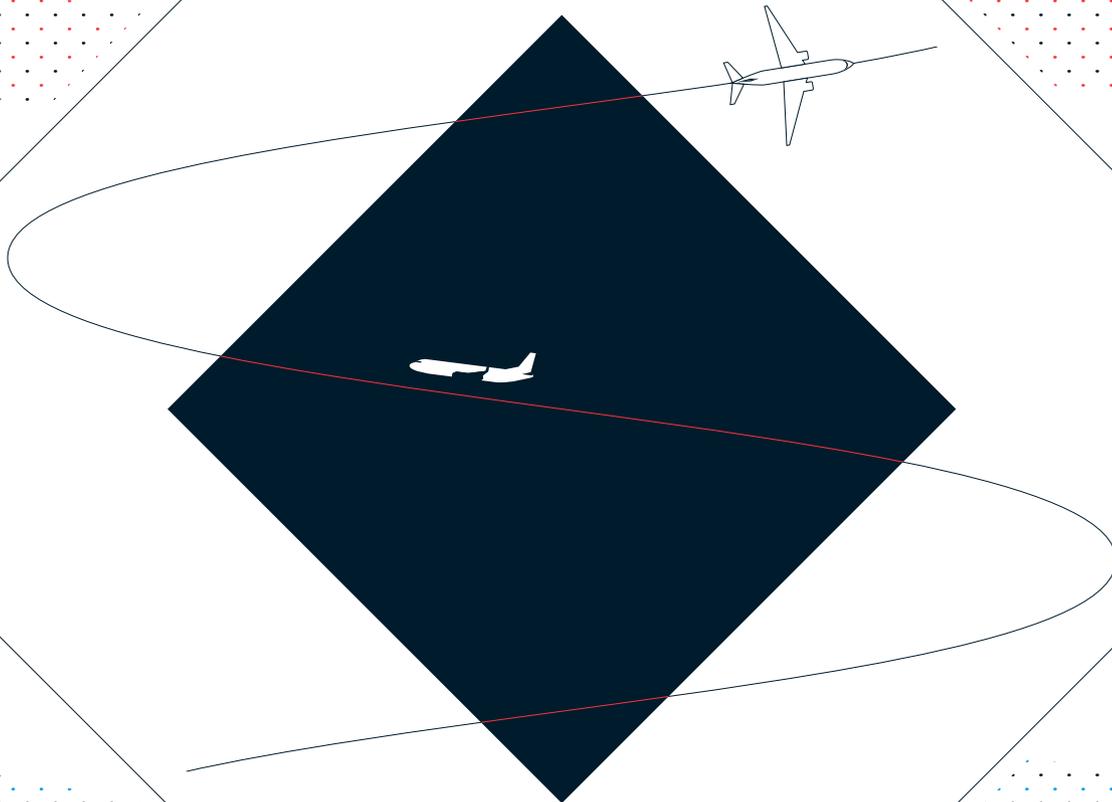


REGISTRATION DOCUMENT 2016

Including the annual financial report



AIRFRANCE **KLM**

Selected financial information	4
--------------------------------	---

Highlights of the 2016 financial year <small>AFR</small>	6
--	---

1 CORPORATE GOVERNANCE AFR 11

1.1 The Board of Directors	12
1.2 The Group Executive Committee	44

2 ACTIVITIES AFR 45

2.1 Market and environment	46
2.2 Strategy	50

Activities

2.3 Passenger network business	54
2.4 Low-cost business (Transavia)	63
2.5 Cargo business	64
2.6 Maintenance business	67
2.7 Catering business	72
2.8 Fleet	73
2.9 Highlights of the beginning of the 2017 financial year	77

3 RISKS AND RISK MANAGEMENT AFR 79

3.1 Risk management process	80
3.2 Risk factors and their management	81
3.3 Market risks and their management	87
3.4 Report of the Chairman of the Board of Directors	91
3.5 Statutory Auditors' report	101

4 CORPORATE SOCIAL RESPONSIBILITY: SOCIAL, CITIZENSHIP AND ENVIRONMENTAL INFORMATION AFR 103

4.1 Social information	104
4.2 Social indicators for the Group	120
4.3 Note on the methodology for the reporting of the social performance indicators	124
4.4 Corporate citizenship information	127
4.5 Environmental information	134
4.6 Environmental indicators	144
4.7 Note on the methodology for the reporting of the environmental indicators	148
4.8 Table of concordance for the social, corporate citizenship and environmental information	151
4.9 Assurance report by one of the Statutory Auditors, appointed as Independent Third Party, on the consolidated labor, environmental and social information presented in the management report	154

