

AIR FRANCE-KLM
A French *société anonyme* with a share capital of €300,219,278
Registered office : 2 rue Robert Esnault Pelterie 75007 Paris
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SUPPLEMENTARY REPORT OF THE BOARD OF DIRECTORS
(ARTICLE R. 225-116 OF THE FRENCH COMMERCIAL CODE (*CODE DE COMMERCE*))

Ladies and gentleman,

The Board of Directors has decided to make use of the delegation of authority granted by the ninth resolution of the extraordinary shareholders' meeting held on 7 July 2011 to proceed with the issue, without preferential subscription rights but with a priority subscription period, by way of an offer to the public, of bonds convertible and/or exchangeable for new and/or existing Air France-KLM shares (*obligations à option de conversion et/ou d'échange en actions nouvelles et/ou existantes*).

Pursuant to article R. 225-116 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 7 July 2011

The general meeting of shareholders on 7 July 2011, in its ninth resolution, delegated to the Board of Directors for a twenty-six month-period, with the option to subdelegate in accordance with legal and regulatory conditions, its authority to decide on one or more capital increases through the issue in France and/or abroad, by way of an offer to the public, of ordinary shares or any securities giving rights by any and all means, immediately or in the future, to the allocation of ordinary shares of the Company's capital.

The total nominal amount of the capital increases that may be realized immediately and/or in the future under this delegation may not exceed an amount of €75 million (to this maximum amount shall be added, as applicable, the nominal amount of any additional shares to be issued in the event of financial transactions to protect the rights of the holders of securities giving access to the Company's capital, pursuant to applicable law and, as applicable, to the contractual provisions providing for other adjustments). This maximum amount will be charged against the maximum amount set in the eighth resolution of the said general meeting of shareholders, i.e. €120 million.

The nominal amount of bonds or related securities giving access to the share capital of the Company which may be issued under this delegation shall not exceed €1 billion on the date of the issue decision, or the equivalent value thereof in the case of an issue in a foreign currency or monetary unit established by reference to several currencies.

The general meeting also decided to grant shareholders a mandatory priority subscription right, not giving rise to the creation of negotiable rights, exercisable in proportion to the number of shares held by each shareholder and, as the case may be, subject to reduction, and therefore delegated to the Board of Directors the power to set its period and conditions in accordance with legal and regulatory provisions.

1.2 Board of Directors of 18 March 2013

On 18 March 2013, the Board of Directors, pursuant to the delegation of authority granted by the ninth resolution of the extraordinary shareholders' meeting held on 7 July 2011, decided (i) to proceed with the issue, without preferential subscription rights but with a priority subscription period, by way of an offer to the public, of bonds convertible and/or exchangeable for new and/or existing Air France-KLM shares, for a maximum nominal amount of €550 million (the "**Bonds**"), it being specified that this maximum nominal amount includes the bonds that may be issued upon exercise

of the extension clause described below, (ii) to increase the Company's share capital following the possible conversion of the Bonds into ordinary shares of the Company, up to a maximum nominal limit of €75 million (to this maximum amount can be added, as applicable, the nominal amount of additional shares to be issued to protect the rights of the Bondholders pursuant to applicable legislation and to the terms and conditions of the Bonds) and (iii) to set the characteristics, terms and financial conditions of such issue by ranges and maximum amounts as detailed below, it being specified that the redemption of the Bonds and the payment of the interests thereof shall be guaranteed by Air France and KLM as several but not joint guarantors ("*cautions conjointes*"), up to 60% by Air France and 40% by KLM.

The Board of Directors granted all necessary powers to the Chairman and Chief Executive Officer (*Président-Directeur Général*) in order to carry out and implement the issue of Bonds, in accordance with the terms and limits set forth by the Board pursuant to the ninth resolution of the extraordinary shareholders' meeting held on 7 July 2011.

