REGISTRATION DOCUMENT 2017

INCLUDING THE ANNUAL FINANCIAL REPORT

AIRFRANCE KLM

Selected financial information 4

Highlights of the 2017 financial year AFR 6

Highlights of the beginning of the 2018 financial year 8

1 CORPORATE GOVERNANCE REPORT AFR 9

1.1 The Board of Directors 10
1.2 Compensation of the company officers 40
1.3 The Group Executive Committee 54
1.4 Share capital and shareholder structure AFR 55
1.5 Information on trading in the stock AFR 63

2 ACTIVITIES AFR 65

2.1 Market and environment 66
2.2 Strategy 70

Activities
2.3 Network business 74
2.4 Low-cost business (Transavia) 89
2.5 Maintenance business 90
2.6 Fleet 96

3 RISK AND RISK MANAGEMENT AFR 101

3.1 Risk management system 102
3.2 Risk factors and their management 104
3.3 Organization and functioning of internal control 113
3.4 Ethics and compliance 120
3.5 Market risks and their management 122

4 CORPORATE SOCIAL RESPONSIBILITY: SOCIAL, CITIZENSHIP AND ENVIRONMENTAL INFORMATION AFR 127

4.1 Social information 129
4.2 Social indicators for the Group 142
4.3 Note on the methodology for the reporting of the social performance indicators 146
4.4 Corporate citizenship information 149
4.5 Environmental information 157
4.6 Environmental indicators 168
4.7 Note on the methodology for the reporting of the environmental indicators 172
4.8 Monitoring of Act No. 2017-399 known as the Duty of Vigilance Law 175
4.9 Table of concordance for the social, corporate citizenship and environmental information 177
4.10 Report by one of the Statutory Auditors 180

5 FINANCIAL REPORT AFR 185

5.1 Investments and financing 186
5.2 Property, plant and equipment 188
5.3 Comments on the financial statements 190
5.4 Key financial indicators 195

Financial statements
5.5 Consolidated financial statements 200
5.6 Notes to the consolidated financial statements 207
5.7 Statutory Auditors' report on the consolidated financial statements 287
5.8 Statutory financial statements 293
5.9 Five-year results summary 306
5.10 Statutory Auditors' report on the financial statements 307
5.11 Statutory Auditors' special report on regulated agreements and commitments 310

6 OTHER INFORMATION 311

6.1 History 312
6.2 General information 314
6.3 Information on the agreements concluded in connection with the business combination between Air France and KLM 315
6.4 Legislative and regulatory environment for the air transport industry 317
6.5 Information and control 320

GLOSSARIES 322

Air transport glossary 322
Financial glossary 324
Table of concordance for the Registration Document 326
Information included by reference 329
Table of concordance for the Annual Financial Report 330

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

REGISTRATION DOCUMENT 2017 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 Thursday March 29, 2018 pursuant to Article 212-34 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 or 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 transation and the French *Document de Référence,* the French version shall prevail.

MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dear Sir or Madam, Dear shareholder,

Within a buoyant but extremely competitive context for the air transport industry, Air France-KLM returned to the offensive in 2017 and achieved substantial progress. The Group is thus positioned as a European leader in terms of traffic expressed in passenger revenue-kilometers, having carried nearly 100 million people across five continents, i.e. 5.6% more than in the previous year.

This growth was accompanied by a marked improvement in performance and a significant reinforcement in the Group's financial structure: in 2017, Air France-KLM generated operating income of €1.5 billion, up by 42% relative to 2016, while net debt was reduced by €2 billion. These results reflect the commercial dynamic and attractiveness of the Group's airlines and we are proud of the Air France-KLM teams who have implemented the Group's projects and enabled the realization of its strategy.

2017 was also marked by major progress on the many projects aimed at strengthening our businesses and regaining the offensive within the framework of our Trust Together strategic plan.

"The Group is thus positioned as a European leader in terms of traffic expressed in passenger revenue-kilometers, having carried nearly 100 million people across five continents."

The Group consolidated its partnerships with strategic, commercial and capitalistic agreements, positioning it as the European pillar in the world's leading airline network. Air France-KLM thus announced, firstly, the creation of a single trans-Atlantic joint-venture between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic and, secondly, the intensification of its partnership with China Eastern Airlines. These two commercial alliances were consolidated by capitalistic links, Delta Air Lines, Inc. and China Eastern Airlines each acquiring a 10% stake in our share capital. We also worked on reinforcing our positioning in Asia via an expanded partnership with Jet Airways to offer our customers multiple travel options between India and Europe but also the United States with access to our trans-Atlantic joint-venture with Delta Air Lines, Inc.

2017 also saw the launch, in record time, of Joon, a "new-generation" airline, the ongoing growth and positive results for Transavia, the move up-market thanks to cabin refurbishment, the arrival of new, latest-generation aircraft in our fleet and, lastly, investment and project launches in the digital transformation at the service of customer intimacy.

The measures deployed within the framework of Trust Together have enabled Air France-KLM to return to growth and reinforce its position. The whole of the Group remains mobilized around putting these actions on a long-term footing and pursuing its growth.

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

99
MILLION PASSENGERS

1.14
MILLION TONS OF CARGO

537
AIRCRAFT IN OPERATION

314
DESTINATIONS

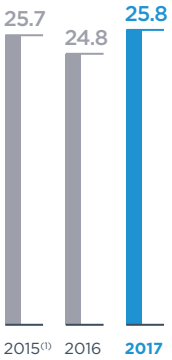
116
COUNTRIES SERVED

SELECTED FINANCIAL INFORMATION

Pursuant to Article 28 of Regulation (EC) no.809/2004 of April 29, 2004, the review of the financial situation and results for the financial year ended December 31, 2016 figuring on *pages **2 and 3*** of the 2016 Registration Document and the review of the financial situation and results for the financial year ended December 31, 2015 figuring on *pages **2 and 3*** of the 2015 Registration Document are incorporated by reference in this document. (*See also Section 5.4 – Key financial indicators, page **195***).

Revenues

(in € billion)

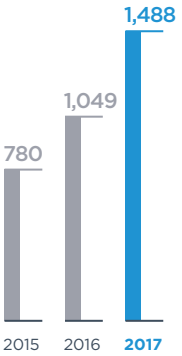


Revenues stood at €25.8 billion, 3.8% higher than in 2016.

(1) Servair was reclassified as a discontinued operation.

Income from current operations

(in € million)



Income from current operations amounted to €1,488 million, up by €439 million on the 2016 level.

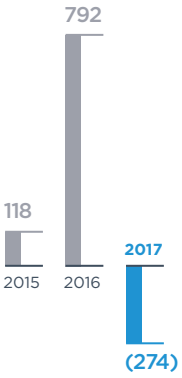
Information by business segment

At December 31	2017 Revenues (in €bn)	2017 Income/(loss) from current operations (in €m)	2016 Revenues (in €bn)	2016 Income/(loss) from current operations (in €m)	2015 Revenues (in €bn)	2015 Income/(loss) from current operations (in €m)
Network[1]	**22.48**	**1,192**	-	-	-	-
Passenger	**-**	**-**	19.68	1,057	20.54	842
Cargo	**-**	**-**	2.07	(244)	2.42	(245)
Third-party maintenance	**1.82**	**215**	1.83	238	1.588	214
Transavia	**1.44**	**81**	1.22	0	1.10	(35)
Other	**0.04**	**-**	-	(2)	0.05	4

(1) Since 2017, the Passenger and Cargo businesses have been regrouped under Network.

Net income/(loss), Group share

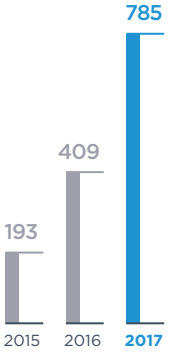
(in € million)



The net result, Group share stood at €(274) million, due to a non-current net expense of €1,429 million relating to the de-recognition of two KLM pension plans.

Restated net income, Group share

(in € million)

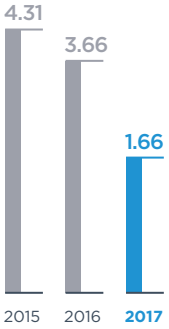


The restated net income[1], Group share amounted to €785 million versus €409 million in 2016, an increase of €376 million.

(1) After adjusting for non-current items (including the result from discontinued operations, unrealized foreign exchange gains and losses and the valuation of the derivatives portfolio.

Net debt

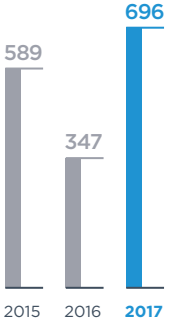
(in € billion, at December 31, 2017)



Net financial debt stood at €1.66 billion at December 31, 2017, down by €2 billion relative to December 31, 2016.

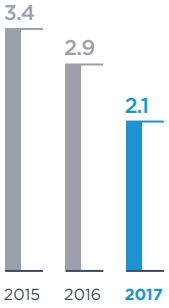
Operating free cash-flow

(in € million)



The Group generated operating free cash-flow of €696 million, up by €349 million on its 2016 level.

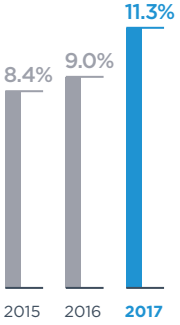
Adjusted net debt/EBITDAR



Over twelve rolling months, the adjusted net debt/EBITDAR ratio amounted to 2.1x at December 31, 2017, compared with 2.9x at December 31, 2016.

Return on capital employed (ROCE)

(at December 31, 2017)



The return on capital employed (ROCE) progressed by 2.3 points to 11.3% at the end of 2017.

HIGHLIGHTS OF THE 2017 FINANCIAL YEAR

Air France-KLM reinforces its strategic partnerships and realizes capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc.

On July 27, 2017, Air France-KLM announces a further major step in the strengthening of its strategic partnerships with, firstly, the creation of a single global joint-venture between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic and, secondly, the reinforcement of its partnership with China Eastern Airlines. These two commercial alliances are consolidated by equity investments:

- Air France-KLM will purchase 31% of the Virgin Atlantic share capital from Virgin Group for £220 million.
- Delta Air Lines, Inc. and China Eastern Airlines each acquire 10% of the Air France-KLM share capital within the framework of reserved capital increases for a total amount of €751 million.

For the realization of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc., 75,054,820 new shares are thus issued and are admitted to trading on the regulated market of Euronext Paris and Amsterdam. The strategic, commercial and capitalistic reinforcement of these partnerships positions Air France-KLM as the European pillar of the leading global airline network.

Air France-KLM Martinair Cargo, "Best Airline of the Year for Innovation"

On the occasion of the 60th anniversary of the Association of Air Freight Forwarders in Italy (Anama), Air France-KLM Martinair Cargo is recognized as the "Best Airline of the Year for Innovation" during a ceremony held in Milan on May 23, 2017, before more than 450 professionals.

This prestigious award acknowledges all the Air France-KLM Group's achievements in relation to digitization of the air freight industry. Over the past year, Air France-KLM Martinair Cargo's Italian teams have succeeded in deploying, promoting, selling and implementing myCargo, the new online portal offering tailor-made solutions for forwarder customers. This web platform is now available in all markets served by Air France-KLM Martinair Cargo and enables customers to access schedules, products, market rates and local conditions, as well as providing track and trace solutions and shipment notifications.

Air France-KLM figures in the DSJI Europe and World ranking

For the thirteenth consecutive year, Air France-KLM figures in the European and World ranking of the Dow Jones Sustainability Index (DJSI). The Group is the only air transport company to be included in the European ranking.

The DJSI Europe and World indices, established by the asset manager RobecoSAM, recognize respectively the 149 and 320 most responsible companies. The DJSI ranking is based on an in-depth analysis of the financial, social and environmental performance of more than 3,400 international companies and on the evaluation of numerous criteria like corporate governance, environmental policy, working conditions and citizenship initiatives.

Joon, the new airline in the Air France-KLM Group, takes off for the first time on December 1, 2017

The Air France-KLM Group is expanding with Joon, Air France's new "younger sister" airline. Joon is the new generation travel experience by Air France, the Company having been conceived to meet the expectations of a new generation of travelers. On offer: flexibility, personalized and tailor-made services. Joon is for all those who are looking for a new kind of travel experience.

To this end, the Joon air hostesses and stewards, and qualified pilots from Air France, will bring to life the new generation travel experience for their customers bound for medium- and long-haul destinations on departure from Paris-CDG in the Airbus A320/A321 and A340/A350. Joon is one of the major projects in the Trust Together strategic plan and will be one of Air France's levers in its offensive aimed at winning back customers.

Early redemption of the bonds convertible and/or exchangeable into new and/or existing shares (OCEANE) maturing on February 15, 2023

In November 2017, Air France-KLM proceeds with the early redemption of its bonds convertible and/or exchangeable into new or existing shares (OCEANE) maturing on February 15, 2023, nearly all the OCEANE holders having requested the conversion of their bonds into shares.

Exercise notices for 53,359,937 OCEANEs are received, representing 99.96% of the outstanding OCEANEs in circulation on October 16, 2017, giving right to the delivery of 53,359,937 ordinary shares, each with a nominal value of one euro. On November 15, 2017, a total of approximately €249,000 is paid in cash to the holders of the 23,768 OCEANEs not having exercised their conversion rights. The Company's share capital increases by €53,359,937 to stand at €428,634,035, composed of 428,634,035 ordinary shares, each with a nominal value of one euro.

This transaction enables Air France-KLM to further improve its financial structure by continuing to reduce debt and reinforcing its stockholders' equity.

For the Winter 2017-18 season: a 5.5% capacity increase

For the Winter 2017-18 season (from October 29, 2017 to March 24, 2018), Air France-KLM continues its growth by opening 52 new routes. The Group increases capacity by 5.5% relative to its level of the previous Winter season. The growth is driven by activity in the long-haul passenger network (+4.7%), the short and medium-haul passenger network (+5.5%) and Transavia's low-cost operations (+14.6%).

Six new directors appointed to the Air France-KLM Board of Directors

During the Shareholders' Meeting of May 16, 2017, as proposed by the Appointments and Governance Committee, the Board of Directors appoints Ms. Leni Boeren as an independent Board director.

On November 2, 2017, as proposed by its Appointments and Governance Committee, it is decided to co-opt Ms. Anne-Marie Idrac as a new independent Board director. This decision follows the appointment as Board directors, effective October 3, 2017, of Mr. Bing Tang from China Eastern Airlines and of the company Delta Air Lines, Inc., whose permanent representative is Mr. George Mattson.

In addition, on June 1, 2017, the *Comité de Groupe Français* appoints Mr. Karim Belabbas, a Support Technician Weight and Balance CDG Hub Ground Operations, as a Board director representing the employees. Furthermore, during its meeting of October 10, 2017, the European Works Council appoints Mr. Mathi Bouts, a Senior Purser on KLM long-haul flights, as a second Board director representing the employees.

Air France-KLM and Jet Airways sign an enhanced partnership agreement

On November 29, 2017, Air France-KLM and Jet Airways sign an Enhanced Cooperation Agreement for the joint development of their operations between Europe and India. This agreement strengthens the partnership built between the three airlines since 2014. This cooperation had been expanded in 2016 with an extensive code-share agreement for connections between Europe and North America and 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 to develop their commercial and product offering. Customers will thus benefit from multiple travel options and seamless service across the network of the three airlines, covering 44 Indian cities and 106 European destinations. In addition to the airlines' enhanced cooperation agreement, Air France-KLM Cargo and Jet Airways Cargo sign a Memorandum of Understanding (MoU) aimed at strengthening their cooperation in the cargo sector.

HIGHLIGHTS OF THE BEGINNING OF THE 2018 FINANCIAL YEAR

Air France-KLM adjusts its organization
The Air France-KLM management makes the following adjustments to the Group's organization to support the Group's strategic ambition within the framework of Trust Together.

An Air France-KLM Strategy and Innovation division is established. This division, attached to the Air France-KLM Chairman and CEO's office, is responsible for defining and implementing the strategy, and for analyzing the changing needs of customers, market trends, the emergence of new technologies and long-term innovation. The head of this new division is Sonia Barrière, EVP Strategy and Innovation at Air France-KLM. She will be a member of the Group Executive Committee.

The Digital and "Flying Blue" loyalty divisions are attached to the Air France-KLM Commercial Strategy division, which is renamed Air France-KLM's Commercial & Revenue division. Pieter Bootsma remains in charge of this division and becomes EVP Commercial & Revenue, Air France-KLM. He will remain a member of the Group Executive Committee.

The Air France-KLM Communications division reports to the Air France-KLM Chairman and CEO's office. The Communications division remains under the responsibility of Dominique Wood, who is also EVP Brand and Communication at Air France.

Anne-Sophie Le Lay is appointed Corporate Secretary of the Air France-KLM Group and of Air France. She will be a member of the Group Executive Committee.

This organization aims to strengthen the deployment of Air France-KLM's strategic ambition while improving coordination with the Group's airlines.

Summer 2018 schedule: capacity growth of 4.1%
Setting a record in the Summer 2018 season (from March 25 to October 27, 2018), the Air France-KLM Group opens 78 new routes on the short-, medium- and long-haul networks, representing 4.1% growth in capacity.

This increase is driven by the Transavia low-cost business (+10.6%), the long-haul passenger operations (+3.9%) and the short- and medium haul passenger operations (+1.4%). In 2018, the Group is pursuing its growth, offering 314 destinations in 116 countries, including 78 new routes this summer across the whole of its network.

1 CORPORATE GOVERNANCE REPORT

1.1	**The Board of Directors**	**10**
1.1.1	Composition of the Board of Directors	10
1.1.2	Organization and functioning of the Board of Directors	29
1.1.3	Activity of the Board of Directors	34
1.1.4	The Board of Director Committees	36
1.2	**Compensation of the company officers**	**40**
1.2.1	Board directors' fee modalities	40
1.2.2	Compensation of the executive officer	42
1.3	**The Group Executive Committee**	**54**
1.4	**Share capital and shareholder structure**	**55**
1.4.1	Share capital	55
1.4.2	Securities conferring entitlement to shares	58
1.4.3	Authorization to buy back Air France-KLM's own shares	58
1.4.4	Delta Air Lines, Inc. and China Eastern Airlines become shareholders within the framework of the reinforcement of the Air France-KLM Group's strategic partnerships	59
1.4.5	Air France-KLM shareholder structure	60
1.4.6	A regular dialogue with individual shareholders	61
1.4.7	Legal and statutory investment thresholds	61
1.4.8	Identification of shareholders and statutory provisions concerning shareholders	62
1.5	**Information on trading in the stock**	**63**
1.5.1	Air France-KLM in the stock market	63
1.5.2	Stock market performance	63
1.5.3	Transactions in Air France-KLM shares in the past 18 months	64

1.1 THE BOARD OF DIRECTORS

1.1.1 Composition of the Board of Directors

Overall presentation

At December 31, 2017, the Board of Directors is composed of 19 members:

- sixteen Board directors appointed by the Shareholders' Meeting, including:
  - two directors proposed by the French State[1], and
  - two directors representing the employee shareholders[2];
- one representative of the French State appointed by ministerial decree[3];
- one representative of the employees appointed by the *Comité de Groupe Français*[4];
- one representative of the employees appointed by the European Works Council.[4]

Furthermore, twelve Board directors are French nationals, five Board directors are Dutch, one Board director is Chinese and one is American.

Despite the particularity of its composition, the Board of Directors is a collegial body which collectively represents all the shareholders and acts in the interests of the Company.

At December 31, 2017, the Board of Directors numbers seven women Board directors, i.e. a proportion of 41.2%[5].

Changes in the composition of the Board of Directors during the 2017 financial year:

During the 2017 financial year, the composition of the Board of Directors saw a number of changes as shown in the following table.

Dates	Events	Function within the Board
May 16, 2017	Appointment of Leni M.T. Boeren by the Shareholders' Meeting	Independent director
May 16, 2017	Re-appointment of Maryse Aulagnon by the Shareholders' Meeting	Independent director
May 16, 2017	Re-appointment of Isabelle Bouillot by the Shareholders' Meeting	Independent director
May 16, 2017	Expiry of Peter Hartman's term of office	Vice-Chairman of the Board of Directors
May 16, 2017	Expiry of Antoine Santero's term of office	Board director representing the employees
June 1, 2017	Appointment of Karim Belabbas by the *Comité de Groupe Français*	Board director representing the employees
October 3, 2017	Appointment of Bing Tang following the successful realization of the capital increase reserved to China Eastern Airlines[6]	Board director
October 3, 2017	Appointment of the company Delta Air Lines, Inc. (permanent representative: George Mattson) following the successful realization of the capital increase reserved to Delta Air Lines, Inc.[7]	Board director
October 3, 2017	Appointment of the company Air France-KLM Finance SAS[8]	Board director
October 10, 2017	Appointment of Mathi Bouts by the European Works Council	Board director representing the employees
November 2, 2017	Co-opting of Anne-Marie Idrac by the Board of Directors[9]	Independent director

<(1)Pursuant to Article 6 of Ordinance No.2014-948 of August 20, 2014, relating to governance and to transactions involving the share capital of State-owned companies.
(2) The Board directors representing the employee shareholders are appointed pursuant to the provisions of Article L. 225-23 of the *Code de Commerce*, Article L. 6411-9 of the Transport Code and Article 17-2 of the Articles of Incorporation.
(3) 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.
(4) Pursuant to the provisions of Article L. 225-27-1 of the *Code de Commerce* and Article 17-3 of the Articles of Incorporation.
(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 gender parity calculation in line with the provisions of the aforementioned Article.
(6) Mr. Bing Tang had been appointed by the Shareholders' Meeting of September 4, 2017, subject to the realization of the capital increase reserved to China Eastern Airlines.
(7) Delta Air Lines, Inc. had been appointed by the Shareholders' Meeting of September 4, 2017, subject to the realization of the capital increase reserved to Delta Air Lines, Inc.
(8) Appointment of Air France-KLM Finance as a nineteenth Board director whose permanent representative would be a woman to respect the parity rules.
(9) The appointment of Ms. Anne-Marie Idrac as an independent Board director replacing Air France-KLM Finance SAS will be subject to ratification by the forthcoming Air France-KLM Shareholders' Meeting on May 15, 2018.

Composition of the Board of Directors at December 31, 2017

Board Directors	Inde-pendence	Date appointed to the Air France-KLM Board	Mandate expiry date	Audit Committee	Remuneration Committee	Appointments and Governance Committee	Current functions
Board Directors appointed by the Shareholders' Meeting							
Jean-Marc Janaillac (64 years) French		07/04/2016	2019 AGM				Chairman and Chief Executive Officer of Air France-KLM
Maryse Aulagnon (68 years) French	X	07/08/2010	2021 AGM	X (Chair)			Chair of Affine
Leni M.T. Boeren (54 years) Dutch	X	05/16/2017	2021 AGM	X			Member of the Executive Board of Van Lanschot Kempen NV and Chair of the Kempen & Co NV Executive Board (Netherlands)
Isabelle Bouillot (68 years) French	X	05/16/2017	2021 AGM		X		President of China Equity Links
Anne-Marie Couderc (67 years) French	X	05/19/2016	2020 AGM	X		X (Chair)	Company director
Delta Air Lines, Inc. (Represented by George Mattson) American		10/03/2017	2021 AGM				Airline company
Jaap de Hoop Scheffer (69 years) Dutch	X	07/07/2011	2019 AGM		X (Chair)		Professor, Leiden University (Netherlands)
Anne-Marie Idrac (66 years) French	X	11/02/2017	2021 AGM				Company director
Isabelle Parize (60 years) French	X	03/27/2014	2018 AGM		X		Company, start-up and private equity funds counsel
Hans N. J. Smits (67 years) Dutch		05/19/2016	2020 AGM		X		Chairman of the Supervisory Board of KLM NV (Netherlands)
Bing Tang (50 years) Chinese		10/03/2017	2021 AGM				Vice-President of China Eastern Air Holding Company (China)
Alexander R. Wynaendts (57 years) Dutch	X	05/19/2016	2020 AGM			X	Chairman and CEO of Aegon NV (Netherlands)

Board Directors	Inde-pendence	Date appointed to the Air France-KLM Board	Mandate expiry date	Audit Committee	Remuneration Committee	Appointments and Governance Committee	Current functions
Board Directors appointed by the Shareholders' Meeting as proposed by the French State							
Jean-Dominique Comolli (69 years) French		12/14/2010	2019 AGM		X	X	Honorary Civil Administrator
Patrick Vieu (53 years) French		05/21/2015	2019 AGM				Advisor to the Vice-President of the General Council for the Environ-ment and Sustainable Development
Board Directors appointed by the Shareholders' Meeting representing the employee shareholders							
Louis Jobard (58 years) French		05/20/2014	2018 AGM	X			B777 Flight Captain
François Robardet (60 years) French		12/06/2016	2018 AGM	X	X		Air France Executive
Board Director representing the French State appointed by ministerial order							
Solenne Lepage (45 years) French		03/21/2013	May 2019	X			Director of Transportation Shareholdings, Agency for State Shareholdings
Board Director representing the employees appointed by the *Comité de Groupe français*							
Karim Belabbas (44 years) French		06/01/2017	2019 AGM				Weight and Support Technician, CDG hub Ground Operations
Board Director representing the employees appointed by the European Works Council							
Mathi Bouts (58 years) Dutch		10/10/2017	2019 AGM				Senior Purser on KLM long-haul flights

Presentation of the Board of Directors

Board directors appointed by the Shareholders' Meeting

Nationality: French
Age: 64 years

First appointed as a Board director:
July 4, 2016

Expiration date of current term of office:
2019 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

Jean-Marc Janaillac

Chairman and Chief Executive Officer

Expertise and professional experience

Born April 26, 1953, Mr. Jean-Marc Janaillac is a graduate of the *École des Hautes Etudes 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.

Other directorships and offices

French companies

- Chairman of the Air France Board of Directors;
- Manager of the *Société Civile Immobilière des Deux frères*;
- Manager of SCI Gabriola.

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.

Nationality: French
Age: 68 years

First appointed as a Board director:
July 8, 2010

Expiration date of current term of office:
2021 Shareholders' Meeting

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

Professional address:
Affine,
39 rue Washington,
75008 Paris

Maryse Aulagnon

Independent director
Chair of the Audit 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 is Chair of Affine Group SA[(1)] (office real estate), a company she founded in 1990.**

Other directorships and offices

French companies

Within the Affine Group:
- Chair and CEO of Mab-Finances SAS;
- Lead Director and President of the Remuneration Committee of Veolia Environnement[(1)];
- Member of the BPCE group's (Banques Populaires Caisses d'Epargne) Supervisory Board and President of the Appointments and Remuneration Committees.

Non-French companies

Within the Affine Group:
- Director of Holdaffine BV, Netherlands;
- President of the Board of Banimmo[(1)(2)], Belgium.

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

French companies

Within the Affine Group:
- 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 January2017;
- Member of the Executive Committee of Concerto Development SAS until December 19, 2014;
- President of the Board of GESFIMMO (SA) until May 2017.

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

Nationality: Dutch
Age: 54 years

First appointed as a Board director:
May 16, 2017

Expiration date 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

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).

Since February 2018, Ms. Boeren has been a member of the Executive Board of Van Lanschot Kempen NV[1], (Netherlands). She is Chief Executive Officer of Kempen Capital Management NV (Netherlands), one of Van Lanschot Kempen's core activities, and is also Chair of the Kempen & Co NV Executive Board.

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 international 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).

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Transtrend BV, Netherlands, 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 2018;
- Within the Robeco Group: Chair of the Management Board of Robeco Groep NV, 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), Member of the Board of Directors 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;
- Member of the Board of Directors of Julius Baer Multiflex, SIF-SICAV, Julius Baer Multipartner, Luxembourg, until 2013.

(1) Listed company.

Nationality: French
Age: 68 years

First appointed as a Board director:
May 16, 2013

Expiration date 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

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, among them 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
- Managing partner of IB Finance;
- Member of the Gimar & Cie Supervisory Board.

Non-French companies
- Board 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 companies
- 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.

Nationality: French
Age: 69 years

First appointed as a Board director:
December 14, 2010

Expiration date 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 et 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, he 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 representing the French State

French company and public institution
- Director of France Télévisions, representing the French State.

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.

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

Nationality: French
Age: 67 years

First appointed as a Board director:
May 19, 2016

Expiration date 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

Independent director

Chair of the Appointments and Governance Committee and member of the Audit 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, until 2001 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.**

Other directorships and offices

French companies

- Director and President of the Remuneration Committee of Ramsay Générale de Santé since 2014;
- Director of Transdev SA since 2012 and President of the Audit Committee of Transdev SA since 2017;
- Director and President 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 MEDEF Executive Committee since 2013;
- Member of the ESEC Council since November 2015.

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

French company

- Chair of Presstalis Group, until June 2017;
- President and member of the Board of Directors of Presstalis Group, until June 2017.

(1) Listed company.

Delta Air Lines, Inc.

Board director

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

Other directorships and offices

N/A

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

N/A

Nationality: American

First appointed as a Board director: October 3, 2017

Expiration date of current term of office: 2021 Shareholders' Meeting

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

Head office: 1030 Delta Boulevard, Atlanta, GA USA 30354

George N. Mattson

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 19-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 private 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.

Nationality: American
Age: 51 years

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

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 companies

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

(1) Listed company.

Nationality: Dutch
Age: 69 years

First appointed as a Board director:
July 7, 2011

Expiration date 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
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.

Nationality: French
Age: 66 years

First appointed as a Board director:
November 2, 2017

Expiration date 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

Independant director

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 currently a company director.

Other directorships and offices

French Companies

- President of the Aéroport de Toulouse-Blagnac Supervisory Board (this mandate will expire in May 2018);
- Board director of Bouygues[(1)];
- Board director of Saint-Gobain[(1)];
- Board director of Total[(1)].

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

French Companies

- Member of the Supervisory Board of Vallourec[(1)] until 2015.

Non-French Company

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

(1) Listed companies.

Nationality: French
Age: 60 years

First appointed as a Board director:
March 27, 2014

Expiration date of current term of office:
2018 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

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 SA until October 2017. **Since October 2017, Isabelle Parize has counseled companies, start-ups and private equity funds.**

Other directorships and offices

French company

— Member of the Board of Directors of Auchan from February 2018.

Non-French company

— Associate of Odys SPRL, Belgium.

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 Al 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.

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.

Other

— Director of the Invest in France Agency until April 2014.

(1) Listed company.

Nationality: Dutch
Age: 67 years

First appointed as a Board director:
May 19, 2016

Expiration date 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 et 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 President and CEO of Havenbedrijf Rotterdam NV ("Port of Rotterdam Authority"). **Since 2014, Mr. Smits has been President and Chief Executive Officer of Janssen de Jong Groep.**

Other directorships and offices

Non-French company

— Chairman of the KLM NV Supervisory Board, Netherlands.

Others

— Chairman of the Supervisory Board of Erasmus University Rotterdam, Netherlands;
— Member of the Supervisory Board of Odfjell S.E.[1], Norway.

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

— President and CEO of Havenhedrif Rotterdam NV (Port of Rotterdam Authority), Netherlands, until 2014.

Nationality: Chinese
Age: 50 years

First appointed as a Board director:
October 3, 2017

Expiration date 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 by the Shareholders' Meeting as proposed by China Eastern Airlines

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, he has been Vice-President and party member at China Eastern Air Holding Company Limited.**

Other directorships and offices

Non-French companies

— 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, China, since February 2010.

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

N/A

(1) Listed company.

Nationality: French
Age: 53 years

First appointed as a Board director:
May 21, 2015

Expiration date 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

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, he 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

Nationality: Dutch
Age: 57 years

First appointed as a Board director:
May 19, 2016

Expiration date 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 30 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

- Vice-Chairman of the PEIF (Pan-European Insurance Forum);
- Member of the Board of Directors of the Geneva Association, Switzerland;
- Chairman of the Supervisory Board of Mauritshuis Museum in The Hague, Netherlands;
- 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

N/A

(1) Listed company.

Board director representing the French State

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: 45 years

First appointed as a Board director:
March 21, 2013

Expiration date of current term of office:
2019 Shareholders' Meeting

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*. After 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 has been Director of Transportation Shareholdings at the Agency for State Shareholdings since August 2014.**

Other directorships and offices representing the French State

French companies and public institutions

- Member of the Board of SNCF Mobilités (ex SNCF) as a representative of the French State;
- Member of the Board of ADP Group[1] (ex-Aéroports de Paris) 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 employee shareholders

Pursuant to Articles L. 225-23 of the *Code de Commerce*, L. 6411-9 of the Code of Transport and 17-2 of the Articles of Incorporation, in that the employees of Air France-KLM subsidiaries own 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 appointed 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: 58 years

First appointed as a Board director:
May 20, 2014

Expiration date of current 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

Louis Jobard

Board director representing the Flight Deck Crew shareholders
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 Flight Captain on the B777.**

Other directorships and offices

— 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

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

Nationality: French
Age: 60 years

First appointed as a Board director:
December 6, 2016

Expiration date of current term of office:
2018 Shareholders' Meeting

Number of shares held in the company's stock:
684 shares

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

François Robardet

Board director representing the Ground Staff and Cabin Crew 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

- 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 directors representing the employees

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

- on June 1, 2017, as stipulated in Article L. 2331-1 of the Labor 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 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 a two-year term 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: 44 years

First appointed as a Board director:
June 1, 2017

Expiration date 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

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: 58 years

First appointed as a Board director:
October 10, 2017

Expiration date 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

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

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

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

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

Board directors whose terms of office expired during the 2017 financial year

Nationality: Dutch
Age: 68 years

First appointed as a Board director: July 8, 2010

Expiration date of current term of office: 2017 Shareholders' Meeting

Number of shares held in the Company's stock: 12,960 shares

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

Peter Hartman

Vice-Chairman of the Board of Directors
Member of the Audit Committee

Expertise and professional experience

Born April 3, 1949, Peter Hartman is a graduate of the Amsterdam Institute of Technology (Mechanical Engineering) and of the Erasmus University in Rotterdam (Economic Sciences). In 1973, Mr. Hartman joined KLM's Engineering & Maintenance division where he occupied various positions including Head of Customer Service, Head of HR and Organization and Head of Maintenance. He became a member of the KLM Managing Board in 1997 then Vice-President of the Managing Board before becoming President and Chief Executive Officer of KLM between 2007 and June 2013. He served as Vice-Chairman of the Air France-KLM[1] Board of Directors from July 1, 2013 until May 16, 2017.

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of KPN NV, Netherlands, since April 15, 2015;
- Chairman of the Supervisory Board of Fokker Technologies Group BV, Netherlands, since October 2015;
- Member of the Board of Directors of Constellium, Netherlands, since June 2014;
- Chairman of the Supervisory Board of Texel Airport NV, Netherlands, since February 2013.

Others

- Member of the Consultative Committee of AviationGlass & Technology BV, Netherlands, since June 2015.

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

French company

- Vice-Chairman of the Air France-KLM[1] Board of Directors until May 2017.

Non-French companies

- Member of the Supervisory Board of Royal Ten Cate[1] NV, Netherlands, until February 2016;
- Member of the Supervisory Board of Fokker Technologies Group BV, Netherlands, until October 2015;
- Member of the Supervisory Board of Delta Lloyd NV[1], Netherlands, until May 2014;
- Director of Alitalia-CAI, Italy, until January 2014;
- Member of the Supervisory Board of Stork BV[1] Netherlands, until January 2013;
- Member of the Supervisory Board of Kenya Airways Limited, Kenya, until July 2013;
- President of the KLM Managing Board, Netherlands, until June 2013.

Others

- Chairman of Connekt (Netherlands) (independent network of public and private companies aiming to connect different entities to facilitate sustainable travel in the Netherlands), until October 2016;
- Chairman of the Advisory Council for Aeronautics Research in Europe until October 2015.

(1) Listed companies.

Nationality: French
Age: 54 years

First appointed as a Board director:
November 5, 2015

Expiration date of current term of office:
2017 Shareholders' Meeting

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

Antoine Santero

Director representing the employees

Expertise and professional experience

Born on June 30th, 1963, Antoine Santero began his career in 1985 as a member of the ground staff for UTA. He was Flight Attendant for Euralair from 1987 to 1998 before joining Air France as a Flight Attendant. **Since 2007, Antoine Santero has been a purser on Air France's long-haul network.**

Other directorships and offices

French companies

- Member of the Board of Directors of La Caisse de Retraite du Personnel Navigant de l'Aviation Civile;
- Member of the Civil Aviation Professional Flight Crew Board within the DGAC;
- Director of Loc Intern Immobilier.

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

French company

- Director representing the employees on the Air France-KLM[1] Board of Directors until May 2017.

(1) Listed company.

1.1.2 Organization and functioning of the Board of Directors

Chairman and Chief Executive Officer

The combination of the functions of Chairman of the Board of Directors and Chief Executive Officer[1] enables everyone's energies to be mobilized around a single function aimed at improving the Company's levels of performance. The consolidation of a team united around a sole individual exercising a mandate as Chairman and Chief Executive Officer is all the more key within the current economic environment.

The Chairman and Chief Executive Officer is appointed by the Board of Directors. He is invested with the broadest powers to act in the Company's name in all circumstances within the limits set forth in the internal regulations of the Board of Directors, which stipulate that the Chairman and Chief Executive Officer must obtain prior approval from the Board to perform operations when their amount is equal to or exceeds €150 million as outlined in points (i), (ii) and (iii) of the paragraph on the missions of the Board of Directors hereinafter.

Missions of the Board of Directors

The Board of Directors determines the orientations of the Company's activity and ensures their implementation. Subject to the powers conferred upon it, the Board is responsible for any question regarding the proper running of the Company and settles, in its deliberations, the matters which concern it. In addition, the Board undertakes the monitoring and verification it deems appropriate.

The Board deliberates on any matters falling within its legal and regulatory remit. In addition, pursuant to its internal regulations, the Board approves prior to any decision or deployment by the Company or major subsidiary (Air France, KLM, and any other subsidiary, as decided by the Board) the:

- group's strategic orientations and reviews them as a whole at least once a year;
- group's budget including the investment plan;
- significant operations that are liable to affect the Group's strategy and modify its financial structure or scope of activity; the Chairman and Chief Executive Officer is responsible for determining whether an operation is significant in nature;
- following operations by the Company and its major 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.

The Board also approves the appointment of the Chairman and Chief Executive Officer, and the Chief Executive Officers of major subsidiaries, as proposed by the Appointments and Governance Committee. It also approves the remuneration of the Chairman and Chief Executive Officer, and of the Chief Executive Officers of all major subsidiaries, as recommended by the Remuneration Committee.

Lastly, the Board ensures the proper running of the company and its major subsidiaries and approves the acquisition or sale of any controlling interests when their amount is equal to or in excess of €150 million.

Internal regulations of the Board of Directors

On June 17, 2004, the Board of Directors adopted a set of internal regulations based on the corporate governance principles established by the AFEP and MEDEF[2]. In addition to the limitations on the powers of the Chairman and Chief Executive Officer, these internal regulations specify the terms for the organization and functioning of the Board, and establish the prerogatives and duties of Board directors in terms of 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 internal regulations are regularly updated: the last update took place on February 15, 2017. The changes concerned the:

- up-dating of the prerogatives of Air France-KLM's Audit Committee pursuant to the provisions of Ordinance No.2016-315 of March 17, 2016 relating to statutory audits[3] and the application decree No.2016-1026 dated July 26, 2016; and the
- up-dating of the paragraph relating to stock market compliance pursuant to the provisions of Regulation (EU) No.596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuses.

The internal regulations are available on the website http://www.airfranceklm.com (Corporate governance section).

(1) During its meeting of June 22, 2016, as proposed by the Appointments and Governance Committee, the Board of Directors decided to co-opt Mr. Jean-Marc Janaillac as a Board director and to appoint him Chairman and Chief Executive Officer of Air France-KLM, replacing Mr. Alexandre de Juniac, effective July 4, 2016. The appointment of Mr. Jean-Marc Janaillac as a Board director was ratified by Air France-KLM's Shareholders' Meeting of May 16, 2017.
(2) These corporate governance principles constitute the Corporate Governance Code of listed corporations established by the AFEP and MEDEF (hereinafter the "AFEP-MEDEF Code").
(3) This ordinance transposed into French law Directive 2014/56/EC concerning the statutory auditing of accounts. It ensures the compliance of French law with Regulation (EU) No.537/2014 on Statutory Audits of Public Interest Entities (PIE – mainly listed companies, credit institutions and insurance companies).

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

The modalities governing the appointment of Board directors are stipulated in Article 17 of the Air France-KLM Articles of Incorporation and in the internal regulations.

The Board of Directors is thus composed of between three and 18 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 decree[(1)]) and 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, co-opting and re-appointment of the Board directors. The proposals for appointment, co-opting and re-appointment formulated by the Board of Directors comply with the legal and regulatory provisions (including, notably, the rules on parity) and the principles formulated by the AFEP-MEDEF Corporate Governance Code (including, notably, the rules on Board director independence)[(3)]. Furthermore, they must respect the undertakings made by Air France-KLM within the framework of the business combination that took place in 2004 between Air France and KLM aimed at creating the Air France-KLM holding company (*see Section 6.3 hereinafter*), as amended, and pursuant to which the Board of Directors must notably propose to the Shareholders' Meeting:

a) the appointment as a Board director of the Chairman of the KLM Supervisory Board and, as necessary, the renewal of his/her Board director mandate or the appointment of his/her successor as a Board director;

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, as necessary, the renewal of their mandates;

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 and, as necessary, the renewal of his/her mandate.

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, in that the employees of Air France-KLM subsidiaries own more than 3% of Air France-KLM's share capital, two representatives of the employee shareholders are appointed by the Shareholders' Meeting as proposed by the employee (and former employee) shareholders as stipulated in Article L. 225-102 of the *Code de Commerce*, pursuant to Articles L. 225-23 of the *Code de Commerce*, L. 6411-9 of the Transport Code and 17-2 of the Articles of Incorporation:

— 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 Articles of Incorporation and 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)].

(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 provided by Article 17-3 of Air France-KLM's Articles of Incorporation.
(3) Article 8.3 of the AFEP-MEDEF Corporate Governance Code notably provides that half the members of the Board of Directors must be independent directors (*see Section 1.1.2 Organization and functioning of the Board of Directors*).
(4) The mandates of the two Board directors representing the employee shareholders will expire at the end of the Shareholders' Meeting taking place on May 15, 2018. The process to select new candidates, whose appointment will be submitted to the Shareholders' Meeting of May 15, 2018, was launched in January 2018.
(5) The Board of Directors includes one director representing the employees pursuant to Article L. 225-27-1 of the *Code de Commerce*. The number of directors representing the employees is increased to two when the number of directors mentioned in Articles L. 225-17 and L. 225-18 du *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, 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.

Duration of the Board directors' terms of office

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[1] and the expiration dates for these terms of office are staggered to facilitate the smooth renewal of the Board of Directors. Furthermore, individual Board directors[2] must own at least ten shares for the duration of their terms of office *(Article 19 of the Articles of Incorporation)*.

Independence of the Board directors

Having examined the situation of each Board director in the light of the criteria stipulated by the AFEP-MEDEF Code, and as proposed by the Appointments and Governance Committee, during its meeting of February 15, 2018 the Board of Directors adopted the following position:

- eight directors (Maryse Aulagnon, Leni Boeren, Isabelle Bouillot, Anne-Marie Couderc, Jaap de Hoop Scheffer, Anne-Marie Idrac, Isabelle Parize and Alexander R. Wynaendts) may be deemed to be independent in the light of the criteria stipulated by the AFEP-MEDEF Code 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[3] pursuant to the agreements signed in October 2003),
  - any business relationships (supplier/customer relationships) existing between the Group and each of these eight directors (or the companies with which they are associated) are insignificant in nature relative to the revenues of the respective companies given, notably, the nature of Air France-KLM's principal activity (international air transport of passengers and cargo);
  - concerning Anne-Marie Idrac, the Board of Directors examined, in particular, her current functions as President of the Supervisory Board of Toulouse Blagnac Airport, it however being understood that this mandate will not be renewed on its expiry in May 2018. Although the Group is a significant customer of Toulouse Blagnac Airport[4], the analysis of the Board of Directors considered the following elements:
    - the nature of matters relating to commercial relations with Toulouse Blagnac Airport does not require them to be brought before the Air France-KLM Board of Directors, and
    - on her appointment, Ms. Idrac confirmed that she would not be renewing her mandate as President of the Supervisory Board of Toulouse Blagnac Airport expiring in May 2018.

In view of these elements, the Board of Directors considered that Ms. Idrac could be deemed to be independent with regard to the criteria stipulated by the AFEP-MEDEF Code.

(1) With the exception of Board directors representing the employees whose term of office is two years pursuant to Article 17-3 of the Articles of Incorporation.
(2) With the exception of Board directors representing the employee shareholders, directors elected by employees and directors representing employees (Article L. 225-25 paragraph 3 of the *Code de Commerce*) and directors appointed by the French State or the Shareholders' Meeting as proposed by the State (Articles 5 paragraphs 5 and 6 VI of French Ordinance no.2014-948 of August 20, 2014).
(3) The Dutch State is not a shareholder in Air France-KLM.
(4) Hop!, Air France and KLM being ranked amongst the 15 largest scheduled airline companies operating at Toulouse Blagnac Airport (*see 2017 Review and Future Plans for Toulouse Blagnac Airport available at the website: http://www.toulouse.aeroport.fr/societe-aeroport/la-societe/rapport-d-activite*).

Criteria to be evaluated pursuant to paragraphs 8.5 to 8.7 of the AFEP-MEDEF Code	Maryse AULAGNON	Leni M.T. BOEREN	Isabelle BOUILLOT	Anne-Marie COUDERC	Jaap DE HOOP SCHEFFER	Anne-Marie IDRAC	Isabelle PARIZE	Alexander R. WYNAENDTS
Not to be and not to have been during the course of the previous five years an employee or executive officer of Air France-KLM, or an employee, executive officer or director of a company consolidated within Air France-KLM.	√	√	√	√	√	√	√	√
Not to be an executive officer of a company in which Air France-KLM holds a directorship directly or indirectly, or in which an employee appointed as such or an executive officer of Air France-KLM (currently in office or having held such office during the last five years) is a director.	√	√	√	√	√	√	√	√
Not to be a customer, supplier, commercial banker or investment banker that is material to Air France-KLM or its Group.	√	√	√	√	√	√ For more details, see the explanations provided below	√	√
Not to be related by close family ties to a company officer.	√	√	√	√	√	√	√	√
Not to have been an auditor of Air France-KLM within the previous five years.	√	√	√	√	√	√	√	√
Not to have been a director of Air France-KLM for more than twelve years. Loss of Independent director status occurs on the date at which this period of twelve years is reached.	√	√	√	√	√	√	√	√
Not to have been a non-executive officer receiving variable compensation in cash or in the form of shares or any compensation linked to the performance of Air France-KLM or the Group.	√	√	√	√	√	√	√	√
Not to have been a director representing major shareholders of Air France-KLM taking part in the control of the corporation.	√	√	√	√	√	√	√	√

— 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 (Mr. Tang and Delta Air Lines, Inc. whose permanent representative is Mr. Mattson)[1], or representatives of the employee shareholders (Mr. Jobard and Mr. Robardet), or representatives of the employees (Mr. Belabbas and Mr. Bouts), or senior executives or corporate officers of Air France-KLM, Air France and KLM (Mr. Janaillac 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, 2017 were:

— 53% of the Board of Directors;

— 75% of the Audit Committee (chaired by an Independent director);

(1) Pursuant to the Memoranda of Understanding signed by these two companies with Air France-KLM on July 27, 2017.

— 67% of the Appointments and Governance Committee (chaired by an Independent director); and

— 60% of the Remuneration Committee (chaired by an Independent director).

The Board considered that all the Board directors had competences 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.

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 subject to 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.

Situation of conflicts of interest

Pursuant to the recommendations of the AFEP-MEDEF Code, Article 10 of the internal regulations of the Board of Directors stipulates that *"Any director is bound to report to the Board any conflict of interest, whether actual or potential, because of the position he holds in another company, and must abstain from taking part in voting on the related resolution. The Chairman may ask him not to be present during deliberations and voting."*

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, 2017, the French State held 14.29% of the Air France-KLM share capital and 50.6% of the share capital of Aéroports de Paris, with which Air France-KLM maintains a significant business relationship. Furthermore, the SNCF, a State-owned company, is Air France's main competitor on the domestic network. In addition, Delta Air Lines, Inc. and China Eastern Airlines, which each hold 8.76% of the Company's share capital, are major commercial partners of the Group (*see section 1.4.4*).

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 concluded in October 2003 between Air France and KLM, and the Dutch government,

(ii) the Marketing Agreement signed on July 27, 2017 between Air France-KLM and China Eastern Airlines, aimed at defining the principles for the implementation of their reinforced cooperation (*see section 1.4.4*), and

(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 1.4.4*).

As of December 31, 2017, 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 detailed in section 1.4.4*), 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].

Corporate governance principles and application of the AFEP-MEDEF Code

The Board of Directors operates in accordance with the corporate governance principles in force in France as presented in the AFEP-MEDEF Corporate Governance Code updated in November 2016 and available on the AFEP (www.afep.com) and MEDEF (www.medef.com) websites. The following table shows the AFEP-MEDEF Code recommendations that have not been applied and the reasons for this:

(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 paragraphs 5 and 6 VI of French Ordinance no.2014-948 of August 20, 2014).

Recommendations of the AFEP-MEDEF not applied	Reasons
Meetings 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" (§10.3 of the AFEP-MEDEF Code)	The current practice is that the main matters concerning executive officers (such as their appointment, performance and remuneration) 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.

1.1.3 Activity of the Board of Directors

The minimum number of Board of Directors 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.

Board activity during the 2017 financial year

11 meetings

of which **3** extraordinary

an average of **3 hours** per meeting

90% average attendance rate for the Board directors

During the 2017 financial year, the Board of Directors met eleven times (twelve meetings in 2016), including three extraordinary meetings (four in 2016). Board meetings averaged three hours and the attendance rate for directors was 90% (as in 2016).

The individual attendance rates at Board of Directors and Shareholders' Meetings are presented in *Section 1.2.1 hereinafter*.

During these meetings, the following matters were notably addressed:

- interim and annual financial statements;
- regular status reports on the Group's activity and financial situation;
- budget including the capex plan;
- financing plan including the conversion of the OCEANE and the issuance of shares;
- monitoring of the "Trust Together" project;
- regular information on Air France and KLM activity and developments;
- update on flight safety;
- reinforcement of the partnerships with, firstly, Delta Air Lines, Inc. and Virgin and, secondly, China Eastern Airlines;
- presentation of the new airline Joon;
- governance of the Group and notably: independence of the Board directors, the evaluation of the Board of Directors, the appointment and training of the new Board directors, remuneration of the top executives.

In October 2017, the Board of Directors held its annual meeting devoted to the Group's strategy, which took the form of a two-day seminar. A meeting of the Boards of Directors of Air France-KLM and Delta Air Lines, Inc. was also held in June 2017, within the framework of a two-day seminar in New York (United States). Furthermore, for a second 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 2017.

Training for Board directors

On appointment and during their terms of office, individual Board directors can benefit from training that they deem necessary to the exercise of their mandates. This training is proposed, organized and paid for by the Company.

Newly-appointed Board directors are encouraged to meet with the Company's principal executives and are offered site visits to enable them to increase their understanding of the Group's environment and business activities. On their appointment, they are also sent a dossier including, notably, the company's Articles of Incorporation, the internal regulations of the Board, 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, Board directors representing the employees and employee shareholders may also benefit from training tailored to their functions. 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 directors. Accounting and financing modules are also proposed to enable them to improve their financial know-how. Pursuant to the applicable regulation, the Board of Directors meeting of December 6, 2017 decided to terminate the training program in French and English offered to the directors representing the employees.

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

At least once a year, the Board 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 regulations. This evaluation is overseen by the Appointments and Governance Committee. Every three years, the Board also calls on the services of an external consultant, as was the case in 2017.

Based on an interview guide pre-approved by the Appointments and Governance Committee and the secretarial offices of the Board, the external consultant interviewed all the Board directors. The Chief Executive Officers of Air France and KLM, and the Chief Financial Officer of the Group, were also interviewed.

In view of the considerable changes in the composition of the Board of Directors following the strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines[1], several themes were addressed during this evaluation:

- composition, organization, functioning and dynamic of the Board of Directors and its Committees;
- effectiveness of the Board of Directors and its Committees;
- articulation of the work of the Board of Directors and those of its subsidiaries;
- main changes and areas requiring improvement.

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 14, 2018.

This evaluation highlighted some positive points in the Board's functioning thanks, notably, to:

- chairing with more authority and attentiveness, enabling organized and productive debates;
- a Group General Management which functions well thanks to the "CEO Meeting", enabling the Chairman and Chief Executive Officer to present aligned positions to the Board;
- new profiles within the composition of the Board, making a positive, more diverse contribution;
- a strategic debate that continues to be put in place;
- an Audit Committee that functions well; and
- meetings that are better prepared with higher-quality dossiers.

A discussion took place on the other areas requiring improvement.

Four avenues requiring work were identified:

- ongoing changes in the working methods of the Board of Directors;
- reinforcement of the links between the members of the Air France-KLM, Air France and KLM Boards;
- developing relations between the Board and the operational executives, shareholders and stakeholders.

(1) Appointment as Board directors of Delta Air Lines, Inc., represented by Mr. George Mattson, and of Mr. Bing Tang on October 3, 2017 following the successful realization of the capital increases reserved to Delta Air Lines, Inc. and China Eastern Airlines, appointment of Mr. Mathi Bouts on October 10, 2017 by Air France-KLM's European Works Council pursuant to Article 17-3 of the Articles of Incorporation and Article L. 225-27-1 of the *Code de Commerce* and co-opting of Ms. Anne-Marie Idrac on November 2, 2017 as a new independent Board director.

Regulated agreements and commitments

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

The Board of Directors did not authorize the signature of any regulated agreements or commitments during the 2017 financial year. Furthermore, there are no former regulated agreements whose execution continued during the 2017 financial year.

Agreements referred to in Article L. 225-102-1 of the Code de Commerce

Aside from the agreements relating to current operations and concluded under ordinary conditions, no agreements were signed in 2017, either directly or via an intermediary between, firstly, an Air France-KLM Board director or shareholder holding a fraction of the voting rights above 10% (French State) and, secondly, a company in which more than half the share capital is owned, directly or indirectly, by Air France-KLM.

1.1.4 The Board of Director Committees

Audit Committee

Composition

At December 31, 2017, the Audit Committee was composed of the following six members: Maryse Aulagnon (Chair of the Committee), Leni M.T. Boeren, Solenne Lepage, Anne-Marie Couderc, François Robardet and Louis Jobard.

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 special competency in finance or accounting in the person of Ms. Aulagnon. It deemed that Ms. Aulagnon's educational background and professional experience fulfill this requirement for special financial competence, and that she has no relationships with the Company, its Group or management that are such as to color her judgment. The five other Committee members also have financial and/or accounting competencies.

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 Audit Committee meetings. 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, and oversee 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 management;
- principal financial risks and 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.

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 notably 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 every year the fees submitted by each of the Statutory Auditors 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 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 exercise of its missions. It also reports back on events subsequent to the certification of the financial statements, the manner in which this certification process contributed to the integrity of the financial information and the role it played in this process.

Activity

During the 2017 financial year, the Audit Committee met five times (as in 2016) with an attendance rate for members of 93% (97% in 2016). The duration of the meetings averaged more than three hours. The following matters were notably reviewed by the Audit Committee during the 2017 financial year:

— Review of the financial statements

The Committee reviewed the quarterly, half-year and annual financial statements prior to their presentation to the Board of Directors. It conducted a detailed examination of the Statutory Auditors' summary report 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 2017, particular attention was paid to the overall pension liabilities, stockholders' equity, the provision for the Cargo fine, the KLM pilot and cabin crew pension plans, the valuation of the deferred tax assets, the adjustment to the Servair price and the adoption of the new IFRS norms (IFRS 9, IFRS 15 and IFRS 16).

The review of the financial statements by the Audit Committee usually takes place a minimum of 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 monitoring on a quarterly basis.

— Internal control and risk management

During every Audit Committee meeting, Internal Audit gave a presentation on its quarterly activity report.

Although the company is no longer required to comply with the obligations of the Sarbanes-Oxley Act, it continues to apply 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 operating and/or strategic risks on a quarterly basis. Each year the Committee devotes at least one meeting to financial risks (fuel and emission quotas, currency exchange rates, financing).

— Statutory Auditors

The Audit Committee approves the budget for Statutory Auditors' fees prior to the opening of the financial year together with their final amount as of the closing date.

— Approval of authorized 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, enabling the approval and monitoring of services other than the certification of the financial statements, supplied to Air France-KLM and its consolidated subsidiaries by the Statutory Auditors. The updating of this procedure, as proposed by the Audit Committee, was approved by the Board of Directors during its meeting of December 6, 2016. This procedure lists (i) services that Air France-KLM's Statutory Auditors and members of their network may not supply to a company consolidated by the Group and (ii) services that are permitted subject to prior approval by the Audit Committee, or those that are the subject of pre-approval, subject to agreement from the Chief Financial Officer or his deputy. This internal procedure was updated pursuant to the provisions of Ordinance No.2016-315 of March 17, 2016 relating to Statutory Audits, which came into force as of June 17, 2016.

— Others

In line with its annual work schedule, the Audit Committee also reviewed the following matters in 2017:

- monitoring of cash and the financing strategy;
- monitoring of changes in the KLM pension funds' assets and liabilities;
- review of the principal litigation, fiscal and financial risks;
- update on IFRS 9, IFRS 15 and IFRS 16;
- evaluation and monitoring of internal control and review of the management control systems;
- new method of external reporting (passenger/cargo) as of the first quarter of 2017;
- reform of audit – new reports from the Statutory Auditors;
- cargo litigation and a new decision from the EU;
- compliance program;
- fraud detection and prevention;
- control of the Group's subsidiaries and holdings;
- protection of personal data;
- prevention of cybercriminality.

Remuneration Committee

Composition

At December 31, 2017, the Remuneration Committee was composed of the following six members: Jaap de Hoop Scheffer (Chair of the Committee), Isabelle Bouillot, Jean-Dominique Comolli, Isabelle Parize, Hans Smits and François Robardet.

Missions

The Remuneration Committee is primarily responsible for formulating recommendations to the Board of Directors on the level of and changes to the remuneration of the executive officers. It may also be asked to comment on the compensation of the Group's senior executives, as well as on any stock subscription and share purchase option schemes or performance share plans.

Activity

The Remuneration Committee met three times during the 2017 financial year (five meetings in 2016) and the attendance rate for members was 89% (83% in 2016).

The Remuneration Committee submitted a number of proposals to the Board of Directors, which were subsequently adopted, relating to the modalities for the payment of Board directors' fees, and the principles and amounts of compensation for the Company's Chairman and Chief Executive Officer (*see Section 1.2 hereinafter, established with the cooperation of the Remuneration Committee*).

It was also informed of the policy regarding the compensation of the principal directors who are not executive officers of Air France-KLM, Air France and KLM. The involvement of the Air France-KLM Remuneration Committee is systematically requested by the Group's Chairman and Chief Executive Officer ahead of any decision being taken by the competent Air France and KLM corporate bodies. Pursuant to its internal regulations, the Board of Directors approved, as recommended by the Remuneration Committee, the compensation of the Chief Executive Officer of Air France and the President of the KLM Managing Board due in respect of the 2017 financial year, together with their amount of fixed compensation and the criteria for their variable compensation for the 2018 financial year.

Appointments and Governance Committee

Composition

At December 31, 2017, 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 Board directors and of the Chairman of the Board of Directors, as well as to replace the executive officers, particularly in the event of unforeseen vacancies. The Appointments and Governance Committee is also consulted and formulates recommendations for the Board of Directors on the appointment of the Chief Executive Officer (CEO), other company officers (Executive Vice-Presidents and members of the Management Board) and members of the Boards of Directors and Supervisory Boards of the major subsidiaries.

Furthermore, the Appointments and Governance Committee issues recommendations regarding the governance principles for the Air France-KLM Group and reviews the consistency of the governance in place between the Company and its major subsidiaries.

The Appointments and Governance Committee steers the annual evaluation of the Board's functioning.

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 2017 financial year, the Appointments and Governance Committee met seven times (eight in 2016) with an attendance rate for members of 100% (96% in 2016).

The Appointments and Governance Committee formulated proposals relating to changes in the composition of the Board of Directors to be submitted to the Shareholders' Meetings of May 16 and September 4, 2017, notably concerning the re-appointment of two Board directors and the appointment of three new Board directors.

Following the Shareholders' Meeting of September 4, 2017 and the change in the composition of the Board of Directors within the framework of the realization, on October 3, 2017, of the capital increases reserved to Delta Air Lines, Inc. and China Eastern Airlines, the Committee also conducted a selection process for a new independent Board director and submitted her proposed co-opting to the Board of Directors.

The Appointments and Governance Committee also reviewed the composition of the Committees as a function of the change in the composition of the Board of Directors during the 2017 financial year.

The Appointments and Governance Committee was moreover consulted prior to the appointment or reappointment of members of the Air France Board of Directors and of the KLM Supervisory Board.

Lastly, in November 2017, this Committee launched an evaluation process with the assistance of an external consultant that took place between December 2017 and March 2018.

Within this framework, based on an interview guide pre-approved by the Appointments and Governance Committee and the secretarial office of the Board, the firm Spencer Stuart interviewed all the Board directors, the two Chief Executive Officers of Air France and KLM and the Chief Financial Officer of the Group. The conclusions of this evaluation were reviewed by the Appointments and Governance Committee during its meeting of March 14, 2018 and were subsequently submitted to the Board of Directors. Following this evaluation, four priorities were identified to improve the functioning of the Board of Directors and its Committees (improvement in the working methods of the Board of Directors, reinforcement of the links within the Board and between the members of the Air France-KLM, Air France and KLM Boards, improvement in relations between the Board of Directors and the General Management, the operational heads, shareholders and stakeholders, and optimization of the composition of the Board – *see Section 1.1.3 above - Evaluation of the functioning of the Board and its Committees*.

1.2 COMPENSATION OF THE COMPANY OFFICERS

1.2.1 Board directors' fee modalities

Board directors receive fees whose maximum amount was set for the whole Board of Directors at €800,000 by the Shareholders' Meeting of June 24, 2004.

The modalities for the granting of directors' fees applied in respect of the 2017 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, 2017 pursuant to the proposals submitted by the Remuneration Committee, are the following:

- €15,000 as fixed compensation;
- €25,000 as variable compensation based on Board of Directors' meeting and Shareholders' Meeting attendance.

The amount of additional directors' fees for non-resident directors (€7,000) together with the special fees for Chairs and Committee members remain unchanged:

- 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 2017 financial year, the directors' fees are calculated *pro rata temporis* based on the number of Board, Committee and Shareholders' meetings held during the period the director was in function.

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.

As of the Shareholders' Meeting of May 21, 2015, pursuant to Ordinance No.2014-948 of August 20, 2014 and the ministerial order of December 18, 2014, the following rules apply:

- for the directors appointed directly by the French State (Art. 5 of the Ordinance), 100% of the Directors' fees are paid to the State;
- for the 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, 100% of the directors' fees are paid to the French State,
  - for those not acting in the capacity of public officials, the directors' fees must be shared as follows:
    - 70% paid to the French State,
    - 30% paid directly to the relevant director.

Compensation granted to Board directors other than the executive officers and individual attendance records at Board meetings and at the Shareholders' Meeting

The Directors' fees and other compensation paid in respect of the 2017 and 2016 financial years to Board directors other than executive officers were as follows:

		Amount of compensation paid (in €)	
	Attendance at Board meetings and the Shareholders' Meeting (2017 financial year)[1]	In respect of the 2017 financial year	In respect of the 2016 financial year
Peter Hartman[2]	100%[1]	**30,385**	49,877
Maryse Aulagnon	77%	**46,231**	50,077
Karim Belabbas[3][4]	100%[1]	**24,615**	N/A
Leni M.T. Boeren[5]	100%[1]	**39 615**	N/A
Isabelle Bouillot	85%	**41,154**	43,077
Mathi Bouts[6]	100%[1]	**16,231**	N/A
Jean-Dominique Comolli	92%	**48,077**[7]	50,000[7]
Anne-Marie Couderc	85%	**51,654**	25,137
Jean-François Dehecq[8]	N/A	**N/A**	30,363
Delta Air Lines, Inc.[9]	100%[1]	**16,231**	N/A
Jaap de Hoop Scheffer	85%	**50,654**	47,731
Anne-Marie Idrac[10]	100%[1]	**6,154**	N/A
Louis Jobard[4]	100%	**48,000**	46,077
Cornelis J.A. van Lede[8]	N/A	**N/A**	31,642
Solenne Lepage	100%	**48,000**[11]	48,000[11]
Christian Magne[12][4]	N/A	**N/A**	49,923
Isabelle Parize	85%	**48,154**	42,385
Antoine Santero[2][4]	80%[1]	**13,462**	38,077
Patrick Vieu	92%	**38,077**[11]	36,154[11]
Leo van Wijk[8]	N/A	**N/A**	31,538
Hans Smits	54%	**40,462**	24,615
Bing Tang[9]	67%[1]	**14,308**	N/A
Alexander R. Wynaendts	77%	**46,231**	22,865
François Robardet[4]	100%	**53,000**	3,077
Total		**720,695**	**670,615**

(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 2017.
(2) Director until May 16, 2017.
(3) Director representing the employees since June 1, 2017.
(4) The directors representing the employee shareholders and the director representing the French employees appointed by the *Comité de Groupe Français* receive remuneration 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 paid to their unions.
(5) Director since May 16, 2017.
(6) Director representing the employees since October 10, 2017. This director receives compensation in respect of his employment contract with KLM, with no link to his Board director mandate within Air France-KLM.
(7) Mr. Comolli having been a director representing the French State until May 21, 2015, pursuant to the provisions of the French Ordinance dated August 20, 2014 and the ministerial order of December 18, 2014, 70% of his directors' fees was paid to the General Directorate of Public Finances while the remaining 30% was paid to Mr. Comolli.
(8) Director until March 19, 2016.
(9) Director since October 3, 2017.
(10) Director since November 2, 2017.
(11) Amount paid to the General Directorate of Public Finances.
(12) Director until December 6, 2016.

1.2.2 Compensation of the executive officer

1.2.2.1 General principles

Based on the recommendations of the Remuneration Committee, the compensation of the Chairman and Chief Executive Officer is set by the Board of Directors, pursuant to the provisions of the AFEP-MEDEF Corporate Governance Code as amended in November 2016.

Pursuant to the internal regulations, 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 Chairman and Chief Executive Officer regarding the compensation of the Group's Chief Financial Officer and reviews the compensation of the members of the KLM Managing Board.

The compensation policy for the Chairman and Chief Executive Officer thus takes into account the compensation policy for the aforementioned individuals (the "Top Executives"). The Remuneration Committee formulates and reviews the compensation policy applicable to the Chairman and Chief Executive Officer and its implementation on an annual basis.

This compensation policy establishes the principles and criteria for determining, distributing and allocating the fixed, variable and extraordinary components of the total compensation and benefits of any kind, granted to the Chairman and Chief Executive Officer. All of these elements are outlined in this section (*see paragraph 1.2.2.3 below*), pursuant to the provisions of Article L. 225-37-2 of the *Code de Commerce*.

The fundamental principles of the compensation policy are aimed at:

- attracting and retaining qualified top executives by offering them attractive compensation;
- providing fairness, transparency and consistency of their compensation relative to that of the Company's other employees;
- a compensation package linked to the Group's performance and competitiveness.

The evaluation of and possible changes to the compensation of the top executives notably takes into account the changes in the remuneration of the Group's senior executives.

1.2.2.2 Elements of compensation for 2017

The elements of the Chairman and Chief Executive Officer's compensation paid or granted in respect of the 2017 financial year, to be submitted for shareholder approval at the Shareholders' Meeting of May 15, 2018, pursuant to Article L 225-100 of the *Code de Commerce* as amended by Ordinance No.2017-1162 of July 12, 2017, are detailed below.

Presentation of the compensation structure for Mr. Jean-Marc Janaillac, Chairman and Chief Executive Officer, in respect of the 2017 financial year

The compensation package for the Chairman and Chief Executive Officer in respect of the 2017 financial year is composed of an annual fixed portion and a short-term variable portion (STI) linked to the performance of the previous financial year. The variable portion represents a percentage of the fixed compensation and its amount is determined based on performance criteria. These performance criteria are recommended by the Remuneration Committee and are set and their achievement evaluated by the Board of Directors.

Pursuant to the proposals formulated by the Remuneration Committee, during its meetings of February 15, 2017 and March 15, 2017, the Board of Directors decided to set the fixed and variable compensation of the Chairman and Chief Executive Officer for the 2017 financial year as follows:

Element	Payment modalities	Amounts	Comments
Annual fixed compensation	100% in cash	€600,000	This compensation was set at the same level as in the previous year, it being specified that the Air France-KLM Chairman and CEO's base salary has remained unchanged for the last seven years.
Annual variable compensation	100% in cash paid following approval by the Shareholders' Meeting of May 15, 2018	Target amount: 80% of the fixed compensation (on achievement of the targets) Maximum amount: 100% of the fixed compensation	The annual variable compensation, whose target amount is set at 80% of the fixed compensation (on achievement of the targets), is determined based on the achievement of the performance criteria detailed below. Its amount can vary from 0% to 100% of the fixed compensation based on the level of achievement of these criteria.

The criteria for determining the variable compensation decided for the 2017 financial year are as follows:

	Breakdown of the variable portion	
	Target: 80% of the fixed compensation	Maximum: 100% of the fixed compensation
Quantitative performance: Air France-KLM COI (Current Operating Income) – for confidentiality reasons, the amount set in the 2017 budget is not disclosed	40%	50%
Quantitative performance: Adjusted Net Debt (adjusted net debt before divestments and excluding impact of exchange rate euro/dollar on aircraft operational leases) – for confidentiality reasons, the amount set in the 2017 budget is not disclosed	8%	10%
Qualitative performance		
— efficiency of Group governance	8%	10%
— implementation of the "Trust Together" strategic project and objectives, especially through restoration of trust amongst staff and reduction in unit costs (-1.5% excluding *intéressement* and profit-sharing)	16%	20%
— strengthening and development of Group international alliances	8%	10%

Evaluation of the performance criteria in 2017:

The quantitative performance relating to the financial criteria (COI and adjusted net debt) was evaluated based on the following rules:

COI – % achievement compared to the budget	% achievement of the criterion
1. < 80% of the budget	0%
2.	proportionate
3. 100% of the budget	100%
4.	proportionate
5. > 120% of the budget	125%

Adjusted Net Debt (in € million)	% achievement of the criterion
1. > budgeted amount + €300 million	0%
2.	proportionate
3. = to budgeted amount	100%
4.	proportionate
5. < budgeted amount – €300 million	125%

In addition to the rules outlined above, the performances 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. Thus, the achievement rate of the quantitative criteria may be adjusted by +10% or -10%, depending on the performance differential relative to IAG and Lufthansa.

