

## AIR FRANCE-KLM

### ANNUAL SHAREHOLDERS' MEETING OF TUESDAY MAY 16, 2017

#### ANSWERS TO THE QUESTIONS IN WRITING FROM SHAREHOLDERS

#### Preliminary remark

Note that, to be admissible, questions in writing must:

- Relate to the agenda for the Shareholders' Meeting.
- Be sent to the Chairman by registered letter with acknowledgement of receipt no later than four business days before the Meeting.
- Be accompanied by a securities account registration certificate.

To devote more time to questions from shareholders attending the Meeting, the answers to questions in writing are posted on our [www.airfranceklm.com](http://www.airfranceklm.com) website prior to the Meeting in a special section pursuant to law. Article L.225-108 of the French Code of Commerce stipulates that "*the answer to a question in writing is deemed to have been given when it figures on the company's website*". Shareholders may request a copy of the answers posted on our website from the Secretary of the Meeting.

In the same spirit, the questions have been summarized (without altering their meaning) whenever their full wording is not required for the purposes of proper understanding.

<b>Fuel hedging</b>	<b>1</b>
<b>Fleet</b>	<b>2</b>
<b>Servair</b>	<b>2</b>
<b>Commercial strategy/network</b>	<b>2</b>
<b>Ground handling of passengers</b>	<b>3</b>
<b>Other</b>	<b>3</b>

#### Fuel hedging

***While noting the current stable oil prices, Mr Allaguillemette is nonetheless concerned about fuel price volatility and would like to know the factors on which the Company's fuel procurement policy is based to ensure the effective anticipation of any reversal in this trend.***

The risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the Risk Management Committee for the whole of the Air France-KLM Group. The hedging strategy, approved by the Board of Directors, sets the time span for the hedges at two years (a rolling 24 months), and the target hedging ratio at 60% for the first twelve months and 20% for the following twelve months. Furthermore, it may use instruments like simple futures or option-based instruments.

Within the framework of a dynamic approach, the Group has implemented tracking indicators capping the potential maximum loss and the maximum potential 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.

Based on the futures curve at April 21, 2017, the fuel bill should be slightly down in dollars relative to its 2016 level in 2017 and stable in 2018. In euros, it should stand at €4.7 billion<sup>1</sup> in 2017 and 2018. Furthermore, the Strategy for 2017 foresees more hedging of the jet fuel consumption linked to Cargo and, where possible, hedging directly on jet fuel as opposed to Brent.

## **Fleet**

***Mr. Allaguillemette asks how the average age of the fleet in revenue service is calculated, in that the average age given for the 2016 financial year is 11 years and that the Group did not proceed with any significant renewal in 2016.***

The 2016 financial year saw a slight acceleration in fleet renewal with 40 aircraft being withdrawn (average age of 19.6 years) and 28 aircraft joining the fleet (including 26 new and two recent aircraft). A leased aircraft was also exchanged. These movements were balanced in long-haul and reflect fleet renewal: the retirement of eleven aircraft (seven B747-400s; four A330/340s) and twelve new entrants (five B777-300ERs and seven B787-9s). The medium-haul fleet saw both growth and renewal (twelve B737-800s entered the fleet and six aircraft were retired with two B737s, three A320s and one A321). The regional fleet saw the retirement of a large number of old aircraft (18 aircraft with an average age of 18.7 years) and the entry of four new aircraft (Embraer 175s). The five remaining MD-11 Freighters were withdrawn from the fleet. These different movements thus enabled a stabilization in the age of the operational fleet at 11 years.

## **Servair**

***Mr. Allaguillemette asks why part of Servair's share capital was sold during the 2016 financial year whereas, during the financial year preceding this disposal, this company had generated revenues of €374 million, up by 20%.***

On December 30, 2016, 49.99% of the Servair share capital was sold to gategroup together with the operational control, for an enterprise value of €475 million (100% basis). Through this transaction, Air France provides Servair with the resources required for its future growth to enable the company to maintain the highest standards in the airline catering industry globally, thanks to its industrial partnership with a leading player. The merger between Servair and gategroup will create the global number one in inflight catering, supported by the assets, expertise and networks of the two companies. With more than 200 facilities and 39,000 employees, the new entity will be able to accelerate the introduction of innovative products and services and create an unprecedented offer at the service of more than 300 airline customers. Thanks to this transaction, Servair's 9,500 employees will see their company's prospects reinforced. With this transaction, Air France pursues the refocusing on its core businesses and its debt reduction strategy. The structure of the transaction will also enable Air France to account 50% of Servair's net result using the equity method.

