*):

As of December 31, 2018

	Hedged item		Maturity	Maturities between 1 and 5 years					
(in € millions)	Nominal	Balance sheet item	below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Exchange risk (cash-flow hedging of operating flows)	**3,927**		**2,418**	**1,382**	**-**	**-**	**-**	**127**	**47**
Exchange rate options	1,948	N/A	1,208	740	-	-	-	-	20
Forward purchases	1,419	N/A	897	522	-	-	-	-	47
Forward sales	433	N/A	313	120	-	-	-	-	(2)
Debt	127	Debt	-	-	-	-	-	127	(18)
Exchange risk (fair value hedging of flight equipment acquisition	**4,646**		**1,373**	**1,268**	**1,025**	**587**	**256**	**137**	**133**
Exchange rate options	159	Other commitments			14	107	38	-	18
Forward purchases	3,523	Other commitments	1,175	909	757	410	179	93	122
Forward sales	964	Other commitments	198	359	254	70	39	44	(7)
Exchange risk (trading)	**215**		**90**	**95**	**30**	**-**	**-**	**-**	**16**
Forward purchases	215		90	95	30	-	-	-	16
Forward sales	-		-	-	-	-	-	-	-
Total	**8,788**		**3,881**	**2,745**	**1,055**	**587**	**256**	**264**	**196**

As of December 31, 2017

(in € millions)	Hedged item Nominal	Balance sheet item	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Exchange risk (cash-flow hedging of operating flows)	**3,188**		**2,130**	**937**	**-**	**-**	**-**	**121**	**(109)**
Exchange rate options	1,627	N/A	1,057	570	-	-	-	-	(40)
Forward purchases	1,020	N/A	720	300	-	-	-	-	(59)
Forward sales	420	N/A	353	67	-	-	-	-	15
Debt	121	Debt	-	-	-	-	-	121	(25)
Exchange risk (fair value hedging of flight equipment acquisition	**6,205**		**3,590**	**708**	**626**	**475**	**488**	**318**	**(70)**
Exchange rate options	136	Other commitments				14	107	15	9
Forward purchases	5,689	Other commitments	3,511	678	557	405	314	224	(111)
Forward sales	380	Other commitments	79	30	69	56	67	79	32
Exchange risk (trading)	**238**		**126**	**30**	**58**	**24**	**-**	**-**	**(1)**
Forward purchases	119		63	15	29	12	-	-	14
Forward sales	119		63	15	29	12	-	-	(15)
Total	**9,631**		**5,846**	**1,675**	**684**	**499**	**488**	**439**	**(180)**

Unaligned time value of options with-barrier is booked under “Other financial income and expenses” in the income statement for an amount of €41 million.

Currency hedge sensitivity

The value in euros of the monetary assets and liabilities is presented below:

As of December 31 (in € millions)	Monetary assets 2018	2017	Monetary liabilities 2018	2017
US dollar	**1,442**	943	**3,680**	4,577
Pound sterling	**38**	44	**30**	37
Yen	**25**	18	**841**	780
Swiss francs	**15**	13	**330**	327
Others	**272**	237	**131**	86

The amounts of monetary assets and liabilities disclosed above do not include the effect of the revaluation of assets and liabilities documented in fair value hedge.

The impact on "income before tax" and on "gains/(losses) taken to equity" of a 10 per cent appreciation in foreign currencies relative to the euro is presented below:

As of December 31 (in € millions)	US dollar		Pound sterling		Yen	
	2018	2017	**2018**	2017	**2018**	2017
Income before tax	**(84)**	45	**5**	(13)	**(93)**	(79)
Gains/(losses) taken to equity	**251**	147	**(62)**	(32)	**(6)**	(11)

The impact of the change in fair value of currency derivatives on "income before tax" and on "gains/ (losses) taken to equity" of a 10 per cent depreciation in foreign currencies relative to the euro is presented below:

As of December 31 (in € millions)	US dollar		Pound sterling		Yen	
	2018	2017	**2018**	2017	**2018**	2017
Income before tax	**43**	(112)	**(5)**	–	**81**	73
Gains/(losses) taken to equity	**(130)**	(85)	**48**	37	**12**	14

36.2.4 Carbon credit risk

As of December 31, 2018, the Group has hedged its future purchases of CO_2 quotas as follow:

As of December 31, 2018 (in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Operating flows as cash-flow hedging	**170**	**109**	**61**	**-**	**-**	**-**	**-**	**80**
Forwards	170	109	61	-	-	-	-	80
Total	**170**	**109**	**61**	**-**	**-**	**-**	**-**	**80**

As of December 31, 2017 (in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Operating flows as cash-flow hedging	**53**	**25**	**28**	**-**	**-**	**-**	**-**	**13**
Forwards	53	25	28	-	-	-	-	13
Total	**53**	**25**	**28**	**-**	**-**	**-**	**-**	**13**

These contracts mostly expire within three years.

36.3 Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They include the following inherent limitations:

- the estimated market values of financial instruments are estimated on the basis of the market price as of December 31, 2018 and December 31, 2017;
- the estimated amounts as of December 31, 2018 and December 31, 2017 are not indicative of gains and/or losses potentially arising on maturity or in the event of cancellation of a financial instrument.

The application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values.

The methods used are as follows:

- cash, trade receivables, other receivables, short-term bank facilities, trade payables and other payables:

  the Group considers that, due to their short-term nature, net book value can be deemed a reasonable approximation of their market value;
- marketable securities, investments and other securities:

  the market value of securities is determined based mainly on the market price or the prices available on other similar securities. Securities classified under equity instruments are recorded at their stock market value.

  Where no market comparable exists, the Group uses their book value, which is deemed a reasonable approximation of their market value in this instance;
- borrowings, other financial debts and loans:

  the market value of fixed and floating-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features;
- derivative instruments:

  the market value of derivative instruments corresponds to the amounts that would be payable or receivable were the positions to be closed out as of December 31, 2018 and December 31, 2017, calculated using the year-end market rate.

Only the financial assets and liabilities whose fair values differs from their net book values are presented in the following table:

As of December 31 (in € millions)	2018		2017	
	Net book value	Estimated market value	Net book value	Estimated market value
Financial assets				
Loans	**612**	**594**	459	479
Financial liabilities				
Bonds	**1,131**	**1,171**	1,628	1,698
Bond 2012	**-**	**-**	*500*	*502*
Bond 2014	***604***	***626***	*607*	*643*
Bond € 2016	***400***	***412***	*400*	*432*
Bond $ 2016	***127***	***133***	*121*	*121*
Perpetual subordinated loans	**572**	**527**	544	251
Other borrowings and financial debt	**1,641**	**1,771**	1,955	1,808

36.4 Valuation methods for financial assets and liabilities at their fair value

The breakdown of the Group's financial assets and liabilities is as follows based on the three classification levels (*see Note 4.11*):

As of December 31 (in € millions)	Level 1		Level 2		Level 3		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Financial asset equity instruments	**377**	400	**13**	-	**-**	-	**390**	400
Asset debt instruments								
Marketable securities and cash secured	**11**	15	**327**	327	**-**	-	**338**	342
Cash equivalents liquidity funds (JV/P&L)	**479**	2,240	**2,318**	1,793	**-**	-	**2,797**	4,033
Derivative instruments assets								
Interest rate derivatives	**-**	-	**21**	23	**-**	-	**21**	22
Currency exchange derivatives	**-**	-	**285**	152	**-**	-	**285**	152
Commodity derivatives	**-**	-	**78**	503	**-**	-	**78**	504
ETS derivatives	**-**	-	**81**	13	**-**	-	**81**	13
Others	**-**	-	**13**	5	**-**	-	**13**	5

Financial liabilities at fair value comprise the fair value of interest rate and foreign exchange. These valuations are classified as level 2.

NOTE 37. FLIGHT EQUIPMENT ORDERS

Due dates for commitments to firm orders with a view to the purchase of flight equipment are as follows:

As of December 31 (in € millions)	2018	2017
Y+1	**1,274**	966
Y+2	**914**	968
Y+3	**1,279**	950
Y+4	**831**	1,401
Y+5	**913**	812
> Year Y+5	**344**	1,245
Total	**5,555**	**6,342**

These commitments mainly relate to amounts in US dollars, converted into euros at the closing date exchange rate. All these amounts are hedged.

The number of aircraft under firm order as of December 31, 2018 decreased by 14 units compared with December 31, 2017 and stood at 49 aircraft.

This change is explained by the delivery of 19 aircraft and 5 aircraft on order.

Long-haul fleet (passenger)

The Group took delivery of five Boeing B787s.

Medium-haul fleet

The Group took delivery of one Airbus A320s and six Boeing B737s.

Regional fleet

The Group took delivery of five Embraer EMB170s and two Embraer EMB190s.

Aircraft type	To be delivered in	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger								
A350	**As of December 31, 2018**	**3**	**3**	**7**	**5**	**7**	**3**	**28**
	As of December 31, 2017	-	3	3	7	5	10	28
B787	**As of December 31, 2018**	**6**	**4**	**4**	**2**	**1**		**17**
	As of December 31, 2017	5	4	4	6	2	1	22
Medium-haul fleet								
A320	**As of December 31, 2018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	As of December 31, 2017	1	-	-	-	-	-	1
B737	**As of December 31, 2018**	**4**	**-**	**-**	**-**	**-**	**-**	**4**
	As of December 31, 2017	5	-	-	-	-	-	5
Regional fleet								
EMB170	**As of December 31, 2018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	As of December 31, 2017	5	-	-	-	-	-	5
EMB190	**As of December 31, 2018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	As of December 31, 2017	2	-	-	-	-	-	2
Total	**As of December 31, 2018**	**13**	**7**	**11**	**7**	**8**	**3**	**49**
	As of December 31, 2017	18	7	7	13	7	11	63

NOTE 38. OTHER COMMITMENTS

38.1 Commitments made

As of December 31 (in € millions)	2018	2017
Call on investment securities	**143**	130
Warranties, sureties and guarantees	**381**	287
Secured debts	**4,213**	4,713
Other purchase commitments	**350**	376

The line “other purchase commitments” includes the Group’s acquisition of a 31% stake in Virgin Atlantic’s share capital for GBP 220 million (€ 246 million).

The restrictions and pledges as of December 31, 2018 are as follows:

(in € millions)	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	1.194	-
Tangible assets	4,750	11,670	40.7%
Other financial assets	995	1,812	54.9%
Total	**5,745**	**14,676**	

38.2 Commitments received

As of December 31 (in € millions)	2018	2017
Warranties, sureties and guarantees	**235**	228
Put on shares (1)	**241**	130

(1) Estimation based on the price for the disposal of 49.99% of Servair at the end of 2016.

Warranties, sureties and guarantees principally comprise letters of credit from financial institutions.

The Group disposes of the following put options on Servair shares:

- as of each first quarter between 2020 and 2025 inclusive: put options on a number of shares enabling Gategroup to reach 80% of Servair's share capital (initial option);
- one year after the exercise of the initial put option, in each first quarter between 2021 and 2025: put options on all the shares still held by the Group.

If the Group does not exercise the initial option, in each first quarter between 2020 and 2025: Gategroup disposes of call options on a number of Servair shares enabling Gategroup to reach 80% of the Servair share capital.

38.3 Order book

Long term contracts of maintenance business

The future revenues from long-term contracts in the maintenance business amount to €9,029 million. The Group expects 60% of repayment over the next five years.

Passenger and freight transportation

As indicated in Note 4.6, the Group applies the exemption provided by IFRS 15.

Loyalty program

The redemption of the liability on the loyalty program is presented in Note 34.

NOTE 39. RELATED PARTIES

39.1 Transactions with the principal executives

The total gross compensation recorded as costs for the members of the Group Executive Committee in respect of their functions within the Group breaks down as follows:

Period from January 1 to December 31 (in € millions)	2018	2017
Short-term employee benefits	**6.4**	8.5
Post-employment benefits	**0.4**	0.7
Termination benefits	**1.2**	0.5
Share-based payment	**0.6**	0.3
Total	**8.6**	**10.0**

As of May 15, 2018, the compensation of the non-executive Chairman of the Board amounts to €0.13 millions.

As of December 31, 2018, directors and their relatives held less than 7.5 per cent of the voting rights.

Directors fees booked in expenses amount to €0.9 million as of December 31, 2018, versus €0.7 million as of December 31, 2017.

39.2 Transactions with the other related parties

The total amounts of transactions with related parties are as follows:

As of December 31 (in € millions)	2018	2017
Assets		
Net trade accounts receivable	**189**	189
Other current assets	**20**	9
Other non-current assets	**9**	9
Total	**218**	**207**
Liabilities		
Trade accounts payable	**165**	191
Other current liabilities	**197**	154
Other long-term liabilities	**2**	-
Total	**364**	**345**

As of December 31 (in € millions)	2018	2017
Net sales	**243**	268
Landing fees and other rents	**(349)**	(441)
Other selling expenses	**(21)**	(27)
Passenger service	**(442)**	(443)
Other	**(79)**	(115)
Total	**(648)**	**(758)**

As a part of its normal business, the Group enters into transactions with related parties including transactions with State-owned and governmental entities such as the French Defense Ministry, the Paris Airport Authority ("Aéroports de Paris", or "ADP") and the French civil aviation regulator ("DGAC"). Air France-KLM considers that such transactions are concluded on terms equivalent to those on transactions with third parties. The most significant transactions are described below:

Aéroports de Paris (ADP)

- land and property rental agreements;
- airport and passenger-related fee arrangements.