5 FINANCIAL REPORT AFR 159

5.1 Investments and financing	160
5.2 Property, plant and equipment	162
5.3 Comments on the consolidated financial statements	164
5.4 Key financial indicators	169

Financial statements

5.5 Consolidated financial statements	174
5.6 Notes to the consolidated financial statements	181
5.7 Statutory Auditors' report on the consolidated financial statements	257
5.8 Subsequent events	259
5.9 Statutory financial statements	259
5.10 Five-year results summary	271
5.11 Statutory Auditors' report on the financial statements	272
5.12 Statutory Auditors' special report on regulated agreements and commitments	274

6 OTHER INFORMATION 275

6.1 History	276
6.2 General information	278
6.3 Information relating to the share capital <small>AFR</small>	279
6.4 Information on trading in the stock	285
6.5 Information on the agreements concluded in connection with the business combination between Air France and KLM	288
6.6 Legislative and regulatory environment for the air transport industry	290
6.7 Information and control <small>AFR</small>	293

GLOSSARIES 295

Air transport glossary	295
Financial Glossary	297
Table of concordance for the Registration Document	299
Information included by reference	302
Table of concordance for the Annual Financial Report	303

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

REGISTRATION DOCUMENT 2016 AIR FRANCE-KLM

INCLUDING THE ANNUAL FINANCIAL REPORT

Group profile

In its three businesses of passenger transportation, cargo transportation and aircraft maintenance, Air France-KLM is a leading global player.



This Registration Document is an unofficial translation of the French *Document de Référence*, which was filed with the French *Autorité des Marchés Financiers* on Friday March 31, 2017 pursuant to Article 212-13 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, not 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 translation 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,

Despite a difficult international context marked by numerous geopolitical uncertainties, the passenger air transport market continued to grow in 2016.

In this environment, while not yet sufficient, Air France-KLM delivered a results improvement for the 2016 financial year, reflecting the initiatives and efforts of employees and the loyalty of our customers. The Group pursued a strategy of strict capacity discipline to regain competitiveness, while demonstrating the agility of its network by opening multiple new routes and accelerating the modernization of its fleet.

In 2017, despite the increasingly fierce competition, we are going to give ourselves the resources to ensure more rapid development, enabling us to capture our share of the industry's growth. This is the aim of the "Trust Together" project that I unveiled in November 2016.

**“Within the framework of “Trust Together”
the whole Group is mobilized around successfully
completing these initiatives, and thereby enabling
Air France-KLM to strengthen its competitiveness
and return to growth.”**

With this project, the Group affirms its ambition of regaining the offensive to return to a leadership position in the global air transport industry. This will involve long-haul but also reinforcing the medium-haul feeding operations for the dual hubs and developing the point-to-point activities on departure from France and the Netherlands.

“Trust Together” aims to improve the Group’s economic performance and competitiveness, and sets clear goals for Air France-KLM: reinforcing our alliance network, improving operational efficiency, streamlining our organizations and differentiating ourselves through a continued customer-centric focus. Within a context of digital revolution and rapidly changing customer needs, Air France-KLM must remain a leader in digital innovation. The digital strategy is going to play a key role in the Group’s ambition to become the number one for customer intimacy.

Within the framework of “Trust Together” the whole Group is mobilized around successfully completing these initiatives, and thereby enabling Air France-KLM to strengthen its competitiveness and return to growth.



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

93.4
MILLION
PASSENGERS

1.1
MILLION TONS
OF CARGO

534
AIRCRAFT IN
OPERATION

328
DESTINATIONS

118
COUNTRIES SERVED



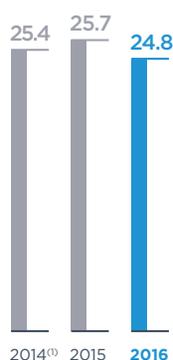
SELECTED FINANCIAL INFORMATION

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, 2015 figuring on pages 2 and 3 of the 2015 Registration Document and the review of the financial situation and results for the financial year ended December 31, 2014 figuring on pages 2 and 3 of the 2014 Registration Document are incorporated by reference in this document (see also Section 5.4 – Key financial indicators, page 169).

The Group's consolidated financial statements were restated as of January 1, 2016, reclassifying Servair as a discontinued operation. To facilitate comparison, the financial statements to December 31, 2015 have also been restated (see Section 5.3, page 164).