The comparative performance compared with IAG and Lufthansa was as follows:

	9m – 2017	9m – 2016	Differential
AFKLM	8%	7%	1 ppt
LH	9%	7%	2 ppt
IAG	15%	12%	3 ppt

Source: reported results.

The qualitative performance is evaluated based on the following rules:

Qualitative criteria Performance	% achievement of the criterion
1. Failure to achieve target	0%
2. Partially achieved target	50%
3. Target achieved	100%
4. Target exceeded	110%
5. Target comfortably exceeded	125%

Based on these rules and taking into account the performance relative to competitors, the achievement of the 2017 criteria were as follows:

	Achievement of the performance criteria in 2017	
	Performance realized in 2017	**Evaluation of the performance criteria**
Quantitative performance: Air France-KLM COI (Current Operating Income)	48%	The COI targets were comfortably exceeded. However, because of the Group's performance relative to IAG and Lufthansa, it was decided to set the amount granted for the achievement of this criterion at 48% of the fixed compensation.
Quantitative performance: Adjusted Net Debt (Adjusted net debt before divestments and excluding impact of exchange rate euro/dollar on aircraft operational leases)	10%	The targets on this criterion were comfortably exceeded. Hence, the amount granted for this criterion was set at its maximum, i.e. 10% of the fixed remuneration.
Qualitative performance		
— efficiency of Group governance	8%	The achievement of this criterion was evaluated as the target having been achieved since some real progress was made (in particular thanks to the CEO meeting discussion) although efforts here will need to be maintained.
— implementation of the "Trust Together" strategic project and objectives, especially through restoration of trust amongst staff and reduction in unit costs (-1.5% excluding *intéressement* and profit-sharing)	11%	An amount of 3% of fixed compensation was granted for cost reduction and 8% for the other elements of "Trust Together" (excluding the alliances which are evaluated under another criterion).
— strengthening and development of Group international alliances	10%	The amount granted on this criterion was set at 10% of the fixed compensation, i.e. the maximum, in view of the strategic partnerships concluded in 2017 (in particular Jet Airways and the strengthening of the alliances with Delta Air Lines, Inc. and Virgin on the one hand, and China Eastern Airlines on the other.

Further to the above, Air France-KLM's Board of Directors set Jean-Marc Janaillac's variable compensation for the 2017 financial year in his capacity as Chairman and Chief Executive Officer of Air France-KLM at €522,000 based on the performance realized.

Mr. Janaillac decided to waive a portion of his variable compensation for 2017 leaving it unchanged on the variable compensation that he had been granted *pro rata temporis* for 2016 (85% of his fixed salary).

The Board of Directors took note of this waiver.

As a consequence, Mr. Jean-Marc Janaillac will receive variable compensation of €510,000 (this sum will be paid in 2018 following approval by the Shareholders' Meeting of May 15, 2018), i.e. total compensation of €1,110,000 in respect of the 2017 financial year.

The payment of the variable compensation is conditional on prior approval of the afore-mentioned compensation for Mr. Jean-Marc Janaillac by the Air France-KLM Shareholders' Meeting taking place on May 15, 2018, in accordance with the conditions foreseen in Article L. 225-100 of the *Code de Commerce*.

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 2017	Financial Year 2016
Jean-Marc Janaillac, Chairman and Chief Executive Officer		
Compensation due in respect of the financial year	**1,110,000**	548,834 (1)
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	**1,110,000**	**548,834 (1)**

(1) For the period from July 4 to December 31, 2016.

Summary table of the compensation for each executive officer

Jean-Marc Janaillac, Chairman and Chief Executive Officer	Reminder of 2016		Reminder of 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	296,667 (1)	296,667 (1)	**600,000**	**600,000**
Variable compensation	252,167 (1)	N/A	**510,000**	**252,167 (1)**
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	**548,834 (1)**	**296,667 (1)**	**1,110,000**	**852,167 (2)**

(1) For the period from July 4 to December 31, 2016.
(2) Payment of the fixed compensation in respect of the 2017 financial year and the variable compensation in respect of the 2016 financial year for the period from July 4 to December 31, 2016.

Summary table of the situation of the executive officers

	Employment contract		Additional pension scheme *(see above)*		Indemnities or benefits due or potentially due on a cessation or a 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 CEO								
First appointed: July 4, 2016		X		X		X		X

Loans and guarantees granted to 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 in 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.

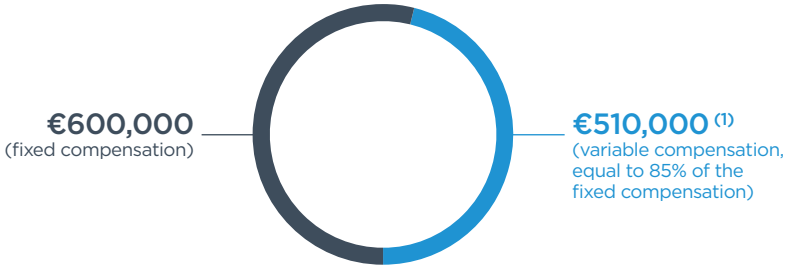
Performance shares granted to the Company officers of Air France-KLM

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, nor during the preceding financial years.

Elements of compensation for the Chairman and Chief Executive Officer in respect of the 2017 financial year submitted for approval by the Shareholders' Meeting

Pursuant to Article L. 225-100 of the *Code de Commerce* as amended by Ordinance No.2017-1162 of July 12, 2017, introducing simplification and clarification measures regarding information obligations for companies, the elements of compensation paid or granted to Jean-Marc Janaillac for the 2017 financial year, in his capacity as Chairman and Chief Executive Officer, will be submitted for shareholder approval at the Shareholders' Meeting of May 15, 2018,.

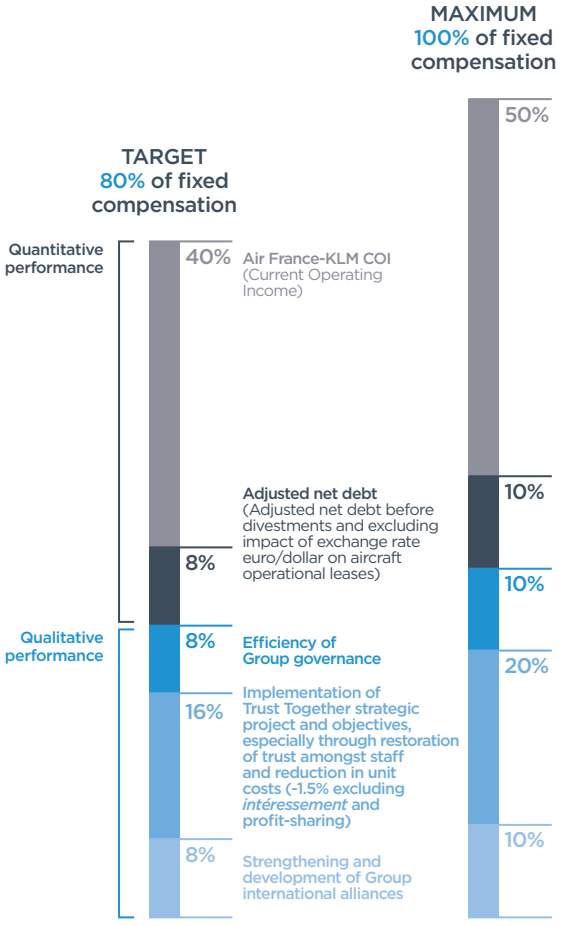
Compensation of Mr. Jean-Marc Janaillac in respect of the 2017 financial year



The amount of Mr. Jean-Marc Janaillac's annual fixed compensation in his capacity as Chairman and Chief Executive Officer was set at the same level as in the previous year (i.e. €600,000), it being specified that the Air France-KLM Chairman and Chief Executive Officer's base salary has remained unchanged for the last seven years.

Multi-year variable compensation	Extraordinary compensation	Stock subscription or purchase options	Performance shares	Directors' fees	Benefits in kind
–	–	–	–	–	–

Criteria for determining the variable compensation in 2017 (2)



(1) Mr. Janaillac decided to waive a portion of his variable compensation for 2017, leaving it unchanged on the variable compensation he had been granted *pro rata temporis* for 2016 (85% of his fixed salary).
(2) The level of achievement of these criteria is presented in this table and on page 45 above.

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 2017 financial year	Amounts or book value submitted to the vote	Presentation
Annual fixed compensation	€600,000 (amount paid)	Mr. Jean-Marc Janaillac's annual fixed compensation in his capacity as Chairman and Chief Executive Officer was set by the Board of Directors in its meetings of February 15 and March 15, 2017 at the same level as in the 2016 financial year for the second consecutive year, it being stipulated that the Air France-KLM Chairman and CEO's base salary has remained unchanged for the last seven years.
Annual variable compensation	€510,000	During its meetings of February 15 and March 15, 2017, as recommended by the Remuneration Committee, the Board of Directors decided to establish new evaluation criteria for setting Mr. Janaillac's variable compensation for the 2017 financial year. The magnitude of the variable portion of Mr. Janaillac's compensation thus remained unchanged with a target value of 80% of his fixed compensation and a maximum amount of 100% of this compensation. The criteria for determining Mr. Janaillac's variable compensation for the 2017 financial year are outlined in section 1.2.2.2 above. As proposed by the Remuneration Committee, Mr. Janaillac's variable compensation in his capacity as Chairman and Chief Executive Officer was set at €522,000 by the Board of Directors during its meeting of February 15, 2018. This amount corresponds to: — 48% 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 adjusted net debt; — 8% of the fixed compensation in respect of the qualitative performance linked to the efficiency of the Group's governance; — 11% of the fixed compensation in respect of the qualitative performance linked to the implementation of the "Trust Together" strategic project and its objectives; — 10% of the fixed compensation in respect of the qualitative performance linked to the consolidation and development of the Group's international alliances. Mr. Janaillac decided to waive a portion of his variable compensation for 2017, leaving it unchanged on the variable compensation he had been granted *pro rata temporis* for 2016 (85% of his fixed salary). He will thus be paid a sum of €510,000 subject to prior approval from the Shareholders' Meeting of May 15, 2018.
Multi-year variable compensation	None	Mr. Janaillac does not benefit from multi-year variable compensation.
Extraordinary compensation	None	Mr. Janaillac does not benefit from extraordinary compensation.

Elements of compensation paid or granted to Mr. Jean-Marc Janaillac, Chairman and Chief Executive Officer in respect of the 2017 financial year	Amounts or book value submitted to the vote	Presentation
Stock options, performance shares or any other long-term benefit (equity warrants, etc.)	None	No such grants occurred during the 2017 financial year. Mr. Janaillac does not benefit from any elements of long-term compensation.
Directors' fees	None	Mr. Janaillac does not receive any directors' fees
Benefits of any kind	None	The material resources made available to Mr. Janaillac are not, in practice, dissociable from the exercise of his duties as Chairman and Chief Executive Officer.
Severance pay	None	Mr. Janaillac does not benefit from severance pay
Non-compete indemnity	None	Mr. Janaillac does not benefit from a non-compete indemnity
Supplementary pension plan	None	Mr. Janaillac does not benefit from a supplementary collective pension plan

1.2.2.3 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 Chairman and Chief Executive Officer for the 2018 financial year (Article L. 225-37-2 of the *Code de Commerce*)

Change in the compensation policy

During its meetings of February 15 and March 14, 2018, as recommended by the Remuneration Committee, the Board of Directors set the fixed and variable elements comprising the compensation granted to the Chairman and Chief Executive Officer of Air France-KLM in respect of the 2018 financial year.

In this context, at the request of the Remuneration Committee, a benchmark analysis of the compensation packages over three different reference groups (European capital intensive companies, European airline companies and companies with the French State as a shareholder) was carried out by an external consultant.

In light of this benchmarking exercise, and also to align the compensation of the Chairman and Chief Executive Officer more closely with shareholders' interests, in its meeting of February 15, 2018, as recommended by the Remuneration Committee, the Board of Directors decided to make the following changes to the compensation package for Air France-KLM's Chairman and Chief Executive Officer:

- align the short-term incentive (STI) percentage with those of the Chief Executive Officers of Air France and KLM (both 70% at target and 100% maximum of base salary);
- introduce a long-term incentive (LTI) component amounting to 10% of base salary, to compensate for for a reduced level of STI on achievement of the targets.

On achievement of the targets, the total amount of compensation (fixed, STI and LTI) will remain unchanged compared to 2017.

In addition, the sum of (i) the fixed compensation for 2018, (ii) the variable compensation paid in respect of 2018 and (iii) the amount paid under this phantom shares plan may not exceed the maximum compensation ceiling fixed for 2017 (i.e. €1.2 million).

Note that the introduction of a long-term incentive (LTI) aims to align the Chief Executive Officer's compensation more closely with shareholders' interests. The effective percentage of LTI compensation relative to total compensation is deemed to be a first step in changing the composition of the Chairman and Chief Executive Officer's compensation package.

Elements composing the compensation of the Chairman and Chief Executive Officer for 2018

The Chairman and Chief Executive Officer's compensation package for 2018 is composed of the following three elements, as set by the Board of Directors:

1. annual fixed compensation;
2. short-term variable compensation (STI) linked to the performance of the previous financial year;
3. long-term variable compensation (LTI) in the form of phantom shares linked to performance criteria, which will be evaluated over a three-year vesting period.

Annual fixed compensation

The amount of fixed compensation is linked to the level of responsibility and the demands inherent to the relevant top executive's functions. The Remuneration Committee determines the appropriate level of fixed compensation based on the external reference data provided by independent compensation consultants. It also takes into account the required consistency with the level of compensation for the Group's top executives.

On taking office in July 2016, Mr. Jean-Marc Janaillac's fixed compensation was set at the same level as that of his predecessor. For the eighth consecutive year, this amount (€600,000) remained unchanged for the 2018 financial year.

Annual variable compensation

The annual variable compensation aims to reward the top executives for the attainment of pre-determined performance criteria relating to the previous financial year. The variable compensation is paid in cash and represents a percentage of the fixed compensation.

The performance criteria linked to the variable compensation for Air France-KLM's Chairman and Chief Executive Officer as detailed below has two components:

— quantitative criteria relating to the Group's financial targets (60%);

— qualitative criteria composed of individual targets (40%).

The variable compensation, whose target value is set at 70% of the fixed compensation (on achievement of the targets), can vary from 0% to 100% of the fixed compensation based on the level of achievement of these criteria.

Every year, at the accounting year-end, the Remuneration Committee evaluates the achievement of the criteria set for the previous financial year and proposes new criteria for the current financial year. The Board of Directors sets the amount of compensation in respect of the previous financial year together with the structure and elements of variable compensation for the current financial year based on these proposals. The performance criteria relating to the variable compensation are set directly in line with the Group's strategy.

The payment of the annual variable compensation for 2018 is conditional on prior approval by the Shareholders' Meeting taking place in 2019, in the conditions foreseen in Article L. 225-100 of the *Code de Commerce*.

For the 2018 financial year, pursuant to the proposals formulated by the Remuneration Committee, during its meetings of February 15 and March 14, 2018 the Board of Directors decided to set the criteria for determining the variable compensation as follows, subject to approval by the Shareholders' Meeting:

	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 reductions (target -1.2%, maximum of -1.5%)	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.

Long-term incentive

During its meeting of March 14, 2018, as proposed by the Remuneration Committee, the Board of Directors decided to introduce a long-term variable compensation (LTI) element in the form of phantom shares granted to the Chairman and Chief Executive Officer linked to presence and performance conditions, to be evaluated over a three-year vesting period, subject to approval by the Shareholders' Meeting of the resolution proposed in 2018 pursuant to Article L. 225-37-2 of the *Code de Commerce* (Say on Pay *ex-ante*).

The maximum amount of phantom shares granted is set at the equivalent of 10% of the fixed compensation of the Chairman and Chief Executive Officer in respect of the 2018 financial year (i.e. €60,000). The number of phantom shares granted is calculated with reference to the average of the Air France-KLM opening share prices over a 20-day period preceding the grant date.

The granting of phantom shares is subject to a presence condition and to performance criteria over a three-year vesting period.

The acquisition of phantom shares is subject to a presence condition until the end of the vesting period (i.e. until the 2021 Shareholders' Meeting convened to vote on the compensation of the Chairman and Chief Executive Officer pursuant to Article L. 225-100 of the *Code de Commerce* – hereinafter "Say on Pay ex-post"). By way of exception, in the event of death[1], invalidity or non-renewal of the term of office, the number of phantom shares acquired will be determined *pro rata temporis*, subject to achievement of the performance criteria.

In the event of resignation or dismissal, all the phantom shares granted will be forfeited.

The performance criteria, evaluated over a three-year vesting period, are as follows:

KPI	Performance	Vesting as a % of grant
1. TSR on AFKLM shares vs. the weighted TSR on the shares of other sector companies (30%)[1]	>120	120%
	Between 80 and 100	Between 80% and 100%
	<80	0%
2. Actual AFKLM ROCE vs. budget (40%)[2]	>120	120%
	Between 80 and 100	Between 80% and 100%
	<80	0%
3. Dow Jones Sustainability Index (15%)	Position 1	120%
	Position 2	100%
	Position 3	80%
	Position 4 and lower	0%
4. Environmental commitments and CSR performance targets (15%)[3]	Substantially above	120%
	At required level	Between 80% and 120%
	Under required level	0%

(1) Defined as the performance of the Air France-KLM share price in any financial year relative to the performance of the sector: Lufthansa (40%), IAG (35%), Ryanair (12.5%), EasyJet (12.5%).
(2) Calculation based on absolute ROCE. The same correction for fuel will be applied as stated under the collective short-term incentive target.
(3) The evaluation of this criterion will be over a three-year period based on indicators reviewed annually by the Board of Directors.

Note that the weighted average of the performance criteria may not exceed 100%.

In the event of a change of control, after consulting the Remuneration Committee, the Board of Directors may decide (i) to adjust or cancel the performance criteria and/or (ii) to vest the phantom shares on a date earlier than the one initially set, if necessary on a *pro rata temporis* basis, subject to approval by the Shareholders' Meeting within the framework of a Say on Pay *ex-post*.

The evaluation of the performance criteria will be made by the Remuneration Committee prior to the 2021 Shareholders' Meeting convened to vote on the Say on Pay ex-post.

After consulting the Remuneration Committee, the Board of Directors may also adjust the performance criteria to take into account exceptional situations affecting Air France-KLM or the companies in the airline industry selected to calculate the first performance criterion.

The phantom shares acquired will be converted into cash based on the average of the Air France-KLM share prices, over the 20 stock market trading days preceding the end of the vesting period, subject to approval by the 2021 Shareholders' Meeting convened to vote on the Say on Pay ex-post. In the event of death or invalidity, payment may be made before that date.

In the event that the performance criteria are not achieved, no phantom shares will be granted.

Mr. Jean-Marc Janaillac has also made a formal undertaking not to hedge the risk relating to this grant of phantom shares.

Overall ceiling for the compensation granted to the Chairman and Chief Executive Officer for the 2018 financial year

The sum of (i) the fixed compensation for 2018, (ii) the variable compensation paid for 2018 and (iii) the amount paid under this phantom shares plan may not exceed the maximum compensation ceiling set for 2017 (i.e. €1.2 million).

Benefits of any kind

The material resources put at the Chairman and Chief Executive Officer's disposal (chauffeur-driven car) cannot be separated from the exercise of his duties.

(1) By way of exception, in the event of death before the end of the vesting period, the phantom shares will be acquired pro rata temporis at the date of the Shareholders' Meeting following the date of death. The performance criteria will be deemed to have been fulfilled.

No other commitments made with respect to the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer does not benefit from extraordinary compensation.

The Chairman and Chief Executive Officer received no compensation on his appointment.

The Chairman and Chief Executive Officer does not benefit from the supplementary collective pension scheme.

The Chairman and Chief Executive Officer does not receive directors' fees in respect of his Board director and Chairman of the Board of Directors mandates.

The Chairman and Chief Executive Officer does not benefit from stock subscription or purchase option schemes nor from performance shares. The Chairman and Chief Executive Officer receives no elements of compensation or benefits of any nature due or likely to be due in respect of an agreement concluded, directly or via an intermediary, in respect of his mandate, with the Company or a company within the Group.

The Chairman and Chief Executive Officer does not receive other elements of compensation or benefits of any kind from other companies within the Group.

Cessation of functions

The Chairman and Chief Executive Officer does not benefit from a non-compete clause or severance payment in the event of his departure.

The amount of fixed compensation is paid on departure *pro rata temporis* for the accrued period of the current financial year. The amount of annual variable compensation is evaluated at the beginning of the year following the departure date, according to pre-defined criteria potentially applicable based on the evaluation of the Board of Directors, as recommended by the Remuneration Committee

In the event of the early departure of the Chairman and Chief Executive Officer during the 2018 financial year, the same policy as outlined above would apply to the new Chief Executive Officer.

1.3 THE GROUP EXECUTIVE COMMITTEE

Chaired by the Chairman and Chief Executive Officer of Air France-KLM, the Group Executive Committee is composed of ten members, plus a secretary:

- the Chairman and Chief Executive Officer of Air France-KLM, the Chief Executive Officer of Air France, the President of the KLM Managing Board and the Chief Operating Officer of KLM; and
- the six heads of the Group's functions.

		Relevant professional experience	
Members at December 31, 2017	**Age at December 31, 2017**	**Sector**	**Experience**
Jean-Marc Janaillac Chairman and Chief Executive Officer, Air France-KLM Chairman of the Air France Board of Directors	64 years	Public Service, Tourism Transport Air Transport	9 years 2 years 10 years 9 years
Pieter Elbers President and Chief Executive Officer, KLM	47 years	Air Transport	25 years
Frank Terner Chief Executive Officer, Air France	57 years	Air Transport	35 years
Patrick Alexandre Executive Vice-President Commercial – Sales & Alliances, Air France-KLM	62 years	Air Transport	36 years
Pieter Bootsma Executive Vice-President Commercial – Strategy, Air France-KLM	48 years	Air Transport	22 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	54 years	Air Transport	22 years
René de Groot Chief Operating Officer, KLM	48 years	Air Transport	27 years
Marcel de Nooijer Executive Vice-President Cargo, Air France-KLM	49 years	Air Transport	22 years
Frédéric Gagey Chief Financial Officer, Air France-KLM	61 years	Public Service Air Transport	7 years 24 years
Jean-Christophe Lalanne Executive Vice-President Information Technology, Air France-KLM	56 years	Industry, IT Services Air Transport	20 years 13 years
Alexandre Boissy Secretary to the Executive Committee Chief of Staff, Air France-KLM	44 years	Air Transport	19 years

Secretarial services to the Executive Committee are provided by the Air France-KLM Chairman and Chief Executive Officer's Chief of Staff.

1.4 SHARE CAPITAL AND SHAREHOLDER STRUCTURE

1.4.1 Share capital

At December 31, 2017, 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. As from April 3, 2016, pursuant to the Florange Act 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 benefit from a double voting right. There are no other specific rights attached to the shares.

Furthermore, there are no securities not representing the share capital.

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, 2015	300,219,278	300,219,278
December 31, 2016	300,219,278	300,219,278
December 31, 2017	428,634,035	428,634,035

Authorizations to increase the capital

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. At December 31, 2017, the company had used the authorization to increase the capital (outside the context of a public tender offer), maintaining preferential subscription rights for shareholders, within the limit of a nominal amount of €150 million, authorized in respect of the 12th resolution, as outlined below. The other resolutions had not been used.

The Shareholders' Meeting of September 4, 2017 also authorized the Board of Directors to:

- for a period of six months from the date of the Meeting, to proceed with capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. (directly or through a wholly-owned subsidiary held directly or indirectly) without shareholders' preferential subscription rights, each for an amount of €37,527,410 (i.e. a total of €75,054,820), at a subscription price of €10 per share (i.e. with an issue 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. The total amount of these two capital increases was charged against the total nominal cap amount of €150 million relating to the delegation of authority to proceed with capital increases that had been authorized by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 in its 12th resolution. Consequently, on the basis of the resolutions of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017, the Company no longer has a nominal cap amount of €74,945,180 to realize capital increases maintaining preferential subscription rights for shareholders (usable outside the context of a public tender offer), this cap amount also constituting the total cap amount for delegations of competence and authorizations to proceed with capital increases authorized by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017 (12th to 25th resolutions); and
- for a period of twelve months from the date of the Meeting, to proceed with capital increases reserved to members of a company or Group savings scheme without shareholders' preferential subscription rights within a limit of 2% of the share capital. As of December 31, 2017, the Company had not used this authorization.

The authorizations in force are summarized in the following table.

Resolution	Delegation	Maximum amount of issues in nominal	Balance available at December 31, 2017
Authorizations granted by the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017			
No.12	Capital increase (outside the context of a public tender offer) maintaining preferential subscription rights for shareholders	€150 million in nominal (i.e. around 35% of the current share capital)	€74,945,180 in nominal (i.e. around 17.5% 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]	€74,945,180 in nominal (i.e. around 17.5% 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]	€74,945,180 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]

Resolution	Delegation	Maximum amount of issues in nominal	Balance available at December 31, 2017
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]
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]	€74,945,180 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 September 4, 2017			
No.3	Capital increase reserved to Eastern Airlines Industry Investment (Luxembourg) Company Limited, a subsidiary of the China Eastern Airlines Group	€37,527,410 in nominal [charged against the cap amount of the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017, usable outside the context of a public tender offer]	€0 – capital increase realized on October 3, 2017
No.4	Capital increase reserved to Delta Air Lines, Inc.	€37,527,410 in nominal [charged against the cap amount of the 12th resolution of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017, usable outside the context of a public tender offer]	€0 – capital increase realized on October 3, 2017
No.5	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, 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, usable outside the context of a public tender offer]

A common sub-cap of €15 million applies to resolutions 21, 22, 23 and 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, 21, 22, 23 and 24 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. A common sub-cap of €30 million applies across resolutions 14, 15, 16 and 17 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. A common sub-cap of €45 million applies across resolutions 13, 14, 15, 16 and 17 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017. Lastly, a common cap amount, reduced to €74,945,180 following the reserved capital increases realized on October 3, 2017, applies

across resolutions 12, 13, 14, 15, 16, 17 and 18 of the Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2017.

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 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, 2017 in respect of the 12th resolution is €74,945,180.

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.

1.4.2 Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) 2.03% 2023

In March 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) for a total of €550 million. These bonds had a nominal unit value of €10.30, a conversion/exchange ratio of one new or existing Air France-KLM share per bond and matured on February 15, 2023. The annual coupon was 2.03% payable annually in arrears on February 15.

Following Air France-KLM's decision of October 16, 2017 to proceed with the early redemption of all its bonds convertible into and/or exchangeable into new or existing shares (OCEANEs) remaining in circulation on November 15, 2017, nearly all the holders exercised their right to convert their OCEANEs into shares. Exercise notices for 53,359,937 OCEANEs were received, representing 99.96% of the outstanding OCEANEs then in circulation, giving right to the delivery of 53,359,937 new ordinary shares, each with a nominal value of one euro. On November 10, 2017, 33,097,018 new shares were thus delivered to the holders of OCEANEs having forwarded their exercise notices before October 31, 2017 (inclusive). These new shares were admitted to trading on the regulated market of Euronext Paris on November 14, 2017. In addition, on November 15, 2017, 20,262,919 new shares were delivered to the holders of OCEANEs having forwarded their exercise notices between October 31, 2017 and November 6, 2017. These new shares were admitted to trading on the regulated market of Euronext Paris on November 17, 2017. On November 15, 2017, a total of approximately €249,000 was paid in cash to the holders of the 23,768 OCEANES not having exercised their conversion rights.

As a result of this conversion, Air France-KLM's share capital was increased by €53,359,937 and now stands at €428,634,035, composed of 428,634,035 ordinary shares, each with a nominal value of one euro (ISIN Code: FR 0000031122).

Within this framework, on November 17, 2017, pursuant to the provisions of Article L. 621-18-2 of the Monetary and Financial Code, the French State notified the *Autorité des Marchés Financiers* (AMF Document No. 2017DD518092) and the Company of the conversion on November 15, 2017 of 8,477,632 OCEANEs into Air France-KLM shares at a unit price of €10.30.

This transaction enabled Air France-KLM to continue to improve its financial structure by further reducing debt and reinforcing its stockholders' equity.

1.4.3 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 2017 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, 2017, Air France-KLM held 1,146,376 of its own shares, i.e. 0.3% of the share capital, including 1,116,420 shares held by KLM in respect of its various stock option plans. The valuation of the portfolio stood at €15.6 million at December 31, 2017.

1.4.4 Delta Air Lines, Inc. and China Eastern Airlines become shareholders within the framework of the reinforcement of the Air France-KLM Group's strategic partnerships

Following its Board Meeting on July 27, 2017, the Air France-KLM Group announced a further major step in the reinforcement of its strategic partnerships with the creation of a global joint-venture between Air France-KLM, Delta Air Lines, Inc. (Delta) and Virgin Atlantic, and the intensification of its partnership with China Eastern Airlines (CEA). These two commercial alliances have been consolidated by capitalistic links: on October 3, 2017, Delta Air Lines, Inc. and China Eastern Airlines 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 Air Lines, Inc. 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 would 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. The investment in Virgin Atlantic will be effective in 2019, subject notably to the required regulatory authorizations (in particular, 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, 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 CEA 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 Air Lines, Inc. 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, CEA 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).

1.4.5 Air France-KLM shareholder structure

Changes in the shareholder structure

	% of the capital		% of exercisable voting rights		% of theoretical voting rights[1]	
Financial year ended	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Number of shares and voting rights	**428,634,035**	300,219,278	**502,115,633**	371,373,828	**504,378,432**	373,606,668
French State	**14.3**	17.6	**22.7**	27.0	**22.6**	26.9
Delta Air Lines, Inc.	**8.8**	-	**7.5**	-	**7.4**	-
China Eastern Airlines[2]	**8.8**	-	**7.5**	-	**7.4**	-
Employees (FCPE)	**3.9**	6.3	**6.6**	10.2	**6.6**	10.2
Treasury stock	**0.3**	0.4	**-**	-	**0.4**	0.6
Others	**63.9**	75.7	**55.7**	62.8	**55.6**	75.6

(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.

Following the capital increases reserved to Delta Air Lines, Inc. and China Eastern Airlines taking place on October 3, 2017 and the conversion of the OCEANEs 2023 in November 2017, the number of shares increased by 128,414,757 in 2017, to a total of 428,634,035 shares.

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, 2017 on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 1,000 shares. Including the registered shares, the holders of 99.4% of the capital were identified. Based on the TPI analysis of December 31, 2017, 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		
	2017	2016	2015	2017	2016	2015
French State	**61,241,325**	52,763,693	52,763,693	**14.3%**	17.6%	17.6%
Delta Air Lines, Inc.	**37,527,410**	-	**-**	**8.8%**	-	**-**
China Eastern Airlines[1]	**37,527,410**	-	**-**	**8.8%**	-	**-**
Employees (FCPE)	**16,781,090**	18,981,625	19,541,980	**3.9%**	6.3%	6.5%
Treasury stock	**1,146,376**	1,149,203	4,149,595	**0.3%**	0.4%	1.4%
European individual shareholders, incl. French	**37,709,132**	49,654,943	34,007,658	**8.8%**	16.5%	11.3%
European institutional shareholders, incl. French	**144,120,460**	111,236,915	144,229,979	**33.6%**	37.1%	48%
Non-European individual and institutional shareholders	**92,580,832**	66,432,899	45,526,373	**21.6%**	22.1%	15.2%
Total number of shares	**428,634,035**	**300,219,278**	**300,219,278**	**100%**	**100%**	**100%**

(1) Through Eastern Airlines Industry Investment (Luxembourg) Company Limited.

At December 31, 2017, Air France-KLM was 63.6% owned by European residents. North-American shareholders hold 26.26% of the share capital.

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 €)
2015	0.34	-
2016	2.59	-
2017	**(0.81)**	**-**

1.4.6 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 financial website www.airfranceklm.com in French and English.

Relations with investors

The Investor Relations Department maintains a regular 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 maintains regular contact with financial analysts and institutional investors through road-shows and conferences in Europe, the United States and Asia. Investor Days are also organized to enable the latter to meet the Group's operational management.

Relations with individual shareholders

The department dedicated to relations with individual shareholders has a pro-active policy on engaging with individual shareholders. The ACTION'Air newsletter, containing information on the Group's business activity and objectives, is circulated by email and is available on the website in French and English.

The Group regularly participates, in partnership with the business press, in information meetings exclusively for individual shareholders in the French regions. These are an opportunity for the Group to update them on its strategy, results and issues in the airline industry and to address shareholder concerns. In 2017, the Group thus met with shareholders in Nice and Lyons. Site visits are also organized for members of the Shareholders' Club.

The Shareholder Relations Department can be reached by email at mail.actionnaires@airfranceklm.com.

Lastly, the Individual Shareholders' Committee, established in 2000, constitutes a forum for discussion and proposing ideas on Air France-KLM 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 July 2017, Air France-KLM was awarded the SBF80 Trophy for its Shareholders' Meeting within the framework of the *Grand Prix de L'Assemblée Générale 2017*, organized by *L'Institut du Capitalisme Responsable*. Furthermore, in December 2017, within the framework of its communication for individual shareholders, *Le Revenue* magazine awarded the Group the Trophy for the Best Digital Communication in the SBF120.

1.4.7 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 thereof, must notify Air France-KLM by registered mail with acknowledgement of receipt within fifteen days of the date on which the 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 inform 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	% of the share capital	Increase or reduction
French State	November 15, 2017	61,241,325	14.29	I
Delta Air Lines, Inc.	November 15, 2017	37,527,410	8.76	R
China Eastern Airlines (1)	November 15, 2017	37,527,410	8.76	R
Donald Smith & Co.	November 15, 2017	16,083,112	3.75	R

(1) Through Eastern Airlines Industry Investment (Luxembourg) Company Limited.

1.4.8 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 of Transport, as amended by the French law 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 passed 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 Civil Aviation Code and the Code of Transport. The terms for setting the sale price (market price) are foreseen by the Code of Transport.

1.5 INFORMATION ON TRADING IN THE STOCK

1.5.1 Air France-KLM in the stock market

Air France-KLM is 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, CAC Large 60 and 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, as modified (Transparency Directive), is France and the AMF is consequently its competent market authority as regards ensuring compliance with its regulated information obligations.

1.5.2 Stock market performance

Over the 2017 financial year, the share price was up by 162.7% compared with an increase of 9.3% for the CAC 40.

	2017	2016	2015
Share price high *(in €)*	**14.65**	8.84	8.5
Share price low *(in €)*	**4.78**	4.61	5.51
Number of shares in circulation	**428,634,035**	300,219,278	300,219,278
Market capitalization at December 31 *(in €bn)*	**5.8**	1.6	2.1

1.5.3 Transactions in Air France-KLM shares in the past 18 months

Air France-KLM shares

Euronext volumes	Trading days	Average price (in €)	Trading range (in €) High	Low	Volumes	Amount (in €m)
2016						
September	22	4.88	5.25	4.61	81,242,492	415.1
October	21	5.09	5.59	4.61	80,049,596	407.5
November	22	5.37	5.79	5.05	75,904,354	407.6
December	21	5.21	5.54	4.90	76,828,131	400.6
2017						
January	22	5.08	5.37	4.87	72,976,785	387.5
February	20	5.73	6.84	4.78	183,628,314	1,050.4
March	23	7.25	7.72	6.65	97,074,707	701.66
April	18	7.44	8.20	6.90	77,316,997	577.87
May	22	9.10	10.19	7.56	116,018,976	1,033.34
June	22	11.17	12.55	10.05	84,595,848	939.20
July	21	12.52	13.72	11.14	97,699,239	1,215.05
August	23	12.48	13.11	11.41	53,237,361	660.56
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

Source: NYSE Euronext.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) 2.03% 2023

The bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) 2.03% 2023 issued in 2013 were partially converted and partially redeemed in November 2017: 53,359,937 OCEANEs were converted on November 10 and 15, 2017 and 23,768 OCEANEs were redeemed on November 15, 2017 (*for more details see section 1.4.2 Securities conferring rights to the capital*).

2 ACTIVITIES

2.1 Market and environment 66

2.1.1 The economic environment 66
2.1.2 The industry context and competition 67

2.2 Strategy 70

2.2.1 The Air France-KLM Group's ambitions 70
2.2.2 Strengths of the Air France-KLM Group 70
2.2.3 Strategy of the Air France-KLM Group 71

2.3 Network business 74

2.3.1 Short and medium-haul operations 74
2.3.2 Long-haul operations 75
2.3.3 Reinforcing the hubs 78
2.3.4 Accelerating customer-centric initiatives to become the number one for Customer Intimacy 80
2.3.5 Cargo business 83
2.3.6 Airline partners and alliances 83
2.3.7 SkyTeam alliance 86
2.3.8 Key figures 87

2.4 Low-cost business (Transavia) 89

2.5 Maintenance business 90

2.5.1 Business environment 90
2.5.2 Affirming AFI KLM E&M's position as a world leader 90

2.6 Fleet 96

2.6.1 The Air France Group fleet 98
2.6.2 The KLM Group fleet 99

2.1 MARKET AND ENVIRONMENT

2.1.1 The economic environment

Real GDP growth (%)	**2016**	**2017** (estimates)
World	2.4	**3.0**
European Union	1.9	**2.4**
o/w United Kingdom	1.9	**1.8**
Euro zone	1.8	**2.4**
o/w France	1.1	**1.9**
o/w Netherlands	2.1	**3.3**
North America (NAFTA countries)	1.6	**2.3**
Asia-Pacific	4.4	**4.7**
o/w China	6.7	**6.9**
o/w Japan	0.9	**1.8**
Middle East	5.1	**1.1**
Sub-Saharan Africa	0.8	**2.3**
Latin America	-1.3	**1.2**

In 2017, global GDP increased by 3.0%, surpassing its growth in 2016. The threats overhanging the world economy at the end of 2016 (uncertain European political backdrop, increases in bank rates, debt in China) disappeared. The rebound in commodity prices failed to unleash inflation. The recovery in the United States and the Euro zone, and the resilience of the Chinese economy, contributed to this positive global performance *(source 1)*.

- in the United States, the economic recovery continued after the Presidential election towards the end of 2016, with unemployment standing at a 17-year low (4.1% in November) and the Dow Jones soaring 25% in the space of a year, driven by business confidence ahead of the anticipated tax cuts *(source 2)*;
- in the Euro zone, unemployment was also at its nine-year low (8.7% in November) albeit with wide disparities (3.6% in Germany, 20.5% in Greece) *(source 3)*. Political uncertainty dwindled (France, Netherlands, Germany) and corporate confidence increased illustrated, notably, by a PMI manufacturing indicator at 60.0 in November, its second best level since the creation of the indicator in 1997 *(source 4)*;
- in the United Kingdom, the economic uncertainty in the wake of the Brexit announcement has been reflected in a growth slowdown for the past two years;
- in Asia, the anticipated deceleration in the Chinese economy did not materialize in 2017 and growth has thus remained at 7% for the last three years. Growth reached 1.8% in Japan thanks to an increase in trading flows and budgetary stimulus *(source 5);*
- after two years of recession, Brazil and Russia returned to growth in 2017 thanks, notably, to an increase in commodity prices *(source 5)*;
- in the Middle East, the growth slowdown in 2017 was explained by the decline in the oil price since late 2015, masked in 2016 by the strong growth in Iran *(source 6).* The recent uptick in the oil price thanks to the supply curtailment agreement has prevented a return to growth, the latter also being impacted by the introduction of VAT in Saudi Arabia and the United Arab Emirates *(source 7)*.

Oil prices

Brent (US$/bbl)	**2016 Q1**	**2016 Q2**	**2016 Q3**	**2016 Q4**	**2017 Q1**	**2017 Q2**	**2017 Q3**	**2017 Q4**
Average price at the end of the period	36.8	48.1	48.2	55.0	52.2	47.1	57.0	59.0

In November 2016, to increase the oil price, most oil exporting countries decided to cut their production until the middle of 2017. In May 2017, this agreement was extended until March 2018 before, in November 2017, again being prolonged until the end of 2018 with a production cap of 1.8 million barrels a day. This had the expected effect of driving prices higher, something which the increase to shale gas production in the United States failed fully to offset *(source 8)*.

Currency exchange rates

For one euro (average)	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
USD	1.10	1.13	1.12	1.08	1.06	1.10	1.17	1.18
GBP	0.77	0.79	0.85	0.87	0.86	0.86	0.90	0.89
JPY	127	122	114	118	121	122	130	133
RUB	82	74	72	68	63	63	69	69
BRL	4.3	4.0	3.6	3.6	3.3	3.5	3.7	3.9

The dollar weakened against all currencies in 2017 due to the coordinated economic recovery in the rest of the world and uncertainties linked to the new US administration. The interest rate hikes by the Fed since the end of 2016 have not sufficed to reverse this trend *(source 9)*.

Sterling has maintained its level against the euro since the Brexit vote while the economic pick-up in Russia and Brazil has enabled a rise in the Ruble and the Brazilian Real. The Yen has benefited from dollar weakness *(source 10)*.

2.1.2 The industry context and competition

From an economic standpoint, 2017 was a good year for the airlines thanks to robust traffic.

— Europe medium-haul

Internal growth

Over the eight first months of the year, the low-cost segment was the main driver of capacity growth for the European Civil Aviation Conference Area (ECAC, 44 countries) with the addition of 595 flights a day, up by 7.1% *(source 11)*, mainly driven by the leading European low-cost carriers, Ryanair and easyJet *(source 12)*.

At December 31, 2017, firm orders for narrow-body aircraft from Ryanair, easyJet, WizzAir and Norwegian totaled 775 units, i.e. only slightly below the level of their operational fleet of 898 aircraft *(source 13)*.

Acquisition-led growth

The collapse of competitors like AirBerlin and Monarch enabled easyJet *(source 14)* and WizzAir to purchase assets at the requested airports *(source 15)*. The legacy carriers, often through their low-cost subsidiaries (Eurowings for the Lufthansa Group, Vueling for the IAG Group) were also active in purchasing assets from Monarch *(source 16)* and from AirBerlin and one of its LGW subsidiaries *(source 17)*, while awaiting the fate of Alitalia in 2018 *(source 18)*.

— Low-cost long-haul

2017 was marked by the strong growth of the low-cost long-haul carriers. The trans-Atlantic segment was the most impacted, notably by Norwegian (trans-Atlantic capacity +115% in the IATA Winter 2017 Season relative to Winter 2016 *(source 13)*) and to a lesser extent by Level and Wow Air:

- in June, Norwegian launched a trans-Atlantic network with six narrow-body aircraft (B737 Max 8) between six airports in Ireland, Scotland and Norway, and three airports in the United States. Norwegian also inaugurated new routes flying the B787 by opening a base in Barcelona towards Los Angeles, New York, Oakland and Fort Lauderdale *(sources 19 and 20);*
- Level, the IAG Group's low-cost long-haul subsidiary, launched operations in June, from Barcelona to Los Angeles, Oakland, Punta Cana and Buenos Aires *(source 21);*
- Wow Air, the low-cost long-haul carrier offering trans-Atlantic flights with connections in Iceland, in 2017 opened new destinations in the United States (Pittsburgh, Miami, Chicago) and Europe (Brussels, Cork, Tel Aviv) *(source 13);*
- in June, French Blue, the Air Caraïbes subsidiary now renamed French Bee, opened the Paris-La Réunion service operating A330s, then A350s *(source 13)*.

— Self Connect

In Europe, easyJet and Ryanair started to offer connecting flights.

Outside these itineraries organized by the airlines themselves, it is possible to connect with any flight, whether low-cost or not, thanks to platforms like Kiwi.com which provide a virtual interlining search engine and insurance in the event of a difficulty in connecting *(source 22)*.

— Gulf State carriers

The Gulf State carriers had an eventful year but the outlook remains positive.

Against a backdrop of low oil prices, tougher competition, the impact of terrorism and geopolitical tensions all negatively impacted the Gulf State carriers in 2017 *(source 23)*.

More specifically, Qatar Airways suffered as of June from an embargo on the Emirates, leading to multiple flight cancellations and an increase in flight operating costs *(source 24)*. Following heavy losses, Etihad called a halt to its investment strategy (Alitalia and AirBerlin) *(sources 25 and 26)*.

As a result, the growth for these airlines was unusually low in 2017: +4% for Emirates (versus +11% in 2010-2016), slightly weaker for Qatar (+11% versus +14% in 2010-2016) and even negative for Etihad (-3% versus +16% in 2010-2016) *(source 27)*.

— 2017 was characterized by a strong recovery in air freight traffic

International demand, measured in Freight-Ton-Kilometers (FTK) increased by 10.5% in 2017 relative to 2016. This increase represents a seven-year record level for the industry whereas growth had averaged 2.3% over the 2011-2016 period. Capacity, measured in Available-Freight-Ton-Kilometers (AFTK) increased by 3.9% in 2017.

All the regions posted a high level of growth in 2017, the global economic environment and the dynamism in international trade driving a strong increase in international flows.

For over a decade, the growth in international traffic has been mainly underpinned by the Middle Eastern airlines (Emirates and Qatar Airways), but also by the Asian carriers (China Southern, All Nippon Airways, Asiana, Air China, Singapore Airlines, Cathay Pacific, etc.), following the coming on line of substantial capacity in passenger/cargo combis and full freighters. In parallel, transporters specialized in air freight, like Cargolux and Air Bridge Cargo, and Fedex and UPS for express freight, continue to post a significant expansion in their operations. Turkish Airlines also reaffirmed its ambitions in the cargo business with the highest level of traffic growth amongst the operators (+39%), in line with the sharp rise in belly and full freighter capacity which is set to continue in the coming years.

Change from January to November 2017 relative to 2016

	Share of total traffic (% FTK)	Traffic (FTK)	Capacity (AFTK)	Change in load factor (%)	Load factor
Total market	**100%**	**9.7%**	**3.1%**	**2.7%**	**45.4%**
Africa	1.6%	25.6%	10.0%	3.1%.	25.1%
Asia-Pacific	37.4%	8.6%	1.6%	3.6%	56.1%
Europe	23.6%	12.7%	5.8%	2.8%	46.4%
Latin America	2.8%	6.3%	5.1%	0.4%	33.4%
Middle East	13.9%	8.3%	2.4%	2.4%	44.9%
North America	20.8%	8.3%	1.6%	2.3%	26.5%
International	**86.7%**	**10.5%**	**3.9%**	**2.9%**	**49.2%**
Africa	1.6%	26.1%	10.5%	3.2%	25.6%
Asia-Pacific	33.2%	9.3%	3.2%	3.4%	60.2%
Europe	23.0%	12.7%	5.5%	3.1%	48.1%
Latin America	2.4%	6.5%	4.7%	0.7%	38.7%
Middle East	13.8%	8.3%	3.4%	2.0%	45.0%
North America	12.7%	10.8%	1.8%	3.5%	42.6%

Sources 28, 29, 30 and 31.

Sources

1) http://www.coe-rexecode.fr/public/Analyses-et-previsions/Perspectives-economiques-et-Bilan-de-l-annee/Bilan-de-l-annee/Bilan-de-l-annee-2017-les-nuages-se-sont-dissipes; 2) Le Figaro, November 2017, http://www.lefigaro.fr/flash-eco/2017/11/03/97002-20171103FILWWW00166-usa-le-taux-de-chomage-tombe-a-41.php; 3) Le Figaro, January 2018, http://www.lefigaro.fr/conjoncture/2018/01/09/20002-20180109ARTFIG00300-zone-euro-le-chomage-au-plus-bas.php; 4) https://www.cnbc.com/2017/11/23/euro-zone-businesses-roar-towards-year-end-pmi.html; 5) La Tribune, January 2018, https://www.latribune.fr/economie/international/economie-mondiale-la-reprise-est-elle-durable-764503.html; 6) Le Point, July 2017, http://www.lepoint.fr/economie/croissance-economique-ralentie-au-moyen-orient-24-07-2017-2145286_28.php; 7) Les Echos, Decembre 2017, https://www.lesechos.fr/monde/afrique-moyen-orient/0301050575187-fragilises-budgetairement-les-pays-du-golfe-adoptent-la-tva-2141255.php; 8) CNBC, November 2017, https://www.cnbc.com/2017/11/30/opec-and-russia-reportedly-agree-to-extend-oil-cut-to-end-of-2018.html; 9) CNBC, December 2017, https://www.cnbc.com/2017/12/29/dollar-could-follow-2017-with-another-weak-year.html; 10) L'Opinion, January 2018, https://www.lopinion.fr/edition/economie/2017-l-annee-l-euro-a-grimpe-14-140789; 11) Eurocontrol p22 septembrer 2017 forecasts, http://www.eurocontrol.int/sites/default/files/content/documents/official-documents/forecasts/seven-year-flights-service-units-forecast-2017-2023-Sep2017.pdf; 12) OAG; 13) Ascend fleet data - FlightGlobal; 14) Le Figaro, December 2017, http://www.lefigaro.fr/societes/2017/12/18/20005-20171218ARTFIG00130-easyjet-confirme-la-reprise-de-25-avions-d-air-berlin.php; 15) The Telegraph, November 2017, http://www.telegraph.co.uk/business/2017/11/29/wizz-secures-last-monarchs-landing-slots-sweeping-luton-haul/; 16) Independent: http://www.independent.co.uk/travel/news-and-advice/british-airways-gatwick-monarch-luton-slots-easyjet-norwegian-a8079261.html; 17) Reuters, décembre 2017, https://uk.reuters.com/article/uk-air-berlin-m-a-lufthansa/lufthansa-says-33-planes-to-move-to-eurowings-after-lgw-deal-approved-idUKKBN1EF1SN; 18) Corriere della sera, January 2018, http://www.corriere.it/economia/18_gennaio_16/alitalia-piu-tempo-il-partner-governo-serve-un-offerta-solida-04a46f92-fa35-11e7-b7a0-515b75eef21a.shtml; 19) Air Journal, June 2017, http://www.air-journal.fr/2017-06-30-norwegian-recoit-deux-737-max-8-sinteresse-au-mom-5184133.html; 20) Air journal, June 2017, http://www.air-journal.fr/2017-06-06-norwegian-lance-les-vols-transatlantiques-a-barcelone-5182662.html; 21) Air Journal, June 2017, http://www.air-journal.fr/2017-06-01-low-cost-long-courrier-level-decolle-a-barcelone-5182403.html; 22) Reuters, May 2017, https://www.reuters.com/article/us-cee-summit-kiwi-com/kiwi-com-in-talks-to-raise-funds-for-next-leg-of-travel-idUSKBN18J2DF; 23) Financial Times, September 2017, https://www.ft.com/content/c8334df6-8da8-11e7-a352-e46f43c5825d; 24) L'écho touristique, juin 2017, https://www.lechotouristique.com/article/avec-l-embargo-qatar-airways-se-bat-pour-sa-survie,90306; 25) Bloomberg, May 2017, https://www.bloomberg.com/news/articles/2017-05-02/alitalia-starts-bankruptcy-proceedings-after-turnaround-fails; 26) Reuters, August 2017, https://www.reuters.com/article/us-air-berlin-lufthansa/air-berlin-files-for-insolvency-after-etihad-withdraws-support-idUSKCN1AV14E; 27) OAG snapshot:180119 – OAG GCC ask extract"; 28) IATA – Air Freight Market Analysis – November 2017; 29) https://www.markiteconomics.com/Survey/Press Release.mvc/80938f80eb214ddbad6735167e8fabb9; 30) JP Morgan; 31) IATA World Air Transport Statistics & Monthly Travel Statistics. https://www.iata.org/publications/store/Pages/world-air-transport-statistics.aspx

2.2 STRATEGY

2.2.1 The Air France-KLM Group's ambitions

The Air France-KLM Group's ambition is to be a European leader in the air transport industry by offering all customer segments transport offers tailored to their needs, between both Europe and the rest of the world and on intra-European routes on departure from the Group's natural markets. This goal is supported by the Group's different brands which are positioned in complementary markets with their own specific operating models.

The network brands, Air France, KLM and Joon, are based on a system of hubs around efficient infrastructure at Paris-CDG and Amsterdam-Schiphol, and take advantage of numerous partnerships to offer a high-density network. They also offer a wide range of top-quality products and services in which digital technologies will enable more personalization to ensure a more effective response to customer expectations. Air France-KLM's expertise in the cargo business supports the Group's airline operations while making a material contribution to their economics. The point-to-point (HOP! Air France) and low-cost (Transavia) brands aim to provide efficient transportation solutions for domestic and intra-European travel. The Air France-KLM Group also plans to develop its positioning as a global reference player in the aeronautics maintenance market by leveraging its recognized know-how in terms of operational efficiency, innovation and technical expertise.

2.2.2 Strengths of the Air France-KLM Group

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. Including the flights operated by Delta Air Lines, Inc. within the framework of the trans-Atlantic joint-venture and those operated by China Eastern Airlines, in 2017 Air France and KLM served 134 long-haul destinations world-wide, of which 41 in Africa, 26 in North America, 22 in the Asia-Pacific region, twelve in the Caribbean, three in the Indian Ocean, fourteen in Latin America and sixteen in the Middle East.

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 passenger revenues. These markets also behave differently, enabling the Group to mitigate the negative impact of any developments or crises affecting some markets.

Coordinated hubs

The Group's network is coordinated around the two intercontinental hubs of Paris-CDG and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe. These hubs connect transfer flows with point-to-point traffic. This large-scale optimized system gives small markets world wide access, and offers a dense flight schedule tailored to the frequency needs of customers.

The efficiency of the hubs largely depends on the quality of airport infrastructures: number of runways usable in parallel, fluidity of circulation and ease of connections between terminals. The Group also pays particular attention to operational excellence.

A portfolio of strong brands aligned with customer expectations

With "Air France" and "KLM", the Group has a portfolio of powerful brands that benefit from exceptional reputations and identities in both its two national markets and internationally.

The brand portfolio strategy has been reinforced in recent years: thanks to strong growth in France in recent years, the low-cost brand Transavia, which is already the leading low-cost carrier in the Netherlands, has become the number one low-cost airline at Paris-Orly. In total, Transavia now offers a wide range of more than 100 destinations. In 2017, Transavia France celebrated its tenth anniversary by posting traffic figures of some six million passengers.

Joon, the new Air France airline operated its first flight on December 1, 2017. This new airline aims to respond to the needs of a new generation of travelers, by offering them a personalized, bespoke travel experience.

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

A balanced customer portfolio

The Air France-KLM Group's choice of meeting the needs of all types of customer in terms of networks, products and fares has enabled it to build a balanced customer base.

In the traditional network carrier business (Air France and KLM brands), around 40% are business passengers and 60% are travelling for personal reasons. 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%. Furthermore, nearly 55% of revenue is realized with loyalty scheme customers (members of the Flying Blue frequent flyer program or those whose companies have a corporate contract with the Group). The positioning of Joon aims to increase Air France's penetration of the 18-35 year old target demographic.

The accelerated growth for Transavia which carried some 14.8 million passengers in 2017 compared with 13.3 million in 2016, enables the Group to complete its portfolio of products to become customers' low-cost carrier of choice.

2.2.3 Strategy of the Air France-KLM Group

The Group's strategy, whose concrete expression is the "Trust Together" project, must enable Air France-KLM to rise to three major challenges: capture its share of global air transport industry growth, further enhance the customer experience and reinforce the Group's operational efficiency while achieving the competitiveness targets in the "Perform 2020" plan.

— Regaining the offensive

Air France-KLM is targeting profitable growth of around 2% to 3% per year for the long-haul operations through to 2020, supported by a number of levers. At revenue level, the Group will pursue its strategy of alliances and commercial integration with partners, while investing in its current tools. At cost level, the ongoing measures to improve the competitiveness of Air France and KLM are being pursued. In particular, in 2017 Air France launched an additional tool – a new airline – adapted to ultra-competitive situations and positioned on structurally loss-making routes or those that have been closed in recent years.

— Joon, a new company alongside Air France, which is competitive and innovative and will drive growth for the Paris-Charles de Gaulle hub to destinations in Europe and the rest of the world

This company, which is focused on ultra-competitive markets, enables the Group to open new routes, re-open routes closed due to their lack of profitability and maintain routes under threat within the Group. This new company proposes a simple, modern and innovative offer, whose positioning is not low-cost. It offers its customers business and leisure destinations with standards comparable to those of Air France in terms of product quality and the professionalism of the crews.

Joon is also a laboratory for the Group's innovative ability in terms of products, digital and technology, catering, cabin design, services and the customer experience, as well as for working methods.

It will number ten long-haul aircraft by 2020 with some 30% of operations focused on newly-created routes. The Joon flights will be operated by Air France pilots on a volunteer basis, under working conditions adapted to its competitive positioning. For cabin crews, an independent career path will be created to enable this new company to be operated at the level of market costs. The ground operations, handled by Air France, will also be optimized by taking maximum advantage of digitalization. The HR framework for this new company was the subject of negotiations with the unions during 2017.

— Deepening the alliances

Air France-KLM continues to reinforce its commercial integration with its principal partners to benefit from an expanded market position, leverage joint distribution networks and be able to offer customers a global proposition in each market (*see Alliances section*).

The Group is thus working on reinforcing its trans-Atlantic joint-venture with its different partners and those of Delta Air Lines, Inc., in Europe and North America. Air France, KLM, Delta Air Lines, Inc. and Virgin have agreed to set up a new trans-Atlantic joint-venture. On its expected implementation in 2019, this new joint-venture will enable the companies in question to propose an integrated offer on the trans-Atlantic market with a market share of around 25% versus 21% for IAG/American Airlines and 27% for Lufthansa/United and its STAR Alliance partners. In this context, Air France-KLM will also purchase a 31% stake in Virgin Atlantic, Delta Air Lines, Inc. already owning a 49% stake since 2013 and the historic shareholder Richard Branson retaining 20%.

Towards China, in addition to its stand-alone presence as the European leader, Air France-KLM will be able to rely on its Chinese partners – China Eastern Airlines, China Southern and Xiamen Airlines – and aims to further reinforce the joint-ventures established in recent years. This close cooperation enables the Group and its Chinese partners to develop and optimize the proposition between Europe and China, and to offer customers a service to secondary Chinese cities.

The partnerships with Delta Air Lines, Inc. and China Eastern Airlines have been reinforced by the entry into the Air France-KLM share capital of these two international companies through a reserved capital increase approved in July 2017 and effective in October 2017. Following the increase in the number of shares resulting from the conversion of the bonds convertible and/or exchangeable into new or existing shares (OCEANE), these two companies now each hold 8.76% of the Group's share capital.

In India, Air France-KLM continued to reinforce its partnership with Jet Airways, the leading private Indian carrier in the intercontinental market. In 2016, the codeshare agreement between the Group and the Indian airline was expanded to offer flights to more Indian cities, with enhanced connectivity towards Europe and North America following in November 2017. This new development enables shared growth in activity between Europe and India.

Lastly, the Group is pursuing its cooperation with the Brazilian carrier, GOL, which began in 2014, enabling Air France, KLM and GOL customers to benefit from a network that now links more than 30 European with over 50 Brazilian cities.

— **Developing the point-to-point markets on departure from the French and Dutch home markets**

The point-to-point operations, i.e. the short- and medium-haul flights without connections in a Group hub, are operated by Transavia, HOP!, Air France and KLM.

The priority for Transavia, the Group's low-cost airline, is growth in its French and Dutch home markets. In France, Transavia is reinforcing its position on some European routes on departure from Orly and the French provinces.

Commercial coordination between Transavia and the Group's other airlines (HOP!, Air France and KLM) will be stepped up to expand the offer to customers.

— **Strengthening the growth of the maintenance business**

With growth forecast at more than 4% for the aeronautics maintenance industry at global level over the next decade, the maintenance business 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. Air France-KLM's growth is being driven, in particular, by the engine and component support businesses, 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's fleets 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.

— **Further developing customer relationships to create more value**

The Group plans to reinforce the positioning of the customer at the heart of its strategy through its "Customer First" approach and increase the Net Promoter Score for each of its companies, by making this indicator a fully-fledged management tool. The Group's goal is to become a market leader for customer satisfaction.

To achieve this and differentiate itself from competitors, Air France-KLM is investing in digital tools, a more personalized service for customers and a move up-market. The Group will thus amplify its customer-focused action plans with initiatives like the:

— personalization of the customer experience and relationship thanks to Big Data;

— an ongoing move up-market for products and services, with the continued deployment of the Best cabins on Air France's long-haul aircraft, the modernization of the World Business Class and the progressive deployment of WiFi on the Group's long-haul fleet;

— an improvement in Operational Efficiency.

The improvement in customer relations will also involve innovation in distribution: Air France-KLM will take advantage of the new distribution tools to build closer relationships with customers and propose adapted offers, while reducing costs. In 2017, Air France-KLM reached level 3 IATA certification for its new NDC (New Distribution Capabilities) distribution system.

— **Reinforcing Operational Efficiency and competitiveness**

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

— **Improving the efficiency and connectivity of the hubs**

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

The Paris-Charles de Gaulle hub has also gained renewed dynamism from the launch of the new airline, Joon, on the medium-haul network with a simple, modern and innovative offer.

The Amsterdam-Schiphol hub continues to be reinforced through closer coordination between Transavia and KLM, particularly in terms of investment in the fleet, the development of the network and new joint commercial approaches.

— **Reinforcing Operational Efficiency and the utilization of the fleet**

The unit cost reduction targets – more than 1.5% per year over the period – aim to give the Group the flexibility required to finance its investment linked to the activity growth plan and concern all cost items.

To improve its competitiveness, the Group plans to activate all the levers, by pursuing and amplifying the initiatives already under way in terms of unit cost reduction. Air France-KLM is focusing its efforts on reducing fleet costs by optimizing the utilization of its aircraft.

This asset optimization process through increased utilization of aircraft, something which is already under way within both Air France and KLM through the OpX program, also involves seeking savings on the cost of ownership and leasing for the Group's fleet (*see Activity section, page **77***).

— **Defending the cargo business in support of the Passenger operations**

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 economics 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 digitalization and the simplification of processes, and on a high level of service quality.

— **Optimizing organizational structures and gaining agility to facilitate the initiatives and accelerate innovation**

The work in progress on organizational optimization and simplifying functioning modes will be pursued and intensified. Air France is deploying a new HR ambition for employees, reflected in a commitment to greater recognition, career development, unleashing initiative, innovation and internal cohesion, across all staff categories, accompanied by concrete action plans. The implementation of digital tools for Air France-KLM employees and the digitalization of processes is being accelerated to facilitate collaborative working across the Group and gain agility. The Agile working method has been widely rolled out across the Group's organization.

— **Pursuing lobbying initiatives in Europe and France directed at more equitable competition**

The Group is pursuing its lobbying initiatives at European level to establish equitable competition with the Gulf State and low-cost carriers and, at French level, reduce the structural gap in competitiveness due to higher taxes and charges.

For several months, Air France-KLM has engaged in lobbying the national and European authorities in favor of equitable competition with the Gulf State and low-cost carriers. In particular, the Group is committed to stressing that the opening of the European air transport market vis-à-vis third-party players must be conditional on no future subsidies for their carriers from the relevant States. The Group is also making a case for the harmonization of the regulation applicable to mobile staff working in the air transport industry in Europe and strict monitoring by the national authorities of the practices of some companies which resemble "social dumping". Lastly, the Group is seeking to reduce the structural shortfall in competitiveness that exists in France due to the level of taxes, social contributions and charges which are higher than in other European countries.

The implementation of the Trust Together project aims to guarantee Air France-KLM's financial flexibility. The Group will pursue efforts to improve its competitiveness, by confirming the Perform 2020 competitiveness objectives and by improving the cost of fleet utilization and financing.

The Group will maintain strict capex discipline, by targeting annual positive free cash-flow before disposals and the sale of subsidiaries. For the 2017-20 period, annual capex is expected to be between €2bn and €2.5bn. Deleveraging will remain the priority.

2.3 NETWORK BUSINESS

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

2017 was marked by a return to the offensive and by growth. Air France-KLM confirmed its European leadership position in terms of traffic with 99 million passengers carried. This achievement accompanied strategic advances, like the construction of the leading global alliance network with the creation of joint-ventures on the North Atlantic with Delta Air Lines, Inc. and Virgin Atlantic, and in Asia with China Eastern Airlines, Jet Airways and Vietnam Airlines. 2017 also saw the realization of major projects within the framework of Trust Together like, for example, the successful launch of Joon, the personalization of the customer experience and the acceleration of digital developments.

The ambitions of Trust Together are the concrete manifestation of the investment decisions taken in 2017, like the installation of connectivity on all the Group's aircraft and the ongoing cabin renovation programs on the A330s, B777s and A380s, but also in the realization of projects like the new Terminal 2G lounge and, more recently, that of Hall L in Terminal 2E at Roissy.

2.3.1 Short and medium-haul operations

An expanded network with new routes

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

- on the French short-haul network, HOP! Air France interlinks the French regions with daily flights serving 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);
- the new airline Joon reinforces the network by offering new destinations on departure from the Paris-CDG hub. Joon operations were launched on December 1, 2017 on medium-haul destinations: Berlin, Barcelona, Lisbon and Porto. As of the end of March 2018, Joon will be operating flights to new medium-haul destinations in addition to those listed above: Rome (seven flights a day), Naples (two flights a day), Oslo (two flights a day on four days of the week), Istanbul (one flight a day);
- the medium-haul network is built around the Paris-CDG and Amsterdam-Schiphol hubs, offering multiple connecting opportunities in Europe. It proposes a schedule of attractive 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). After several years of restructuring enabling a significant results turnaround, this new range is available on the whole of the European network for both Air France and KLM.

For the Summer 2017 schedule, the Group offered 25 new routes on the short and medium-haul network:

- five destinations on departure from Paris-Charles de Gaulle operated by Air France: Agadir and Marrakech (Morocco), Milan-Malpensa (Italy), Palma de Majorca (Spain) and Porto (Portugal),
- ten destinations on departure from Amsterdam-Schiphol operated by KLM: Cagliari and Catania (Italy), Dublin (Ireland), Milan-Malpensa (Italy), Gdansk (Poland), Graz (Austria), London City Airport (United Kingdom), Malaga (Spain), Porto (Portugal) and Split (Croatia),
- ten destinations on departure from the French regions operated by HOP! Air France, notably to Athens, Ibiza and Tel Aviv.

For the Winter 2017-18 schedule, on the short and medium-haul network, the Group increased its capacity by 5.5%.

- on departure from Paris-Charles de Gaulle, Air France served three new Winter destinations: Marrakech (Morocco), Palma de Majorca (Spain) and Porto (Portugal) in continuation of the Summer season.

On departure from Amsterdam-Schiphol, KLM continued to serve Catania (Italy), Gdansk (Poland), Graz (Austria), London-City (United Kingdom), Malaga (Spain) and Porto (Portugal). KLM also increased its flight frequencies to Athens (Greece), Aalborg (Denmark), Dublin (Ireland), Helsinki (Finland), Göteborg (Sweden) Luxembourg (Luxembourg), Nuremberg (Germany), Rome (Italy) and Stuttgart (Germany).

On departure from the French regions, HOP! Air France stepped up the development of its network with seven new routes:

- to Germany: Nantes – Hamburg and Bordeaux – Düsseldorf thanks to three flights a week,
- to Algeria: Montpellier-Algiers thanks to two flights a week,
- to the French regions: Strasbourg – Rennes and Caen – Toulouse thanks to four flights a week, together with Lyons – Rouen and Lyons – Nuremberg in continuation of the Summer season.

Within a context of ongoing growth for the low-cost carriers, the Group is demonstrating its ability to adapt to changing trends and to seize opportunities. A "Test and Learn" approach has been put in place, enabling the opening of both all-year-round and seasonal destinations, this expanded network having created new opportunites for profitable growth.

Fleet and the product move up-market

2017 marked an end to the deployment of the new travel cabins.

Since May 2017, the whole medium-haul fleet has been equipped with the Smart cabins (except the A318s). These aircraft are now progressively being equipped with new High-Power USB ports enabling customers to recharge their mobile devices. Their deployment should be completed on the A318s by the end of 2018.

In line with the strategy, KLM has committed to investing massively in its fleet over the past few years, aimed at phasing out older aircraft, introducing more modern aircraft and upgrading the customer experience.

KLM continued its fleet densification process to remove twelve seats from the World Business Class on its A330-200s enabling it to add 37 seats to Economy class, and to add four seats to the B777-200, thereby contributing to a unit cost reduction. In 2018, KLM will continue the installation of WiFi connectivity on its A330-200 and B777-200 aircraft.

Innovation and a new offer

2017 was also marked by the launch of the Air France Group's new airline: Joon, the new-generation travel experience by Air France, embodies the renewal of the proposition.

Joon is addressed at everyone, for tailor-made travel, with a start-up spirit, a slightly quirky offer and a veritable innovation laboratory.

On board, customers have access to a broad and varied catering offer. Firstly, the essentials – organic coffee and tea, orange juice and water – are free to everyone.

In the Business cabin, there is a free, gourmet meal service similar to that of Air France.

In Economy, in addition to a complimentary drinks service, there is a selection of particularly tasty and original products available as a paid option. Most are organic and are sourced from fair trade or French companies. This is also a reflection of the Joon mindset as a responsible brand. The menu will be renewed three times a year to always be surprising customers, particularly those traveling frequently: smoothies, detox drinks, craft beers, tapas to share and an offer especially for children, etc.

2.3.2 Long-haul operations

Capacity redeployed towards rapidly-growing regions

In 2017, in the long-haul operations, the Group maintained a strategy of moderate and profitable growth. Within a relatively favorable environment, the Group leveraged its balanced network by redeploying capacity to areas which are seeing rapid growth, and by opening new destinations.

On its long-haul network, for the Summer 2017 season, Air France-KLM served nine new destinations before launching ten new routes during the Winter 2017-18 season.

Changes in capacity by geographical region

North America: additional capacity toward the United States and Mexico

For the Summer 2017 season, KLM launched the Amsterdam-Schiphol-Minneapolis (United States), with three frequencies a week, in addition to a daily flight operated by Air France on departure from Paris-Charles de Gaulle and three daily frequencies operated by Delta Air Lines, Inc. between Amsterdam-Schiphol and Minneapolis.

Air France reinforced the Paris-Charles de Gaulle – New York-JFK service with the daily operation of a second A380. In total, along with Alitalia and Delta Air Lines, Inc. in the trans-Atlantic joint-venture, Air France-KLM offered 77 flights a week on departure from Paris and Amsterdam bound for New York-JFK.

For the 2017-18 Winter season, to the United States, Air France took over the services operated by Delta Air Lines, Inc. between Paris-Charles de Gaulle and Chicago-O'Hare in the A330 up to five times a week. On the Paris-Charles de Gaulle-San Francisco route, a B777, equipped with *La Première* cabins ensures an all-year-round daily service. To Boston, the B787 is deployed on a daily basis. Lastly, on departure from Point-à-Pitre, Air France offered two flights a week in the A320 to Atlanta, the Delta Air Lines, Inc. hub. KLM continued to serve Minneapolis on departure from Amsterdam-Schiphol, with three frequencies a week. The route is operated in B787s. This offer supplements the two weekly frequencies proposed by Delta Air Lines, Inc.. KLM offered a service to Miami until the end of the 2017-18 Winter season.

To Canada, customers benefited from the B787 on the Paris-Charles de Gaulle-Toronto service with Air France and Amsterdam-Schiphol – Calgary with KLM.

