

# ACTION

Air France-KLM's  
shareholders' newsletter

October 2016

# air



**Jean-Marc Janaillac**  
Chairman and Chief Executive  
Officer of Air France-KLM



Dear Shareholders,

Joining Air France-KLM as Chairman and Chief Executive Officer gives me a feeling of pride, but also of enormous responsibility at an important moment in the history of your Group.

On my arrival in July, I was impressed by the assets of our two airlines: strong, recognized brands, the power of the dual hubs, a dense, balanced network with 320 destinations in 114 countries and solid alliances like the one we have forged with Delta Airlines.



# TRUST TOGETHER



## New strategic plan for the Air France-KLM Group

[For more, see page 2](#)

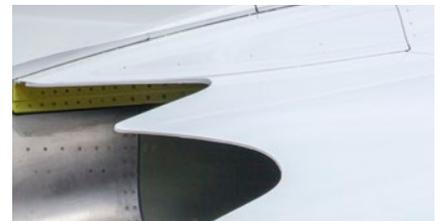
## Annual General Shareholders' Meeting of May 19, 2016



**Report on the Group's latest Annual  
General Shareholders' Meeting.**

[For more, see page 6](#)

## First Boeing 787 for Air France



**First photo of the Dreamliner**

[For more, see page 7](#)

## First-half results 2016

[For more, see page 3](#)

→ **Jean-Marc Janailiac**  
editorial continued

This winter, your Group's network will be strengthened with new long-haul destinations: San José and Accra with Air France, Windhoek, Miami, Colombo and Tehran with KLM.

The Group is, however, developing within a fiercely competitive environment, characterized by capacity growth and declining unit revenues and, in France, a difficult social context and terrorist attacks which have struck the country in recent months. It is vital that the Group pursues its efforts to secure its share of the global growth in the airline sector.

This is the aim of the "Trust Together" plan which must enable us to rebuild trust and respond to the strategic challenges currently facing the Group, through clear, ambitious and realistic choices.

Thank you for your support and confidence.

## TRUST TOGETHER

is the Air France-KLM Group's new strategic plan, established through a collective approach aimed at rebuilding trust across the Group and responding to the strategic challenges currently facing the business. **Trust Together** does not bring to a halt the action plans already implemented by the Group's airlines within the framework of the Transform 2015 and Perform 2020 plans but aims to supplement and reinforce the latter by giving the Air France-KLM Group and its employees a shared vision and a growth and productivity goal which will constitute the foundations of their common future and give everyone renewed desire to believe in this. Trust Together seeks to leverage our collective intelligence by involving employees and their representatives in the planning process, via surveys of managers and staff to garner their opinions and ideas, and via working groups comprising the Group's senior executives and experts.

Jean-Marc Janailiac has moreover informed the Group's unions of his commitment to

establishing a shared analysis of the Group's situation via this approach.

A listening and diagnostic phase will be followed by a phase aimed at finalizing the strategic orientations, culminating in the presentation of a strategic plan to the Group's Boards of Directors.

He has also confirmed his commitment to ensuring that the employee negotiations under way at Air France (pilots and cabin crew) take into account the vision and strategic framework to be unveiled in early November. To allow time for this, he has asked Frédéric Gagey to extend the freeze on the application of the Transform measures for pilots for a three month period through to February 1, 2017. To allow time for this negotiation, he has also proposed to the Cabin Crew unions that they introduce a special clause to extend by several months the duration of their collective agreement which is scheduled to expire on October 31, 2016, something which they have accepted.

### Air France-KLM named "Airlines" leader in the DJSI ranking for the twelfth year running



Air France-KLM has been named leader in the "Airlines" category for the twelfth year running in the Dow Jones Sustainability Index (DJSI), the main international index evaluating companies on their sustainable development performance. Air France-KLM is one of the 58 most responsible companies in the world, each in their business segment.

To factor sustainable development into its businesses and operations, Air France-KLM mobilises around four main priorities:

- Reducing its environmental footprint by optimising operations, innovating with the supply chain and mobilising employees and the industry as a whole.
- Factoring sustainability into the end-to-end service chain to offer customers innovative and responsible products and services.
- Promoting a responsible HR policy and encouraging employee development to guarantee their motivation and high professional standards.
- Contributing to the economic and social development of the territories where the Group is present.

Air France-KLM pursues its proactive innovation in favor of sustainable development, in particular by factoring the principles of the circular economy into its operations and by mobilising around the development of sustainable alternative biofuels for aviation.