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Group in connection with the afore-mentioned arrangements amounted to a respective €263 million and €350 million for the periods ended December 31, 2018 and December 31, 2017.

Defense Ministry

Air France-KLM has entered into contracts with the French Defense Ministry concerning the maintenance of aircraft in the French Air Force. The net revenue derived from this activity amounts to €61 million for the year ended December 31, 2018 versus €81 million as of December 31, 2017.

Direction Générale de l'Aviation Civile (DGAC)

This civil aviation regulator is under the authority of the French Ministry of Transport, which manages security and safety in the French air space and at airports. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services which amounts to €96 million as of December 31, 2018 versus €98 million for the year ended December 31, 2017.

China Eastern Airlines and Delta Air Lines

On October 3, 2017, Air France-KLM announced the completion of the capital increases reserved to China Eastern Airlines and Delta Air Lines. As from that date, the Group has considered these two airlines to be related parties.

The net revenue derived by the Group in connection with the afore-mentioned arrangements amounted to a respective €74 million and €80 million for the periods ended December 31, 2018 and December 31, 2017.

NOTE 40. CONSOLIDATED STATEMENT OF CASH FLOW

40.1 Other non-monetary items and impairment

Other non-monetary items and impairment can be analyzed as follows:

As of December 31 (in € millions)	Notes	2018	2017
Variation of provisions relating to restructuring plan	30	**(111)**	(116)
Variation of provisions relating to pension	22 & 29	**(13)**	(23)
Changes to the KLM pension plans	29	**(74)**	1,769
Change in fair value of hedged shares		**(4)**	(84)
Other		**(52)**	18
Total		**(254)**	**1,564**

Changes of KLM flight deck crew and cabin crew pension plans

The line "Changes to the KLM pension plans" included, in 2017, the impact of the modification of the Cabin Crew pension plan and the Flight Deck Crew pension plan. Both plans qualified as collective defined contribution schemes and led to the derecognition of the pension assets. The transactions are presented in detail in Note 29.

NOTE 41. STATUTORY AUDITORS' FEES

KPMG:

As of December 31 (in € millions)	2018				2017			
	Statutory auditor		Network		Statutory auditor		Network	
	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit, certification, review of stand-alone and consolidated accounts	**2.1**	**81%**	**0.9**	**69%**	2.2	88%	0.9	90%
— Air France-KLM SA	**0.6**		**-**		0.6		-	
— Consolidated subsidiaries	**1.5**		**0.9**		1.6		0.9	
Other services	**0.5**	**19%**	**0.4**	**31%**	0.3	12%	0.1	10%
— Air France-KLM SA	**0.1**		**-**		0.3		-	
— Consolidated subsidiaries	**0.4**		**0.4**		-		0.1	
Total Air France-KLM	**2.6**		**1.3**		**2.5**		**1.0**	

Deloitte & Associés:

As of December 31 (in € millions)	2018				2017			
	Statutory auditor		Network		Statutory auditor		Network	
	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit, certification, review of stand-alone and consolidated accounts	**2.0**	**83%**	**0.8**	**73%**	2.0	91%	0.9	100%
— Air France-KLM SA	**0.6**		**-**		0.6		-	
— Consolidated subsidiaries	**1.4**		**0.8**		1.4		0.9	
Other services	**0.4**	**17%**	**0.3**	**27%**	0.2	9%	-	0%
— Air France-KLM SA	**-**		**-**		0.2		-	
— Consolidated subsidiaries	**0.4**		**0.3**		-		-	
Total Air France-KLM	**2.4**		**1.1**		**2.2**		**0.9**	

In 2018, audit fees increased by €1,4 million due to the application of the three new standards: IFRS 9, IFRS 15 and IFRS 16.

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NOTE 42. CONSOLIDATION SCOPE

As of December 31, 2018, the scope includes 77 fully-consolidated entities, 19 equity affiliates and 1 joint operation.

Based on the Air France-KLM ownership in terms of both voting rights and equity interest and on the functioning mode of the Group's Executive Committee, Air France-KLM has the power to manage the KLM Group's financial and operational strategies and controls KLM. As a result, KLM is fully consolidated in Air France-KLM's consolidated financial statements.

The interest percentage in KLM is calculated based on the ordinary shares.

42.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KONINKLIJKE LUCHTVAART MAATSCHAPPIJ NV	Netherlands	Multisegment	100	49
BLUE CONNECT	Mauritius	Passenger	70	70
BLUELINK	France	Passenger	100	100
BLUELINK INTERNATIONAL	France	Passenger	100	100
BLUELINK INTERNATIONAL AUSTRALIA	Australia	Passenger	100	100
BLUELINK INTERNATIONAL CZ S.R.O.	Czech Rep.	Passenger	100	100
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	Passenger	100	100
BLUELINK INTERNATIONAL STRASBOURG	France	Passenger	100	100
CONSTELLATION FINANCE LIMITED	Ireland	Passenger	100	100
CYGNIFIC BV	Netherlands	Passenger	100	49
HOP!	France	Passenger	100	100
HOP! TRAINING	France	Passenger	100	100
IASA INCORPORATED	Philippines	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
JOON SAS	France	Passenger	100	100
KLM CITYHOPPER BV	Netherlands	Passenger	100	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	100	49
KLM EQUIPMENT SERVICES BV	Netherlands	Passenger	100	49
KLM FLIGHT ACADEMY BV	Netherlands	Passenger	100	49
STICHTING STUDENTENHUISVESTING VLIEGVELDEELDE	Netherlands	Passenger	100	49
BLUE CROWN BV	Netherlands	Cargo	100	49
MARTINAIR HOLLAND NV	Netherlands	Cargo	100	49
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
SODEXI	France	Cargo	65	65
AFI KLM E&M TEARDOWN MANAGEMENT SAS	France	Maintenance	100	100
AFI KLM E&M-BGAC LINE MAINTENANCE CO LTD	China	Maintenance	60	60

Entity	Country	Segment	% interest	% control
AIR FRANCE INDUSTRIE US	United States	Maintenance	100	100
AIR FRANCE KLM COMPONENT SERVICES CO LTD	China	Maintenance	100	100
AIR ORIENT SERVICES	France	Maintenance	100	100
BARFIELD INC	United States	Maintenance	100	100
BARFIELD USA LLC	United States	Maintenance	100	100
CRMA	France	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) BV	Netherlands	Maintenance	100	49
KLM E&M MALAYSIA SDN BHD	Malaysia	Maintenance	100	49
KLM UK ENGINEERING LIMITED	United Kingdom	Maintenance	100	49
REGIONAL JET CENTER BV	Netherlands	Maintenance	100	49
BLUE TEAM III SAS	France	Transavia	100	100
TRANSAVIA AIRLINES BV	Netherlands	Transavia	100	49
TRANSAVIA AIRLINES C.V.	Netherlands	Transavia	100	49
TRANSAVIA COMPANY SAS	France	Transavia	100	100
TRANSAVIA FRANCE SAS	France	Transavia	100	100
TRANSAVIA SERVICES GMBH	Germany	Transavia	100	49
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE FINANCE SAS	France	Other	100	100
AIR FRANCE KLM E&M PARTICIPATIONS SAS	France	Other	100	100
AIR FRANCE KLM FINANCE SAS	France	Other	100	100
AIRPORT MEDICAL SERVICES BV	Netherlands	Other	80	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	80	39
ASP BEHEER BV	Netherlands	Other	60	49
AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	76	49
BIGBLANK	France	Other	100	100
BLUE TEAM V SAS	France	Other	100	100
BLUE YONDER IX BV	Netherlands	Other	100	49
BLUE YONDER XIV BV	Netherlands	Other	100	49
BV KANTOORGEBOUWEN MARTINAIR	Netherlands	Other	100	49
CELL K16 INSURANCE COMPANY	United Kingdom	Other	100	0
EXECUTIVE HEALTH MANAGEMENT BV	Netherlands	Other	90	45
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ BV	Netherlands	Other	100	49
KLM AIR CHARTER BV	Netherlands	Other	100	49
KLM CATERING SERVICES SCHIPHOL BV	Netherlands	Other	100	49
KLM HEALTH SERVICES BV	Netherlands	Other	100	49
KLM INTERNATIONAL CHARTER BV	Netherlands	Other	100	49

Entity	Country	Segment	% interest	% control
KLM OLIEMAATSCHAPPIJ BV	Netherlands	Other	100	49
MARTINAIR VESTIGING VLIEGVELD LELYSTAD BV	Netherlands	Other	100	49
ORION-STAETE BV	Netherlands	Other	100	49
PELICAN	Luxembourg	Other	100	100
PYRHELIO-STAETE BV	Netherlands	Other	100	49
QUASAR-STAETE BV	Netherlands	Other	100	49
RIGEL-STAETE BV	Netherlands	Other	100	49
SPICA-STAETE BV	Netherlands	Other	100	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	100	49
TRAVEL INDUSTRY SYSTEMS BV	Netherlands	Other	100	49
TREASURY SERVICES KLM BV	Netherlands	Other	100	49
WEBBOCK BV	Netherlands	Other	100	49

42.2 Equity affiliates

Entity	Country	Segment	% interest	% control
HEATHROW CARGO HANDLING	United Kingdom	Cargo	50	50
AAF SPARES	Ireland	Maintenance	50	50
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
IGO SOLUTIONS SAS	France	Maintenance	40	40
MAX MRO SERVICE	India	Maintenance	26	26
SHS TECHNICS	Senegal	Maintenance	49	50
SINGAPOUR COMPONENT SOLUTIONS PTE	Singapore	Maintenance	50	50
SPAIRLINERS	Germany	Maintenance	50	50
TRADEWINDS ENGINE SERVICES LLC	United States	Maintenance	50	50
TURBINE SUPPORT INTERNATIONAL LLC	United States	Maintenance	50	50
AIRCRAFT CAPITAL LTD	United Kingdom	Other	40	40
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
MAINPORT INNOVATION FUND BV	Netherlands	Other	25	25
MAINPORT INNOVATION FUND II BV	Netherlands	Other	24	24
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	53	45
SERVAIR	France	Other	50	50
SKYNRG BV	Netherlands	Other	24	24
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25

42.3 Joint operations

Entity	Country	Segment	% interest	% control
AIRFOILS ADVANCES SOLUTIONS SAS	France	Maintenance	49	49

5.7 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

To the Shareholders' Meeting of Air France-KLM SA,

1. Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Air France-KLM for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2018, and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

2. Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2018 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5 (1) paragraph 1 of Regulation (EU) no. 537/2014 or in the French Code of Ethics for Statutory Auditors.

3. Emphasis of matter

Without modifying the opinion expressed above, we draw your attention to the Note 2 of the consolidated financial statements for the first application of IFRS16 "Leases" which results in the capitalization of leases, in particular those related to aircrafts, under the capitalization criteria required by the standard, of IFRS 15 "Revenue from contracts with customers" on revenue recognition conditions, and of IFRS 9 "Financial instruments" regarding the classification and measurement of financial assets and of hedge accounting.

4. Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed above. We do not express an opinion on any components of the consolidated financial statements taken individually.

Revenue recognition for issued but unused passenger tickets (Note 4.6 to the consolidated financial statements)

Risk identified	Our response
Network revenue amounts to €22,983 million and essentially corresponds to passenger transport services, and to a lesser extent to cargo. The revenue related to passenger transportation is recognized when the transportation service is provided and, consequently, passenger tickets recorded when issued as "Deferred revenue on ticket sales" for a liability amounting to €3,153 million as at December 31, 2018. However, a portion of these sales, relating to tickets that have been issued but which will never be used, is recognized as revenue at the theoretical date of the transport, based on a statistical rate regularly updated. The rate is determined by the Air France-KLM Group based on historical data taken from the information systems and adjusted for non-recurring and specific events of the periods considered. We considered revenue recognition for issued but unused passenger tickets to be a key audit matter due to the importance of the Group judgment in determining the recognition assumptions.	We tested the key controls implemented by the Group that we considered the most relevant in determining the statistical rates for "Deferred revenue on ticket sales." Our procedures primarily consisted in: — assessing the appropriateness of the methodology adopted by the Group; — corroborating the historical database with the databases used; — corroborating the statistical rate calculations; — comparing actual revenue from unused passenger tickets with prior year-end estimates; — analyzing 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.