To Mexico, Air France pursued its growth on departure from its hub. To Mexico City, available seat capacity was significantly increased with a daily flight operated in the A380, in continuation of the Summer season. To Cancun, a frequency was added in the B777, taking the tally to five flights a week.

Central and South America, and the Caribbean: strong growth towards Cuba

For the Summer 2017 season, in Cuba, Air France-KLM accompanied the strong growth in the market by offering 18 flights a week bound for Havana: eleven weekly frequencies operated by Air France on departure from Paris-Charles de Gaulle and Amsterdam-Schiphol (seven weekly frequencies operated by KLM).

To Colombia, KLM suspended its service to Cali and is offering Cartagena as a new destination on departure from Amsterdam-Schiphol, as an extension to the Amsterdam-Schiphol-Bogota route.

KLM continued to serve Saint-Martin thanks to three non-stop flights a week, replacing the Saint-Martin – Curaçao – Amsterdam-Schiphol service.

For the Winter 2017-18 season, to Costa Rica, Air France increased its offer to San José with an additional flight, i.e. three flights a week for the Winter season. KLM inaugurated the new San José destination on departure from its Amsterdam-Schiphol hub with two frequencies a week operated in the B787.

To Brazil, the Group responded to the strong demand in the Brazilian market. Air France and KLM increased their capacity to Sao Paulo by proposing, respectively, up to fourteen and seven frequencies a week.

To Panama, the two airlines offered a service to Panama City with seven weekly frequencies, notably in the B787.

To Argentina, KLM increased its capacity to Buenos Aires and Santiago du Chile with an additional frequency. Air France suspended its Montevideo service in continuation from Buenos Aires to increase daily capacity to the Argentinian capital.

To the Caribbean, KLM responded to the strong demand by offering additional flights to Curaçao from December 2017 until February 2018.

Middle East and India: growth to Iran

To take advantage of growth in the Iranian market, the Group continued to offer seven flights a week bound for Tehran: four frequencies a week offered by KLM on departure from Amsterdam-Schiphol and three weekly frequencies operated by Air France out of Paris-Charles de Gaulle.

Air France-KLM adapted its capacity in Egypt by suspending the Amsterdam-Schiphol – Cairo service while maintaining a strong presence in this market with the deployment of the first Air France B787.

KLM adjusted its flight schedule bound for the Middle East with the suspension of the Doha (Qatar) service. In replacement, KLM increased its flight proposition bound for Bahreïn with six weekly frequencies. Muscat (Oman) is now operated in continuation from Dammam (Saudi Arabia), enabling improved hub connectivity for the Group at Amsterdam-Schiphol.

For the Winter 2017-18 schedule, in India, the Air France-KLM Group benefited from commercial cooperation with its partner Jet Airways, thanks to better connectivity to Chennai on departure from Paris and Bangalore outbound from Amsterdam. These two new routes operated under codeshare enable Delta Air Lines, Inc. and Air France-KLM to benefit from a reinforced network on the North Atlantic and to offer customers a continuous and improved service. Air France offered a daily flight to Bangalore operated in the B777 equipped with the very latest travel cabins. Lastly, KLM strengthened its position in the region by inaugurating its new Amsterdam-Schiphol – Mumbai service, operated three times a week and adding an additional flight, i.e. a total of three frequencies a week operated in the B787 to Colombo.

Asia: consolidating the Group's position

During the 2017 Summer season, KLM served Kuala Lumpur (Malaysia) with three more flights a week, operated in addition to the daily Amsterdam-Schiphol – Kuala Lumpur – Djakarta (Indonesia) service.

In Greater China, throughout the 2017 Summer season, passengers from/to Hong-Kong benefited on a daily basis from the very latest long-haul travel cabins on board Air France's B777-300s on departure from Paris-Charles de Gaulle.

KLM and China Eastern Airlines reinforced their cooperation by offering a non-stop flight between Taipei and Amsterdam-Schiphol operated by the Chinese carrier, in continuation of the 2016-17 Winter season. Thanks to a capacity-sharing agreement, KLM was able to offer its customers eleven flights a week.

With the Winter 2017-18 schedule, passengers to/from Hong Kong enjoyed the daily benefits of Air France's upgraded travel cabins on board its B777s, as a continuation of the 2017 Summer season. KLM increased its available seat capacity by 9% to Beijing, Shanghai and Hong Kong in China as well as Seoul in South Korea.

In Japan, Air France reinforced its capacity with an additional flight to Tokyo-Haneda and a 29% increase in seat capacity to Tokyo-Narita. KLM offered an additional frequency to Osaka with six flights a week.

To Thailand, customers benefited on a daily basis from more Business cabin seats on board the flights operated by Air France.

Africa and the Indian Ocean: reinforcing capacity on destinations in a rapidly-growing market

Three times a week, KLM linked Amsterdam-Schiphol to Freetown (Sierra Leone) and Monrovia (Liberia). The Freetown service was proposed in addition to the Air France offer while Monrovia was a new destination for the Group.

In South Africa, Air France maintained the Cape Town service which had previously been operated solely during the winter.

In Ghana, Air France operated the Accra service, via three flights a week on departure from Paris-Charles de Gaulle. This new offer supplements the KLM service operated on departure from Amsterdam-Schiphol, thereby increasing the Group's capacity to ten flights a week. This new route offers optimized connectivity for transfer passengers from/to North America and Europe.

Lastly, in continuation of the Winter season, KLM linked Amsterdam-Schiphol with Windhoek (Namibia), in continuation from Luanda (Angola).

For the Winter 2017-18 schedule, in West Africa, Air France proposed three flights a week to Accra (Ghana), a daily service between Bamako and Abidjan operated in the B787 and a non-stop service to Ouagadougou thanks to five weekly frequencies.

In Angola and Congo, Air France's Paris-Charles de Gaulle – Luanda – Kinshasa service was replaced by non-stop flights on departure from Paris-Charles de Gaulle with, respectively, three flights a week on continuation of the 2017 Summer season.

To Nigeria, Air France adapted its flight schedule for the Winter season with a daily flight to Lagos and four frequencies a week to Abuja-Port Harcourt.

In Liberia and Sierra Leone, KLM maintained the Monrovia and Freetown services with three weekly frequencies.

In South Africa, Air France increased its frequencies to Cape Town from three to five flights a week. Johannesburg will be served in the A380.

To the Indian Ocean, the Group responded to the strong tourism demand by proposing two new destinations. Air France served Malé (Maldives) thanks to two flights a week while KLM launched the Amsterdam-Schiphol – Mauritius route operated in the B787 via three weekly flights. In addition, Air France is operating eleven flights a week to Mauritius in the high season, in addition to those operated by Air Mauritius within the framework of the joint-venture.

Renewal of the fleet and the product move up-market

At Air France, 44 Boeing aircraft are now equipped with the BEST cabins (25 B777-200s and 19 B777-300s) with, in the Business cabin, the Cirrus fully-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 five B787s which joined the fleet in 2017 arrived ready-equipped with these BEST cabins with, notably, a completely redesigned seat in Premium Economy offering more space and enhanced comfort (a 2.5cm increase in seat width, 130° recline, etc).

Air France now plans to continue its investment in the rest of the long-haul fleet and, in particular, in the A330s and 773-14 Js (on the Caribbean-Indian Ocean network).

Within the framework of Trust Together, €250 million of additional investment was decided in January 2017 to equip the cabins of the fifteen A330s and those of the twelve B777s operated on the Caribbean-Indian Ocean network. A major plus for customers is that the two fleets will have a next-generation in-flight entertainment system (the Zodiac RAVE 2) with wider screens (e.g. on the A330: 18.5 inches in Business as opposed to the current 10.4 inches and 11.6 inches in Economy instead of 6.4 inches).

All the cabin interiors have also been redesigned with new toilet and galley fittings whle the bar on the A330 will be revamped with a more modern, chic look. The seat colors and fabrics, headrests and accessories will all be renewed more effectively to reflect the Air France brand and create an individual identity for each travel cabin.

By 2020, more than 80% of the long-haul fleet will have been upgraded and work will then begin on refitting the A380s.

In long-haul, the first Joon flights will be operated in four A340 aircraft, with fully refurbished cabins while, as of 2019, the Joon fleet will welcome the brand new A350 equipped with on-board WiFi. By 2021, the Joon fleet will number ten A350s.

For KLM, the 2017 highlights included upgrades to its cabins and inflight services through more comfortable seats, improved catering, and greater connectivity. Customers were able to enjoy an upgraded in-flight entertainment system featuring larger touch screens and a wider choice of content and applications.

All passengers were given access to a new media app containing a comprehensive selection of newspapers and magazines. In addition to the WiFi already offered on the B787 fleet, in early 2018 KLM began planning the launch of WiFi connectivity on its B777 and A330 aircraft. KLM also began to equip its A330s with full-flat seats meaning that, by the end of 2018, all long-haul flights will offer passengers full-flat seats in World Business Class.

In strong demand from customers, connectivity on board

At the end of 2017, six Air France long-haul aircraft (five B787s and one B777) and KLM's B787s offered on-board connectivity.

Air France has taken the decision to equip all of the aircraft in its medium and long-haul fleets by the end of 2020 (30% in 2018, 75% in 2019 and 100% in 2020).

February 2018 saw the equipment's debut on the A330s and B777s, with the 2Ku broadband internet technology from Gogo. The B787s are being delivered already connected with Ku Panasonic connectivity.

On the B787s, from their personal devices, customers now have free access to a connection portal offering personalized information relating to their journeys. They can also purchase internet access for their surfing requirements with the price currently based on the quantity of data consumed. Customers can pay for their internet access by credit card.

On-board gastronomy

Air France continues to showcase the best of French expertise by collaborating with leading French chefs. Every three months, new dishes are designed with the cooperation of a renowned chef and introduced onto the menus of the *La Première* and Business cabins on departure from Paris. The chefs also devise one or two signature dishes on the menu. Having welcomed chef Jean Sulpice on board its long-haul and longest medium-haul flights[1] in early 2017, the Air France teams followed up by hosting Arnaud Lallement in the *La Première* cabin in October 2017, followed by Olivier Bellin in January 2018 in the Business cabin.

On departure from the outstations, chefs are also at the helm: Daniel Boulud on departure from the United States, Olivier Falchi from Buenos Aires and Babette de Rozières from the West Indies. For Asian customers looking to find a little of their countries on their return journeys, Zhao Guangyou has been regaling them on flights from Paris bound for China and Youn-Young Kim to Seoul.

For more choice and pleasure, in the Premium Economy and Economy cabins, Air France enables customers to pre-order four *à la carte* menus on departure from Paris (CDG and Orly): *Le Marché* by Jean Imbert, *Océan*, *Tradition*, *Lenôtre Selection*; three *à la carte* menus on departure from the end outstations: *Italia*, *Océan*, and *Tradition*, on departure from some cities in the French Overseas Departments and Territories, the US, Africa and Asia.

This offer has just been expanded with a fifth menu launched early this year: the My Fun Menu, responds in particular to demand from teenagers and young adults (13/20 years). A quirky, original menu using fresh products: a high-quality hamburger in a real burger roll, using meat of French origin.

My Fun Menu is available on request on departure from Paris CDG and Orly for journeys in the Premium Economy and Economy cabins for customers starting from twelve years, at a price of €13 or 4,500 miles.

On board service projects also continued to be rolled out in 2017 including 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 is also working on the redefinition of the customer in-flight experience for all cabins, the idea being to provide a better-paced more generous service with greater uniformity and an increased French touch to the dishes. The first fruits of this brain-storming process will be visible to customers at the end of 2018.

With respect to catering, KLM World Business Class customers were treated to the new Anytime for You service on flights to Johannesburg and Bangkok. After a three-course meal served at a set time, customers can now order additional dishes whenever it suits them, thereby meeting the individual needs and personal schedules of those traveling from different time zones. KLM also invested in the catering product offered on its European Flights.

2.3.3 Reinforcing the hubs

Strengthening the attractiveness of the Paris-CDG hub

A year seeing the dual impact of a growth recovery and the move up-market, within a context of increased external constraints.

In 2017, within a context of growth (+2.3% in available seat capacity), the CDG hub saw a reinforcement in security measures with, in particular, the application of specific requirements for entry to the USA. Air France pursued its cooperation with the French State agencies and Aéroports de Paris to respond to these imperatives, while preserving the fluidity of customer transit, particularly for cross-border journeys.

At the same time, the Company simplified the hub's organization, which is now focused around the operational processes. It pursued the digitalization of services (check-in, baggage tags, baggage drop-off and management of incidents, lounge access, self-boarding, etc.) toether with the move up-market and the streamlining of the ground experience with the opening of a completely-redesigned lounge in Terminal 2G, the renovation of the F1 and F2 lounges, the development of day-before check-in, the reorganization of the SkyPriority and Economy zones and new service counters at Terminal 2F. The increased sub-contracting of ramp operations was also completed in line with schedule. Lastly, the project launched with Aéroports de Paris brings together the two players around a common vision for managing capacity issues and further strengthening the attractiveness of the CDG hub.

Joon constitutes an additional tool in terms of winning back customers for Air France, the vocation of the new airline being to contribute to the development of the CDG hub. Joon contributes to securing the long-term future of some routes on the network and the opening of new destinations like Fortaleza in Brazil and Mahé in the Seychelles.

(1) Stockholm, Sofia, Bucarest, Algiers, Oran, Tunis, Warsaw, Rabat, Marrakech, Casablanca, Kiev, St Petersbourg, Athens, Istanbul, Moscow, Tel Aviv, Erevan, Amman.

A team dedicated to improving the customer experience during service disruption.

Irregularities experienced by customers during their journeys have a significantly negative effect on customer satisfaction, hence reducing such situations is a priority for Air France. The company thus decided to implement a Task Force to improve the customer experience when such disruption cannot be avoided. New products and services were developed for the customers affected.

The Airport Disruption project had been launched back in late 2016 with a first important step involving a Customer Priority Hackathon. This ground-breaking approach enabled the pinpointing of the opportunities offered by new technologies, like chatbots and artificial intelligence.

2017 was subsequently a year of "Test and Learn" of the first personalized and innovative solutions with customers.

These solutions included the launch of a pilot in which digital vouchers are sent to customer mobiles, enabling them to enjoy a drink or snack without having to await physical delivery of a voucher, and testing carried out at CDG and the New York station with connected watches distributed to customers in the event of flight cancellation. These watches enable customers to keep abreast of the latest information concerning their flights and baggage on a real-time basis while maintaining a remote dialogue with the Air France teams. All these solutions offer more choice and autonomy via human and digital assistance.

Refurbishment of the Paris-Charles de Gaulle lounges

Lounges are a key element of the ground experience for eligible customers. They also constitute a major differentiation point relative to competitors.

2017 saw some real advances with the new Terminal 2G lounge and the launch of work on the Hall L lounge in Terminal 2E, involving in-depth refurbishment in which everything had been redesigned to surprise and contribute more modernity and comfort. This new experience perfectly embodies the move up-market strategy and the *France is in the Air* advertising campaign.

In March 2017, Air France opened its new lounge in Terminal 2G. This is a larger lounge (spanning 730 m^2), that has been completely revisited in terms of interior design, adapted to customers traveling in France and elsewhere in Europe. This lounge with a completely fresh look was designed to be a home-away-from-home, with cosy, enveloping furniture and a new Parisian Brasserie-style dining area offering pastries and other classic French delicacies, fresh from the oven.

The refurbishment of the Terminal 2F lounges is also well under way with new fittings and remodelled interiors to make way for more conviviality and better embody the Air France brand.

In long-haul, in July 2017, Air France began the complete refurbishment of the Hall L lounge in Terminal 2E. This lounge welcomes 550,000 customers a year, or 40% of Air France's long-haul flights.

In keeping with Air France's brand identity, this lounge achieves a balance between comfort, chic and creativity. It offers different spaces in a soothing and luminous ambiance, between comfortable sofas, modern tables, enveloping upholstery and digital applications. The opening of this completely redesigned lounge, expanded to span more than 3,200 m^2, is taking place in two phases. The first part of the lounge was unveiled in January 2018 with a new 550 m^2 space dedicated to well-being and relaxation, a restaurant area for an unparallelled gastronomic experience, a self-service buffet with a wide choice of products and a show-kitchen where chefs prepare dishes of the day, adding the finishing touches in front of customers, and lounge/work spaces: *Le Club*, a space that can be privatized and the *Petit Salon*, a quiet zone.

Operational challenges at Schiphol

For KLM, the 2017 objective was to solidify and stabilize its operations with limited growth and the lowest-possible level of complexity.

In 2017, the release of additional capacity at Schiphol airport resulted in pressure on KLM's resources and infrastructure constraints, a situation to which KLM responded with some robust operational measures.

For example, Engineering & Maintenance made ground teams available 24/7 while Flight Operations obtained priority with air traffic control for certain critical flights. Ground staff also did their utmost to assist passengers affected by the disruption, by handling aircraft at the buffer, enabling passengers to leave aircraft using the rear stairs and experimenting with faster boarding methods. KLM also improved support for customers facing service irregularities, including the introduction of Happy to Help trolleys with refreshments and an app allowing passengers to rebook autonomously.

Innovation and digitization are two themes which are key to KLM's operational success. In 2017, the Company launched a number of apps and other tools to improve both customer service and operational efficiency. These included Bax@Risk, predicting those passengers who are likely to miss their flights and Optimiser, a tool for optimizing the network schedule in the fourteen days preceding a flight. The PLUG tool, providing real-time information needed to optimise turnarounds, was also tested for a planned launch in 2018.

Construction activity on the KLM Crown Lounge at Schiphol reached its peak during 2017. Featuring the best of Dutch Design, this new lounge will be an eye-catching feature of Schiphol once it is fully open in 2019, boasting high-tech features such as biometric access and a world-class restaurant as well as entertainment facilities. The first phase of the lounge will open at the end of Summer 2018.

2.3.4 Accelerating customer-centric initiatives to become the number one for Customer Intimacy

The guiding principle, Customer Intimacy

Air France is reaffirmed its positioning as a company focused on the customer. In 2017, the Group accelerated its digital development and investment to achieve this ambition of becoming a leader for customer intimacy.

The Company sees balanced attentiveness as key to delivering a positive customer experience and has embarked on an in-depth project around the Employee Experience, mirroring the attentive relationship with customers.

With a strategy combining the human, creative, technological and data dimensions, the customer is the focus of attention. The fundamental principle of the customer intimacy strategy is reflected in everything which is done on line (apps, website and on the social media) across the whole customer experience, but also that of Air France-KLM staff.

Professional support is reflected in the deployment of digital tools to help staff assist customers. All ground staff and cabin crews have thus been equipped with digital tablets enabling them better to anticipate and fulfill customer needs.

Digital: a key tool to help the teams build relationships with customers

For the Air France-KLM teams, the challenge is to be able to offer a personalized, fluid experience to customers. By digitizing their professions and providing access to customer data irrespective of location, they can offer a seamless experience and an attentive relationship to customers.

KLM is investing heavily in digitization and training for frontline staff to offer more personalized services. Building on the wide-scale rollout of iPads for all ground and cabin staff in 2016, in 2017 KLM delivered new apps to empower staff at all points of the customer journey. KLM staff can, for example, sell upgrades or offer compensation with the click of a button, or know whether customers are celebrating special events that require a personal touch. These innovations meet the expectations of customers who are increasingly connected and more exacting.

In 2017, a special training program on managing customer intimacy was rolled out for 3,600 cabin crew managers, 150 direct sales managers and 70 managers in the Charles de Gaulle lounges.

More than 25,000 iPads were distributed to Air France's front-line staff in airports and 15,000 members of staff working in KLM's Passenger Operations now use iOS applications on their iPads, supporting them in their day-to-day tasks and delivering on the customer promise. The Appy2Help application saw a signficant improvement with user adoption at more than 90% in 2017. The application now has additional functionalities facilitating Express customer check-in, seating choices and rebooking. Aircraft and airport maps have been added. Furthermore, by improving the search functionality, all agents can now retrieve a customer profile in less than seven seconds.

Customer information is pushed to staff to enable them to build closer relationships. In addition, empowerment budgets have also been introduced to encourage staff to take the initiative with customers, a real lever of staff engagement and customer pleasure.

In October 2017, a new software function dubbed Customer Continuity was also developed at Air France and made available on several of the Company's front-line digital resources. It enables information on a customer's journey to be shared and pushed from one point of contact to another during the customer's transit. The aim is to highlight positive customer events but also to reduce the impact of negative circumstances so that the customer's travel experience is optimized. In total, more than 4,000 files have been opened since the launch of Customer Continuity, reflecting the different situations in which customers can be provided with a personalized service: a change of seat on board, the taking into account of a special disembarkation request, an upgrade, a mark of recognition, a surprise for a honeymoon trip, birthday or during a return flight, etc.

As part of the same dynamic, a short-cycle loop was rolled out on all Air France long-haul flights, enabling the crews to poll customers in real time on their evalution of their actual experience, and the corresponding management initiatives to be put in place to further improve the customer experience on the return flights. In parallel, Air France runs a Key Customer Club for nearly 90 frequent flyer customers, who are regularly asked to volunteer their views on different travel topics. Twenty workshops took place during 2017 on subjects relating to the customer experience.

In 2017, Air France was again recognized for its efforts by winning first prize in the transport category in the annual BearingPoint and KantarTNS Customer Relations Awards.

A Big Data platform to better understand customers and personalize interaction before, during and after flights.

To date and mainly for technical reasons, a dedicated tool with its own interface and management system corresponded with each point of customer contact. The common data was limited and not synchronized in real time. As of 2015, Air France-KLM put in place a Big Data 360° infrastructure. Based on historic travel data and thanks to predictive models, the group is now able to talk to its customers in a more personal manner, offering them tailor-made destinations, responding to their needs and

sending them offers via the most appropriate channel (emails, banner ads, push notifications, etc.). Air France is the first company to use Dynamic Ads for Travel on Facebook.

Strategic goal: "be where our customers are" and send the right message, at the right time via the right channel

Data protection

In 2017, data protection remained a priority. The servers on which the data is stored were the subject of internal development, in Amsterdam, Toulouse and Valbonne. All the data management teams worked in cooperation with the Head of Security to ensure:

1. that the tools used by the Group meet the highest standards of security (e.g. the encryption of confidential data);
2. the purpose of the data usage;
3. the traceability of data. An Air France-KLM working group was set up to comply with the new European data protection regulation (GDPR) ahead of its implementation in May 2018. A Data Privacy Officer was also appointed.

Mobile: the first customer touch point and a travel companion

The Air France and KLM applications both capitalize on personalization and recommendation, to make mobiles a real travel companion.

Air France App: 1.6 million downloads and nearly 3.7 million users. KLM App: 1.5 million downloads and nearly 2 million users. Amongst the new features in 2017 were:

- display changes based on the journey stage (D-30, D-7, H-30);
- personalized offers;
- customization of the home page;
- travel guide (Travel by Air France);
- management of "My Flying Blue";
- geolocalization at the airport;
- follow My Bag;
- self-service rebooking;
- augmented reality;
- airport maps;
- more relevant push notifications;
- multi-city bookings.

As the leader in travel for Unaccompanied Minors (more than 300,000 per year), Air France is the first airline to offer a 100% digital product for parents having reserved the "Kid Solo" option: on their mobiles, they can follow every stage of their child's travel.

Social media: Air France-KLM remains a frontrunner and innovator

Within the framework of the "be where our customers are" strategy, the social media are a key channel: Messenger, the Facebook direct messaging app, WhatsApp and Facebook.

KLM and Air France are the first airlines to offer flight information and documents directly on Messenger

Having launched Messenger as a service channel in 2015, KLM is the first world airline to offer its flight information service via Messenger. In total, more than two million flight information messages were sent in 2017 via Messenger (versus a total of 5.5 million on all the social media combined). In the spring of 2017, Air France also decided to be present on Messenger. Three days after its launch, Messenger had become the leading conversational platform for Air France, doubling the brand's interaction with customers. Thanks to the automatic dispatch of travel documents, 100,000 boarding cards have been sent by messenger since early June, averaging 700 a day.

In 2017, KLM offered Messenger users in Japan, South Korea and South Africa the opportunity to ask service agents questions via the Messenger customer chat on KLM.com. This enables customers to be offered a rapid, personalized service when booking tickets, changing bookings or in the event of baggage-related questions. KLM is amongst a select group of companies and one of the first world airlines to be taking part in a pilot for this chat service in collaboration with Messenger. In 2017, KLM successfully launched its flight information service on WhatsApp, Twitter and WeChat.

Bots and artificial intelligence: an accelerator to customer intimacy

The influx of incoming requests received over the social media raises the question of artificial intelligence (AI) as volumes will continue to grow. At the same time, customers require a speedy response. Tests have thus been carried out with AI to supply a personal, accurate and timely response.

Hence the arrival of Louis, the first Air France chat bot (conversational robot), dedicated to baggage issues, developped in 2017. This chat bot uses a brick of artificial intelligence to detect user intentions and enables a natural interaction. It is also connected to Air France's systems and is thus able to inform users of the status of delayed baggage. Users are redirected to an agent if Louis doesn't know the answer. Louis will soon be connected to voice assistants.

For its part, KLM is launching BlueBot (BB) to help users book their flights. Thanks to artificial intelligence, they can thus reserve a flight without the help of a KLM agent. Every time BlueBot is unable further to assist customers, they are redirected to a human advisor.

KLM also uses the AI supplied by Digital Genius, which now supports more than 50% of inquiries. Air France is also about to deploy this system. When agents need to answer questions, the AI system offers them a standard response which they approve or not, and adjusts the response if necessary. The AI system learns over time and proposes increasingly-relevant solutions. Since the AI system is able to manage a substantial volume of questions, it becomes possible to automate the responses to the most frequently-asked questions.

Thanks to these numerous investments in the AI technology, advisors have more time to focus on questions requiring real human knowledge.

The Kids Solo offer goes digital

Air France's efforts have long been devoted to making travel a fun experience for children while guaranteeing their parents' peace of mind. The Kids Solo offer for children traveling alone is constantly being supplemented with new digital services to reassure parents and make the process easier for them.

Since June 2017, the Air France mobile app has enabled parents to follow their children's journeys in real time, from check-in through to boarding and arrival. This information can also be shared with the person awaiting the child at their destination. A photograph can also be sent via the app on the arrival of the child,

Air France was also the first world airline to offer the booking and sale of tickets for children travelling alone on its website. Since June 2017, the sale of UM (Unaccompanied Minor) tickets has also been possible on the mobile app.

Furthermore, at Roissy, Air France has inaugurated the largest Connection Space in the world for children traveling alone. Spanning 350m², it has several spaces dedicated to the different age brackets of young travelers: construction games and drawing for 5-9 year olds, a games room with table football and PS4 consoles for teenagers and a Lounge Space with TV, a library, complimentary WiFi and USB charging ports for older children.

In another first, Air France also thinks of children who are traveling with their parents by offering them magic lessons realizable with the games kits distributed on board long-haul flights, and tags issued during check-in enabling the recovery of comforters lost in transit.

More synergies thanks to a common web platform

In 2017, the two back offices linked to airfrance.com and KLM.com began their convergence towards a single platform. The process will be completed in 2018. This is an important example of the synergies available within the Group.

Open innovation

Open data platforms are used by both Air France and KLM to develop a digital landscape vision with stakeholders (OpenAPIs, SAAS, etc.).

In 2017, Air France launched its own fundraiser to support start-ups in partnership with Hockage (T3 Fundraiser), an event announced during the largest trade fair dedicated to innovation in Europe: Viva Technology.

Awards:

Air France

Hub Awards:	Best marketing strategy for Air France on Messenger
Google:	1st class certificate for Mobile

KLM

Travel Awards:	Best Airline & Travel Personality of the Year (KLM Digital)
Spin Awards:	Grand Spin Award (KLM Digital)
Spin Awards:	Gold in Digital Service Idea, Silver in Innovation (KLM on Messenger)
DDP Awards:	Webcare Award in Travel Branch Award (KLM's webcare)
European Design Awards:	Bronze Award (Layover with a Local)
Airline Strategy Award:	Marketing Awards (Digital Marketing)
Accenture Report:	Best Customer Service (KLM Digital)
Citi Research:	Number 1 European Airline Digital Leader (KLM Digital)
Salesforce:	Super Star Award (Customer Service)
Airline Strategy Awards:	Best European Airline (KLM Digital)

The new Flying Blue program

In June 2005, Flying Blue (FB) was born of the AF Fréquence Plus and KLM Flying Dutchman frequent flyer programs. Since then, the program has grown at a steady rate of one new member every twenty seconds. Over the years, the program has demonstrated its signficant added value to the two airlines through the sales generated by its members which approach 45% of Air France-KLM's total revenues, but also by a high-quality database of around 15 million customers and a revenue contribution of some €200 million to the program's 135 partners.

Ten years on, in 2015, customer surveys showed that expectations had changed and that the Flying Blue member NPS satisfaction scope had deteriorated.

As a result, the Group's Executive Committee decided to make a significant investment (more than €15 million) in completely redesigning the program. The intention was to enhance the travel experience and secure loyalty to the two companies, while optimizing the financial performance and attractiveness of the program thanks, in particular, to the development of partnerships.

The goal for 2020 is to make Flying Blue the loyalty program of choice amongst the European carriers, by making it simpler, more relevant and more personalized. This goal is consistent with the Trust Together priorities, particular in terms of its Customer Intimacy component.

As of April 1, 2018 Flying Blue will be developed to introduce more simplicity and flexibiility when using the program, with more choice and a clearer earn and burn scale for air miles.

2.3.5 Cargo business

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

During the financial year, the Group carried 8.6 billion of tons, up by 1.9%, of which 80% in the bellies of passenger aircraft and 20% in the full-freighter fleet, across a network composed of 316 destinations in 115 countries.

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

The organization of the business is fully integrated, enabling the Group to offer its 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, increased integration of sales forces.

A new "belly-dominant" business model

For this business, the priority is to optimize the economics of passenger aircraft bellies. The full-freighter fleet is used as a complement to cover the routes not served with 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.

Strict control over costs: in 2017, payroll costs continued to fall thanks to recourse to sub-contractors (services in the Roissy cargo hub) and Voluntary Departure Plans in France and the Netherlands. Cargo staffing levels were reduced by 6.9% during the 2017 financial year.

These actions combined with the market recovery in 2017 enabled an increase in the cargo business contribution to the Group's result from operations, within a context of modest capacity growth (+0.9%) and an improvement in unit revenues (+1.6%).

2017 was marked by a reversal in the trend seen in recent years, with a stabilization in the unit revenue during the first half, followed by an increase in the second half.

2.3.6 Airline partners and alliances

Air transport demand is global and, to respond to this demand, Air France-KLM needs to maintain a worldwide presence.

Airline alliances and partnerships are an integral part of Air France-KLM's commercial strategy and also contribute to meeting customer expectations and creating value for shareholders, by constituting an efficient way to build a global proposition. They enable the reinforcement of the Group's market positioning thanks to an expanded and optimized network, an increase in the network contribution and the optimization of revenues and costs with the joint-venture partners.

Reinforcing the Group's alliances in key regions and commercial integration with partners are priorities set in the Trust Together project that contribute to regaining the offensive in long-haul.

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, 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 have each acquired 10% stakes in Air France-KLM within the framework of reserved capital increases for a total of €751 million;
- 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.

Trans-Atlantic 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, whose contract was 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 a common income statement and organizations to manage all aspects of the partnership. The existence of a 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 will compensate the 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 optimiization rather than the individual interests of each airline, ultimately increasing value for both partners and customers.

The governance bodies comprise an Executive Committee, a Management Committee and Working Groups.

The scope of this joint-venture 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$12 billion in 2015 and a market share of 23% in 2016, the joint-venture is a major player on the trans-Atlantic, the leading market for international air transportation. Some 270 daily flights link the nine principal 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 July 2017, Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic signed a Memorandum of Understanding 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.

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. Firstly, in 2006, KLM signed 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, regrouping the Paris-Guangzhou operations of the two partners, and respectively developing their cooperation beyond these main hubs. 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 introduced the Shanghai-Amsterdam service. The partnership was further reinforced in 2017, aimed at enhancing commercial cooperation, with China Eastern Airlines acquiring a 10% stake in Air France-KLM via a reserved capital increase. In total, the revenues from the routes operated between Europe and China by the joint-venture member airlines represented more than €1 billion in 2017.

Thanks to these partnerships, Air France and KLM can offer their customers access to a total of some fifty destinations in China, enabling extensive access to the Chinese provinces beyond their 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 three airlines since 2014. This cooperation had been expanded in 2016 with an extensive codeshare agreement for connections between Europe and North America and Jet Airways' hubs at Mumbai and Delhi in India via 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 seamless service throughout the three partners' networks spanning 44 cities in India and 106 destinations across Europe. This agreement complements the Air France-KLM and Delta Air Lines, Inc. trans-Atlantic partnership between Europe and North America, offering access to over 200 destinations in North America, establishing a global cooperation connecting the three continents, a first in the history of Indian aviation. In addition Air France-KLM Cargo and Jet Airways Cargo also signed a Memorandum of Understanding (MoU) which aims to strengthen their cooperation in the cargo sector.

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 codesharing 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 significant increase in the number of Air France and KLM passengers transferring to GOL flights, which is now reaching 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 in promoting sales on their home markets and, since November 2017, Air France has been GOL's GSA for the French market.

In September 2017, Air France and KLM announced a new step in their strategic development in Brazil with, notably, the opening of new routes to Fortaleza on departure from Paris and Amsterdam (in May 2018). These flights will connect with GOL's new strategic hub in Fortaleza, offering increased connectivity for customers to the main cities in northern and north-eastern Brazil.

Alitalia

In January 2015, Alitalia's shareholder structure changed following the investment by Etihad which now holds 49% of the Alitalia-SAI share capital, the remaining 51% being owned by Compagnia Aerea Italiana SpA, in which Air France-KLM has a 0.73% equity interest. The industrial and commercial partnership between Air France-KLM and Alitalia, in place since 2009, ended in January 2017. As of this date, the joint-ventures on the routes between France and Italy, and between the Netherlands and Italy, also ended, as did commercial cooperation on flows other than those in the trans-Atlantic joint-venture, of which Alitalia remains an integral part. 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

Air France-KLM is also involved in other joint-ventures to reinforce its commercial positioning in other geographies: Air France and KLM with Air Mauritius; Air France with Vietnam Airlines; KLM with Ukraine Airlines and Kenya Airways.

Description of the different types of cooperation in airline partnerships

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 brand, IATA code and flight number, and setting their own fares. The operating carrier has operational control of the aircraft while the marketing partner uses its own code on its partner's flights. The pre-requisite for any agreement is compliance with the Safety and Regulatory requirements.

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, giving it control over the seat block inventory. In the second, known as free flow, the two airlines are allowed to sell all the seats on the flights concerned but under the inventory policy of the operating carrier.

For block seat agreements, the marketing partner retains all the revenues, while capacity is purchased at an agreed seat price; an indexing pricing mechanism may exist on non-controllable costs (e.g. fuel).

For free flow, the operating carrier is remunerated according to the number of passengers carried whose tickets are sold by the marketing partner.

The operating carrier bears all the costs linked to the operation of its flights while the marketing partner is responsible for its own marketing costs linked to the partner's flights sold under code share.

Under a codeshare agreement, the carrier operating the flight shall incur (i) a regulatory liability, (ii) a liability linked to the carriage, and (iii) a contractual liability.

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 considering 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 appropriate authorities (e.g. Anti-Trust Immunity). In some geographies, international rules impose limitations on equity shareholdings between different jurisdications.

2.3.7 SkyTeam alliance

The three large alliances, SkyTeam (to which Air France and KLM belong), Star Alliance and oneworld, represent some 60% of worldwide traffic. Among the top 50 airline carriers in the world, only 16 do not belong to a global alliance, including eight 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 above the industry average, with SkyTeam now being 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 on December 31, 2017: 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 Airlines.

SkyTeam is a commercial and marketing alliance enabling its members to strengthen their brand awareness and extend their offer around the globe, thereby bolstering their commercial presence. SkyTeam gives Air France and KLM customers access to a global network of some 16,600 daily flights to more than 1,050 destinations in 177 countries.

The 730 million annual passengers benefit from a seamless travel experience on flights of member airlines and have access to 660 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 exacting requirements before becoming an alliance member, relating to operations, technologies and products. Members must be linked by bilateral agreements covering codesharing, loyalty programs and the sharing of airport lounges.

While retaining their separate identities and brands, the airlines combine their networks offering their customers a more extensive range of travel solutions and the related global services, the more rapid 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 members to generate operational cost synergies (e.g. co-located facilities, better use of airport lounges including seven SkyTeam lounges, a converging IT platform, etc.).

In 2017, passengers rewarded SkyTeam's constant efforts to develop seamless services with a 59 Net Promoter Score (NPS), representing a sixth year of continuous improvement.

Airlines must also be able to offer the products and services exclusive to the alliance. SkyTeam has also developed proprietary products such as Passes enabling travel at competitive fares, global contracts reserved for large corporates or international events and a Marine and Offshore specific product.

SkyTeam's main governance body is its Governing Board, composed of the Chairmen and Chief Executive Officers of the 20 member airlines. The Governing 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 investment and operational budget.

A dedicated SkyTeam management entity, reporting to a Managing Director appointed by the Governing Board, translates the approved strategic orientations into action plans in various domains: marketing, airport synergies, interface between information systems, the transfer product, cargo, advertising and 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.

2.3.8 Key figures

Network business: a unit revenue improvement for the passenger and cargo businesses

	2017	2016	Change	Change at constant currency
Capacity *(in EASK million)*	**323,239**	315,572	+2.4%	
Total revenues *(in €m)*	**22,480**	21,751	+3.4%	+3.8%
Scheduled revenues *(in €m)*	**21,561**	20,753	+3.9%	+4.3%
Unit revenue per EASK *(in € cents)*	**6.67**	6.58	+1.4%	+1.9%
Unit cost per EASK *(in € cents)*	**6.30**	6.32	-0.3%	-0.4%
Income from current operations *(in €m)*	**1,192**	**813**	**379**	**479**

The combined Passenger and Cargo operating result amounted to €1,192 million for Full Year 2017, an increase of €479 million at constant currency. This improvement was underpinned by capacity growth, a good unit revenue performance and a reduction in unit costs.

Key figures for the passenger Network business

Robust traffic data confirmed the improvement in the Passenger unit revenue.

Passenger network	2017	2016	Change	Change at constant currency
Number of passengers *(in thousands)*	**83,947**	80,163	+4.7%	-
Capacity *(in ASK million)*	**286,190**	278,807	+2.6%	-
Traffic *(in RPK million)*	**248,475**	238,183	+4.3%	-
Load factor	**86.8%**	85.4%	+1.4 pt	-
Total passenger revenues *(in €m)*	**20,393**	19,682	+3.6%	+4.0%
Scheduled passenger revenues *(in €m)*	**19,630**	18,849	+4.1%	+4.5%
Unit revenue per ASK *(in € cents)*	**6.86**	6.76	+1.5%	+1.8%

In Full Year 2017, the number of passengers carried increased by 4.7% to 84 million and unit revenue continued to improve, increasing by 1.8% at constant currency.

The passenger business benefitted from a favorable trading environment with disciplined capacity growth and dynamic demand. In particular, activity was strong on the North American routes and in the medium-haul hub network with respective traffic increases of 6.1% and 3.9%. In addition, the recovery in demand on the Asian and Latin America routes had a positive impact on unit revenues, with increases of respectively 6.5% and 7.5% at constant currency.

The upgrading of the on-board products, the personalization of the customer experience and numerous targetied commercial initiatives also contributed to the achievement of a positive trend in unit revenues.

Destination region	Capacity in ASK (in million) 2017	Capacity in ASK (in million) 2016	Traffic in RPK (in million) 2017	Traffic in RPK (in million) 2016	Load factor (in %) 2017	Load factor (in %) 2016	No. of passengers (in thousands) 2017	No. of passengers (in thousands) 2016	Scheduled passenger revenues (in € million) 2017	Scheduled passenger revenues (in € million) 2016 restated
North America	**64,272**	61,586	**56,933**	53,673	**88.6%**	87.2%	**7,990**	7,516	**4,508**	4,352
Latin America	**33,870**	34,089	**30,365**	29,868	**89.7%**	87.6%	**3,170**	3,111	**2,148**	1,997
Asia-Pacific	**60,797**	60,317	**54,610**	52,848	**89.8%**	87.6%	**6,224**	6,033	**3,795**	3,572
Africa-Middle East	**38,430**	36,899	**31,784**	30,257	**82.7%**	82.0%	**5,681**	5,456	**2,972**	2,962
Caribbean-Indian Ocean	**31,031**	30,423	**27,078**	26,566	**87.3%**	87.3%	**3,708**	3,634	**1,640**	1,665
Total long-haul	**228,402**	**223,313**	**200,771**	**193,212**	**87.9%**	**86.5%**	**26,771**	**25,751**	**15,063**	**14,548**
Short and medium-haul	**57,788**	**55,494**	**47,705**	**44,970**	**82.6%**	**81.0%**	**57,177**	**54,412**	**6,498**	**6,205**
Total	**286,190**	**278,807**	**248,476**	**238,182**	**86.8%**	**85.4%**	**83,948**	**80,163**	**21,561**	**20,753**

Key figures for the cargo business: continued turnaround for Cargo

	2017	2016	Change	Change at constant currency
Tonnage transported *(in thousands)*	**1,138**	1,130	+0.7%	-
Capacity *(in millions of ATK)*	**14,352**	14,228	+0.9%	-
Traffic *(in millions of RTK)*	**8,595**	8,441	+1.8%	-
Load factor	**59.9%**	59.3%	+0.6 pt	-
Total cargo revenues *(in €m)*	**2,087**	2,069	+0.9%	+2.0%
Scheduled cargo revenues *(in €m)*	**1,931**	1,904	+1.4%	+2.4%
Unit revenue per ATK *(in € cents)*	**13.45**	13.38	+0.5%	+1.6%

The Group stabilized its cargo activity. In 2017, total capacity increased by a modest 0.9% while the unit revenue per available-ton kilometer (RATK) increased by 1.6% like-for-like, underpinning a €27m increase in cargo revenues.

The reduction in full-freighter capacity taking place in recent years has borne fruit, since this activity broke even in 2017 by operating six aircraft (four B747s at Schiphol and two B777s at Roissy).

2.4 LOW-COST BUSINESS (TRANSAVIA)

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 use of aircraft, simplicity of the 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 *(see results section below)* for an average flight distance of around 1,700 km.

At December 31, 2017, Transavia had an operational fleet of eight B737-700s and 60 B737-800s, of which 39 based in the Netherlands and 29 in France, and 2,950 full-time employees. In 2017, the Transavia network comprised 110 destinations in Europe and North Africa. Flights were operated from seven different bases, Amsterdam, Rotterdam, Eindhoven, Paris-Orly, Nantes and Lyons (the Munich base was closed in October 2017), offering a network of some 200 routes.

2017 saw Transavia pursue its rapid growth with capacity expansion of 10.5%. Transavia carried 14.8 million passengers, up by 11.3% relative to 2016. The load factor increased (90.6%) despite the upping of capacity. Revenues reached €1.4 billion, growth of 18%. The unit revenue per ASK progressed by 6.8%. The operating result considerably improved, reaching a level of €81 million, i.e. an increase of €81 million like-for-like. 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 is the number one low-cost operator at Paris-Orly and accelerated its growth as planned, with a 12% increase in capacity.

In 2017, to support Transavia's accelerated growth, the Group took delivery of eight aircraft from the total order for 17 B737-800s.

Key figures for Transavia

	2017	2016	Actual change
Number of passengers *(in thousands)*	**14,774**	13,279	+11.3%
Capacity *(in ASK million)*	**28,456**	25,762	+10.5%
Traffic *(in RPK million)*	**25,793**	22,983	+12.2%
Load factor	**90.6%**	89.2%	+1.4 pt
Total passenger revenues *(in €m)*	**1,436**	1,218	+17.9%
Unit revenue per ASK *(in € cents)*	**5.00**	4.68	+6.8%
Unit cost per ASK *(in € cents)*	**4.72**	4.68	+0.8%
Income from current operations *(in €m)*	**81**	0	+81

2.5 MAINTENANCE BUSINESS

Aircraft maintenance is the Air France-KLM Group's third business with third-party revenues of €1.8 billion. These revenues realized with external clients represent a little over 43,6% of the total revenues in this business. In 2017, the AFI KLM E&M order book was up by 16.9% over the year.

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 refitting of cabins.

2.5.1 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$75.6 billion in 2018 *(source: ICF International)*.

The trends in this business closely follow those of the commercial airline fleets globally and their operation. 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 client 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 business. This is notably the case with next-generation aircraft whose avionics dimension is playing a more important role relative to mechanical systems: digital tools, composite structures, connectivity, etc. Innovation is an integral part of all the business processes.

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

On the strength of its position as the second largest 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 the new Trust Together project, 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 2017, AFI KLM E&M further strengthened its global position on new-generation aircraft, with the consolidation of its B787 component support order book and strong growth for the A350, B737 MAX, A320neo and GEnx products. 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 2017, the PROGNOS® program was further expanded with PROGNOS® for APU. 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 accelerate the improvement in 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. Within the framework of this program, the number of heavy maintenance hangars was reduced in Amsterdam and Paris-Orly and the aircraft painting activities are now out-sourced. 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 2017, AFI KLM E&M announced the creation of a joint-venture with Sabena for aircraft component repair in Singapore, to support the fast-growing customer base in South-East Asia. Furthermore, to enhance worldwide Line Maintenance support a joint-venture agreement was signed with Beijing General Aviation Co., Ltd in China.

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 analysing events, 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 front-line 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: serving 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. In 2017, the Group launched a joint-venture with Beijing General Aviation Co. Ltd as part of the development of this offering to strengthen AFI KLM E&M's positioning in China.

Light Maintenance Operations

Within the framework of the Trust Together project, 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, KLM and the-recently created airline Joon, the latter having started operations in the fall of 2017 with seven A320s modified by AFI (mainly cabin-based WiFi installation).

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 rather than 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, which seeks 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.

Modifications

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

On the KLM 777 fleet, the installation of the new *World Business* Class cabin was completed in Amsterdam and a start was made on equipping the A330 fleet. 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 third time in 2017, 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 clients' operating bases. The growth opportunities for this product are located in far-flung markets. AFI KLM E&M's clients 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 plans.

In 2017, within its component network, AFI KLM E&M made an important addition to its worldwide network by setting up a joint-venture for component repair in Singapore together 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 clients. In 2017, a number of airline clients renewed their confidence by prolonging their contracts with AFI KLM E&M. This was the case, notably, for Malaysian Airlines which extended its contract on B737NG support. It is also promising to witness the ongoing successes on New Generation aircraft. On top of the contract with Air Asia for more than 300 A320neos, signed at the end of 2016, a number of additional contracts were signed in 2017. The highlights include Delta Air Lines, Inc. for A350 component support, LOT for B737NG and B737MAX components and, underscoring AFI KLM E&M's strong position on the B787, Qantas-Jetstar for B787 Component support.

Engines: extension of capabilities with the LEAP engines equipping the A320neo and B737 MAX

In 2017, AFI KLM E&M added the LEAP engine to its product portfolio. The LEAP is the engine equipping the highly successful A320neo and 737 MAX aircraft and will be one of the main engines for the fast-growing Narrow Body fleets.

2017 also saw an expansion in the Engine Maintenance portfolio. Amongst the newly-signed contracts were Air Arabia for support on the CFM56-5B, GOL for support on the CFM56-7B and Kuwait Airways for support on the GE90 engines equipping its B777 fleet.

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 numerous 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**: 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 clients' CF6-80C2 fleets;
- **GE90**: AFI KLM E&M offers the main alternative to the engine manufacturer for overhauls to this engine on the strength of its state-of-the-art infrastructure. 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 clients. 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 clients 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 as a

Primary Repair Source identified 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 AFKL E&M to also perform engine test runs for its ten GENX airline customers.

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) and partnerships (AMES – a joint-venture between AFI KLM E&M and Safran, ATI, SHS Technics, Tradewinds, Spairliners, Max MRO Services, AAF Spares), and leveraging the power of its global logistics network. The development of this MRO network guarantees AFI KLM E&M clients local access to the Group's full array of services, tailored solutions and local spare parts inventories.

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 client activity. In 2016, CRMA launched "Apollo", a vast project to expand its production capacity in response to its expanding activities and growing client demand. The project involves adding an additional 2,500m^2 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 TAT of its operations.

In 2017, important advances were made in the joint-venture between Safran Aircraft Engines and Air France Industries KLM Engineering & Maintenance concerning the creation of a joint company dedicated to the repair of aircraft engine compressor airfoils.

Also in 2017, the Miami-based Bonus joint-venture added the CF34 tear down capability to offer serviceable used spare parts at competitive prices also for this engine type.

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 250 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 client 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 B737 avionics systems.

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

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

New in 2017, as mentioned earlier, was the component repair joint-venture with **Sabena Technics** in Singapore.

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, since 2012, Embraer E-Jets.

In Dubai, the **AMES** maintenance center (a joint-venture with Aircelle) 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 UK, **KLM UK Engineering Limited** delivers maintenance services for narrow-body and regional aircraft, but also 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.

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

New in 2017 was the joint-venture with **Beijing General Aviation Co. Ltd** for Line Maintenance Services in Beijing.

Corporate Social Responsibility as a lever in 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 clients 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 MoonShine programs supported by the creativity of its employees, AFI KLM E&M generates significant savings.

In 2017, this momentum enabled the emergence of more than 4,400 so-called DPI participatory innovation ideas. At least 2,700 are ongoing and 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 to verify that they correspond with AFI KLM E&M's commitment to regular innovation.

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. During 2017, the Group welcomed some 360 apprentices (full time equivalent) in both the maintenance professions (engine mechanics, logistics, etc.) and support functions.

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 for the maintenance business

	2017	Change	Change at constant currency
Total revenues *(€m)*	**4,177**	-0.1%	
Third-party revenues *(€m)*	**1,823**	-0.6%	+1.1%
Income from current operations *(€m)*	**215**	-23	-23
Operating margin *(%)*	**5.1%**	-0.5 pt	-0.6 pt

The maintenance business had flat revenues in 2017 relative to 2016, with third-party revenues increasing by 1.1% at constant currency. The operating margin expressed as a percentage of total revenues stood at a healthy 5.1%.

The Maintenance order book further increased to a record high of US$10.4 billion at end 2017, an increase of nearly 17% over the financial year, thanks to orders for the engines and components businesses.

2.6 FLEET

At December 31, 2017, the Air France-KLM Group fleet comprised 545 aircraft, of which 537 were in revenue service compared with, respectively, 552 and 534 aircraft at December 31, 2016.

The main operational fleet consisted of 412 aircraft (402 aircraft at December 31, 2016), of which 170 were long-haul aircraft (168 at December 31, 2016), six were cargo aircraft (eight aircraft at December 31, 2016) and 236 were medium-haul aircraft (228 at December 31, 2016) including 68 aircraft in the Transavia Group fleet (63 aircraft at December 31, 2016). The regional fleet in operation comprised 125 aircraft (132 at December 31, 2016).

At December 31, 2017, the average age of the aircraft in the operational fleet was 10.9 years, 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. This compared with 11.0 years at December 31, 2016, of which 11.6 years for the long-haul fleet, 10.6 years for the medium-haul fleet, 13.8 years for the cargo fleet and 10.7 years for the regional fleet.

At December 31, 2017, 36.9% of the total Group fleet was fully owned (36.1% at December 31, 2011), 19.6% was under finance lease (21.4% at December 31, 2016), and 43.5% under operating lease (42.5% at December 31, 2016).

Excluding operating leases, there were firm orders outstanding for 63 aircraft at December 31, 2017. Options stood at 47 aircraft (56 at December 31, 2016).

Change in the Air France-KLM Group order book [1]	December 31, 2016	Deliveries during the period[2]	New orders[3]	Option conversion[4]	December 31, 2017
Main fleet	69	13	-	-	**56**
Regional fleet	13	8	-	2	**7**
Total	**82**	**21**	**-**	**2**	**63**

(1) Excluding operating leases.
(2) Transfers between the Group's airline are excluded.
(3) A KLM B787-9 order was converted into a B787-10, taking the total to eight B787-10s.
(4) Two EMB190 orders versus two EMB175 options.

Change in the Air France-KLM Group's option portfolio [1]	December 31, 2016	Exercise during the period[2]	Options cancelled or expired	New options	December 31, 2017
Main fleet	47	-	-	-	**47**
Regional fleet	9	2	7	-	**-**
Total	**56**	**2**	**7**	**-**	**47**

(1) Excluding operating leases.
(2) See Note (4) above.

Fleet management

Air France-KLM pursues a pro-active policy of fleet renewal and modernization.

In 2017, for Air France in long-haul, the Group retired three of its A340s, replacing them with four new B787-9s. In medium-haul, three old generation A320s were replaced by two new A320 Sharklets. For HOP!, three ATR42/72-500s were replaced by one ATR72-600 while Transavia France took delivery of four new B737-800s.

KLM also reinforced its B787-9 fleet to ten aircraft at the end of 2017. It also continued to retire four of its B747-400 and introduced two new B777-300s.

KLM Citihopper completed the retirement of its eleven Fokker 70s, replacing them with eight new Embraer 175s.

In 2018, Air France will continue to withdraw it A340s, replaced by two B787-9s, and the retirement of its oldest A319s. It will take delivery of a new A320 Sharklet.

Over the longer term, the modernization of the fleet will be reflected in the retirement of KLM's B747-400s and their replacement with B787-9s and 10s, and the entry into revenue service of the first A350-900s with Joon, planned for 2019. For its part, Transavia (France and Nederlands) 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 the satellite on board connectivity proposition, enabling customers to be offered an in-flight WiFi connection.

AFKL Group fleet at December 31, 2017

Aircraft type	AF (incl. HOP! & Joon)	KL (incl. KLC & Martinair)	Transavia France	Transavia Netherlands	Owned	Finance lease	Operating lease	Total	In operation	Change over 31/12/16
B747-400		14			14			14	**13**	**-4**
B777-300	43	14			10	25	22	57	**57**	**2**
B777-200	25	15			19	10	11	40	**40**	
B787-9	5	10			1	2	12	15	**15**	**7**
A380-800	10				1	4	5	10	**10**	
A340-300	9				9			9	**7**	**-3**
A330-300		5					5	5	**5**	
A330-200	15	8			10	1	12	23	**23**	
Long-haul	**107**	**66**	**0**	**0**	**64**	**42**	**67**	**173**	**170**	**2**
B737-900		5			1	1	3	5	**5**	
B737-800		27	29	31	20	9	58	87	**87**	**7**
B737-700		18		8	3	8	15	26	**26**	
A321	20				11		9	20	**20**	
A320	42				3	4	35	42	**42**	**1**
A319	38				20	5	13	38	**38**	
A318	18				12	6		18	**18**	
Medium-haul	**118**	**50**	**29**	**39**	**70**	**33**	**133**	**236**	**236**	**8**
ATR72-600	6						6	6	**6**	**1**
ATR72-500	3				1	1	1	3	**3**	**-2**
ATR42-500	11				6	1	4	11	**11**	**-1**
CRJ1000	14				14			14	**14**	
CRJ700	11				11			11	**11**	
EMB190	10	30			6	13	21	40	**40**	
EMB175		12			1	11		12	**12**	**8**
EMB170	15				8	2	5	15	**15**	
EMB145	18				14	4		18	**13**	**-2**
Fokker 70										**-11**
Regional	**88**	**42**	**0**	**0**	**61**	**32**	**37**	**130**	**125**	**-7**
B747-400ERF		3			3			3	**3**	
B747-400BCF		1			1			1	**1**	
B777-F	2				2			2	**2**	
Cargo	**2**	**4**	**0**	**0**	**6**	**0**	**0**	**6**	**6**	**0**
Total AF-KLM	**315**	**162**	**29**	**39**	**201**	**107**	**237**	**545**	**537**	**3**

2.6.1 The Air France Group fleet

The Air France Group fleet totaled 344 aircraft at December 31, 2017, of which 256 aircraft in the main fleet and 88 in the regional fleet. The average age of the aircraft in the operational fleet was 11.8 years (11.5 years at December 31, 2016). Firm orders amounted to 36 aircraft.

	Fleet at December 31, 2016	Aircraft entering[1] the fleet over the period	Aircraft withdrawn[1] over the period	Fleet at December 31, 2017
Long-haul fleet	106	4	3	**107**
Medium-haul fleet (including Joon and Transavia France)	145	13	11	**147**
Cargo	2	-	-	**2**
Regional fleet	95	1	8	**88**
Total	**348**	**18**	**22**	**344**

(1) Owned, operating lease and financial lease.

The Air France fleet

The Air France fleet comprised 220 aircraft at December 31, 2017, with 218 in operation (227 and 222 respectively at December 31, 2016). The fleet had 107 long-haul aircraft, 111 medium-haul aircraft and two freighters. At December 31, 2017, the average age of the operational fleet was 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. At December 31, 2016, the average age of the fleet was 12.0 years, with 11.8 years for the long-haul fleet, 12.4 years for the medium-haul fleet and 7.9 years for the cargo fleet.

Within the fleet, 89 aircraft were fully owned (40.5%), 41 were under finance lease (18.6%) and 90 under operating lease (40.9%).

During the 2017 financial year, the Company took delivery of four B787-9s while three A340-300s were retired from the fleet. Three A320s were refitted and seven others were withdrawn from the Air France fleet for transfer to Joon.

The Joon fleet

The Joon fleet was composed of seven A320 transferred from Air France with an average age of 9.6 years.

The HOP! regional fleet

At December 31, 2017, the regional fleet comprised 88 aircraft with a maximum seat capacity of 100, of which 83 in operation. The average age of the fleet in operation was 12.2 years.

On ATR72-600 entered the fleet while eight aircraft were retired: one ATR42-500, two ATR72-500s, the last CRJ100, and the last four EMB135s. Within the fleet, 65.9% of the aircraft were fully owned, 9.1% were under finance lease and 25.0% under operating lease.

The Transavia France fleet

The Transavia France fleet comprised 29 B737-800s (26 aircraft at December 31, 2016), of which 17.2% were fully owned, 6.9% under finance lease and 75.9% under operating lease. The average age of this fleet was 5.4 years.

2.6.2 The KLM Group fleet

The KLM Group fleet totaled 201 aircraft at December 31, 2017 (204 aircraft at December 31, 2016) of which 159 in the main fleet and 42 in the regional fleet. The average age of the aircraft in the operational fleet was 9.5 years (10.2 years at December 31, 2016). Firm orders stood at 27 aircraft.

	Fleet at December 31, 2016	Aircraft entering[1] the fleet over the period	Aircraft withdrawn[1] over the period	Fleet at December 31, 2017
Long-haul fleet	66	4	4	**66**
Medium-haul fleet (including Transavia Netherlands)	85	8	4	**89**
Cargo (including Martinair)	6	-	2	**4**
Regional fleet	47	8	13	**42**
Total	**204**	**20**	**23**	**201**

(1) Owned, operating lease and financing lease.

The KLM fleet

At December 31, 2017, the KLM fleet comprised 116 aircraft (114 at December 31, 2016), of which 66 long-haul aircraft and 50medium-haul aircraft. 33 aircraft were fully owned (28.4%), 28 aircraft were under finance lease (24.1%) and 55 under operating lease (47.5%). In this fleet, 115 aircraft were operational. At December 31, 2017, the average age of the aircraft in revenue service was 10.9 years, with 10.7 years for the long-haul fleet and 11.2 years for the medium-haul fleet. At December 31, 2016, the aircraft in the fleet had an average age of 10.9 years, with 11.3 years for the long-haul fleet and 10.3 years for the medium-haul fleet.

During the 2017 financial year, the long-haul fleet which was broadly stable was modernized by the entry of two B777-300ERs and two B787-9s while four B747-400s were retired. In medium-haul, two B737-800s were transferred from the Transavia Netherlands fleet.

The regional fleet, KLM Cityhopper

The KLM Cityhopper fleet comprised 42 aircraft, all in operation. During the year, eight Embraer 175s joined the fleet while thirteen Fokker 70s were withdrawn. In this fleet, 7.1% of the aircraft are fully owned, 57.1% are under finance lease and 35.7% under operating lease. The aircraft in revenue service in this regional fleet had an average age of 4.9 years.

The Transavia Netherlands fleet

The Transavia Netherlands fleet comprised 39 aircraft, of which eight Boeing 737-700s and 31 Boeing 737-800s. In this fleet, 10.3% of the aircraft are under finance lease, 66.6% are under operating lease and 23.1% fully owned. The average age of the aircraft in the fleet is 9.4 years.

The Martinair fleet

Martinair has a fleet of four fully-owned freighters. The average age of the aircraft in revenue service is 17.7 years.

This page has been intentionally left blank.

3 RISK AND RISK MANAGEMENT

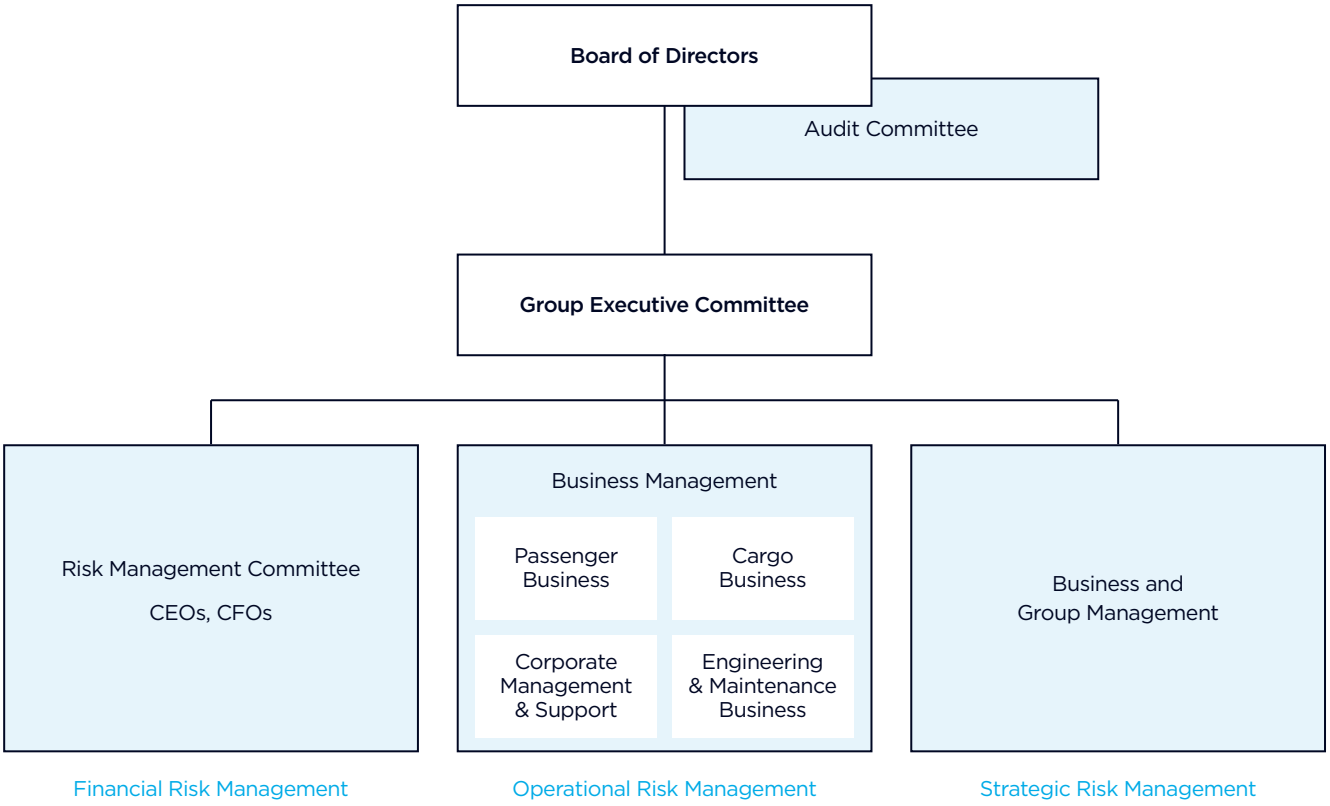
3.1	**Risk management system**	**102**
3.1.1	Risk management process: the players and overall organization	102
3.1.2	Identification and evaluation of the risks	103
3.2	**Risk factors and their management**	**104**
3.2.1	Geopolitical and macro-economic risks	104
3.2.2	Risks relating to the air transportation activity	105
3.2.3	Risks linked to the Group's processes	110
3.2.4	Legal risks	112
3.3	**Organization and functioning of internal control**	**113**
3.3.1	Internal control organization and tools	113
3.3.2	Fundamental components of internal control established within the Group	116
3.3.3	Internal control relating to the establishment and processing of financial and accounting information	118
3.4	**Ethics and compliance**	**120**
3.4.1	Social Rights and Ethics Charter	120
3.4.2	Ethics and Compliance Program	121
3.5	**Market risks and their management**	**122**
3.5.1	Organization of the Air France-KLM Group	122
3.5.2	Market risks and their management	122

3.1 RISK MANAGEMENT SYSTEM

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 Air France-KLM Group is exposed to the general risks associated with air transportation and running a business. 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 regularly monitors the management of financial market risks that could have an impact on the financial statements. 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. Internal Audit also produces an annual report on the strategic risks.

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 to mitigate or neutralize them, 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 individual Internal Control Coordinators. A report of this review is then forwarded to the Board of Directors together with the annual presentation on risk management.

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.

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 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.

The annual strategic risk sheet constitutes a summary of the main strategic risks (competition, financial situation, etc.) identified by the corporate management and the businesses with the assistance of the Strategy and Innovation department.

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 the 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 transport 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 and Eurostar, etc. 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 for the routes between Europe and Asia, due to the development of new rapidly-growing players like the Gulf State airlines, or on the trans-Atlantic routes due to the growth of low-cost, long-haul carriers (Norwegian, WOW, Eurowings, Level).

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 2.2 Strategy, page **70**)*.

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 trans-Atlantic joint-venture with their partners Delta Air Lines, Inc. and Alitalia.

Competition in the air freight market

Description of the risk

The air freight market is characterized by structural overcapacity resulting from weak demand growth and the arrival of new freighters while the old cargo aircraft are gradually being withdrawn from operation. Belly capacity is also seeing rapid growth due to the considerable increase in the number of wide-bodied aircraft globally. As a result, unit revenues are under structural pressure. Alternative means of transportation, particularly ocean freight with large container ships, also represent growing competition for this business.

Mitigating principles and actions

To respond to these trends, the Group has implemented multiple measures focused on reducing exposure to the full-freighter activity. *See also Section 2.2 – Strategy, page **70**.*

Cyclical nature of the air transport 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, such as the one being traversed currently 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 geographic network enabling it to limit its exposure to risk within a constantly-growing air transport 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 transport industry. A sharp increase in the oil price, as seen during the 2008 first half and again in 2010-12, 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 3.5.2 – Market risks and their management on page **124**.*

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 transport operating losses but is insured for the consequences of an attack on one of its aircraft.

The Group has implemented a series of safety and security management processes in line with the best sector practice.

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.

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 crisis associated with the Ebola and Zika viruses, the companies have been supported by a dedicated coordination structure. For example, the Air France Health Risks Coordination Committee attached to the Development, Quality Assurance and IMS Coordination division plays a permanent coordination, regulatory intelligence and prevention role, and is responsible for liaising with the national and international health authorities, based on a risk management approach.

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.

Safety training

Vocational training is oriented towards the core air transport operations and is primarily focused on the required safety knowledge and skills. safety training for cabin crews, professional training for maintenance and ground staff and training to maintain the skills of pilots.

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 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.

Mitigating principles and actions

a. The rules and standards applied by Air France-KLM

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 transport 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 which leads to certification which must be renewed every two years. At the end of the IOSA audits in October 2016 and March 2017, the Air France and KLM certification was renewed for a two-year period.

b. The Air France Safety Management System

The implementation process for the Safety Management System, launched in 2009, was completed in January 1, 2012 pursuant to the decree of December 22, 2008. This system has four pillars: Policy and Objectives, Risk Management, Safety Assurance and Safety Promotion, which have all been deployed across the operational divisions. To reach the highest possible level of Flight Safety, each airline updates and reinforces its Safety Management System (SMS) which defines in concrete terms the conditions for the implementation of the airline 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 the staff.

The Corporate Flight Safety Committee within the Air France Board of Directors meets every quarter to analyze the Flight Safety indicators for the Air France Group. The results of a second 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 2015 and are the subject of an action plan which forms an integral part of the ongoing process to improve safety.

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: thus Flight Safety, Health and Safety in the Workplace, Customer Service Quality, Operational Performance, Environment and Sustainable Development, Food Safety and Security.

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 reference 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 is set to be supplemented and developed during 2018 to reflect the new legislation.

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.

c. KLM's Integrated Safety Management System

Although it is not subject to the same regulatory requirements, 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 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 gradually being deployed throughout the Company to enhance safety awareness and relevant safe attitude and behavior at all levels. The establishment of the Integrated Safety Services Organization (ISSO) in October 2016 has further professionalized this integrated approach to safety and compliance throughout the Company, increased the level of expertise on all domains across all safety and compliance processes, and advanced KLM's ISMS to the next level.

d. 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. 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. An "AirSafe" training program covering the human factors behind errors has been established within Air France for deployment 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.

The materialization of this risk could have an impact on the Group's reputation and legal or financial consequences. This risk is covered by the aviation insurance policy.

Changes in international, national or regional regulations and legislation

Description of the risk

Air transport 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 newly-created 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.

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.

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 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. Since 2008, no fewer than ten rulings have been handed down by the ECJ to interpret and supplement the provision, thereby extending the right to passenger compensation.

Since 2004, in addition to the rulings from the ECJ, there have been a number of events impacting the application of the Regulation. This is notably the case with the adoption of new regulations governing passenger rights in other forms of transportation.

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, 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 transport 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.

Risks linked to the environment

Changes in environmental legislation

Description of the risk

The air transport industry is subject to a significant level of environmental legislation governing areas such as exposure to aircraft noise and engine emissions, air quality, the use of hazardous substances and the treatment of waste products and contaminated sites. Over the last few years, the authorities (national and European) have adopted various regulations notably regarding noise pollution and the performance of aircraft, introducing taxes on air transport companies and obligations to ensure the compliance of their operations.

Such legislation may have an impact on the Group's operations and growth in that it could be reflected in more substantial costs and lead to distortions in competition between airlines when applied solely to a specific geographical area.

Mitigating principles and actions

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 system which is put in place does not lead to any distortion in competition between the air transport players. For example, Air France-KLM has always supported the implementation of a market-based mechanism for emissions considering that, provided it is equitable, such a system is more effective from an environmental standpoint than a simple tax.

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.

In its 2014 report, the Intergovernmental Panel on Climate Change (IPCC) assesses the current 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 2017 United Nations COP23 climate change conference, the Union of Concerned Scientists and more than 15,000 independent experts signed a second warning on the impacts of climate change, calling for a reduction in resource consumption. These changes will probably lead to more frequent extreme weather events that will have a greater or lesser impact on all world regions. These climate-related phenomena could affect the Group's operational service continuity (re-routing, flight cancellations, flight delays), generating financial impacts.