## Air France-KLM: first-half 2016 results

### > Continued improvement in the operating result

In the first half 2016, the Air France-KLM Group posted a significant improvement in its operating result relative to the first half 2015, within a context marked by significant geopolitical uncertainty and strong industry capacity growth: operating income stood at €218 million versus a loss of €238 million in the first half 2015, i.e. a €456 million improvement.

Revenues amounted to €11.8 billion, down by 2.6% relative to the first half 2015, while operating costs stood at €11.6 billion, down by 6.3%, with a fuel bill of €2.3 billion down by €0.9 billion. Thanks to on-going restructuring efforts, unit costs<sup>(1)</sup> fell by 1.3% relative to the first half 2015.

### > Increased pressure on unit revenues in the Passenger Network business

The Passenger Network business posted a 2.8% fall in unit revenue excluding currency, with a marked deterioration during the second quarter, reflecting the growing capacity/demand imbalance across a significant portion of the network and increasingly soft flows to France as a destination.

Transavia maintained its strong growth rate, with passenger numbers up by 19.1%, reflecting the accelerated development in France and the opening of its Munich base in late March 2016.

The Cargo business pursued its restructuring with a 5.6% reduction in capacity and the phasing out of one full freighter during the first half, followed by a further two aircraft in early July.

The Maintenance business continued its growth, with an 11.6% increase in third-party revenues (+9.9% ex currency) and a 10% rise in the order book.

### > Continued reduction in net debt to €4.0 billion

Operating free cash flow stood at €373 million, enabling a €265 million reduction in net debt compared with December 31, 2015: at June 30, 2016, net debt amounted to €4.0 billion.

### > 2016 outlook

In view of the geopolitical uncertainties, the situation of structural industry overcapacity and a special

concern about France as a destination, Air France-KLM has the following outlook for 2016:

- The anticipated savings on the fuel bill are expected to be more than offset by downwards pressure on unit revenues and negative currency effects in the coming quarters
- A unit cost reduction target remaining at around 1%
- Operating free cash flow generation after disposals maintained at between €0.6 billion and €1.0 billion. The 2016 investment plan (between €1.8 billion and €2.0 billion, including the buying back of aircraft under operating leases) and the disposal program (between €0.3 billion and €0.6 billion) will be adjusted depending on operating free cash flow generation.
- A further significant reduction in net debt.

*(1) In EASK (equivalent available seat-kilometer) on a constant currency, fuel price and pension-related expense basis*

### > A further significant reduction in net debt

First half	2016	2015	Change
Passengers (millions)	44.3	42.6	+3.9%
Revenues (€m)	11,820	12,140	-2.6%
EBITDA (€m)	994	531	+463
Operating result (€m)	218	-238	+456
Net result, Group share (€m)	-114	-638	+524
Restated net result, Group share (€m)	-24	-431	+407
Net debt at end of period (€m)	4,042	4,307	-265

## Air France, official partner of the film “Brice 3”



This October, the famous character Brice de Nice stages his comeback to the big screen in a second opus entitled “Brice 3”.

More than ten years after the success of the first film, the surfer from Nice returns in a new adventure in which he has to catch a plane to save his friend, Marius de Fréjus. It was against this backdrop that Air France and the film production crew worked in close cooperation on a number of sequences, one of which was particularly spectacular. Air France even had a real-size aircraft cabin reproduced in the studio so that Brice could surf on the wing of one of its legendary Boeing 777s. As the official partner of the film, Air France appears on five occasions, alongside the company HOP! Air France.

### A special flight

To mark the avant-première of the film in Nice, Air France decided to team up with Gaumont to organize a special event for its customers, surprising them with the opportunity to travel in the company of Jean Dujardin and the film’s production team.

Passengers were treated to an unforgettable arrival in Nice as they disembarked from the plane on a yellow carpet with a guard of honour formed by Air France agents sporting the film’s colours.

### Air France and cinema

With this collaboration, Air France underlines its commitment to the world of cinema with which it has long-established strong ties. Whether as producer, distributor or carrier, Air France has played all the roles over the years as part of its commitment to promoting French films around the world. With over 38,000 intuitive navigation screens, Air France offers a new selection of recent comedies, dramas and action films every month.

## The company celebrates 50 years of operations in China !

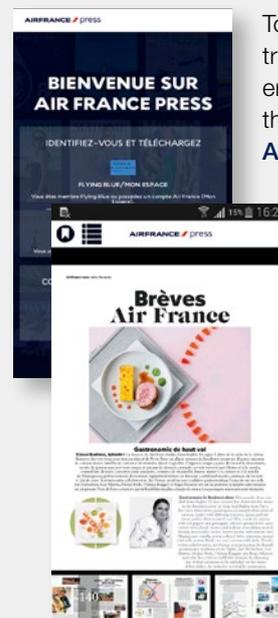


In September 1966, Air France inaugurated its Paris-Shanghai route, thereby becoming the first European carrier to serve the People’s Republic of China.