Revenues

(in € billion)

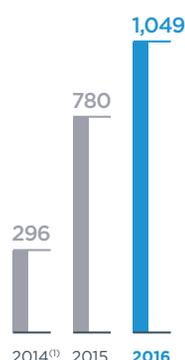


Revenues stood at €24.8 billion, down by 3.3% relative to 2015 and by 2.9% on a constant currency basis.

(1) Adjusted for the estimated impact of the strike.
Reported revenues: €24.91 billion.

Income from current operations

(in € million)



Operating income stood at €1,049 million, up by €269 million and by €558 million on a constant currency basis.

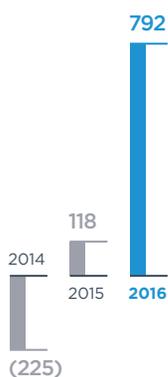
(1) Adjusted for the estimated impact of the strike.
Reported income from current operations: €(129) million.

Information by business segment

At December 31	2016		2015		2014	
	Revenues (in €bn)	Income/(loss) from current operations (in €m)	Revenues (in €bn)	Income/(loss) from current operations (in €m)	Revenues (in €bn)	Income/(loss) from current operations (in €m)
Passenger	19.68	1,057	20.54	842	20.02	289
Cargo	2.07	(244)	2.42	(245)	2.72	(188)
Maintenance	1.83	238	1.58	214	1.25	196
Transavia	1.22	0	1.10	(35)	1.06	(36)
Other	-	(2)	0.37	37	0.31	18

Net result, Group share

(in € million)



The net result, Group share stood at €792 million, up by €674 million on its 2015 level.

Restated net result, Group share

(in € million)

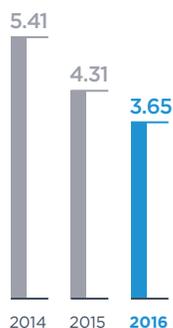


On a restated basis⁽¹⁾, the net result, Group share stood at €409 million versus €193 million in 2015.

(1) After adjusting for non-recurring items (including the net result from discontinued operations, unrealized foreign exchange gains and losses and the change in fair value of the derivatives portfolio).

Net debt

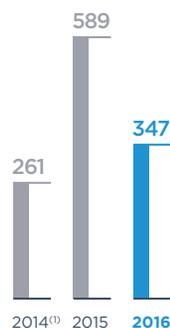
(in € billion)



Net debt amounted to €3.65 billion at December 31, 2016, versus €4.31 billion at December 31, 2015, i.e. down by €652 million.

Operating free cash-flow

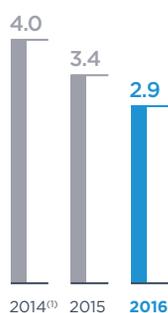
(in € million)



The free cash-flow generation enabled a further reduction in net debt. The operating free cash-flow of €347 million does not include the free cash-flow linked to financial operations and notably the amount of €346 million from disposals.

(1) Adjusted for the estimated impact of the strike. Reported operating free cash-flow: €(164) million.

Adjusted net debt/EBITDAR

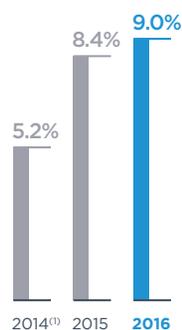


At December 31, 2016, the adjusted net debt/EBITDAR ratio stood at 2.9x compared with 3.4x at December 31, 2015.

(1) Adjusted for the estimated impact of the strike on EBITDAR. Reported ratio: 4.7x.

Return on capital employed (ROCE)

(at December 31)



The return on capital employed (ROCE) increased by 0.6 of a point to 9% at the end of 2016.

(1) To be able to compare figures based on a constant scope, the Alitalia shares have been excluded from the calculation.

HIGHLIGHTS OF THE 2016 FINANCIAL YEAR



January 2016

Air France Industries KLM Engineering & Maintenance voted “MRO of the Year”

On January 18, 2016 in Dublin, AFI KLM E&M receives the “MRO of the Year” award during the “Airline Economics Aviation 100 Awards” ceremony organized by the specialized magazine Airline Economics.

For the third year running, the achievement of this award underscores AFI KLM E&M’s long-term commitment to maintaining high standards of performance and quality, and its quest for a continuous improvement.

Air France -KLM, a founder member of Airlines for Europe (A4E)

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 - announce the creation of the Airlines for Europe (A4E) association.