1.3 Decision of the Chairman and Chief Executive Officer dated 19 March 2013

In a decision dated 19 March 2013, the Chairman and Chief Executive Officer, pursuant to the delegation granted by the Board of Directors at its meeting held on 18 March 2013, set the characteristics, terms and financial conditions ranges of the Bonds and the indicative timetable of the issue. The Chairman and Chief Executive Officer fixed the initial issue size at approximately €480 million which may be increased to a maximum amount of approximately €550 million upon the full exercise of the extension clause by the Company in agreement with the Global Coordinators, Joint Lead Managers and Joint Bookrunners.

1.4 Decision of the Chairman and Chief Executive Officer dated 25 March 2013

In a decision dated 25 March 2013, the Chairman and Chief Executive Officer, pursuant to the delegation granted to him by the Board of Directors at its meeting held on 18 March 2013, set the characteristics, terms and definitive financial conditions of the Bonds as follows :

Characteristics of the offering

Proceeds and purpose of the offering	The proceeds of the issuance will be used for the Group's general corporate purposes, notably to finance its fleet, and allow for the optimisation of its debt repayment schedule. The proceeds will be made available to Société Air France and KLM in proportion to their respective obligations under the Guarantee, i.e. 60% for Société Air France and 40% for KLM.
Issue size and gross proceeds	€549,999,997.40.
Net Proceeds	Approximately €547.1 million.
Number of Bonds	53,398,058 Bonds convertible and/or exchangeable for new and/or existing Air France-KLM shares (<i>option de conversion et/ou d'échange en actions ordinaires nouvelles et/ou existantes</i>) (the « Bonds »).
Nominal value of each Bond	€10.30
Issue price of the Bonds	At Par
Rights entitlement date	On 28 March 2013 (the « Issue Date »).
Gross annual yield to maturity	2.03 %
Listing	On 28 March 2013 under ISIN code FR0011453463 on, the regulated market of NYSE Euronext in Paris (« Euronext Paris »).

Underwriting	The issue was underwritten in its entirety by a syndicate of banks led by BNP PARIBAS and Société Générale (excluding Bonds subscribed by the French State).
Lock-up	As from the signature of the underwriting agreement and until 90 days after the settlement-delivery date, for the Company Société Air France and KLM, subject to customary exceptions.

Terms of the Bonds

Rank of the Bonds	The Bonds and the interests thereof will constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Company and will rank pari passu without any preference amongst themselves with all other unsecured and unsubordinated debts and guarantees, present or future, of the Company.
Negative Pledge applicable to the Bonds	Only in respect of security interests (“sûretés réelles”) granted by the Company on all or part of its assets or revenues to holders of other bonds issued or guaranteed by the Company.
Guarantee	Société Air France and KLM (the “Guarantors”) unconditionally and irrevocably guarantee as several but not joint guarantors (“cautions conjointes”), to the extent of 60% by Société Air France and 40% by KLM, the payment of all sums due by Air France-KLM under the Bonds.
Rank of the Guarantee	The Guarantee constitutes, to the extent of the quota guaranteed by each of the Guarantors, a direct, general, unconditional, unsubordinated and unsecured obligation of each of the Guarantors and rank pari passu with all other unsecured and unsubordinated debts and guarantees, present or future, of each of the Guarantors.
Negative pledge applicable to the Guarantee	Only in respect of security interests (“sûretés réelles”) granted by a Guarantor on all or part of its assets or revenues to holders of other bonds issued or guaranteed by Société Air France and/or KLM.
Nominal rate – Coupon	The Bonds will bear interest at a nominal rate of 2.03%, payable annually in arrear on 15 February of each year (or, if such date is not a business day, the next following business day). In respect of the period from the Issue Date to 14 February 2014, the interest calculated on a pro rata basis will be payable on 15 February 2014 (or, if that date is not a business day, the next following business day).
Term	9 years and 324 days.
Redemption at maturity	Redemption in full on 15 February 2023 (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 by way of repurchase	The Company may, at its sole option, redeem the Bonds at any time, in whole or in part and without restriction as to price or quantity, by repurchasing Bonds on or off the market or by means of a tender offer or an exchange offer.