On September 8, 2016, to celebrate 50 years of operations linking the company and China, the Air France-KLM senior managements traveled to China where they were welcomed by Axel Cruau, Consul General of France in China, and met their different airline partners in this priority market.

Air France-KLM currently offers 90 weekly flights to nine destinations in Greater China on departure from Paris-Charles de Gaulle and Amsterdam-Schiphol. It has also reinforced the power of its network. With its Chinese airline partners, China Southern Airlines, China Eastern Airlines and Xiamen Airlines, the Group offers up to 132 weekly flights bound for China.

## Air France Press, the free digital press kiosk



To accompany them during their travel, Air France offers its customers the opportunity to download their favorite press for free with the **Air France Press** application.

Available as of 30 hours prior to their flights on tablets and smartphones and regularly enriched with a comprehensive selection of daily newspapers and magazines, Air France Press enables passengers to choose between a wide range of the French and international press. Over the summer, the application also saw the addition of “youth” publications for child globe trotters.

## 2016-2017 Winter schedule

- Capacity +3.7% compared with the previous winter season
- 52 new routes on the long, medium and short-haul network
- On-going modernization of the fleet and an upgrade in products and services
- New connecting banks at the Paris-Charles de Gaulle hub

For the 2016-17 Winter season (from October 30, 2016 to March 25, 2017), the Group's capacity is increasing (+3.7%) relative to the previous winter season. The growth is being driven by long-haul passenger network operations (+2%), short and medium-haul passenger network operations (+3.3%) and Transavia's low-cost activity (+28.6%).

### 52 new routes compared with the previous winter season

On its **long-haul network**, Air France-KLM is launching nine new routes and expanding its network on all continents. In the USA, in continuation of the 2016 summer season, Air France continues to serve New York-JFK on departure from Paris-Orly and KLM is relaunching the Amsterdam-Schiphol-Miami service. In the Middle East, Air France continues to serve Tehran (Iran) on departure from Paris-Charles de Gaulle and KLM will begin operating this route from Amsterdam-Schiphol. In continuation of the 2016 summer season, KLM serves the Amsterdam-Schiphol-Astana (Kazakhstan) route. In Africa, Air France is launching flights to Accra (Ghana) and KLM is inaugurating Windhoek (Namibia) on departure from their respective hubs. In South America, Air France is connecting for the first time Paris-Charles de Gaulle to San José (Costa Rica). Finally, in Asia, KLM plans to operate direct flights between Amsterdam-Schiphol and Colombo (Sri Lanka).



This winter, on its **short and medium-haul network**, Air France-KLM is offering 12 new routes in response to market demand: Biarritz (France), Glasgow (Scotland) and Oran (Algeria) on departure from Paris-Charles de Gaulle together with Luxembourg on departure from Lyons operated by

Air France. Dresden (Germany), Dublin (Ireland), Inverness (Scotland), Genoa (Italy), Southampton (UK), Valencia and Alicante (Spain) complete the new routes operated by KLM on departure from Amsterdam-Schiphol. HOP! Air France is launching the new Navette to Montpellier, in addition to the four existing routes between Paris-Orly and Toulouse, Bordeaux, Marseilles and Nice. In continuation of the 2016 summer season, Air France also serves the Rennes-Amsterdam-Schiphol route.

Finally, **Transavia** is experiencing significant growth with the opening of 31 new routes, including 17 on departure from Munich, nine on departure from Amsterdam-Schiphol and five on departure from France (Paris-Orly and Lyons).

## Extension of the cooperation with Jet Airways



Following the success of the codeshare agreement launched in March 2016, Air France-KLM and Delta Air Lines are enhancing their existing partnership with India's Jet Airways by proposing new travel options for customers flying from the United States via Paris-Charles de Gaulle to India, complementing the current service offered through Amsterdam-Schiphol.

Effective October 30, and subject to government approvals, Delta customers flying from the United States and Europe will be able to connect onto Jet Airways' flights to Mumbai from Paris-Charles de Gaulle and New Delhi and Mumbai from Amsterdam-Schiphol.