Mitigating principles and actions

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.

Air France-KLM has developed emergency management procedures to ensure the best-possible operational and passenger-handling conditions. In such circumstances, the Group deploys commercial measures to enable passengers to defer their travel if they so wish, or change their destination.

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.

Within this framework, the Group is exposed to carbon risk, i.e. the risk of an increase in the price of a ton of CO_2 emitted and thus the risk of an increase in its fuel bill, arising from ecological measures taken at regulatory level to reduce greenhouse gas emissions.

As of 2021, the Group will be subject to the global carbon offsetting mechanism. Adopted by the ICAO in October 2016, the CORSIA mechanism (Carbon Offsetting and Reduction Scheme for International Aviation) will begin with a first phase from 2021 to 2026, based on States volunteering to participate. Some seventy-three countries, representing 87.7% of international aviation activity, have 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 some exempt States, unless they volunteer).

The ICAO resolution stipulates that "CORSIA is to be the market-based measure applying to CO_2 emissions from international aviation" and thus avoid 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).

To reduce its environmental footprint, Air France-KLM is targeting a 20% reduction in its CO_2 emissions by 2020 (g. CO_2/passenger/km relative to 2011). The Group also uses an internal carbon price (price range) when deciding whether to proceed with investments and projects, to factor the carbon risk into its decision-making scenarios.

Noise management risk

Description of the risk

Airlines need to accommodate their customers' increased need for mobility, while maintaining noise hindrance at an acceptable level for those living near airports. Europe is one of the world regions with the strictest regulations on noise and the reduction of noise hindrance around airports. To ensure its continued growth, the Group must anticipate all the restrictive measures linked to noise around the airports constituting its principal bases.

Mitigating principles and actions

Regular discussion meetings take place with residents' associations, local elected representatives and the public authorities to address all the issues surrounding the effects of air transport activity around airports.

Fleet modernization and an improvement in operational procedures are the two pillars of the Group's noise mitigation policy.

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 2017, whereas the number of aircraft movements increased by 16% over the same period.

Lastly, the French and Dutch regulations require noise disturbance issues to be addressed as an integral part of local urban planning.

The contribution of the Air France Group (Air France, Transavia France and HOP! Air France) to the Airport Noise Tax (TNSA) received by the French State on each takeoff amounted €17 million in 2017, its proceeds being allocated to the sound-proofing of homes situated around major airports and exposed to noise from aviation.

Around Schiphol airport, all the measures foreseen to reduce noise hindrance have been implemented. Over the past two decades, KLM has contributed the major portion of the total €754 million of noise taxes, devoted to the sound-proofing and compensation for loss of value in property around Schiphol airport.

Risks linked to natural phenomena

Description of the risk

Air transportation is dependent on meteorological conditions and other natural phenomena (earthquakes, volcanic eruptions, floods, etc.) which may lead to operational disruption such as flight cancellations, delays and diversions. Generally speaking, 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 can involve significant financial costs: passenger repatriation and accommodation, schedule modifications and flight diversions. On the other hand, the closure of an airspace lasting several days, as was the case in April 2010 in Europe following the eruption of an Icelandic volcano, may have very major commercial, human and financial consequences for the airlines and their passengers. Similarly, bad weather can 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.

Mitigating principles and actions

Within this context, Air France-KLM lobbies, either directly or through representative bodies, the French and European authorities 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. The Group has no hedging in place for operating losses incurred due to such events.

Non-compliance with the competition rules

Description of the risk

Cases of non-compliance with the competition rules can have an impact on the Group's reputation, together with legal and financial repercussions.

Mitigating principles and actions

Following the inquiries conducted by the anti-trust authorities in a number of States concerning alleged anti-competitive agreements or concerted actions involving 25 companies in the air freight sector including the Air France-KLM Group, the Group has reinforced its procedures to prevent a breach of competition law. Since 2007, 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. This Manual was updated in 2016 and is available to all employees.

A number of other prevention-based tools are available to the Group's employees including a hotline dedicated to competition law. In late 2010, a second online training module on the application of the competition rules was introduced to supplement the first module created in 2008. Having followed this training and passed an evaluation test, employees sign an individual declaration promising to respect the competition rules applying to their functions. In the autumn of 2016, a major campaign to raise awareness of the competition rules was carried out across all the Air France-KLM Group's subsidiaries with, in particular, a new e-learning module.

Regulatory authorities' inquiry into the commercial cooperation agreements between carriers

Description of the risk

Alliance operations and commercial cooperation are subject to the competition legislation in force. Airlines are required, particularly in Europe, to ensure that their operations comply in full 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 trans-Atlantic joint-venture (Air France-KLM, Delta Air Lines, Inc., Alitalia).

In light of the final undertakings offered by the trans-Atlantic 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 Air Lines, Inc. 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's 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) have been 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 keeps 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 the Information 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 is covered by an insurance policy but not the risk of the operating losses that such damage might entail.

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 to 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 Compliance program. 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 proper application of the regulatory requirements.

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 cybercriminality.

Cybercriminality 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 cybercriminality.

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.

Implementation of the Trust Together strategic project

*See also Section 2.2, Strategy on page **71**.*

Description of the risk

In November 2016, Air France-KLM unveiled the different initiatives in its new strategic project, "Trust Together", which must enable the Group to rise to three major challenges: capture its share of worldwide air transport industry growth, reinforce the Group's competitiveness and Operational Efficiency and further enhance the customer experience. This strategic project confirms the overall competitiveness targets of the "Perform 2020" plan, by increasing the unit cost reduction target for the 2017-20 period to more than 1.5% per year, on a constant currency, fuel price and pension-related expense basis.

More specifically, the initiatives in the "Trust Together" project articulate around nine strategic priorities which, depending on their nature, are in the deployment process, are being established to identify their modalities or are in the negotiation phase.

The outcome of negotiations linked to this project, together with the work required to establish more precise conditions for the implementation of some of its aspects, naturally represent a source of uncertainly, in terms of both financial targets and the social dynamic and reputation of the Company.

Mitigating principles and actions

In 2017, the deployment of the Trust Together project within the Air France-KLM Group was the subject of precise and regular monitoring by the Group's management bodies and those of its airline subsidiaries.

Pension plans

Description of the risk

As per December 31, 2017, 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 the Note 4 on "Accounting policies – Employee benefits" and in Note 31 "Other provisions" to the consolidated financial statements.

Note 31 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 discount rate, and the level of increases to salaries and pensions.

Mitigating principles and actions

In 2017, KLM put in place new defined-contribution (Collective Defined Contribution) pension contracts for the KLM Cabin Crew and Flight Deck Crew based in The Netherlands, and consequently derecognized the related pension assets.

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 lead to the KLM Ground Staff pension plan figuring as an asset in the balance sheet at December 31, 2017, the assets in the funds being higher than the value of the defined benefit obligations.

Competition from aircraft, engine and component manufacturers in 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. 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.

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;
- developing repair solutions reducing the dependence on certain OEMs;
- negotiation of the value added contributed by licenses.

Furthermore, in the interest of the airlines, IATA is maintaining a watching brief on this issue.

3.2.4 Legal risks

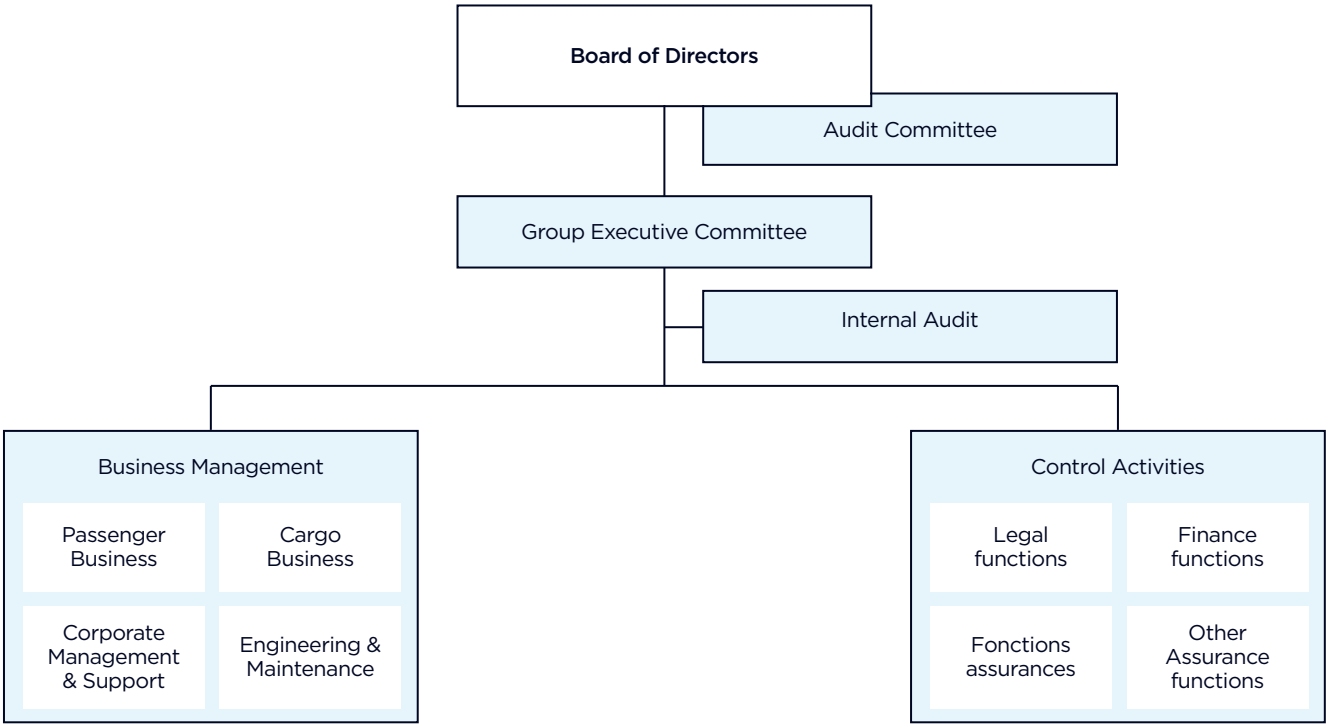
Within the normal exercise of their activities, the Company and its subsidiaries are involved in disputes which may give rise to provisions in the consolidated accounts and information in the notes regarding potential liabilities *(See also Notes 32.1 and 32.2 in the notes to the consolidated financial statements, page **261**)*.

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.



Internal Control Coordinators

Internal Control Coordination

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 I above, *Conditions for preparing and organizing the work of the Board of Directors;*

— in December 2017, the Group Executive Committee was composed of ten members (the Chairman and Chief Executive Officer, three representatives from Air France and KLM and six 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: Human Resources, Finance, Commercial Passenger, Digital Marketing and Communication, Maintenance, Cargo, Information Technology, Public Affairs and International. Prior to these meetings, the Chairman and Chief Executive Officer, the Chief Executive Officer of Air France and the President of the KLM Managing Board meet (CEO Committee) to prepare for the Executive Committee meetings and address sensitive issues. Depending on the matters under review, members of the Group Executive Committee may be invited to attend these meetings.

— 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, Group Management Control, Strategy & Mergers-Acquisitions, Financial Operations). This division establishes 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.

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.

— 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 has overall responsibility and reports hierarchically to Air France-KLM's Chief Executive Officer and operationally to the 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) and sub-subsidiaries. Audits are conducted in collaboration with the internal auditors of the two airlines.

The number of auditors' positions averaged 23 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 information and communication systems,
   c. compliance audit: to check compliance with laws & 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 specific request of business management. When performing consulting services, the Internal Auditor should maintain objective and not take 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 process of risk management.

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 is valid until April 14, 2018.

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, 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.

Furthermore, in 2010, the Board of Directors of Air France decided to set up a Flight Safety Committee which meets every quarter *(see Section 3.2.2 Risks linked to airline safety)*.

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 responsibility 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 3.4.1.

Manual to prevent the risks of corruption

This manual affirms the Air France-KLM Group's commitment to exercising its activities fairly, equitably, honestly and with integrity, and in the strict respect of anti-corruption laws wherever its companies or subsidiaries exercise their activities. It establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations in the light of the anti-corruption legislation. An "anti-corruption" online training module was made available to all employees at the end of 2017.

In 2016, Air France established a "Reminder of the compliance regulations for relations with suppliers/service providers" memorandum, signed by the Chief Executive Officer. This document outlines the compliance principles and rules in force within Air France (internal regulation) and, more widely, within the Air France-KLM Group (Air France and KLM Manual for the Prevention of Corrupt Practices). *See also Section 3.4.1.*

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 defining 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 them to exercise it, 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 Quality manual, 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.

In terms of management systems: Integrated Management System/IMS and Quality-Safety-Environment manuals of the entities, 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.

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 quality manuals 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/quality review takes stock of the operation of the ISM/quality 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.

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.

Codeshare 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 methodology. 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 2017.

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.

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.

All of the Group's divisions and General Managements have been evaluated based on these five components.

Verification of an entity's environment are carried out via an evaluation questionnaire corroborated by existence and effectiveness tests.

Transactional controls (process) are realized via design effectiveness testing, followed by operational effectiveness testing *(see Section 3.3.3)*.

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.

Following the delisting from the New York Stock Exchange, the Air France-KLM Group's Executive and Audit Committees requested that high standards be maintained and that the work already undertaken (in rationalizing this) to comply with the Sarbanes-Oxley Act (SOA) be capitalized upon and its principles enshrined within the framework of the Group's day-to-day management.

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, 2017.

On February 15, 2017, the Board of Directors amended its internal regulations, notably in terms of the prerogatives of the Air France-KLM Group's Audit Committee pursuant to the provisions of Ordinance No. 2016-315 of March 17, 2016 relating to statutory audits and application decree No. 2016-1026 dated July 26, 2016. Pursuant to Article L. 823-19 of the Code of 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).

A summary of the cash positions of Air France, KLM and Société 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 fuel hedges are covered in a weekly report forwarded to the General Managements of the Air France-KLM Group, Air France and KLM.

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 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.

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).

3.4 ETHICS AND COMPLIANCE

3.4.1 Social Rights and Ethics Charter

Given its presence in many countries and the large number of employees, the Air France-KLM Group is committed to respecting both ethical values and legislation. This involves, for example, compliance with social and Human Rights, health, safety and environmental legislation, capital markets regulations, anti-bribery and anti-corruption laws, anti-competition laws, trade sanction rules, export control regulations and data privacy regulations.

Compliance with social and Human Rights, and legislation relating to health, safety and the environment is described in more detail in section 4.

Structure, content and key values enshrined in the Social Rights and Ethics Charter

The Group's Social Rights and Ethics Charter reflects each entity's commitment to acting as a socially responsible company by orienting its social and ethical policy towards the respect of individuals at professional and social level. The Charter highlights the Group's vision of an open, united world, based on both economic responsibility and social and environmental progress.

The Codes and Manuals are available on the Air France and KLM websites.

Further guidance associated with the Social Rights and Ethics Charter

The importance of respecting ethical principles in everyday business conduct is underscored in a number of documents. 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.

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 Compliance Rules regarding securities trading set out the rules applicable to company officers, senior executives and any other individuals potentially in possession of inside information relating to the Company, covering the use of this information and trading in the Company's securities, pursuant to the applicable laws and regulations and, in particular, regulation (EU) No.596/2014 of April 16, 2014 on market abuse ("MAR Regulation"). They also set out the relevant penalties. These rules also reiterate the specific obligations on confidentiality relating to inside information and the closed periods prior to the publication of the annual/half year and quarterly financial statements during which company officers and certain other employees must refrain from trading in the Company's shares while fulfilling their functions/roles within the Group.

At the end of 2017, the Anti-Bribery Manual was updated to reaffirm 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. It constitutes 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.

To coincide with the publication of the updated Anti-Bribery Manual, a Gift and Hospitality Policy was 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 is developing its policy aimed at the prevention of anti-competitive acts by circulating a Competition Law Compliance Manual, which is available in three languages. This Manual was updated in 2016 and may be consulted by all employees.

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's main topics are: compliance with law, business integrity, integrity of financial reporting, confidentiality, competition compliance, protection of assets, environmental protection, social responsibility and intellectual property. The KLM Group has also deployed a Code of Ethics for the Finance Function.

Training and awareness

Topics that require greater awareness and transcend businesses are brought to the attention of employees through training and awareness-raising campaigns. This is complemented by dedicated training that is available to individual employees. The Compliance Officers and legal experts are on hand to counsel and answer questions.

At the end of 2017, the updated Anti-Bribery Manual was supplemented with an e-learning module on the prevention of corrupt practices, enabling everyone to guarantee a high degree of integrity in their business relationships. This module, available in three languages, is composed of a training phase followed by a test. A target group of around 9,800 Air France and KLM employees have followed this training module.

In 2017, the online training module on compliance with competition law which became mandatory for around 8,000 Air France-KLM, Air France and KLM employees in 2016, was also circulated to employees in the Group's subsidiaries. In addition to training, employees have access to a hotline on competition law and dedicated training by the Group's lawyers.

Compliance controls

The Compliance Officers at Air France-KLM, Air France and KLM develop and maintain the overall compliance program within Air France-KLM, Air France and KLM. Depending on the type of business transactions and complexity within the departments or entities, compliance correspondents and dedicated experts are on hand to facilitate compliance with specific legislation and the roll-out of the relevant compliance programs. The businesses are primarily responsible for implementing the necessary compliance controls. The controls depend, amongst other factors, on the type of business transactions and contacts with third parties like partners or suppliers.

3.4.2 Ethics and Compliance Program

Content of the compliance program

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.

To comply with the EU General Data Protection Regulation (GDPR) which will come into force on May 25, 2018, a joint roadmap has been developed and is being executed. This project addresses seven main work streams that are ongoing: data protection governance, review of personal data processing activities, compliance policies and implementation, customer personal data management, personal data transfer management, awareness/training and the Data Breach procedure. With regard to the new French lobbying Act, a process has been implemented to secure the necessary declaration in the HATVP *(Haute Autorité pour la Transparence de la Vie Publique)* electronic register.

The Compliance activities with regard to the respect of social and Human Rights, health, safety and environmental legislation are described in more detail in Section 4.

Role of the governance bodies

The Compliance Officers at Air France-KLM, Air France and KLM pursue and monitor the implementation of the compliance framework components within the Groups. At Air France and KLM, Data Privacy Officers are tasked with ensuring compliance with data protection regulation. They report to the relevant governance bodies, like the Executive Committee and the Audit Committee.

Whistle-blower procedure

Since every employee is 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 an (anonymous) concern or report via the Air France or KLM Whistle-blower procedure. Air France is in the process of updating the Whistle-blower procedure which is an integral part of its internal regulations while KLM has already updated its Whistle-blower procedure to comply with the new legal requirements in the Netherlands. The whistle-blower procedures also include the possibility of reporting any serious situations relating to the duty of vigilance.

3.5 MARKET RISKS AND THEIR MANAGEMENT

3.5.1 Organization of the Air France-KLM Group

The aim of the Air France-KLM Group's market risk management strategy is to reduce its exposure to these 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 KLM.

The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, emission permits, the principal currency exchange rates, interest 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 in each company, in accordance 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. 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 principle 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 information daily on the level of cash and cash equivalents to their respective General Managements, the level of the Group's consolidated cash being communicated every week and at the end of the month to the Group's General Management.

Every month, a comprehensive report including 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 sent to the General Managements.

The Treasury Management departments now have full responsibility for the hedging strategy on fuel and emission permits. The General Managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of all the positions, the percentages hedged and the breakdown of the instruments and underlyings used, the average hedge levels and the resulting net prices. All this data covers a 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 *(see Note 35.2.1 in the notes to the consolidated financial statements, page **270**)*.

3.5.2 Market risks and their management

Currency risk

Most of Air France-KLM's revenues are generated in euros. However, because of its international activities, the Group incurs a currency 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 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 a result, any significant appreciation in the dollar against the euro could have a negative impact on the Group's financial results.

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 far less significant than with the US dollar. A 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.

Operational 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.

2018 operational exposure

(in millions of currencies at December 31, 2017)	US Dollar	Sterling	Yen
Net position before hedging	(2,590)	505	39,218
Currency hedge	1,602	(281)	(16,625)
Net position after hedging	(988)	224	22,593

For 2018, 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 contracts.

(in € million)	US Dollar	Sterling	Yen
10% increase relative to the euro	(111)	35	24
10% fall relative to the euro	107	(15)	(12)

Investment exposure

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 net investments in dollars figuring in the table below reflect the contractual commitments as of December 31, 2017.

(in € million)	2018	2019	2020	2021	2022	2023
Investments	(1,146)	(1,119)	(1,085)	(1,657)	(961)	(1,079)
Currency hedge	1,100	918	735	641	505	155
Hedge ratio	96%	82%	68%	39%	53%	14%

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2017, 80% 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 (10%), the US dollar (6%) and the Swiss franc (4%).

With the application of IFRS 16 by the Group as of January 1, 2018, the aircraft operating leases which are mostly denominated in US dollars will be recognized in the Group's debt. The revaluation of this debt in dollars will be neutralized at accounting level in that this debt has a natural hedge in the form of the Group's dollar revenues.

Interest rate risk

A portion of the debt is contracted at floating rates. However, to limit its volatility, Air France and KLM have used swap strategies involving the use of derivatives to convert a significant proportion of this floating-rate debt into fixed rates. After swaps, the Air France-KLM Group's debt contracted at fixed rates represents 82% of the overall total. The interest rate on the Group's gross debt after swaps stood at 3.09% at December 31, 2017 (3.60% at December 31, 2016).

Exposure to interest rates

(in € million at December 31, 2017)

Financial assets at floating rates	2,571
Financial liabilities at floating rates	3,317
Net exposure before hedging	746
Hedging	(546)
Net exposure after hedging	200

The Group's net exposure to interest rates after hedging stands at €200 million. A 100-basis point increase in interest rates over twelve months would have an €2 million negative impact on the result.

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.

As of 2018, the RMC decided to reintegrate the volumes linked to the cargo business within the exposure to be hedged.

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 from January 1, 2018, the hedging policy has changed: hedging by component (Brent component of Jet Fuel volumes) will henceforth be applied.

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, 2017, the Air France-KLM Group's fuel exposure, based on futures prices at December 29, 2017 ($64.90 a barrel for 2018 and $61.10 a barrel for 2019), was as follows:

(in US$ million)	2018	2019
Gross expenditure before hedging	6,157	6,061
Hedge percentage	53%	22%
Gain on hedging	442	82
Net expenditure after hedging	5,715	5,979

Based on the forward curve at December 29, 2017, an increase of US$10 per barrel over 2018 would give an average price of US$74.9 per barrel and would lead to a US$403 million increase in the fuel bill after hedging, i.e. a total fuel bill of US$6,118 million for the Air France-KLM Group. Symmetrically, a fall of US$10 per barrel over 2018 would give an average price of US$54.9 per barrel and would lead to a US$485 million reduction in the fuel bill after hedging, i.e. a total expense of US$5.23 billion.

Counterparty risk

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 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 in the two companies. It is supplemented by real time information in the event of any real risk of a rating downgrade for counterparties.

Equity risk

Air France and KLM's cash resources are not directly invested in the equity market or in equity mutual funds. However, at December 31, 2017, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth €400 million, principally comprising 1.1% of the Amadeus share capital. In November 2017, Air France-KLM extended a hedging transaction in the form of a collar maturing in November 2018, to protect the value of the totality of these shares.

Liquidity risk

At December 31, 2017, the Group had credit facilities amounting to a total of €1.7 billion.

- on July 2, 2015, KLM signed a €575 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, 2017, 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, 2017, the ratios were respected.

Given the Group's €5.8 billion of cash resources at December 31, 2017 and the amount of available credit facilities (a total of €1.7 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.

Financing risks

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.

However, 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, Société 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

Société 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 perpetual subordinated bonds raising €600 million in March and April 2015. In accordance with IFRS, these securities were booked as equity;
- 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 €145 million via a private placement in December 2016.

The convertible bonds issued in March 2013 with a ten-year maturity for a notional amount of €550 million were converted into Air France-KLM shares in November 2017.

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.

This page has been intentionally left blank.

4 CORPORATE SOCIAL RESPONSIBILITY: SOCIAL, CITIZENSHIP AND ENVIRONMENTAL INFORMATION

4.1 Social information 129

4.1.1 A constructive and permanent social dialogue to contend with the economic challenges 129
4.1.2 Training 133
4.1.3 Health and safety in the workplace 135
4.1.4 Fostering diversity and combating discrimination 138

4.2 Social indicators for the Group 142

4.2.1 Consolidated social data for the Air France-KLM Group 142
4.2.2 Other social data for the Air France Group (according to local legislation) 144
4.2.3 Other data for the KLM Group (according to local legislation) 145

4.3 Note on the methodology for the reporting of the social performance indicators 146

4.3.1 Reporting scope 146
4.3.2 Reporting tools 146
4.3.3 Details and methodology- comments on changes in the indicators 147

4.4 Corporate citizenship information 149

4.4.1 Dialogue with stakeholders 149
4.4.2 Fair commercial practice 150
4.4.3 Measures to safeguard consumer health and safety 151
4.4.4 Contributing to regional economies 151
4.4.5 Sub-contracting and suppliers 155

4.5 Environmental information 157

4.5.1 Overall environmental policy 157
4.5.2 Pollution 160
4.5.3 Circular economy 161
4.5.4 Climate change 163
4.5.5 Protecting biodiversity 166

4.6 Environmental indicators 168

4.6.1 Flight Operations 168
4.6.2 Ground Operations 170

4.7 Note on the methodology for the reporting of the environmental indicators 172

4.7.1 Scope covered and scope N-1 172
4.7.2 Reporting tools 172
4.7.3 Details and methodology, comments on variations 172
4.7.4 Flight operations 173
4.7.5 Ground operations 173

4.8 Monitoring of Act No. 2017-399 known as the Duty of Vigilance Law 175

4.8.1 Measures deployed and regular risk evaluation procedures 175
4.8.2 Long-term relationships with suppliers and sub-contractors 176
4.8.3 Listening to stakeholders 176
4.8.4 Whistle-blower mechanism 176

4.9 Table of concordance for the social, corporate citizenship and environmental information 177

4.10 Report by one of the Statutory Auditors 180

As a global business, Air France-KLM enables people, economies and cultures to connect, driving economic growth and social advances. The Group assumes its responsibilities and seeks to reconcile growth with environmental protection, social progress and regional development around its hubs and destinations.

To integrate Corporate Social Responsibility into its activities and operations, Air France-KLM is mobilized around four main priorities:

- reducing its environmental footprint by optimizing operations, innovating in the supply chain and mobilizing all staff and the industry;
- embedding sustainable development across the entire value chain to offer customers sustainable and innovative products and services;
- promoting a responsible social policy and encouraging personal development to ensure the motivation and high professional standards of staff;
- contributing to the economic and social development of the territories where the Group operates.

Air France-KLM's Corporate Social Responsibility strategy enshrines the respect of fundamental rights as defined in the leading international principles: the 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 and promoting its ten principles in the areas of Human Rights, labor, the environment and anti-corruption.

Pursuant to Article 225 of the application decree of the French Grenelle II Act of July 12, 2010 and the European Prospectus (EC 809/2004), the Air France-KLM Group presents social, corporate citizenship and environmental data in the form of qualitative information and indicators. All this information is reviewed by one of the Group's Statutory Auditors, as a designated Independent Third Party, based on the conditions outlined in the social and environmental methodologies.

The reporting scope mainly covers the companies Air France and KLM. Any differences in this scope are indicated in the text.

Employees, expressed as full time equivalent (FTE)			**Air France-KLM Group**			**Air France Group**			**KLM Group**
Financial year	**2015** [1]	**2016**	**2017**	**2015** [1]	**2016**	**2017**	**2015**	**2016**	**2017**
Ground staff	54,859	53,560	**51,347**	35,583	34,646	**33,364**	19,275	18,914	**17,984**
Cabin crew	21,287	20,942	**21,502**	13,449	13,096	**13,340**	7,838	7,847	**8,161**
Flight deck crew	7,856	7,673	**7,746**	4,554	4,431	**4,494**	3,302	3,242	**3,251**
Total	**84,002**	**82,175**	**80,595**	**53,586**	**52,173**	**51,198**	**30,415**	**30,002**	**29,397**

(1) Data restated excluding Servair employees (Servair Ground Staff in 2015: 9,299).

The number of Full Time Equivalent (FTE) employees in the Air France-KLM Group averaged 80,595 in the 2017 financial year (excluding external staff), i.e. a 1.92% reduction relative to the previous financial year.

Taking into account external staff, averaging a respective 2,927 in Full Time Equivalent during the 2017 financial year and 2,427 in Full Time Equivalent for 2016, the number of employees in the Air France-KLM Group as a whole declined by 1.28%: 51,852 FTE for Air France (52,725 in 2016) and 31,670 FTE for KLM (31,877 in 2016). 62% of the Group's staff were employed by Air France and 38% by KLM.

4.1 SOCIAL INFORMATION

4.1.1 A constructive and permanent social dialogue to contend with the economic challenges

Air France-KLM Group

Air France-KLM's Corporate Social Responsibility Statement and Social Rights and Ethics Charter form the foundation of the Group's commitments by reaffirming the values and fundamental rights guiding its social and ethical policy. However, differences in employment legislation between France and the Netherlands require Air France and KLM's HR polices to remain separate.

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, it seeks to preserve cohesion by fostering a constructive and transparent workplace dialogue and by pursuing a policy based on treating individuals with respect and responsibility vis-à-vis customers.

For Air France-KLM, the coordination of the social 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) met twice during 2017. During these meetings the following matters were addressed: the Group's financial results, an update on Europe, the flight schedule, the alliances and the launch of Joon. The CGE was consulted on the closure of the Transavia base in Munich and information with a view to consultation was presented on the Group's new organization and the North Atlantic joint-venture. Lastly, on October 10, 2017 following the entry into the share capital of Delta Air Lines, Inc. and China Eastern Airlines, the European Works Council appointed a second director representing the employees to the Air France-KLM Board of Directors.

Air France

The Air France Employee Experience

The "Trust Together" project's goal of putting the employee at the heart of the business gained all its meaning with the launch, in 2017, of the Employee Experience initiative. Taking into account the results of the different barometers and tools to listen to employees, this initiative acts in symmetry with the customer-orientation strategy.

The promotion of a more attentive relationship with employees helps to facilitate engagement and efficiency.

Seven commitments responding to the expectations of employees were identified: #Motivation, #Initiative, #TeamSpirit #Development, #SocialDialogue, #SocialResponsibility and #Health&Safety. Numerous achievements were highlighted and are being developed both in the entities and transversally across the Company.

Some illustrations: within the framework of the #Motivation undertaking, Air France encouraged the emergence of a HappyCulturers community within the teams, by gradually transforming the working and conviviality spaces, proposing new digital tools simplifying access to information by, for example, distributing tablets to front-line staff in customer-facing roles (cabin pads for cabin crews, pilot pads for pilots, Marco for ground staff) and developing mobile applications facilitating access to online training. Employees increasingly acted on their own initiative by developing their own ideas and projects. Hackathons were realized and a feedback culture was also developed with "short feedback loops" between managers and their teams.

The incentive agreement signed at the end of June 2017 responded to the commitment to more recognition for an increased level of motivation. For example, #TeamSpirit was reflected in the creation of Digital Champions to promote the Company's digital transformation amongst their colleagues.

In January 2018, the #SocialResponsibility commitment will be achieved with the first Air France citizenship Solidarity Day called BetterTogether, during which 1,000 employees volunteered to assist self-help associations.

To measure progress on this initiative and its in-field effects, Air France relies on the Employee Promotor Score, based on the Net Promotor Score model, the indicator used to measure the level of customer satisfaction. Here it is staff opinion which is polled, the EPS having moved up by ten points during 2017.

Social dialogue and functioning of the employee representative bodies

With the Employee Experience initiative, the company's objectives were discussed more effectively with the unions in full transparency.

In 2017:

- six meetings of the Strategic Monitoring Committee were organized. This ad hoc body, bringing together the general secretaries of the representative union bodies, the chairpersons of the European Works Council's Economy and Employment-Training commissions and the Board directors representing employees, enable sensitive issues relating to the air transport industry environment and Air France's strategy in its different markets to be addressed. These Strategic Monitoring Committee meetings enabled an in-depth review, with the Company's experts, of various matters such as the Air France Fuel Policy, the Distribution Strategy, route economics within the framework of the "Boost" project and the growth outlook for the E&M business. This round of meetings to discuss major topics for the Company will continue in 2018;
- there were three meetings of the *Comité du Groupe Français* in 2017. During these meetings, the CGF was kept informed on the following matters: the "Trust Together" and "Boost" projects, the Air France Group's financial situation, the strategic outlook for Servair, BlueLink and HOP!, and the flight schedule. On June 1, 2017, the CGF also appointed a director representing the employees to the Air France-KLM Board, the mandate of

the previous Board director having expired at the end of the May 2017 Shareholders' Meeting;

— a special meeting was organized to discuss the content of the Labor ordinances published in late September 2017 with the representative unions and the HR network. The modernization of the Social Dialogue, notably through the merging of the employee representative bodies, is a major priority.

In terms of the functioning of the employee representative bodies, ten meetings of the Air France Corporate Works Council were organized in 2017. The elected representatives were consulted and/or kept abreast of the major orientations relating to the Company's overall situation and, notably, on the results and the project to set up an airline ("Boost") as a 100%-owned subsidiary of Air France, and on the HR policy, working conditions and employment.

Negotiations and agreements

For the Air France business, a number of important agreements were approved and signed following negotiation with the representative union bodies concerned, in particular:

— a Pilot agreement directed at competitiveness, growth and employment, consistent with "Trust Together", signed in July 2017;

— a Transavia Pilot agreement, together with a supplementary cause to the Transavia Pilot collective agreement;

— two Cabin Crew agreements, including one defining a new framework agreement;

— an agreement relating to salary increases (NAO or mandatory annual negotiation);

— a profit-sharing agreement and a supplementary clause enabling an advance payment on the 2017 profit-share;

— a disability agreement;

— an agreement renewing/updating the *Comité de Groupe France*;

— a supplementary clause to the Quality of Life in the Workplace Agreement, enabling its extension until June 2018.

Several agreements made possible the creation of the Joon subsidiary launched in September 2017.

In the other Air France Group subsidiaries, during 2017 there were numerous agreements signed by HOP! Nineteen agreements were signed relating to the collective statutes, the merger, working time, the provident schemes and the collective labor agreements (three Pilot agreements, six Ground Staff agreements, five Cabin Crew agreements and five inter-category agreements).

Category negotiations and decentralized consultations

In addition to the agreements outlined above, the social dialogue was shaped by staff category-based discussions (particularly with the Pilots and Cabin Crew) and consultations at the level of the entities on the ways and means to improve economic efficiency.

This approach based on staff category or entity takes into account the different legal frameworks and the necessarily-separate levers of action to achieve the targets set and the required change management. These agreements enable the:

— sharing of the findings and orientations with the representative union bodies for the scope;

— evaluation of the solutions to be implemented in response to the segment's financial and HR challenges, and adaptation of the organizations.

Consequences for headcount

The final departures linked to the 2016 Voluntary Departure Plan impacting the Ground Staff and Cabin Crews took place in March 2017.

In 2017, in terms of permanent contracts, 575 people were recruited, 125 Pilots and 450 Ground Staff, notably non-managerial staff in Maintenance and Executives for all divisions, particularly for Maintenance and Information Systems.

1,060 people were recruited on fixed-term contracts, 510 in the hub and Orly stations and 550 Cabin Crew, including 350 contractors.

Apprentices continued to be recruited with some 2,200 hires across all the divisions, particularly in Maintenance and the hub, but also 450 Cabin Crew apprentices.

The Talent Sourcing/Talent Pool Management activity was developed to support recruitment and reduce the length of the hiring process for Ground Staff.

Recruitment department activity was significantly higher in view of the volume of permanent and fixed-term recruitment with 80% more tests carried out and 55% more recruitment interviews in 2017.

Facilitating internal mobility

After a downturn in internal inter-divisional mobility in 2016, 2017 returned to a substantial level amounting to 850 internal transfers, with most of the applications from candidates originating from the hub. The division welcoming the most internal mobility transfers was the Maintenance division. Application forms from candidates were fully digitalized.

The mobility space and "mobility centers", staffed by some ten internal mobility support specialists, pursued the deployment of their activity in all the sites in Continental France (Paris-CDG, Orly, Montreuil and the French provinces). This activity saw a significant increase in 2017:

— participation in workshops: +30% (890 people);

— participation in conferences, job dating and forums: +70% (1,960 people);

— individual interviews stable at 3,000 employees.

Internal mobility is thus considered to be a key factor in the success of Air France's employment policy.

Organization of working time

Ground Staff working hours are governed by the ground staff collective agreement of October 8, 2012 and the working time agreement of January 24, 2013.

Since 2015, this regulatory framework has enabled the implementation of annualized working hour grids in some entities, allowing staffing levels to be tailored to the variations in seasonal activity.

The average length of the working week applied within the Company is consistent with the duration stipulated by the law in force.

In 2017, the percentage of employees working part time in France remained high at 22.2% (22.7% in 2016), despite the steady fall since 2013 (23.6% in 2015, 24.5% in 2014 and 24.2% in 2013). The incentive program to encourage part-time working came to an end in 2017.

Compensation

In 2017, the budget earmarked for individual salary increases in respect of performance, promotions, exceptional adjustments, exceptional bonuses and seniority for non-executive staff, defined within the framework of a collective agreement following the mandatory annual negotiation (NAO) meetings, was 2.1%, i.e. a much higher increase than the 1.4% in 2016.

The profit-share amount for 2016 was substantial for each member of staff, at around €900.

Over the summer of 2017, a new 2017-19 incentive agreement was signed, triggering an additional profit-share amount based on a results threshold achieved by the Company. A supplementary clause to this same agreement enabled an advance payment on the profit-share at the beginning of 2018.

An annual Personal Remuneration Report is available online for every employee on a permanent contract in France. This unique, personalized document sets out all the components of the overall employee compensation package provided by the Company, showing the trend in their individual compensation and the amounts paid in respect of their social security benefits.

KLM

Within KLM, the High Performance Organization (HPO) was completed, new staff were hired and the pension funds were de-risked. Amongst others, these achievements contributed to KLM's results and renewed energy.

The results of the HPO framework became more visible in 2017. KLM delivered on its commitment of a 2.9% improvement in productivity. Amongst the 500 people who were made redundant as of the beginning of the HPO transformation, 320 found new positions within KLM or with another company thanks to help from the Transition Center.

2017 saw an acceleration in the development of HR products and services. Following the roll-out of the HPO organization in 2016, a huge impulse was given to "getting the basics right" and innovation to reach the 2020 goal: "Ensure that employees are the best version of themselves", by creating an engaged workforce working together in an optimal manner pursuant to the strategy and consistent with the KLM Compass.

KLM's corporate purpose – "Moving Your World By Creating Memorable Experiences" – was further rolled out by division and by target group with decentralized actions. KLM programs and products increasingly have KLM Moving Your World as their foundation.

In 2017, the development of a new performance management process was launched, numerous digital initiatives were deployed to make the HR services more user-friendly and trials were carried out on further enhancing employee engagement. KLM also adopted Strategic Workforce Planning to identify the future workforce challenges. Furthermore, KLM began to use data analytics to enable data-driven decision-making.

Social dialogue and employee information

Ten meetings of the KLM Works Council were held during 2017, attended by KLM's President and CEO. Ten meetings also took place between the Management and the eight permanent committees, devoted to subjects like health, Human Resources policies and safety. This year, the KLM Works Council participated in two strategy meetings, with representatives from the Supervisory Board. Seventeen requests for consultation and advice were handled this year.

New collective labor agreements

At KLM, monthly meetings are organized with the unions representing the Flight Deck Crew, Cabin Crew and Ground Staff to discuss matters relating to the collective labor agreements.

In April 2016, the Cabin Crew Collective Labor Agreements expired and had to be renegotiated. At the end of 2017, the biggest union agreed on a new CLA until June 2019.

The Flight Deck Crew and Ground Staff collective labor agreements expired on January 1, 2018 and negotiations for a new Flight Deck Crew collective labor agreement have started, the aim being to establish working conditions consistent with KLM's strategic objective: become a competitive airline.

Employee Promoter Score

Faced with the recent organizational changes, KLM decided to develop a new methodology to measure the level of employee engagement, reflecting the concrete translation of the KLM Compass into the workplace and corresponding with the new KLM organization. Currently a tool is being developed to measure employee engagement at both corporate and divisional level. This EPS (Employee Promotor Score) metric, evaluated over a short cycle, generates input for the dialogue between the management and employees. The results from the trials enable KLM more effectively to understand the solutions to be developed more widely at the level of the whole company. The first trial was launched in September 2016 and, in 2017, several of these trials were repeated. These experiments have proven very useful and are still delivering learning that will enable their ongoing improvement. In addition, a redesigned trial was initiated within Ground Services in November 2017. Furthermore, during 2018, a regular KLM-wide measurement will

be introduced in which, randomly-selected employees will anonymously rate KLM as an employer from which a KLM-wide eNPS (employee Net Promotor Score) measurement will be generated. The preparation for this tool took place in 2017.

Winning Way of Working (WWoW)

KLM is seeking to create a Winning Way of Working, enabling the Company to:

- strengthen communication on the KLM purpose, the KLM Compass and the Customer Experience;
- help employees reach their individual potential and that of their teams;
- attract, develop and retain the right talents;
- position innovation at the heart of KLM's activity;
- optimize the use of buildings and resources.

Employees can thus contribute to the ambition of becoming the most customer-centric, innovative and efficient European network carrier.

WwoW promotes synergies between the three main drivers impacting the KLM working environment: Moving Your World, Digital Transformation and the Real Estate vision. WwoW thus addresses all aspects of the working environment.

In 2017, KLM developed the concept and created the Design Guide 2.0. For 2018, the local concept of two buildings (Ground Services at Schiphol-Center and Component Services at Schiphol-East) will be developed with a view to a wider roll-out of the Guide.

Employment and mobility

In terms of Human Resources, employability and professional mobility are priorities. They enable employees to develop their careers while ensuring that KLM has the necessary flexibility in a difficult economic context.

The *Mobiliteitsafspraken 2015* protocol, regrouping the collective labor agreements signed between KLM and the Ground Staff unions in 2015, had been aimed at promoting and maximizing internal mobility. Within the framework of this protocol, the KLM Transition Center was launched during the summer of 2016. This unit aims to help employees who have been made redundant to find a new job within KLM or externally. The KLM Transition Center also advises employees who are considering starting their own businesses. The Voluntary Departure Plan launched in 2015 remains in force and all employees who are being made redundant are invited to join this program. In 2017, 119 employees left the Company as a result of the Voluntary Departure Plan while 115 employees were the subject of internal transfers.

In the past few years, the employment market has undergone a major transformation, making the search for new talented individuals a real challenge. In 2017, KLM hired 26 young potentials. This year, twelve young graduates were enrolled in the KLM Management Trainee Program, six in the IT Management Program, four in the Finance Program and four in the MRO Talent Program. Furthermore, 803 interns were welcomed to KLM in 2017, demonstrating the Company's commitment to students and new graduates, by offering them the opportunity to gain valuable work experience and preparing them to enter the jobs market.

The high number of applications for both the Development Programs (3,250) and internships (approximately 1,200) testifies to KLM's attractiveness as an employer. This year KLM came number three in the 2017 ranking of the most popular employers for Engineering and Logistics (Memory Group).

In 2017, the number of employees hired on permanent and temporary contracts stood at 3,083 for the KLM Group (versus 1,904 new hires in 2016), while departures stood at 2,310 versus 2,631 in 2016.

Taking into account the recruitment and departures during 2017, the KLM Group had 33,508 employees at the end of 2017, compared with 33,793 at the end of 2016.

In 2017, KLM continued its participation in the Aviation Sector Fund, a Foundation established notably by KLM and the unions to promote and foster education, employability and mobility in the aviation industry by, for example, coordinating subsidy applications for training and employability activities undertaken by its partners.

Organization of working time

In the Netherlands, the legislation defines part-time working and enables all employees to reduce their hours provided this does not threaten the viability of the business. Part-time working is very widespread, particularly amongst women, although this is also increasingly the case for men. In 2017, the proportion of KLM Group employees working part-time stood at 41.3%, slightly higher than in the previous year (41% in 2016).

Compensation policy

KLM has three main pension funds for each of its three staff categories: ground staff, flight deck crew and cabin crew. Each fund is independent and has its own Board whose members are appointed by the employer, employees and retirees.

The total assets of the three funds amount to approximately €20 billion. The pension scheme for ground staff still qualifies as a defined benefit scheme. These agreements will eliminate the deficit and surplus payments, avoid significant variances in the equity position on the Air France-KLM balance sheet and limit volatility in the annual pension contribution. Thanks to these agreements, KLM has finalized the implementation of de-risked pension schemes for the flight deck crew and cabin crew.

4.1.2 Training

Air France

In terms of training, 2017 may be considered a year of transition between the "Perform 2020" project including the fifth Voluntary Departure Plan and the TrustTogether project launched in September 2016, whose consequences for training came into effect during the 2017 second half and will continue in 2018.

In 2017, the overall investment in training increased by 1% to €182,263,614. Expressed as hours of training, the investment in training represents 1,768,078 hours, up by 24%.

This increase reflected support for the Employment policy and the Company's strategy based on a series of general principles that are reaffirmed each year and are 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.

Access to training for everyone remains a priority that is reaffirmed on a yearly basis. Thus, in 2017, the access to training rate (number of employees having followed at least one training course during the year) stood at 97.5%. The maintenance of a high rate is supported, notably, by a module-based training proposition available on the MyLearning digital platform, and the development of Manager Café-type or off-site training.

In support of the Employment policy and worthy of mention in 2017 was the ambitious apprenticeship program which was expanded to the cabin crew profession after a successful trial in 2016. In 2017 the hours of training realized included cabin crew apprentices, whose training runs to 300 hours and results in professional certification (Cabin Crew CQP), which is recognized across the air transport industry. Air France thus welcomed more than 250 cabin crew apprentices in 2017.

In 2017, employee professional development again took the form of support for mobility, re-training and training for vocational needs. In this case, the training programs fulfilled a dual objective: adapt employee skills to their new positions and develop their employability based on the business needs.

Note, in particular:

- the training courses supporting job transfers for employees;
  - maintenance: Bac Pro Systems, Aeronautics CAP, Maintenance CAP on Aircraft Systems, Aeronautics BTS, DUT in Transport Logistics Management, CESI Engineering qualification),
  - occupational health and safety: Ergonomics Diploma,
  - Human Resources: Social Worker Consultant Diploma, Masters in Human Resources, AFPA for adult training,
  - procurement: training for new buyers and validation of blocks of skills via a Procurement Masters;
- the training courses supporting employee career development and the Company's professional and qualification needs;
  - aircraft qualification training for ground mechanics and pilots in connection with the changes in the fleet,
  - training supporting the move up-market for cabin crews and changes in the airport-based commercial professions with the introduction of digital tools (Marco project), together with ongoing training in the service signatures and the Customer Experience,
  - training supporting key career stages enabling for some employees to validate blocks of skills: training after promotion to an intermediate executive post, validation of four blocks of skills thanks to the Kedge Business School Diploma,
  - in 2017, Air France continued to deploy a particularly-innovative program initiated in 2014 blending Validation of Previous Experience (VAE) and training courses, backed by a network of universities and schools. The courses are built based on the skills requiring reinforcement;
    - heads of sectors and cabin crew instructors, double major aimed at a Bachelor degree and a diploma from the Montpellier Business School; 100% success rate,
    - customer Relations Center technicians; training aimed at a Customer Relations Pro License with the University of Limoges: 100% of the trainees awarded the license,
    - IMS Quality network; training aimed at a Hygiene Quality, Health, Safety and Environment Pro License with the University of Cergy Pontoise: 90% of the trainees awarded the license by the first jury,
    - for buyers, an International Procurement Masters from the Kedge Business School.

    Two new programs began in 2017 and will continue during 2018 for:
    - proximity managers initially from short-haul aimed at a Pro Management License with the University of Savoie Mont-Blanc,
    - management controllers aimed at a License or Masters in management control with the IAE Business School in Dijon.

    Since 2007, Air France has assumed full responsibility for the cost of supporting individual employees looking to achieve a formal qualification recognizing their expertise in the form of a Validation of Prior Learning diploma.
  - lastly, in 2017 192 employees were awarded diplomas (diplomas and other qualifications) during these various training initiatives, thereby making an active contribution to everyone's professional development and employability.

KLM

Immersion sessions were organized across KLM to promote a better understanding and appropriation of the KLM Compass (KLM's purpose and ambition), combined with the desired customer experience, realized thanks to the optimal professional behavior of both the staff and management).

In 2017, KLM's Learning & Development (L&D) department rolled out a Team Development Program. This program supports the new teams that are formed as a result of the High Performance Organization and helps them to define their role more precisely. Strategy, KLM Compass and the team and individual contributions are the pillars of this program. The first wave saw its deployment in the first layers of the organization (70 teams, 300 team members) then its extension, as of summer 2017, to all the ground teams (120 teams, 1,450 team members). This program will continue in 2018.

In 2017, KLM set up a Fund for Development and Education (€7 million) for ground staff (12,000 employees). A sum of €1,750 (including VAT) has been made available per person, for as long as the budget holds out. The aim is to encourage KLM staff and facilitate activities enabling them to discover and develop their talents. Six weeks after the launch of this fund, 30% of the budget had been spent and 50% of the target audience had already signed up for a training course.

In 2017, eight Care events were organized bringing together 600 KLM volunteers. Care is an emergency response program in the event of an airline accident involving a KLM aircraft. To support this program, KLM has developed an online program, combined with one-day events, to allow participants to live and share new experiences.

For Inflight Services, 2017 was a challenging year. About 3,500 cabin crew (around one third of the total cabin crew population) received training on the provision of inflight services during one of KLM's learning interventions. Due to its growth, KLM welcomed more than 700 new employees to its Initial Training Program. KLM also trained employees for their new job positions as World Business Class Cabin Attendants, Pursers or Senior Pursers. All these training programs are fully aligned with the KLM Compass. In addition, KLM launched a new training program, to support the introduction of the new World Business Class Service Anytime for You. For this program KLM uses an innovative learning solution, known as performance-support, accessible by cabin crew on their iPads during flights. In this way, learning is fully factored into their day-to-day work and is thus more effective.

In addition, 1,500 Flight Safety Training initiatives were established, resulting in 40,000 training days. Since May 2017, Human Trafficking has been included as a new topic in the ongoing training for Cabin Crew.

The Cargo and Ground Services divisions continued to focus on craftsmanship. In Cargo, training modules were organized covering Special Driving Licenses, Safety and Security while, within Ground Services, more than 2,000 people enrolled in craftsmanship training resulting in a total of more than 8,000 training days. In these divisions, 28 people earned diplomas from a Public Formal Vocational program, consisting of both theory and practice, with all the practical components having been conducted within the Company.

Within the Engineering & Maintenance division, KLM managed to reduce the duration of training on the B787 aircraft type maintenance from 45 to 35 days, saving 160 working days. In addition, the use of simulation is now fully integrated so as to be able to train more engineers on this aircraft type. For 2018, the Company will implement Virtual Reality in the Type Mechanic Course for internal training, in cooperation with ROC Amsterdam, to ensure that training corresponds more closely with the working environment.

Several pilots were organized on Virtual Reality and the HoloLens.

- E&M training ran a successful pilot on the use of Virtual Reality in Type Mechanic courses and the use of the Hololens in the B777-type training (Air-conditioning chapter). Both have been assessed for their quality and efficiency by students and instructors;
- augmented reality (known as HOP) is a new teaching method in E&M, in which aircraft technicians "walk" through a 3D animation of an aircraft displayed on their screens, potentially representing a saving in terms of days of training;
- to improve training on warehousing within Cargo, a pilot was set up using HoloLens glasses. This innovative training method makes it possible to model the consequences of pallet construction for the whole chain, leading to a positive impact on Flight Safety;
- at Flight Safety Training, a significant effort was directed at the introduction of a new tool, the Virtual Aircraft Visit, which allows participants to move virtually through an aircraft.

Agility

Both Air France and KLM rolled out the "New Ways of Working (NWoW) Agile" program, aimed at ensuring the successful adoption of "NWOW #agile across the Air France-KLM IT and IMO business domains.

A governance model has been established to ensure that the supporting principles, values, mindset and leadership roles are taken into account. There are currently five transverse tracks: Human Resources, Finance & KPIs, Communication, IT Readiness and Tooling, and Capabilities.

Each transverse track is supported by a Transverse Team that is multidisciplinary in nature. Each team is composed of active members from several areas including IMO and IT. They are responsible for coming up with solutions to any transverse obstacles that are encountered and to transverse matters across all the business domains.

The program focuses on a different way of working within the current organization with, to date, over 200 teams within Air France-KLM having adopted the agile working methods.

There are, moreover, multiple training programs available on the Agile method. An Agile catalogue has been established within Learning & Development containing training, digital learning (tutorials, MOOCs and e-learning), coaching and communities, with more than 700 employees having followed one of the training courses (430 enrolled in the Agile Foundation and 286 enrolled in more specific training like Product Owner or Scrum Master).

4.1.3 Health and safety in the workplace

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 "Trust Together" project to be accompanied by pro-active measures in this area.

Air France

2017 saw the Company stabilize its results on the frequency of accidents in the workplace (see the social indicators table). This was reflected in an unchanged frequency rate over twelve rolling months, for the consolidated results to end November.

Air France has also always posted very steady results in terms of both occupational illnesses and Permanent Partial Disabilities.

Within this context, Health and Safety at work is being reaffirmed as one of the seven major commitments of the Employee Experience deployed within Air France: "Along with Flight Safety, Vocational Health and Safety is an absolute priority." Beyond the stabilization in results, this affirmation was also reflected in the renewal, during 2017, of the Company's OHSAS 18001 certification, recognizing the robustness of the Vocational Health and Safety system.

Backed by this recognition and 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.

Monitoring the health of employees and advising them on the existing and emerging vocational risks

As of the date of this document, 24 occupational illnesses had been recognized in 2017 of the 93 in total reported by 78 employees, a number still subject to change in view of the time taken to handle requests by the social bodies. The number of reported illnesses saw a significant increase but the number of recognized conditions remains stable. The main pathologies remain musculoskeletal disorders linked to repetitive strain injuries or heavy lifting. The incidence of occupational illnesses declared and/or recognized at Air France remains very significantly below the French national averages.

In 2017, the Company's 29 occupational physicians and 60 nurses ensured the clinical and psychological screening of the Company's employees, advised on healthy lifestyles and the prevention of vocational risks, and provided emergency medical care. This advice was dispensed both individually and during group information sessions and awareness-raising initiatives within the framework of forums, information campaigns and visits to workshops, offices and flight crew rosters.

At medical level, 2017 was marked by the emergence of a plague epidemic in Madagascar, which led the occupational health teams to set up a monitoring and information unit for crews and employees on assignments, and to realize in-field health checks to guarantee the maximum level of protection for staff. During this period, the Zika virus epidemic went into decline, moving from acute to sporadic cases in some of the destinations served by the Group, justifying the maintenance of various preventive measures with regard to flight crews and staff on deployment who were future parents.

The occupational health teams were also called on at the fringes of terrorist attacks which had long-lasting effects on the psychological health of employees.

In parallel with the unit's clinical activity, the vaccination program and the management and operation of the psycho-social risk evaluation tool both continued, generating around 35,000 medical examinations, and multiple screening and treatment interventions by occupational nurses.

The occupational health teams also carried out multiple risk evaluation exercises, by pursuing high-level scientific cooperation with teaching hospitals (nanoparticle research, research on "Dead of Night" working), the Institute for Radiological Protection and Nuclear Safety and the Health Monitoring Institute (cabin crew Sievert project and research into mortality by cause of death), the *Conservatoire National des Arts et Métiers* and the CREAPT center for research into ageing and the working population (research into the "fragilization of career paths"). These efforts testify to the resolute

commitment to high standards of occupational health at Air France via the workplace initiatives and the advancement of knowledge.

Steering and management to encourage mobilization

Promoted by a pro-active Health and Safety Policy, supported by a consolidated Health and Safety Manual and accompanied by the relevant key performance indicators, the steering of the safety-first approach takes the form of progress reports to the Management Committees, regular strategic updates reviewed by the Air France Executive Committee and a special Health and Safety Management Review. During the signature of target-based contracts, the Executive Vice-Presidents in each of the entities formalize their commitment to reducing occupational accidents through their prevention plans. The undertakings reflect both the specificities of the fields covered and consistency with the Company's major objectives.

The targets and the approach are developed through initiatives which are shared with the social partners: three-year agreement to improve organizations, working conditions, the quality of life in the workplace and the prevention of risks and onerous work, the Charter for Prevention of Harassment in the Workplace and the Charter for Preventing the Risks Linked to Alcohol Consumption.

HacktSimple-type initiatives were organized and backed by the sponsorship and involvement of the top management, enabling dynamic brain-storming workshops generating innovative proposals on prevention.

Air France is a stakeholder in the reference framework governing the circulation of equipment in airports. After Ground Operations in 2016, it was the Maintenance division's turn to be audited in 2017.

In October 2017, Air France signed up for the "Sept Engagements Pour Une Route Plus Sûre" Charter, thereby demonstrating its commitment to preventing road accident risks.

Detection and sharing to promote a safety-first culture

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 inclusion of these priorities in the "Dynamic" training program for the Company's project heads contributes to Air France's ability to anticipate the Health and Safety impacts of reorganizations and to develop new tools. In addition to a Central Ergonomics Unit which enables the Company to embed ergonomics experts in the operational teams, in 2015 the Company made a commitment to the professional development of employees who obtained their diplomas in ergonomics in 2016. During 2017, this resolute commitment was again manifested by the professional development of three employees who were awarded the Master 2 Ergonomics diploma.

The involvement of in-field management and the vigilance of employees, supported by a network of health and safety point people, all enable the detection of at-risk situations and encourage the application of preventive measures. The health and safety point people embedded in the operational teams (both flight crew and ground staff) are being reinforced and help foster a safety-first culture. Members of senior management make regular in-field visits to review health and safety arrangements, encouraging the teams and local managements to maintain their efforts. The Company also participates in the coordination of a vocational first-aid network, recognized through an agreement signed with the INRS health and safety organization, and whose trainers – themselves in-house – meet regularly for motivational and information-sharing purposes.

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 input is encouraged since this is a key driver in prevention. Health and Safety innovation is also recognized and shared during corporate events supported, notably, by the Participative Innovation Program. Communication campaigns are regularly deployed to foster a safety-first culture but also to reinforce the messages arising from the sharing of experience. The subject of Health and Safety is thus developed each month by the in-house newsletter.

The evaluation tool for vocational risks is being completely redesigned, a process that began in late 2016, and will be rolled out across the whole company in 2018. This redesign is aimed at developing the relevance of the assessments and the appropriation of preventive measures.

The organization of forums and seminars on vocational health and safety enables the gradual deployment of a safety-first culture. In-field forums are thus organized for the operating and support entities in both Continenal France and the French Overseas Departments and Territories. Every profession within the Company (ground staff, flight crews, etc.) thus benefits from these initiatives. The organization of benchmarking on specific themes such as psychosocial risks, the quality of life in the workplace, the danger of falling, musculoskeletal disorders and ergonomic approaches also testifies to an openness to ideas from outside the Company. The Prevention community (including the Health and Safety Preventers, ergonomics experts, occupational physicians, social assistants, etc.) itself meets regularly, during topic-based morning sessions.

Training and coordination to promote a safety-first culture

Training in risk prevention is provided for both front-line staff and managers, aimed at regulatory compliance and the circulation of best practices, the management of tools and the awareness of individual responsibilities. In-field operational training and e-learning tools are thus deployed to develop a safety-first and prevention-based culture, and are adapted to reflect changes in regulations and the development of new tools. E-learning tools on "Sustainable driving", "Chemical risk" and "Work positions" are easily accessible.

Training modules on avoiding repetitive strain injuries and posture-related conditions have been developed, tailored to the specificities of the different business segments and professions, to prevent musculoskeletal disorders and benefit from transverse coordination.

The pro-active deployment of assignment planning workshops are successively welcoming hundreds of participants, helping to raise the awareness of Health and Safety amongst flight crews in specially-created facilities.

The organization of a "Health and Safety Flight", broadcast via an in-house video, testifies to the collective engagement around a shared priority and highlights the commitment of everyone, whether in the operations or at Executive Vice-President level.

Forums and conventions enable the issues and realities surrounding prevention to be shared, encouraging mobilization and fostering a safety-first culture. The prevention network is itself the subject of the development approach aimed at building the appropriate skills and enabling the effective exercise of their functions. Since 2017, this training has been recognized by the awarding of a certificate.

Gaining in efficiency by improving quality of life in the workplace

The air transport environment requires relentless adaptation and innovation on the part of its players. To respond to this organizational agility challenge, the Company is embarked on a process to improve its organizational structure and working conditions.

Promoted at the highest level of the Company, and affirmed in the Health and Safety Policy applied within Air France, the Company 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.

The ongoing commitments made within the "Ground Staff agreement to improve organizations, working conditions, the quality of life in the workplace and the prevention of risks and onerous work" agreement, of which an additional clause was signed in December 2017, establishes the foundations of this approach.

An audit realized over the last three years of this agreement has enabled concrete improvements, whose implementation has been the subject of regular monitoring shared with the players in this process.

Some examples of this work:

- a tripling in the number of remote workers and the progressive adoption of the model in all the entities. This growth in remote working dates back many years and enables a better quality of life, notably reducing the fatigue from travel;
- the increasing use of the ergonomic approach in the establishment of new projects to develop working conditions or workplace environments, thanks notably to a tripling in the number of professionals trained within the Company;
- for single parent families, the launch of assistance with child care with access to a platform of professionals;
- a regular increase in the number of days donated in the day donation scheme, to the benefit of employees with children who are seriously ill or handicapped and require a long-term presence;
- an improvement in the amount of zero interest loans;
- the launch of a pilot scheme offering assistance to staff caring for family members.

The new workspaces which were rolled out in 2017, notably in the head office but also in the out-stations, enable more interaction between staff and the sharing of experience, in renovated premises that facilitate collaborative working and the Agile organization.

Other initiatives will continue to be implemented to create a more shared dynamic at the level of the whole company, like the deployment of employee feedback spaces and training targeted at the development of Quality of Life in the Workplace.

KLM

In matters of safety, KLM's objective is to become a world leader within the air transport industry. The company's goal is to reduce the number of workplace incidents to the absolute minimum.

During 2017 (figures to November 2017), four serious occupational accidents were recorded, meaning that the 2017 target of fewer than four serious accidents was unfortunately not achieved.

In 2017 KLM initiated a new program to further improve Occupational Safety. This program included a benchmarking exercise with other airlines and comparable Dutch companies, the development of Occupational Safety policies, continuous Risk Assessment & Evaluation, occupational requirements factored into audits and the introduction of goal-setting by division.

The total number of workplace accidents leading to time off work slightly decreased to 4.7, beating the Company's target of fewer than 5.5 (expressed as the number of workplace accidents with time off work amounting to >24 hours per 1 million hours worked).

Managing occupational health and safety risks

KLM focuses on a global approach to all health-related matters to be able to pursue a more concrete and efficient policy. KLM will increasingly invest in prevention, to improve working conditions and promote healthy lifestyles for its employees.

This approach led, in 2017, to a detailed action plan constituting a framework with a common vision of the company-wide goals for health and safety across all the business units. In terms of employability, the focus has been on support for employees who are absent from work due to health issues.

As part of the safety-based approach, proactive and predictive safety risk assessments are increasingly used when changes in working processes or products are planned or implemented. The results of these safety risk analyses, as well as the analyses of any incidents and accidents themselves, have resulted in the ranking of safety risks by division, as well as for the whole company.

The main objectives of the Safety Review Board (SRB) are the application, communication and promotion of KLM's Safety policy and the review of the Integrated Safety Management System (ISMS). The SRB allocates the appropriate resources to ensure the proper execution of safety and compliance, while the ISMS Board allocates the appropriate resources to ensure internal safety and compliance oversight.

For ground staff occupational safety, the risk of injury caused by a collision with a piece of equipment or slips and trips is classified as "high" and was ranked in the top five safety risks for the Company this year. The implementation of actions to mitigate this risk began in the fall of 2016 and continued over the course of 2017.

Health and Safety training and awareness-raising initiatives

In 2017, KLM organized two awareness-raising campaigns to promote healthy practices in relation to two major health risks (psychosocial and posture risks) and to limit the effects of a high workload (mentally and physically). To encourage employees to reach a healthy body weight, a "lose weight with appointments" campaign was introduced. In addition, the supply of healthy food products in the Company restaurants has been optimized. Lastly, from 2017 onwards, a low-threshold intervention has been offered to reduce problems concerning posture and the musculoskeletal system including, if necessary, the intervention of a therapist. This service is named Hello Fysio.

KLM is in the process of trialing a number of new initiatives aimed at promoting the health of employees and the prevention of serious health issues. For example, an online tool is offered to prevent absenteeism due to psychological causes. With the help of this tool, issues are signaled rapidly and employees can forestall the emergence of any light/moderate psychological issues.

Optimizing the health-related procedures

In the past few years, various lean initiatives have been launched to identify bottlenecks in the processes relating to absenteeism and workplace reintegration. The starting point for improvement and adjustments is a dialogue between the manager and the employee.

In 2017, the focus moved towards a more integral approach to themes influencing the long-term employability of staff. These themes are summarized in the so-called "House of Work Capacity".

Since 2016, KLM has developed and delivered a new annual Health Monitor. This monitoring tool will provide stakeholders with information on a monthly basis, thereby giving the Company a regular view of detailed information on health-related parameters, aimed at resolving the issues surrounding absenteeism. This Health Monitor enables management to take data-driven actions.

Agreements aimed at improving the quality of life in the workplace

Within the framework of the implementation of the High Performance Organization, the Human Resources department implemented a specialized and centralized Center of Health Expertise. Since October 2016, a new group of health experts has been working on health-related issues. These Health experts translate the business goals and also aim to support the implementation of policies and programs which help to reduce absenteeism and improve health, workplace engagement and productivity. Their main concern will be to promote sustainable health and to contribute to the employability of staff. Encouraging dialogue between employees and their managers is an important way to create common ground leading to behavioral changes to the benefit of sustainable health.

4.1.4 Fostering diversity and combating discrimination

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.

Air France

Combating all forms of discrimination

Air France is a signatory of the Diversity Charter which constitutes the formal expression of the Company's commitment to better reflecting, amongst its employees, the diversity of the French population and combating all forms of discrimination.

To support the Human Resources network and managers in the implementation of this policy, Air France uses a range of tools including e-learning training modules, classroom-based training for the Handicap Diversity point people and, for managers and HR personnel, a practical guide to Religious Diversity in the Workplace. More targeted initiatives to raise awareness and promote diversity are also under way in some entities. A Diversity e-learning module is also available to inform and build the awareness of employees.

In January 2016, a three-year agreement on the Forward Management of Jobs, Skills and the Professions and the Inter-generational Contract was signed. One section is devoted to management of the age curve (inter-generational contract), including the long-term vocational integration of young people, the employment of seniors and the transmission of knowledge and skills. This agreement, which applies to the Ground Staff category, carries forward the employment and training policy pursued by the Company to date, within a context where the recruitment outlook remains limited.

The company also continues to support and pursue its different partnerships with equal opportunity organizations like the French Association of Diversity Managers (AFMD), *IMS-Entreprendre pour la Cité* and the Observatory on Corporate Social Responsibility (ORSE).

Fostering equal opportunity

The commitment to fostering equal opportunity applies to all the collective recruitment and internal selection processes, and to professional development.

The Jobs section of the Air France Corporate website thus includes a Diversity section with a particular emphasis on professional equality between women and men. This new measure is in addition to the other initiatives already in place:

- the recruitment and internal selection processes are ISO 9001 compliant; this certification guaranteeing the management and efficiency of the processes was renewed at the end of 2017;
- any individual liable to use the selection tools, consult job application files or have access to confidential information is required to respect the ethical and moral requirements set out in the Ethics Charter of the Recruitment and Selection department. This Charter is updated annually as a function of regulatory changes and best practices for the profession.

Promoting professional gender equality

For more than a decade, Air France has reaffirmed professional gender and wage equality between women and men as a major priority for the business and an area in which the Company would like to make progress in terms of human resources management. To this end, in April 2013, Air France signed a framework agreement with the French Ministry of Women's Rights, formalizing a number of undertakings in terms of work-life balance, combating the glass ceiling, increasing the proportion of women in Board Committees and supporting small subcontractors and suppliers in the professional equality approach. This agreement was in addition to the initiatives already under way:

- since 2002, Air France has been committed to fostering professional equality between women and men, notably through the introduction of measures to ensure wage equality and the principle of equitable wage treatment between employees who are pregnant or on maternity leave and other employees. The Company has also established an annual comparative diagnostic of the average salaries of women and men;
- a new negotiation with the unions began at the end of 2017 to renew the Agreement on Professional Equality between Women and Men. The Agreement signed for the 2015-17 period aims to:
  - perpetuate the measures and tools already in place on professional gender equality,
  - pursue and reinforce efforts to combat all forms of stereotyping by employees and the in-field management, thereby ensuring the positive evolution of the corporate culture,
  - take concrete measures to ensure that gender equality is an integral part of all human resources processes to eliminate any discrimination between women and men at the earliest opportunity (mobility, training, compensation, career development, etc.). This notably involves neutralizing the factors liable to slow career progression for women, removing any obstacles to diversity, promoting the exercise of leadership by women and giving women access to positions of responsibility;
- with the signature of the Good Parenting Charter in 2008, Air France undertook to develop parental representation across the business, create a positive environment for employees who are also parents, particularly for pregnant women, and respect the principle of non-discrimination in the career progression of employees with children;
- within the framework of its contractual agreement-based policy, the Company is committed to reducing any wage disparities between women and men. Since 2008, the annual wage agreements have enabled the implementation of a special wage equalization measure whose modalities were presented to the unions. This measure was again applied in 2017.

To ensure respect of equal treatment between women and men, a series of male-female comparative indicators have been included in the steering of human resources policies and management processes (training, careers, vocational safety, remuneration, etc.). These indicators are monitored annually within the framework of an audit carried out with each division of the Company

In 2017, Air France pursued two special initiatives in place since 2016:

- a mentoring scheme for high-potential women, alternating collective with one-to-one coaching sessions to promote access for women to positions of responsibility;
- a special training module to support employees returning to work after maternity and/or parental leave, aimed at enabling a smooth transition back into working life within the framework of a positive work/life balance.

Within the framework of International Women's Day, the *Osons Le Dire* initiative was deployed in March 2017 to encourage the reporting of sexist situations and remarks within the Company. Everyone was able to express themselves in the *Sexisme Pas Notre Genre* group on the Yammer social network, and post their testimonies in the *Osons Le Dire* mail box. This awareness-raising campaign on everyday sexism has enabled a better understanding and unleashed a fact-based, pragmatic dialogue. Following this operation, the *Sexisme Pas Notre Genre* group was maintained online and remains active, as does the *Osons Le Dire* mail box.