Early redemption at the option of the Company	<p>The Company may, at its sole option, at any time from 28 September 2016 until the maturity date of the Bonds, subject to no less than a 30 calendar days prior notice, redeem all of the outstanding Bonds for a price equal to their principal amount plus accrued interest, if the arithmetic average, calculated over a period of 10 consecutive trading days from among the 20 trading days that precede the publication of a notice of such early redemption, of the product of the opening trading prices of the Company's shares on the Euronext Paris market and the Conversion/Exchange Ratio on each such date, exceeds 130% of the principal amount of each Bond.</p> <p>The Company shall also be entitled, at its sole option, at any time, subject to no less than 30 calendar days prior notice, redeem at their principal amount plus accrued interest (or, as the case may be, since the issue date), all of the outstanding Bonds, if less than 10% of the Bonds remain outstanding.</p>
Early Redemption of the Bonds	<p>The representative of the masse of Bondholders, on approval by the Bondholders' general meeting, may require that all Bonds be redeemed at their principal amount plus accrued interest, upon the occurrence of certain events (in particular a default in payment by the Company or breach of any of the provisions relating to the Bonds).</p>
Early redemption at the option of the Bondholders	<p>Possible at their principal amount plus accrued interest on 15 February 2019, or 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.</p>
Conversion/Exchange Right of the Bonds for shares	<p>At any time from the 40th day following the settlement-delivery, i.e., 7 May 2013, 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 1 share per 1 Bond, subject to any further adjustments.</p> <p>The Company may, at its sole option, deliver new shares to be issued or existing shares or a combination thereof.</p>
Listing of shares issued or delivered upon conversion and/or exchange of Bonds and date as from which they carry full rights	<p>The new shares will carry all rights attached to shares as from the first day of the financial year during which the exercise of the Conversion/Exchange Right was made and new shares will be subject to periodic applications for admission to trading on the regulated markets of NYSE Euronext in Paris and NYSE Euronext in Amsterdam, as the case may be, on a secondary quotation line until their complete assimilation with the existing shares.</p> <p>The existing shares will carry all of their existing rights.</p>
Applicable Law	French Law.

The characteristics of the Bonds are more fully described in the prospectus approved by the French Financial Markets Authority (*Autorité des marchés financiers*) on 19 March 2013, under *visa* n°13-077.

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

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 consolidated shareholders' equity (Group share) contained in the consolidated accounts as at 31 December 2012, the number of shares comprising the share capital of the Company at the same date after deducting treasury shares.

	Portion of shareholders' equity per share (in euros)	
	Non-diluted basis	Diluted basis ⁽¹⁾
Before issuance of the Bonds	16.63	16.09
After issuance and conversion or exchange of 53,398,058 Bonds	15.66	15.36

⁽¹⁾ *In case of exercise of all options to subscribe for and/or to acquire shares and conversion and/or exchange into shares of all bonds convertible and/or exchangeable for new or existing Air France-KLM shares issued by Air France in 2005 and by Air France-KLM in 2009.*

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 2012.

	Holding of a shareholder (en %)	
	Non-diluted basis	Diluted basis ⁽¹⁾
Before issuance of the Bonds	1 %	0.80 %
After issuance and conversion or exchange of 53,398,058 Bonds	0.85 %	0.70 %

⁽¹⁾ *In case of exercise of all options to subscribe for shares and conversion into new shares of all bonds convertible and/or exchangeable for new or existing Air France-KLM shares issued by Air France in 2005 and by Air France-KLM in 2009.*

3. Impact of the issuance and of the conversion into new shares of all of the Bonds on the market value of the Air France-KLM share

The theoretical impact on the Air France-KLM share market value, i.e. approximately €8.08 (average opening share price of the twenty trading sessions preceding 25 March 2013), 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 ¹⁾
Before issuance of the Bonds	8.08	9.29
After issuance and conversion or exchange of 53,398,058 Bonds	8.41	9.41

⁽¹⁾ *In case of exercise of all options to subscribe for shares and conversion into new shares of all bonds convertible and/or exchangeable for new or existing Air France-KLM shares issued by Air France in 2005 and by Air France-KLM in 2009.*

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 7 July 2011 and they have certified it in their supplementary report established pursuant to article R. 225-116 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