The key points of the agreement cover the extension of this cooperation which will eventually lead to the addition of new Indian destinations for Air France-KLM and Delta customers, together with full frequent flyer mileage reciprocity. Soon, Delta SkyMiles and Jet Airways Jet Privilege members will also enjoy network-wide, reciprocal mileage earning and redemption privileges.

# Ordinary General Shareholders' Meeting of May 19, 2016

**The Ordinary General Shareholders' Meeting of May 19, 2016, chaired by Alexandre de Juniac, welcomed 500 people to the Carrousel du Louvre, in the presence of the members of the Board of Directors**



The quorum for the meeting reached 56.85%, representing 168,305,187 shares held by shareholders present or represented, of a total of 296,069,700 shares with voting rights, each share conferring the right to one or two votes depending on the individual situation.

As from April 3, 2016, and 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 have effectively benefited from a double voting right.

In total, 11,401 shareholders present or represented adopted the 11 resolutions submitted to the vote.

The Chairman began by reminding the Meeting of the changes in the composition of the Board of Directors during 2015 and its current composition.

Mr. Dehecq, Chairman of the Appointments and Governance Committee, then introduced the Directors whose proposed appointment was being submitted to the General Shareholders' Meeting. Ms. Anne-Marie Couderc and Messrs. N.J. Hans Smits and Alexander R. Wynaendts were appointed as Directors for respective terms of four years, replacing Messrs. Jean-François Dehecq, Cornelis van Lede and Leo van Wijk, whose mandates were due to expire at the end of the Meeting.

Mr. Dehecq then gave a presentation on the work of the Appointments and Governance Committee within the framework of the succession plan approved by the Board of Directors, leading to the decision to appoint Mr. Janailac as Chairman and CEO of Air France-KLM replacing Mr. de Juniac.

Mr. Riolacci, the Air France-KLM Group's Chief Financial Officer, followed up with a presentation on the activity and financial results for the 2015 financial year.

Before outlining the main strategic orientations, the Chairman gave a presentation on the highlights of 2015, aided by an introductory video setting out the Group's ambitions.

To capture the current market growth, the Group's competitiveness needs to be strengthened so that it can once more rank amongst the best European airlines. This is the challenge of the reinforcement and the cost savings linked to the competitiveness component of the Perform 2020 plan.

To this end, action must focus on three main areas:

- The modernization of the production base through fleet renewal
- Cost savings
- The renegotiation of the agreements with the different categories of staff, at both KLM and Air France.

The Chairman then reiterated the importance of long-haul partnerships, particularly the joint-venture with Delta but also the joint-ventures with China Eastern and China Southern. He also stressed the importance of Transavia's development for the Group.

The Meeting was broadcast live on the Air France-KLM website and is available at the following address:

<http://www.airfranceklm.com/fr/finance/actionnaires/webcast-ag>

**Next Annual General Shareholders' Meeting:  
Tuesday May 16, 2017**



# Air France pursues its move up market dynamic

## Arrival of the new Boeing 787

On January 9, 2017, Air France will operate its first commercial flight in a Boeing 787 between Paris-Charles de Gaulle and Cairo..

This aircraft combines multiple assets:

- The best of Air France with the very latest travel cabins
- An on-board wifi connection
- More comfort and space with the new Premium Economy seats
- Windows some 30% larger
- A major reduction in fuel consumption of around 20%
- A significant reduction in CO<sub>2</sub> (around 20%) and noise emissions

## In-seat service in Business

Since May 2016, Air France has been offering an in-seat service in the Business cabin on board some flights linking Paris-CDG with Singapore and New York-JFK. This new offer enables passengers to be welcomed in the tradition of French fine dining. In the vanguard of customization and aesthetics, the airline's crews take personal menu orders from passengers. The table is set for an individual, in-seat service, meal trays having disappeared and the presence of trolleys limited. Each table is set by the crew to showcase the culinary proposition and the art of service in the sky.

As in the best restaurants and to accompany this new in-seat service, Air France has created, in collaboration with the Paul

Bocuse Institute, a special training program for flight crews. Following the success of this new service, Air France plans to roll it out on numerous other destinations in 2017.

## A new Premium Economy seat

Air France has redesigned its Premium Economy seats to offer more comfort for customers. This new Premium Economy seat marks the first phase in a series of improvements.



As of January 9, on board the first commercial flight for the Boeing 787, Premium Economy passengers will benefit from more space thanks to:

- A 2.5 cm increase in seat size
- More legroom and a 5 cm more space between seat rows
- A fixed seat pan/seatback which has been welcomed by customers
- A seat reclinable up to 130°, more space between seats and a central arm rest some 2.55 cm wider
- A groove in the tray table enabling passengers to maintain a book or tablet in a vertical position
- Numerous other practical and innovative functionalities

## Some dates for the on-going move up market

On the company's long-haul routes, 36 Boeing 777s will be equipped with new cabins and will serve 32 destinations this winter.