An action plan will again be deployed in 2018, accompanied by fresh initiatives like the creation of an Air France in-house women's network and an external Air France mentoring network with the *Elles Bougent* association to encourage school children and adolescents to join the engineering or technical professions.

The company is also pursuing its awareness-raising actions outside the business with, for example, the:

- participation of Air France employees, including female pilots, in the Women in Aviation Day, organized by the French Association of Women Pilots (AFFP). Since 2016, this event has seen Air France offer an annual €1,000 grant to a young girl to encourage her to realize her ambitions in the fields of sports and the aviation professions;
- participation of the Maintenance division in the *Féminisons Les Métiers de L'aérien* operation in partnership with Airemploi. (an association of which Air France was a founder member, tasked with raising awareness of the airline professions and encouraging more women to follow this career path) during the 2017 Paris Air Show. It also involves promoting the technical aviation professions to school girls across the French regions and awarding prizes within the framework of a national competition.

Facilitating the vocational integration of young people

For a number of years, Air France has pursued a pro-active training policy based on the vocational integration of young people via internships, thereby planning for the Group's future.

In 2017, more than 2,200 interns (representing 3% of total employees) were welcomed into the Company.

Air France benefits from its significant attractiveness to young people and enables them to develop their employability via internships.

They can work towards the achievement of diplomas at all levels, in preparation for a very diverse range of professions, ranging from aeronautics maintenance and customer relations, both at the airport and on board aircraft, to procurement and human resources.

To facilitate the long-term employment of young interns welcomed into the Company who are unlikely to be recruited on permanent contracts, a series of support measures directed at external employment are organized at the end of their internship contracts (e.g. job seeking technical workshops, networking with companies in the Paris-CDG labor pool, membership of the *Engagement Jeune* platform, seminars offering support on vocational integration, etc.).

In parallel, every year, several hundred young students and school children complete their end-of-study training course or gain work experience within the Company.

In a more targeted manner, for more than six years, Air France has welcomed year three school children from priority districts to learn more about the Company's professions. In 2017, within the framework of the *Tous En Stage* association, of which Air France is a founder member, Air France welcomed some 60 school children for their year three work experience. *Tous En Stage* is an innovative scheme that enables children in the airport catchment area to learn about four different companies and four professions in the space of a week. It thus offers them a much broader picture of the potential opportunities and career paths.

Throughout the year, Air France also participates in forums and trade shows to support students in their search for training courses and internships through job dating and advice with CVs and interviews. This notably takes place via skill-based sponsorship, mobilizing in-house teams, partnership with associations like *AirEmploi*, and events like the Paris Air Show, *Jeunes d'Avenir*, Orly International, etc.

Lastly, since the autumn of 2017, Air France has mobilized some 50 sponsors who are executives of the Company, in support of the *Nos Quartiers Ont Des Talents* association, to help young qualified people from underprivileged districts to find their first jobs. This program is based on the network of 50 mentors in the *Passeport Avenir* program which, since 2013, has helped young people based in the region with further education.

Policy on disability

In 2017, Air France hired twenty-eight new employees with disabilities. The Company also ensured the maintained employability of staff with disabilities through more than 200 support programs and the adaptation of posts.

Furthermore, the Company continued its recourse to businesses and organizations in the adapted and sheltered employment sector, with spending on procurement from this sector amounting to just over €19 million in 2017 (as in 2016).

Since 1991, Air France has been committed to a pro-active social and vocational integration approach focusing on persons with disabilities, formalized in a three-year collective agreement approved by the French Ministry of Labor and Employment (DIRECCTE) which monitors the implementation of this policy and verifies the achievement of the targets.

The tenth three-year agreement covering 2018-20 was signed with the unions at the end of 2017.

Air France's employment rate for workers with disabilities stood at 5.84% in 2016, a figure higher than its level of the previous year. Air France is pursuing its pro-active policy on the four cornerstones of the three-year agreement, namely recruitment, support for disabled employees with their workplace integration and maintained employment, resource to the adapted and sheltered sector and awareness-raising on disability issues. Given the initiatives carried out this year to promote the direct and indirect employment of workers with disabilities, this rate should again have increased in 2017. The Company also renewed multiple partnerships to give Air France's action in the disability area renewed momentum.

Promoting inclusivity for all staff

Air France is committed to combating AIDS and, through the *Ruban Rouge* operation, participates in World AIDS Day which takes place every year on December 1. To this end, staff are invited to pin the Red Ribbon to their uniforms. In 2017, on the occasion of this day, employees had the opportunity to donate to the anti-AIDS campaign, with all of the proceeds going to the *Sidaction* association.

Air France also supported *Personn'ailes*, the association for the airline's LGBT and Gay-Friendly staff, by financing a float in the Paris Gay Pride March in June 2017. This engagement shows the importance the airline accords, both internally and with customers, to inclusivity.

KLM

KLM is committed to encouraging diversity and inclusivity. In 2017, a panel became responsible for the subject and defined an ambition based on the KLM Compass. KLM believes in the power of diverse teams where anyone can be the best version of themselves. Diversity is one of the themes featured in the Management Development plans. Several companies have visited KLM to learn from their success and find inspiration for their own initiatives.

Gender equality and equal opportunities

Women on Board, formalized in 2016, aims to contribute to change, improved efficiency and better results by unleashing female potential and encouraging gender equality within KLM. All female KLM staff with the drive and ambition to grow and actively contribute to KLM's goals are invited to join the network. To date, there are over 750 women members. Each year WoB organizes four events which are highly appreciated by the participants. In addition, Women on Board promotes dialogue around gender diversity, aimed at an overall contribution to different leadership styles, which in turn will support a transformation across the Company and generate better results and higher levels of performance.

The Over the Rainbow LGBT network, launched in 2010 and bringing together lesbian, gay, bisexual and transgender employees, recently reorganized to become more aligned with KLM's overall diversity program and the KLM Compass, creating synergy between the needs of employees and customers belonging to the LGBT community and the KLM strategy. In 2017, KLM focused its efforts on developing this new strategy and common initiatives, including:

- a sponsor appointed to the KLM Executive Committee;
- top Management support for the approach and action plan;
- a sales campaign on the social media was launched to coincide with Amsterdam Gay Pride;
- a new logo was unveiled, aimed at putting the emphasis on the link between the Over the Rainbow network and the KLM strategy.

The focus for 2018 will be on ensuring the continuity of the new strategy and on implementing the actions planned in accordance with the KLM diversity program and the KLM Compass.

Vocational integration of persons with disabilities

KLM continues to offer an employment guarantee to individuals whose disability rate is assessed at below 35%, meaning that they either remain employed by KLM or receive support in securing employment outside the Company. For employees with disabilities making them incapable of work and who are within five years of the legal retirement age, KLM offers protection from layoffs.

Employees affected by disability and returning to work receive pro-active support from case managers within KLM. When KLM employees are unable to return to their jobs due to disability, they are automatically offered an appropriate position without having to complete a new application process. Since 2010, KLM has benefited from an Advisory Committee supporting the monitoring of these measures and proposing improvements. In 2017, this Committee reviewed 676 cases, offering each case manager advice on how to increase the chances of finding employees new positions or enabling them to return to their previous jobs.

KLM is committed to actively furthering the vocational integration of disabled persons and to maximizing their potential economic contribution. In 2015, KLM joined Aviation Included (*Luchtvaart Inclusief*), an aviation industry initiative in the Schiphol region, which aims to create more jobs for persons with disabilities. During the Round Table Seminar Inclusive Aviation in June 2017, the aviation industry formulated a collective ambition: recruit 100 persons with disabilities in the aviation industry around Amsterdam-Schiphol Airport in 2017/2018. Next to a wide range of activities, an important part of the Inclusive Aviation Program was three Meet & Greet events with 90 Air Potentials, or persons with disabilities with the potential to work for a company in the airline industry. In total, the Inclusive Aviation Program enabled the recruitment of 75 individuals in 2017, with three more in the recruitment process. KLM employed 20 persons with disabilities during 2017 as part of its commitment to the vocational integration of the disabled.

4.2 SOCIAL INDICATORS FOR THE GROUP

4.2.1 Consolidated social data for the Air France-KLM Group

Headcount at 12/31[1] (permanent contracts and fixed-term contracts)	Air France-KLM Group			
	2015 Pro forma[c]	2016	2017	17/16
Scope of NRE Social reporting	**97%**	**97%**	**96%**	**-1%**
Total staff	**89,490**	**87,917**	**87,312**	**-0.7%**
Ground staff	56,318	54,969	**53,185**	-3.2%
Cabin crew	24,947	24,757	**25,859**	+4.5%
Flight deck crew	8,225	8,191	**8,268**	+0.9%
Staff under permanent contract	**85,908**	**84,565**	**82,283**	**-2.7%**
Recruitment under permanent contract at 12/31[2]	1,144	1,660	**2,815**	+69.6%
Recruitment under fixed-term contract at 12/31[3]	4,382	3,747	**6,289**	+67.8
Departures at 12/31[4]	9,867	9,123	**10,156**	+11.3%
of which redundancies (incl. economic)	327	323	**247**	-23.5%
Percentage of women at 12/31[5]	43.9%	44.1%	**45.3%**	+2.7%
Percentage of part-time employees at 12/31	29.4%	29.0%	**29.7%**	+2.4%
Breakdown of staff by age at 12/31				
≤ 29 years	5,749	5,654	**7,501**	+32.7%
Between 30 and 39 years inclusive	21,121	18,666	**17,145**	-8.1%
Between 40 and 49 years inclusive	33,948	33,219	**32,348**	-2.6%
50 Years and above	28,672	30,378	**30,318**	-0.2%
Breakdown of staff by geographical area at 12/31				
Europe (except France and the Netherlands)	3,806	3,475	**3,041**	-12.5%
North & South America	1,868	1,805	**1,560**	-13.6%
Caribbean/Indian Ocean (including French overseas territories)[6]	774	749	**718**	-4.1%
Asia/Pacific	1,586	1,425	**1,645**	+15.4%
Africa/Middle East	1,321	1,206	**1,170**	-3.0%
The Netherlands	30,101	29,747	**30,217**	+1.6%
Continental France	50,034	49,510	**48,961**	-1.1%

(a) Air France Group: Air France and Air France subsidiaries.
Air France subsidiaries: HOP, Bluelink, Bluelink International CZ, CRMA, Sodexi and Transavia France.
(b) KLM Group: KLM and KLM subsidiaries.
KLM subsidiaries: Cygnific, KLM UK Engineering Limited, KLM Cityhopper BV, Transavia, KLM Catering Services Schiphol BV et Int. Airline Services.
(c) These data exclude Servair Group information. (in 2015, Servair was KLM subsidiary).
(1) (2) (3) (4) (5) (6) see Note on the Methodology.

Air France Group [a]				KLM Group [b]			
Air France Group		Of which Air France		KLM Group		Of which KLM	
2016	2017	2016	2017	2016	2017	2016	2017
96%	96%	100%	100%	98%	97%	100%	100%
54,124	53,804	48,689	47,954	33,793	33,508	27,645	28,199
34,979	34,002	31,936	30,586	19,990	19,183	15,979	15,881
14,447	15,004	13,224	13,748	10,310	10,855	8,903	9,479
4,698	4,798	3,529	3,620	3,493	3,470	2,763	2,839
52,223	51,072	47,330	45,589	32,342	31,211	27,035	26,856
1,049	1,634	620	885	611	1,180	219	718
2,454	4,386	1,645	3,340	1,293	1,903	558	1,029
6,492	7,846	5,372	6,000	2,631	2,310	1,582	1,181
151	168	101	98	172	79	42	36
44.6%	45.5%	45.5%	46.1%	43.2%	45.1%	43.5%	44.4%
21.6%	22.5%	22.7%	23.7%	41.0%	41.3%	42.2%	42.3%
3,129	4,328	2,527	3,424	2,525	3,173	1,295	1,944
11,620	10,453	10,079	8,763	7,046	6,692	5,387	5,193
22,071	22,087	19,951	19,929	11,148	10,261	9,486	9,003
17,304	16,936	16,132	15,838	13,074	13,382	11,477	12,059
1,190	1,736	1,190	1,135	2,285	1,305	930	918
1,373	1,138	1,144	1,138	432	422	432	417
697	671	695	670	52	47	52	47
596	576	594	575	829	1,069	829	769
771	735	771	735	435	435	435	435
46	48	46	48	29,701	30,169	24,908	25,552
49,451	48,900	44,249	43,653	59	61	59	61

4.2.2 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]

	2016	2017	17/16
Absenteeism [1]			
Due to illness	4.20%	**3.77%**	-10.2%
Due to work accidents	0.81%	**0.75%**	-7.4%
Maternity leave	0.62%	**0.53%**	-14.5%
Health and safety			
Total workplace accidents [2]	2,381	**2,365**	-0.7%
Number of fatal workplace accidents	0	**0**	
Frequency rate of workplace accidents [3]	*33.35*	***32,97***	*-1.1%*
Severity rate of workplace accidents [3]	*1.00*	***1,00***	*0%*
Training			
Number of training hours by employee [4]	29	**35.54**	+22.6%
Disabled staff [5]			
Total staff with disabilities	1,617	**1,861**	+15.1%
Total staff with disabilities recruited during year	16	**29**	+81.3%
Yearly spending in the sheltered sector in €m [6]	20	**19**	-5.0%
Signed collective agreements	**25**	**38**	**+52%**

(a) Data in italics concerns only Air France in Continental France and the French overseas territories.

Air France subsidiaries

	2016	2017	17/16
Scope of reporting for Air France subsidiaries	**70%**	**87%**	**+24.3%**
Health and safety			
Total workplace accidents [2]	423	**286**	-32.4%
Training			
Number of training hours by employee [4]	27	**50.92**	+88.6%
Disabled staff [5]			
Total staff with disabilities	137	**139**	+1.5%
Total staff with disabilities recruited during the year	5	**2**	-60.0%
Signed collective agreements	**22**	**31**	**+40.9%**

(1) (2) (3) (4) (5) (6) see Note on the Methodology.

4.2.3 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]

	2016	2017	17/16
Absenteeism [1]			
Due to illness	6.35%	**6.89%**	+8.5%
Due to workplace accidents	0.10%	**0.10%**	0%
Maternity leave	0.49%	**0.39%**	-20.4%
Health and safety			
Total workplace accidents [2]	197	**177**	-10.2%
Number of fatal workplace accidents	1	**0**	-100%
Frequency rate for workplace accidents [3]	4.55	**3.98**	-12.5%
Severity rate of workplace accidents [3]	0.17	**0.18**	+5.9%
Training			
Number of training hours by employee [4]	27	**40.72**	+50.8%
Disabled staff [5]			
Total staff with disabilities	739	**750**	+1.5%
Signed collective agreements	**1**	**0**	**-100%**

(a) KLM: data concerns KLM without international staff.

KLM Subsidiaries

	2016	2017	17/16
Scope of reporting for KLM subsidiaries	**94%**	**85%**	**-9.6%**
Health and safety			
Total workplace accidents [2]	90	**53**	-41.1
Number of fatal workplace accidents	0	**0**	
Frequency rate for workplace accidents [3]	7.94	**5.26**	-33.8%
Severity rate of workplace accidents [3]	0.29	**0.42**	+44.8%
Training			
Number of training hours by employee [4]	48	**69.18**	+44.1%
Disabled staff [5]			
Total staff with disabilities	97	**94**	-3.1%
Signed collective agreements	**7**	**1**	**-85.7%**

(1) (2) (3) (4) (5) see Note on the Methodology.

4.3 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).

In 2011, work to optimize these indicators was undertaken to align the NRE social reporting with the requirements of Article 225 of the application decree for the Grenelle II legislation. This update to the social performance indicators was submitted to the Statutory Auditors, KPMG Audit, for review.

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.

Since 2013, pursuant to the provisions of Article L. 225-102-1 of the Code of Commerce, it has been the responsibility of an Independent Third Party Body to:

- attest that the required CSR information is presented in the management report or, in the event of any omission, is the subject of an explanation in application of paragraph three of Article R. 225-105 of the Code of Commerce (Statement attesting to the presence of the CSR information);
- express a limited assurance conclusion on the fact that the CSR data, taken as a whole, are presented in all their significant aspects, in a true manner pursuant to the standards (Reasoned opinion on the true nature of the CSR information).[1]

4.3.1 Reporting scope

The Air France-KLM Group's NRE 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 NRE reporting scope covers 97% of the average employees in the Air France-KLM Group at the end of the 2017 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 NRE social reporting scope.

Note that, in accordance with the thresholds above: BlueLink International CZ, has been included in the 2017 reporting scope (something which had not been possible in the previous year's reporting).

Note that the number of employees for Air France and KLM and its subsidiaries comprises their entire workforces including staff employed internationally:

- for the 2017 financial year, the Air France consolidated subsidiaries are: HOP!, BlueLink, BlueLink International CZ, CRMA, Sodexi and Transavia France, representing 87% of the employees of the subsidiaries in the Air France Group;
- for the 2017 financial year, the KLM consolidated subsidiaries are: Cygnific, KLM UK Engineering Limited, KLM Cityhopper BV, Transavia, KLM Catering Services Schiphol BV and Int. Airline Services, representing 85% of the employees in the subsidiaries of the KLM Group.

In 2017, BlueLink International CZ was included in the reporting scope for the Air France subsidiaries while Aero Maintenance Group was withdrawn. Int. Airline Services was included in the reporting scope for the KLM subsidiaries while Cobalt, KLM Cityhopper UK and Martinair were withdrawn.

The reference number of employees for calculating the coverage rate of the NRE social reporting is the average number of employees in Full Time Equivalent during 2017 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. Note that, since 2011, the financial year has also been based on the calendar year.

4.3.2 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 meeting 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.

(1) The review work was carried out pursuant to the ISAE 3000 international audit standard (International Standard for Assurance Engagements) specific to the verification of extra-financial data.

4.3.3 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 employees, recruitment, departures, the proportion of women 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, paragraph 4.2.1.

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, for Hop!, employees absent for long periods are accounted for 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: For Air France, every new fixed-term contract is recorded as a recruitment. On the other hand, for HOP!, a number of fixed-term contracts over the year generate only one recruitment. Measures will be taken to harmonize these practices.

Departures

Note 4: The reasons for departure are detailed in the notes to the Air France-KLM's 2017 Corporate Social Responsibility report.

Only redundancies of employees under permanent contract are taken into account in the number of redundancies (including economic).

Percentage of women – Organization of working time

Note 5: 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 6: For 2017, the Air France Group employees in the French Overseas Departments and Territories, i.e. 611 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 12% 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

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.

The frequency and severity rates for work-related accidents in Air France subsidiaries (around 7% of the Air France-KLM Group's headcount) are not reported due to the absence of a centralized reporting procedure. Measures will be taken to progressively expand the reporting of these indicators in the coming years.

— 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.

— 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 subsidiary Transavia in the Netherlands (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 of these indicators in the coming 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. Note that the data for international employees is reported based on local legislation.

This criterion of being present at least one day during the year has 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). It also partly explains the change in the number of employees with disabilities in 2017 relative to the 2016 level.

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 2017 was not yet known on the date the figures for the reporting of the NRE 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, 2017, 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).

4.4 CORPORATE CITIZENSHIP INFORMATION

4.4.1 Dialogue with stakeholders

Listening and engaging in dialogue are major components of Air France-KLM's sustainable development strategy. The Group identifies its business priorities and those that stakeholders deem the most relevant meaning that it pays a great deal of attention to the expectations of its customers, employees and suppliers, and to local communities, associations, local authorities and representatives of civil society, such as NGOs.

This ongoing dialogue also enables the Group to pinpoint the changes taking place in wider society more effectively, identify the challenges and dilemmas, and discern emerging issues. Such interaction also enables an improvement in the Group's reporting like, for example, more comprehensive and clearer information on greenhouse gas emissions, food waste and the circular economy.

In early 2017, Air France-KLM worked on analyzing the materiality of its main priorities, by sending a survey to a representative panel of stakeholders (customers, shareholders, public authorities, suppliers, NGOs, employees, partners, etc.), and to the Group's management bodies. Nearly 41,800 individuals were invited to participate, with an overall response rate of 9.6%. For each CSR issue, the participants noted the level of priority to be assigned by Air France-KL and their perception of the Group's current level of performance. The twelve issues considered to be the most important for the Group are: customer satisfaction, operational safety, financial performance, competitiveness, operational efficiency, fleet modernization, innovation, workplace relations and employee dialogue, vocational health and safety, Human Rights, climate change and CO_2 emissions and employability. Note that Air France-KLM and its stakeholders agree on their perception of the priority nature of these issues.

To extend this survey, Air France and KLM brought together stakeholders – partners, NGOs, customers and shareholders – for a brain-storming session on the challenges ahead of the Group.

A number of initiatives also enable stakeholder perception to be evaluated on a regular basis:

- internal barometers and meetings to garner 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.

Some examples of dialogue in 2017:

Employees

- materiality analysis: more than 20,000 employees and managers from Air France and KLM were invited to participate in the Air France-KLM materiality survey, which achieved a response rate of 13%. The materiality matrix and the main conclusions were shared on the Air France intranet;
- a new barometer at Air France: since December 2016, an in-house survey has been carried out three times a year with 1,500 employees for each wave. The employees are asked about matters linked to their level of buy-in to the "Trust Together" project, the future of Air France and its transformation and the Employee Experience. The results are shared with all employees and the unions;
- KLM Employee Sessions: every year, KLM organizes KLM Employee Sessions to discuss the impact on staff of the organizational changes and initiate a dialogue on the subject;
- CSR days at KLM: to ensure that sustainable development is an integral part of the working environment, KLM launched the Winning Day of Working Team initiative. During this event, employees from the various divisions jointly create the future working environment to support KLM Compass;
- Yammer, the Air France-KLM internal social medium: the Air France Takes Care and CSR at KLM groups facilitate communication and interaction between employees. The exchanges and discussions shared in these two groups are accessible to all staff.

Customers

- materiality analysis: for several years, the Group has been sending its customers a sustainable development perception survey. In 2017, for the launch of its materiality analysis involving a wide panel of stakeholders, nearly 20,000 French and Dutch corporate and individual customers were invited to participate with a response rate of 6%. The five subjects deemed to be the most important by customers were operational safety, customer satisfaction, fleet modernization, competitiveness and operational efficiency;
- KLM Takes Care online platform: the KLM Takes Care website posts articles and videos, and offers customers the opportunity to share their views on sustainability topics;
- social media: 24.9 million fans on Facebook, 3.9 million followers on Twitter and 6.4 million fans and followers on all the other social media (Instagram, YouTube, LinkedIn, Google+, Sina Weibo, WeChat, VKontakte, Pinterest). Air France and KLM communicate extensively via the social media.

Partnerships and NGOs

- Air France and KLM support the United Nations Global Compact and participate in the networks of Global Compact France and the Netherlands;
- KLM is a member of the Dutch Sustainable Growth Coalition (DSGC) aimed at establishing sustainable business models which combine financial profit with social and environmental progress. The DSGC's goal is to promote dialogue on the transition to a sustainable circular economy in the business community and with other national and international stakeholders;
- Air France is a member of associations dedicated to sustainable development like *Entreprises pour l'Environnement* (EpE), IMS-*Entreprendre pour la Cité*, *L'Orée*, *Comité 21* and Global Compact France, and maintains a permanent dialogue with experts and other French companies.

4.4.2 Fair commercial practice

Air France-KLM's Corporate Social Responsibility Statement affirms the Group's commitment to fostering fair practices with all its stakeholders. As signatories of the United Nations Global Compact, Air France and KLM undertake to respect and apply in their sphere of influence the fundamental principles of Human Rights, and to combating all forms of corruption. Every year, Air France and KLM renew their commitment to the United Nations Global Compact and have obtained the Advanced Level status.

Air France, KLM and Air France-KLM have all appointed Compliance Officers, tasked with pursuing the implementation of the Compliance programs within the Group. They are also supported by a recently-created network of compliance point-people, with responsibility for coordinating the compliance process.

A commitment to respecting 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. The Charter applies to all Air France and KLM employees and to those in their European subsidiaries.

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 in the workplace, equal opportunity, achieving a better work/life balance and data protection procedures to protect the personal information of customers and employees.

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.

Affirming the business conduct rules

Air France-KLM ensures that ethical principles are respected in the way it does business and has formalized these principles in a series of documents. Some of these rules apply to all members of staff while others apply to specific areas. For example, the Air France-KLM Procurement and Air France Recruitment functions both have codes of ethics in force which are signed by all members of staff.

The Board of Directors has adopted a Compliance Charter and a Financial Code of Ethics. The Compliance Charter requires company officers, senior executives and certain employees with access to inside information to respect the rules relating to trading in the Company's shares while the Financial Code of Ethics sets out the rules concerning financial information with which they must comply.

KLM has a Code of Conduct, establishing the main principles concerning financial integrity, confidentiality and respect of the CSR commitments.

Air France has drawn up and circulated a Compliance Update to all Procurement referrers, reiterating the principles of financial and business integrity, confidentiality and respect of the CSR commitments.

The Group has developed an Anti-Corruption Program to raise employee awareness of the international legislation and regulations in force governing business ethics and compliance. The Air France and KLM Anti-Bribery Manual has been updated and is available to all Air France and KLM employees in French and English. This new version of the Code of Conduct has also been circulated in the entities controlled by the Group. The Manual is supplemented by an e-learning module on the prevention of corrupt practices, enabling everyone to ensure a high degree of integrity in their business relationships. This module is composed of a training phase to understand the definitions and principles, followed by a series of practical examples enabling the recognition of at-risk situations. Lastly, there is a test phase to verify the knowledge acquired. More than 10,000 Air France and KLM employees were offered this training module in 2014 and 2017. Within the framework of this anti-corruption campaign, a Group Gift and Hospitality Policy has been posted on line and circulated in all the companies controlled by the Group. A procedure relating to the declaration of interest representatives in the HATPV electronic register has also been deployed within the controlled entities.

Compliance with competition law

Air France-KLM has deployed a policy to prevent anti-competitive practices by circulating the Air France and KLM Competition Law Compliance Manual to all employees. Other prevention tools are at their disposal including, notably, a hotline dedicated to competition law and dedicated training by the Group's lawyers.

In October 2014 and 2016, an online training module on compliance with competition law became mandatory for around 8,000 Air France, KLM and Air France-KLM employees whose functions require

this. After this training and having passed the final evaluation test, these employees sign an individual declaration in which they commit to respecting the competition laws applying to their functions. In 2017, this module was also circulated to employees in the Group's subsidiaries.

4.4.3 Measures to safeguard consumer health and safety

Flight safety and risk management

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, 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. At the end of the IOSA audits in October 2016 and March 2017, the Air France and KLM certification was renewed for two years. At Air France, the next IOSA audit is scheduled for October 2018.

To achieve the highest attainable standard of flight safety, the two airlines continuously update and reinforce their respective Safety Management Systems (SMS) which concretely define the measures in place to manage aviation risks. The SGS is an integral part of the airlines' organization, processes and cultures, and is validated at the highest level of management within the Group, and by training and awareness-building initiatives for all members of staff.

Air France's Integrated Management System (IMS) covers the following areas: flight safety, vocational health and safety, service quality, operational efficiency, the environment and sustainable development, food safety and security. It enables the analysis and management of risks within the framework of a coordinated approach. The IMS aims to ensure operational safety standards, transverse consistency and overall steering oriented towards the ongoing improvement of all the processes in these areas.

KLM's Integrated Safety Management System (ISMS) covers occupational safety, operational safety, operational security and the environment. In all these areas, the ISMS provides a framework for continuously reducing safety risks to an acceptable level. In 2014, the system was approved by the Dutch Civil Aviation Authority. In 2016, KLM launched the new Integrated Safety Services Organization (ISSO).

More generally, flight safety is an integral part of the risk management procedures *(see Chapter 3 Risks and Risk Management)*.

Measures to safeguard consumer health

The Group must guarantee the integrity of its in-flight catering for both customers and flight crew. The manufacturing and supply of food products are governed by European and local regulations, imposing ever-stricter requirements: the auditing of suppliers, recall and withdrawal regulations, micro-biological and temperature analyses, staff training in the best hygiene practices, consumer information, etc. The two airlines have put in place quality assurance procedures to comply with all these requirements.

Air France based its quality assurance system on the ISO 22000 standard (food safety) becoming, in 2006, the first airline in the world with this certification. Food safety remains at the heart of the airline's priorities in terms of customer service. This risk area is included in the Company's Integrated Management System. In 2017, this whole area was audited and the ISO 22000 certification was renewed for a period of three years. In addition to the on-board food service, the certification scope now includes this same service in the Paris station lounges.

To ensure strict control over standards of hygiene, Air France carries out some hundred hygiene checks and around 15,000 in-house microbiological checks each year for the 45 million meals served on board aircraft. In terms of the sanitary quality of the water embarked on aircraft, around 400 to 500 analyses are carried out annually for a total volume of 19,000 tons on departure from Paris.

All Air France and KLM cabin crew are qualified in first aid and the aircraft are systematically equipped with first aid kits and automated external defibrillators. To prevent the risk of thrombosis, an in-flight video on long-haul services screens exercises for passengers.

The Group also offers a number of health-related services to passengers. For example, KLM Health Services offers a comprehensive service to travelers (vaccinations, medical examinations and training). Air France's commercial website includes a health and well-being section while Air France has an ISO 9001-certified vaccination center in Paris.

In cooperation with the Valk Foundation, Schiphol Airport and Leiden University, KLM offers a program to overcome the fear of flying based on in-depth research into its causes. For its part, Air France also offers similar courses to help its passengers overcome their phobia of aircraft.

4.4.4 Contributing to regional economies

Employment and regional development

Paris-CDG and Amsterdam-Schiphol airports are hubs offering multiple connections. They form an extensive, high-quality network which generates an attractive business environment.

With around 90% of the Group's employees based in France and the Netherlands, Air France and KLM are significant contributions to job creation around their hubs. In 2017, the KLM Group was the third largest private sector employer in the Netherlands with 33,508 of the 65,000 directly-generated jobs in the Schiphol catchment area.

With more than 37,100 employees in the Île-de-France, Air France is a leading private sector employer in the Paris region. Through their purchasing volumes, the two companies also contribute to regional and national development: 76% of Air France's procurement in France (excluding fuel) comes from the Paris region, and represents a total of €2.16 billion in France. Air France's impact on French GDP is more than 1%.

The Group's operations also generate numerous direct and indirect jobs around their hubs: ground handling and catering services, cleaning and the sub-contracted services required for aircraft operation. The total economic activity generated by the Ile de France airport system represents 3.9% of GDP and 7.9% of the employment in the Paris region, totaling 570,860 jobs. Proximity to the airport leads to the development of other activities like hotels and congresses, company show-rooms, commercial and marketing functions, innovative activities, business services, catering and retailing.

KLM is a founder member of the Luchtvaart Community Schiphol (LCS), alongside Schiphol airport and Luchtvaart College Schiphol. This association showcases the Company's role as a responsible employer in the airline and airport sector, through a number of socially responsible initiatives and programs to facilitate access to employment, and additional training in response to the professional requirements, etc.

The Group fosters innovation by supporting small and medium-sized companies and start-ups. Air France is a signatory of the Charter for Public-Owned Companies in Favor of Innovative SMEs and participates in the annual barometer. The scores given by small and medium-sized companies confirm the quality of the relationships between Air France and its suppliers, while enabling the airline to identify areas for improvement. In 2017, all the indicators showed an improvement, especially those concerning information sharing and dialogue, thanks to the appointment by Air France of a mediator for SMEs. An invoice digitalization platform has been deployed to simplify and speed up the payment process.

Through the ADER Pact initiative, Air France supports innovative SMEs in the aeronautics sector. Air France encourages SMEs to recruit its apprentices and interns via a trial partnership with *La Maison de l'Emploi* empowering a shared work experience. Events are also organized throughout the year at which SMEs and interns can meet, discuss and share their experiences ("Boost" Your Future Day, *Coup de Pouce Pour Ton Premier Emploi*).

In 2017, Air France, in association with Hokage, launched a fund-raising accelerator, the T3 Fundraiser, to support start-ups in their financial and international development by offering them coaching programs. The acceleration mostly takes place via a digital platform, matching start-ups that are raising funds with the Air France businesses and investors, before, as necessary, organizing any face to face meetings at dedicated events. The fundraising for a first start-up, Skylights, which is developing a specially designed immersive headset to watch films in aircraft, will be backed by the T3 Fundraiser.

In 2009, KLM and its partners, Schiphol airport, Rabobank and Delft University, jointly created the Mainport Innovation Fund, aimed at accelerating innovation in the air transport industry by investing in start-ups. The Mainport Innovation Fund I closed in 2015 and was succeeded by the Mainport Innovation Fund II, the latter focusing on innovation in logistics, transportation and aviation.

Air France contributes to the promotion of France as a destination in its advertising campaigns and on-board magazine through its support for *Atout France* and, in 2015, signed a partnership with the French Ministry of Culture to showcase France's artistic and cultural heritage. As an official supplier to the French bid for the Olympic and Paralympic Games, Air France redoubled its efforts to support Paris 2024. Ten Air France aircraft, i.e. 10,000 flights, roamed the world in the Paris 2024 colors. The historic Invalides air terminal sported the Paris 2024 colors on 24 and 25 June 2017 and ultimately for the whole summer. Air France invited its customers and staff to participate in sports contests in support of the city's bid.

A permanent dialogue with local communities around airports

Air France and KLM maintain a pro-active and transparent dialogue with all regional stakeholders. These regular discussions are the key to successful cooperation on issues such as noise and the quality of life around airports.

Air France is a permanent member of all the Environmental Advisory Committees (CCE) and Advisory Committees for Resident Assistance (CCAR) in France. KLM and stakeholders ranging from Schiphol airport to Dutch Government Ministers and local communities all come together around the *Omgevingsraad* Schiphol. This dialogue fosters a better understanding of the factors influencing the noise environment around Schiphol so as to achieve the optimum balance between an increase in the number of aircraft movements and noise abatement. KLM has been investing for several years in dialogue and cooperation with inhabitants of the Schiphol Airport zone, mainly through the Schiphol Regional Review Board (CROS). The CROS was established in 2003 to discuss the development of the airport and noise abatement measures.

Both airlines regularly organize visits to their facilities and meetings with elected representatives and other stakeholders to present their activities and engage in dialogue on matters like sustainable development and innovation.

Created in 2003 at the initiative of Air France, the *Pays de Roissy-CDG* association brings together companies, local elected representatives and residents of the Paris-CDG catchment area, enabling projects concerning economic development, housing, transportation, culture, training and research to come to fruition. Through this association, Air France reinforces its territorial foundations and works in partnership with the local players.

Air France is contributing to the major debates on the projects set to shape the areas surrounding its hubs over the coming two decades, such as the *Nouveau Grand Paris* and *Grand Roissy* infrastructure projects. Air France is also involved alongside other regional players with the *Aerotropolis by Roissy Dev* and Hubstart Paris associations to reinforce the international profile and economic attractiveness of Paris-CDG airport. In 2017, Air France contributed to efforts to simplify and merge local structures to make regional action more transparent and effective.

Contributing to skills development, the vocational integration of young people and the social integration of the vulnerable

Air France and KLM encourage initiatives promoting access to training leading to professions in the airline industry through a number of different associations and educational programs for young people.

In parallel, every year several hundred young students realize their end of studies internship within the Company, and school children their work experience.

Throughout the year, Air France also participates in forums and trade shows to support students in their search for training courses and internships through job dating and advice with CVs and interviews. This notably takes place via skill-based sponsorship, mobilizing in-house teams and leveraging the expertise of associations like *AirEmploi* and *Mozail RH*, or trade shows like the Paris Airshow, *Jeunes d'Avenir*, Orly International, etc. Lastly, since the autumn of 2017, Air France has mobilized some 50 sponsors who are executives within the Company, in support of the *Nos Quartiers ont du Talent* association, to help young qualified people from underprivileged districts to find their first jobs. This program is based on the network of 50 mentors in the *Passeport Avenir* program which, since 2013, has supported young people based in the region with further education. In 2017, Air France renewed its participation in the National Youth Day, under the auspices of the French Ministry of Education and the Economic and Social Council, by inviting school children on a behind-the-scenes visit to the hub and visiting pupils in the Île-de-France academies.

Since 2013, KLM has partnered the Luchtvaart College Schiphol (Schiphol Aviation College), an initiative supported by Schiphol airport and the ROC Amsterdam. This institution enables the development of professional skills within the aviation sector by offering various vocational training programs *(see paragraph 4.1.2)*.

The two companies notably support the following associations:

AFMAé, through its aviation CFA, trains apprentices in the Mechanics, Aeronautics Technicians, Station Agents and Cabin Crew professions	538 apprentices trained in 2017, of whom 289 for Air France.
Airemploie publishes and distributes information on the air transport and aeronautics professions, and on the related training	In 2017, 219 *Terre et Ciel* conferences attended by 5,635 school children, two workshops with 22 careers advisors, 29 trade fairs and seminars involving 3,898 people. Season five of the national *Féminisons Les Métiers de L'Aéronautique* competition brought together 397 girls, 189 sponsors, 28 company sites, 20 training centers and 47 schools, from nine regions. The aim of this project is to encourage interest in the aeronautics professions amongst school girls and adolescents thanks to the testimonials of women professionals working in the sector.
JEREMY (*Jeunes en Recherche d'Emploi à Roissy et Orly*) promotes the vocational integration of young local people without formal qualifications who are excluded from the workplace through a scheme combining training with work experience and social support.	In 2017, 249 interns completed a foundation course in operational readiness training for the cabin crew profession, with 98% subsequently being offered an internship contract within Air France. Furthermore, 32 interns completed the cabin crew training within the Regional Training program leading to a qualification and 45 followed a program to prepare for the Air France interviews to enter the CFA apprentice training center (Transport Initiation course).
The vocational integration associations FACE 93 (*Fondation Agir contre l'Exclusion*), RETIS network, *Entreprendre* 93 and 94 network; *Fondation de la deuxième Chance*, for which SODESI is the partner site for Roissy.	Through its Sodesi subsidiary, Air France runs workshops on finding a job and setting up companies addressing specific populations (particularly young people) and actively participates in regional events relating to entrepreneurship (*Garances, Blanc-Mesnil Développement competition, Créatrices d'Avenir, les Challenges du Numérique, Zee Entrepreneurs, Déterminés, Réseau Entreprendre 93 et 94, etc.*).
The Regional Education Centers (ROC) provide vocational training.	The KLM Maintenance division partners five ROC establishments and offers internships to students training to be aeronautics mechanics.
The JINC Amsterdam Foundation gives young people from eight to sixteen years of age the opportunity to learn about the business world.	Since 2013, KLM has provided financial support for the Foundation, and KLM employees can volunteer to be coaches or trainers. Various KLM divisions, amongst them Inflight Services, Health Services, Engineering & Maintenance and Flight Operations, are participating in JINC projects, the largest being the Flash Internship, during which primary school and secondary-level vocational students benefit from a short, half-day internship with a KLM division.

Partnership and sponsorship initiatives

Historically, the Group has played an active role in promoting international development, particularly through its support of NGOs and projects sponsored by its own employees. Air France-KLM provides practical support to development projects in various different ways:

Long-term programs and humanitarian partnerships

Air France works to help disadvantaged children through its Corporate Foundation which celebrated its twenty-fifth anniversary in 2017. Since its inception, the Foundation has facilitated the realization of 1,340 projects, mostly sponsored by Air France employees: 379 in Africa, 161 in Latin America, 209 in Asia, 420 in France, 57 in Europe, and 114 in the Caribbean and Indian Ocean regions. In 2017, the Foundation supported 94 projects across 39 countries.

For more than forty years, the airline has partnered the Acting for Life NGO which operates in Africa, Latin America and Asia through economic and regional development programs, support for small livestock and arable farmers, and the vocational training and integration to the benefit of the most disadvantaged populations. In 2017, amongst the projects realized with the support of Air France were: a project to reinforce training for the vocational integration of young people in Burkina Faso, another on fiscal optimization for local communities through agro-pastoral sales infrastructures in Togo and a social and citizenship financial project for the building of peace Colombia's Valle del Cauca.

Air France supports *Aviation Sans Frontières*, providing it with financial assistance and transport facilities for teams deployed in Africa. Many of Air France's current and retired employees are also involved in volunteer schemes, whether for aircraft maintenance or helping sick children obtain urgent medical treatment everywhere in the world. In 2017, 1,092 sick children were carried on board flights with the airline and 8,241 packages of drugs and minor medical supplies were shipped to 25 destinations.

Air France also acts as an information conduit notably in raising passenger awareness of the devastation caused by child sex tourism, by financing ECPAT International's prevention campaign and diffusing literature during long-haul flights.

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.

Together with its partners, KLM also makes a major contribution to the preservation and promotion of art and culture to the benefit of local communities and the development of sustainable tourism. For many years, thanks to long-term partnerships, Air France has been working to promote sustainable and responsible tourism, through social, humanitarian and nature preservation project everywhere in the world (ECPAT, *Agir Pour Un Tourism Responsible* and Gawad Kalinga which has developed a sustainable tourism proposition under the MAD Travel brand and Acting for Life). The airline also supports responsible travel agencies like Double Sens, with whom Air France offers awareness-raising films on sustainable tourism as part of the in-flight entertainment propositions. With the framework of the International Year of Sustainable Tourism for Development, declared by the United Nations in 2017, Air France participated in events like the NoMad Responsible Tourism Festival and the Sustainable Tourism Awards, recognizing the most responsible members of the tourism profession.

A total of 145 million miles were donated by members of the "Flying Blue" frequent flyer program to partner associations in 2017.

Logistical support

In 2017, the Air France Humanitarian Aid department supported 33 NGOs providing medical assistance to children and issued 405 tickets for the transportation of medical teams and the repatriation of sick children. Free excess baggage was also donated to more than 60 NGOs, for the transportation of medical and emergency public health equipment.

KLM also donated tickets and excess baggage to charitable organizations and, following Hurricane Irma which devastated Saint-Martin on September 6, 2017, carried tons of relief goods for the Red Cross free of charge.

4.4.5 Sub-contracting and suppliers

Pursuing a responsible procurement policy

As a service company, Air France-KLM's business activity is heavily dependent on procurement which represented €14.3 billion in 2017. Fuel purchasing amounts to some 32% 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. Air France-KLM has significant leverage via its procurement policy and purchasing volumes which it can use to encourage responsible practices across the supply chain.

For a number of years, the Air France-KLM joint Procurement function has aimed to incorporate Corporate Social Responsibility principles into relations with suppliers by reinforcing control over ethical, social and environmental risks. To this end, 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, HR policy, etc. ;
- the supplier is invited to sign 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;
- most specification sheets attached to tender documentation 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.

Regular meetings of the supplier performance steering committees are convened to monitor supplier performance. 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. In 2017, the number of companies evaluated increased by 25% (moving from 261 to 325).

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;

- in the event of a high or severe level of risk, suppliers must be evaluated on their environmental and social performance. Criteria have been defined in the EcoVadis system and were reinforced in 2017;
- there are six levels of risk. If the risk category of the supplier is lower than "high risk", buyers are advised to encourage their supplier to be 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 of their environmental and social performance, suppliers having failed to reach an acceptable level will need to put in place corrective measures to meet the Procurement requirements. At Air France, this cases are discussed during the quarterly Steering Committee meetings, overseen by the Procurement and CSR departments.

In November 2016, Air France launched a first round of Procurement Workshops, attended by 200 employees from across the Company. Organized around an innovative process, these Workshops aimed to introduce the "buyers-departments" to the tasks and methods of the Joint Procurement Division, to be able to grasp innovation and the market trends, and collectively build projects based on a dynamic Procurement process. The CSR dimension was a major focus.

Empowering the buyers

In addition to sharing the Group's CSR commitments, the Air France-KLM buyers are required to sign a Code of Ethics outlining the ethical rules to be followed when dealing with suppliers. Furthermore, in light of the Anti-Bribery legislation, a reminder of the Code of Ethics has been sent to the prescribers. This document, the Procurement Sustainable Development Charter and the Code of Conduct are available on the Procurement website. Furthermore, an internal process has been established to guide buyers in making responsible purchasing decisions including web links providing more information on best environmental practices together with training and seminars to build buyer awareness and develop their skills, ensuring they take environmental and social criteria into account wherever possible in their work.

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 scoring tool. All the buyers also receive regular training 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 2017 Procurement Action Plan sets out the CSR undertakings as a strategic lever; the Plan has been distributed to the team and to newcomers.

Mobilizing and innovating with suppliers

The Procurement function maintains an ongoing dialogue with suppliers via performance-monitoring meetings, events, participation in forums and working groups, and its dedicated website (www.af-klm.com/procurement). Suppliers can thus find information on the function's commitment to sustainability.

Furthermore, 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. In 2017, the SRM program applied to twenty-five suppliers from various sectors, ranging from aircraft interior cleaning companies, to handling companies, IT companies, Engineering & Maintenance and facility management companies.

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.

Procurement also cooperates with associations and companies in the sheltered sector on multiple projects representing approximately €19 million of the Group's procurement (for example, the laundering of crew uniforms and blankets in *Economy* and *Business* classes). Through a formalized action plan, it fosters the development of small and medium-sized companies and start-ups via initiatives such as the creation of an innovation counter, and participation in business incubators and themed initiatives such as the Lab'line for the Future project. In 2017, Air France procurement launched a joint development trial with a start-up for a sourcing tool. In 2017, Air France continued to engage with the sheltered sector and established a steering committee (regrouping the Procurement, Environment and Sustainable Development and Human Resources departments). Numerous contracts have been renewed in very different procurement domains.

Air France was awarded the gold medal in the Trophée Achats 2017, in the Modernization and Digitalization of Processes category, in partnership with Kedge Business School and By O-Group.

Air France participate jointly with Procurement in the responsible procurement working groups organized notably by AFNOR.

Partnering local development

The services sub-contracted by Air France-KLM represent a significant number of direct jobs, of which more than three-quarters are based in Europe. The Group also contributes to the development of activity in specific sectors in the regions where the two hubs are located and in the countries served, through purchasing from local suppliers. For example, the Group contributes to developing local activity in the French regions (more than €528 million of procurement contracts in 2017, excluding the purchasing of aircraft and fuel).

Substantial sub-contracting

To identify the direct portion of sub-contractor procurement, an estimate has been made based on the Group's external expenses. Based on this estimate, the amount of external expenses, excluding fuel, potentially linked to sub-contracting procurement

concerns principally catering, airport handling, aircraft sub-contracting and maintenance. This figure amounted to €2.9 billion in 2017.

Taking into account social and environmental priorities

The obligations of suppliers in terms of the environment and vocational health and safety are stipulated in the product or service specifications.

To prevent the risks linked to joint-activity during interventions, the establishment of prevention plans is systematic. This approach is the subject of a General Occupational Health and Safety Procedure. For Air France, the accident record for sub-contractors is tracked in the Company's annual social reporting.

Furthermore, an environmental clause figures in Air France's catering contracts which includes measures to reduce the environmental footprint, such as the sorting and recycling of waste and the use of seasonal products.

KLM deploys a sustainable and responsible catering policy in partnership with its suppliers to contribute to the preservation of the environment, Human Rights and animal welfare.

Procurement pays particular attention to articles which can the weight embarked on board, resulting in less kerosene consumption and thus lower CO_2 emissions. For example, the weight embarked by cargo has been reduced by 50%. The weight of pallets has been reduced by 26% while on-board trolleys and bottles are also lighter.

Since last spring, 500 kg of coffee capsules have been recycled at the two Air France sites. All the light bulbs in the cargo workshops have been replaced by LED bulbs (in partnership with an EDF subsidiary). For the new Joon airline, some components of the uniforms for stewards and stewardesses are made with recycled materials.

4.5 ENVIRONMENTAL INFORMATION

4.5.1 Overall environmental policy

Organization and responsibilities

The Group's environmental policy is enshrined within the Air France-KLM Group's Corporate Social Responsibility Statement, providing a framework for action and the establishment of a series of environmental targets.

At Air France, the Environment and Sustainable Development policy is overseen by the Executive Vice-President responsible for corporate administration, who is a member of the Executive Committee. At KLM, this role is fulfilled by the General Counsel and Senior Vice-President in charge of the Corporate Center who is a member of the KLM Executive Committee (EXCOM).

Air France's Environment and Sustainable Development and KLM's Corporate Social Responsibility (CSR) & Environmental Strategy departments are responsible for implementing the CSR strategy. The two departments closely coordinate their activities and steer the Group's environmental strategy, while carrying out the common environmental reporting. They are responsible for the deployment of the Environmental Management Systems in their respective companies.

At Air France, the Environment and Sustainable Development Department establishes the environmental policy, ensures the consistency of the action plans in the divisions and coordinates the network of Environmental managers. Individual divisions are then responsible for applying the environmental policy across their scope and appointing the environmental managers to be in charge of deploying the Environmental Management System. They ensure regulatory compliance in their business segments and implement the risk mitigation action plans.

The deployment of the environmental policy is reflected in the establishment of contracts based on annual targets. These contracts set both quantitative and qualitative targets. In 2017, the environmental targets included aircraft energy efficiency, the energy efficiency of the ground operations, a reduction in the noise footprint, waste recycling and regulatory compliance.

At KLM, the Corporate Social Responsibility (CSR) & Environmental Strategy department steers, advises and monitors the environmental policy. In cooperation with the new Integrated Safety Service Organization (ISSO), the individual divisions are responsible for ensuring compliance and performance monitoring. All KLM departments have their own coordinators reporting to the Quality Managers and to the Executive Committee members, who are themselves members of the Safety Review Board. This Board is responsible for monitoring environmental compliance and performance.

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 2015 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.

Employee training and information on environmental protection

Air France and KLM have developed a series of environmental protection training modules for employees:

- Air France offers a number of training modules aimed at maintaining the skills of the Environmental manager network: management of the Environmental Management System, handling of hazardous products, and the management of waste and the Classified Installations for Environmental Protection (ICPE);
- employees in the two companies are offered e-learning modules on Corporate Social Responsibility including the environmental aspects. It is recommended for managers and all those whose functions require such expertise;
- training in responsible driving is available to staff at Air France, offering advice and best practices for safer driving which is more fuel efficient;
- flight crews are regularly informed of the actions deployed to optimize flight procedures and kerosene consumption;
- environmental awareness and incident reporting is an integral part of the basic training for operational staff at both Air France and KLM.

At Air France, a documentation system enables employees to identify any manuals, procedures and instructions applicable to their individual functions. To ensure the consistency of the documentation system, an overall procedure sets out the applicable management rules and serves as a reference resource for all the divisions.

The Group has a number of different channels for the in-house communication of environmental information:

- Air France and KLM regularly organize meetings on various themes such as climate change, sustainable biofuels, reducing resource consumption and the Company's support for NGOs. Manager Café conferences for Air France employees are an opportunity for internal and external experts to address numerous subjects some of which belong to the sustainable development field (management practices, innovation, the environment, the circular economy, etc.). During the Sustainable Development Week in May 2017, to reach as many employees as possible, a forum dedicated to sustainable development was organized at the different Air France sites;
- in-house communication channels provide information on the environmental initiatives. For example, in 2017, within the framework of the Air France Participative Innovation Program (DIP), the Everyone Against Waste challenge enabled the submission of 386 ideas by collected from employees across the company. Within the framework of the International Year of Sustainable Tourism for Development, Air France also circulated interviews on its intranet with leading figures talking about their vision of sustainable tourism and what they expect from Air France in this area;
- on the Air France-KLM Yammer internal platform, the Air France Takes Care and CSR at KLM groups were created to encourage employee communication and interaction;
- lastly, employee awareness of sustainable development is raised through regular in-house surveys to garner their perceptions and suggestions. In 2017, a CSR goals materiality survey was sent to more than 40,000 stakeholders including 20,000 of the Group's employees and executives.

Resources dedicated to the prevention of environmental risks and pollution

Managing environmental risks

Environmental analysis of the group's activities enables the identification of the aspects and practices likely to have a significant impact on the environment, for which mitigation action plans and risk management measures are put in place.

At Air France, each division establishes the environmental analysis for its scope. A series of tools enable the evaluation of the environmental risks and the steering of environmental analyses and the associated action plans. For each area of risk, this process aims to identify the "undesirable events" and "unsafe situations" which are then ranked in a reference matrix.

Emergency situations which represent a significant risk to the environment are first described then preventive measures and intervention instructions are identified. Whenever possible, emergency situation exercises are organized by the relevant divisions.

A special monitoring process is in place for ICPE classified installations, whose functioning represents a risk for the environment. The Company numbers some 104 classified sites, fourteen of which are subject to authorization, none being subject to authorization with easements. Most concern the maintenance operations, the other entities being cargo, ground operations and the IT division. The main risks identified – combustion and explosion risk, emissions to the air and effluents in water – are linked, notably, to the use of battery chargers, Mechanical Engineering involving metals and alloys, the use or storage of flammable, abrasive or toxic liquids and the use of other toxic substances. To prevent these risks, Air France organizes ICPE training for employees with ICPE sites within their scope and regularly carries out emergency situation exercises within the framework of its risk prevention policy. Air France's ICPE sites in France are included in the Group's environmental reporting.

In 2017, KLM continued the integration of the existing management systems for Operational Safety, Occupational Safety, Environmental Safety and Operational Security into a single Integrated Safety Management System (ISMS). The ISMS provides an overall framework for continuously reducing operational, occupational, operational security and environmental risks, thereby maintaining the highest-possible level of safety.

Environmental risk management also involves the inventorying and analysis of in-field malfunctions via operational incident management systems and compliance audits. At Air France, the e-CARE tool records all the data relating to Flight Safety, customer service, the environment, occupational health and safety, security and food hygiene. At KLM, the new Q-Pulse tool, deployed in 2017, manages the inputting of incidents and the conclusions of internal audits concerning operational, vocational and environmental safety.

Lastly, a feedback system has been established in all the Air France and KLM operational divisions to analyze environmental incidents and implement risk prevention plans at Group level. The Air France Environmental managers regularly meet to review, at corporate level, the environmental incidents arising and define any remedial measures required.

Some risks deemed to be strategic at the level of the Company, including environmental risks, are the subject of specific reporting by the Group's Internal Audit and Control division. Every three months, a presentation of the significant operational and financial risks, and the results of any remedial measures deployed, is made to the Executive Committee and the Audit Committee of the Air France-KLM Group's Board of Directors *(see Risks and risk management section)*.

Change management and continuous improvement

The Environmental Management System foresees the evaluation of the environmental impacts during project deployment and recommends the inclusion of analyses of a project or service's risks and opportunities throughout its life cycle. This approach aims to reduce resource consumption and waste via the reuse or re-cycling of materials. Air France and KLM have also developed participative innovation approaches encouraging employees to submit suggested improvements.

The monitoring and feedback systems embedded in the Environmental Management System enable the identification of any cases if non-compliance with the relevant requirements (regulations, standards, internal reference frameworks, stakeholder requests). The identification of cases of non-compliance may emerge from a number of sources: internal and external audits, inspections, scheduled checks, incident feedback reports, emergency situation exercises, indicators. Every case of non-compliance is the subject of causal analysis and a remedial action plan.

Air France and KLM regularly evaluate the level of environmental regulatory compliance, notably through a regulatory monitoring procedure and internal and external surveillance processes.

At Air France and KLM, the national and European environmental regulations are monitored monthly at corporate level, the relevant divisions being responsible for identifying any changes in local regulations. Every three months, regulatory changes are analyzed with the Environment manager network and the level of compliance at the sites is reviewed.

Individual divisions are responsible for establishing and following their proprietary surveillance programs with internal audits being conducted by qualified auditors. The results of these audits are shared and may give rise to remedial actions or cross-cutting preventive measures.

External monitoring of regulations and standards is carried out by the governmental and certification bodies

To ensure compliance with the legal and regulatory requirements relating to ground operations in the international stations, the Station Management Manual sets out the Group's environmental policy and the contribution of outstation employees to environmental risk management. Air France-KLM outstation operations are carried out in accordance with the Company's recommended environmental practices.

Environmental expenditure and investment

Air France-KLM's policy is for environmental management to be an integral part of all its business operations, meaning that it is difficult to identify the portion of expenditure for purely environmental purposes.

The Group continuously invests in new aircraft and the fitting of new cabins, thereby offering passengers a higher standard of comfort, achieving substantial fuel savings and respecting its sustainable development commitments by reducing CO_2 emissions and noise disturbance for residents around airports.

Furthermore, the air transport industry is subject to numerous environmental regulations. In the past few years, the national and European authorities have adopted various regulations regarding, in particular, noise pollution and gas emissions, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations. *(see also Risk factors and their management section)*

To reduce the noise impact on inhabitants of communities around airports, the Dutch and French governments have implemented policies aimed at adapting urbanization as a function of exposure to aircraft noise. These include preventive measures aimed at avoiding the settlement of new inhabitants and remedial measures to sound-proof existing homes.

In 2017, the Air France Group's contribution (Air France, Transavia and HOP!) to the Airport Noise Tax (TNSA) paid to the French State amounted to €17 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 the major portion of the total €754 million of noise taxes, devoted to the sound-proofing and compensation for loss of value in property around Schiphol airport.

Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage up to a sum of €50 million per claim and per year. In the event of a claim, deductibles will apply. This insurance also covers a number of subsidiaries including those with flight operations like Joon, HOP! and Transavia France.

KLM's aviation insurance covers environmental damage due to an aircraft accident, fire or explosion. KLM has no specific financial provisions or guarantees for environmental risks because the regular financial provisions of KLM are applicable.

Amount of environmental indemnities paid during the financial year as a result of legal rulings

Air France and KLM paid no environmental indemnities in this regard.

4.5.2 Pollution

Prevention, reduction and reparation of air, water and ground emissions with a serious environmental impact

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.

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 only a single 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 will enable investment in runway equipment meeting the new environmental standards in force and the development of electrical energies: 35% of the budget will be allocated to purchasing electrically-powered equipment. For ground vehicles, wherever possible, hybrid petrol and electric engines will be prioritized during fleet renewal. 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 2008, Air France has implemented a Company Travel Plan for employees based in the Île-de-France, the aim being to reduce pollutant emissions by promoting public transport, making temporary offices available, encouraging remote working for positions that enable this, and participating in the creation of a car pooling website. Other avenues are also being explored like car-sharing.

As of 2018, this Company Travel Plan became the Mobility Plan, although its aims remain unchanged. Of the 37,197 employees concerned, more than 80% travel to work by car. This is thus a major priority for the Company, in terms of both the environment and occupational health and safety.

As of December 31, 2017, across all the French sites, 2,164 Air France employees were registered as remote workers (alternating and temporary remote working), or a near-28% increase relative to 2016 (1,694 remote workers). These fewer journeys to/from work representing more than 4.5 million kilometers (compared with some 3.8 million in 2016), enabled a saving of 1,078 tons of CO_2 equivalent (close to 900 in 2016).

In 2018, Air France will extend its mobility plans to the relevant entities in France.

The effluents released from the Air France and KLM's maintenance operations are the subject of regular checks to ensure that the thresholds defined by local legislation are fully respected. The main effluents monitored are pH, nitrogen, phosphorus and metals.

For the cleaning of aircraft exteriors, Air France and KLM use the EcoShine system, enabling a significant reduction in the reprocessing of waste water.

Measures taken to limit noise pollution

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 abatement 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 2017, whereas the number of aircraft movements increased by 16% over the same period.

Specific solutions are also sought to reduce the noise emissions from aircraft. For example, although no regulation required this, to reduce the characteristic whistling sound during the A320's approach phase, Air France decided to equip its entire A320 fleet with Air Flow Deflector noise-reduction kits. A number of residents associations have confirmed the positive impacts in terms of a reduction in overall noise energy.

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.

4.5.3 Circular economy

Waste management and prevention

Prevention, recycling, reuse, upcycling and evacuation of waste

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 100% of non-hazardous waste and 60% of hazardous waste by 2020. Following a review of waste management within the airline, a training program has been developed to raise employee awareness of waste recycling and the regulations in force.

KLM has already achieved its 2020 objective of reprocessing and recycling 100% of non-hazardous waste (calculated for the waste from the ground operations whose recycling is the subject of certification) and continues to work on eliminating 50% of residual waste by 2025.

Pursuant to the European regulations, all food waste produced on the international routes is incinerated and used to produce energy. Air France and KLM run programs aimed at a constant improvement in the overall management of flight waste: waste reduction, increasing the recycled portion, developing the principle of eco-design 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.

Air France and KLM have also introduced a procedure for recycling metal aeronautical waste. Wherever possible, the cradle-to-cradle principle is applied to reintegrate the waste in a new production cycle, and thus rationalize and verify all the flows of technical waste. 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 ongoing 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.

The two companies are also working on initiatives to up-cycle waste for new uses like, for example, the collection and recycling of used uniforms. In March 2016, Air France organized another collection of uniforms and overalls, in partnership with a company in the sector. In total, 8.56 tons of clothing were collected and recycled in a facility specialized in waste processing, then transformed into cement granules. Another collection campaign is scheduled for 2018. This process is part of Air France's permanent commitment to seeking new partnerships and innovative solutions.

Promoting the principles of the circular economy

Air France and KLM work in partnership with the players in the aeronautics industry to promote the circular economy and identify potential sources of recycling and reprocessing facilities. In 2017, Air France continued to contribute to opportunity studies to develop circular economy initiatives in the catchment area around Paris-CDG airport. As a member of the Aviation Strategic Committee for the Circular Economy, Air France Industries has contributed to the establishment of the industry road map. The measures put in place enable the environmental and financial performance to be optimized when handling aeronautical waste.

To reduce its carbon footprint, notably by supporting the development conditions for sustainable biofuels for aviation, Air France has joined the AFEP's (French Association of Private Enterprises) Circular Economy Trajectories Through 100 Commitments initiative, alongside 32 other large French companies.

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. In 2017, 51 pallets of crockery were donated to ADN.

Air France supports the Circul'R social enterprise with which the airline organized a Learning Expedition in December 2017, for a group of Air France employees from a range of professions. It enabled the participants to learn more about the circular economy and discover innovative start-ups in this area.

KLM sorts 19 types of waste, paper, wood, plastic and metal being its main residual forms. Amongst the other types of waste, some generate smaller volumes but represent a higher financial value. For example, progress has been made on the reprocessing and recycling of aircraft components, polystyrene packaging and carpets. In cooperation with students, KLM is seeking relevant solutions for its plastic waste, which is a form of residual waste representing a low financial value but with a significant impact on the environment. Other collaborations with start-ups are focused on transforming waste into new materials aimed at their up-cycling and reuse.

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 restrictive, like the European Regulation requiring the incineration of any elements having been in contact with food for international flights.

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 enables a reduction in waste and in production and transportation costs, as well as in the mass embarked on board, whose reduction in weight contributes to the mitigation of CO_2 emissions.

To regularly renew the in-flight service proposition, a number of products like wine 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, like sweet and savory biscuits, may be donated to charitable organizations (*Restos du Cœur*, *Mie de Pain*, Red Cross). In 2017, Air France donated €131,000 worth of articles to associations. Air France also chooses to serve references until the available stocks are exhausted, before replacing them with new product ranges.

Lastly, some products which are not distributed to passengers during the flight with the potential for conservation 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.

Sustainable use of resources

Water consumption and the water supply as a function of the local constraints

The Air France-KLM Group makes a continuous effort to reduce water consumption through better management of its processes, making its teams more accountable and by factoring environmental criteria into the design and realization of its tools and work stations. The activity using the most water is maintenance for the washing of aircraft and engines.

To clean aircraft exteriors, Air France Industries-KLM E&M uses the EcoShine process, introduced in partnership with a supplier. More economical in water and using wipes and biodegradable products, this process has enabled the division by 100 of the required quantity of water.

The Group has also developed an innovative and ecological "engine water wash" system, enabling an increase in engine fuel efficiency and lifespan. The water used is recovered for recycling.

Reducing water consumption in buildings also includes the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

In view of its activity and the localization of most of its ground operations at the Paris airports and Amsterdam-Schiphol, the "water supply as a function of the local constraints" theme has no real relevance for Air France-KLM.

Consumption of resources and measures taken to optimize their use

The Air France-KLM Group is committed to reducing and optimizing fuel consumption. For flight operations, Air France and KLM are targeting a 20% improvement in energy efficiency by 2020 relative to 2011 (in g. CO_2/passenger/km including the market-based measures).

The main lever is fleet renewal since modern aircraft are more fuel efficient. The average age of the Group's fleet is 10.9 years.

Operational measures can also significantly increase aircraft fuel efficiency. These cover four main areas:

- aircraft: reducing the mass loaded on board, reducing the fuel consumption of engines and Auxiliary Power Units, reducing drag, etc.;
- airspace: optimizing flight paths, reducing aircraft waiting times, optimizing altitude, etc.;
- fuel carried on board: optimizing regulatory quantities of fuel, optimizing operational fuel;
- flight operations: optimizing flight procedures based on the recommendations of aircraft and engine manufacturers and equipment suppliers.

Within the framework of the fuel-saving program, the Flight Efficiency department reporting to Air France's Flight Operations, identifies and implements all possible means of saving fuel while strictly respecting the imperative of Flight Safety.

In 2016, the Flight Efficiency department implemented a Flight Efficiency Board management structure which analyzes the flight performance action plans and results basis (including fuel consumption). This approach enabled the establishment of fuel consumption management targets, particularly for "green procedures" and fuel loading.

The Flight Efficiency department has stepped up its communication with pilots regarding a reduction on the amount of additional fuel loaded on board aircraft at the initiative of crews. Furthermore, on the long-haul A330 and A340 aircraft, the loading of drinking water has been optimized as a function of the duration of flights and average load factors, as had been previously the case for the B777 and A380 aircraft. This new phase will enable a 375-ton annual saving in fuel.

In 2017, within the framework of the Climate Action Plan, KLM saved 3,000 tons of fuel thanks to the deployment of operational measures like route optimization and a reduction in the weight embarked on board.

Energy consumption and measures taken to improve energy efficiency and the use of renewable energies

Air France and KLM are targeting a 20% improvement in ground operation 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 itself a more ambitious target and is pursuing its efforts to upgrade equipment and include this target in supplier contracts. Since 2014, Air France has sub-contracted the maintenance and operation of its facilities for both its industrial premises, like the aeronautics maintenance and Paris-Orly cargo hangars, and for tertiary buildings. Amongst other things, the contracts foresee incentives for the improvement of energy efficiency.

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 needs of the tertiary buildings comes from the recycling of heat generated by the air conditioning system. In the Cargo hangars, 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, aimed at optimizing the energy efficiency of its buildings, in which the Company is committed to reducing its energy consumption by a further 2% through to 2020.

Soil use conditions

In view of its activity, the Air France-KLM Group has a limited impact on soil use conditions. Pursuant to the rules and regulations for new buildings, the Group carries out or commissions sub-soil sampling prior to any new construction at a site to verify its compliance with safety standards.

4.5.4 Climate change

Significant greenhouse gas emissions generated by the Company's activity

The most significant source of direct (scope 1) greenhouse gas emissions (GHG) generated by Air France-KLM's activities corresponds to the flight operations which represent 99.7% of the Group's total direct emissions. The ground operations (testing bench, runway vehicles, etc.) represent 0.3%.

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 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, and employee commuting and passenger travel. 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. In 2017, the reporting also covers 45% of the scope 3 emissions. These emissions are published in the form of indicators presented in the environmental indicator tables *(see section 4.6)*, accompanied by a definition of the respective scopes *(see section 4.6)*.

Concerning scope 3, Air France and KLM are examining the main components with a view to reducing the emissions. Furthermore, every four years, Air France calculates the total scope 3 emissions, pursuant to Article L. 229-25 of the Energy Transition for Green Growth Act (GHG reporting).

Climate Action Plan

Air France-KLM's Climate Action Plan embodies the Group's strategy for reducing its impact on climate change. The Plan is composed of six main priorities:

— pursuing fleet modernization and contributing to aeronautics research;

- mobilizing all the Group's internal and external players around action plans enshrining eco-design principles;
- promoting the emergence of sustainable alternative biofuels for aviation and research into renewables;
- supporting NGO-led environmental programs;
- giving customers information on their travel-related CO_2 emissions and the opportunity to offset these;
- supporting international efforts to reach a global climate agreement in which the aviation sector would make a just and equitable contribution.

National and international commitments

Air France and KLM are contributing to IATA's work to propose operational solutions enabling respect of the aviation industry's 2009 commitment. The aviation emission reduction targets are as follows:

- by 2020, a 1.5% annual improvement in energy efficiency;
- from 2020, neutral growth in CO_2 emissions, particularly via market-based mechanisms;
- by 2050, a 50% reduction in CO_2 emissions relative to their 2005 level.

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 and, at the end of 2017, the European Commission extended this limitation in scope 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.

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 (MBM) 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 the International Air Transportation Association (IATA) are continuing work on defining the implementation conditions of this agreement.

CORSIA implementation will begin with a first phase from 2021 to 2026, based on States volunteering to contribute, for which seventy-three countries, representing 87.7% of international aviation activity, have 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 international aviation industry to reduce its CO_2 emissions. This basket includes technical and operational improvements, together with progress on producing and using sustainable alternative biofuels for aviation.

The Group expects this system to ensure simplicity, environmental integrity and an acceptable cost-efficiency ratio, 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.

Sustainable alternative biofuels

Sustainable alternative biofuels constitute one of the most promising avenues for reducing 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 biofuels 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 and incentives are nonetheless required for 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.

In June 2017, during the Paris Airshow at Le Bourget and within the framework of the Paris Air Lab, Air France 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.

In 2017, Air France made a commitment to the National Alliance for Coordination of Research on Energy (ANCRE), to coordinate and reinforce the effectiveness of biofuel research and is actively participating in the establishment of the French national road map on aviation biofuels.

KLM and the Costa Rican government have agreed to joint cooperation on the possible launch of sustainable jet fuel-powered operations to/from Costa Rica. Within the framework of this cooperation, KLM will share its knowledge and expertise with the Costa Rican Ministry for Energy and the Environment, in close collaboration with its partner SkyNRG. Amongst the first activities envisaged are a round table between the principal stakeholders

and the joint launch of a feasibility study on sustainable jet fuel-powered operations to/from Costa Rica.

Supporting regulatory incentives: Air France and KLM are involved in the Advanced European Biofuel Flightpath European initiative. Air France is participating in the Ini-FCA French Future Alternative Fuels Initiative, led by the French Civil Aviation Authority (DGAC), working towards the production of 200,000 tons of biofuels in France by 2020. 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.

Air France and KLM 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 elaboration of policies aimed at reducing the barriers to the deployment of biofuel development.

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. Until 2018, all KLM flights from Los Angeles airport will be operated with biofuel produced by the local AltAir Fuels refinery and supplied by SkyNRG. Los Angeles is the second airport in the world to have chosen to incorporate biofuel into its regular refueling process.

Involving customers and partners: as part of its WWF-NL partnership and the Green Deal commitment, KLM launched the BioFuel program in 2012, a first for aviation. In 2017, the Dutch Ministry of Infrastructure and the Environment, several partner enterprises and the Delft University of Technology joined the KLM Corporate BioFuel program.

Between 2014 and 2016, within the framework of the Lab'line for the Future project, Air France operated multiple biofuel-powered flights between Toulouse and Paris-Orly, and between Nice and Paris. In December 2016, Air France was awarded the Energy Climate Trophy 06 by the French Alpes-Maritimes department, for the Lab'line for the Future initiative.