First-time adoption of IFRS 16 for aircraft leases (Note 2 to the consolidated financial statements)

Risk identified	Our response
Air France-KLM has opted for the early adoption of IFRS 16 "Leases" starting January 1, 2018. The Group has chosen to apply IFRS 16 under the full retrospective approach. Therefore the prior reporting period presented is restated, and the cumulated impact of the first adoption of the standard presented as at January 1st, 2017. IFRS 16 modifies the accounting treatment of operating leases at inception, with the recognition of a right of use on the leased asset and of a liability for the lease payments over the lease contract term. With respect to aircraft leases, at inception of the lease, the lessor receives two asset components: a right of use for the aircraft and an airframe and engine potential, in exchange of which a lease debt, using an implicit discount rate, and an obligation to return the airframe and engine potential are recorded. The first-time adoption of the standard resulted in the recognition, for the January 1, 2017 opening balance sheet, of rights of use for a net value of €5,558 million, of which €3,653 million for aircraft leases and €1,123 million for the valuation of the airframe and engine potential received. On this same date, the aircraft lease debt and the impact of the application of IFRS 16 on the obligation to return the airframe and engine potentials amounted respectively to €4,389 and €1,164 million. We considered the first time application of the standard as a key audit matter on aircraft leases due to the material nature of those leases on the opening financial statements, and the significance of the Group's judgements in determining the assumptions used (lease term, technical and financial assumptions determined to assess the airframe and engine potentials).	Our audit approach consisted in assessing the relevance of the methodology and the compliance with applicable accounting principles retained by the Group to determine the main assumptions (lease term, standard cost to value the airframe and engine potentials, etc.). Our work also consisted in: — verifying the completeness of the aircraft lease databases used by validating the scope of the aircraft leases comparing with the perimeter of "operating leases" identified under the previously applicable standard and reviewing the residual lease expenses; — corroborating by performing a sample the information used for determining assets and liabilities related to lease contracts with underlying contractual data; — corroborating by performing a sample the data used for the calculation of the discount rates (based on the implicit rates) with the lease contracts and market data; — recalculating the amount of the lease debt, the obligation to return an airframe and engine potential and the right of use as valued and recorded by the Group; We also assessed the appropriateness of the disclosures in Note 2 to the consolidated financial statements.

Provisions for litigations and contingent liabilities (Notes 4.21, 30.1 and 30.2 to the consolidated financial statements)

Risk identified	Our response
Air France-KLM 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, and the Company's estimates are inherently based on the use of Group assumptions and assessments. We considered the measurement of the litigation provisions to be a key audit matter due to the uncertainty surrounding the outcome of current procedures, the high degree of Group estimates and judgment and the potentially material nature of the impact of provision amounts on consolidated net income and equity should these estimates change.	We specifically assessed the estimates and assumptions adopted by the Group in determining the need to recognize a provision and, where applicable, its amount. Based on discussions with the Group, we familiarized ourselves with the latter's analysis of the risks and status of each significant litigation, whether reported or potential. We assessed the items justifying the recognition or not of a provision. We analyzed the lawyers' replies to your enquiries, familiarized ourselves with the exchanges between the Company, its lawyers and other parties to the suits and considered any new developments up to the issue date of our report. Based on these items, we conducted a critical review of the estimates and positions adopted by the Group. We also assessed the appropriateness of the disclosures in the Note 30 to the consolidated financial statements.

Recognition of deferred tax assets (Notes 4.24 and 13 to the consolidated financial statements)

Risk identified	Our response
Deferred tax assets for a net amount of €544 million are recognized in the consolidated balance sheet. This balance comprises €693 million in deferred tax assets for French tax group tax loss carry-forwards and €60 in deferred tax assets for Dutch tax group tax loss carry-forwards. These deferred tax assets are recognized based on their likelihood of recovery pursuant to budgets and medium-term plans prepared by the Group. The recovery horizons for these deferred tax assets are seven years for the French tax Group and three years for the Dutch tax Group. We identified this issue as a key audit matter due to the importance of the Group judgment in the recognition of these assets and the particularly high level of tax loss carry-forwards of which only a portion has been capitalized due to recoverability prospects.	Our audit approach consisted in assessing the probability of the Company making future use of the tax loss carry-forwards generated to date, particularly in regard to: — deferred tax liabilities in the same tax jurisdiction, where the base could be offset against deferred tax assets with the same maturity; and — the Group's ability to generate future taxable profits in the French and Dutch tax jurisdictions in order to use prior-year tax losses recognized as deferred tax assets. We assessed the appropriateness of the methodology adopted by the Group to identify existing tax losses carried forward that will be utilized, either by offset against deferred tax liabilities or future taxable profits. To assess future taxable profits, we appraised the reliability of the preparation process for the mid-term business plan underlying the assessment of the probability that deferred tax assets will be recovered. Our work consisted in assessing the future growth assumptions used to prepare the mid-term business plan by: — comparing income forecasts for prior years with actual results for the years concerned; — comparing these assumptions with the ones adopted for non-current asset impairment tests. We also assessed the consistency of Group assumptions used to prepare income forecasts for the period beyond the mid-term business plan particularly with the economic data for the Group's operating sector and the information gathered during discussions with the Group.

5. Specific Verifications

We have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement required by Article L. 225-102-1 of the French Commercial Code is included in the Group management report, being specified that, in accordance with the provisions of Article L. 823-10 of the code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information contained therein and should be reported on by an independent insurance services provider.

6. Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Air France-KLM by the Shareholders' Meeting of September 25, 1998 for Deloitte & Associés and September 25, 2002 for KPMG Audit.

As of December 31, 2018, Deloitte & Associés and KPMG were respectively in the 21st year and 17th year of total uninterrupted engagement, which are the 20th year and 17th year since securities of the Company were admitted to trading on a regulated market.

7. Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its Internal Audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

8. Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. 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.

As specified by Article L. 823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which the Company's Management has conducted or will conduct the affairs of the entity.

As part of an audit in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit and furthermore:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain 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 internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;
- assess the appropriateness of Management's 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. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, we draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, we modify our opinion;

- evaluate the overall presentation of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities included in the consolidation scope to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also bring to its attention any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters, that we are required to describe in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) no. 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

Paris-La Défense, February 19, 2019
The Statutory Auditors

KPMG Audit Division of KPMG SA		**Deloitte & Associés**	
Jean-Paul Vellutini Partner	Eric Jacquet Partner	Guillaume Troussicot Partner	Pascal Colin Partner

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information required by European Regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the information concerning the Group presented in the management report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

5.8 STATUTORY FINANCIAL STATEMENTS

Year ending December 31, 2018

5.8.1 Income statement

Year ending December 31, (in € millions)	Notes	2018	2017
Operating income	3	**49**	40
External expenses	4	**(46)**	(40)
Salaries and related costs	5	**(3)**	(4)
Other expenses		**(1)**	(1)
Total operating expenses		**(50)**	(45)
Income from current operations		**(1)**	**(5)**
Financial income		**54**	75
Financial expenses		**(103)**	(136)
Net financial income	6	**(49)**	**(61)**
Earnings before tax and non-recurring items		**(50)**	**(66)**
Non-recurring income		**-**	30
Non-recurring expenses		**-**	(30)
Non-recurring income/(loss)	**7**	**-**	**-**
Income tax	8	**12**	36
Net income/(loss)		**(38)**	**(30)**

5.8.2 Balance sheet

Assets (in € millions)	Notes	December 31 2018	December 31 2017
Long-term investments	9	**4,668**	4,662
Loans & receivables related to long-term investment	9 – 13	**563**	920
Fixed assets		**5,231**	**5,582**
Trade receivables	13	**37**	24
Other receivables	13	**141**	255
Marketable securities	10	**1,222**	2,163
Cash and cash equivalent		**247**	244
Prepaid expenses		**4**	7
Current assets		**1,651**	**2,693**
Issue costs		**9**	12
Bond redemption premium		**1**	1
Total Assets		**6,892**	**8,288**

Liabilities & equity (in € millions)	Notes	December 31 2018	December 31 2017
Capital	11.1	**429**	429
Additional paid-in capital	11.2	**4,139**	4,139
Legal reserve		**70**	70
Reserves		**(14)**	16
Income for the year	11.2	**(38)**	(30)
Shareholders' equity	11.2	**4,586**	**4,624**
Other equity	12	**403**	**600**
Provision for risks & liabilities	12 – 17	**1**	-
Financial debts	12	**1,148**	1,676
Trade payables and related accounts	13	**13**	13
Tax and social debts	13	**2**	2
Other liabilities	13	**728**	1,357
Liabilities	13	**1,891**	**3,048**
Unrealized foreign exchange gain		**11**	**16**
Total Liabilities & Equity		**6,892**	**8,288**

5.8.3 Notes

The following information constitutes the notes to the financial statements for the year ended December 31, 2018. It is an integral part of the financial statements.

Air France-KLM SA, a public limited company (*société anonyme*) with its registered office at 2 rue Robert Esnault Pelterie 75007 Paris, is the parent company of the Air France-KLM Group. It is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

1. Accounting policies and procedures

Generally accepted accounting policies have been applied, consistent with the prudence principle and in accordance with the legal and regulatory provisions applicable in France and to the base assumptions whose aim is to provide a true and faithful representation of the company:

- going concern;
- consistent accounting methods from year to year;
- independence of financial periods;

and in accordance with the general rules for establishing and presenting annual financial statements.

The basic method used to value items recorded in the financial statements is the historical cost method.

The main accounting methods used are the following:

Long-term investments

Investments in equity securities are presented on the balance sheet at their acquisition cost net of impairment, if any. A provision for impairment is recorded as soon as the fair value falls below the acquisition value. The fair value of securities is determined by taking into account the share of shareholders' equity, the outlook for profitability and the stock market values that can be used as a reference.

Transfer taxes, fees or commissions and legal fees related to the acquisition of securities are expensed, according to the option offered by the regulations.

Treasury shares not allocated to employees or to a capital decrease are booked in long-term investments. They are shown at the lower of their acquisition cost or fair value. The fair value is determined based on the average market price for the last month of the financial year.

Trade receivables

Trade receivables are valued at their nominal value. They are valued on a case-by-case basis and a provision is set up as required based on the assessed risks.

Marketable securities

Marketable securities are shown on the balance sheet at the lower of their acquisition cost and their market value. In the case of listed shares, this market value is determined based on the market price at the end of the financial year.

Treasury shares purchased as part of a liquidity agreement are valued at the lower of their acquisition price and fair value. The fair value is determined based on the average market price for the last month of the financial year.

Negotiable debt securities (certificates of deposits, and bills issued by financial companies) are booked at their acquisition cost. Interest is booked as financial income, on a prorata temporis basis.

Foreign currency transactions

Operating expense and income transactions in foreign currencies are recognized at the average exchange rate for each relevant month.

Trade payables and receivables in foreign currencies are valued at the exchange rate in effect at December 31, 2018.

Unrealized losses and gains are recognized as assets and liabilities on the balance sheet. Provisions are established for unrealized losses, except for the following cases:

- transactions where the currency and the term contribute to an overall positive currency position and;
- currency hedging contracts concerning the payment of future investment deliveries.

Debts

Debts are valued at their nominal amount. The foreign currency debt is valued at the Euro/Dollar closing rate.

Financial instruments

Financial derivatives are used to reduce exposure to interest rate and foreign exchange risk. They are over the counter instruments with top quality counterparties. The Group's management policy prohibits any trading in such instruments for speculative purposes.

Dividends received

Dividends are recognized as income – when they are approved by the competent bodies in the companies (i.e.: the Board of Directors or the General Shareholders' Meeting depending on the local regulations) – or according to the terms of the bylaws.

2. Significant events of the period

Within the framework of its tender offer to repurchase, on September 14, 2018, Air France-KLM repurchased subordinated perpetual notes for a nominal amount of €196.7 million of the €600 million outstanding.

See notes 6 and 12.

3. Other income

This primarily involves royalties of €21 million paid by Air France and KLM at December 31, 2018 to use the "Air France-KLM" brand (€17 million as of December 31, 2017). It also includes the provision of services paid by Air France and KLM for €25 million as of December 31, 2018 versus €22 million as of December 31, 2017.

4. External expenses

Period	2018	2017
Fees and surveys	**19**	13
Insurance	**1**	1
Sub-contracting and rent re-invoiced by Air France and KLM	**21**	21
Financial communication	**2**	2
Other	**3**	3
Total	**46**	**40**

During the financial year 2018, the teams assigned to the Air France-KLM holding company represent 75 Full Time Equivalents seconded from Air France and 27 Full Time Equivalents seconded from KLM.

5. Compensation of company's corporate officers

The gross remuneration of the company's corporate officers, recognized as an expense in 2018, amounts to €1.26 million compared to €1.11 million in 2017. For 2018, this remuneration includes that of Jean-Marc Janaillac from January to mid-May, that of Frédéric Gagey from mid-May to mid-September and that of Benjamin Smith from mid-September to the end of December. For 2017, it corresponds to that of Jean-Marc Janaillac over the entire period.

The remuneration of the non-executive Chairman of the Board of Directors from May 15, 2018 amounts to €0.13 million.

6. Net financial income

This section regroups interest paid or received, currency losses and gains, and allocations and reversals of financial provisions. The breakdown is as follows.

Period	2018	2017
Interest on loans and other financial expenses	**(103)**	(136)
of which related companies commission on the guarantees granted by Air France and KLM & interest on current account	***(1)***	*(11)*
of which interest on OCEANE	***-***	*(1)*
of which interest on bonds	***(43)***	*(75)*
of which perpetual subordinated loan	***(34)***	*(37)*
of which premium included in tender price of perpetual subordinated loan	***(14)***	*-*
of which others	***(11)***	*(12)*
Interest on loans	**38**	42
of which related companies	***38***	*42*
Other financial income	**10**	25
of which related companies	***2***	*19*
of which investment in mutual funds and certificates of deposit	***4***	*5*
Allocation to provisions	**-**	8
of which provision for risks & liabilities	***-***	*1*
of which Air France-KLM Finance shares	***6***	*7*
Total	**(49)**	**(61)**

7. Non-recurring income

None.