As of Winter 2017, Air France will begin the roll-out of the move up-market for its Airbus A330s for expected delivery in Winter 2018. In parallel, the company is studying the retrofitting of its Airbus A380s with a possible deployment as of 2019.

On the medium-haul routes, the cabin upgrade program is also on-going with 24 Airbus A320s having been modified as of end October 2016. Next November, Air France will begin the modification of its 21 Airbus A321s.

## 31 MY MEETINGS

### Next news

Thursday November 3, 2016

Third quarter 2016 results

### Forthcoming invitations

Thursday November 3, 2016

"Création" by Rocio Molina, Flamenco star

Théâtre National de Chaillot in Paris

Number of places limited

Sign up by Thursday October 27, 2016 inclusive by email at: [mail.actionnaires@airfranceklm.com](mailto:mail.actionnaires@airfranceklm.com)

### Forthcoming meetings of the Shareholders' Committee

Wednesday November 30, 2016

Wednesday January 25, 2017

Wednesday April 26, 2017

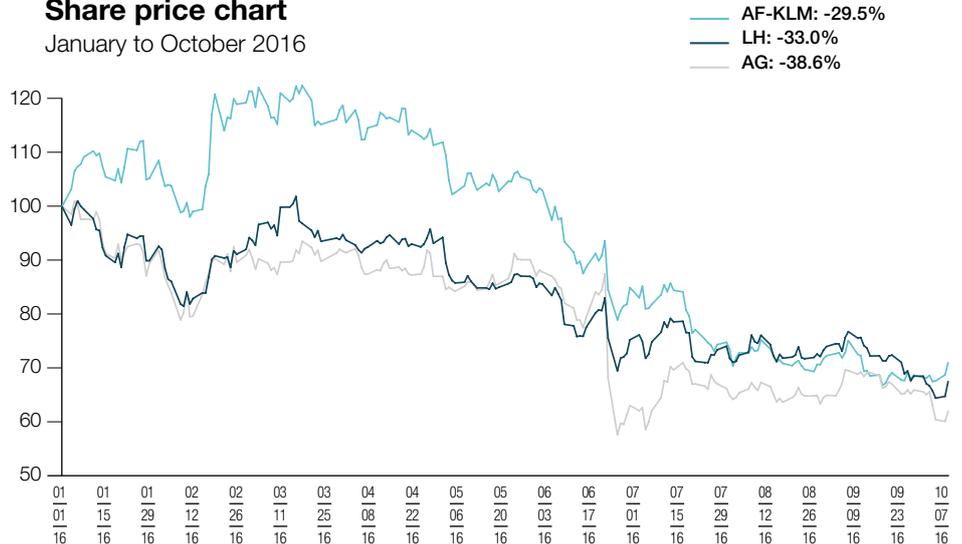
### Next Annual General Shareholders' Meeting

Tuesday May 16, 2017 at the Espace Grande Arche, La Défense

## My shares

### Share price chart

January to October 2016



## Stock information

Eligible for deferred settlement and for PEAs (tax-exempt equity savings plans)

### INCLUDED IN THE FOLLOWING MAIN INDICES

**French/Dutch:** CAC Mid 60  
SBF 120  
AEX-index

**Global:** DJ Eurostoxx 600

**Sector:** DJ Eurostoxx 600 Travel & Leisure

**Euronext FAS IAS index** of stocks with a significant proportion of employee shareholders

Securities services:

**Société Générale**  
SBO/CSS/BOC  
32 rue du Champ de Tir  
CS 30812  
44308 Nantes Cedex 3  
France

### DUAL LISTING

Euronext Paris and Amsterdam

ISIN equity code FRO000031122

Reuters code AIRF.PA

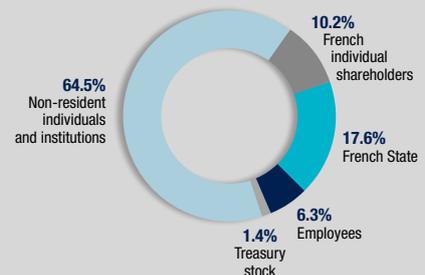
Bloomberg code AAFP

OTC Market AFLY

### 2015 DECLARATION

Wealth Tax share price €7.96

### SHAREHOLDER BREAKDOWN AT JUNE 30, 2016



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