In line with its commitment, during the World Efficiency Trade Show in December 2017, Air France unveiled its Engagement for Green Growth (Engagement pour la Croissance Verte – ECV). Signed by 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.

Mandatory and voluntary emission offsetting

Since 2012, the Group's airlines have been subject to the European emissions trading system (EU-ETS) for the scope of their intra-European flights.

On their websites, 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 offsetting system, enabling passengers to entirely neutralize 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).

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.

Measures to adapt to the consequences of climate change

In its 2014 report, the Intergovernmental Panel on Climate Change (IPCC) assesses the current 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 2017 United Nations COP23 climate change conference in Bonn, the Union of Concerned Scientists and more than 15,000 independent experts signed a second warning on the impacts of climate change, calling for a reduction in resource consumption. These changes will probably lead to more frequent extreme weather events, the disruption of certain ecosystems, falling agricultural yields, increased health risks and rising sea levels. At regional level, these impacts could be a source of conflict and population migrations.

For air transportation, these impacts could have consequences for route networks and the 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.

Aviation's mission is primarily to guarantee flight safety, security and the best-possible service to customers, in terms of both service continuity and on board comfort.

Through its international operations, the Group is present in all continents and 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 destination.

Health risks and the global geopolitical situation could also have an impact on activity. To respond to epidemic risk situations, Air France and KLM deploy measures which comprise the adaptation of services to some destinations, ongoing epidemiological monitoring with the health authorities, training for flight crew on how to handle an infected passenger on board and the loading of special protection kits.

Furthermore, to guarantee the protection of customers and staff in all stations where the Group has operations, the Air France and KLM Security divisions organize the permanent monitoring of intelligence on the international geopolitical situation in liaison with the governmental authorities. The mission of these dedicated teams is to ensure service continuity and, if necessary, implement additional safety measures.

4.5.5 Protecting biodiversity

Measures to protect biodiversity

The impact of air transportation on biodiversity is linked to the effects of climate change induced by the CO_2 emissions it generates.

The Holistic Forestry Conservation Program in Madagascar, supported by Air France since 2008 and co-financed by the French Development Agency (AFD) and the French Global Environment Facility (FFEM), is contributing to developing the living standards of local communities while protecting the biodiversity of the island. The second phase of the project (2014-17) aims to strengthen the conservation activities, expand and improve the propagation of sustainable alternatives to deforestation, and to validate the project under one of the existing REDD+ international labels. The aim is also achieve carbon certification of the project, whose associated sale of carbon credits will complete the financing for a phase III that would enable an even longer-term commitment to supporting the local communities committed to preserving their environment.

KLM also 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 forests by planting a mix of mainly native tree species 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. The projects in Africa aim, in particular, to develop the use of efficient cooking stoves that require less wood than traditional techniques.

The investment in other projects, aimed at advancing knowledge and preserving biodiversity, also contributes to a better understanding of issues surrounding ecosystem services like sustainable biofuel production. Although certain types of biofuel 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.

HOP! Air France has initiated an innovative, collaboration-based project to study and protect the biodiversity around airports. With plant cover usually at 60% to 70%, airports can play a role in the preservation of meadows, 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), become the HOP! Biodiversity association in 2015 and regrouped twenty partners at the end of 2017: Air France, HOP!, Air Corsica, Air Saint-Pierre, the National History Museum, the French Civil Aviation Authority (DGAC) and fourteen airports, all of which have made this project an integral part of their sustainable development policies. The in-field commitment was recognized by the French Ministry of Ecology, Sustainability and Energy as part of the National Strategy for Biodiversity in 2016 and 2017. In November 2017, the association became a member of the Scientific Steering Committee of the Foundation for Research on Biodiversity.

Responsible catering

Air France and KLM serve a total of 85 million meals and snacks every year and, given the quantity of food products required for their production, the Group's choices can have an impact on biodiversity.

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 or of certifiable, protected origin (AOP/AOC). For example, children's meal trays include several organic components.

KLM's responsible catering policy focuses on environmental preservation in production areas and takes Human Rights, working conditions and animal welfare into account. Emissions from transportation and packaging waste are accounted for in the procurement process. KLM chooses, where feasible, products and partners that share the sustainable mission, in order to contribute to the global ambition of reaching the Sustainable Development Goals. The catering policy is applied to all flights departing from Amsterdam Airport Schiphol 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.

4.6 ENVIRONMENTAL INDICATORS

4.6.1 Flight Operations

Environmental indicators		Unit	2015	2016	Air France-KLM Group 2017	17/16
Consumption						
Consumption of raw materials	Fuel √	ktonnes	8,752	8,681	**8,733**	0.6%
Emissions						
Greenhouse gas emissions (Scope 1 GHG protocol)	CO_2 √	ktonnes	27,569	27,344	**27,506**	0.6%
Greenhouse gas emissions (Scope 3 GHG protocol)		ktonnes	N/A	N/A	**5,239**	N/A
Emissions of substances contributing to acidification and eutrophication	NO_x low altitude *(<3.000 ft)*	ktonnes	10.2	9.8	**9.8**	0.0%
	SO_2	ktonnes	11.8	12.7	**12.5**	-1.5%
	SO_2 low altitude *(<3.000 ft)*	ktonnes	0.88	0.93	**0.90**	-3.2%
In-flight fuel jettison	Occurences of fuel jettison	number	N/A (3)	N/A (3)	**28**	N/A (3)
	Fuel jettisoned	tonnes	N/A (3)	N/A (3)	**1,146**	N/A (3)
Other emissions	HC low altitude *(<3.000 ft)*	ktonnes	0.8	0.8	**0.7**	-12.5%
Noise impact						
Global noise energy indicator		10^{12} kJ	1.70	1.65	**1.64**	-0.6%

√ Figures verified by KPMG for 2017 (reasonable level of assurance).
(1) Air France Group scope: all flights under AF and A5 code operated by Air France 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) Data not available in 2015 and in 2016.

	Air France Group [1]				KLM Group [2]			
	2015	2016	2017	17/16	2015	2016	2017	17/16
	4,886	4,883	**4,921**	0.8%	3,866	3,798	**3,812**	0.4%
	15,392	15,382	**15,500**	0.8%	12,177	11,962	**12,006**	0.4%
	N/A	N/A	**2,952**	N/A	N/A	N/A	**2,287**	
	6.2	6.2	**6.2**	0.0%	4.0	3.6	**3.5**	-2.8%
	6.8	6.4	**6.1**	-4.7%	5.0	6.3	**6.4**	1.6%
	0.55	0.51	**0.48**	-5.9%	0.33	0.42	**0.42**	0.0%
	N/A [3]	N/A [3]	**13**	N/A [3]	10	12	**15**	25.0%
	N/A [3]	N/A [3]	**522**	N/A [3]	318	493	**624**	26.6%
	0.6	0.6	**0.5**	-16.7%	0.2	0.2	**0.2**	-1.5%
	1.02	1.00	**1.00**	0.0%	0.67	0.65	**0.64**	-1.5%

4.6.2 Ground Operations

Environmental indicators		Unit	2015	2016	Air France-KLM Group 2017	17/16
Consumption						
Water consumption		m^3	806,038	546,622	**549,863**	0.6%
Electricity consumption		MWh	366,243	297,768	**284,835**	-4.3%
Consumption of other energies		MWh	446,276	375,972	**375,336**	-0.2%
Emissions						
Greenhouse gas emissions (Scope 1 GHG Protocol)	CO_2	tonnes	76,807	63,255	**64,458**	1.9%
Greenhouse gas emissions (Scope 2 GHG Protocol)	CO_2	tonnes	N/A	N/A	**49,097**	N/A
Greenhouse gas emissions (Scope 3 GHG Protocol)	CO_2	tonnes	N/A	N/A	**19,106**	N/A
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC	tonnes	98	78	**72**	-7.7%
	Emissions of HC	tonnes	145	126	**126**	0.0%
Emissions of substances	NO_X	tonnes	622	511	**523**	2.3%
contributing to acidification and eutrophication	SO_2	tonnes	7.8	6.8	**6.8**	0.0%
Waste						
Waste production	Quantity of non-hazardous industrial waste	tonnes	55,259	19,896	**21,529**	8.2%
	Quantity of hazardous industrial waste	tonnes	6,291	6,445	**5,699**	-11.6%
	% of hazardous industrial waste recovered	%	58%	69%	**64%**	-5pts
Effluents						
Compliance rate of effluents with regulatory limits	Nitrogen compounds	%	100%	N/A (4)	**N/A (4)**	N/A (4)
	Phosphorus compounds	%	97%	N/A (4)	**N/A (4)**	N/A (4)
	Metals (3)	%	99%	N/A (4)	**N/A (4)**	N/A (4)

(1) Air France and subsidiaries: HOP! (Airlinair, BritAir, Regional!), 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, Martinair and Transavia.
(3) Cr, Cd, Ni, Cu, Pb, Sn et Zn.
(4) Data not available for the Air France Group in 2016 and 2017.

	Air France Group [1]				KLM Group [2]			
	2015	2016	2017	17/16	2015	2016	2017	17/16
	649,494	390,629	**388,720**	-0.5%	156,545	155,993	**161,143**	3.3%
	276,265	210,721	**202,335**	-4.0%	89,978	87,047	**82,501**	-5.2%
	244,557	185,560	**188,289**	1.5%	201,719	193,412	**187,047**	-3.3%
	33,466	21,679	**22,822**	5.3%	43,341	41,576	**41,636**	0.1%
	N/A	N/A	**20,600**	N/A	N/A	N/A	**28,497**	N/A
	N/A	N/A	**7,929**	N/A	N/A	N/A	**11,177**	N/A
	52	42	**49**	16.7%	46	36	**23**	-36.1%
	91	75	**78**	4.0%	54	51	**48**	-5.9%
	426	321	**339**	5.6%	196	190	**184**	-3.2%
	4.8	3.1	**2.9**	-6.5%	3.0	3.7	**3.9**	5.4%
	38,604	4,025	**5,686**	41.3%	16,655	15,871	**15,843**	-0.2%
	4,730	3,985	**3,744**	-6.0%	1,561	2,459	**1,955**	-20.5%
	51%	56%	**50%**	-6pts	79%	90%	**90%**	0pt
	100%	N/A [4]	**N/A [4]**	N/A [4]	100%	100%	**100%**	0pt
	95%	N/A [4]	**N/A [4]**	N/A [4]	100%	100%	**100%**	0pt
	99%	N/A [4]	**N/A [4]**	N/A [4]	98%	100%	**100%**	0pt

4.7 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).

Since 2013, and in accordance with the provisions of Article L. 225-102-1 of the Code of Commerce, it has been the responsibility of our Independent Third Party Body to:

- attest that the required CSR Information appears in the management report and that the omission of any information is explained in accordance with paragraph 3 of Article R. 225-105 of the Code of Commerce (Attestation of completeness of CSR Information);
- express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of the CSR Information)[1].

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.

4.7.1 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 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 has changed since Servair (Catering business) was divested in 2016. The current scope 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 are: HOP!, CRMA, Sodexi, BlueLink 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 are: 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).

4.7.2 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.

4.7.3 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.

(1) The review work has been carried out pursuant to ISAE 3000 (International Standard for Assurance Engagements), the international audit standard for the verification of extra-financial data.

4.7.4 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 2016 and 2017, 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. According to the Ademe Carbon Database (*http://bilans-ges.ademe.fr*), indirect emissions correspond to around 16% of total emissions (direct and indirect).

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 2016 and 2017 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[1]. 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).

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[2]. 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.

For the Air France-KLM Group, the decline in total noise energy between 2016 and 2017 is explained by fleet renewal.

4.7.5 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, aircraft painting workshops in Maintenance and cooking (the catering activity in particular). The conversion factor of the quantity of gas used as energy is calculated 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).

(1) International Civil Aviation Organization.
(2) Direction Générale d'Aviation Civile or French Civil Aviation Authority.

Emissions from ground operations (CO_2, SO_2 and NO_X)

As for the Flight Operations, the CO_2 emission calculation is based on the Greenhouse Gas Protocol scope 1 for direct emissions (combustion of natural gas, fuel from 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.

Despite lower fuel use in vehicles and GSE, KLM's total CO_2 emissions remained stable. This was due to weather-related events and an increase in engine testing.

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.

NO_X emissions for the Air France Group increased in 2017 (scope extension for the outstations in France). 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 runway equipment are determined by direct measurements, or from manufacturer data or external databases. NO_X emissions decreased due to new, cleaner installations and ground services equipment.

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

The 40% increase in the quantity of waste for the Air France Group is explained by the scope being expanded to include Air France waste from flights (flight product) and improved reporting in 2017.

There was no waste originating from demolition in 2017.

Although KLM continues to reduce its waste production, the reporting scope has been expanded and waste originating from subsidiaries was included in 2017. Non-hazardous industrial waste thus remained stable in 2017.

Hazardous industrial waste

When the quantity of hazardous waste has not been communicated by service providers at the end of the reporting campaign, the quantity mentioned in the specification slip is taken into account. This quantity is, however, estimated to be marginal.

The reprocessing channels taken into account are those in the European Regulation.

The decrease for the KLM Group is due to a substantial fall in maintenance activity at KLM Cityhopper.

Effluents

The different sites are required to comply with the French and Dutch legislation on effluents. Each relevant site has regulatory limits on effluents and the frequency of measurement.

The reported data reflect the number of times a regulatory threshold is exceeded relative to the number of measurements for each type of effluent.

The figures were not available in time for the Air France Group in 2017.

4.8 MONITORING OF ACT NO. 2017-399 KNOWN AS THE DUTY OF VIGILANCE LAW

The Air France-KLM Group is subject to the new obligations introduced by the Act of March 27, 2017 relating to the duty of vigilance of 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 experts.

4.8.1 Measures deployed and regular risk evaluation procedures

Identification and evaluation of the risks

The identification and evaluation of the various risks relating to the duty of vigilance are based on the overall risk management process established within the Air France-KLM Group *(see section 3 Risk and risk management)*. 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, sometimes carried out by the subcontractors themselves.

Flight safety, a priority

More specifically on flight safety, 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 Risks and risk management)*.

Duty of vigilance: 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.

An ethical group

Fundamental rights

Air France-KLM's policy enshrines the respect of fundamental rights as established in the leading international principles: the 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 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 Chairman and Chief Executive Officer.

The Group defines its commitments in its Corporate Social Responsibility Statement, Social Rights and Ethics Charter, and in its Climate Action Plan. 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.

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 unions right in all the relevant countries *(see sections 4.1 and 4.4)*.

The individual a focus of concern

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 4.1.3 Health and Safety in the workplace)*.

The Group must guarantee its customers and flight crews 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.

The environmental priorities

The Air France and KLM Environmental Management Systems (EMS) have ISO 14001 certification and internal and external audits enable their effective deployment *(see section 4.5 "Environmental information")*.

4.8.2 Long-term relationships with suppliers and sub-contractors

In its relations with sub-contractors and suppliers, Air France-KLM ensures that the fundamental social rights and principles and environmental protection are properly respected everywhere in the world. 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. A supplier selection process has been implemented to respond to the duty of vigilance requirements.

The 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 practices, carried out by a specialized organization or the equivalent. Independently of the level of risk, all suppliers are encouraged to carry out an evaluation of CSR practices. 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 (see section 4.4.5).

4.8.3 Listening to stakeholders

In 2017, Air France-KLM realized a materiality analysis of its main issues by questioning a representative panel of stakeholders. For each issue, the stakeholders ranked the level of priority to be assigned by the Group and their perception of the Group's current level of performance. 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 its stakeholders and to understand the related risks (internal barometers, customer satisfaction surveys, evaluation of supplier CSR performance, recommendations from extra-financial rating agencies, opinions and remarks in the social media, etc.). 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.

4.8.4 Whistle-blower mechanism

The Air France-KLM Group updates 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 (see section 3.4.2).

4.9 TABLE OF CONCORDANCE FOR THE SOCIAL, CORPORATE CITIZENSHIP AND ENVIRONMENTAL INFORMATION

This table of concordance uses the sections required by Decree No.2012-557 of April 24, 2012 relating to companies' social and environmental transparency obligations, and provides the page numbers in this document where the information relating to each of these sections can be found.

Section	Grenelle II – Decree of April 24, 2012	GRI4 Indicators	Advanced level Global Compact criteria
OVERALL REPORTING PRINCIPLES			
4., 4.3.1	Perimeter	G4-17; 20; 23	Criteria 1 and 2
4.7.1 4.3, 4.7	"Comply or explain"	Principle	
4.2, 4.6 4.8	Data comparability	G4-22; 23	
	Reference to international reporting standards	G4-32	
4.9	Attestation	G4-33	
	Certification by an independent party	G4-33	
SOCIAL INFORMATION			
Employment			
4.1 4.2.1	Total headcount and distribution of employees	G4-9; 10; LA1; LA12	Criteria 3 to 8
4.1.1	Recruitment and redundancies	LA1; EC6	
4.1.1 4.2.1	Remuneration and changes in remuneration	G4-51; 52; EC1	
Work organization			
4.1.1	Work time organization	LA	Criteria 3 to 8
4.1.1 4.2.2	Absenteeism	LA6	
Labor relations			
4.1.1	Organization of social dialogue	LA4	Criteria 3 to 8
4.1.1 4.2.2	Summary of collective agreements		
Health and safety			
4.1.3	Occupational health and safety conditions	LA5 to LA8	Criteria 3 to 8
4.1.3	Summary of collective agreements regarding health and safety	LA8	
4.1.3 4.2.2	Occupational accidents and diseases	LA6; LA7	
Training			
4.1.2	Policy on training	LA10	Criteria 3 to 8
4.1.2 4.2.2	Total number of training hours	LA9	

Equal opportunities			
4.1.4	Measures implemented to promote gender equality	LA12	Criteria 3 to 8
4.1.4 4.2.2	Measures implemented to promote the employment and integration of disabled people	LA12	
4.1.4	Policy against discrimination	LA12; HR3	
Promotion and compliance with ILO fundamental conventions			
4.1.4 4.2.2	Freedom of association and recognition of the right to collective bargaining	LA4; HR4	Criteria 3 to 8
4.1.4	Elimination of discrimination in respect of employment	HR3	
4.1.4	Elimination of all forms of forced labor	HR6	
4.1.4	Abolition of child labor	HR5	
ENVIRONMENTAL INFORMATION			
General environmental policy			
4.5.1	Organization of the Company to integrate environmental issues		Criteria 9 to 11
4.5.1	Information and training measures for employees regarding environmental protection		
4.5.1	Resources allocated to preventing environmental risks and pollution	EN31	
4.5.1	Environmental risk provisions and guarantees		
Pollution			
4.5.2	Measures to prevent, reduce or repair discharges into the atmosphere, water and soil, severely impacting the environment	EN20, EN21, EN22, EN24	Criteria 9 to 11
4.5.2 4.6.1	Provision for noise disturbance		
Circular economy			
4.5.3 4.6.2	Prevention and management of waste	EN23, EN25	Criteria 9 to 11
4.5.3	Actions to combat food waste		
4.5.3 4.6.2	Water consumption and water supply adapted to local constraints	EN8; EN9	
4.5.3 4.6.1 4.6.2	Consumption of raw materials and measures to improve the efficiency of their use	EN1; EN27	
4.5.3 4.6.2	Energy consumption and measures implemented to improve energy efficiency and renewable energy use	EN3; EN6; EN7	
4.5.3	Land usage		
Climate change			
4.5.4 4.6.1 4.6.2	Greenhouse gas emissions	EN15 to EN19	Criteria 9 to 11
4.5.4	Adaptation to the consequences of climate change		
Protection of biodiversity			
4.5.5	Measures implemented to protect and conserve biodiversity	EN12	Criteria 9 to 11

INFORMATION RELATING TO CORPORATE CITIZENSHIP COMMITMENTS TO PROMOTE SUSTAINABILITY

Territorial, economic and social impact of the Company's activity			
4.4.4	Regional employment and development	EC8; EC9; SO1	Criteria 16 to 18 and 21
	On local populations		
Relations with stakeholders			
4.4.1 4.4.4	Dialogue with stakeholders	G4-24 to 27; G4-37	Criteria 2 and 16 to 18
4.4.1 4.4.4	Partnership and sponsorship initiatives	EC1; EC7	
Subcontractors and suppliers			
4.4.5	Integration of social and environmental issues into the Company procurement policy	EC9; EN33; G4-LA14; HR4; HR7; HR9	Criteria 2 to 11
4.4.5	Importance of subcontracting and consideration of their social and environmental responsibility in relationships with subcontractors and suppliers	EC9; EN32; EN33; LA14; HR4; HR7; HR9; SO9	
Fair business practices			
4.4.2	Actions to prevent corruption	G4-56 to 58; SO4	Criteria 12 to 14
4.4.2	Measures implemented to promote consumer health and safety	EN27; PR1	
4.4.2	Other actions to protect Human Rights	G4-HR	Criteria 3 to 5

4.10 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2017

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.

To the Shareholders,

In our capacity as Statutory Auditor of Air France-KLM SA, (hereinafter named the "Company"), appointed as Independent Third Party and certified by COFRAC under number 3-1049[1], we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31st, 2017, included in the management report (hereinafter named "CSR Information"), pursuant to article L. 225-102-1 of the French Commercial Code (*Code de commerce*).

— Company's responsibility

The Management Board is responsible for preparing a company's management report including the CSR Information required by article R. 225-105-1 of the French Commercial Code in accordance with the guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request from the Company's CSR departement.

— Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L. 822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

— Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R. 225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information);
- at the request of the Company and out of the scope of certification, express reasonable assurance that information selected[2] by the Group and identified by the symbol √ in the chapter 4 "Corporate Social Responsibility: social, citizenship and environmental information" of the management report is fairly presented, in all material respects, in accordance with the Guidelines (Reasonable assurance on a selection of CSR information).

However, it is not our responsibility to issue an opinion on the Company's compliance with other legal requirements, including those set out in Article L. 225-102-4 of the French Commercial Code (duty of care requirement) and the Sapin II Anti-Corruption Law 2016-1691 of 9 December 2016.

Our work involved seven persons and was conducted between September 2017 and February 2018 during a ten weeks period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 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) relating to this engagement, and with ISAE 3000[3] concerning our conclusion on the fairness of CSR Information and on the reasonable assurance.

(1) "Whose scope is available at www.cofrac.fr".
(2) Air operations fuel consumption and CO_2 emissions.
(3) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R. 225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L. 233-1 and the controlled entities as defined by article L. 233-3 of the French Commercial Code, within the limitations set out in the methodological note, presented in the chapter 4 "Corporate Social Responsibility: social, citizenship and environmental information" of the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We interviewed the persons responsible for preparing the CSR Information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important:

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of entities selected by us[1] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents 84% of headcount considered as material data of social issues and between 48% and 99% of environmental data considered as material data[2] of environmental issues.

(1) **Environment:** Air France in France and KLM Schipol **for ground operations.** Air France, HOP!, KLM et KLC **for flight operations**.
Social: Air France in France, HOP!, KLM and Cygnific in Netherlands.
(2) See the table of environmental indicators within this report.

Quantitative information

Social indicators	Assurance level
Total staff at 31/12 and distribution by age and geographical area	
Percentage of women at 31/12	
Recruitments – permanent and fixed-term contract	
Redundancies (incl. Economic)	
Absenteeism due to illness and work accidents	
Total workplace accidents	Limited
Frequency rate of workplace accidents with lost time	
Severity rate of workplace accidents	
Number of training hours by employee	
Total staff with disabilities	
Signed collective agreements	

Environmental indicators	
Environmental indicators for air operations	
Fuel consumption and CO_2 emissions	Reasonable
Global noise energy indicator	
NO_X et SO_2 low altitude emissions	Limited
Environmental indicators for ground operations	
Water consumption	
Electricity consumption	
Other energies consumption	
Quantity of non-hazardous industrial waste	
Quantity of hazardous industrial waste	Limited
Percentage of hazardous industrial waste recovered	
Emissions of VOC ground	
Emissions of CO_2, SO_2 et NO_x ground emissions	

Qualitative information	
Social	Organization of social dialogue including information procedures, consultation and negotiation with the employees Occupational health and safety conditions Policies implemented regarding training Measures implemented to promote gender equality
Environmental	The organization of the Company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues Resources allocated to prevention of environmental risks and pollution Consideration of noise and of any other activity specific pollution Measures of prevention, recycling, reuse, other forms of recovery and disposal of waste Energy consumption and measures implemented to improve energy efficiency and renewable energy use
Societal	Territorial, economic and social impact of the Company activity regarding regional employment and development Action implemented against corruption Measures implemented to promote consumers health and safety

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the Company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; 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 CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

3. Reasonable assurance on a selection of CSR Information

Nature and scope of our work

For the information selected by the Group and identified by the symbol √, our audit consisted of work of the same nature as described in paragraph 2 above for CSR information considered the most important, but in more depth, particularly regarding the number of tests.

The selected sample represents 92% of quantitative environmental information identified by the symbol √ published.

We consider that this work enables us to express a conclusion of reasonable assurance for the information selected by the Group and identified by the symbol √.

Conclusion

In our opinion, the information selected by the Group and identified by the symbol √ is fairly presented, in all material respects, in compliance with the Guidelines.

Paris-La Défense, 13 February 2018

KPMG S.A.

Jean-Paul Vellutini	Éric Jacquet	Philippe Arnaud
Partner	Partner	Partner
		Sustainability Services

This page has been intentionally left blank.

5 FINANCIAL REPORT

5.1	**Investments and financing**	**186**
5.1.1	Investments	186
5.1.2	Financing	187
5.1.3	Structure of the debt and reimbursement profile	187
5.2	**Property, plant and equipment**	**188**
5.2.1	Property, plant and equipment of the Air France-KLM Group	188
5.2.2	The Air France-KLM Group's land and buildings	188
5.2.3	Assets in progress	189
5.3	**Comments on the financial statements**	**190**
5.3.1	Consolidated results for the financial year ended December 31, 2017	190
5.3.2	Investments and financing of the Group	194
5.3.3	Air France-KLM parent company results	194
5.3.4	Equity as of December 31, 2017	194
5.4	**Key financial indicators**	**195**
5.5	**Consolidated financial statements**	**200**
5.5.1	Consolidated income statement	200
5.5.2	Consolidated statement of recognized income and expenses	201
5.5.3	Consolidated balance sheet	202
5.5.4	Consolidated statement of changes in stockholders' equity	204
5.5.5	Consolidated statement of cash flows	205
5.6	**Notes to the consolidated financial statements**	**207**
5.7	**Statutory Auditors' report on the consolidated financial statements**	**287**
5.8	**Statutory financial statements**	**293**
5.8.1	Income statement and balance sheet	293
5.8.2	Notes	295
5.9	**Five-year results summary**	**306**
5.10	**Statutory Auditors' report on the financial statements**	**307**
5.11	**Statutory Auditors' special report on regulated agreements and commitments**	**310**

5.1 INVESTMENTS AND FINANCING

During the 2017 financial year, the Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €2,312 million. The €110 million proceeds on disposals of tangible and intangible assets comprised, in particular, €12 million from sale and lease-back transactions (€40 million in 2016). Within the framework of its different cost savings schemes, the Group maintained strict control over investments before sale and lease-back transactions. Investments thus amounted to €2,214 million, up by €266 million relative to 2016. With net cash-flow from operating activities (continuing activities) amounting to €2,898 million, the Group generated positive operating free cash flow of €696 million.

At December 31, 2017, the Group's net cash position amounted to €5.39 billion, including €73 million of investments with maturities of above three months, €269 million of cash pledges and €379 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, 2017 *(see also Section 3 – Liquidity risk, page **125**)*.

Net debt stood at €1.66 billion (€3.65 billion at December 31, 2016). The detailed net debt calculation can be found in *Note 33 in the notes to the financial statements, page **265***.

5.1.1 Investments

(in € million)	2017	2016
Acquisition of intangible assets	**(248)**	(210)
Investment in flight equipment	**(1,840)**	(1,711)
Other property, plant and equipment	**(224)**	(151)
Acquisitions of subsidiaries, of shares in non-controlled entities	**(9)**	(18)
Loss of control over subsidiaries, disposal of shares in non-controlled entities *(of which Amadeus)*	**8**	364
Proceeds on disposal of property, plant and equipment and intangible assets	**110**	213
Dividends received	**9**	7
Net decrease (increase) in Investments between 3 months and 1 year	**(262)**	791
Net cash flow used in investing activities of discontinued operations	**-**	(12)
Net cash flow used in investing activities	**(2,456)**	**(727)**

Investment in tangible and intangible assets amounted to €2,312 million during the 2017 financial year (€2,072 million in 2016), of which €1,840 million in flight equipment. Investment in intangible assets amounted to €248 million and related to the purchase of software and capitalized IT development. Other investment in tangible assets mostly included the acquisition of industrial equipment for the flight operations, maintenance and IT.

Proceeds on disposals of property, plant and equipment and intangible assets amounted to €110 million (€213 million in 2016) including €55 million on the sale of flight equipment (€91 million in 2016) and €12 million of proceeds on sale and lease-back transactions (€40 million in 2016).

In total, including financial Investments and disposals, dividends and discontinued operations, the net cash flow used in investing activities amounted to €2,456 million in 2017.

5.1.2 Financing

(in € million)	2017	2016
Capital increase	**747**	-
Change of minority interest without change in control	**-**	15
Issuance of new debt	**742**	1,331
Repayment on debt	**(332)**	(1,430)
Repayment of debt on finance lease liabilities	**(711)**	(481)
New loans	**(137)**	(129)
Repayment on loans	**54**	43
Dividends and coupons paid on perpetual	**(38)**	(38)
Net cash flow used in financing activities of discontinued operations	**-**	22
Net cash flow from financing activities	**325**	**(667)**

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. These capital increases, totaling €747 million, had been approved by the Shareholders' Meeting on September 4, 2017.

Excluding commercial paper, the financing put in place during 2017 mostly related to asset financing for 17 aircraft.

In parallel, the Group repaid €332 million of borrowings (€1,430 million in 2016) and €711 million of debt relating to finance lease liabilities (€481 million in 2016).

5.1.3 Structure of the debt and reimbursement profile

Structure of the debt

The Group's gross debt stood at €7.44 billion at December 31, 2017, of which €4.71 billion is guaranteed by pledged or mortgaged assets amounting to €5.97 billion, representing 42% of the net book value of the relevant assets *(see also Note 38 in the notes to the consolidated financial statements, page **279**)*. After hedging, 70% of the gross debt is at fixed rates and 80% is denominated in euros. The average cost of the debt is 3.08% *(see also Section 3.5.2 – Market risks and their management, page **123**)*.

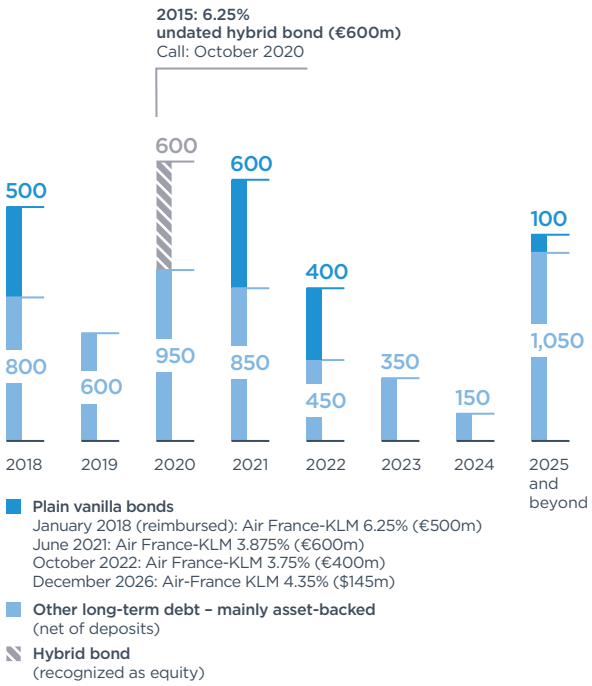
The structure of the debt is as follows:

- market financing (bonds and perpetual subordinated loan stock): €2.17 billion;
- capital lease commitments: €3.92 billion;
- other borrowings including bank debt and accrued interest: €1.35 billion.

Reimbursement profile for debt and perpetual subordinated bonds

The debt reimbursement maturities are progressive over time; despite a contraction in bank balance sheets, the aircraft asset financing market remains open for the amounts envisaged over the coming years. The Group does, however, monitor developments in this area closely and continues to diversify the sources of its financing, notably with non-European banks and by re-financing assets other than aircraft.

In € million, net of deposits on financial leases and excluding KLM perpetual debt (€m)



5.2 PROPERTY, PLANT AND EQUIPMENT

5.2.1 Property, plant and equipment of the Air France-KLM Group

Net book value (in € million)	December 31, 2017	December 31, 2016
Flight equipment	**9,921**	9,119
Other property, plant and equipment		
Land and buildings	**903**	939
Equipment and machinery	**274**	274
Assets in progress	**156**	115
Others	**159**	152
Total other property, plant and equipment	**1,492**	**1,480**

Information on flight equipment is provided in the Activity-Fleet section of this document and flight equipment orders are covered in *Note 37 to the consolidated financial statements on page **278***.

After the fleet, land and buildings is the second largest category of tangible assets for the Air France-KLM Group and is the only item to be described in detail below.

5.2.2 The Air France-KLM Group's land and buildings

Breakdown of surface area by business unit

Approximate surface area at December 31, 2017 (in square meters)	Air France Group		KLM Group		Air France-KLM Group	
	2017	2016	2017	2016	2017	2016
Passenger	**276,039**	272,779	**142,710**	147,329	**418,749**	420,108
Cargo	**304,812**	305,082	**90,461**	102,026	**395,273**	407,108
Maintenance	**693,082**	664,545	**299,177**	299,110	**992,259**	963,655
Support	**318,911**	352,879	**96,289**	102,764	**415,200**	455,643
Total	**1,592,844**	**1,595,285**	**628,637**	**651,230**	**2,221,481**	**2,246,515**

The Air France buildings represent 84% of the Air France Group's property, plant and equipment, of which 88% is situated in Continental France.

Financing

	Air France Group	KLM Group	Total
Fully owned	35%	86%	49%
Finance lease	15%	-	10%
Operating lease	50%	14%	40%
Total	**100%**	**100%**	**100%**

The minimum future payments on operating leases relating to buildings amounted to €1.11 billion at December 31, 2017 (*see also Note 36.2 to the consolidated financial statements, page **277***).

Geographical breakdown of the principal sites

Sites	Approximate surface area (in square meters)	Type of financing
Air France Group		
Roissy-CDG Airport	710,082	Ownership, finance lease, rental
Orly Airport	258,928	Ownership, finance lease, rental
Toulouse	70,471	Ownership, finance lease, rental
Montreuil	20,195	Rental
Valbonne	17,963	Ownership
KLM Group		
Schiphol Airport	34,934	Operating lease
Schiphol Centrum	125,263	Ownership, operating lease
Schiphol Oost	370,858	Ownership, operating lease
Schiphol Rijk	16,825	Ownership, operating lease
Schiphol Noord	22,023	Ownership
Amstelveen	29,552	Ownership
Other	29,183	Operating lease

Main rental contracts

Sites	Approximate surface area (in square meters)	Type of financing
Air France Group		
Commercial head office, Montreuil	20,195	Commercial lease
Hangar H1 at CDG	43,000	Agreement
KLM Group		
Schiphol Airport	35,847	Commercial lease

5.2.3 Assets in progress

The Air France-KLM Group currently has no outstanding commitments to large-scale construction projects.

5.3 COMMENTS ON THE FINANCIAL STATEMENTS

5.3.1 Consolidated results for the financial year ended December 31, 2017

Restatement of the 2017 financial statements

As part of the strategic repositioning of the cargo business, the Group has progressively implemented a new model aimed at optimizing the sale of belly capacity in combi and passenger aircraft and reducing the full freighter fleet. In 2017, the bellies of passenger aircraft should have exceeded 85% of total cargo capacity. The full freighter fleet consists of two B777s and four B747s, reflecting a 24% reduction in capacity during 2016 and more than 50% since 2013.

With the exception of the full freighter fleet, the commercial interests of the passenger business determine the use of the aircraft on the Group's network, particularly as concerns the choice of destinations and the number of frequencies, and the types of aircraft used. Within this context, the cargo business is seen as complementary to the passenger business, contributing to route profitability and performance, these two businesses forming a larger entity known as "Network". It is the performance of this larger entity which is now tracked by the Executive Committee.

As a result, the Network business now constitutes a single segment. The information by geographical segment presented in Note 6 to the financial statements has accordingly been restated.

Scope at December 31, 2017

The consolidation scope is composed of 78 fully consolidated companies and 19 companies consolidated using the equity method. The two main subsidiaries, Air France and KLM, represent 91% of revenues and 70% 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)	2017	2016	Change
Revenues	**25,781**	24,844	937
EBITDAR	**4,352**	3,787	565
EBITDA	**3,264**	2,714	550
Income/(loss) from current operations	**1,488**	1,049	439
Income/(loss) from operating activities	**(419)**	1,116	(1,535)
Net income/(loss) from continuing operations	**(267)**	522	(789)
Net income/(loss) from discontinued operations	**(8)**	270	(278)
Net income/(loss), Group share	**(274)**	792	(1,066)
Basic earnings/(loss) per share, Group *(in €)*	**(0.81)**	2.59	(3.51)

Revenues

Consolidated revenues for the period amounted to €25.8 billion, an increase of 3.8% and +4.2% on a constant currency basis. The 2017 financial year was characterized by a 2% increase in unit revenues on a constant currency basis, thanks to the performance of Transavia (+6.8%) and the passenger (+1.8%) and goods transportation activities (+1.6%), both these activities being included in the "Network" business. In addition, Air France-KLM increased its overall capacity by 3% (EASK). Air France and KLM increased their passenger capacity by 2.6%, while Transavia capacity grew by 10.5%. Lastly, goods transportation capacity saw a modest 0.9% increase (ATK) Revenues from the Network business rose by 3.4% while maintenance revenues were broadly stable (-0.6%). Transavia revenues were up by 17.9%.

Operating expenses

Operating expenses increased by 2.1% to €24.29 billion.

External expenses were stable (+0.2%) at €14.29 billion versus €14.26 billion over the previous twelve months. Excluding fuel, external expenses were up by 1.2% relative to the previous twelve months.

The breakdown of external expenses was as follows:

(in € million)	2017	2016	% Ch.	% ch. at constant currency
Aircraft fuel	**4,507**	4,597	(2.0)	(1.0)
Chartering costs	**403**	424	(5.0)	(4.0)
Landing fees and en route charges	**1,905**	1,900	0.3	0.8
Catering	**784**	445	76.2	77.8
Handling charges and other operating costs	**1,753**	1,565	12.0	13.0
Aircraft maintenance costs	**2,424**	2,469	(1.8)	(0.7)
Commercial and distribution costs	**935**	905	3,3	3,8
Other external expenses	**1,574**	1,958	(19.6)	(24.2)
Total	**14,285**	**14,263**	**0.2**	**0.1**

The main changes were as follows:

- **aircraft fuel:** fuel expense for the year declined by 1% on a constant currency basis, thanks to better fuel efficiency (-€80 million), a price effect after hedging of -€103 million and an increased volume effect of +€138 million;
- **chartering costs:** the costs incurred in leasing aircraft capacity from other airlines;
- **landing fees and en route charges:** these costs are incurred for air navigation services and the use of airports. Their increase was significantly less than the growth in capacity;
- **catering costs:** these costs comprise the services supplied on board the Air France-KLM Group's own aircraft. The substantial rise in these costs is explained by the loss of control over Servair on December 30, 2016;
- **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 loss of control over Servair and Cobalt on December 30, 2016;
- **aircraft maintenance costs:** they include the maintenance procurement and consumption for the Group's aircraft and for the the third-party activity;
- **commercial and distribution:** their rise is explained by the increase in credit card fees and lower penalities;
- **other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. The decline in these costs is due, in particular, to the loss of control over Servair and Cobalt on December 30, 2016.

Salaries and related costs increased by 2.0% to €7.62 billion versus €7.47 billion in 2016. On a constant scope and pension expense basis, they increased by 1.8%. The average headcount declined (-1.3%) to 83,522 employees.

Taxes other than income taxes stood at €158 million versus €164 million at December 31, 2016, down by 3.7%.

Other income and expenses stood at a net profit of €634 million versus a net profit of €842 million at December 31, 2016. They included:

- capitalized maintenance and IT costs amounting to €696 million at December 31, 2017 against €767 million at December 31, 2016;
- a €10 million gain on the currency hedges at December 31, 2017 versus +€155 million at December 31, 2016;
- a €22 million expense booked in respect of CO_2 quotas (€21 million in the previous financial year).

The unit cost per EASK (equivalent available seat-kilometer) was reduced by 0.2%. This change was the combined result of a 0.5% fall due to the decline in fuel price and a 0.2% increase on currency variation.

EBITDAR

EBITDAR amounted to €4,352 million (versus €3,787 million at December 31, 2016).

The contributions to EBITDAR by business segment were as follows:

(in € million)	2017	2016 Restated	% Ch.
Network	**3,605**	3,136	15.0
Maintenance	**410**	439	(6.6)
Transavia	**321**	197	62.9
Others	**16**	13	23.1
Total	**4,352**	**3,787**	**14.9**

Aircraft operating lease costs

Aircraft operating lease costs stood at €1,088 million, up by 1.4%, under the influence of the euro/dollar exchange rate and the delivery of new aircraft under operating lease. On a constant currency basis, they increased by 2.4%, due to the delivery of new aircraft under operating lease at KLM.

EBITDA

EBITDA amounted to €3,264 million (versus €2,714 million at December 31, 2016).

The contributions to EBITDA by business segment were as follows:

(in € million)	2017	2016 Restated	% Ch.
Network	**2,672**	2,214	20.7
Maintenance	**410**	439	(6.6)
Transavia	**167**	49	x3.4
Others	**15**	12	25.0
Total	**3,264**	**2,714**	**20.3**

Amortization, depreciation and provisions

This line totalled €1.78 billion at December 31, 2017 versus €1.67 billion at December 31, 2016.

Income/(loss) from current operations

The result from current operations was income of €1,488 million (versus €1,049 million at December 31, 2016).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

	2017		2016	
(in € millions)	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Network	**22,480**	**1,192**	21,751	813
Maintenance	**1,823**	**215**	1,834	238
Transavia	**1,436**	**81**	1,218	-
Others	**42**	**-**	41	(2)
Total	**25,781**	**1,488**	**24,844**	**1,049**

Income/(loss) from operating activities

The result from operating activities was a €419 million loss versus a profit of €1,116 million at December 31, 2016.

Over the financial year ended December 31, 2017, the result from operating activities included, notably:

- sales of aircraft and aeronautical equipment, and other property, plant and equipment, amounting to €18 million;
- the impact of the transformation of the KLM pilot and cabin crew pension schemes amounting to a negative €1,904 million;
- restructuring costs amounting to €24 million;
- an adjustment to the provision for the cargo fine amounting to a negative €57 million;
- the impact of the dilution in Kenya Airways involving the reclassification of equity shares under shares available for sale, amounting to a profit of €43 million.

These operations are detailed in *Note 11 in the notes to the financial statements, page **229***.

Net cost of financial debt

The net cost of financial debt fell to €214 million versus €260 million during the previous financial year. The cost of net debt increased by 117 basis points from 6.28% in the 2016 financial year to 7.45% in 2017. This increase is explained by the combination of an increase in cash and cash equivalents and a lower return on investments.

Other financial income and expenses

Other net financial income and expenses amounted to a positive €116 million at December 31, 2017 versus a negative €33 million at December 31, 2016. The breakdown was as follows:

- a currency gain of €212 million (versus a €105 million loss at December 31, 2016). At December 31, 2017, the foreign exchange gain principally included a non-monetary currency gain on the net debt amounting to €89 million, mainly linked to the depreciation in the Japanese yen relative to the euro and a non-monetary currency gain of €152 million on provisions, mainly linked to the decrease in the dollar portion of maintenance and phase-out provisions;
- a €35 million negative variation in the fair value of financial assets and liabilities (€84 million positive variation at December 31, 2016) mostly due to the €54 million negative impact of the currency derivatives and the €17 million positive impact of the fuel hedges;
- positive allocations to provisions of €3 million versus a positive of €55 million at December 31, 2016. Since the European Commission did not appeal the decision taken by European Court before February 29, 2016, at December 31, 2016, the Group had released to the consolidated income statement the €41 million provision covering the accrued interest on the fine imposed concerning the litigation relating to anti-trust legislation in the air freight industry;
- a €63 million negative item versus a negative €67 million at December 31, 2016. At December 31, 2017. This mainly corresponded to the effect of accretion on long-term provisions amounting to €56 million.

Net income/(loss) – Group share

Income taxes stood at income of €229 million versus a €294 million expense at December 31, 2016. The effective tax rate as of December 31, 2017 was 44.3% (versus 35.8% as of December 31, 2016).

Share of profits/(losses) from associates contributed a profit of €21 million at December 31, 2017 versus a negative contribution of €7 million in the previous year.

The result from discontinued operations amounted to €(8) million at December 31, 2017 versus €270 million at December 31, 2016. At December 31, 2016, it had been composed of:

- the result of the Servair Group for 2016 amounting to €13 million;
- the result on the disposal of 49.99% of the Servair share capital to gategroup amounting to €123 million;
- the revaluation of the remaining Servair shares (50.01% of the share capital) amounting to €134 million.

The net income/(loss), Group share stood at a loss of €274 million at December 31, 2017 versus a profit of €792 million at December 31, 2016. Adjusted for non-recurring items, the restated net result amounted to a €785 million profit, up relative to its level of 2016 (€409 million, *see Section 5.4, Key financial indicators*).

The contributions to the net result by quarter were, respectively, €(216) million at March 31, 2017, €367 million at June 30, 2016, €552 million at September 30, 2017 and €(977) million at December 31, 2017.

Basic earnings/(loss) per share, Group share, amounted to €(0.81) at December 31, 2017 versus €2.59 at December 31, 2016.

5.3.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €2.31 billion over the financial year (€2.07 billion at December 31, 2016) of which €924 million of investment in the fleet, €427 million in maintenance, €270 million in components, €219 million in cabin refurbishment and €472 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and leaseback transactions amounted to €110 million versus €213 million at December 31, 2016.

Operating cash-flow was positive to the tune of €2.9 billion (€2.24 billion at December 31, 2016).

At December 31, 2017, the Group had €5.39 billion of net cash, of which €4.67 billion in cash and cash equivalents. Furthermore, the Group has undrawn credit facilities amounting to a total of €1.7 billion.

Net financial debt amounted to €1.66 billion at December 31, 2017 (€3.65 billion at December 31, 2016).

5.3.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2017.

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, 2017, the operating result was a loss of €5 million.

The net result was a €30 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, 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.

At December 31, 2016, accounts payable stood at €11 million of which €7 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.3.4 Equity as of December 31, 2017

Equity attributable to equity holders of Air France-KLM amounted to €3,002 million against €1,284 million as of December 31, 2016. The €1,718 million change was mainly explained by:

- a capital increase subscribed by Delta Air Lines, Inc. and China Eastern Airlines for an amount of €747 million;
- the exercise of the soft call on the OCEANE amounting to €532 million;
- +€569 million from the change in fair value of the Group's defined benefit pension schemes (net of tax);
- +€74 million from the change in fair value of the Group's financial instruments (net of tax);
- +€88 million from the change in fair value of the Group's shares available for sale (net of tax);
- a loss for the period – equity holders amounting to €274 million.

5.4 KEY FINANCIAL INDICATORS

Adjusted operating result and adjusted operating margin

In accordance with generally accepted practice for analysing the air transport sector, operating leases are capitalized at seven times for the capital employed and level of debt calculations. Consequently, the result from current operations is adjusted by the portion of operating leases assimilated with financial charges, i.e. 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The result is an adjusted operating margin which, by stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of the different airlines.

(in € million)	2017	2016
Income/(loss) from current operations	**1,488**	1,049
Portion of operating leases corresponding to financial charges (34%)	**370**	365
Adjusted income/(loss) from current operations	**1,858**	**1,414**
Revenues	**25,781**	24,844
Adjusted operating margin	**7.2%**	**5.7%**

Adjusted operating results and adjusted operating margins for the Air France Group and the KLM Group

Due to intra-Group eliminations, the sum of the individual airline results does not equate to the Air France-KLM consolidated figures.

(in € million)	2017	2016
Air France Group		
Revenues	**15,828**	15,414
EBITDA	**1,761**	1,514
Operating result	**588**	372
Operating margin	***3.7%***	*2.4%*
Adjusted operating result	**803**	596
Adjusted operating margin	***5.1%***	*3.9%*

(in € million)	2017	2016
KLM Group		
Revenues	**10,340**	9,800
EBITDA	**1,496**	1,189
Operating result	**910**	681
Operating margin	***8.8%***	*6.9%*
Adjusted operating result	**1,058**	819
Adjusted operating margin	***10.2%***	*8.4%*

Restated net result

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

(in € million)	2017	2016
Net income/(loss), Group share	**(274)**	792
Net income/(loss) from discontinued operations	**8**	(270)
Non-current items included in deferred income tax	**(629)**	44
Change in fair value of financial assets and liabilities (derivatives)	**(27)**	(179)
Unrealized foreign exchange gains and losses	**(200)**	89
Non-current income and expenses	**1,907**	(67)
Restated net income/(loss), Group share	**785**	**409**
Restated net income/(loss) per share, Group share *(in euros)*	**2.05**	1.30

Financial cover ratios

Within the framework of the Group's different plans, the financial cover ratios considerably improved with, for example, the net debt/EBITDA ratio falling from 4.8x at December 31, 2011 to 51% at December 31, 2017.

Net debt/EBITDA ratio

	2017	2016
Net debt *(in €m)*	**1,657**	3,655
EBITDA *(in €m)*	**3,264**	2,714
Net debt/EBITDA	**51%**	**1.4x**

EBITDA/net cost of financial debt ratio

	2017	2016
EBITDA *(in €m)*	**3,264**	2,714
Net cost of financial debt *(in €m)*	**214**	260
EBITDA/net cost of financial debt	**15.3x**	**10.4x**

Adjusted net debt/EBITDAR ratio

Adjusted net debt amounts to net debt added to the annual amount of operating leases capitalized at seven times.

	2017	2016
Net debt *(in €m)*	**1,657**	3,655
Aircraft operating leases x 7 *(in €m)*	**7,616**	7,511
Total adjusted net debt *(in €m)*	**9,273**	**11,166**
EBITDAR *(in €m)*	**4,352**	3,787
Adjusted net debt/EBITDAR	**2.1x**	**2.9x**

EBITDAR/adjusted net cost of financial debt

The adjusted net cost of financial debt includes the portion of operating leases corresponding to interest charges (34%).

	2017	2016
EBITDAR *(in €m)*	**4,352**	3,787
Net cost of financial debt *(in €m)*	**214**	260
Portion of operating leases corresponding to interest charges (34%) *(in €m)*	**370**	365
Adjusted net cost of financial debt *(in €m)*	**584**	625
EBITDAR/adjusted net cost of financial debt	**7.5x**	**6.1x**

Return on Capital Employed (ROCE)

The 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 capital employed is currently 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, to which is added the capital employed corresponding to aircraft under operating leases (seven times the amount of operating leases for the year);
- the adjusted result after tax corresponds to the sum of the operating result adjusted for the portion corresponding to financial charges in operating leases (34%), dividends received, and the share of profits/(losses) of associates.

(in € million)	Dec 31, 2017	Dec 31, 2016	Dec 31, 2016	Dec 31, 2015[1]
Goodwill and intangible assets	1,338	1,284	1,284	1,265
Flight equipment	9,921	9,119	9,119	8,743
Other property, plant and equipment	1,492	1,480	1,480	1,670
Investments in equity associates	301	292	292	118
Other financial assets excluding shares available for sale, marketable securities and financial deposits	199	224	224	225
Provisions excluding pension, cargo litigation and restructuring	(1,693)	(1,706)	(1,706)	(1,558)
WCR, excluding market value of derivatives	(5,633)	(5,317)	(5,317)	(5,125)
Capital employed before operating losses	**5,925**	**5,376**	**5,376**	**5,338**
Capital employed corresponding to flight equipment under operating leases *(operating leases x 7)*	7,616		7,511	
Average capital employed (A)	**13,267**		**12,868**	
Operating result, adjusted for operating leases	1,858		1 414	
Dividends received	(3)		(2)	
Share of profits/(losses) of associates	20		(7)	
Tax recognized in the adjusted net result	(377)		(250)	
Adjusted result after tax (B)	**1,498**		**1,155**	
ROCE (B/A)	**11.3%**		**9.0%**	

(1) Servair reclassified as a discontinued operation.

Cost of capital

	2017	2016
Cost of stockholders' equity	**12.1%**	15.6%
Marginal cost of debt, post tax	**2.7%**	3.0%
Percentage of stockholders' equity/target debt		
Stockholders' equity	**50.9%**	31.9%
Debt	**49.1%**	68.1%
Weighted average cost of capital after taxation	**7.5%**	**7.0%**

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.

IAS 19 Revised makes the defined benefit pension expense more volatile. This expense varies independently of the corresponding cash outflows. The calculation of the change in the Net cost per EASK on a constant defined benefit pension expense basis enables this effect to be stripped out.

Net cost per EASK

	2017	2016
Revenues *(in €m)*	**25,784**	24,846
Income/(loss) from current operations *(in €m)*	**(1,488)**	(1,049)
Total operating expense *(in €m)*	**(24,296)**	(23,795)
Network business – other network revenues *(in €m)*	**(919)**	(998)
Third-party revenues in maintenance *(in €m)*	**(1,823)**	(1,834)
Transavia – other revenues *(in €m)*	**(14)**	(12)
Other businesses – revenues other than Transavia transportation *(in €m)*	**(42)**	(41)
Net cost *(in €m)*	**21,498**	**20,912**
Capacity produced, reported in EASK[1]	**351,695**	341,334
Net cost excluding strike, per EASK *(in € cents)*	**6.11**	**6.13**
Gross change		*-0.2%*
Currency effect on net costs *(in €m)*		33
Change at constant currencies		*-0.4%*
Fuel price effect *(in €m)*		(101)
Change on a constant currency and fuel price basis		*+0.1%*
Change in pension-related expenses *(in €m)*		(2)
Net cost per EASK on a constant currency, fuel price and defined-benefit pension-related expenses basis, excluding the impact of exceptional items *(in € cents per EASK)*	**6.11**	**6.10**
Change on a constant currency, fuel price and pension-related expense basis		**+0.1%**

CONTENT

5.5 Consolidated financial statements

5.5.1	Consolidated income statement	200
5.5.2	Consolidated statement of recognized income and expenses	201
5.5.3	Consolidated balance sheet	202
5.5.4	Consolidated statement of changes in stockholders' equity	204
5.5.5	Consolidated statement of cash flows	205

5.6 Notes to the consolidated financial statements

Note 1.	Business description	207
Note 2.	Restatement of accounts 2016	207
Note 3.	Significant events	207
Note 4.	Accounting policies	208
Note 5.	Change in the consolidation scope	221
Note 6.	Information by activity and geographical area	222
Note 7.	External expenses	226
Note 8.	Salaries and number of employees	227
Note 9.	Amortization, depreciation and provisions	228
Note 10.	Other income and expenses	228
Note 11.	Other non-current income and expenses	229
Note 12.	Other financial income and expenses	231
Note 13.	Income taxes	232
Note 14.	Net income from discontinued operations	235
Note 15.	Earnings per share	237
Note 16.	Goodwill	238
Note 17.	Intangible assets	239
Note 18.	Impairment	240
Note 19.	Tangible assets	241
Note 20.	Capital expenditures	242
Note 21.	Equity affiliates	242
Note 22.	Pension assets	244
Note 23.	Other financial assets	244
Note 24.	Inventories	246
Note 25.	Trade accounts receivables	246
Note 26.	Other assets	247
Note 27.	Cash, cash equivalents and bank overdrafts	247
Note 28.	Equity attributable to equity holders of Air France-KLM SA	248
Note 29.	Share-based compensation	250
Note 30.	Retirement benefits	251
Note 31.	Other provisions	257
Note 32.	Financial debt	260
Note 33.	Net debt	265
Note 34.	Other liabilities	266
Note 35.	Financial instruments	266
Note 36.	Lease commitments	276
Note 37.	Flight equipment orders	278
Note 38.	Other commitments	279
Note 39.	Related parties	280
Note 40.	Consolidated statement of cash flow	281
Note 41.	Statutory auditors' fees	283
Note 42.	Consolidation scope	284

5.5 CONSOLIDATED FINANCIAL STATEMENTS

5.5.1 Consolidated income statement

Period from January 1 to December 31 (in € millions)	Notes	2017	2016
Sales	6	25,781	24,844
Other revenues		3	2
Revenues		25,784	24,846
External expenses	7	(14,285)	(14,263)
Salaries and related costs	8	(7,624)	(7,474)
Taxes other than income taxes		(158)	(164)
Other income and expenses	10	635	842
EBITDAR (1)		4,352	3,787
Aircraft operating lease costs		(1,088)	(1,073)
EBITDA (1)		3,264	2,714
Amortization, depreciation and provisions	9	(1,776)	(1,665)
Income from current operations		1,488	1,049
Sales of aircraft equipment		18	21
Other non-current income and expenses	11	(1,925)	46
Income from operating activities		(419)	1,116
Cost of financial debt	12	(249)	(309)
Income from cash and cash equivalents		35	49
Net cost of financial debt		(214)	(260)
Other financial income and expenses	12	116	(33)
Income before tax		(517)	823
Income taxes	13	229	(294)
Net income of consolidated companies		(288)	529
Share of profits (losses) of associates	21	21	(7)
Net income from continuing operations		(267)	522
Net income from discontinued operations	14	(8)	270
Net income for the period		(275)	792
Non-controlling interests		(1)	-
Net income – Group part		(274)	792
Earnings per share – Equity holders of Air France-KLM *(in euros)*			
— basic	15	(0.81)	2.59
— diluted		(0.81)	2.25
Net income from continuing operations – Equity holders of Air France-KLM *(in euros)*			
— basic	15	(0.79)	1.68
— diluted		(0.79)	1.48
Net income from discontinued operations – Equity holders of Air France-KLM *(in euros)*			
— basic	15	(0.02)	0.91
— diluted		(0.02)	0.77

The accompanying notes are an integral part of these consolidated financial statements.

(1) *See Note 4.9 in notes to the consolidated financial statements.*

5.5.2 Consolidated statement of recognized income and expenses

Period from January 1 to December 31 (in € millions)	Notes	2017	2016
Net income for the period		**(275)**	**792**
Fair value adjustment on available-for-sale securities			
Change in fair value recognized directly in other comprehensive income		**38**	(101)
Change in fair value transferred to profit or loss		**-**	-
Cash flow hedges			
Effective portion of changes in fair value hedge recognized directly in other comprehensive income		**192**	429
Change in fair value transferred to profit or loss		**(25)**	731
Currency translation adjustment		**9**	8
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	13.2	**(41)**	**(352)**
Total of other comprehensive income that will be reclassified to profit or loss		**173**	**715**
Remeasurements of defined benefit pension plans		**774**	(547)
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	13.2	**(205)**	**114**
Total of other comprehensive income that will not be reclassified to profit or loss		**569**	**(433)**
Total of other comprehensive income, after tax		**742**	**282**
Recognized income and expenses		**467**	**1,074**
Equity holders of Air France-KLM		**467**	1,073
Non-controlling interests		**-**	1

The accompanying notes are an integral part of these consolidated financial statements.

5.5.3 Consolidated balance sheet

Assets (in € millions)	Notes	December 31, 2017	December 31, 2016
Goodwill	16	**216**	218
Intangible assets	17	**1,122**	1,066
Flight equipment	19	**9,921**	9,119
Other property, plant and equipment	19	**1,492**	1,480
Investments in equity associates	21	**301**	292
Pension assets	22	**590**	1,462
Other financial assets	23	**1,242**	1,064
Deferred tax assets	13.4	**234**	176
Other non-current assets	26	**239**	448
Total non-current assets		**15,357**	**15,325**
Other short-term financial assets	23	**421**	130
Inventories	24	**557**	566
Trade receivables	25	**2,136**	1,868
Other current assets	26	**1,264**	1,105
Cash and cash equivalents	27	**4,673**	3,938
Total current assets		**9,051**	**7,607**
Total assets		**24,408**	**22,932**

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and equity (in € millions)	Notes	December 31, 2017	December 31, 2016
Issued capital	28.1	**429**	300
Additional paid-in capital	28.2	**4,139**	2,971
Treasury shares	28.3	**(67)**	(67)
Perpetual	28.4	**600**	600
Reserves and retained earnings	28.5	**(2,099)**	(2,520)
Equity attributable to equity holders of Air France-KLM		**3,002**	**1,284**
Non-controlling interests		**13**	12
Total equity		**3,015**	**1,296**
Pension provisions	30	**2,202**	2,119
Other provisions	31	**1,710**	1,673
Long-term debt	32	**6,064**	7,431
Deferred tax liabilities	13.4	**11**	(12)
Other non-current liabilities	34	**361**	284
Total non-current liabilities		**10,348**	**11,495**
Other provisions	31	**488**	654
Current portion of long-term debt	32	**1,378**	1,021
Trade payables		**2,365**	2,359
Deferred revenue on ticket sales		**2,889**	2,517
Frequent flyer programs		**819**	810
Other current liabilities	34	**3,100**	2,775
Bank overdrafts	27	**6**	5
Total current liabilities		**11,045**	**10,141**
Total liabilities		**21,393**	**21,636**
Total equity and liabilities		**24,408**	**22,932**

The accompanying notes are an integral part of these 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, 2015 – Restated	**300,219,278**	**300**	**2,971**	**(85)**	**600**	**(3,561)**	**225**	**48**	**273**
Fair value adjustment on available for sale securities	-	-	-	-	-	(126)	(126)	-	(126)
Gain/(loss) on cash-flow hedges	-	-	-	-	-	833	833	-	833
Remeasurements of defined benefit pension plans (including deferred tax on items of comprehensive income that will not be reclassified to profit or loss)	-	-	-	-	-	(434)	(434)	1	(433)
Currency translation adjustment	-	-	-	-	-	8	8	-	8
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**281**	**281**	**1**	**282**
Net result for the period	-	-	-	-	-	792	792	-	792
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**1,073**	**1,073**	**1**	**1,074**
Change in scope	-	-	-	-	-	(7)	(7)	(36)	(43)
Treasury shares	-	-	-	18	-	-	18	-	18
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	(1)	(26)
December 31, 2016	**300,219,278**	**300**	**2,971**	**(67)**	**600**	**(2,520)**	**1,284**	**12**	**1,296**
Fair value adjustment on available for sale securities	-	-	-	-	-	36	36	-	36
Gain/(loss) on cash-flow hedges	-	-	-	-	-	128	128	-	128
Remeasurements of defined benefit pension plans (including deferred tax on items of comprehensive income that will not be reclassified to profit or loss)	-	-	-	-	-	568	568	1	569
Currency translation adjustment	-	-	-	-	-	9	9	-	9
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**741**	**741**	**1**	**742**
Net result for the period	-	-	-	-	-	(274)	(274)	(1)	(275)
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**467**	**467**	**-**	**467**
Capital increase	-	129	1,168	-	-	(18)	1,279	-	1,279
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	-	(25)
Change in scope	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	(3)	(3)	1	(2)
December 31, 2017	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,099)**	**3,002**	**13**	**3,015**

The accompanying notes are an integral part of these consolidated financial statements.

5.5.5 Consolidated statement of cash flows

Period from January 1 to December 31 (in € millions)	Notes	2017	2016
Net income from continuing operations		**(267)**	522
Net income from discontinued operations	14	**(8)**	270
Amortization, depreciation and operating provisions	9	**1,776**	1,665
Financial provisions	12	**54**	5
Loss (gain) on disposals of tangible and intangible assets	11	**(34)**	(86)
Loss (gain) on disposals of subsidiaries and associates	11	**(31)**	(312)
Derivatives – non monetary result		**26**	(179)
Unrealized foreign exchange gains and losses, net		**(200)**	89
Share of (profits) losses of associates	21	**(21)**	6
Deferred taxes	13	**(261)**	264
Impairment	40.1	**-**	2
Other non-monetary items	40.1	**1,594**	(64)
Financial capacity		**2,628**	**2,182**
including discontinued operations (D)		**-**	*43*
(Increase)/decrease in inventories		**5**	(61)
(Increase)/decrease in trade receivables		**(329)**	(104)
Increase/(decrease) in trade payables		**68**	23
Change in other receivables and payables		**526**	209
Change in working capital requirement		**270**	67
Change in working capital from discontinued operations (D)		**-**	(10)
Net cash-flow from operating activities (A)		**2,898**	**2,239**
Acquisition of subsidiaries, of shares in non-controlled entities	40.2	**(9)**	(18)
Purchase of property plant and equipment and intangible assets (B)	20	**(2,312)**	(2,072)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	11	**8**	364
Proceeds on disposal of property plant and equipment and intangible assets (C)	11	**110**	213
Dividends received		**9**	7
Decrease (increase) in net investments, more than 3 months		**(262)**	791
Net cash-flow used in investing activities of discontinued operations		**-**	(12)
Net cash-flow used in investing activities		**(2,456)**	**(727)**

Period from January 1 to December 31 (in € millions)	Notes	2017	2016
Capital increase		**747**	-
Sale of minority interest without change in control		**-**	15
Issuance of debt	32	**742**	1,331
Repayment on debt	32	**(332)**	(1,430)
Payment of debt resulting from finance lease liabilities		**(711)**	(481)
New loans		**(137)**	(129)
Repayment on loans		**54**	43
Dividends and coupons on perpetual paid		**(38)**	(38)
Net cash-flow used in financing activities of discontinued operations		**-**	22
Net cash-flow from financing activities		**325**	**(667)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		**(33)**	(13)
Change in cash and cash equivalents and bank overdrafts		**734**	**832**
Cash and cash equivalents and bank overdrafts at beginning of period (including cash of discontinued operations)	27	**3,933**	3,101
Cash and cash equivalents and bank overdrafts at end of period (including cash of discontinued operations)	27	**4,667**	3,933
Income tax (paid)/reimbursed (flow included in operating activities)		**(11)**	19
Interest paid (flow included in operating activities)		**(228)**	(273)
Interest received (flow included in operating activities)		**14**	31

The accompanying notes are an integral part of these consolidated financial statements.

Period from January 1 to December 31 (in € millions)	Notes	2017	2016
Net cash-flow from operating activities	A	**2,898**	2,239
Purchase of property plant and equipment and intangible assets	B	**(2,312)**	(2,072)
Proceeds on disposal of property plant and equipment and intangible assets	C	**110**	213
Net cash-flow from operating activities from discontinued operations	D	**-**	(33)
Operating free cash-flow excluding discontinued activities (1)	33	**696**	**347**

The accompanying notes are an integral part of these consolidated financial statements.

(1) *See Note 4.9 in notes to the consolidated financial statements.*

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 passenger transportation on scheduled flights ("passenger network"). The Group's activities also include cargo, 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 ACCOUNTS 2016

Introduction of the Network business

As part of the strategic repositioning of the cargo business, the Group has progressively implemented a new business model aimed at optimizing the belly and combi capacity of the passenger aircraft and reducing the full freighter fleet. In 2017 the bellies of passenger aircraft should exceed 85 per cent of total cargo capacity. The full freighter fleet consists of two B777's and four B747 freighters, representing a 24 per cent reduction in full freighter capacity in 2016 and a more than 50 per cent reduction since 2013.

Except for the full freighter fleet, the commercial interests of the passenger business are determining the utilization of aircraft in the Group's network, particularly with regard to the choice of aircraft and the frequencies to destinations. In this context, cargo is considered to be an activity which is complementary to the passenger activities, contributing to the line profitability and performance of the routes. These two activities constituting a unique larger activity, called 'network'. It is the performance of this activity that is now tracked by the Group Executive Committee.

As a consequence, the Network business constitutes one unique operating segment. Note 6 "Information by activity and geographical area", has been restated accordingly.

NOTE 3. SIGNIFICANT EVENTS

3.1 Events occurring during the period

KLM pension schemes in The Netherlands

Cabin Crew pension scheme

In August 2017, KLM and the Cabin Crew unions agreed to modify the pension scheme for KLM Cabin Crew in the Netherlands. This pension scheme qualifies as a collective defined contribution scheme and led to the derecognition of the cabin crew pension asset.

The pension asset, based on actuarial assumptions as of August 1, 2017, amounted to €311 million and has been recorded as "Other non-current income and expenses" in the consolidated income statement. Net of income tax, the impact amounted to € (233) million.

Cockpit Crew pension scheme

In December 2017, KLM and the KLM Cockpit Crew Union agreed to modify the Cockpit Crew pension plan. This modified plan qualifies as a collective defined contribution plan and led to the derecognition of the cockpit pension asset. This pension asset, based on specific actuarial assumptions for the Cockpit Crew plan as of December 15, 2017, amounted to €1,399 million. The agreement includes a dowry payment of 194 million to the pension fund of which €120 million has been paid in December 2017. Net of income tax, the impact amounted to € (1,196) million.

The modification of these two pension plans is a significant de-risking for the Group's risk profile, volatility in the balance sheet and avoid to be potentially forced to make substantial additional pension payments.

Litigation concerning anti-trust law in the air-freight industry

On March 17, 2017, the European Commission issued a new decision against eleven air cargo carriers, including Air France, KLM and Martinair, regarding practices in the air cargo sector deemed to be anti-competitive and relating to the period between December 1999 and February 2006. This new decision follows the December 16, 2015 annulment by the General Court of the European Union of the European Commission's initial decision of November 9, 2010, relating to these same practices and concerning the same carriers. This initial decision had been annulled in full because it contained a contradiction regarding the exact scope of the practices sanctioned.

The total amount of fines imposed on the Air France-KLM Group is €325 million. This amount has been slightly reduced 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.

Capital increase reserved to China Eastern Airlines and Delta Air Lines, Inc. and investment in share capital of Virgin Atlantic

On October 3, 2017, Air France-KLM announced the completion of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. The related 75,054,820 new shares were admitted to the regulated market of Euronext Paris and Amsterdam. These capital increases, announced on July 27, 2017, were approved by the General Shareholders Meeting of September 4, 2017. China Eastern Airlines and Delta Air Lines, Inc. both holds 8.8% of Air France-KLM's share capital as of December 31, 2017 and consequently each have one director representing the companies within Air France-KLM's Board of Directors.

The Group had already announced the reinforcement of its strategic partnerships with the creation of a global joint-venture between Air France-KLM, Delta Air Lines, Inc. (Delta) and Virgin Atlantic. Air France-KLM will acquire a 31% stake in Virgin Atlantic's share capital for GBP 220 million. Delta Air Lines, Inc. holds 49% of Virgin Atlantic's share capital. The creation of the global joint-venture is subjected to the approval of the competent statutory authorities.

Early redemption of the OCEANEs maturing on February 15, 2023

On November 15, 2017 Air France-KLM exercised its early redemption option in respect of all its outstanding OCEANEs.