## **Commercial strategy/network**

***Ms. Heinz asks about the reasons why the Orly-Strasbourg service was closed in March 2016. She asks whether there are any plans to re-open the service and for details on the consequences of this closure for employment.***

The coming into operational service of the TGV Est in 2007 resulted in a significant deterioration in our financial results on the Strasbourg/Paris route. Every year, we have incurred an annual loss of several million euros on this service.

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<sup>1</sup> Futures curve at April 21, 2017, average 2017 Brent price of USD54 a barrel, a jet fuel price of USD511 per ton and a EUR/USD at 1.08 over the April-December 2017 period.

The shortening in the journey time to 1h50 between Strasbourg and Paris in the summer of 2016 forced us to suspend our operations at Orly.

The re-opening of our flights between Strasbourg and Orly is not possible in the current competitive conditions relative to rail transportation, unless a support scheme were to be envisaged by the public authorities adapted to the economic situation of the route and in compliance with all the legislative and regulatory provisions in force.

Last year we suggested this to the local authorities, whose responsibility it is to take the initiative on any move in this direction with the European institutions.

There have been no social repercussions for Air France in terms of employment despite the reduction in activity and there have been no compulsory redundancies at the SXB station. A Voluntary Departure Plan was put in place as everywhere at Air France. Voluntary transfers were accepted to other stations.

Furthermore, on November 29, the Group inaugurated a new center for its BlueLink subsidiary (a company specialized in customer relations) in Strasbourg. At this site, BlueLink foresees the creation of around 200 jobs on permanent contracts.

***Ms. Heinz asks about the commercial strategy on the domestic routes for 2017.***

HOP! Air France's commercial strategy on the domestic network aims to meet its customers' travel needs, whether for business, holidays or visiting friends and family.

In addition to providing solutions for everyone in the form of the subscription card, the youth card, the weekend card and the Blue Biz offer for small and medium-sized companies, etc., the company proposes a wide range of attractive and competitive fares. This price range has three levels which vary depending on the flexibility required:

- Basic, with the possibility of additional options
- Smart, with more services and travel flexibility, and Flying Blue Miles
- Flex, with total travel freedom and a range of services adapted to business travel.

## **Ground handling of passengers**

***Mentioning a personal experience at Roissy-CDG, Mr. Allaguillemette asks in which circumstances could sequential passenger boarding be put in place aimed at facilitating their embarkation.***

The priority sequencing of boarding at Roissy currently responds to the following principles:

- Passengers with special needs (reduced mobility, unaccompanied children, families with young children) are boarded first
- Then SkyPriority currently are invited to board and can subsequently benefit from a fast-track boarding channel throughout the boarding process.
- The other passengers are then invited to board the aircraft.

Other approaches based on another form of sequencing (by zone, window followed by aisle seats, etc.) have been trialed and are continuing without to date having shown any tangible additional benefit.

## **Other**

***Mr. Allaguillemette considers it abnormal for Air France to be ranked in twentieth position of the most appreciated airlines by the readers of Que Choisir magazine and asks whether the problems linked to flight punctuality, notably due to the boarding procedure currently in place, might be partly responsible for this poor ranking.***

Air France is obviously disappointed with this ranking, even if Air France's score has increased since their last survey in 2014. Air France would like to remind you that numerous rankings are published every year by various organizations located in multiple countries which see significant variations in the rankings of the different airlines. We also need to pay particular attention to the criteria used for the individual surveys as, depending on these criteria, there can also be significant differences in the overall results. The Que Choisir survey shows an "average" score (very good - good - average - mediocre - poor) for the Space on Board and Meal/Snack categories. Since 2014, however, Air France has been embarked on a strategy to move up-market which is now recognized by our customers.

Cabin fitting:

On long-haul, 44% of the fleet has now been equipped with new cabins and we are continuing this cabin upgrading program.

The cabins of our A330s and 777 COIs will be totally refitted:

- launch of the modifications in mid-2018 for the 15 A330s, with the arrival of a new Full Flat Business seat.
- launch of the modifications in mid-2019 for the 12 777 COIs with a Full Flat and full access Business seat.

On medium-haul, the move up-market will be fully effective in 2018.

We have very positive feedback on our new cabins from our customers. The Skytrax survey has shown a significant progression for Air France in recent years and, in 2015, we won the award for the most improved airline.

Catering:

We continue to upgrade the catering proposition on board our aircraft but also in our lounges and we have also had some very positive results for La Première and Business which are highlighted in the flight reports. For example, for the third year running, we won the award for the Best First Class Lounge Dining.

Air France obviously pays a great deal of attention to these results and to customer feedback, and is constantly working on the quality of its products and operational performance.