

AIR FRANCE-KLM

A French *société anonyme* with a share capital of €428,634,035
Registered office: 2 rue Robert Esnault Pelterie 75007 Paris, France
RCS Paris 552 043 002

(the “**Company**”)

SUPPLEMENTARY REPORT OF THE BOARD OF DIRECTORS (ARTICLES L. 225-129-5, R. 225-116 and R.225-17 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE))

Ladies and gentleman,

The Board of Directors has decided to make use of the delegations of authority granted by the fifteenth resolution of the extraordinary shareholders’ meeting held on 16 May 2017 to proceed with the issue of bonds convertible and/or exchangeable for new and/or existing shares of the Company (*obligations à option de conversion et/ou d’échange en actions nouvelles et/ou existantes*), without preferential subscription rights and without a preferential subscription period.

Pursuant to Articles L. 225-129-5, R. 225-116 and R.225-17 of the French Commercial Code (*Code de commerce*), we prepared a supplementary report in order to inform you of the conditions of the issue of bonds.

1. Conditions of the issuance

1.1 General meeting of shareholders on 16 May 2017

The general meeting of shareholders held on 16 May 2017, deliberating pursuant to the quorum and majority conditions for extraordinary general meetings (the “**General Meeting**”), pursuant to the provisions of the French Commercial Code (*Code de commerce*) and in particular Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-136 and L. 228-91 to L. 228-93 and Article L. 411-2 II of the French Monetary and Financial Code (*Code monétaire et financier*), in its fifteenth resolution, delegated to the Board of Directors, with the option to subdelegate, its authority to proceed, in particular, by private placement under the provisions of Article L. 411-2 II of the French Financial and Monetary Code (*Code monétaire et financier*), to the issue of securities granting access to Company capital securities to be issued.

The overall limit for issues of securities granting the right to the allocation of debt securities set out in the twelfth resolution adopted by the General Meeting amounts to one billion euros, it being specified that the maximum nominal amount of shares that may be issued in the event of conversion of securities granting access to Company capital securities to be issued has been set at 30 million euros.

1.2 General meeting of shareholders on 15 May 2018

The general meeting of shareholders held on 15 May 2018, deliberating pursuant to the quorum and majority conditions for extraordinary general meetings, set, in its twelfth resolution, the overall limit for capital increases at a maximum amount of €214 million.

1.3 Board of Directors of 12 March 2019

On 12 March 2019, the Board of Directors specified that (i) €138,945,180 were available, on the aforementioned date, in relation to the overall limit for capital increases set in the twelfth resolution of the general meeting held on 15 May 2018 and (ii) an amount of one billion euros was also available on the aforementioned date, in relation to the overall limit for the issue of securities granting the right to the allocation of debt securities set in the twelfth resolution of the General Meeting. The Board of Directors also pointed out that the financial authorizations granted under the

thirteenth, fourteenth and fifteenth resolutions of the General Meeting had not been used as at 12 March 2019.

In addition, the Board of Directors, pursuant to the delegation of authority granted to it by the fifteenth resolution of the General Meeting, unanimously decided, in accordance with the provisions of Article L. 225-129-4 of the French Commercial Code (*Code de commerce*), to subdelegate to the Chief Executive Officer its powers (i) to carry out, on one or more occasions, the issuance of bonds convertible into and/or exchangeable for new or existing shares of the Company (the “**Bonds**”) without preferential subscription rights or a preferential subscription period and exclusively by way of an offer pursuant to Article L.411-2 II of the French Monetary and Financial Code (*Code monétaire et financier*) for a maximum nominal amount of €500 million and (ii) to carry out a share capital increase following the possible conversion of the Bonds into new ordinary shares of the Company, of a maximum nominal amount of €30 million, to which may be added, as the case may be, the nominal amount of any additional shares to be issued in order to protect the rights of holders of securities granting access to the Company’s shares in accordance with applicable laws, regulations or contractual provisions, it being specified that the annual interest rate of the Bonds shall not exceed 0.75% and that their maturity shall be 7 years maximum.

Therefore, the Board of Directors delegated to the Chief Executive Officer all powers necessary, as the case may be, to decide to carry out this issuance, in accordance with the conditions and limits set out by the fifteenth resolution adopted by the General Meeting and the abovementioned decision of the Board of Directors.

1.4 Decision of the Chief Executive Officer dated 20 March 2019

In a decision dated 20 March 2019, the Chief Executive Officer, pursuant to the subdelegation granted by the Board of Directors at its meeting held on 12 March 2019, decided to set the main characteristics, terms and preliminary financial conditions of the Bonds and the indicative timetable of the issue. The Chief Executive Officer fixed the maximum issue size at €500 million.