Air France-KLM received exercise notices for 53,359,937 OCEANEs, representing 99.96 per cent of the outstanding OCEANEs, giving right to the delivery of 53,359,937 ordinary shares, each with a nominal value of €1.00. This transaction is presented in detail in Note 32.2.

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, 2017 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 15, 2018.

Change in accounting principles

- **IFRS standards and amendments which are applicable on a mandatory basis to the 2017 financial statements**
  - Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", effective for the period beginning January 1, 2017,
  - Amendment to IAS 7 "Disclosure Initiative", effective for the period beginning January 1, 2017.

These amendments had no significant impact on the Group's financial statements as of December 31, 2017.

— **IFRS standards which are applicable on a mandatory basis and by anticipation to the 2018 financial statements**

The estimated impact of the adoption of these standards on the Group equity as of January 1, 2017 concerning IFRS 15 and IFRS 16 and as of January 1, 2018 concerning IFRS 9, is supported by valuations made as of today. Impact of the adoption of these standards as of January 1, 2018 might change because of the following reasons:

- analysis and/or the detailed impact-assessment will continue in 2018,
- the Group has not finished the whole set of testing and valuations of controls relating to its new IT systems,
- the new rules and accounting methods can change until the Group will present its financial statements concerning the year of the first application, and
- the Group being an early adopter of IFRS 16, the positions taken could change in the view of new additional interpretations.

— **IFRS standards which are applicable on a mandatory basis to the 2018 financial statements**

- Standard IFRS 9 "Financial Instruments".

This standard must be applied starting January 1, 2018. Dedicated working groups have been set up within the Air France and KLM head-accounting departments together with the Air France and KLM middle-office treasury departments.

This standard comprises new accounting principles for financial instruments (classification and valuation, impairment and hedge).

Two main impacts are expected following the application of this standard.

The first impact concerns the recognition of a change in call-option time-value in "other comprehensive income" whereas it is currently recorded in "other financial income and expenses".

The second impact is linked to the valuation of capital instruments either in fair value through the income statement or in fair value through other comprehensive income. The classification methodology for capital instruments will be defined as follows:

- when the capital instrument is considered to be a cash investment, its revaluations will be recorded in "other financial income and expenses";
- when the capital instrument is considered to be a business investment, its revaluations will be recorded in "other comprehensive income".

On the opening balance sheet (as of January 1, 2017), the impact of IFRS 9 will involve a decrease to "other comprehensive income" between €150 and €160 million and an increase of the same amount in "other reserves".

- Standard IFRS 15 "Revenue Recognition from Contracts with Customers".

This standard must be applied starting January 1, 2018. The Group has set up dedicated working groups within the relevant business segments and departments to establish an inventory of customer contract types across the Group and to analyze each contract type using the five-step approach outlined within IFRS 15.

In parallel, the Group has worked with other airlines through the IATA (International Air Transport Association) Industry Accounting Working Group (IAWG) in coordination with the Airlines Revenue Recognition Task Force of the AICPA (American Institute of Certified Public Accountants) to agree harmonized accounting treatments for issues requiring clarity under the new standard.

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, according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Within this framework, none of the simplification measures proposed by the standard should be used.

The estimated impact of IFRS 15 on the opening balance sheet as of January 1, 2017 would lead in:

- an increase in the "trade receivables" for an amount between €25 and €35 million;
- an increase in the "other current assets" for an amount between €15 and €25 million;
- a decrease in the "other provisions" for an amount between €110 and €120 million;
- an increase in the "other liabilities" for an amount between €160 and €170 million;
- an increase in the "deferred revenue on ticket sales" for an amount between €115 and €125 million;
- an increase in the deferred tax asset for an amount between €30 and €40 million;
- a decrease in equity for an amount between €70 and €80 million.

The main expected impacts are detailed hereafter:

Type of performance	Business segment	Current accounting treatment	IFRS 15 accounting treatment	Expected impacts
Revenue recognized concerning unused tickets	Network	Revenue recognition, based on a statistical rate, which is regularly updated on the date the ticket is issued	Revenue recognition, based on an historical statistical rate of the unused tickets which is regularly updated, at the theoretical date of the transport	Impact on the opening balance sheet (January 1, 2017) increasing the "deferred revenue on ticket sales", with an "equity" counterpart, translating the recording of revenues at the time of the transport. No significant impact on the yearly Group revenues if it remains constant, being a timing and recurring impact.
Change fees	Network	Revenue recognition at the date of change-fee issuance	Revenue recognition at the transport date, not involving a different service bringing a profit to the passenger in the absence of transport	
Issuing fees	Network	Revenue recognition at the date of issuance		
Commissions and other distribution costs linked to the airline-ticket sales	Network	Cost recognition when incurred, being at the ticket issuance	Capitalization and recognition when transport is made. The Group did not opt for the simplified option in order to translate the seasonality of its activity and the gap leads between sales and transport	Impact on the opening balance sheet (January 1, 2017) increasing the "other current assets", with an "equity" counterpart, translating the recording of costs at the time of the transport. No significant impact on "commercial and distribution costs" if they remain constant, being a timing and recurring impact.
Transport of goods on behalf of the Group, by another airline	Network	Analysis as principal on the transport realized by the Group with recognition of the revenue. Analysis as agent on the part operated by another airline with recognition of the commission in revenues	The airline acts for its own account when it sells the service (principal) because it controls the promised service (the transport of the goods). The revenue charged to the customer is entirely recognized and a cost corresponding to the chartering is recorded	No impact on the opening balance sheet (January 1, 2017) being a presentation impact of the income statement. Concerning the income statement presentation, based on the year-2016 figures, revenues and chartering costs would have increased by around €90 million.
Power-by-the hour contracts (overhaul of aircraft equipment and engines)	Maintenance	Revenue recognition based on invoicing schedule, according to flight hours; booking of a provision for expected costs	Revenue recognition based on the costs incurred	Impacts on the opening balance sheet (January 1, 2017): decrease in provisions, increase in other liabilities which corresponds to services charged before the realization of the service and decrease of the equity due to the margin postponed in the date of realization of the service. No significant impact on the Group revenues.
Purchase of spare parts on behalf of third parties	Maintenance	Revenue recognition of the margin as revenue	Each operation will be analyzed to determine if the Group is acting as principal or as agent	No impact on the opening balance sheet (January 1, 2017). Concerning the presentation of the income statement, both revenues and maintenance costs will decrease compared with the current accounting.

Concerning the treatment of clients compensation, the Group is currently working with the airline industry (through IATA) to determine the way to present it. The position is under progress of finalization.

The accounting of the other revenue streams will not be significantly affected by the application of IFRS 15.

— IFRS standard which is applicable by anticipation to the 2018 financial statements

The Group has opted for the early adoption of IFRS 16 "Leases" starting January 1, 2018.

The Group has chosen to apply IFRS 16 using the retrospective restatement to each prior reporting period presented applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Group has elected to use the two exemptions proposed by the standard on the following contracts:

- lease contracts with a duration of less than 12 months,
- lease contracts for which the underlying asset has a value in new of below €5,000.

The estimated impact of IFRS 16 on the opening balance sheet as of January 1, 2017 would lead in:

- an increase in the fixed asset (mainly via the booking of a right-of-use asset) for an amount between €4.0 and €4.4 billion,
- the booking of a lease debt for an amount between €5.1 and €5.5 billion,
- an increase in the deferred tax asset for an amount between €0.1 and €0.5 billion,
- a decrease in the equity for an amount between €0.6 and €0.9 billion.

These figures do not include the impacts concerning the maintenance of leased aircraft which are under finalization.

Lease contracts adjustment has an impact of reclassification in the cash-flow statements, the standard having no impact on the cash position of the Group:

- improvement in "Net cash-flow from operating activities" due to the cancellation of lease costs partially compensated by the cash-out attributing to financial costs in lease debt,
- integration of the reimbursement of the lease debt in "Net cash-flow used in financing activities".

Impacts in the cash-flow statements concerning the maintenance of leased aircraft are detailed hereafter.

The main aggregates used by the Group will present the following impacts:

- increase in EBITDA,
- cancellation of the EBITDAR,
- increase in the "income from current operations" partially compensated by the increase in the "net cost of financial debt",
- increase in the net debt,
- increase in the "operating cash-flow excluding discontinued activities".

The main expected estimated impacts, including impacts in the income statements, are detailed hereafter.

Capitalization of aircraft lease contracts

For the aircraft lease contracts fulfilling the capitalization criteria defined by IFRS 16, the lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain of exercising renewal options contractually foreseen. For example, this may be the case if important cabin customization has taken place whereas the residual lease term is significantly shorter than the useful life of cabins.

The discount rate used to calculate the right-of-use asset and the lease debt will correspond, for each aircraft, to the implicit rate involved by the contractual elements.

The impacts on the income statement will be as follows:

- cancellation of lease costs included in "aircraft operating lease costs" involving the cancellation of the EBITDAR,
- amortization of the right-of-use asset,
- financial costs on the lease debt.

Since most of the aircraft lease contracts are denominated in US$s, starting from January 1, 2018 the Group will put in place a natural hedge for its US$ revenues by the lease debt in US$ in order to limit the volatility of the foreign exchange result involved by the revaluation of its lease debt.

Capitalization of real-estate lease contracts

The Group has analyzed all the real-estate contracts to ensure that they fulfill the criteria to qualify as leases according to IFRS 16. In particular, the Group has taken into account that when it rents surfaces in airports other than its hubs (Paris and Amsterdam), an effective substitution right in the hand of the lessor leads not to consider the existence of a lease contract.

Based on its analysis, the Group has identified lease contracts according to the standard concerning surfaces rented in its hubs, lease contracts on building devoted to the maintenance business, lounges customized in airports other than hubs and lease contracts on office buildings.

The lease term will correspond to the not terminable period completed if necessary by options of renewal of which the use by the Group is reasonably certain.

The discount rate used to calculate the right-of-use asset and the lease debt will be determined, for each asset, according to the incremental borrowing rate at the signature date.

The impacts on the income statement will be as follows:

- cancellation of the rents included in "external expenses" involving an increase in EBITDA,
- amortization of the right-of-use asset,
- financial costs on the lease debt.

Accounting of the other-assets leases

The Group has made the analysis of all the lease contracts on other assets to ensure that they fulfill the criteria to qualify and to account a lease according to IFRS 16.

After its analysis, the main lease contracts identified correspond to company cars, pools of spare parts and engines.

The lease term will correspond to the not terminable period completed if necessary by options of renewal of which the use by the Group is reasonably certain.

The discount rate used to calculate the right-of-use asset and the lease debt will be determined, for each asset, according to the incremental borrowing rate at the signature date.

The impacts on the income statement will be as follows:

- cancellation of the rents included in "external expenses" involving an increase in EBITDA,
- amortization of the right-of-use asset,
- financial costs on the lease debt.

Accounting of the maintenance of leased aircraft

Within the framework of IFRS 16 deployment, the Group has reviewed the accounting of the maintenance costs and of the contractual maintenance obligations at redelivery of its leased aircraft.

Maintenance operations on leased aircraft will therefore be recorded as follows:

- booking of a provision on delivery of the aircraft when works are not dependent on aircraft use for maintenance costs to realize when the aircraft must be redelivered to the lessor. The counterpart of the provision is recorded in the book value of the right-of-use asset at the origin,
- booking of a provision for redelivery costs corresponding to the potential of flight hours that leased aircraft must have at the date of their redelivery to the lessor. The level of potentials is dependent from the contract signed. In addition, the probability of the aircraft redelivery at the end of the contract shall not be integrated in the calculation of this provision, as it is the case currently,
- identification of components corresponding to potentials included in the right-of-use asset of each leased aircraft. These components are amortized over the period between the date of acquisition and the next major overhaul.

The main impacts on the income statement will be as follows:

- decrease in operational costs due to the capitalization of maintenance costs for the rebuilding of potential of flight hours,
- increase in "Amortization, depreciation and provisions".

The impacts on the cash-flow statements are mainly a reclassification of flows linked to maintenance works. Currently, they are presented in "Net cash-flow from operating activities". Under IFRS 16, being associated to a fixed asset (right-of-use assets), they will be presented in "Purchase of property plant and equipment and intangible assets".

- **Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union**

  - amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", effective for the period beginning January 1, 2018,
  - amendment to IFRS 12 "Disclosure of Interests in Other Entities", effective for the period beginning January 1, 2017,
  - amendment to IAS 28 "Long-term interests in an associate or joint-venture", effective for the period beginning January 1, 2019,
  - interpretation IFRIC 22 "Foreign Currency Transactions and Advance Consideration", effective for the period beginning January 1, 2018,
  - interpretation IFRIC 23 "Uncertainty over Income Tax Treatments", effective for the period beginning January 1, 2019,
  - amendment to IFRS 9 "Prepayment Features with Negative Compensation", effective for the period beginning January 1, 2019,
  - amendment to IAS 12 "Income Tax Consequences of Payments on Instruments classified as Equity", effective for the period beginning January 1, 2019,
  - amendment to IFRS 3 and IFRS 11 "Previously Held Interests in a Joint Operation", effective for the period beginning January 1, 2019,
  - amendment to IAS 23 "Borrowing Costs Eligible for Capitalization", effective for the period beginning January 1, 2019.

The Group does not expect any significant impacts relating to the application of the amendment IFRS 2.

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 "Flying Blue" frequent flyer program;*
- *4.11 Financial assets;*
- *4.13/14 Tangible and intangible assets;*
- *4.18 Pension assets and provisions;*
- *4.19/20 Other provisions;*
- *4.23 Deferred tax assets.*

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.

The consolidated financial statements for the financial year have thus been established on the basis of financial parameters available at the closing date. Concerning the non-current assets, the assumptions are based on a limited level of growth.

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 on 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 of the total recognized global 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 valued at their fair value 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 or at the rate of the related hedge, if any.

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 or using the hedged rate where necessary *(see Note 4.14)*.

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, valuation of financial assets and liabilities".

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 (2008) "Business Combinations". In accordance with this standard, all assets and liabilities assumed are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to twelve 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 each acquisition, 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.

Should the fair value of 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 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 twelve months from the date of acquisition.

Goodwill arising from the difference between the acquisition cost (which includes the potential 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.

Should 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

Sales related to air transportation operations are recognized when the transportation service is provided, net of any discounts granted *(see Note 6)*. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Both passenger tickets and freight awb's are consequently recorded as "Deferred revenue upon issuance date".

Nevertheless, sales relating to the value of tickets that have been issued but never been used are recognized as revenues at issuance. The amounts recognized are based on a statistical analysis, which is regularly updated.

Sales under third-party maintenance contracts are recorded on the basis of the percentage of completion method.

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 or other free services with non-airline partners.

In accordance with IFRIC 13 "Loyalty programs", these Miles are considered as distinct elements from a sale with multiple elements and one part of the price of the initial sale of the airfare 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 at which the benefits can 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 regards to the invoicing of other partners in the program, the margins realized on sales of Miles to other partners 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 extracting 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 Group's cash generation on current operational activities. It is thus commonly used for the calculation of the financial coverage and enterprise value ratios.

EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortization and Rents): this aggregate is adapted to sectors like the air transport industry which can finance a significant proportion of their assets using operating leases. It is obtained by subtracting aircraft operating lease costs from EBITDA (as defined above). It is also used to calculate the financial coverage and enterprise value ratios.

Operating free cash-flow: this corresponds to the cash available after investment in flight equipment, other property, plant and equipment and intangible assets for solely operational purposes, net of proceeds on disposals. 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.

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 financial assets and liabilities

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 recorded at fair value then, subsequently, using the amortized cost method less impairment losses, if any. Purchases and sales of financial assets are accounted for as of the transaction date.

Investments in equity securities

Investments in equity securities qualifying as assets available for sale are stated 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. For other securities, if the fair value cannot be reliably estimated, the Group uses the exception of accounting at costs (i.e. acquisition cost less impairment, if any).

Potential gains and losses, except for impairment charges, are recorded in a specific component of other comprehensive income entitled "Derivatives and available for sale securities reserves".

If there is an indication of impairment of the financial asset, the amount of the loss resulting from the impairment test is recorded in the income statement for the period. For securities quoted on an active market, a prolonged or significant decrease of the fair value below their acquisition cost is objective evidence of impairment.

Factors used by the Group to evaluate the prolonged or significant nature of a decrease in fair value are generally the following:

- the decrease in value is prolonged when the share price at the market close has been lower than the cost price of the share for more than 18 months;
- the decrease in value is significant when there is a decrease of more than 30 per cent relative to the cost price, at the closing date.

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.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39 "Financial instruments: recognition and measurement".

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value taken into account the market value of the Group's credit risk (DVA) and the credit risk of the counterpart (CVA). The calculation of the credit risk follows a common model based on default probabilities from CDS counterparts. 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 derivative fair value 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 as earnings;
- *derivatives classified as cash-flow hedge*: the changes in fair value 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 derivatives. When the termination occurs, the residual ineffective portion is recycled on the hedged item;
- *derivatives classified as trading*: changes in the derivative fair value are recorded as financial income or losses.

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 coupons due for 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.

Long-term debt

Long-term debt is recognized initially at fair value. Subsequent to the initial measurement, long-term debt is recorded:

- at their net book value for bonds;
- based on amortized cost calculated using the effective interest rate for the other long-term debt. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, i.e. the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

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 the valuation on a multiples basis 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 4.15, 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 4.15 is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in Note 4.21 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 definite useful life are amortized on a straight-line basis over the following periods:

Software and Information Technology developments	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.

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 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 of 20 years, assuming no residual value for most of the aircraft in the fleet. This useful life can, however, be extended to 25 years for some aircraft.

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 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

Leases

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long-term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related profits or losses are accounted for as follows:

- they are recognized immediately when it is clear that the transaction has been realized at fair value;
- if the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used;
- if the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

In the context of sale and finance leaseback transactions, the asset remains in the Group's balance sheet with the same net book value. Such transactions are a means whereby the lessor provides finance to the lessee, with the asset as security.

4.15 Impairment test

In accordance with IAS 36 "Impairment of Assets", tangible fixed assets, intangible 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 CGU's correspond to the Group's business segments: network, maintenance, leisure and others.

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.

4.16 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.

4.17 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.

4.18 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 and the impact of any plan curtailment.

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 net periodic 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").

4.19. Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft with a defined level of potential.

The Group provides for restitution costs related to aircraft under operating leases. This provision is based on the standard cost of a shop visit and is estimated using the phase-out costs indicated in the contract and taking into consideration the probability of the aircraft phase-out at the end of the contract.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess under "Flight equipment". Such amounts are subsequently amortized on a straight-line basis over the period during which the potential exceeds the restitution condition. Any remaining capitalized excess potential upon termination of a lease is reimbursable by the lessor.

4.20 Other provisions

The Group recognizes a provision in the balance sheet when the Group 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.

4.21 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:

- 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.

4.22 Equity and debt issuance costs

Debt issuance costs are mainly amortized as financial expenses over the term of the loans using the actuarial method.

Capital increase costs are deducted from paid-in capital.

4.23 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 4.15)*.

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 Territorial Economic Contribution

The 2010 Finance Law voted on December 30, 2009, removed the business tax liability for French fiscal entities as from January 1, 2010 and replaced it with the new TEC (Territorial Economic Contribution/ *Contribution Économique Territoriale* – CET) comprising two contributions: the LDE (land tax of enterprises/*Cotisation Foncière des Entreprises* – CFE) and the CAVE (Contribution on Added Value of Enterprises/*Cotisation sur la Valeur Ajoutée des Entreprises* – CVAE). The latter 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".

4.24 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, 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 not an associate anymore and is presented as a financial asset.

— Year ended December 31, 2016

In 2016, the Group sold:

- 49.99% of the Servair share capital. On 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. The impact of this operation is detailed in *Note 14*;
- 100% of the Cobalt Ground Solutions Limited share capital. The impact of this operation is detailed in *Note 11*.

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. As from the end of 2017, the activities of Joon contributes to the performances of network. 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.

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 EBITDAR, 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 geographic 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, 2017 (in € millions)	Network [2]	Maintenance	Transavia	Other	Non allocated	Total
Total sales	22,522	4,177	1,438	250	-	28,387
Intersegment sales	(42)	(2,354)	(2)	(208)	-	(2,606)
External sales	**22,480**	**1,823**	**1,436**	**42**	**-**	**25,781**
EBITDAR [1]	3,605	410	320	17	-	4,352
EBITDA [1]	2,672	410	167	15	-	3,264
Income from current operations	1,192	215	81	-	-	1,488
Income from operating activities	(711)	214	78	-	-	(419)
Share of profits (losses) of associates	-	4	-	17	-	21
Net cost of financial debt and other financial income and expenses	-	-	-	-	(98)	(98)
Income taxes	-	-	-	-	229	229
Net income from continuing operations	**(711)**	**218**	**78**	**17**	**131**	**(267)**
Depreciation and amortization for the period	(1,316)	(225)	(56)	(16)	-	(1,613)
Other non-monetary items	(2,127)	24	(10)	469	177	(1,467)
Total assets	**12,593**	**3,509**	**857**	**16**	**7,433**	**24,408**
Segment liabilities	7,677	1,290	503	291	4,184	13,945
Financial debt, bank overdraft and equity	-	-	-	-	10,463	10,463
Total liabilities	**7,677**	**1,290**	**503**	**291**	**14,647**	**24,408**
Purchase of property, plant and equipment and intangible assets (continuing operations)	**1,543**	**357**	**268**	**143**	**1**	**2,312**

(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 €7.4 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €5 billion, pension assets of €0.6 billion, financial assets of €0.7 billion, deferred tax of €0.4 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, bank overdrafts and equity are not allocated.

Year ended December 31, 2016 (restated) (in € millions)	Network [2]	Maintenance	Transavia	Other	Non allocated	Total
Total sales	21,797	4,182	1,218	664	-	27,861
Intersegment sales	(46)	(2,348)	-	(623)	-	(3,017)
External sales	**21,751**	**1,834**	**1,218**	**41**	**-**	**24,844**
EBITDAR [1]	3,138	439	197	13	-	3,787
EBITDA [1]	2,214	439	49	12	-	2,714
Income from current operations	813	238	-	(2)	-	1,049
Income from operating activities	869	253	(1)	(5)	-	1,116
Share of profits (losses) of associates	(2)	(2)	-	(3)	-	(7)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(293)	(293)
Income taxes	-	-	-	-	(294)	(294)
Net income from continuing operations	**867**	**251**	**(1)**	**(8)**	**(587)**	**522**
Depreciation and amortization for the period	(1,286)	(231)	(40)	(14)	-	(1,571)
Other non-monetary items	(466)	2	(300)	(505)	-	(1,269)
Total assets	**11,433**	**3,281**	**637**	**423**	**7,158**	**22,932**
Segment liabilities	7,613	1,280	435	24	3,834	13,186
Financial debt, bank overdraft and equity	-	-	-	-	9,746	9,746
Total liabilities	**7,613**	**1,280**	**435**	**24**	**13,580**	**22,932**
Purchase of property, plant and equipment and intangible assets (continuing operations)	**1,475**	**285**	**210**	**102**	**-**	**2,072**

(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 €7.2 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €3.9 billion, pension assets of €1.5 billion, financial assets of €0.6 billion, deferred tax of €0.3 billion and derivatives of €0.8 billion.

The non-allocated segment liabilities, amounting to €3.8 billion, mainly comprise pension provisions for €2.1 billion, a portion of other provisions for €0.3 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €0.2 billion.

Financial debts, bank overdrafts and equity are not allocated.

6.2 Information by geographical area

External sales by geographical area

Year ended December 31, 2017

(in € millions)	Metropolitan France	Benelux	Europe (except France and Benelux)	Africa	Middle-Eastern gulf and India (MEGI)	Asia Pacific	North America	West Indies, Caribbean, Guyana, Indian Ocean and South America (CILA)	Total
Network	6,188	2,274	4,733	1,111	579	2,069	3,142	1,465	21,561
Other network sales	372	159	130	53	12	96	61	36	919
Total network	**6,560**	**2,433**	**4,863**	**1,164**	**591**	**2,165**	**3,203**	**1,501**	**22,480**
Scheduled Transavia	567	722	111	2	10	3	5	2	1,422
Transavia-other sales	5	-	-	-	-	-	9	-	14
Total Transavia	**572**	**722**	**111**	**2**	**10**	**3**	**14**	**2**	**1,436**
Maintenance	1,017	694	23	-	-	-	89	-	1,823
Others	14	28	-	-	-	-	-	-	42
Total	**8,163**	**3,877**	**4,997**	**1,166**	**601**	**2,168**	**3,306**	**1,503**	**25,781**

Year ended December 31, 2016 (restated)

(in € millions)	Metropolitan France	Benelux	Europe (except France and Benelux)	Africa	Middle-Eastern gulf and India (MEGI)	Asia Pacific	North America	West Indies, Caribbean, Guyana, Indian Ocean and South America (CILA)	Total
Network [1]	6,012	2,150	4,660	1,127	565	1,962	3,012	1,265	20,753
Other network sales	409	115	196	57	13	113	60	35	998
Total network	**6,421**	**2,265**	**4,856**	**1,184**	**578**	**2,075**	**3,072**	**1,300**	**21,751**
Scheduled Transavia	454	645	89	-	8	2	7	1	1,206
Transavia-other sales	5	-	-	-	-	-	6	1	12
Total Transavia	**459**	**645**	**89**	**-**	**8**	**2**	**13**	**2**	**1,218**
Maintenance	1,072	637	23	-	-	1	101	-	1,834
Others	10	29	2	-	-	-	-	-	41
Total	**7,962**	**3,576**	**4,970**	**1,184**	**586**	**2,078**	**3,186**	**1,302**	**24,844**

(1) *See Note 2. in notes to the consolidated financial statements..*

Traffic sales by geographical area of destination

Year ended December 31, 2017

(in € millions)	Metropolitan France	Europe (except France) and North Africa	Caribbean, French Guyana, and Indian Ocean	Africa (except North Africa) and Middle East	North America, Mexico	South America (except Mexico)	Asia and New Caledonia	Total
Network	1,799	4,699	1,640	2,972	4,508	2,148	3,795	21,561
Scheduled Transavia	23	1,345	-	54	-	-	-	1,422
Total	**1,822**	**6,044**	**1,640**	**3,026**	**4,508**	**2,148**	**3,795**	**22,983**

Year ended December 31, 2016 (restated)

(in € millions)	Metropolitan France	Europe (except France) and North Africa	Caribbean, French Guyana, and Indian Ocean	Africa (except North Africa) and Middle East	North America, Mexico	South America (except Mexico)	Asia and New Caledonia	Total
Network [1]	1,829	4,376	1,665	2,962	4,352	1,997	3,572	20,753
Scheduled Transavia	21	1,145	-	40	-	-	-	1,206
Total	**1,850**	**5,521**	**1,665**	**3,002**	**4,352**	**1,997**	**3,572**	**21,959**

(1) *See Note 2.in notes to the consolidated financial statements.*

NOTE 7. EXTERNAL EXPENSES

Period from January 1 to December 31 (in € millions)	2017	2016
Aircraft fuel	**4,507**	4,597
Chartering costs	**403**	424
Landing fees and air route charges	**1,905**	1,900
Catering	**784**	445
Handling charges and other operating costs	**1,753**	1,565
Aircraft maintenance costs	**2,424**	2,469
Commercial and distribution costs	**935**	905
Other external expenses	**1,574**	1,958
Total	**14,285**	**14,263**
Excluding aircraft fuel	**9,778**	9,666

Following the acquisition of 49.9 per cent of Servair Group by Gategroup, the operational control was transferred to Gategroup. As a consequence, the Servair Group is consolidated according to the equity method since December 2016. The change in consolidation method is the main explanation of the variation in the catering expenses, handling charges and other operating costs and the other external expenses.

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)	2017	2016
Wages and salaries	**5,196**	5,234
Pension costs linked to defined contribution plans	**597**	580
Net periodic pension cost of defined benefit plans	**226**	238
Social contributions	**1,066**	1,056
Cost of temporary employees	**192**	155
Profit sharing	**324**	148
Other expenses	**23**	63
Total	**7,624**	**7,474**

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. As of December 31, 2016, the respective amount was €54 million. The share based compensation for KLM pilots is described in detail in *Note 29*.

Average number of employees

Period from January 1 to December 31	2017	2016
Flight deck crew	**7,746**	7,673
Cabin crew	**21,502**	20,942
Ground staff	**51,347**	53,560
Temporary employees	**2,927**	2,427
Total	**83,522**	**84,602**

NOTE 9. AMORTIZATION, DEPRECIATION AND PROVISIONS

Period from January 1 to December 31 (in € millions)	2017	2016
Amortization		
Intangible assets	**140**	127
Flight equipment	**1,273**	1,234
Other property, plant and equipment	**200**	210
	1,613	**1,571**
Depreciation and provisions		
Inventories	**9**	(9)
Trade receivables	**3**	(9)
Risks and contingencies	**151**	112
	163	**94**
Total	**1,776**	**1,665**

The amortization changes for intangible and tangible assets are presented in *Notes 17 and 19*.

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 31*.

NOTE 10. OTHER INCOME AND EXPENSES

Period from January 1 to December 31 (in € millions)	2017	2016
Capitalized production	**696**	767
Joint operation of routes	**(108)**	(89)
Operations-related currency hedges	**10**	155
Other	**37**	9
Other income and expenses	**635**	**842**

NOTE 11. OTHER NON-CURRENT INCOME AND EXPENSES

Period from January 1 to December 31 (in € millions)	2017	2016
Restructuring costs	**(24)**	(157)
Modification on pensions plans in the Netherlands	**(1,889)**	-
Cargo claim	**(60)**	(2)
Disposal of slots	**-**	49
Disposal of shares available for sale	**-**	133
Disposals of subsidiaries and affiliates	**3**	28
Other	**45**	(5)
Other non-current income and expenses	**(1,925)**	**46**

Year ended December 31, 2017

Restructuring costs

This line mainly includes an additional contribution to the Air France and KLM Voluntary Departure Plans and the costs linked to the closure of the Munich base of Transavia The Netherlands as of October 2017.

Modification of KLM pension schemes in The Netherlands

The KLM Pilot Pension Fund Board decided in 2016 to convert the accrued spouse's pension into additional old age pension. In 2017, the Dutch Ministry of Finance has 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 is 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 qualifies 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 is 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 qualifies 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. The impact of the derecognition of this asset and this additional contribution is a €1,593 million loss.

Cargo claim

The provision for the cargo claim has been adjusted by a net amount of € (60) million.

Other

As per November 16, 2017, Kenya Airways is not an equity affiliate anymore and has been reclassified to financial asset at fair value through income statement. The line "Other" mainly includes the revaluation of the 7.76 per cent of the shares in Kenya Airways at fair value, the recycling of the current translation adjustment reserve and the net book value of the pair of slot at Heathrow airport. The operation generates a one-off profit of €43 million. Reference is made to *Note 21* for additional information on the accounting treatment of Kenya Airways.

Year ended December 31, 2016

Restructuring costs

As of December 31, 2016, these included mainly:

- €137 million relating to the Voluntary Departure Plans announced by Air France in February 2016;
- €8 million relating to several Voluntary Departure Plans initiated in the other Air France establishments located abroad;
- €13 million relating to an additional provision for KLM's restructuring plans.

Sale of slots

The Group transferred two pairs of slots at London Heathrow airport to two other airlines. An amount of €49 million was recorded in respect of this operation as of December 31, 2016.

Disposal of shares available for sale

On December 23, 2016, the Group sold a block of 4.95 million shares in the Spanish company Amadeus IT Holding SA ("Amadeus"),

representing approximately 1.13 per cent of the company's share capital. This transaction generated:

- a positive result on the disposal of the shares amounting to €133 million in the "Other non-current income and expenses" line of the income statement;
- cash proceeds of €201 million.

After this operation, the Group still holds 4.95 million Amadeus shares. The value of these shares is completely covered by a hedging transaction.

Disposal of subsidiaries and affiliates

As of December 31, 2016, this included the impact of:

- the reclassification under "shares available for sales" of two affiliates previously accounted for under the equity method, amounting to a total of €8 million;
- the result on the disposal of the subsidiary Cobalt Ground Solutions Limited, amounting to €5 million. The cash proceeds on this disposal amounts to €15 million.

Other

As of December 31, 2016, this mainly included:

- the positive result relating to the disposal of two pieces of land for a total amount of €13 million;
- a provision of €7 million for onerous lease contracts on two Martinair B747 aircraft.

NOTE 12. OTHER FINANCIAL INCOME AND EXPENSES

Period from January 1 to December 31 (in € millions)	2017	2016
Income from marketable securities	**6**	12
Other financial income	**29**	37
Financial income	**35**	**49**
Loan interests	**(143)**	(183)
Lease interests	**(56)**	(57)
Capitalized interests	**15**	11
Other financial expenses	**(65)**	(80)
Gross cost of financial debt	**(249)**	**(309)**
Net cost of financial debt	**(214)**	**(260)**
Foreign exchange gains (losses), net	**212**	(105)
Change in fair value of financial instruments	**(88)**	60
Including:		
— fuel derivatives	**17**	99
— currency derivatives	**(54)**	(4)
— interest rates derivatives	**(11)**	3
— other derivatives	**(40)**	(38)
Net (charge)/release to provisions	**3**	55
Change in fair value of hedged shares	**53**	24
Other	**(64)**	(67)
Other financial income and expenses	**116**	**(33)**
Total	**(98)**	**(293)**

Net cost of financial debt

Financial income mainly consists of interest income and the result on the disposal of financial assets at fair value recorded in the income statement.

As of December 31, 2017 the gross cost of financial debt includes an amount of €16 million corresponding to the difference between the nominal and effective interest rates (after taking into account the equity component) on the OCEANE bonds (versus €22 million as of December 31, 2016).

Foreign exchange gains (losses)

As of December 31, 2017, the foreign exchange losses mainly include:

- an unrealized currency gain of €89 million on debt of which €78 million relates to the debt in Japanese Yen;
- an unrealized currency gain of €152 million linked to the revaluation of the US dollar portion of the maintenance provision.

As of December 31, 2016, the foreign exchange losses mainly included:

- unrealized currency losses of €47 million on Japanese Yen debt and €21 million on US$ debt;
- an unrealized currency loss of €17 million linked to the revaluation of the US dollar portion of the maintenance provision.

Net (charge)/release to provisions

As of December 31, 2016, as the European Commission had not appealed the decision taken by European Court by February 29, 2016, the Group released to the consolidated income statement the €41 million provision covering the accrued interest on the fine imposed concerning the litigation relating to anti-trust legislation in the air freight industry.

Change in fair value of hedged shares

This line presents the revaluation of the hedged Amadeus shares at fair value. *(See Note 36.1)*. The variation of the derivative instrument covering these shares, is included in line "Change in fair value of financial instruments".

Others

As of December 31, 2017 and 2016, this line comprises the accretion effect on long-term provisions amounting to €56 million and €59 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)	2017	2016
Current tax (expense)/income	**(32)**	**(31)**
Change in temporary differences	**177**	(99)
CAVE impact	**3**	3
(Use/de-recognition)/recognition of tax loss carry forwards	**81**	(167)
Deferred tax income/(expense) from continuing operations	**261**	**(263)**
Total	**229**	**(294)**

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.

— 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.

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 is reflected in a reduction in the deferred tax assets and creates a deferred tax charge of €15 million.

In 2016, the Group had already recorded the impact of this reduction by Finance Law in income tax rate from 34.43 per cent to 28.92 per cent applicable to the French fiscal group as from fiscal year 2020. This change resulted in a reduction in the deferred tax asset, and thus a deferred tax charge of €102 million.

— 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.

In 2015, some accounting principles in the KLM income tax fiscal unity were changed as a result of which the result for tax purposes increased by €730 million. This higher result was fully offset by tax losses carried forward. In 2017, these accounting principles have been fully reversed, by re-filing the 2015 corporate income tax return.

As at December 31, 2017, the recoverability of the deferred tax losses corresponds to a period of two years.

As of December 31, 2016, the income taxes of the Dutch fiscal group include a positive €70 million corresponding to the use of non-recognized fiscal losses. €65 million of this deferred tax asset on non-recognized fiscal losses concerns the Dutch fiscal group and €5 million concerns the company Martinair prior to its inclusion in the Dutch fiscal group.

13.2 Deferred tax recorded in equity (equity holders of Air France-KLM)

Period from January 1 to December 31 (in € millions)	2017	2016
Treasury shares	-	2
Coupons on Perpetual	13	13
Other comprehensive income that will be reclassified to profit and loss	(41)	(352)
Assets available for sale	(3)	7
Derivatives	(38)	(359)
Other comprehensive income that will not be reclassified to profit and loss	(205)	114
Pensions	(205)	114
Total	(233)	(223)

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)	2017	2016
Income before tax	(517)	823
Standard tax rate in France	34.43%	34.43%
Theoretical tax calculated based on the standard tax rate in France	178	(283)
Differences in French/foreign tax rates	(92)	56
Non-deductible expenses or non-taxable income	(13)	68
Variation in unrecognized deferred tax assets	171	(20)
Impact of change in income-tax rate	(15)	(102)
CAVE impact	(15)	(18)
Other	15	5
Income tax expenses	229	(294)
Effective tax rate	44.3%	35.8%

In 2017, the applicable tax rate for the French fiscal group is 44.43%. This tax rate includes a one-time additional contribution of 10 per cent.

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, 2017	Amounts recorded in income statement	Amounts recorded in OCI	Reclassification and other	December 31, 2017
Flight equipment	(1,234)	(25)	-	-	**(1,259)**
Pension assets	(315)	438	(197)	(2)	**(76)**
Financial debt	849	(80)	-	22	**791**
Deferred revenue on ticket sales	209	(48)	-	-	**161**
Debtors and creditors	(95)	34	(39)	(7)	**(107)**
Provisions	237	(168)	(5)	(1)	**63**
Others	(301)	29	(5)	8	**(269)**
Deferred tax corresponding to fiscal losses	838	81	-	-	**919**
Deferred tax asset/(liability) net	**188**	**261**	**(246)**	**20**	**223**

(in € millions)	January 1, 2016 (restated)	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Reclassification and other	December 31, 2016
Flight equipment	(1,193)	(43)	-	-	2	(1,234)
Pension assets	(396)	(19)	101	-	(1)	(315)
Financial debt	845	(5)	-	13	(4)	849
Deferred revenue on ticket sales	214	(5)	-	-	-	209
Debtors and creditors	306	(42)	(359)	-	-	(95)
Provisions	248	(15)	13	-	(9)	237
Others	(346)	33	7	2	3	(301)
Deferred tax corresponding to fiscal losses	1,013	(167)	-	-	(8)	838
Deferred tax asset/(liability) net	**691**	**(263)**	**(238)**	**15**	**(17)**	**188**

— French fiscal group

The deferred taxes recognized on fiscal losses for the French fiscal group amount to €668 million as of December 31, 2017 with a basis of €2,432 million. The results outlook for the coming seven years has allowed the Group partially to reverse the provision on deferred tax losses, amounting to €125 million. The total deferred-tax position of the French fiscal group is a net asset of €92 million.

As of December 31, 2016 the deferred taxes recognized on fiscal losses for the French fiscal group amounted to €600 million, with a basis of €2,036 million.

— Dutch fiscal group

The deferred taxes recognized on fiscal losses for the Dutch fiscal group amounts to €196 million as of December 31, 2017 versus €220 million as of December 31, 2016 with respective bases of €786 million and €882 million.

13.5. Unrecognized deferred tax assets

(in € millions)	December 31, 2017		December 31, 2016	
	Basis	Tax	Basis	Tax
Temporary differences	**767**	**197**	807	276
Tax losses	**4,608**	**1,187**	5,120	1,475
Total	**5,375**	**1,384**	**5,927**	**1,751**

— French fiscal group

As of December 31, 2017, the cumulative effect on the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €1,327 million (corresponding to a basis of €5,134 million), of which €1,106 million relating to tax losses and €221 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

As of December 31, 2016, the cumulative effect on the limitation of deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €1,667 million (corresponding to a basis of €5,615 million), of which €1,396 million relating to tax losses and €271 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

— Dutch fiscal group

As of December 31, 2017, 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 United Kingdom.

NOTE 14. NET INCOME FROM DISCONTINUED OPERATIONS

Period from January 1 to December 31 (in € millions)	2017	2016
Net result of Servair Group	-	13
Disposals of subsidiaries and affiliates	**(4)**	123
Revaluation of investments in equity associates	**(4)**	134
Net income from discontinued operations	**(8)**	**270**

— As of December 31, 2017

In 2016, Air France sold 49.99% of its stake in Servair Group to gategroup. The final disposal price was partly based on the 2016 closing accounts of Servair Group. Based on the conditions in the purchase agreement, Air France Group accounted for a price adjustment of €(4) million and also lowered the value of the Group's remaining 50.01% shareholding in Servair Group. The total amount was recorded under "net income from discontinued operations" in December 2017.

— As of December 31, 2016

Net result of Servair Group

As of December 31, 2016, the breakdown of the Servair Group's results after intercompany eliminations is as follows:

Period from January 1 to December 31 (in € millions)	2016
Revenues	402
EBITDAR	56
EBITDA	56
Income from current operations	*50*
Non current item	(7)
Income from operating activities	*43*
Financial income	2
Income before tax	*45*
Income taxes	(20)
Share of profits (losses) of associates	(11)
Net income from discontinued operations	**13**

Disposals of subsidiaries and affiliates

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 Servair's share capital. The gain realized amounted to €123 million and the cash proceeds to €218 million.

Revaluation of investments in equity associates

On 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. In accordance with IFRS 10, the shares retained in Servair have been revalued at their fair value. The impact of this revaluation amounts to a € 134 million positive.

NOTE 15. EARNINGS PER SHARE

15.1 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)	2017	2016
Net income for the period – Equity holders of Air France-KLM	**(274)**	792
Net income from continuing operations – Equity holders of Air France-KLM	**(266)**	522
Net income from discontinued operations – Equity holders of Air France-KLM	**(8)**	270
Coupons on perpetual	**(25)**	(25)
Basic net income for the period – Equity holders of Air France-KLM	**(299)**	767
Basic net income from continuing operations – Equity holders of Air France-KLM	**(291)**	497
Basic net income from discontinued operations – Equity holders of Air France-KLM	**(8)**	270

— **Results used for the calculation of diluted earnings per share:**

As of December 31 (in € millions)	2017	2016
Basic net income for the period – Equity holders of Air France-KLM	**(299)**	767
Basic net income for the period for continuing operations – Equity holders of Air France-KLM	**(291)**	497
Basic net income for the period for discontinued operations – Equity holders of Air France-KLM	**(8)**	270
Consequence of potential ordinary shares on net income: interests paid on convertible bonds *(after tax)*	**-**	20
Net income for the period – Equity holders of Air France-KLM *(taken for calculation of diluted earnings per share)*	**(299)**	787

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	2017	2016
Weighted average number of:		
— ordinary shares issued	**371,734,062**	300,219,278
— treasury stock held regarding stock option plan	**(1,116,420)**	(1,116,420)
— other treasury stock	**(31,678)**	(2,877,251)
Number of shares used to calculate basic earnings per share	**370,585,964**	**296,225,607**
OCEANE conversion	**-**	53,386,532
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**370,585,964**	**349,612,139**

The change in the number of ordinary shares issued is disclosed in *Note 28.1*.

15.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of December 31, 2017.

15.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

NOTE 16. GOODWILL

16.1 Detail of consolidated goodwill

As of December 31

	2017			2016		
(in € millions)	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Network	**197**	**-**	**197**	196	-	196
Maintenance	**23**	**(4)**	**19**	26	(5)	21
Other	**-**	**-**	**-**	1	-	1
Total	**220**	**(4)**	**216**	**223**	**(5)**	**218**

16.2 Movement in net book value of goodwill

As of December 31

(in € millions)	2017	2016
Opening balance	**218**	**247**
Change in scope		(30)
Currency translation adjustment	**(2)**	1
Closing balance	**216**	**218**

NOTE 17. INTANGIBLE ASSETS

(in € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of December 31, 2015	**280**	**109**	**1,368**	**1,757**
Additions	-	-	210	210
Change in scope	-	-	(29)	(29)
Disposals	-	-	(53)	(53)
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**
Depreciation				
Amount as of December 31, 2015	**(5)**	**(107)**	**(627)**	**(739)**
Charge to depreciation	(1)	(1)	(125)	(127)
Releases on disposals	-	-	32	32
Change in scope	-	-	19	19
Reclassification	-	-	(4)	(4)
Amount as of December 31, 2016	**(6)**	**(108)**	**(705)**	**(819)**
Charge to depreciation	-	(1)	(140)	(141)
Releases on disposals	-	-	21	21
Reclassification	-	-	36	36
Amount as of December 31, 2017	**(6)**	**(109)**	**(788)**	**(903)**
Net value				
As of December 31, 2016	274	1	791	1,066
As of December 31, 2017	**274**	**-**	**848**	**1,122**
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 18. IMPAIRMENT

Year ended December 31, 2017

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, 2017. 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 7.5 per cent as at December 31, 2017 versus 7.0 per cent as at December 31, 2016.

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 CGUs as of December 31, 2017. 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, 2016

As of December 31, 2016, no impairment was recognized on the Group's CGU's.

NOTE 19. TANGIBLE ASSETS

(in € millions)	Flight equipment					Other tangible assets					
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	Total
Gross value											
As of December 31, 2015	**8,869**	**6,739**	**513**	**2,357**	**18,478**	**2,889**	**1,310**	**83**	**1,056**	**5,338**	**23,816**
Acquisitions	225	8	1,375	118	1,726	5	42	117	28	192	1,918
Disposals	(1,184)	(158)	(1)	(242)	(1,585)	(33)	(111)	(1)	(41)	(186)	(1,771)
Change in scope	-	-	-	-	-	(159)	(60)	(4)	(127)	(350)	(350)
Fair value	-	-	(16)	-	(16)	-	-	-	-	-	(16)
Reclassification	963	67	(1,255)	158	(67)	21	31	(80)	5	(23)	(90)
Currency translation	-	-	-	-	-	(2)	-	-	-	(2)	(2)
As of December 31, 2016	**8,873**	**6,656**	**616**	**2,391**	**18,536**	**2,721**	**1,212**	**115**	**921**	**4,969**	**23,505**
Acquisitions	273	(3)	1,386	194	1,850	13	24	152	34	223	2,073
Disposals	(995)	(129)	-	(199)	(1,323)	(25)	(9)	1	(16)	(49)	(1,372)
Fair value	-	-	313	-	313	-	-	-	-	-	313
Reclassification	1,732	(537)	(1,359)	126	(38)	60	29	(113)	5	(19)	(57)
Currency translation	-	-	-	(1)	(1)	1	(5)	1	(2)	(5)	(6)
As of December 31, 2017	**9,883**	**5,987**	**956**	**2,511**	**19,337**	**2,770**	**1,251**	**156**	**942**	**5,119**	**24,456**
Depreciation											
As of December 31, 2015	**(5,864)**	**(2,847)**	**-**	**(1,024)**	**(9,735)**	**(1,826)**	**(972)**	**-**	**(870)**	**(3,668)**	**(13,403)**
Charge to depreciation	(572)	(460)	-	(144)	(1,176)	(110)	(67)	-	(33)	(210)	(1,386)
Releases on disposal	1,134	158	-	142	1,434	30	48	-	40	118	1,552
Change in scope	-	-	-	-	-	119	44	-	94	257	257
Reclassification	(505)	514	-	51	60	4	9	-	-	13	73
Currency translation	-	-	-	-	-	1	-	-	-	1	1
As of December 31, 2016	**(5,807)**	**(2,635)**	**-**	**(975)**	**(9,417)**	**(1,782)**	**(938)**	**-**	**(769)**	**(3,489)**	**(12,906)**
Charge to depreciation	(608)	(455)	-	(148)	(1,211)	(102)	(62)	-	(36)	(200)	(1,411)
Releases on disposal	953	128	-	127	1,208	23	8	-	16	47	1,255
Reclassification	(837)	847	-	(7)	3	(5)	11	-	6	12	15
Currency translation	-	-	-	1	1	(1)	4	-	-	3	4
As of December 31, 2017	**(6,299)**	**(2,115)**	**-**	**(1,002)**	**(9,416)**	**(1,867)**	**(977)**	**-**	**(783)**	**(3,627)**	**(13,043)**
Net value											
As of December 31, 2016	3,066	4,021	616	1,416	9,119	939	274	115	152	1,480	10,599
As of December 31, 2017	**3,584**	**3,872**	**956**	**1,509**	**9,921**	**903**	**274**	**156**	**159**	**1,492**	**11,413**

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*.

The net book value of tangible assets financed under capital lease amounts to €4,170 million as of December 31, 2017 versus €4,356 million as of December 31, 2016.

NOTE 20. 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)	2017	2016
Acquisition of tangible assets	**2,055**	1,915
Acquisition of intangible assets	**248**	210
Accounts payable on acquisitions and capitalized interest	**9**	(53)
Subtotal	**2,312**	2,072
Total	**2,312**	**2,072**

NOTE 21. EQUITY AFFILIATES

Movements over the period

The table below presents the movement in investments in associates and joint ventures:

(in € millions)	Network	Maintenance	Servair Group	Other	Total
Carrying value of share in investment as of December 31, 2015	**(3)**	**48**	**45**	**28**	**118**
Share in net income of equity affiliates	(5)	(1)	-	4	**(2)**
Distributions	-	-	-	(5)	**(5)**
Change in consolidation scope	-	-	(44)	-	**(44)**
Other variations	7	2	218	(5)	**222**
Currency translation adjustment	1	-	(1)	-	**-**
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**

Network

On November 16, 2017, Kenya Airways Ltd. announced that its debt and equity restructuring had been finalized. Among others things, this resulted in the Group's equity interest in its associate decreasing from 26.73 per cent to 7.76 per cent and the Group losing its ability to exercise a significant influence over Kenya Airways. Consequently Kenya Airways is no longer an equity affiliate and has been reclassified as a financial asset at fair value through income statement. Reference is made to *Notes 11 and 23*.

Maintenance

As of December 31, 2017 and 2016, 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, for which the 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: the catering during flight and collective, the airport services and additional services like engineering and the integration of services.

In 2017, within the framework of the agreement with Burger King, an acceleration in the fast food activities has been realized in Ivory Coast, Kenya and Ghana.

As of December 31 2016, the Servair company being controlled by Air France, the investments in equity associates corresponded to joint-ventures partnerships concluded within the framework of the world development of the catering activity of the Servair Group.

In March 2016, Air France was engaged in a process of share capital opening of the Servair Group. Since this date, Servair and its subsidiaries were presented as discontinued activities according to IFRS 5 standard "Non-current Assets Held for Sale and Discontinued Operations".

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 is consolidated according to the equity method since December 30, 2016.

Movements of the investments in equity associates occurred during the year 2016 correspond:

- on one hand to the exit of the investments in equity associates directly or indirectly held by Servair at the time of the classification in discontinued activities for an amount of €(44) million;
- on the other hand to the reclassification of the kept shares by the Group in the capital of Servair at the time of the transfer of the control to gategroup. According to the standard IFRS 10, the Servair shares were revalued at their fair value. This one was determined on the basis of the value of the transaction. It amounts to €218 million.

The simplified financial statements of the Servair Group as of December 31 2017 are as follows:

Simplified income statement

Period from January 1 to December 31

(in € millions)	2017	2016
Sales	**869**	824
Income from current operations	***48***	*34*
Non-current items	**(15)**	(8)
Income from operating activities	***33***	*26*
Financial result	**(1)**	2
Income before tax	***32***	*28*
Income taxes	**(17)**	(21)
Share of profits (losses) of associates	4	-
Net result	**19**	**7**

Simplified balance sheet

Asset

(in € millions)	December 31, 2017	December 31, 2016
Non-current asset	**192**	200
Current asset	**288**	250
Total asset	**480**	**450**

Liabilities and equity

(in € millions)	December 31, 2017	December 31, 2016
Equity	**192**	192
Non-current liability	**90**	78
Current liability	**198**	180
Total liabilities and equity	**480**	**450**

Other

As of December 31, 2017 and 2016, 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)	2017	2016
Opening balance	**1,462**	**1,773**
Net periodic pension (cost)/income for the period	**(1,789)**	(111)
Contributions paid to the funds	**128**	170
Fair value revaluation	**789**	(370)
Closing balance	**590**	**1,462**

The analysis on the pensions assets is presented in *Note 30*.

NOTE 23. OTHER FINANCIAL ASSETS

As of December 31 (in € millions)	2017		2016	
	Current	Non-current	Current	Non-current
Financial assets available for sale				
Available shares	**-**	**102**	-	29
Shares secured	**-**	**298**	-	214
Assets at fair value through profit and loss				
Marketable securities	**41**	**32**	38	15
Cash secured	**269**	**-**	50	-
Loans and receivables				
Financial lease deposit *(bonds)*	**93**	**286**	19	279
Financial lease deposit (others)	**9**	**333**	8	327
Loans and receivables	**9**	**216**	15	222
Gross value	**421**	**1,267**	**130**	**1,086**
Impairment at opening date	**-**	**(22)**	-	(23)
New impairment charge	**-**	**(6)**	-	(9)
Reversal	**-**	**10**	-	5
Change in scope	**-**	**1**	-	4
Other	**-**	**(8)**	-	1
Impairment at closing date	**-**	**(25)**	**-**	**(22)**
Total	**421**	**1,242**	**130**	**1,064**

Financial assets available for sale

(in € millions)	Fair Value	% interest	Stockholder's equity	Net income	Stock price (in €)	Closing date
As of December 31, 2017						
Amadeus [1]	298	1.11%	ND	ND	60.11	December 2017
Alitalia-CAI	-	1.00%	ND	ND	NA	December 2017
Kenya Airways [1]	61	7.76%	ND	ND	0.13	December 2017
Other	41	-	-	-	-	-
Total	**400**					
As of December 31, 2016						
Amadeus [1]	214	1.11%	NA	NA	43.17	December 2016
Alitalia-CAI	-	1.00%	NA	NA	NA	December 2016
Other	29	-	-	-	-	-
Total	**243**					

(1) Listed company.
ND: not-available.
NA: not-applicable.

— 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 is now accounted as financial asset at fair value through income statement. Reference is made to *Notes 11 and 21*.

— Year ended December 31, 2016

On December 23, 2016, the Group sold a block of 4.95 million shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), representing approximately 1.13 per cent of the capital of the Company.

After this transaction, the Group still holds 4.95 million Amadeus shares. The value of these shares is fully covered by a hedging transaction concluded in May and June 2016 *(see Note 35.1)*.

Assets at fair value through profit and loss

The assets at fair value through profit and loss mainly comprise shares in mutual funds that are not classified as "cash equivalents" and cash pledged.

Loans and receivables

Loans and receivables mainly include deposits on flight equipment made within the framework of operational and capital leases.

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, 2017, the amount of transferred receivables stood at €104 million (versus €106 million as of December 31, 2016). The associated loan stood at €81 million as of December 31, 2017 and 2016).

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 of Amadeus shares 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, cargo and airline trade receivables.

These agreements apply to receivables originating in France and other European countries for a total transferred amount of €190 million as of December 31, 2017, against €193 million as of December 31, 2016.

The Group retains the risk of dilution regarding these transferred assets for which guarantees have been secured for €13 million as of December 31, 2017 versus €15 million as of 2016.

NOTE 24. INVENTORIES

As of December 31 (in € millions)	2017	2016
Aeronautical spare parts	**587**	591
Other supplies	**122**	117
Production work in progress	**7**	11
Gross value	**716**	**719**
Opening valuation allowance	**(153)**	(162)
Charge to allowance	**(14)**	(9)
Use of allowance	**5**	18
Currency translation adjustment	**1**	-
Reclassification	**2**	-
Closing valuation allowance	**(159)**	**(153)**
Net value of inventory	**557**	**566**

NOTE 25. TRADE ACCOUNTS RECEIVABLES

As of December 31 (in € millions)	2017	2016
Airlines	**391**	354
Other clients:		
— network	**1,122**	942
— maintenance	**628**	598
— other	**109**	59
Gross value	**2,250**	**1,953**
Opening valuation allowance	**(85)**	(105)
Charge to allowance	**(66)**	(9)
Use of allowance	**23**	18
Change of scope	**-**	10
Currency translation adjustment	**2**	(1)
Reclassification	**12**	2
Closing valuation allowance	**(114)**	**(85)**
Net value	**2,136**	**1,868**

NOTE 26. OTHER ASSETS

As of December 31 (in € millions)	2017 Current	2017 Non-current	2016 Current	2016 Non-current
Suppliers with debit balances	**159**	**-**	143	-
State receivables (including income tax)	**157**	**-**	115	-
Derivative instruments	**491**	**206**	396	404
Prepaid expenses	**172**	**-**	173	-
Other debtors	**286**	**33**	279	44
Gross value	**1,265**	**239**	**1,106**	**448**
Opening valuation allowance	**(1)**	**-**	(3)	-
Change in scope	**-**	**-**	2	-
Closing valuation allowance	**(1)**	**-**	**(1)**	**-**
Other	**1,264**	**239**	**1,105**	**448**

As of December 31, 2017, non-current derivatives include €19 million relating to currency hedges on financial debt, against €54 million as of December 31, 2016.

As of December 31, 2017, current derivatives include €4 million relating to currency hedges on financial debt, against €3 million as of December 31, 2016.

NOTE 27. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

As of December 31 (in € millions)	2017	2016
Liquidity funds (SICAV) (assets at fair value through profit and loss)	**2,261**	1,856
Bank deposits and term accounts (assets at fair value through profit and loss)	**1,772**	1,349
Cash in hand	**640**	733
Total cash and cash equivalents	**4,673**	**3,938**
Bank overdrafts	**(6)**	(5)
Cash, cash equivalents and bank overdrafts	**4,667**	**3,933**

NOTE 28. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA

28.1 Issued capital

As of December 31, 2017, 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)	2017	2016
At the beginning of the period	**300,219,278**	**300,219,278**
French State	**61,241,325**	52,763,693
Delta Air Lines, Inc.	**37,527,410**	-
China Eastern Airlines	**37,527,410**	-
Employees and former employees	**16,781,090**	18,981,625
Treasury shares	**1,146,376**	1,149,203
Others	**274,410,424**	227,324,757
At the end of the period	**428,634,035**	**300,219,278**
Of which:		
— number of shares issued and paid up	**428,634,035**	300,219,278
— 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 capital participation of Delta Air Lines, Inc. and 37,527,410 new shares were issued due to the capital participation of China Eastern Airlines. These shares were issued with a €338 million share premium.

By decision published October 16, 2017, Air France-KLM proceeded to the early redemption of the OCEANE with due date February 15, 2023. Almost all the holders converted their securities in shares. Consequently 53,359,937 new shares were issued in November 2017, with a share premium of €496 million.

After deducting the issuing costs, the net increase of the share premium, for these two transactions, is established in €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' Meeting of May 16, 2017 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, outside the context of public tender offers, 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 €150 million.

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	2017	2016	2017	2016
French State	**14**	18	**23**	27
Delta Air Lines, Inc.	**9**	-	**7**	-
China Eastern Airlines	**9**	-	**7**	-
Employees and former employees	**4**	6	**7**	10
Other	**64**	76	**56**	63
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)".

Other securities giving access to common stock

OCEANE

See Note 32.2.

28.2 Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of 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, 2015	**4,149,595**	**(85)**
Change in the period	(3,000,392)	18
December 31, 2016	**1,149,203**	**(67)**
Change in the period	(2,827)	-
December 31, 2017	**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. They 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 October 3, 2016 and 2017, Air France-KLM disbursed coupons of €38 million relating to this instrument.

28.5 Reserves and retained earnings

(in € millions)	December 31, 2017	December 31, 2016
Legal reserve	**70**	70
Distributable reserves	**15**	176
Pension defined benefit reserves	**(1,386)**	(3,094)
Derivatives reserves	**175**	102
Available for sale securities reserves	**249**	161
Other reserves	**(948)**	(727)
Net income (loss) – Group share	**(274)**	792
Total	**(2,099)**	**(2,520)**

As of December 31, 2017, the legal reserve of €70 million represents 16 per cent of Air France-KLM's issued capital. French company law requires that a limited company (*société anonyme*) allocates 5 per cent of its unconsolidated statutory net income each year to this legal reserve until it reaches 10 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.

NOTE 29. SHARE-BASED COMPENSATION

The Air France-KLM Group has no significant stock option plans or share-based plans with settlement in cash (Phantom Performance Shares) index-linked to the change in the Air France-KLM share price as of December 31, 2017 and December 31, 2016 (*see section 1 of the Registration Document*).

Following the CLA agreement concluded in August 2015 between KLM and the pilot union VNV, Air France-KLM and KLM reached an agreement on December 8, 2016 with the VNV and the independent foundation for KLM pilots created by the VNV. As of December 31, 2017 within the framework of this agreement, the Group recorded a €27 million cost in "Other expenses" in *Note 8*. In 2016 these expenses amounted to €54 million and related to the years 2015 and 2016.

Under this agreement, and in consideration for the August 2015 agreement, on December 12, 2016 KLM financed the acquisition related to 2015 and 2016 by the foundation and at the market price of three million of Air France-KLM treasury shares, representing around 1 per cent of Air France-KLM's share capital, and paid a cash amount of about €12 million to the foundation enabling the latter to acquire Air France-KLM shares in the market. For 2017, the share based compensation has not yet been settled.

NOTE 30. RETIREMENT BENEFITS

(in € millions)	Retirement benefits
Amount as of December 31, 2015	**1,995**
of which: non-current	*1,995*
New provision	126
Use of provision	(68)
Fair value revaluation	178
Currency translation adjustment	(21)
Reclassification	(47)
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*

Pension costs are recorded in the line "salaries costs", except for plan 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 2016 and 2017 are presented in *Note 30.3*.

30.1 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. The age of retirement defined in the plan increased from 67 years to 68 years as per January 1, 2018.

The Board of the pension fund is composed of members appointed by the employer and employees. 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 from 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 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 115.3 per cent as of December 31, 2017 versus 103.4 per cent as of December 31, 2016.

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, 2017. 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 2 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 of €100,000 (increased to €105,075 as per 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 contributions are 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 Cockpit 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 Cockpit 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. 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 has been 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 on the 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 life annuity guaranteed by insurers doesn't 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.

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, 2017, 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.

30.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation were made as of December 31, 2017 and December 31, 2016. These calculations include:

- assumptions on staff turnover and life expectancy of the beneficiaries of the plan;
- 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	2017	2016
Euro zone – Duration 10 to 15 years	**1.65%**	1.50%
Euro zone – Duration 15 years and more	**1.80%**	1.75%

- 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	2017	2016
Euro zone – Duration 10 to 15 years	**1.25%**	1.50%
Euro zone – Duration 15 years and more	**1.90%**	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 upper of 15bp with regard to the one used for the discount of the obligation.

- On an average basis, the main assumptions used to value the liabilities are summarized below:

  The rate of salary increase (excluding inflation) is 1.20 per cent for the Group as of December 31, 2017 against 1.18 per cent as of December 31, 2016.

  The rate of pension increase (excluding inflation) is 1.06 per cent for the Group as of December 31, 2017 against 1.14 per cent as of December 31, 2016.

- 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, 2017	Sensitivity of the assumptions for the year ended December 31, 2016
25 bp increase in the inflation rate	**250**	252
25 bp decrease in the inflation rate	**(238)**	(233)

Sensitivity to changes in the discount rate

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2017	Sensitivity of the assumptions for the year ended December 31, 2016
100 bp increase in the discount rate	**(1,793)**	(3,526)
100 bp decrease in the discount rate	**2,356**	4,677

Sensitivity to changes in salary increase (excluding inflation)

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2017	Sensitivity of the assumptions for the year ended December 31, 2016
25 bp increase in the salary increase rate	**73**	114
25 bp decrease in the salary increase rate	**(66)**	(99)

Sensitivity to changes in pension increase

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2017	Sensitivity of the assumptions for the year ended December 31, 2016
25 bp increase in the pension increase rate	**451**	934
25 bp decrease in the pension increase rate	**(352)**	(739)

30.3 Evolution of commitments

The following table details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended December 31, 2017 and December 31, 2016.

	As of December 31, 2017			As of December 31, 2016		
(in € millions)	Netherlands	France	Others	Netherlands	France	Others
Benefit obligation at beginning of year	**17,994**	**2,211**	**950**	**16,220**	**2,226**	**892**
Service cost	**123**	**67**	**24**	128	64	12
Interest cost	**309**	**31**	**25**	377	38	29
Employees' contribution	**162**	**-**	**1**	100	-	-
Plan amendments and curtailment	**(5)**	**6**	**(2)**	38	(48)	-
Change in consolidation scope	**-**	**-**	**-**	-	(45)	(6)
Settlements (mainly transformation of Cockpit and Cabin pension plans)	**(9,875)**	**-**	**-**	-	-	-
Benefits paid	**(390)**	**(115)**	**(41)**	(406)	(96)	(44)
Actuarial loss/(gain) demographic assumptions	**-**	**(36)**	**(11)**	8	4	2
Actuarial loss/(gain) financial assumptions	**163**	**105**	**9**	1,513	65	186
Actuarial loss/(gain) experience gap	**(135)**	**7**	**(27)**	16	3	(27)
Change in currency exchange rates	**-**	**1**	**(39)**	-	-	(94)
Benefit obligation at end of year	**8,346**	**2,277**	**889**	**17,994**	**2,211**	**950**
including benefit obligation resulting from schemes totally or partly funded	**8,151**	**2,199**	**788**	*17,797*	*2,142*	*846*
including unfunded benefit obligation	**195**	**78**	**101**	*197*	*69*	*104*
Fair value of plan assets at beginning of year	**19,259**	**657**	**582**	**17,806**	**712**	**598**
Actual return on plan assets	**1,155**	**23**	**37**	1,577	16	78
Employers' contributions	**247**	**39**	**17**	170	28	16
Employees' contributions	**162**	**-**	**1**	100	-	-
Change in consolidation scope	**-**	**-**	**-**	-	(7)	-
Settlements (mainly transformation of Cockpit and Cabin pension plans)	**(11,779)**	**-**	**(1)**	-	-	-
Benefits paid	**(376)**	**(68)**	**(29)**	(394)	(92)	(37)
Change in currency exchange rates	**(1)**	**(1)**	**(24)**	-	-	(73)
Fair value of plan assets at end of year	**8,667**	**650**	**583**	**19,259**	**657**	**582**
Amounts recorded in the balance sheet (1):						
Pension asset	**590**	**-**	**-**	1,462	-	-
Provision for retirement benefits	**(269)**	**(1,627)**	**(306)**	(197)	(1,554)	(368)
Net amount recognized	**321**	**(1,627)**	**(306)**	**1,265**	**(1,554)**	**(368)**
Net periodic cost:						
Service cost	**123**	**67**	**24**	128	64	12
Interest cost	**(27)**	**22**	**9**	(41)	26	8
Plan amendments, curtailment and settlement	**1,899**	**6**	**(1)**	38	(48)	-
Actuarial losses/(gain) recognized in income statement	**(3)**	**1**	**-**	3	-	-
Net periodic cost	**1,992**	**96**	**32**	**128**	**42**	**20**

(1) All the obligations are recorded as non-current liabilities, except for the pension plans for which the balance is a net asset fully recorded as a non-current asset.

Amendments, curtailment and settlement of pension plans

— As of December 31, 2017

After the amendments to the KLM Cockpit Crew pension plan relating to the reversion, the accrual rate has been decreased from 1.28% to 1.11% as per July 1, 2017. The impact of this change is a €15 million profit.

The KLM Cabin Crew and Cockpit Crew pension plan 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 of the two plans. This charge amounted to €1,904 million and has been recorded under "Other non current income and expenses" *(see Note 11)*.

— As of December 31, 2016

As of December 31, 2016, a curtailment of the pension plan at Air France and its regional subsidiaries was made, amounting to a €46 million gain, within the framework of the Voluntary Departure Plan.

As of December 31, 2016, a plan amendment amounting to €38 million had been recorded concerning the KLM pension schemes for ground staff and cabin crew. This plan amendment corresponded to additional pension benefits linked to an increase in the employee's contribution offset by an increase in their salaries. All these operations were cash neutral.

Change in consolidation scope

As of December 31, 2016, the change in consolidation scope represents the removal of commitments and hedging assets concerning Servair pension plan.

30.4 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, 2017		Funds invested as of December 31, 2016	
	France	The Netherlands	France	The Netherlands
Equities	**33%**	**40%**	35%	38%
Bonds	**47%**	**47%**	46%	50%
Real estate	**-**	**9%**	-	12%
Others	**20%**	**4%**	19%	-
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 and the emerging countries.

The real estate assets are mainly located in Europe and the United States.

The Group's pension assets do not include assets occupied or used by the Group.

30.5 Expected cash flows and risks linked to the pension obligations

The expected cash flows relating to the defined benefit pension plans amount to €136 million for the year ending December 31, 2018. The weighted average duration of the obligation is 18 years.

The funding, capitalization and matching strategies implemented by the Group are presented in *Note 30.1*.

As indicated in this description, 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 this results 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 (actual funding ratios are presented in *Note 30.1*). 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. Nevertheless, in the event of unconditional indexation and of a coverage under the funding ratio, no extension of time is given to reach the required funding ratio.

For 2017, 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, 2017.

NOTE 31. OTHER PROVISIONS

(in € millions)	Maintenance and restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of December 31, 2015	**1,270**	**310**	**474**	**201**	**2,255**
Of which:					
— non-current	895	-	464	154	**1,513**
— current	375	310	10	47	**742**
New provision	368	173	24	151	716
Use of provision	(256)	(238)	(8)	(151)	**(653)**
Reversal of unnecessary provisions	(32)	(13)	(53)	(1)	**(99)**
Currency translation adjustment	18	(1)	-	1	**18**
Change in scope	-	-	(5)	(2)	**(7)**
Accretion impact	55	-	-	5	**60**
Reclassification	(34)	46	-	25	**37**
Amount as of December 31, 2016	**1,389**	**277**	**432**	**229**	**2,327**
Of which:					
— non-current	1,073	-	424	176	**1,673**
— current	316	277	8	53	**654**
New provision	388	19	79	80	**566**
Use of provision	(250)	(133)	(74)	(93)	**(550)**
Reversal of unnecessary provisions	(6)	(2)	(30)	(2)	**(40)**
Currency translation adjustment	(144)	-	-	(1)	**(145)**
Accretion impact	53	-	-	2	**55**
Reclassification	(16)	(2)	-	3	**(15)**
Amount as of December 31, 2017	**1,414**	**159**	**407**	**218**	**2,198**
Of which:					
— non-current	1,139	-	384	187	**1,710**
— current	275	159	23	31	**488**

The movements in restructuring provision with a significant impact on the income statement are charged to "Other non-current income and expenses" *(see Note 11)*.

The movements in maintenance and restitution provisions relating to operational leased aircraft with a significant impact on the income statement are charged to "Amortization, depreciation and provisions". Only the effect of accretion is recognized in "Other financial income and expenses" *(see Note 12)*.

The discount rate used to calculate these maintenance and restitution provisions relating to operational leased aircraft, based on a short term risk-free increased by a spread on risky debt (used for companies with high financial leverage), is 4.6 per cent as of December 31, 2017 versus 5.2 per cent as of December 31, 2016.

