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Air France-KLM S.A.

Statutory Auditors' special report on regulated agreements and commitments

Shareholders' Meeting held to approve the financial statements for the year ended December 31, 2018
Air France-KLM S.A.
2, rue Robert Esnault-Pelterie – 75007 Paris

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Air France-KLM S.A.

Registered office: 2, rue Robert Esnault-Pelterie - 75007 Paris
Share capital: €428,634,035

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, 2018

The Statutory Auditors

KPMG Audit *A division of KPMG S.A.*		Deloitte et Associés	
Jean-Paul Vellutini *Partner*	Eric 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.