8. Income tax

Air France-KLM has benefited from the tax consolidation scheme since April 1, 2002. The consolidation scope, for which Air France-KLM is the parent company, mainly includes the companies Air France-KLM, Air France, HOP!, Joon and Transavia France.

The tax consolidation agreement is based on the so-called neutrality method and puts each member company of the tax Group in the situation in which it would have been without consolidation.

The tax consolidation Group benefits from tax losses that can be carried forward for an unlimited period.

The subsidiaries benefiting from the tax consolidation scope generated a tax consolidation gain of €12 million for Air France-KLM during this financial year (€40 million in the previous financial year).

9. Long-term investments

9.1 Net book value

(in € millions)	Notes	Beginning of year	Allocation	Reversal	End of Year
Equity investments	9.2	4,680	-	-	4,680
Loans & receivables related to long-term investments	9.4	920	6	(363)	563
Gross amount	**-**	**5,600**	**6**	**(363)**	**5,243**
Depreciation	**9.3**	**(18)**	**-**	**6**	**(12)**
Net amount	**-**	**5,582**	**6**	**(357)**	**5,231**

9.2 Equity investments

Companies (in € millions)	Gross value at beginning of year	Increase	Decrease	Gross value at end of year
Air France	3,821	-	-	3,821
KLM	824	-	-	824
Air France-KLM Finance	31	-	-	31
Transavia Company	4	-	-	4
Air France-KLM International Mobility	-	-	-	-
BigBlank	-	-	-	-
Total	**4,680**	**-**	**-**	**4,680**

9.3 Impairment of equity shares

Companies	Gross value at beginning of year	Transfers or Acquisitions	Allocation	Gross value at end of year
Air France-KLM Finance	(18)	-	7	(11)
Impairment	(18)	-	7	(11)

9.4 Loans & receivables related to long-term investments

Companies (in € millions)	Beginning of year	Increase	Decrease	End of year
Air France	649	-	(257)	392
KLM	198	-	(99)	99
Air France-KLM Finance	73	5	(7)	71
BigBlank	-	1	-	1
Total	**920**	**6**	**(363)**	**563**

10. Marketable securities

December 31, (in € millions)	2018	2017
Gross Value		
Mutual funds, certificates of deposit & marketable term notes	**1,222**	2,163
Compagnia Aerea Italiana securities	**355**	355
Total Gross value	**1,577**	**2,518**
Depreciation	**-**	**-**
Compagnia Aerea Italiana securities	**(355)**	(355)
Total depreciation	**(355)**	**(355)**
Total	**1,222**	**2,163**

The net carrying amount for the marketable securities, mutual funds and certificates of deposit is the market value.

11. Shareholders' equity

11.1 Distribution of share capital and voting rights

The issued capital comprises 428,634,035 fully paid-up shares with a nominal value of one euro. Each share is entitled to one voting right. However since April 3, 2016, any shareholder who has owned registered shares for more than two years is entitled to double voting rights, raising the number of voting rights to 501,646,800 as at December 31, 2018. The breakdown is as follows:

	% of capital		% of voting rights	
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
French State	**14%**	14%	**23%**	23%
Delta Air Lines	**9%**	9%	**8%**	7%
China Eastern Airlines	**9%**	9%	**8%**	7%
Employees and former employees(1)	**4%**	4%	**7%**	7%
Public	**64%**	64%	**54%**	56%
Total	**100%**	**100%**	**100%**	**100%**

(1) Employees and former employees identified in funds or by a Sicovam code.

11.2 Statement of changes in shareholders' equity

(in € millions)	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At December 31, 2016	**300**	**2,971**	**247**	**(161)**	**3,357**
Allocation of earnings	-	-	(161)	161	-
Capital increases	129	1,168	-	-	1,297
Earnings for the period	-	-	-	(30)	(30)
At December 31,2017	**429**	**4,139**	**86**	**(30)**	**4,624**
Allocation of earnings	-	-	(30)	30	-
Earnings for the period	-	-	-	(38)	(38)
At December 31, 2018	**429**	**4,139**	**56**	**(38)**	**4,586**

12. Financial debt and other equity

(in € millions)	Notes	December 31 2018	December 31 2017
Other equity			
Perpetual subordinated loan	12.1	**403**	600
Total other equity		**403**	**600**
Non-current financial debt			
Bonds	12.2	**1,126**	1,121
Total non-current debt		**1,126**	**1,121**
Current financial debt			
Bonds	12.2	**-**	500
Accrued interest		**22**	55
Total current debt		**22**	**55**
Total financial debt		**1,148**	**1,176**

12.1 Perpetual subordinated loan

Between April 1 and April 17, 2015, Air France-KLM issued a €600 million perpetual subordinated loan, presented as other equity. These securities, which have no maturity date, have a first repayment option in October 2020 at Air France-KLM's discretion. They bear an annual coupon of 6.25% representing a payment of €18 million in 2015 and €37.5 million for each of the following years, 2016 and 2017.

On September 14, 2018, €196.7 million of bonds were repurchased following a tender offer at 107.125% of the nominal. Coupons amounting to €37 million were paid on September 14, 2018 and October 1, 2018.

12.2 Bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Coupon
Bond issued in 2012	14 Dec. 2012	€500	18 Jan. 2018	6.25%
Bond issued in 2014	4 June 2014	€600	18 June 2021	3.875%
€ Bond issued in 2016	5 Oct. 2016	€400	5 Oct. 2022	3.75%
$ Bond issued in 2016 (1)	12 Dec. 2016	$145	15 Dec. 2026	4.35%

(1) Bond issue placed with Asian institutional investors by way of an unlisted private placement.

On December 14, 2012, Air France-KLM issued €500 million of bonds. These bonds were reimbursed at maturity on January 18, 2018.

On June 4, 2014, Air France-KLM issued €600 million of bonds maturing on June 18, 2021 with an annual coupon of 3.875%.

In August 2015, an amount of €200 million was hedged and converted to a floating rate through a swap and is connected to a floor. On December 31, 2018, the fair value of the floor is €0.7 million leading to a provision for risks and liabilities of the same amount (*see Note 17*).

On October 5, 2016, Air France-KLM issued €400 million of bonds with a 6-year maturity. The annual coupon is 3.75%.

On December 12, 2016, Air France-KLM issued USD145 million of senior notes by way of an unlisted private placement with Asian institutional investors. These notes mature on December 15, 2026 and bear an annual coupon of 4.35%. This loan is fully hedged (*see Note 17*).

Some of the proceeds were used to issue loans to Air France, KLM, Air France-KLM Finance, Transavia Company and BigBlank. As of December 31, 2018 these loans amount to €411 million with Air France, €99 million with KLM, €71 million with Air France-KLM Finance and €1 million with BigBlank. (*See Note 9.4*).

13. Maturity of receivables and debt

As of December 31, 2018 Receivables (in € millions)	Gross amount	Up to one year	More than one year	Related companies
Non-current assets				
Loans and receivables related to long-term investment	582	151	431	582
Current assets				
Trade receivables and related accounts	37	37	-	37
Other receivables (including tax receivables)(1)	141	141	-	119
Total	**760**	**329**	**431**	**738**

(1) Of which €116 million as accrued income with related companies on December 31, 2018.

As of December 31, 2018 Debt (in € millions)	Gross amount	Up to one year	More than one year	Related companies
Financial debt(1)	1,148	22	1,126	-
Trade payables and related accounts	13	13	-	5
Tax and social debts	2	2	-	-
Other liabilities(2)	728	728	-	728
Total	**1,891**	**763**	**1,126**	**733**

(1) *See Note 12.*
This amount includes €21 million of accrued interest (€55 million at December 31, 2017).
(2) Other liabilities comprise, mainly, a financial current account with Air France including cash pooling for €728 million as of December 31, 2018.

14. List of subsidiaries and equity investments

(in € millions) Companies or Groups of companies	Capital	Shareholders' equity other than capital after earnings	Share of capital held	Carrying amount of shares held Gross	Carrying amount of shares held Net	Loans & advances granted and not reimbursed	Amount of security and guarantees given	Revenues (excl. tax) for financial year	Net profit or loss for financial year	Dividends booked during financial year
Detailed information about individual investments whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France)(1)	-	-	100%	3,820	3,820	411	23	14,862	(215)	-
KLM (Netherlands)(1)	-	-	99.7%	824	824	99	44	9,892	497	1
Air France-KLM Finance(1)	-	-	100%	31	20	71	-	-	3	-

(1) Statutory financial statements at December 31, 2018.

15. Estimated value of portfolio

(in € millions)	Amount at beginning of year		Amount at end of year	
	Gross carrying amount	Net carrying amount	Gross carrying amount	Net carrying amount
Portfolio fractions valued:				
Air France	3,820	3,820	3,820	3,820
KLM	824	824	824	824
Air France-KLM Finance	31	14	31	20

The estimated value is based on consolidated equity or on the medium-term profitability outlook.

This estimated value justifies the net book value at the year end.

16. Items concerning related companies

As of December 31, 2018 (in € millions)	Amount
Trade receivables & related accounts	
of which	
— Air France	5
— KLM	12
Other receivables	
of which	
— Air France	111
— KLM	5
Trade payable and related accounts	
of which	
— Air France	-
— KLM	3
Other payables	
of which	
— Air France - cash pooling	816
— Other members of the tax Group	23

17. Commitments

— KLM shares

During the business combination of the Air France and KLM groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government had to sell its cumulative preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer had occurred during the first three years following the business combination.

In the latter case, the foundation would have issued, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates would have conferred to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain the SAK I and SAK II foundations, Air France-KLM did not carry out this exchange. Furthermore, Air France-KLM can decide to dissolve the foundations at any time and at its sole discretion.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (i.e. a unit price of €2.27 per cumulative A preferred share, which has to be paid pro rata during any sale or transfer under the conditions above).

— **Hedges**

The €600 million bond dated June 18, 2014, is hedged for a nominal value of €200 million converting a fixed rate to a floating rate through a swap connected to a floor-isolated open position. On December 31, 2018, the fair value of the swap is €7 million and the fair value of the floor amounts to €(0.7) million. (*See Note 11*).

The $145 million bond is fully hedged by a cross currency swap. As of December 31, the fair value of this derivative instrument is €(18) million. (*See Note 12*).

The future purchase of 31% of the share capital of Virgin Atlantic for GBP 220 million has now been transferred to Air France-KLM Finance. The hedging of this purchase by swaps was also transferred.

— **Other**

Since January 2009, Société Air France-KLM has acted as a guarantor for Société Air France within the framework of its commitments to Aéroport de Paris in respect of civil leases. This guarantee was renewed in July 2014.

The guarantee is now expressly limited to €21 million.

Air France-KLM guarantees a debt that KLM holds on the Airline GOL for an amount of USD50 million.

Air France-KLM guarantees the payment by Transavia Holland to a lessor, of outstanding operational leases until 2024 for an amount of USD50 million at December 31, 2018.

18. Litigation

Litigation concerning anti-trust laws in the air-freight industry

As the parent company of Air France, KLM and Martinair, Air France-KLM has been involved, since February 2006, in investigations initiated by the antitrust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air freight industry with up to twenty-five other airlines.

As of December 31, 2017, most of these investigations had been terminated following the entry into plea agreements between Air France, KLM and Martinair and the appropriate competition authorities providing for the payment of settlement amounts or fines, with the exception of the proceedings initiated by the European Commission, and by the Swiss antitrust authority, which are still pending.

In Europe, the decision of the European Commission of 2010 against eleven air cargo carriers, including the companies of the Group, Air France, KLM and Martinair, was annulled by the General Court of the European Union on 16 December 2015. On 17 March 2017, the European Commission issued a new decision against eleven air cargo carriers, including Air France, KLM and Martinair. The total amount of fines imposed on the Air France-KLM Group is €325 million. This amount has been reduced by €15 million as compared to the initial decision owing to a lower fine for Martinair due to technical reasons. On 29 and 30 May 2017 the Group companies filed an appeal against this decision before the General Court of the European Union. The Group has maintained a provision covering these fines.

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court. The subsidiaries of the Group have provisioned the totality of this fine.

These provisions are booked by each airline and do not have any impact in the financial statements of Air France-KLM.

19. Contingent liabilities

Following the initiation of various investigations by the competition authorities in 2006 and the European Commission decision in 2010, several collective and individual actions were brought by forwarders and airfreight shippers in the civil courts against Air France, KLM and Martinair, and other cargo operators, in a number of jurisdictions.

Under these civil lawsuits, Air France-KLM is involved as the parent company of the airlines. Shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to alleged competition law infringement.

Air France, KLM and/or Martinair remain defendants, either as main defendants (in particular in The Netherlands, Norway and South Korea) or as third party interveners brought in these cases by other main defendants under "contribution proceedings". Where Air France, KLM and/or Martinair are the main defendants, they have also initiated contribution proceedings against other airlines.

Although significant amounts have been reported by the media, plaintiffs are mostly claiming for unspecified and/or insufficiently substantiated damages against defendants taken as a whole (and not individually) and the EU decision to which the plaintiffs refer to is still not definitive.

The Group companies and the other airlines involved in these lawsuits continue to vigorously oppose all such civil claims

Except for the matters specified under the paragraphs 18 and 19, the company is not aware of any governmental, judicial and arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the company's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

20. Subsequent events

None.