The Group is exposed to the risk of variation in the discount rate mentioned above. A 25 basis point variation (increase or decrease) in this discount rate would have an impact of €6 million on the line "Amortization, depreciation and provisions" on the income statement.

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.

31.1 Provisions

31.1.1 Restructuring provisions

As of December 31, 2017 and 2016, restructuring provisions mainly concern the Voluntary Departure Plans of Air France and its regional subsidiaries and KLM.

31.1.2 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.

31.1.3 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 have 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 Group has provisioned the totality of this fine.

As of December 31, 2017, the total amount of provisions in connection with the anti-trust cases amounts to €328 million.

31.1.4 Other provisions

Other provisions relate principally to power-by-the-hour contracts (maintenance activity of the Group), provisions for onerous leases, provisions for the portion of CO_2 emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

31.2 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 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.

31.2.1 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 the other airlines, in a number of jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming damages to compensate alleged higher prices due to the 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" (in the UK for example). 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.

31.2.2 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.

31.2.3 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 31.1 and 31.2, the Group 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 Group's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

NOTE 32. FINANCIAL DEBT

As of December 31 (in € millions)	2017	2016
Non-current financial debt		
Perpetual subordinated loan stock in Yen	**229**	251
Perpetual subordinated loan stock in Swiss francs	**315**	349
OCEANE (convertible bonds)	**-**	507
Bonds	**1,128**	1,646
Capital lease obligations	**3,274**	3,567
Other debt	**1,118**	1,111
Total	**6,064**	**7,431**
Current financial debt		
Bonds	**500**	-
Capital lease obligations	**649**	696
Other debt	**154**	236
Accrued interest	**75**	89
Total	**1,378**	**1,021**

Change in financial debt

(in € millions)	December 31 2016	New financial debt	Non monetary change in financial lease	Reimbursment of financial debt	Currency translation adjustment	Other	December 31 2017
Perpetual subordinated loan stock	600	-	-	-	(56)	-	**544**
OCEANE & Bonds	2,153	16	-	-	-	(541)	**1,628**
Capital lease obligations	4,263	589	8	(711)	(82)	(144)	**3,923**
Other long-term debt	1,347	187	6	(332)	(11)	75	**1,272**
Accrued interest	89	-	-	-	-	(14)	**75**
Total	**8,452**	**792**	**14**	**(1,043)**	**(149)**	**(624)**	**7,442**

32.1 Perpetual subordinated bond

32.1.1 Perpetual subordinated loan in Japanese Yen

The perpetual subordinated loan in Japanese Yen was executed by KLM in 1999 for a total amount of JPY 30 billion, i.e. €229 million as of December 31, 2017. Until 2019, this perpetual subordinated loan is subject to the payment of a coupon of 5.28 per cent on a notional of US$ 248 million.

The loan can be early redeemed at the Group's discretion as of August 28, 2019 or every ten-year thereafter.

This debt is subordinated to all other existing and future KLM debts.

32.1.2 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. €315 million as of December 31, 2017.

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.

32.2 OCEANE

32.2.1 OCEANE issued in 2005

On April 1, 2016, the Group redeemed the OCEANE issued in 2005. The relating swap expired on this same date.

32.2.2 OCEANE issued in 2013

On March 28, 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at February 15, 2023 for a total nominal amount of €550 million. Each bond has a nominal value of €10.30. The annual coupon amounts to 2.03 per cent.

On October 16, 2017, Air France-KLM informed the holders of the OCEANEs of its decision to exercise its early redemption option on November 15, 2017, in respect of all the outstanding OCEANEs. Air France-KLM was entitled to this option right, provided the share price would exceed 130 percent of the nominal, amounting to €13.39.

Following the exercise by Air France-KLM of this early redemption option, nearly all the holders of OCEANEs have exercised their right to convert their OCEANEs into shares.

Exercise notices for 53,359,937 OCEANEs have been received, representing 99.96% of the outstanding OCEANEs as of October 16, 2017, giving right to the delivery of 53,359,937 ordinary shares with a nominal value of €1.00 each.

53,359,937 new shares have been delivered to the holders of OCEANEs having exercised their conversion rights, and have been admitted to trading on the regulated market of Euronext Paris between October 31, and November 17, 2017.

A total amount of approximately €249,000 has been paid in cash on November 15, 2017 to the holders of the 23,768 OCEANEs which have not exercised their conversion right.

Following this conversion, the share capital of Air France-KLM is increased by an amount of €53,359,937 and will amount to €428,634,035 comprising 428,634,035 ordinary shares with a nominal value of €1.00 each.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €443 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. As of December 31, 2017, no OCEANE is any longer recorded on the balance sheet.

32.3 Bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Reimbursement 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) Issuance bonds with Asian institutional investors by way of unlisted private placement.

32.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

As of December 31 (in € millions)	2017	2016
Aircraft		
Future minimum lease payments – due dates		
Y+1	**629**	682
Y+2	**629**	619
Y+3	**489**	622
Y+4	**492**	477
Y+5	**290**	478
Over 5 years	**1,296**	1,286
Total	**3,825**	**4,164**
Including:		
— principal	**3,644**	3,937
— interest	**181**	227
Buildings		
Future minimum lease payments – due dates		
Y+1	**61**	58
Y+2	**38**	61
Y+3	**39**	38
Y+4	**39**	39
Y+5	**40**	39
Over 5 years	**158**	197
Total	**375**	**432**
Including:		
— principal	**274**	320
— interest	**101**	112

As of December 31 (in € millions)	2017	2016
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	**1**	1
Y+2	**1**	1
Y+3	**1**	1
Y+4	**1**	1
Y+5	**1**	1
Over 5 years	**-**	2
Total	**5**	**7**
Including:		
— principal	**5**	6
— interest	**-**	1

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in *Note 23*.

32.5 Other debt

Other debt breaks down as follows:

As of December 31 (in € millions)	2017	2016
Reservation of ownership clause and mortgage debt	**768**	963
Other debt	**504**	384
Total	**1,272**	**1,347**

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 mortgagee 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 €22 million related to debt issuing expenses on financial debt.

32.6 Maturity analysis

The financial debt maturities break down as follows:

As of December 31 (in € millions)	2017	2016
Maturities in:		
Y+1	**1,543**	1,227
Y+2	**866**	1,577
Y+3	**900**	1,495
Y+4	**1,519**	855
Y+5	**940**	1,420
Over 5 years	**2,428**	2,915
Total	**8,196**	**9,489**
Including:		
— principal	**7,442**	8,452
— interest	**754**	1,037

As of December 31, 2017, the expected financial costs amount to €173 million for the 2018 financial year, €388 million for the 2019 to 2022 financial years, and €193 million thereafter.

As of December 31, 2017, 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.

Repayable bonds issued in 2012, 2014 and 2016 will be reimbursed on their contractual maturity date *(see Notes 32.3)*.

32.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

As of December 31 (in € millions)	2017	2016
Euro	**5,570**	6,211
US Dollar	**775**	1,015
Swiss franc	**329**	359
Yen	**768**	867
Total	**7,442**	**8,452**

32.8 Credit lines

As of December 31, 2017, the Group holds undrawn credit lines amounting to €1,735 million. The two main undrawn credit lines amount, respectively, to €1,160 million for the holding Air France-KLM and Air France and €575 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 executed in April 2015, of which the first tranche was due to mature in April 2018. The new credit facility is composed of two tranches of €550 million each, 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 accounts. These financial covenants were respected as of December 31, 2017.

On July 2, 2015, KLM signed a €575 million revolving credit facility with ten international banks, finalizing the early refinancing of its

credit facility which had been due to mature in July 2016. 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, 2017.

NOTE 33. NET DEBT

As of December 31 (in € millions)	Note	2017	2016
Current and non-current financial debt	32	**7,442**	8,452
Financial lease deposits (others)	23	**(342)**	(336)
Currency hedge on financial debt	26 and 34	**19**	(49)
Accrued interest	32	**(76)**	(89)
Gross financial debt (I)		**7,043**	**7,978**
Cash and cash equivalents	27	**4,673**	3,938
Marketable securities	23	**73**	53
Cash secured[1]		**269**	50
Financial lease deposit *(bonds)*	23	**379**	298
Other		**(2)**	(11)
Bank overdrafts	27	**(6)**	(5)
Net cash (II)		**5,386**	**4,323**
Net debt (I-II)		**1,657**	**3,655**
(1) Cash secured	23	**269**	50

As of December 31 (in € millions)	Note	2017	2016
Opening net debt		**3,655**	**4,307**
Operating free cash, cash-flow excluding discontinued activities		**(696)**	(347)
Operating free cash, cash-flow of discontinued activities		**-**	(33)
Disposal of subsidiaries, of shares in non-controlled entities	11 and 14	**(8)**	(364)
Acquisition of subsidiaries, of shares in non-controlled entities	40.2	**9**	18
Non monetary variation of the debt	40.4	**-**	(64)
Currency translation adjustment		**(81)**	73
Capital increase		**(747)**	-
Amortization of OCEANE optional part		**16**	21
Reclassification		**(525)**	2
Change in scope		**-**	(19)
Other		**34**	61
Closing net debt		**1,657**	**3,655**

As at December 31, 2017, the line "Reclassification" relates to the early redemption of the OCEANE and the conversion of the securities in shares. Both transactions are presented in *Note 28*.

NOTE 34. OTHER LIABILITIES

As of December 31 (in € millions)	2017 Current	2017 Non-current	2016 Current	2016 Non-current
Tax liabilities	**809**	**-**	828	-
Employee-related liabilities	**1,233**	**-**	1,000	-
Non current assets' payables	**79**	**-**	111	-
Derivative instruments	**174**	**228**	109	129
Deferred income	**398**	**22**	288	27
Other	**407**	**111**	439	128
Total	**3,100**	**361**	**2,775**	**284**

As of December 31, 2017, the non-current derivatives used to cover the debts in foreign currencies amount to €34 million versus €26 million as of December 31, 2016.

As of December 31, 2017 and 2016, there were no current derivative instruments used to cover the debts in foreign currencies.

NOTE 35. FINANCIAL INSTRUMENTS

35.1 Risk management

— Market risk management

The aim of the Air France -KLM Group's risk management strategy is to reduce its exposure to these 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 s 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 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 henceforth fully under the responsibility of the Treasury 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 expenditure on items such as fuel and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollar. 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.

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, 2017, 80 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 (10%), the US dollar (6%) and the Swiss franc (4%).

As of January 1er 2018, the Group applies IFRS16 in that respect the aircraft operating lease mostly denominated in US$, will be accounted for in the debt of the Group. The revaluation of these US$ denominated debts will be neutralized from an accounting point of view since designated as hedging instrument of the US$ revenues of the Group. For both Transavia and KLM Cytihopper which have no US$ revenues, specific hedging programs of these commitments to be recorded in debt 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 swap, the Air France-KLM Group's debt contracted at fixed rates represents 70 per cent of the overall total. The interest rate on the Group's gross debt after swap stood at 3.09 per cent at December 31, 2017 versus 3.60 per cent at December 31, 2016.

— Fuel price risk

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 decision was made by the RMC to reinstate as of 2018 the volumes related to Freight activities within the exposure the hedged.

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 IAS 39.

As the result of IFRS 9 application as of January 1, 2018, the hedging policy will move to a hedge by component approach (Brent component of Jet Fuel volumes).

Main characteristics of the hedge strategy

Hedge horizon: two years.

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.

The decision was made by the RMC to reinstate as of 2018 the volumes related to Freight activities within the exposure to be hedged.

Underlyings: Brent, Gasoil and Jet Fuel.

Instruments: swap, call, call spread, three ways, four ways and collar.

IAS 39 rule: the instruments used within the framework of the strategy must be compliant with IAS 39.

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. So, all the needs of the year 2018 as well as a part of the needs for the year 2019 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 in short term, 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.

On December 31, 2017, the Group still owns 4.95 million Amadeus shares. The value of these shares is completely covered by a hedging transaction. This hedge transaction (collar) enables the Group to protect the value of these shares. The Group has thus only limited exposure to the risk of a significant variation in the fair value of these shares. In November 2017 Air France-KLM rolled over a hedging transaction in the form of a collar maturing in November 2018, to protect the value of the totality of these shares.

In December 2016, the Group sold 4.95 million shares in the Spanish company Amadeus IT Holding SA (Amadeus), representing approximately 1.13 per cent of Amadeus share capital by terminating the associated hedge on these shares. The net result from the sale amounts to €133 million, for cash proceeds of €201 million *(see Note 11)*.

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 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:

LT Rating (Standard & Poors)	Total exposure (in € millions) As of December 31, 2017	As of December 31, 2016
AA	**247**	208
A	**2,076**	1,712
BBB	**130**	77
Total	**2,453**	**1,997**

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 32.8*.

35.2 Derivative instruments

As of December 31, 2017, 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	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	153	65	15	15	16	28	14
	Liability	(332)	(148)	(81)	(29)	(26)	(15)	(33)
Amadeus[1] instrument	Asset	5	5	-	-	-	-	-
	Liability	-	-	-	-	-	-	-
Carbon credit derivative instruments	Asset	13	8	5	-	-	-	-
	Liability	-	-	-	-	-	-	-
Total	**Asset**	**697**	**491**	**113**	**15**	**26**	**28**	**24**
	Liability	**(402)**	**(174)**	**(86)**	**(34)**	**(37)**	**(22)**	**(49)**

(1) See Note 32.2.1.

As of December 31, 2016, 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	276	209	67	-	-	-	-
	Liability	(64)	(63)	(1)	-	-	-	-
Interest rate derivative instruments	Asset	58	1	1	1	1	23	31
	Liability	(65)	(3)	(6)	(13)	(6)	(14)	(23)
Currency exchange derivative instruments	Asset	462	185	111	39	33	27	67
	Liability	(97)	(32)	(24)	(4)	(7)	(3)	(27)
Amadeus[1] shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(9)	(9)	-	-	-	-	-
Carbon credit derivative instruments	Asset	4	1	3	-	-	-	-
	Liability	(3)	(2)	(1)	-	-	-	-
Total	**Asset**	**800**	**396**	**182**	**40**	**34**	**50**	**98**
	Liability	**(238)**	**(109)**	**(32)**	**(17)**	**(13)**	**(17)**	**(50)**

(1) See Note 32.2.1.

35.2.1 Commodity risk linked to fuel prices

The Group's commitments on Brent, Diesel and Jet CIF are presented below, at their nominal value:

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	
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**

Further to the significant increase in the Brent price over the period, the fair value is positive.

As of December 31, 2016 (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	
Commodity risk (cash-flow hedging operating flows)								
Swap	706	521	185	-	-	-	-	51
Options	2,625	1,862	763	-	-	-	-	161
Total	**3,331**	**2,383**	**948**	**-**	**-**	**-**	**-**	**212**

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 +/- US$ 10 variation in the price of a barrel of Brent is as follows:

As of December 31 (in € millions)	2017		2016	
	Increase of US$ 10 per barrel of Brent	Decrease of US$ 10 per barrel of Brent	Increase of US$ 10 per barrel of Brent	Decrease of US$ 10 per barrel of Brent
Income before tax	**(70)**	**(53)**	(54)	(46)
Gains/(losses) taken to equity	**595**	**(444)**	469	(377)

35.2.2 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, 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	
Operations qualified as cash-flow hedging	**1,115**	**101**	**73**	**39**	**190**	**78**	**634**	**(32)**
Interest rate swaps	965	101	73	39	190	78	484	(32)
Options	150	-	-	-	-	-	150	-
Operations qualified as fair value hedging	**379**	**-**	**-**	**-**	**226**	**-**	**153**	**10**
Interest rate swaps	379	-	-	-	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)**

As of December 31, 2016 (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	
Operations qualified as cash-flow hedging	**1,395**	**275**	**158**	**89**	**52**	**187**	**634**	**(41)**
Interest rate swaps	1,207	187	158	89	52	187	534	(43)
Options	188	88	-	-	-	-	100	2
Operations qualified as fair value hedging	**500**	**-**	**-**	**-**	**-**	**295**	**205**	**44**
Interest rate swaps	500	-	-	-	-	295	205	44
Operations qualified as fair value through profit and loss	**281**	**-**	**-**	**81**	**-**	**200**	**-**	**(10)**
Interest rate swaps	81	-	-	81	-	-	-	(6)
Options	200	-	-	-	-	200	-	(2)
Other	-	-	-	-	-	-	-	(2)
Total	**2,176**	**275**	**158**	**170**	**52**	**682**	**839**	**(7)**

Taking into account the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

As of December 31 (in € millions)	2017				2016			
	Before hedging		After hedging		Before hedging		After hedging	
	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	**2,367**	**0.2%**	**2,367**	**0.2%**	1,878	2.0%	1,878	2.0%
Fixed-rate financial liabilities	**4,161**	**3.5%**	**4,707**	**3.5%**	4,762	4.0%	5,637	3.8%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	**2,571**	**0.2%**	**2,571**	**0.2%**	2,054	0.3%	2,054	0.3%
Floating-rate financial liabilities	**3,317**	**1.5%**	**2,770**	**1.6%**	3,733	1.5%	2,858	1.7%
Without-rate financial assets	**1,382**	**-**	**1,382**	**-**	1,191	-	1,191	-
Without-rate financial liabilities	**16**	**-**	**16**	**-**	20	-	20	-

As of December 31, 2017 and December 31, 2016, 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 €2 million on the financial income for the year ended December 31, 2017 versus €8 million for the year ended December 31, 2016.

35.2.3 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:

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	
Exchange risk (cash-flow hedging of operating flows)	**3,188**	**2,130**	**937**	**-**	**-**	**-**	**121**	**(109)**
Exchange rate options	1,627	1,057	570	-	-	-	-	(40)
Forward purchases	1,020	720	300	-	-	-	-	(59)
Forward sales	420	353	67	-	-	-	-	15
Debt	121	-	-	-	-	-	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				14	107	15	9
Forward purchases	5,689	3,511	678	557	405	314	224	(111)
Forward sales	380	79	30	69	56	67	79	32
Exchange risk (trading)	**238**	**126**	**30**	**58**	**24**	**-**	**-**	**-**
Forward purchases	119	63	15	29	12	-	-	15
Forward sales	119	63	15	29	12	-	-	(15)
Total	**9,631**	**5,846**	**1,675**	**684**	**499**	**488**	**439**	**(179)**

As of December 31, 2016 (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	
Exchange risk (cash-flow hedging of operating flows)	**2,643**	**1,710**	**796**	**-**	**-**	**-**	**137**	**79**
Exchange rate options	1,270	830	440	-	-	-	-	33
Forward purchases	875	578	297	-	-	-	-	41
Forward sales	361	302	59	-	-	-	-	12
Debt	137	-	-	-	-	-	137	(7)
Exchange risk (fair value hedging of flight equipment acquisition	**3,891**	**1,263**	**725**	**426**	**450**	**331**	**696**	**287**
Forward purchases	121					14	107	23
Forward sales	3,163	1,060	644	392	372	253	442	280
Forward sales	607	203	81	34	78	64	147	(16)
Exchange risk (trading)	**400**	**128**	**144**	**34**	**66**	**28**	**-**	**(1)**
Forward purchases	200	64	72	17	33	14	-	44
Forward sales	200	64	72	17	33	14	-	(45)
Total	**6,934**	**3,101**	**1,665**	**460**	**516**	**359**	**833**	**365**

Currency hedge sensitivity

The value in euros of the monetary assets and liabilities is presented below:

As of December 31 (in € millions)	Monetary assets		Monetary liabilities	
	2017	2016	2017	2016
US dollar	**943**	841	**1,188**	1,131
Pound sterling	**44**	37	**37**	33
Yen	**18**	13	**770**	952
Swiss francs	**13**	11	**327**	355
Other	**237**	260	**86**	89

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	
	2017	2016	2017	2016	2017	2016
Income before tax	**62**	(13)	**(17)**	(9)	**(82)**	(97)
Gains/(losses) taken to equity	**129**	171	**(28)**	(30)	**(8)**	(9)

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	
	2017	2016	2017	2016	2017	2016
Income before tax	**(108)**	(25)	**-**	1	**73**	85
Gains/(losses) taken to equity	**(89)**	(92)	**37**	34	**14**	11

35.2.4 Carbon credit risk

As of December 31, 2017, the Group has hedged its future purchases of CO_2 quotas via forward purchase for a nominal of €52 million with a fair value of €13 million, versus a nominal of €48 million with a nil fair value as of December 31, 2016.

These contracts mostly expire within three years.

35.3 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, 2017 and 2016;
- the estimated amounts as of December 31, 2017 and 2016 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 assets available for sale 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, 2017 and 2016, 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:

	2017		2016	
As of December 31 (in € millions)	**Net book value**	**Estimated market value**	**Net book value**	**Estimated market value**
Financial assets				
Loans	**459**	**479**	357	361
Financial liabilities				
Bonds	**1,628**	**1,702**	2,153	2,245
OCEANE 2013	**-**	**-**	507	559
Bond 2012	**500**	**502**	500	530
Bond 2014	**607**	**647**	609	624
Bond € 2016	**400**	**432**	400	404
Bond $ 2016	**121**	**121**	137	128
Perpetual subordinated loans	**544**	**251**	600	289
Other borrowings and financial debt	**1,955**	**1,808**	1,976	2,032

35.4 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial assets available for sale								
Shares	**400**	243	**-**	-	**-**	-	**400**	243
Assets at fair value through profit and loss								
Marketable securities and cash secured	**15**	17	**327**	86	**-**	-	**342**	103
Cash equivalents	**2,240**	1,835	**1,793**	1,370	**-**	-	**4,033**	3,205
Derivative instruments assets								
Interest rate derivatives	**-**	-	**22**	58	**-**	-	**22**	58
Currency exchange derivatives	**-**	-	**153**	462	**-**	-	**153**	462
Commodity derivatives	**-**	-	**504**	276	**-**	-	**504**	276
ETS derivatives	**-**	-	**13**	4	**-**	-	**13**	4
Others	**-**	-	**5**	-	**-**	-	**5**	-

Financial liabilities at fair value comprise the fair value of interest rate, foreign exchange, commodity and Amadeus shares derivative instruments. These valuations are classified as level 2.

NOTE 36. LEASE COMMITMENTS

36.1 Capital leases

The debt related to capital leases is presented in *Note 32.4*.

36.2 Operating leases

The minimum future payments on operating leases are as follows:

As of December 31 (in € millions)	Minimum lease payments 2017	2016
Flight equipment		
Due dates:		
Y+1	**1,010**	1,246
Y+2	**917**	1,122
Y+3	**731**	951
Y+4	**587**	727
Y+5	**421**	584
Over 5 years	**434**	929
Total	**4,100**	**5,559**
Buildings		
Due dates:		
Y+1	**182**	204
Y+2	**135**	134
Y+3	**110**	117
Y+4	**94**	97
Y+5	**84**	82
Over 5 years	**506**	689
Total	**1,111**	**1,323**

The commitments relating to operational leased aircraft are denominated in US dollars.

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

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)	2017	2016
Y+1	**966**	1,053
Y+2	**968**	1,134
Y+3	**950**	1,151
Y+4	**1,401**	1,362
Y+5	**812**	1,337
> Year Y+5	**1,245**	2,065
Total	**6,342**	**8,102**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.

As of December 31, 2017, the total amount of commitments relating to flight equipment orders is US$ 7,606 million, against US$ 8,540 million as of December 31, 2016.

The number of aircraft under firm order (excluding operational lease) as of December 31, 2017 decreased by 19 units compared with December 31, 2016 and stood at 63 aircraft.

This change is explained by the delivery of 21 aircraft and two aircraft on order.

Long-haul fleet (passenger)

The Group took delivery of two B787 and one B777.

Medium-haul fleet

The Group took delivery of eight B737 and two A320.

Regional fleet

The Group took delivery of eight EMB175.

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, 2017**	**-**	**3**	**3**	**7**	**5**	**10**	**28**
	As of December 31, 2016	-	-	3	6	6	13	28
B787	**As of December 31, 2017**	**5**	**4**	**4**	**6**	**2**	**1**	**22**
	As of December 31, 2016	2	5	5	4	5	3	24
B777	**As of December 31, 2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	As of December 31, 2016	1	-	-	-	-	-	1
Medium-haul fleet								
A320	**As of December 31, 2017**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
	As of December 31, 2016	2	1	-	-	-	-	3
B737	**As of December 31, 2017**	**5**	**-**	**-**	**-**	**-**	**-**	**5**
	As of December 31, 2016	8	5	-	-	-	-	13
Regional fleet								
EMB175	**As of December 31, 2017**	**5**	**-**	**-**	**-**	**-**	**-**	**5**
	As of December 31, 2016	8	5	-	-	-	-	13
EMB190	**As of December 31, 2017**	**2**	**-**	**-**	**-**	**-**	**-**	**2**
	As of December 31, 2016	-	-	-	-	-	-	-
Total	**As of December 31, 2017**	**18**	**7**	**7**	**13**	**7**	**11**	**63**
	As of December 31, 2016	21	16	8	10	11	16	82

NOTE 38. OTHER COMMITMENTS

38.1 Commitments made

As of December 31 (in € millions)	2017	2016
Warranties, sureties and guarantees	**287**	333
Secured debts	**4,713**	5,177
Other purchase commitments	**376**	134

The line "other purchase commitments" includes the Group's acquirement of a 31% stake in Virgin Atlantic's share capital for GBP 220 million (€ 248 million).

The restrictions and pledges as of December 31, 2017 are as follows:

(in € millions)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	1,122	-
Tangible assets	July 2004	November 2021	5,244	11,414	45.9%
Other financial assets	July 2004	May 2027	723	1,662	43.5%
Total			**5,967**	**14,198**	

38.2 Commitments received

As of December 31 (in € millions)	2017	2016
Warranties, sureties and guarantees	**228**	219
Put on shares [1]	**130**	130

(1) Estimation based on the price of transfer 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's shares:

- on December 28, 2018 and on December 28, 2019: put option of a number of shares allowing gategroup to reach between 80% and 100% of Servair's share capital (initial option);
- yearly between December 28, 2020 and December 28, 2023 (or in specific cases of blocking in governance): put option on all the shares still held by the Group.

If the Group does not exercise the initial option, gategroup disposes of the following call options on Servair's shares:

- call option on a number of shares allowing in gategroup to reach between 80% and 100% of the Servair capital;
- in the event of a transfer by the Group of its interests to a third party and in specific cases of blocking in governance: call option on a number of shares enabling gategroup to reach 50% of Servair share capital plus one share.

NOTE 39. RELATED PARTIES

39.1 Transactions with the principal executives

The total 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)	2017	2016
Short-term employee benefits	**8.5**	8.3
Post-employment benefits	**0.7**	0.7
Termination benefits	**0.5**	0.5
Share-based payment	**0.3**	0.2
Total	**10.0**	**9.7**

As of December 31, 2017, directors and their relatives held less than 0.03 per cent of the voting rights.

Directors fees booked in expenses amount to €0.7 million as of December 31, 2017, versus €0.7 million as of December 31, 2016.

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)	2017	2016
Assets		
Net trade accounts receivable	**189**	62
Other current assets	**9**	15
Other non-current assets	**9**	9
Total	**207**	**86**
Liabilities		
Trade accounts payable	**191**	68
Other current liabilities	**154**	43
Other long-term liabilities	**63**	66
Total	**408**	**177**

As of December 31 (in € millions)	2017	2016
Net sales	**268**	157
Landing fees and other rents	**(441)**	(434)
Other selling expenses	**(27)**	(25)
Passenger service	**(443)**	(28)
Other	**(115)**	(34)
Total	**(758)**	**(364)**

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 €350 million and €357 million for the periods ended December 31, 2017 and 2016.

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 €81 million for the year ended December 31, 2017 versus €41 million as of December 31, 2016.

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 €98 million as of December 31, 2017 versus €104 million for the year ended December 31, 2016.

Amadeus

Since 2016 financial year, Amadeus no longer fulfilled the characteristics of a related party.

Servair

For the financial year ended December 31, 2017, total expenses incurred from this activity amounts to €452 million. The transactions until December 30, 2016 with Servair and its subsidiaries have been eliminated, the Group having controlled Servair until this date.

China Eastern Airlines and Delta Air Lines, Inc.

On October 3, 2017, Air France-KLM announced the completion of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. As from that date, the Group consider these two airlines as related parties.

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)	2017	2016
Variation of provisions relating to restructuring plan	**(117)**	(69)
Variation of provisions relating to pension	**(23)**	16
Impairment	**-**	2
Changes of pension plan KLM *(see Note 11)*	**1,769**	-
Other	**(35)**	(11)
Total	**1,594**	**(62)**

Changes of KLM Cockpit crew and Cabin crew pension plans

The line "Changes of KLM pension plans" includes the impact of the modification of the Cabin Crew pension plan and the Cockpit Crew pension plan. Both plans qualifies as a collective defined contribution scheme and led to the derecognition of the pension assets. The transactions are presented in detail in the *Notes 3 and 30*.

40.2 Acquisitions of subsidiaries, of shares in non-controlled entities

Net cash disbursements related to the acquisition of subsidiaries and investments in associates were as follows:

As of December 31 (in € millions)	2017	2016
Cash disbursement for acquisitions	**(9)**	(18)
Cash from acquired subsidiaries	**-**	-
Net cash disbursement	**(9)**	**(18)**

40.3 Disposal of subsidiaries, of shares in non-controlled entities

As of December 31, 2017, the proceeds from disposal of subsidiaries and shares in non-controlled entities consists of the following:

As of December 31 (in € millions)	Notes	2017	2016
Proceeds from the sale of Amadeus shares	11	**-**	201
Proceeds from the sale of 49.9% of the Servair shares	14	**-**	218
Expenses relating to the sale of the Servair shares		**-**	(5)
Cash disbursement on the sale of Servair shares		**-**	(71)
Proceeds from the sale of the Cobalt shares		**1**	15
Proceeds from the sale of the Aérolis shares		**1**	-
Other disposals		**6**	6
Total		**8**	**364**

40.4 Non cash transactions

During financial year 2016, the Group transformed a financial lease contract into a service contract. This had the effect a non-monetary decrease of the other property plant and equipment and the financial debt for an amount of €64 million.

These operations have no impact on the cash-flow statement.

NOTE 41. STATUTORY AUDITORS' FEES

KPMG

As of December 31 (in € millions)	2017 Statutory auditor Amount	2017 Statutory auditor %	2017 Network Amount	2017 Network %	2016 Statutory auditor Amount	2016 Statutory auditor %	2016 Network Amount	2016 Network %
Statutory audit, certification, review of stand-alone and consolidated accounts	**2.2**	**88%**	**0.9**	**90%**	2.1	91%	0.9	69%
— Air France-KLM SA	**0.6**		**-**		0.6		-	
— Consolidated subsidiaries	**1.6**		**0.9**		1.5		0.9	
Other services	**0.3**	**12%**	**0.1**	**10%**	0.2	9%	0.4	31%
— Air France-KLM SA	**0.3**		**-**		0.2		-	
— Consolidated subsidiaries	**-**		**0.1**		-		0.4	
Total Air France-KLM	**2.5**		**1.0**		**2.3**		**1.3**	

Deloitte & Associés

As of December 31 (in € millions)	2017 Statutory auditor Amount	2017 Statutory auditor %	2017 Network Amount	2017 Network %	2016 Statutory auditor Amount	2016 Statutory auditor %	2016 Network Amount	2016 Network %
Statutory audit, certification, review of stand-alone and consolidated accounts	**2.0**	**91%**	**0.9**	**100%**	2.0	95%	0.9	100%
— Air France-KLM SA	**0.6**		**-**		0.6		-	
— Consolidated subsidiaries	**1.4**		**0.9**		1.4		0.9	
Other services	**0.2**	**9%**	**-**	**0%**	0.1	5%	-	0%
— Air France-KLM SA	**0.2**		**-**		0.1		-	
— Consolidated subsidiaries	**-**		**-**		-		-	
Total Air France-KLM	**2.2**		**0.9**		**2.1**		**0.9**	

NOTE 42. CONSOLIDATION SCOPE

As of December 31, 2017, the scope includes 78 fully-consolidated entities and 19 equity affiliates.

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
IAS ASIA INCORPORATED	Philippines	Passenger	100	49
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 LUCHTVAARTSCHOOL BV	Netherlands	Passenger	100	49
STICHTING STUDENTENHUISVESTINGVLIEGVELD EELDE	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

Entity	Country	Segment	% interest	% control
AFI KLM E&M-BGAC Line Maintenance Co.LTD	China	Maintenance	60	60
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	Netherlands	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 CV	Netherlands	Other	80	39
AMSTERDAM SCHIPHOL PIJPLEIDING BEHEER BV	Netherlands	Other	60	49
AMSTERDAM SCHIPHOL PIJPLEIDING CV	Netherlands	Other	76	49
BLUE TEAM IV SAS	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	45	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 VLIEGSCHOOL VLIEGVELD LELYSTAD BV	Netherlands	Other	100	49
ORION-STAETE BV	Netherlands	Other	100	49
PELICAN	Luxemburg	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
WEBLOK 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
AIRFOILS ADVANCES SOLUTIONS SAS	France	Maintenance	49	49
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
SCHIPHOL LOGISTICS PARK CV	Netherlands	Other	53	45
SERVAIR	France	Other	50	50
SKYNRG BV	Netherlands	Other	24	24
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25

5.7 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Air France-KLM SA
2, rue Robert Esnault-Pelterie – 75007 Paris
This report contains 109 pages
Air France-KLM SA
Registered office: 2, rue Robert Esnault-Pelterie – 75007 Paris
Share capital: €428,634,035

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 financial statements of Air France-KLM for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the results of operations of the Group for the year then ended and of its financial position and of its assets and liabilities as of December 31, 2017 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 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, 2017 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. 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 consolidated financial statements of the current period, as well as our responses to 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 €22 522 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 were recorded on issuance as "Deferred revenue on ticket sales", which balance as of December 31, 2017 is €2,889 million. However, a portion of these sales, relating to tickets that have been issued but which will never be used, is recognized as revenue on issuance, 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; — agreeing the historical database with the databases used; — agreeing 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.

Measurement of retirement and other long-term benefits (Notes 4.18, 22 and 30 to the consolidated financial statements)

Risk identified	Our response
The Group has a large number of retirement and other long-term benefit plans for its employees with specific characteristics, most of which are in France and the Netherlands. Several of these schemes are defined benefit plans. As of December 31, 2017, the actuarial value of cumulative benefits was €11,512 million, covered by plan assets with a market value of €9,900 million. As of this same date, plan assets and pensions provisions recognized on the balance sheet amounted to €590 million and €2,202 million, respectively. The measurement of obligations and related plan assets, as well as the actuarial cost for the year requires the exercise of judgment to determine the key assumptions to adopt, particularly in relation to discount and long-term inflation rates, as well as salary and pension increase rates, staff turnover in the Group, life expectancy, and retirement age assumptions. As indicated in Note 30.2, changes in certain of these assumptions could have a material impact on pension assets and provisions recorded and Group net income. Accordingly, the Group calls on external actuaries to help determine these assumptions. We considered the measurement of retirement and other long-term benefits to be a key audit matter due to the materiality of the amounts, the high degree of the Group judgment, the technicity required for their measurement and the sensitivity of measurement results to the assumptions adopted.	We reviewed the measurement process applied by the Group for employee benefit obligations. With the assistance of our own actuaries, we examined the measurement of the obligations, assets and liabilities of the main pension plans and the information presented in the actuarial valuation reports made available by the Group, in particular by assessing: **Pension commitments** — the appropriateness of discount and long-term inflation rates in relation to available market data; — the consistency of the assumptions relating to salary increase, turnover and mortality rates, and pension increases with the particulars of each plan and, where applicable, with the relevant national and sector benchmarks; — the calculations prepared by the external actuaries, and specifically those supporting the sensitivity of obligations to changes in the discount rate. **Measurement of plan assets** — the reasonableness of the assumptions adopted by the Group to measure these assets, which primarily concern the Netherlands and the justification of their treatment as plan assets based on the documentation provided (report of the external actuary hired by KLM NV). We also assessed the appropriateness of the disclosures in Note 30 to the consolidated financial statements and specifically the information covering: — the implementation of the modified pension schemes for KLM Cabin Crew in August 2017 and KLM Cockpit Crew in December 2017, considered as collective defined contribution plans, whose main impact on the accounts are (i) the derecognition of the related net assets and (ii) a non-current expense of €1,904 million; — the sensitivity of the measurement of these obligations to the assumptions adopted.

Provisions for litigations and contingent liabilities (Notes 4.20, 31.1 and 31.2 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 Note 31 to the consolidated financial statements.

Recognition of deferred tax assets (Notes 4.23 and 13 to the consolidated financial statements)

Risk identified	Our response
Deferred tax assets for a net amount of €234 million are recognized in the balance sheet. This balance comprises €668 million in deferred tax assets for French tax group tax loss carry-forwards and €196 million 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.

4. Specific Verification Concerning the Group Presented in the management report

As required by French law, 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.

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, 2017, Deloitte & Associés and KPMG were respectively in the 20th year and 16th year of total uninterrupted engagement, which are the 19th year and 16th 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 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.

7. Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objective 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, we exercise professional judgment throughout the audit. We also:

- 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;
- conclude on 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 we 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. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

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. We describe these matters in the audit 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 and Neuilly-sur-Seine, February 16, 2018
The Statutory Auditors

KPMG Audit		***Deloitte & Associés***	
Division of KPMG SA			
Jean-Paul Vellutini Partner	Éric Jacquet Partner	Pascal Pincemin Partner	Guillaume Troussicot 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, 2017

5.8.1 Income statement and balance sheet

Income statement

Year ending December 31, (in € millions)	Notes	2017	2016
Operating income	3	**40**	31
External expenses	4	**(40)**	(39)
Salaries and related costs	5	**(4)**	(2)
Other expenses		**(1)**	(1)
Total operating expenses		**(45)**	(42)
Income from current operations		**(5)**	**(11)**
Financial income		**75**	33
Financial expenses		**(136)**	(195)
Net financial income	**6**	**(61)**	**(162)**
Earnings before tax and non-recurring items		**(66)**	**(173)**
Non-recurring income		**30**	74
Non-recurring expenses		**(30)**	(73)
Non-recurring income/(loss)	**7**	**0**	**1**
Income tax	8	**36**	11
Net income/(loss)		**(30)**	**(161)**

Balance sheet

Assets (in € millions)	Notes	December 31, 2017	December 31, 2016
Long-term investments	9	**4,662**	4,655
Loans & receivables related to long-term investment	9-13	**920**	489
Fixed assets		**5,582**	**5,144**
Trade receivables	13	**24**	26
Other receivables	13	**255**	26
Marketable securities	10	**2,163**	1,304
Cash		**244**	160
Prepaid expenses		**7**	6
Current assets		**2,693**	**1,522**
Amortisation of capital expenses		**12**	17
Bond redemption premium		**1**	2
Total Assets		**8,288**	**6,685**

Liabilities & equity (in € millions)	Notes	December 31, 2017	December 31, 2016
Capital	11.1	**429**	300
Additional paid-in capital	11.2	**4,139**	2,971
Legal reserve		**70**	70
Reserves		**16**	177
Income for the year	11.2	**(30)**	(161)
Shareholders' equity	**11.2**	**4,624**	**3,357**
Other equity	**12**	**600**	**600**
Provision for risks & liabilities	12-17	**-**	2
Financial debt	12	**1,676**	2,252
Trade payable:	13	**15**	11
including trade payables and related accounts		***13***	*10*
including tax and social debts		***2***	*1*
Other liabilities		**1,357**	463
Liabilities	**13**	**3,048**	**2,726**
Unrealized foreign exchange gain		**16**	**-**
Total Liabilities & equity		**8,288**	**6,685**

5.8.2 Notes

The following information constitutes the notes to the financial statements for the year ended December 31, 2017. The latter are 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 invested 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, 2017.

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;
- currency hedging contracts concerning the payment of future investment deliveries.

Debts

Debts are valued at their nominal amount. When fully hedged, debt in foreign currency is valued at the euro/dollar hedge rate.

Financial instruments

Financial derivative instruments are used to reduce exposure to interest rate and foreign exchange risks. These are over the counter instruments with first class counterparties. The Group's management policy prohibits any trading in such instruments for speculative purposes.

Dividends received

Dividends are recognized – when they are approved by the competent bodies in the companies (i.e. the Board of Directors or General Shareholders' Meeting depending on the local regulations) – or according to the terms of the Articles of Incorporation.

2. Significant events of the period

On October 3, 2017, Air France-KLM announced the completion of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. The resulting 75,054,820 shares were listed on Euronext Paris and Amsterdam. These capital increases had been approved by the General Shareholders' Meeting of September 4, 2017.

China Eastern Airlines and Delta Air Lines, Inc. now own 8.8% apiece of Air France-KLM's share capital and, consequently, they both have a director representing them on the Board of Directors.

The Group also announced the reinforcement of its strategic partnerships with the creation of a worldwide joint-venture between Air France-KLM, Delta Air Lines, Inc. (Delta) and Virgin Atlantic. Air France-KLM will purchase 31% of the share capital of Virgin Atlantic for GBP 220 million. Delta Air Lines, Inc. owns 49% of

Virgin Atlantic's share capital. The creation of the worldwide joint-venture is subject to approval by the competent regulatory authorities.

On November 15, 2017, Air France-KLM proceeded with the early redemption of its bonds convertible and/or exchangeable into new or existing shares (OCEANE). 53,359,937 OCEANES, i.e. 99.96% of the outstanding convertible bonds, were converted into 53,359,937 new ordinary shares, each with a nominal value of €1.00.

These two issues are detailed in *Note 11.1*.

3. Other income

This primarily involves royalties of €17 million paid by Air France and KLM at December 31, 2017 to use the "Air France-KLM" brand (€17 million as of December 31, 2016). It also includes the provision of services paid for by Air France and KLM amounting to €22 million as of December 31, 2017 (including a €2 million adjustment to the previous financial year) against €13 million as of December 31, 2016.

4. External expenses

Period	2017	2016
Fees and surveys	**13**	12
Insurance	**1**	1
Sub-contracting and rents re-invoiced by Air France and KLM	**21**	21
Financial communication	**2**	2
Other	**3**	3
Total	**40**	**39**

During the 2017 financial year, the teams assigned to the Air France-KLM holding company represent 57 full time equivalents seconded from Air France and 21 full-time equivalents seconded from KLM.

5. Salaries & related costs

The gross remuneration including social charges for the Company officers and Executive Committee members is booked at €3.8 million for the 2017 financial year (€2.3 million for the 2016 financial year).

6. Net financial income

This section regroups interest paid or received, currency losses and gains, and allocations and reversal of financial provisions. The break-down is as follows.

Period	2017	2016
Interest on loans and other financial expenses	**(136)**	(163)
of which related companies commission on the guarantees granted by Air France and KLM & interests on current account	***(11)***	*(13)*
of which interest on OCEANE	***(1)***	*(11)*
of which interest on bonds	***(75)***	*(89)*
of which perpetual subordinated loan	***(37)***	*(37)*
of which cost of sale of CICE receivable	**-**	*(1)*
of which others	***(12)***	*(12)*
Interest on loans	**42**	23
of which related companies	***42***	*23*
Other financial income	**25**	10
of which related companies	***19***	*2*
of which investment in mutual funds and certificates of deposit	***5***	*8*
Allocation to provisions	**8**	(32)
of which provision for risks & liabilities	***1***	*(2)*
of which Air France-KLM Finance shares	***7***	*(25)*
of which treasury shares	**-**	*(5)*
Total	**(61)**	**(162)**

7. Non-recurring income

This is a fully-provisioned non-recurring receivable.

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 Air France-KLM, Air France, and the company HOP!

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 in 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 €41 million to Air France-KLM, of which €40 million for this financial year (€11 million in the previous financial year).

At the same time, the Group booked a corporate tax of €(5) million – after the allocation of a part of the tax losses in accordance with the tax rules – and including the exceptional contributions implemented this year.

9. Long-term investments

9.1 Net book value

(in € millions)	Beginning of year	Acquisitions Capital increases	Monetary decrease	Transfer	End of year
Equity investments	5,035	-	-	(355) (1)	4,680
Loans & receivables related to long term investment	490	430 (2)	-	-	920
Gross amount	**5,525**	**-**	**-**	**-**	**5,600**
Depreciation	**(381)**	**-**	**7 (3)**	**355**	**(18)**
Net amount	**5,144**	**430**	**7**	**-**	**5,582**

(1) Transfer of the Compagnia Aerea Italiana Spa shares to marketable securities due to a detention rate of 0.73% and due to the withdrawal, in 2017, of the latter from the Partnership agreement with Air France-KLM.
(2) Net increases of loans & receivables related to long-term investment granted to KLM, Air France-KLM Finance, and Transavia Company.
(3) Reversal of provision on Air France-KLM Finance shares.

9.2 Equity investments

Companies (in € millions)	Gross value at beginning of year	Transfers or Acquisitions	Allocation	Gross value at end of year
Air France	3,821	-	-	3,821
KLM	824	-	-	824
Compagnia Aerea Italiana SpA	355	(355)	-	-
Air France-KLM Finance	31	-	-	31
Transavia Company	4	-	-	4
Air France-KLM International Mobility	NA	-	-	-
Total	**5,035**	**(355)**	**-**	**4,680**

Companies (in € millions)	Provisions at beginning of year	Transfers or Acquisitions	Allocation	Provisions at end of year
Compagnia Aerea Italiana SpA (1)	(355)	355	-	-
Air France-KLM Finance	(25)		7	(18)
Impairment	(380)	-	-	(18)
Net Value	**4,655**	**-**	**7**	**4,662**

(1) The Compagnia Aerea italiana SpA shares are fully impaired.

9.3 Other financial investments

(in € millions)	Gross value at beginning of year	Acquisition	Reversal	Sales	Gross value at end of year
Treasury shares	1	-	-	-	1

(in € millions)	Provision at beginning of year	Allocation	Reversal	Sales	Provision at end of year
Impairment on treasury shares	(1)	-	-	-	(1)
Net Value	**-**	**-**	**-**	**-**	**-**

10. Marketable securities

(in € millions)	December 31, 2017 Net carrying amount	December 31, 2016 Net carrying amount
Mutual funds, certificates of deposit & marketable term notes	**2,163**	1,304
Securities Compagnia Aerea Italiana [1]	**0**	NA
Total	**2,163**	**1,304**

The net carrying amount for the marketable securities, mutual funds and certificates of deposit is the market value.

(1) The Compagnia Aerea italiana SpA shares are fully impaired.

11. Shareholders' equity

11.1 Distribution of share capital and voting rights

The issued capital comprises 428,634,035 fully paid-up shares, each 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 50,115,633 as at December 31, 2017.

The break-down is as follows:

	% of capital		% of voting rights	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
French State	14%	18%	23%	27%
Delta Air Lines, Inc.	9%	-	7%	-
China Eastern Airlines	9%	-	7%	-
Employees and former employees [1]	4%	6%	7%	10%
Public	64%	76%	56%	63%
Total	**100%**	**100%**	**100%**	**100%**

(1) Employees and former employees identified in funds or by a Sicovam code.

On October 3, 2017, within the framework of the reserved capital increases, 37,527,410 new shares were issued further to the capital participation of the company Delta Air Lines, Inc. and 37,527,410 new shares were issued further to the capital participation of the China Eastern Airlines. These new shares were issued with a €338 million share premium for each of these two contributions.

Pursuant to a decision announced on October 16, 2017, Air France-KLM proceeded with the early redemption of the OCEANEs maturing on February 15, 2023. Almost all of the OCEANE holders requested the conversion of their securities into shares. As a result, on November 10, 2017 and November 15, 2017 a total of 53,359,937 new shares were issued, with a share premium of €496 million.

After allocation of the issuance costs, the net increase in share premium for these two transactions, amounts to €1,168 million.

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, 2015	**300**	**2,971**	**372**	**(125)**	**3,518**
Allocation of earnings	-	-	(125)	125	-
Earnings for the period	-	-	-	(161)	(161)
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**

12. Financial debt and other equity

(in € millions)	December 31, 2017	December 31, 2016
Other equity	**-**	**-**
Perpetual subordinated loan	**600**	600
Total Other equity	**600**	**600**
Non-current financial debt	**-**	**-**
OCEANE (convertible bonds)	**-**	550
Bonds	**1,121**	1,637
Total non-current debt	**1,121**	**2,187**
Current Financial Debt	**-**	**-**
Bonds	**500**	-
Accrued interest	**55**	65
Total current debt	**555**	**65**
Total financial debt	**1,676**	**2,252**

On December 14, 2012, Air France-KLM issued €500 million of bonds maturing on January 18, 2018 with an annual coupon of 6.25%.

On March 28, 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) maturing on February 15, 2023 for a total amount of €550 million. These bonds had a nominal value of €10.30 and an annual coupon of 2.03%. Pursuant notably to the early redemption outlined in paragraph 10.1, during the 2017 financial year, 53,362,764 OCEANEs were converted at a conversion ratio of one Air France-KLM share for one bond. Within the framework of this early redemption, only 23,768 OCEANEs were redeemed in cash.

On June 18, 2014, Air France-KLM issued €600 million of bonds with a seven-year maturity bearing an annual coupon of 3.875%.

In August 2015, an amount of €200 million was hedged and converted to a floating rate within the framework of a swap associated with a floor. On December 31, 2017, the fair value of the floor is €0.5 million leading to a reversal of the provision for risks and liabilities of €1 million (*see Note 17*).

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 2020 at Air France-KLM's discretion. They carry an annual coupon of 6.25% paid for €18 million in 2015 and €37.5 million for each of the following maturities in 2016 and 2017.

On October 12, 2016, Air France-KLM issued €400 million of bonds with a six-year maturity. The annual coupon is 3.75%.

On December 15, 2016, Air France-KLM issued US$145 million of senior notes via an unlisted private placement with Asian institutional investors, maturing on December 15, 2026 and bearing 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 and Transavia Company. As of December 31, 2017 these loans amount to €648 million with Air France, €198 million with KLM and €73 million with Air France-KLM Finance. (*See Note 9.1*).

13. Maturity of receivables and debt

As of December 31, 2017 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	920	74	846	920
Current assets				
Trade receivables and related accounts	24	24	-	24
Other receivables (including tax receivables)[1]	255	255	-	180
Total	**1,199**	**353**	**846**	**1,124**

(1) Of which €5 million as accrued income with related companies on December 31, 2017.

As of December 31, 2017 Debt (in € millions)	Gross amount	Up to one year	More than one year	Related companies
Financial debt[1]	1,676	555	1,121	-
Trade payables and related accounts[2]	15	15	-	4
Other liabilities[3]	1,357	1,357	-	1,357
Total	**3,048**	**1,927**	**1,121**	**1,361**

(1) *See Note **12***.
This amount includes €55 million of accrued interest (€65 million at December 31, 2016).
(2) Including tax and social debts.
(3) Other liabilities comprise, mainly, a financial current account with Air France within the framework of cash pooling.

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		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
				Gross	Net					
Detailed information about individual investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France)[1]	127	25	100%	3,820	3,820	648	21	14,699	187	-
KLM (Netherlands)[1]	94	833	99.7%	824	824	198	42	10,340	(703)	17
Air France-KLM Finance[1]	15	-	100%	31	14	73	-	-	5	

(1) Statutory financial statements at December 31, 2017.

15. Estimated value of the 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	7	31	14
Compagnia Aerea Italiana SpA	356	-	NA	NA

The estimated values have been determined based on consolidated equity or on the medium-term profitability outlook. These estimated values support the net book values at the year end.

16. Items concerning related companies

As of December 31, 2017 (in € millions)	Amount
Trade receivables & related accounts	
Of which	
— Air France	18
— KLM	6
Other receivables	
Of which	
— Air France	177
— KLM	3
Trade payables and related accounts	
Of which	
— Air France	3
— KLM	1
Other payables	
Of which	
— Air France	1,324
— Other members of the tax group	32

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 the Air France-KLM share 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 issue, 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-KLM 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 SAK I and SAK II foundations, Air France-KLM did not carry out this exchange.

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 loan 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, 2017, the fair value of the swap is €7 million and the fair value of the floor amounts to €(0.5) million. (*see Note 11*).

The US$145 million bond is fully hedged by a cross currency swap. As of December 31, the fair value of this derivative instrument is (24) million. (*See Note 12*).

The future purchase of 31% of the share capital of Virgin Atlantic for GBP 220 million is partially hedged by forwards. As of December 31, 2017, the fair value of these derivatives is €1 million. (*see Note 2).*

— **Other**

Since January 2009, 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 amounting to US$50 million.

Air France-KLM guarantees the payment by Transavia Holland to a lessor, of outstanding operational leases until 2024 for an amount of US$58 million.

18. Litigation

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 have 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 Group has provisioned the totality of this fine.

19. 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 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.

Litigations concerning antitrust laws in the airfreight industry

Following the initiation of various investigations by competition authorities in 2006 and the initial European Commission decision in 2010, several collective and individual actions were brought by forwarders and air freight shippers in civil courts against Air France, KLM and Martinair, and the other airlines in a number of jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to the 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" (in the UK for example). 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 generally 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.

Litigations concerning antitrust 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.

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 18 and 19, the Group 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 Group'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 2017	December 2016	December 2015	December 2014	December 2013
	12 months	12 months	12 months	12 months	12 months
1. Share capital at year end					
Share capital *(in €)*	**428,634,035**	300,219,278	300,219,278	300,219,278	300,219,278
Number of ordinary shares outstanding	**428,634,035**	300,219,278	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	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	**(73,163)**	(204,605)	(134,768)	(103,207)	(104,303)
Income tax	**(35,980)**	(11,343)	(10,484)	(12,273)	(3,779)
Employee profit-sharing for the year			-	-	-
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	**(29,668)**	(160,569)	(125,192)	(111,263)	(322,275)
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)**	(0.64)	(0.41)	(0.30)	(0.33)
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	**(0.07)**	(0.53)	(0.42)	(0.37)	(1.07)
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, 2017

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, 2017.

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, 2017 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, 2017 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 9, 14 and 15 to the statutory financial statements)

Risk identified

As of December 31, 2017, equity interests represented a net value of €4,680 million compared to a total balance sheet of €8,288 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.

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 analyses.

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. Verification of the management report and other documents provided to shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

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 that the Chairman's report on corporate governance 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.

In accordance with French law, we have verified that the required information concerning participating and controlling interests, the identity of shareholders and the holders of voting rights has been properly disclosed in the management report.

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' Meetings of September 25, 1998 for Deloitte & Associés and September 25, 2002 for KPMG Audit.

As of December 31, 2017, Deloitte & Associés and KPMG were respectively in the 20th year and 16th year of total uninterrupted engagement, which are the 19th year and 16th 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, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- 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 as 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 and Neuilly-sur-Seine, February 16, 2018
The Statutory Auditors

KPMG Audit Division of KPMG SA		Deloitte & Associés	
Jean-Paul Vellutini Partner	Éric Jacquet Partner	Pascal Pincemin Partner	Guillaume Troussicot Partner

This is a translation into English of the Statutory Auditors' report on the 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 management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

5.11 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

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.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized during the year

We hereby inform you that we have not been advised of any agreement or commitment authorized during the year to be submitted to the approval of the Shareholders' Meeting pursuant to article L. 225-38 of the French Commercial Code.

Agreements and commitments previously approved by the Shareholders' Meeting

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 and Neuilly-sur-Seine, February 16, 2018
The Statutory Auditors

KPMG Audit A division of KPMG SA		Deloitte & Associés	
Jean-Paul Vellutini Partner	Éric Jacquet Partner	Pascal Pincemin Partner	Guillaume Troussicot 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

6.1 History 312

6.2 General information 314

6.3 Information on the agreements concluded in connection with the business combination between Air France and KLM 315

6.3.1 Agreements relating to the KLM shareholding structure 315
6.3.2 Agreements with the Dutch State 316
6.3.3 Assurances given to KLM 317

6.4 Legislative and regulatory environment for the air transport industry 317

6.4.1 Freedoms of the air and international conventions 317
6.4.2 European legislation 318
6.4.3 Other legal aspects of Air France-KLM's activities 319

6.5 Information and control 320

6.5.1 Person responsible for the Registration Document and for the Annual Financial Report 320
6.5.2 Certification by the person responsible for the Registration Document 320
6.5.3 Statutory Auditors 321
6.5.4 Head of Investor Relations 321
6.5.5 Documents available to the public 321

Glossaries 322

Air transport glossary 322
Financial Glossary 324

Table of concordance for the Registration Document 326

Information included by reference 329

Table of concordance for the Annual Financial Report 330

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 trans-Atlantic 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 Sky 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.

2002

SkyTeam is the only alliance in the world to benefit from antitrust immunity on its trans-Atlantic and trans-Pacific routes.

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.

2007-08

Air France-KLM is delisted from the New York Stock Exchange and trading in its ADR program transfers to the OTCQX market.

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 trans-Atlantic 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.

On June 1, the Group faces the tragic loss of Air France flight AF447 over the Atlantic between Rio de Janeiro and Paris with 216 passengers and twelve crew members on board.

2010-11

In April 2010, the eruption of an Icelandic volcano leads to the shut-down of the European air space, grounding most European airlines for a period of six days.

Political crises in the Middle East and Africa, together with the earthquake followed by a tsunami in Japan seriously impact the Group's activity to and from these regions.

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.

2013

The implementation of Transform 2015 continues in all segments of the Company.

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 Air France-KLM Group returns to profitability after seven years of losses. However, the Group must pursue its efforts to improve its competitiveness relative to peers.

The B787 enters the KLM fleet.

2016

2016 is marked by the arrival of Jean-Marc Janaillac as the new Chairman and Chief Executive Officer of the Group and 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.

Joon, the new airline in the Air France-KLM Group, takes off for the first time on December 1, 2017.

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.

6.3.1 Agreements relating to the KLM shareholding structure

Holding of shareholder voting rights by two Dutch foundations

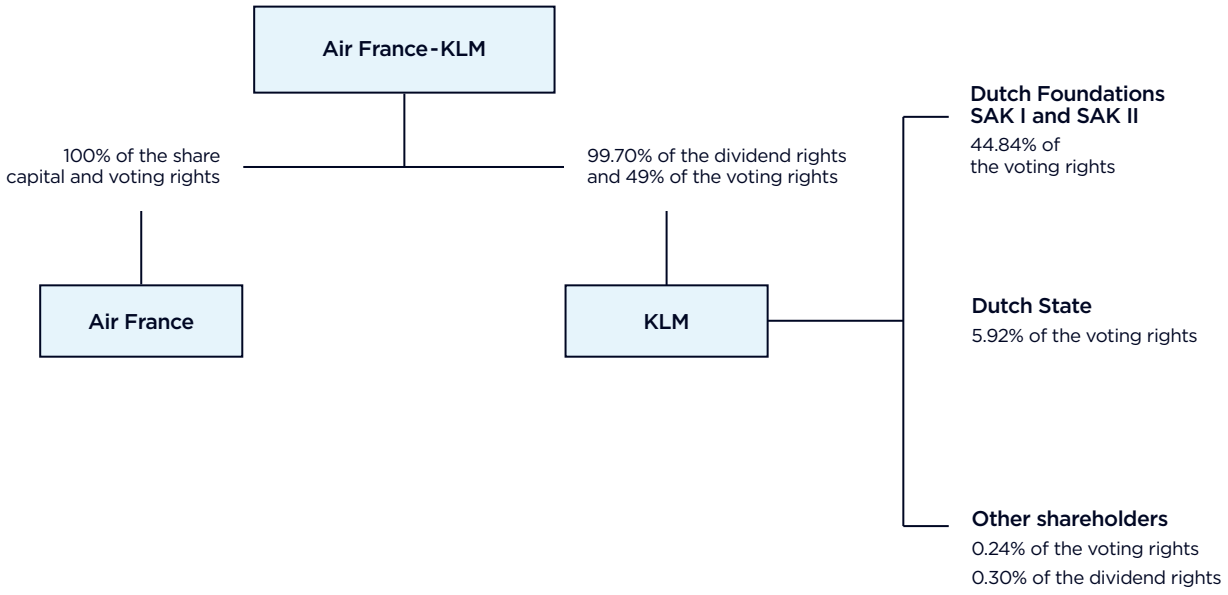
In order to continue to comply with specific regulatory requirements relating to KLM air transport operations, a system to separate the rights attached to KLM shares and the exercise of the voting rights attached to these shares by two Dutch foundations (SAK I and SAK II) was put in place in 2004.

Pursuant to this system which is still in force, Air France-KLM held, as at December 31, 2017, 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, 2017, 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 – 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, 2017, 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 but the concrete results of the proposed measures have yet to be evaluated.

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 transport activity, page **105***.

6.5 INFORMATION AND CONTROL

6.5.1 Person responsible for the Registration Document and for the Annual Financial Report

Jean-Marc Janaillac, Chairman and Chief Executive Officer.

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**, on pages **10** to **54**, on pages **66** to **73**, on pages **87** to **89**, on page **95**, on pages **96** to **99**, on pages **102** to **125**, on pages **128** to **148**, on pages **149** to **157**, on pages **157** to **179**, on pages **190** to **198** and on pages **55** to **62** 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, 2017 included in this Registration Document are the subject of a Statutory Auditors' report figuring on pages **287** and **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 the registration number D.17-0287 were the subject of a Statutory Auditors' report figuring on pages **257** and **258**.

The consolidated financial statements for the financial year ended December 31, 2015 included in the Registration Document filed with the AMF on April 12, 2016 under registration number D.16-0323 were the subject of a Statutory Auditors' report figuring on pages **253** and **254**.

Jean-Marc Janaillac
Chairman and Chief Executive Officer

6.5.3 Statutory Auditors

Incumbent Statutory Auditors

Deloitte et Associés

185 avenue Charles-de-Gaulle,
92254 Neuilly-sur-Seine Cedex
Represented by Pascal Pincemin and Guillaume Troussicot
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 2017, 2016, 2015, 2014 and 2013 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 5.4, page **198.***

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.

Fare combinability

System which, on destinations served by both Air France and KLM, enables customers to choose between a journey with an onward flight connection at KLM's Schiphol hub and a journey with an onward flight connection at Air France's Paris-Charles-de-Gaulle hub. With fare combinability, customers benefit from a choice of more frequencies *via* one or other of the hubs, for both the inbound and outbound trips. The fare is based on two half return tickets.

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 operating income

Adjusted operating income corresponds to income from current operations increased for the portion of operating leases deemed to be interest charges.

Adjusted operating margin

The adjusted operating margin is the percentage of revenues represented by operating income adjusted for the portion of operating leases (34%) deemed to be interest charges. The adjusted operating margin calculation is detailed in *Section 5.4 on page **195***.

Adjusted net debt

Adjusted net debt comprises net debt and the amount resulting from the capitalization of operating leases (7x the annual charge). The calculation is detailed in *Section 5.4, page **196***.

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. The calculation is detailed in *Section 5.4, page **196***.

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 *Section 3.5.2, page **124***.

Gearing ratio

The gearing ratio reflects the respective proportions of Group net debt and stockholders' equity at a given time. This ratio gives a measure of the Company's financial independence: the lower it is, the greater the Company's room for manœuvre.

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 income, Group share

Corresponds to net income, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

OCEANE

Acronym of *Obligations Convertibles En Actions Nouvelles ou Existantes* or bonds convertible and/or exchangeable into new or existing shares.

OPE

Offre Publique d'Échange. A public exchange offer (PEO) is an offer to purchase shares in a target company in exchange for shares in the Company initiating the offer.

Operating income

Operating income is the amount remaining after operating expenses (external expenses, payroll costs, amortization and provisions) have been deducted from revenues. It shows what the Company earns from its principal activity before the impact of financial and exceptional items.

ORS

Offre Réservée aux Salariés or offer reserved for employees. Within the context of privatizations, the State sells a tranche of shares to employees of the Company at preferential conditions.

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 5.4, page **197***.

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 **215**)*.

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.

No.	Information based on Annex 1 of the regulation	Pages
1	**Persons responsible**	**p. 320**
2	**Statutory Auditors**	**p. 321**
3	**Selected financial information**	**p. 4 and 5**
3.1	Historical information	p. **4** and **5**, p. **6** to **8**, p. **195** to **198**, p. **200** to **206**, p. **329**
3.2	Financial information for interim periods	
4	**Risk factors**	**p. 102 to 125**
5	**Information about the issuer**	
5.1	History and development of the issuer – general information	p. **314** to **316**
5.2	Principal investments	p. **96** to **98**, p. **186** to **189**, p. **241** to **276**
6	**Business overview**	
6.1	Principal activities	p. **74** to **95**
6.2	Principal markets	p. **88**
6.3	Exceptional factors	p. **6** to **8**
6.4	Extent to which the issuer is dependent on patents or licenses, contracts or new manufacturing processes	Not applicable
6.5	Competitive position	p. **66** to **69**
7	**Organizational structure**	
7.1	Brief description	p. **113** to **121**, p. **190**, p. **315**
7.2	List of significant subsidiaries	p. **190**, p. **284** to **286**, p. **302**
8	**Property, plant and equipment**	
8.1	Material tangible fixed assets	p. **96** to **99**, p. **188** to **189**, p. **194**, p. **241** to **242** and p. **278** to **279**
8.2	Environmental issues that may affect the issuer's utilization of the tangible fixed assets	p. **105**, p. **157** to **179**
9	**Operating and financial review**	
9.1	Financial situation	p. **186** to **187**, p. **190**, p. **194**, p. **195** to **198**
9.2	Operating results	p. **4**, p. **190**, p. **193**, p. **195** to **198**
10	**Cash and capital resources**	
10.1	Issuer's capital resources	p. **55** to **62** and p. **248**, p. **299**
10.2	Sources and amounts of cash flows	p. **124** and **125**, p. **186** and **187**, p. **194**, p. **204** to **206**, p. **281**
10.3	Borrowing conditions and funding structure	p. **102** to **103**, p. **125**, p. **187**, p. **194** to **197**, p. **261** to **264**, p. **298** to **300**
10.4	Restrictions on the use of capital resources	p. **122** to **125** and p. **264**
10.5	Anticipated sources of funds	p. **73**, p. **122** and **125** and p. **187**
11	**Research and development, patents and licenses**	**Not applicable**
12	**Trend information**	**p. 66 to 69**

No.	Information based on Annex 1 of the regulation	Pages
13	**Earnings forecasts or estimates**	**Not applicable**
14	**Administrative, management and supervisory bodies and General Management**	
14.1	Composition	p. **10** to **28**
14.2	Conflicts of interest	p. **33**
15	**Compensation and benefits**	
15.1	Remuneration and benefits in kind	p. **40** to **53**
15.2	Pension, retirement or similar benefits	p. **53** and **280**
16	**Functioning of the administrative and management bodies**	
16.1	Terms of office of members of the Board of Directors	p. **10** to **28**
16.2	Service contracts relating to members of the management bodies	p. **32** and **33**
16.3	Information about the Audit Committee and the Remuneration Committee	p. **36** to **38**
16.4	Statement relating to corporate governance	p. **33** and **34** and p. **113** to **121**
17	**Employees**	
17.1	Number of employees	p. **128**, p. **142** to **145**, p. **227**
17.2	Shareholdings and stock options	p. **10** to **28**, p. **53**, p. **58** to **60**, p. **248** to **250**
17.3	Agreement providing for employee shareholdings in the issuer's share capital	Not applicable
18	**Major shareholders**	
18.1	Identification of the major shareholders	p. **58** to **60**
18.2	Existence of different voting rights	p. **55**
18.3	Control of the issuer	Not applicable
18.4	Arrangement whose operation could lead to a change in control of the issuer	p. **62**
19	**Related party transactions**	p. **280**
20	**Financial information concerning the issuer's assets, financial position and results**	
20.1	Historical financial information	p. **4** and **5**, p. **199** to **286**, p. **293** to **305** and p. **329**
20.2	Pro forma financial information	Not applicable
20.3	Financial statements	p. **199** to **286**, p. **293** to **305**
20.4	Auditing of the historical annual financial information	p. **287** to **292**, p. **307** to **309**
20.5	Date of the latest financial information	p. **287** to **292**, p. **307** to **309**
20.6	Interim and other financial information	Not applicable
20.7	Dividends	p. **61**
20.8	Legal and arbitration proceedings	p. **112**, p. **258** to **259**
20.9	Significant change in the issuer's financial or trading position	p. **8** and p. **207**

No.	Information based on Annex 1 of the regulation	Pages
21	**Additional information**	
21.1	Share capital	p. **55**, p. **248**, p. **299**, p. **306**
21.2	Memorandum and bylaws	p. **62**, p. **314**
21.2.1	Corporate purpose	p. **314**
21.2.2	Provisions relating to the Company officers and the General Management	p. **29** to **34**, p. **54**
21.2.3	Rights, privileges and restrictions attached to the shares	p. **55**
21.2.4	Actions required to modify the rights of shareholders	p. **62**
21.2.5	Convening of General Shareholders' Meetings	Not applicable
21.2.8	Conditions governing changes in the capital	Not applicable
22	**Material contracts**	**Not applicable**
23	**Third party information and statements by experts and declarations of interest**	**Not applicable**
24	**Documents on display**	**p. 30, p. 321**
25	**Information on holdings**	**p. 242 and 286, p. 287, p. 298, p. 302**

INFORMATION INCLUDED BY REFERENCE

Pursuant to Article 28 (EC) No. 809/2004, the following information is included by reference in this Registration Document:

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 **180** and the related Statutory Auditors' report on pages **257** and **258**. The full statutory financial statements can be found on pages **259** to **260** 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** and pages **279** to **282**.

2015 Financial Year

The Registration Document for the 2015 financial year was filed with the *Autorité des Marchés Financiers* on April 12, 2016 under the registration number D. 16-0323. The consolidated financial statements are presented on pages **166** to **172** and the related Statutory Auditors' report on pages **253** and **254**. The full statutory financial statements can be found on pages **255** to **256** and the related Statutory Auditors' certification on page **267** to **268**. The selected financial information is presented on pages **2** and **3** of the Registration Document. The management report figures on pages **4** to **6** pages **8** to **34**, **36** to **48**, **56** to **57**, pages **58**, **61** and **62**, **67** to **68**, **69** to **74**, pages **76** to **86**, **100** to **149**, **156** to **164** and pages **275** to **279**.

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.

Elements required	Page of the Registration Document
The annual statutory financial statements	p. **293** to **294**
The Group's consolidated financial statements	p. **200** to **305**
Corporate governance report	p. **10** to **64**
Management report	p. **8**, p. **55** to **61**, p. **87** to **89**, p. **95**, p. **96** to **99**, p. **104** to **112**, p. **129** to **148**, p. **149** to **157**, p. **157** to **179**, p. **190** to **198**
Certification by the person responsible for the Annual Financial Report	p. **320**
Statutory Auditors' report on the statutory financial statements	p. **307** to **309**
Statutory Auditors' report on the consolidated financial statements	p. **287** to **292**
Statutory Auditors' fees	p. **283**

Document produced by the Air France-KLM Investor Relations Department
Mailing address: Air France-KLM – FI.IR – 95737 Roissy-Charles-de-Gaulle Cedex

www.airfranceklm.com

This document was printed by an Imprim'vert labeled printer on PEFC-certified paper.
Illustration: Damien Gautier, Havas Paris. Design and Production: Agence Marc Praquin.

WWW.AIRFRANCEKLM.COM

AIRFRANCE KLM