1.5 Decision of the Chief Executive Officer dated 20 March 2019

In a decision dated 20 March 2019, the Chief Executive Officer, acknowledging the result of the book building procedure to investors referred to in Article L. 411-2 II of the French Monetary and Financial Code (*Code monétaire et financier*), and pursuant to the subdelegation granted by the Board of Directors at its meeting held on 12 March 2019, and following its decision on the same day to proceed with the issue, decided to carry out the issue by setting the final characteristics, terms and financial conditions of the Bonds and the timetable of the issue as follows:

Characteristics of the offering

Proceeds and purpose of the offering	The net proceeds from the issue of the Bonds will be used by the Company for general corporate purposes, including the refinancing of the subordinated perpetual notes issued in 2015 and callable in October 2020, at the Company’s option.
Issue size and gross proceeds	€499,999,987.20.
Number of Bonds	27,901,785 Bonds.
Nominal value of each Bond	€17.92, representing a 70% premium compared to the volume-weighted average price of the Company’s shares recorded on Euronext Paris (“ Euronext Paris ”) from the start of trading on 20 March 2019 until the determination of the final terms of the Bonds.

**Preferential subscription right –
Preferential subscription period**

Not applicable.

Private placement

In France and outside France, on 20 March 2019, by private placement to persons referred to in Article L. 411-2 II of the French Monetary and Financial Code (*Code monétaire et financier*), via an accelerated bookbuilt, excluding in particular the United States, Canada, Australia or Japan (the "**Private Placement**").

Public offering

No public offering has been made.

Principal shareholders' subscription

The French state has subscribed to 3,987,165 Bonds in the context of the Private Placement, corresponding to a nominal amount of €71.45 million.

Issue price of the Bonds

At par, i.e. €17.92 per Bond.

Rights entitlement date

On 25 March 2019 (the « **Issue Date** »).

Rating

The issue was not subject to any rating request.

Listing

On 24 April 2019, at the latest, under ISIN code: FR0013410628 on Euronext Access™.

Clearing

Euroclear France, Euroclear Bank S.A./N.V. and Clearstream Banking, S.A.

Underwriting

Placement of the Bonds and underwriting of settlement-delivery by HSBC France, Natixis and Société Générale (or their affiliates) pursuant to the terms of the underwriting agreement to be signed on 20 March 2019 between the Company and HSBC France, Natixis, Société Générale and BNP PARIBAS (the "**Underwriting Agreement**").

Lock-up

As from the signature of the Underwriting Agreement and until the end of a period of 90 calendar days after the settlement-delivery date of the Bonds, for the Company, subject to certain customary exceptions.

Timetable of the issue

20 March 2019

Publication of a press release from the Company announcing the launch and the indicative terms and conditions of the issue.

Opening of the Private Placement book of orders.

Closing of the Private Placement book of orders.

Setting of the final terms and conditions of the Bonds.

Publication of a press release by the Company announcing the closing of the Private Placement and the final terms and conditions of the Bonds.

Signing of the Underwriting Agreement

25 March 2019

Settlement-delivery of the Bonds.

On 24 April 2019, at the latest

Listing of the Bonds on Euronext Access™

Terms of the Bonds

Status of the Bonds	Direct, unconditional, unsubordinated and unsecured obligations.
Negative Pledge applicable to the Bonds	Only in respect of security interests granted by the Company, Société Air France or Koninklijke Luchtvaart Maatschappij N.V. (« KLM »), to holders of other bonds issued by the Company or these companies.
Nominal rate – Coupon	The Bonds will bear interest at a nominal rate of 0.125% per annum, payable annually in arrear on 25 th March of each year (each, an « Interest Payment Date »). It is hereby specified that if the Interest Payment Date is not a business day, the coupon will be paid on the next following business day.
Term	7 years.
Redemption at maturity	Redemption in full on 25 March 2026 (or, if that date is not a business day, the next following business day) at par value.
Early redemption at the option of the Company	<ul style="list-style-type: none">- at any time, for all or part of the Bonds, without limitation as to price or quantity, either on or off-market or by means of tender or exchange offers.- at any time on or after 15th April 2022 until the term of the Bonds, for the total outstanding Bonds, subject to a minimum of 30 (but not more than 60) calendar days prior notice, at their principal amount plus accrued interests, if the arithmetic mean, calculated in respect of ten consecutive trading days during which the shares are quoted among the period of twenty consecutive trading days immediately preceding the day of the publication of the early redemption notice, (i) of the products of the volume weighted average price of the shares on Euronext Paris on each trading day and (ii) the conversion/exchange ratio applicable on each such trading day exceeds 130% of the principal amount of the Bonds.- at any time, for the total number of Bonds still outstanding, subject to a minimum of 30 (but not more than 90) calendar days prior notice, at their principal amount plus accrued interests, if the total number of Bonds still outstanding represents less than 15% of the number of Bonds originally issued.
Early Redemption of the Bonds	Possible, at their principal amount plus accrued interests, notably upon the occurrence of an event of default by the Company.
Early redemption at the option of the Bondholders in the event of a change of control	Possible at their principal amount plus accrued interest, in case of a change of control of the Company, or in the event that a third party comes to hold (i) more than 50% of the share capital of Société Air France and/or the economic rights of KLM or (ii) more than 50% of the voting rights of Société Air France and/or KLM.
Early redemption at the option of the Bondholders on 25 March 2024	Any bondholders may, at its option, request early redemption of the Bonds on 25 March 2024, at their principal amount plus accrued interests.