5.9 FIVE-YEAR RESULTS SUMMARY

Year ended 31	December 2018 12 months	December 2017 12 months	December 2016 12 months	December 2015 12 months	December 2014 12 months
1. Share capital at year end					
Share capital *(in €)*	**428,634,035**	428,634,035	300,219,278	300,219,278	300,219,278
Number of ordinary shares outstanding	**428,634,035**	428,634,035	300,219,278	300,219,278	300,219,278
Number of shares with a priority dividend	**-**	-	-	-	-
Maximum number of shares that may be created:					
— by bond conversion	**-**	-	53,386,532	74,449,544	130,459,042
— by exercise of subscription rights	**-**	-	-	-	-
2. Transactions and results for the year *(in € thousand)*					
Net revenues	**-**	-	-	-	-
Net income/(loss) before income tax, employee profit- sharing, net depreciation, amortization and provisions	**(56,742)**	(73,163)	(204,605)	(134,768)	(103,207)
Income tax	**(12,182)**	(35,980)	(11,343)	(10,484)	(12,273)
Employee profit-sharing for the year				-	-
Net income/(loss) after income tax, employee profit- sharing, net depreciation, amortization and provisions	**(38,406)**	(29,668)	(160,569)	(125,192)	(111,263)
Distributed net income		-	-	-	-
3. Per share data *(in €)*					
Net income/(loss) after income tax and employee profit- sharing but before net depreciation, amortization and provisions	**(0.09)**	(0.09)	(0.64)	(0.41)	(0.30)
Net income/(loss) after income tax, employee profit- sharing, net depreciation, amortization and provisions	**(0.09)**	(0.07)	(0.53)	(0.42)	(0.37)
Dividend per share	**-**	-	-	-	-
4. Employees					
Average number of employees during the year	**-**	-	-	-	-
Total payroll costs	**-**	-	-	-	-
Employee welfare contributions and similar charges (Social Security, employee organizations, etc.)	**-**	-	-	-	-

5.10 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

To the General Shareholders' Meeting of Air France-KLM SA,

1. Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying financial statements of Air France-KLM for the year ended December 31, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities, and of the financial position of the Company as at December 31, 2018 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

The audit opinion expressed above is consistent with our report to the Audit Committee.

2. Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2018 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5[1] of Regulation (EU) No 537/2014 or in the French Code of ethics for Statutory Auditors.

3. Justification of assessments – Key Audit Matters

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific elements, accounts or items of the financial statements.

Equity interests (Notes 1 (long term investments), 9, 14 and 15 to the statutory financial statements)

Risk identified

As of December 31, 2018, equity interests represented a net value of €4,680 million compared to a total balance sheet of €7,003 million. They are recorded as of their entry date at acquisition cost and impaired based on their fair value by taking into account the share of equity, earnings outlooks and stock market values that can be used as a reference.

The fair value estimate of these long-term investments requires management to exercise judgment in its choice of items to consider according to the nature of the investments concerned. Such items may correspond, as the case may be, to historical items (for certain entities, equity, and for others, average stock market prices over the last month), or forecast items (earnings outlooks and economic situation in the countries considered).

We considered the determination of the fair value of equity interests to be a key audit matter because of i) the uncertainties inherent to certain items and specifically the probability of forecasts, and ii) the potential importance of a reversal or impairment of an equity interest provision in the Company's accounts.

Our response

To assess the reasonableness of the fair value estimate of equity interests, based on the information communicated to us, our work mainly consisted in verifying that the estimate of these values, as determined by management, is based on an appropriate justification of the valuation method and the figures used, and according to the securities concerned:

For the valuations based on historical items:

- verifying that the equity retained is consistent with the accounts of the entities that were the subject of an audit or analytical procedures and that any equity adjustments are based on probative documentation.

For the valuations based on historical items:

- obtaining the financial profitability outlooks for the entities concerned;
- verifying the consistency of the assumptions adopted with the economic environment on the dates the accounts were prepared and closed;

- comparing the forecasts adopted for preceding periods with the corresponding realizations in order to assess the achievement of past objectives;
- verifying that the value resulting from cash-flow forecasts was adjusted for the debt of the entity considered;
- verifying the arithmetical accuracy of the computed fair values.

In addition to assessing the fair values of equity interests, our work also consisted in evaluating the recoverability of related receivables with respect to the equity interest analysis.

Provisions and contingent liabilities concerning anti-trust laws (Notes 18 and 19 to the financial statements)

Risk identified

Air France-KLM is involved in a number of governmental, legal or arbitration proceedings and litigation, specifically in terms of anti-trust laws. The outcome of these procedures and litigations depends on future events and the Company's estimates are inherently based on the use of management assumptions and assessments.

We considered the provisions for litigation to be a key audit matter due to the uncertainty over the outcome of current proceedings, the high level of management estimates and judgments and, the potentially material nature of the impact of provision amounts on net income and equity should these estimates change.

Our response

We specifically assessed the estimates and assumptions adopted by the Group in determining the need to recognize a provision and where applicable its amount.

Based on discussions with the Group, we familiarized ourselves with the latter's analysis of the risks and status of each significant litigation, whether reported or potential.

We assessed the items justifying the recognition or not of a provision. We thus analyzed the lawyers' replies to your enquiries, familiarized ourselves with the exchanges between the Company, its lawyers and other parties to the suits and considered any new developments preceding the issue date of our report.

Based on these items, we conducted a critical review of the estimates and positions adopted by management.

We also assessed the appropriateness of the disclosures in Notes 18 and 19 to the financial statements.

4. Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the management report and in the other documents provided to shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to shareholders with respect to the financial position and the financial statements.

We attest the fair presentation and the consistency with the financial statements of the information related to payment terms mentioned in Article D. 441-4 of the French Commercial Code (*Code de Commerce*).

We attest that extra-financial performance declaration required under article L. 255-102-1 of the French Commercial Code (*Code de Commerce*) is included in the management report, it being clarified that, in compliance with the terms of Article L. 823-10 of this Code, we have not verified the fair presentation and the consistency with the financial statements of the information contained therein and should be reported on by an independent insurance services provider.

Information related to the governance

We attest that the section related to the governance of the management report of the Board of Directors contains the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (*Code de Commerce*).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (*Code de Commerce*) relating to remunerations and benefits received by the Directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Concerning the information relating to the items that your Company considered likely to have an impact in the event of a tender or exchange offer, provided pursuant to Article L. 225- 37-5 of the French Commercial Code (*Code de Commerce*), we have verified their compliance with the underlying documents which have been communicated to us. Based on our work, we have no comment to make on this information.

5. Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Air France-KLM by the Shareholders' Meeting of September 25, 1998 for Deloitte & Associés and September 25, 2002 for KPMG Audit.

As of December 31, 2018, Deloitte & Associés and KPMG were respectively in the 21th year and 17th year of total uninterrupted engagement, which are the 20th year and 17th year since securities of the Company were admitted to trading on a regulated market.

6. Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its Internal Audit, regarding the accounting and financial reporting procedures.

The financial statements have been approved by the Board of Directors.

7. Statutory Auditors' responsibilities for the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. 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.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de Commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. 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;
- obtains 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 internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;

- assesses the appropriateness of management's 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. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, he draws attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, he expresses a qualified or an adverse opinion;
- evaluates the overall presentation of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de Commerce*) and in the French Code of Ethics (*Code de Déontologie*) for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris la Défense, February 19, 2019
The Statutory Auditors

KPMG Audit
A division of KPMG SA

Jean-Paul Vellutini
Partner

Eric Jacquet
Partner

Deloitte & Associés

Guillaume Troussicot
Partner

Pascal Colin
Partner

5.11 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

SHAREHOLDERS' MEETING HELD TO APPROVE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

To the Shareholders,

In our capacity as Statutory Auditors of your company, we hereby present to you our report on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms, conditions of those agreements and commitments, as well as the reasons justifying their interest for the company, brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (*Code de Commerce*), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement. These procedures consist in verifying the consistency of the information provided to us with the related source documents.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized during the year

In accordance with the provisions of article L. 225-38 of the French Commercial Code (*Code de Commerce*), we have been advised of the following agreements or commitments which have been subject o the preliminary authorization by your Board of Directors on March 14, 2018 and May 15, 2018:

Transatlantic partnership between Air France-KLM, Delta Air Lines and Virgin Atlantic

Common directors concerned:

Delta Airlines Inc.: member of the Board of Directors of Air France-KLM and Virgin Atlantic

Nature, purpose and terms:

On July 27, 2017, the Board of Directors of Air France-KLM (AF-KLM) approved the signing of agreements to strengthen the strategic partnerships of AF-KLM in particular through the creation of a global unique transatlantic joint-venture (JV) between AF-KLM, Delta Air Lines Inc. (Delta) and Virgin Atlantic (Virgin). These agreements also provided for this business alliance to be consolidated by capital links:

- purchase by Air France-KLM of Virgin Group's 31% stake in Virgin Atlantic for £220 million, subject to obtaining the necessary regulatory approvals. AF-KLM would also be represented within Virgin's Board of Directors by 3 directors (i.e. the same number of directors as Delta) and would have, under certain conditions, a put option for its participation, with no predefined due date, linked at the exit of the United Kingdom from the European Union (Brexit), common with Delta whose exercise price would be equal to the acquisition price of the AFKLM's stake in Virgin, decreased by 10%;
- acquisition by Delta of a 10% stake in Air France-KLM by subscribing new shares through a reserved capital increase.

Following these agreements, in accordance with the authorization of the Combined General Meeting of AF-KLM on September 4, 2017, Delta acquired, on October 3, 2017, a 37.5M€ stake in AF-KLM, representing 10% of the share capital at that date, and 8.76% of the actual share capital within the framework of a reserved capital increase. Since that date, Delta has also a representative within the AF-KLM Board of Directors (ie Delta Air Lines Inc. represented by George Mattson).

As part of the implementation of these agreements, the Board of Directors of AF-KLM authorized on March 14 and May 15, 2018 in accordance with the provisions of article L. 225-38 of the French Commercial Code (*Code de Commerce*), the signature of the following contracts (hereinafter referred to as "Contracts"):

- a Share Purchase Agreement (SPA) concluded between Air France-KLM Finance SAS and Virgin Investments Limited, allowing AF-KLM to acquire, through its 100% owned subsidiary, a 31% share in Virgin Atlantic for an amount of 220.100.000£. In this context, a Disclosure Letter in relation with the SPA and a compensation indemnity from Virgin Investments to AF-KLM in relation with tax liabilities linked to the Virgin Atlantic Group (Tax Deed) have been concluded;
- a Shareholders' Agreement concluded between AF-KLM Finance SAS, Delta, Virgin Investments Limited, Virgin Atlantic Limited and Sir Richard Branson to organize the shareholding in Virgin;
- a Put and call Option Agreement allowing Virgin to grant AF-KLM and Delta a put option, and the grant by AF-KLM and Delta of a call option to Virgin;
- a joint-venture agreement to set up a commercial JV between AF-KLM, Delta, Virgin Atlantic Airways Limited, Air France and KLM as well as the relating bilateral Transition Agreement with Delta;
- an Implementation Agreement between AF-KLM, Air France -KLM Finance, Air France, KLM, Delta, Virgin Atlantic, Virgin Atlantic Airways Limited et Sir Richard Branson concernant la réalisation de la transaction proposée.

Justification of the interest of the agreement for the Company:

- facilitate the integration of air transportation services on the parties' networks to improve the efficiency of their operations and facilitate their ability to provide uninterrupted public transport service;
- provide customers traveling on transatlantic routes with a number of benefits by providing better connecting and non-stop options, allowing parties to commercialize integrated air services, and developing and improving services provided to travelers on the joint-venture's routes;
- create significant synergies generated by the joint coordination of the parties' business activities in the joint-venture, including reciprocal code sharing, network optimization, freight cooperation and cost control, in order to create an attractive alternative for consumers to services provided by competing air carriers and other global airline alliances;
- Delta holding a 49% share in Virgin Atlantic, the acquisition by AF-KLM of a 31% share in Virgin Atlantic enhances the benefits of the joint-venture by aligning economic incentives between the parties, which will ensure the success of the joint-venture and encourage the provision of more and better quality services (non-stop and connecting) to passengers.
- the parties anticipate that the joint-venture will generate global benefits for consumers worldwide through a combination of lower prices and higher quality of service.
- as of July 27, 2017, Air France-KLM was operating with its partners Delta Air Lines and Alitalia the largest transatlantic joint-venture with 270 daily flights. This represents 176 549 million EASK for the financial year 2018 against 172 666 million EASK for the financial year 2017.

Severance pay granted to Benjamin Smith, Chief Executive Officer

On August 16, 2018, the Board of Directors of AF-KLM authorized, in accordance with the provisions of Article L. 225-42-1 of the French Commercial Code (*Code de Commerce*), the granting of severance pay to Benjamin Smith, Chief Executive Officer of AF-KLM in case of departure (in particular in the event of dismissal, non-renewal of his mandate as Chief Executive Officer or forced resignation).

In accordance with the recommendations of the AFEP-MEDEF Code, the severance pay base is equivalent to two years of fixed and annual variable compensation (according to specific calculation methods referring, as the case may be, to the target variable compensation in case of departure during the First 24 months).