Conversion/Exchange Right of the Bonds for shares

At any time from the fortieth day following the Issue Date and until the seventh business day preceding the redemption date or the relevant early redemption, the bondholders may exercise their right to the allocation of shares from the Company at the ratio of one share per one Bond, subject to any further adjustments.

The Company may, at its sole option, deliver new shares to be issued or existing shares or a combination thereof.

Listing of shares issued or delivered upon conversion and/or exchange of Bonds and date as from which they carry full rights

The new shares issued upon conversion of the Bonds will carry all rights attached to shares. The new shares will be subject to periodic applications for admission to trading on Euronext Paris and Euronext Amsterdam, as the case may be, on a secondary quotation line until their complete assimilation with the existing shares.

The existing shares will carry all of their existing rights. They will be immediately negotiable.

Applicable law

French law.

It is hereby reminded that the issue price of €17.92 per Bond was set at the end of the book building procedure to investors referred to in Article L. 411-2 II of the French Monetary and Financial Code (*Code monétaire et financier*), and that this price resulted in a 70% premium compared to the volume-weighted average price of the Company's shares recorded on Euronext Paris from the start of trading on 20 March 2019 until the determination of the final terms of the Bonds.

2. Description of the impact of the issuance and of the conversion into new shares or exchange for existing shares of all of the Bonds on the holders of shares and securities conferring entitlement to share capital

For reference only, the impact of the issuance and of the conversion into new shares or exchange for existing shares of all of the Bonds on the consolidated shareholders' equity (Group share) is as follows:

Calculations made on the basis of the shareholders' equity contained in the statutory accounts as at 31 December 2018, the number of shares comprising the share capital of the Company at the same date and an issue price of €17.92 per Bond.

	Portion of shareholders' equity per share (in euros)	
	Non-diluted basis	Diluted basis
Before issuance of the Bonds	10.70	10.70
After issuance and conversion or exchange of 27,901,785 Bonds	11.14	11.14

For reference only, the impact of the issuance and the conversion of the Bonds into new shares on the shareholding of a shareholder not participating in the offering of the Bonds holding 1% of the Company's share capital prior to the issue would be as follows:

Calculations made on the basis of the number of shares comprising the share capital of the Company as at 31 December 2018.

	Holding of shareholder (in %)	
	Non-diluted basis	Diluted basis
Before issuance of the Bonds	1 %	1 %
After issuance and conversion or exchange of 27,901,785 Bonds	0.939 %	0.939 %

3. Impact of the issuance and of the conversion into new shares of all of the Bonds on the market value of the Company

The theoretical impact on the Company's share market value, i.e. approximately €11.06 (average opening share price of the twenty trading sessions preceding 20 March 2019), of the issuance and of the conversion into new shares of all of the Bonds would be as follows:

	Market value of the Air-France-KLM share (in euros)	
	Non-diluted basis	Diluted basis
Before issuance of the Bonds	11.06	11.06
After issuance and conversion or exchange of 27,901,785 Bonds	11.48	11.48

The Statutory Auditors have verified the compliance of this capital increase with the delegation of authority granted by the general meeting of shareholders held on 16 May 2017 and they have certified it in their supplementary report established pursuant to articles R. 225-116 and R. 225-117 of the French Commercial Code (*Code de commerce*).

In accordance with applicable legal and regulatory provisions, this supplementary report and the Statutory Auditor's supplementary report are available to shareholders at the registered office of the Company and will be brought directly to shareholders' attention at the next general meeting.

The Board of Directors