The compensation base will be impacted by a factor (between 0 and 100%) depending on the performance of the person concerned, measured by reference to the rate of achievement of the performance criteria relating to the annual variable portion of his remuneration during the last two years of his mandate (or since his appointment, assuming a departure during the first two years). It will be for the Board of Directors to Note the achievement of these performance criteria.

Mr. Benjamin Smith also benefits from usual benefits in kind (company car with driver, supplementary pension plan benefiting all group employees, complementary health and disability benefits, provision of airline tickets, management liability insurance) as well as benefits related to the Group's policy on expatriation and mobility of its senior executives (housing allowance, moving expenses, tuition fees and some consulting fees). Unless voluntarily leaving, the benefits in kind of the Chief Executive Officer will continue to apply for a transitional period of 6/12 months.

Justification of the interest of the agreement for the Company:

The Board of Directors considered that the decision to award severance pay to M. Smith was in the Company's interest, consistent with market practice, and necessary to persuade the candidate to leave his position at Air Canada (where he was already benefiting from a severance pay), and join the Group in a difficult context.

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments approved in prior years which remained current during the year

We hereby inform you that we have not been advised of any agreement or commitment previously approved by the Shareholders' Meeting which remained in force during the year.

Paris-La Défense, March 29, 2019
The Statutory Auditors

KPMG Audit A division of KPMG SA		Deloitte et Associés	
Jean-Paul Vellutini Partner	Éric Jacquet Partner	Guillaume Troussicot Partner	Pascal Colin Partner

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

6 OTHER INFORMATION

6

6.1 HISTORY

Two companies born on the same day

October 7, 1919

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its colonies.

October 7, 1933

Air France is born from the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

1934

First KLM transatlantic flight from Amsterdam to Curaçao in a Fokker F-XVIII Snip.

Air transportation and the two companies take off

1945-46

Air France is nationalized.
KLM flights, interrupted by the war, resume service.
Introduction of scheduled flights to New York in DC-4s, from Paris with Air France and from Amsterdam with KLM. At this time, the flight takes nearly 24 hours.
Air France and KLM are equipped with Constellations and engage in mutual assistance.

1958

Air France and KLM inaugurate the polar route, flying from Paris and Amsterdam to Tokyo via the North Pole.

1959-1960

Arrival of the jet era: Air France brings the first Caravelles and B707s into service, reducing the duration of the Paris-New York flight to eight hours. KLM brings its first DC-8 aircraft into service.

1961

Air France bases its operations and maintenance at Orly Sud.

1967

First KLM flight takes off from the new Schiphol airport.

1970-71

The B747 is first used on long-haul routes by Air France in 1970 and by KLM in 1971.

1974-1982

Air France operations move, in 1974, to the new Terminal 1 at Paris-Charles de Gaulle, then to CDG 2 in 1982.

1976

The supersonic airplane, Concorde, is brought into service, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes then, in 1977, on Paris-New York, connecting the two cities in three hours 45 minutes.

Development of the two majors

1989

Conclusion of an alliance, the first in the history of air transportation, between KLM and the US company Northwest Airlines.

1990

Air France acquires UTA (*Union des Transports Aériens*), founded in 1963.

1991

KLM founds a regional company, KLM Cityhopper, by merging NLM Cityhopper and NetherLines, and reinforces its shareholding in Transavia from 40% to 80%.

1992

Air France and UTA merge, giving Air France a 72% stake in Air Inter after combining its own shareholding in that company with that of UTA.

KLM establishes the first European medium-haul/long-haul transfer platform at Schiphol airport.

First Open Skies agreement between the Netherlands and the United States.

1993

All KLM and Northwest Airlines flights between Europe and the United States are operated within a joint-venture.

1996

Air Inter becomes Air France Europe.
Establishment of Air France's medium-haul/long-haul transfer platform at Paris-CDG.

1997

Air France Europe is merged with Air France.

1999

Air France is listed for trading on the Monthly Settlement Market of the Paris Stock Exchange for the first time on February 22, 1999.

2000

Air France, Aeromexico, Delta Air Lines, Inc. and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and CityJet.

2001

Open Sky agreement signed between France and the United States. Alitalia and CSA Czech Airlines join SkyTeam.

Creation of Air France-KLM, the leading European air transport group

2003

September 30: Air France and KLM announce their intention to merge through a public exchange offer.

2004

May: Air France-KLM shares are listed for trading on the Euronext Paris and Amsterdam markets as well as on the New York Stock Exchange. Privatization of Air France with the transfer of the majority of its shares to the private sector involving the dilution of the French State's shareholding.

September: Finalization of the Group's organizational structure with the creation of the Air France-KLM holding company, regrouping the two airline subsidiaries, Air France and KLM. KLM and its US partners Northwest Airlines and Continental join the SkyTeam alliance.

December: The French State reduces its shareholding from 44% to 23% by selling shares in the market.

2005-06

The French State reduces its shareholding in Air France-KLM from 23% to 18.6% by selling shares within the framework of the share offer (ORS) reserved to Air France employees.

2006-07

Signature of the Open Skies agreement between Europe and the United States to come into force in March 2008.

2008-09

The US Department of Transportation grants Air France, KLM, Delta Air Lines, Inc. and Northwest anti-trust immunity with the obligation to establish a single transatlantic joint-venture between these four airlines before the end of 2009.

Air France-KLM acquires a 25% equity interest in Alitalia.

2009-10

In April, Air France-KLM and Delta Air Lines, Inc. implement the joint-venture on the North Atlantic joined, in July 2010, by Alitalia.

2012

Launch of the "Transform 2015" plan targeting a €2 billion reduction in net debt, the restoration of the Group's competitiveness and a turnaround in the short and medium-haul network.

2014

In early September, the Group unveils its new strategic plan, "Perform 2020", foreseeing an on-going improvement in competitiveness and an increase in the Group's exposure to growth markets.

2015

The B787 enters the KLM fleet.

2016

Air France-KLM returns to the offensive with the launch of the new "Trust Together" strategic project.

2017

Air France-KLM takes a further major step in the reinforcement of its strategic partnerships when China Eastern Airlines and Delta Air Lines, Inc. become shareholders.

2018

Anne-Marie Couderc is appointed Chairman of the Air France-KLM Board of Directors. Benjamin Smith is appointed Chief Executive Officer.

6.2 GENERAL INFORMATION

Corporate name
Air France-KLM

Registered office
2 rue Robert Esnault-Pelterie, 75007 Paris

Mailing address
BP 90112 75326 Paris Cedex 07

Legal status
French public company (*société anonyme*) with a Board of Directors

Legislation
French law.

Air France-KLM is governed by the French *Code de Commerce* and the provisions of the Civil Aviation and Transport Codes relating to air transport companies and notably to Air France. The Transport Code contains a provision designed to safeguard the nationality of air transport companies whose shares are listed for trading on a regulated market.

Incorporation and expiry dates
Incorporated on: April 23, 1947.
Due to expire on: July 3, 2045 barring early liquidation or extension.

Corporate purpose (Article 2 of the Articles of Incorporation)
The primary purpose of Air France-KLM is to hold direct or indirect interests in the capital of air transport companies and, more generally, in any companies in France or elsewhere whose purpose is related to the air transport business.

Trade register
Paris Trade and Company Register: 552,043,002
APE code: 6420Z

Consultation of legal documents
The legal and corporate documents relating to Air France-KLM may be consulted at 45 rue de Paris, Tremblay en France, 95737 Paris-CDG Cedex.

Financial year
The financial year begins on January 1 and ends on December 31.

Appropriation of income
After approving the financial statements and taking due Note of the income available for distribution, the shareholders vote in the Shareholders' Meeting on the total or partial distribution of such income (with, in the latter case, the appropriation of the undistributed balance to one or more reserve accounts), or the appropriation of all distributable income to one or more reserve accounts.

Relations between Air France-KLM and its subsidiaries
Air France-KLM and its subsidiaries Air France and KLM have signed agreements whose aim is to define the conditions under which Air France and KLM, at the request of Air France-KLM, provides technical and administrative support services to Air France-KLM (intra-group accounting, administrative, legal, financial and IT services).

6.3 INFORMATION ON THE AGREEMENTS CONCLUDED IN CONNECTION WITH THE BUSINESS COMBINATION BETWEEN AIR FRANCE AND KLM

In connection with the business combination taking place in 2004 between Air France and KLM for the creation of the Air France-KLM holding company, agreements were entered into with various stakeholders, some of whose provisions continue to apply as of the date of this Registration Document.

6.3.1 Agreements relating to the KLM shareholding structure

Holding of shareholder voting rights by two Dutch foundations

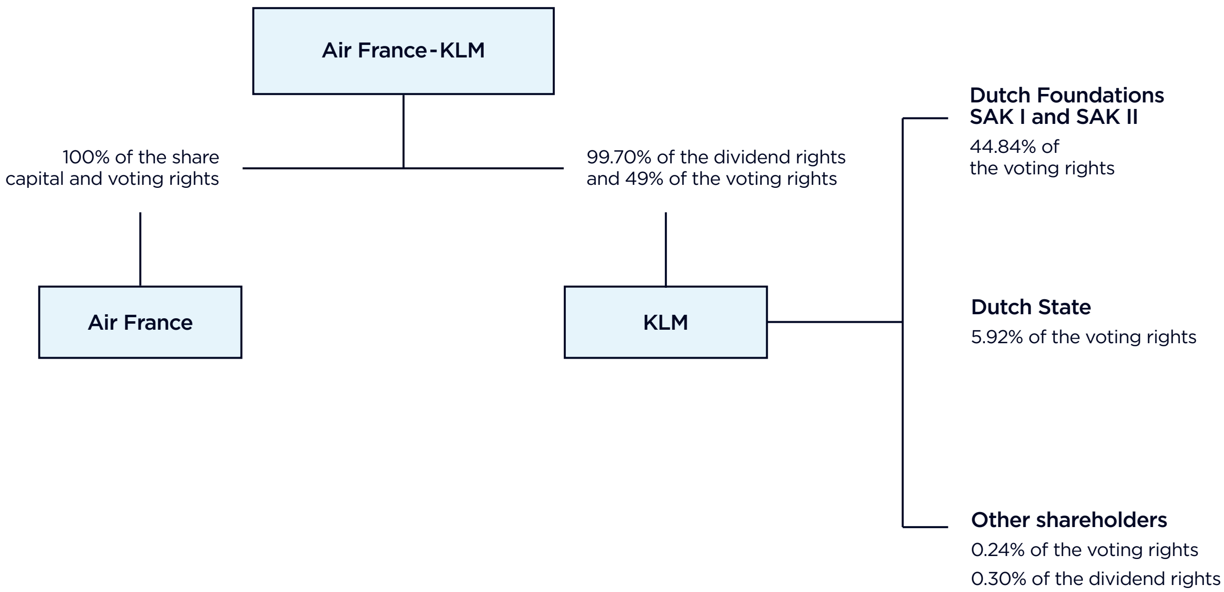
In order to continue to comply with specific regulatory requirements relating to KLM air transport operations, a system to separate the rights attached to KLM shares and the exercise of the voting rights attached to these shares by two Dutch foundations (SAK I and SAK II) was put in place in 2004.

Pursuant to this system which is still in force, Air France-KLM held, as at December 31, 2018, 93.84% of KLM's economic rights, 99.70% of KLM's dividend rights and 49% of KLM's voting rights, while the two Dutch foundations held, together, 44.84% of KLM's voting rights.

Furthermore, as at December 31, 2018, the Dutch State held 5.92% of KLM's voting rights and the remaining minority shareholders held 0.24% of KLM's voting rights and 0.30% of its dividend rights.

In KLM Shareholders' Meetings, the two Dutch foundations, SAK I and SAK II, exercise the voting rights they hold in accordance with decisions taken unanimously by the three Board directors constituting their respective Boards of Directors, it being specified that these Board directors must act in accordance with the corporate governance principles defined in the agreements relating to the business combination between KLM and Air France, and in the best interests of KLM, Air France- KLM and its shareholders. If a unanimous decision cannot be reached by the three Board directors in the Board of Directors for each of the Dutch Foundations, no resolution may be passed by the Board of the relevant Foundation, which consequently cannot then vote on the relevant resolutions in the KLM Shareholders' Meeting.

Amongst the three Board directors for each of the foundations, one member is appointed by Air France-KLM, one by KLM and the third, acting in the capacity of Chairman of the Foundation, is appointed by the first two directors, it being specified that the majority of the members of the Boards of Directors of each Foundation, including the Chairman, must be Dutch residents.



Unilateral termination option for Air France-KLM at any time

Initially incorporated in 2004 for a three-year period, the two SAK I and SAK II foundations were however extended for an unlimited period by a 2007 agreement. Nevertheless, this agreement provides that Air France-KLM may, at any time as of May 6, 2007 and at its sole discretion, terminate this administered shareholding structure for KLM shares through SAK I and SAK II and proceed to regroup the economic and voting rights attached to the KLM shares, thereby holding 93.84% of KLM's voting rights.

6.3.2 Agreements with the Dutch State

To enable the completion of the business combination and safeguard KLM's traffic rights, airline status and the scale of its network and operations at Schiphol, Air France and KLM entered into the following agreements with the Dutch State.

Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement pursuant to which the Dutch State agreed to decrease its interest in KLM proportionately to any reduction by the French State of its stake in Air France-KLM. To this end, the Dutch State will sell its cumulative preferential A shares to Air France-KLM or to SAK I on behalf of Air France-KLM as long as this foundation is maintained. In such case, SAK I will issue share certificates to the benefit of Air France-KLM corresponding to the cumulative preferential A shares transferred to SAK I. These share certificates confer to Air France-KLM the economic right attached to the transferred cumulative preferential A shares, i.e. a right to a dividend, the corresponding voting rights being exercised by SAK I until the share certificates have been exchanged by Air France-KLM against the said shares.

In March 2005, pursuant to the agreement, 5,103,885 cumulative preference A shares were transferred by the Dutch State to SAK I on behalf of Air France-KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period (2004 to 2007), Air France-KLM had the option to exchange the share certificates against cumulative preferential A shares, and to directly hold the cumulative preferential A shares. Having decided, in 2007, to maintain the SAK I and SAK II foundations, Air France-KLM did not proceed with this exchange but could still do so at any time, in whole or in part. In addition, Air France-KLM is free to decide to dissolve the foundations at any time and at its sole discretion.

Furthermore, the Dutch State benefits from the right to transfer, at any time, as many cumulative preferential A shares as it wishes to Air France-KLM.

These agreements relating to the cumulative preferential A shares remain in force.

Option for the Dutch State to subscribe for preferential KLM B shares

This option granted to the Dutch State lapsed in May 2010.

Assurances given to the Dutch State

Nature and duration of the assurances – unilateral termination option

Within the framework of the 2004 business combination, Air France and KLM granted the Dutch State, for an initial eight-year period starting from the completion of the business combination (i.e. expiring in 2012), various assurances as to KLM's airline status, its air services and the scale of its passenger and cargo operations at Schiphol airport with a view to maintaining the quality of KLM's network at Schiphol which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France-KLM Group and its shareholders (the "Assurances").

In return for these Assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months;
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

Pursuant to an agreement entered into on May 25, 2010, the Dutch State, Air France-KLM and KLM agreed to extend the Assurances given to the Dutch State, with the exclusion, however, of an assurance foreseeing that the combined growth should not negatively impact KLM's operations in the passenger and cargo segment, beyond May 5, 2012 for an indefinite period, subject to Air France-KLM's right to terminate these Assurances, at its sole discretion, with prior notice of nine months. This agreement was confirmed by a meeting between, *inter alia*, the Minister for Transportation of the Netherlands, the Chairman and Chief Executive Officer of Air France-KLM and the Chairman of the Management Board of KLM which took place on March 12, 2015.

Mechanism to ensure compliance with the Assurances

Air France and KLM set up a Dutch foundation, known as the KLM Assurances Foundation (*Stichting Assurances KLM* – duration extended in 2010) to facilitate the provision of binding advice (*bindend advise*) on the interpretation of the Assurances granted to the Dutch State (the "Advice"). These advices are issued by a KLM Assurances Foundation Committee in the event that a decision taken by the KLM Supervisory Board, KLM Management Board or Air France-KLM Board of Directors is considered to be in conflict with the Assurances given to the Dutch State.

When giving its Advice, the KLM Assurances Foundation must act in the best interests of KLM, the Air France-KLM Group and its shareholders.

The Committee is composed of three members:

- one member appointed by Air France-KLM;
- one member appointed by the Dutch State; and
- one member jointly appointed by the first two members as well as by a Board member of the KLM Assurances Foundation appointed by KLM who is not a Committee member; it being specified that the member appointed by Air France-KLM has a double voting right for the appointment of the third Committee member.

The filing of a case with the Foundation's Committee relating to a decision taken by the KLM Supervisory Board, the KLM Management Board or the Air France-KLM Board of Directors can be made by the Dutch State only in relation to the Assurances given to it.

If the KLM Assurances Foundation Committee issues an Advice indicating that the decision submitted to it contravenes the Assurances given to the Dutch State, the KLM Supervisory Board, the KLM Management Board or the Air France-KLM Board of Directors will be required to cancel or amend its decision as soon as possible and nullify the effects of any measure taken in connection with the said decision, in accordance with the issued Advice. The Committee's decisions are adopted by majority vote of its members.

As at December 31, 2018, no Advice had been rendered by the KLM Assurances Foundation Committee.

6.3.3 Assurances given to KLM

The assurances granted to KLM have been null and void since May 6, 2009.

6.4 LEGISLATIVE AND REGULATORY ENVIRONMENT FOR THE AIR TRANSPORT INDUSTRY

Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each State undertakes to apply in its air space after their ratification.

6.4.1 Freedoms of the air and international conventions

In addition to the eight freedoms of the air established by the Chicago Agreements relating to transit and transport (1944), three main treaties establish the legal and regulatory framework for commercial aviation: the Chicago Convention (1944), the Montreal Convention (1999) and the Tokyo Convention (1963). A fourth treaty, the Rome Convention (1952), covers damage caused to third parties on the ground.

Freedoms of the air

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

- 1st freedom – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State;
- 2nd freedom – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the "transit right";
- 3rd freedom – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State;
- 4th freedom – A carrier that leaves from a foreign State has the right to load passengers in this foreign State and unload them in its State of origin;
- 5th freedom – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States;
- 6th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State;
- 7th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin;
- 8th freedom – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

The Chicago Convention (1944)

The Convention relating to international civil aviation, known as the Chicago Convention, sets out the legal, regulatory and technical rules governing commercial aviation and its Member State signatories are required to implement a common legal framework governing their domestic air space and their relations with one another.

Signed on December 7, 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) as the instrument of cooperation between the 191 signatory States in all areas of civil aviation.

The Montreal Convention (1999)

The Montreal Convention of May 1999, ratified to date by 130 States, aims to provide better protection for victims suffering damages. This convention entered into force on June 28, 2004. It is based on several fundamental provisions, notably the principle of the unlimited liability of air transport companies in the event of physical injury with the implementation of a two-tier system:

- a first tier that sets an objective liability for the air transport company of up to 113,100 Special Drawing Rights (SDR);
- a second tier, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages result exclusively from the acts of a third party.

Furthermore, with regard to compensation, the rule relating to the regional authority of courts has been extended.

The Rome Convention (1952)

The Rome Convention, signed in 1952, covers damages caused to third parties on the ground by foreign aircraft. This convention has not been ratified by France, the Netherlands or the United States. The ICAO's legal commission is currently involved in a major initiative to redraft the wording which would facilitate its ratification by making a distinction between everyday risk and terrorist risk.

The Convention relating to compensation for damage caused to third parties following acts of unlawful interference with aircraft, signed in Montreal on May 2, 2009 by thirteen States, for the most part African, is still not applicable. It has only been ratified by three of the 35 States required for its entry into force.

The Tokyo Convention (1963)

The Tokyo Convention, in force since December 4, 1969, sets out the principles and establishes the procedures for handling offences against penal law (except those of a political nature and based on racial or religious discrimination) and acts endangering the safety of the aircraft or that of the persons and property on board.

One of the specific characteristics of this Tokyo Convention is that it recognizes certain powers and immunities of aircraft commanders, exonerating them, under certain conditions, from responsibility for any harm potentially caused to individuals committing such unlawful acts.

This Tokyo Convention (ratified by France in 1970) is currently the subject of a revision process within the ICAO.

A Protocol to amend the Tokyo Convention, adopted in Montreal on April 4, 2014, has been signed by 30 States but only four ratifications have been recorded to date. The Protocol can only enter into force when 22 ratifications or signatures have been filed.

The United States has not signed the Protocol. Within the European Union, Spain (in September 2015) and France (in May 2016) are the only Member States to have signed the Protocol but are yet to ratify it.

This Montreal Protocol expands the jurisdiction by recognizing, under certain conditions, the jurisdiction of the State of Landing and the State of the Operator over offences and acts committed on board aircraft. The establishment of such jurisdiction over offences is mandatory if the criteria stipulated in the Protocol are respected. Furthermore, the Protocol grants legal recognition and some protections to in-flight security officers. It also contains provisions covering matters such as intra-State coordination, due process of law and fair treatment.

6.4.2 European legislation

Single European air space

Within the European Union, these eight freedoms have been supplemented, since April 1, 1997, by common legislation that creates a homogeneous regulatory situation for all European carriers. All European airlines may freely operate and, in particular, perform cabotage operations within a single European air space. Furthermore, any resident of an EU Member State may hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State. This framework eliminates the need for bilateral agreements between EU Member States and does not prevent them from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

Open Skies agreement between Europe and third-party countries

Based on mandates issued by the Council of Ministers, the European Union and its Member States have signed air transport agreements with the following third-party countries:

- **United States**: the agreement signed in April 2007 was amended by a protocol of June 2010 enabling, notably, European airlines to operate an unlimited number of flights, aircraft and routes to the United States from any European airport with the freedom to set prices, and to operate their services within the framework of cooperation agreements with partners of their choice. This agreement does not change the US rules on ownership and control and, similarly, cabotage remains forbidden;
- **Canada**: the agreement signed in December 2009 offers EC carriers similar opportunities to those figuring in the agreement with the United States and also includes the same restrictions;
- **European Union neighboring countries**: the agreement signed with Morocco in December 2006 was the first in a series of agreements signed with European Union neighboring countries: Georgia and Jordan in December 2010, Moldavia in June 2012 and Israel in June 2013. These agreements foresee the liberalization of bilateral air relations subject to the relevant countries adopting the EU aviation-related acquis;
- **Balkan States** (Albania, Bosnia, Macedonia, UNMIK, Montenegro, Serbia): the agreement signed in June 2006 aims to create a common air space. At the end of transition periods that vary by country, the Balkan airlines will benefit in Europe from the

same traffic rights as EC airlines. At this stage, only the 3rd and 4th freedom rights have been liberalized.

In April 2002, the European Union also signed an air transport agreement with Switzerland giving Swiss carriers, which are assimilated with EU carriers, access to all the intra-Community rights with the exception of cabotage.

Access to the market between France and States other than those mentioned above for which there are existing agreements at European Community level remains governed by bilateral aviation agreements signed between France and these third-party States.

Community air transport policy

The regulation applicable to air transport within the European Union is primarily of European Community origin. The aims as outlined in the work programs of the European Commission are to reinforce the competitiveness of European Community airlines while insisting on the need to reduce the air transport industry's environmental impact and offer a high degree of passenger protection[1]. The principal positive measures consist of establishing a legal framework favoring fairer competition between EU and third-party carriers, the effective implementation of the Single European Sky and a commitment to developing biofuels. The European Commission also proposed a series of measures known as the "Better Airports" package, aimed at reducing the cost of infrastructure use within the European Union. The latter initiatives have only come to very partial fruition due to persistent disagreements within the European institutions. A new European Commission Aviation Strategy was published on December 7, 2015. This strategy should notably be reflected in the adoption of a new EC commercial defense instrument aimed at protecting European airlines against competition from subsidised air carriers from third-party countries.

6.4.3 Other legal aspects of Air France-KLM's activities

Allocation of slots

Access to the main international airports is subject to the allocation of time slots. A European Regulation covers access to most so-called coordinated European airports (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.). In Asia, the allocation of slots is generally done on the basis of recommendations made by IATA (Bangkok, Tokyo, Hong Kong, Singapore, etc.). In the United States, with the exception of New York and O'Hare Airport (Chicago) this procedure is replaced with a system based on the assignment of boarding gates.

For airports within the European Union, each Member State with coordinated airports under its responsibility, after consulting the airlines that regularly use the airports concerned, their representative organizations and the airport authorities, must designate a coordinator or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:

- airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as grandfather rights) for past operations;
- once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- a pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a carrier or have become available for any other reason;
- finally, the coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators.

Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:

- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

(1) The passenger compensation rules are detailed *in paragraph 3.2.2 Risks relating to the air transportation activity, on page* ***105***.

6.5 INFORMATION AND CONTROL

6.5.1 Person responsible for the Registration Document and for the Annual financial report

Benjamin Smith, Chief Executive Officer of Air France-KLM.

6.5.2 Certification by the person responsible for the Registration Document

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions to this effect, the information contained in this Registration Document reflects reality and that nothing has been omitted that would be likely to change the significance thereof.

I further declare that, to the best of my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and results of the Company and all the companies within the consolidation scope, and that the information contained in the management report figuring on pages **6** to **8**, **10** to **19**, pages **30**, **31**, **33** to **38**, pages **39** to **42** on pages **44** to **112**, pages **113** to **123**, pages **128** to **146**, pages **148** to **166**, pages **167** to **182**, pages **183** to **196** and pages **204** to **211** of this Registration Document, provides a true and fair view of the changes in the business, results and financial position of the Company and all the companies within the consolidation scope, together with a description of the principal risks and uncertainties that they face.

I have obtained a completion letter from the Statutory Auditors confirming that they have verified the information regarding the financial position and the financial statements contained herein and reviewed the entire Registration Document.

The consolidated financial statements for the financial year ended December 31, 2018 included in this Registration Document are the subject of a Statutory Auditors' report figuring on pages **302** to **307**.

The consolidated financial statements for the financial year ended December 31, 2017 included in the Registration Document filed with the AMF on March 29, 2018 under the registration number D.18-0232 were the subject of a Statutory Auditors' report figuring on pages **287** to **292**.

The consolidated financial statements for the financial year ended December 31, 2016 included in the Registration Document filed with the AMF on March 31, 2017 under registration number D.17-0287 were the subject of a Statutory Auditors' report figuring on pages **257** and **258**.

Benjamin Smith
Chief Executive Officer of Air France-KLM

6.5.3 Statutory Auditors

Incumbent Statutory Auditors

Deloitte et Associés

6 place de la Pyramide, 92908 Paris-La Défense Cedex, France
Represented by Guillaume Troussicot and Pascal Colin
Starting date of first mandate September 25, 1998
Renewed for a six-year period by the Shareholders' Meeting of May 19, 2016.

KPMG Audit

A division of KPMG SA
Tour EQHO, 2 avenue Gambetta,
CS 60006, Paris-La Défense Cedex
Represented by Eric Jacquet and Jean-Paul Vellutini
Starting date of first mandate: September 25, 2002
Renewed for a six-year period by the Shareholders' Meeting of May 20, 2014.

Deputy Statutory Auditors

BEAS

7/9 Villa Houssaye, 92200 Neuilly-sur-Seine
Starting date of first mandate: September 25, 1998
Renewed for a six-year period by the Shareholders' Meeting of May 19, 2016.

KPMG ID Audit

A division of KPMG SA
Tour EQHO, 2 avenue Gambetta,
CS 60006, Paris-La Défense Cedex
Starting date of first mandate: May 20, 2014
First appointed for a six-year period by the Shareholders' Meeting of May 20, 2014.

6.5.4 Head of Investor Relations

Marie-Agnès Lucas de Peslouan
Mailing address: Air France-KLM/AFKL.FI
95737 Paris-CDG Cedex

6.5.5 Documents available to the public

Amongst the documents available on the Company's website (www.airfranceklm.com) figure, notably:

- the 2018, 2017, 2016, 2015, 2014, 2013, 2012 and 2011 Registration Documents filed with the *Autorité des Marchés Financiers*;
- the financial press releases (traffic, quarterly, half-year and annual results);
- the offering memoranda;
- the financial presentations;
- the Company's Articles of Incorporation.

GLOSSARIES

Air transport glossary

A4E

Airlines for Europe. On January 20, 2016, at the European Aviation Summit, the five largest European airline groups – Air France-KLM, easyJet, International Airlines Group, Lufthansa Group and Ryanair – announced the creation of the new association.

The five groups, which carry more than 50% of passengers in Europe, chose to join forces with the aim of influencing European aviation policy.

A4E aims to replace the AEA in lobbying the European Commission effectively on at least three major measures:

- reducing European airport charges;
- ensuring a safe and efficient air space by reducing the cost of air traffic control (ATC);
- stimulating increased economic activity and employment by creating an appropriate regulatory framework.

AEA

Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)

Total number of seats available for the transportation of passengers multiplied by the number of kilometers traveled.

Available ton-kilometers (ATK)

Total number of tons available for the transportation of cargo, multiplied by the number of kilometers traveled.

Biometry

Technique enabling the identity of an individual to be verified, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

Coordinated airport

Airport where a coordinator has been appointed to allocate landing and take-off slots according to rules established in advance. All large European Union airports are coordinated.

Cabotage

Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country.

Capacity

Capacity is measured in available seat-kilometers.

Catering

In-flight catering involves the planning and preparation of meals and the assembly of meal trays destined to be served on board an aircraft.

Codeshare

In accordance with a codeshare agreement, two partner airlines offer services on the same aircraft, each under their own brand, their own IATA code and their own flight number. Codesharing may take two forms. In the first case, the two airlines purchase and sell seats to and from each other at an agreed price. The airline which has purchased the seats then markets them under its brand and at its fares. In the second case, under the system known as free flow, the two airlines are allowed to sell all the seats on the flights involved. Each airline retains the revenues generated on the flight it operates and remunerates the other airline for the number of seats the latter has sold on its aircraft.

Combi

Aircraft whose main deck is equipped for the transportation of both passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

Connecting traffic

Traffic between two destinations which are not linked by a direct flight.

DGAC

Direction Générale de l'Aviation Civile. Under the authority of the French Ministry of Transport, the DGAC is in charge of the security of air transport and of air space in France.

DGTL

Directoraat-Generaal Transport en Luchtvaart.

Under the authority of the Dutch Ministry of Traffic and Public Works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

E-services

Range of ground services offered by Air France and KLM to their passengers, based on the new information technologies. E-services notably enable passengers to check in using self-service kiosks or *via* the airlines' websites as well as the use of electronic tickets.

EASA

European Aviation Safety Agency. EASA develops safety and environmental protection expertise in civil aviation in order to assist the European institutions to establish legislation and implement measures regarding aircraft security, organizations and associated staff.

Electronic ticket

All the journey information for one or several passengers which, instead of being printed, is recorded in an airline's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces a traditional paper ticket.

Equivalent available seat-kilometer (EASK)

The EASK or equivalent available seat-kilometer is an overall indicator of the Group's air transportation activity. In view of the weight of the passenger business (including the low-cost activity), the indicators for the cargo business (ATK and RTK) are converted into "equivalents" of the passenger business's ASK and RPK indicators based on different fixed factors for Air France and KLM. Unit revenue per EASK corresponds to the revenues from passenger and cargo transportation divided by the number of EASK. The unit cost per EASK corresponds to the net costs divided by the number of EASK. The calculation of the unit cost per EASK is detailed *in Section 5.3, page **210***.

Equivalent revenue passenger-kilometers (ERPK)

Overall measure of the Air France-KLM Group's traffic after conversion of cargo tons into equivalent revenue passenger-kilometers.

FAA

Federal Aviation Administration. Body responsible for civil aviation security in the United States.

Handling

Preparation of the aircraft, involving loading and unloading, as well as the associated logistics such as management and storage of hotel products.

Hub

Term used for a transfer platform where departures and arrivals are scheduled to minimize transit times. Air France-KLM disposes of two of the four major European hubs: Paris-CDG and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer opportunities for customers.

IATA

International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with various commercial and financial support services.

ICAO

The International Civil Aviation Organisation, a UN Specialized Agency, promotes the safe, secure and sustainable development of civil aviation worldwide. It establishes the standards and regulations required to ensure the safety, security, efficiency and continuity of aviation operations as well as the protection of the environment.

Joint-venture

Joint company with two partners, often held equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

Load factor

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK). In the cargo activity this is revenue ton-kilometers (RTK) divided by available ton-kilometers (ATK).

Multi-hub

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the round-trip offer to and from worldwide destinations.

Premium

Fare classes corresponding to business or first class.

Over-reservation or over-booking

Over-reservation or over-booking consists of accepting more bookings than seats available. Practiced by all airline companies and permitted by European legislation, over-booking enables management of the fact that some passengers cancel their trips but not their reservations. It thus allows many passengers to find a seat on board flights that could have departed with available seats. Airlines usually have a passenger compensation policy.

Point-to-point traffic

Traffic between two airports, excluding passengers prolonging their trip with a connecting flight.

Revenue management

Technique designed to optimize revenue on flights, by constantly seeking a better balance between the load factor and the fares offered.

Revenue passenger-kilometer (RPK)

Total number of paying passengers carried multiplied by the number of kilometers traveled.

Revenue ton-kilometer (RTK)

Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is carried.

Safety and security

Airline safety includes all the measures implemented by air transport professionals aimed at ensuring the reliable operation and maintenance of aircraft.

Airline security involves all the measures taken by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media impact offered by such activity. Airline security notably includes baggage screening, and the screening and questioning of passengers.

Self-service check-in kiosk

Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

Segment

Section of a flight between two destinations. The number of passengers is calculated by segment carried.

Slot

A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date.

Sub-fleet

All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration, etc.).

Summer season

Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of seven months.

Ton-kilometers transported

Total number of tons transported multiplied by the number of kilometer covered.

Traffic

Traffic is measured in revenue passenger-kilometers (RPK).

Unit revenue

In the passenger business, corresponds to the revenue for one available seat or for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenue for one available ton or one ton transported over one kilometer.

Winter season

Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over five months.

Financial Glossary

Adjusted net interest charges

The net financial charges are adjusted for the portion of operating leases (34%) deemed to be interest charges.

Adjusted net debt

Adjusted net debt comprises net debt and the amount resulting from the capitalization of operating leases (7x the annual charge).

ADR

American Depositary Receipt. ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars. The Air France-KLM level 1 ADR program is traded on the OTC Pink Open Marketplace.

Earnings per share

Net income divided by the average number of shares for the period.

EBITDA

Earnings before interest, taxation, depreciation and amortization.

EBITDAR

Earnings before interest, taxation, depreciation, amortization and operating leases. This metric facilitates comparison between companies with different aircraft financing policies.

Fuel hedging

Financial mechanism aimed at protecting Air France-KLM from the risk of a rise in the fuel price. Involves purchasing financial instruments, mostly in the form of options, whose value fluctuates as a function of the jet fuel price and the related oil products (oil, diesel). The hedging strategy is detailed in *Note 36.1, page **281***.

IFRS

International Financial Reporting Standards. International accounting standards used by European Union listed companies to establish their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

ISIN

International Securities Identification Number. Attributed to securities listed for trading on the Euronext market.

Market capitalization

The market capitalization corresponds to the share price multiplied by the number of shares comprising the Company's capital.

Net result, Group part

Corresponds to the net result, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

Result from current operations

The result from current operations corresponds to the difference between revenues and the operating expenses incurred (external expenses, salaries and related costs, and amortization, depreciation and provisions). It represents what the Company earns from its main activity before the impact of financial and exceptional items.

Return on Capital Employed (ROCE)

A measure of the returns that a company is making on the capital employed to ensure its business activity. The calculation method is detailed *in Section 5.3, page* ***209.***

Revenues

Revenues correspond to the total sales generated by the Air France-KLM Group in its three core businesses (passenger, cargo, maintenance) and in its ancillary activities. The revenues from airline operations are recognized on realization of the transportation, net of any potential discounts granted. Consequently, when passenger and cargo tickets are issued, they are recorded in balance sheet liabilities under deferred revenue on ticket sales (*see Note 4.6, page* ***230***).

Share capital

Corresponds to the total contributions either financial or in kind made by the shareholders either at the time the company is created or during capital increases. It is equal to the number of shares multiplied by the nominal value of the share.

Stockholders' equity

Stockholders' equity represents accounting value of the capital contributed by the shareholders to establish the company or subsequently, or left at the disposal of the company as income not distributed in the form of dividends. Corresponds to total balance sheet assets, net of total debt.

TPI

Titre au Porteur Identifiable or identifiable bearer shares. TPI analysis enables a company to identify its shareholders holding stock in bearer form.

TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT

This concordance table uses the sections required by European Commission Regulation (EC) No. 809/2004 ("the regulation") of April 29, 2004 and provides the page numbers in this document for the information relating to each of these sections.

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2	**Statutory Auditors**	**p. 337**
3	**Selected financial information**	**p. 4 and 5**
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3.2	Financial information for interim periods	
4	**Risk factors**	**p. 125 to 146**
5	**Information about the issuer**	
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5.2	Principal investments	p. **39** to **42**, p. **202** to **203**, p. **255** to **258**
6	**Business overview**	
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7	**Organizational structure**	
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18	**Major shareholders**	
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INFORMATION INCLUDED BY REFERENCE

Pursuant to Article 28 (EC) No. 809/2004, the following information is included by reference in this Registration Document:

2017 Financial Year

The Registration Document for the 2017 financial year was filed with the *Autorité des Marchés Financiers* on March 29, 2018 under the registration number D. 18-0232. The consolidated financial statements are presented on pages **200** to **286** and the related Statutory Auditors' report on pages **287** to **292**. The full statutory financial statements can be found on pages **293** to **305** and the related Statutory Auditors' certification on page **307** to **310**. The selected financial information is presented on pages **4** and **5** of the Registration Document. The management report figures on pages **6** to **8**, pages **10** to **54**, **66** to **73**, **87** to **89**, pages **83** to **89**, pages **96** to **99**, **102** to **125**, **128** to **148**, pages **149** to **157**, **157** to **179**, **190** to **198**, page **306** and pages **55** to **62**.

2016 Financial Year

The Registration Document for the 2016 financial year was filed with the *Autorité des Marchés Financiers* on March 31, 2017 under the registration number D. 17-0287. The consolidated financial statements are presented on pages **174** to **256** and the related Statutory Auditors' report on pages **257** and **258**. The full statutory financial statements can be found on pages **259** to **270** and the related Statutory Auditors' certification on page **272** to **273**. The selected financial information is presented on pages **4** and **5** of the Registration Document. The management report figures on pages **6** to **9**, pages **12** to **44**, **46** to **53**, **61** to **63**, pages **66** and **67**, **72** to **76**, **77** to **78**, pages **80** to **90**, **104** to **126**, **127** to **133**, **134** to **153**, **164** to **172**, page **271** and pages **279** to **282**.

TABLE OF CONCORDANCE FOR THE ANNUAL FINANCIAL REPORT

This Registration Document contains all the elements of the financial report as referred to in Article L. 451-1-2 of the Monetary and Financial Code and required by Article 222-3 of the AMF's General Regulation. The table below resumes the elements of the financial report.

WWW.AIRFRANCEKLM.COM

AIRFRANCEKLM GROUP