The five groups, which carry more than 50% of passengers in Europe, have chosen to join forces with the aim of influencing European aviation policy and defending the interests of European airlines with the national and EU authorities to enable them to effectively compete with the world’s leading airlines.

February 2016

World’s Most Admired Companies

Air France-KLM excels in Fortune’s World’s Most Admired Companies 2016, ranking third in the “Airlines” category behind Delta Air Lines and Singapore, and ahead of major players like United Continental (4th), Lufthansa (7th) and IAG (9th). Air France-KLM is one of the few French companies to figure in this ranking.

The Fortune World’s Most Admired Companies ranking is published annually by the monthly magazine Fortune. It is the result of an in-depth survey with analysts and company managements.

Regarding Air France-KLM, the economic assessors note, in particular, its excellent performance in terms of innovation, the quality of its products and services and its social and environmental responsibility.

Transavia: best low-cost operator in Europe

The Flight-Report.com website delivers its verdict: Transavia is the best European low-cost airline in 2016.

Contributors to the Flight-Report website post daily reviews, photos and notes which are used to establish this ranking.

Transavia is appreciated by customers for the quality of service provided by its cabin crews, the comfort of its cabin, and the quality of its paid-for inflight catering service available on board.

This is a real success story for the airline which is seeking to stand out based on the quality of its customer experience.

April 2016

Air France welcomes its 70th B777

On April 26, 2016, the Company's fleet takes delivery of its seventieth B777. Air France is expanding its fleet and thus reinforcing its capacity thanks to 43 B777-300s, 25 B777-200s and two B777F Cargo aircraft. With a fleet of 96 B777s, the Air France-KLM Group is the world's number three operator of this aircraft type.

The Paris Charles-de-Gaulle hub becomes fully self-boarding

Self-boarding, which is a key element in the self-service and digitized chain that Air France aims to establish as standard at most of its outstations, is rolled out at Paris Charles-de-Gaulle airport. Seventy gates are equipped between April and December 2016.

By ensuring more seamless, faster boarding, self-boarding contributes to Operating Performance and punctuality. It also enhances the Company's reputation for innovation and efficiency. This system releases staff from repetitive tasks and enables them to focus on welcoming and assisting customers, whether or not they require special support (persons with restricted mobility, families with babies). Self-boarding is thus a key factor in attentive customer relationships.

At Paris-CDG, self-boarding means: boarding of the A380 in under 30 minutes, boarding of the B777 in under 20 minutes, boarding of the A320 in under 10 minutes.

May 2016

Mr. Jean-Marc Janaillac selected as the Group's future Chairman and Chief Executive Officer

Following the unanimous recommendation of the Appointments and Governance Committee, the Air France-KLM Board of Directors chooses Mr. Jean-Marc Janaillac as the Group's future Chairman and Chief Executive Officer.

The Air France-KLM Board of Directors considers that Mr. Janaillac's international experience, his knowledge of the transportation business particularly in France and the Netherlands, his successful development of the companies he has headed, his knowledge of the airline industry and its customers and his capacity for dialogue with employees and the Group's other stakeholders will enable him to contend with the challenges facing the Air France-KLM Group.

Creation of a joint-venture between AFI KLM E&M and Safran

At the Palais de l'Elysée in the presence of the French President, Air France Industries KLM Engineering & Maintenance and Safran Aircraft Engines sign a Memorandum of Understanding concerning the creation of a joint company dedicated to the repair of aircraft engine compressor blades. The new company's business will specifically concern CFM56 engines from CFM International (equipping the A320 and B737), the GE90 from GE (powering the B777) and the GP7200 from the Engine Alliance (for the A380).

The two partners will invest over €20 million in the new company, which will be 51% owned by Safran Aircraft Engines and 49% by Air France-KLM; operations are scheduled to begin in late 2017.

This new site will be located close to Valenciennes, in the Hauts-de-France region, at the Sars et Rosière business park in the community of La Porte du Hainaut. The new plant will span a 15,000m² site and offer all the machinery and equipment needed for the different stages of engine repair, including high-tech metallurgical processes. After reaching full production capacity in 2020, the Company is expected to total 200 to 250 employees.

June 2016

Appointment of Mr. Jean-Marc Janaillac as Chairman and Chief Executive Officer of Air France-KLM

During its meeting of June 22, 2016, the Board of Directors decides 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, with effect from July 4, 2016. The decision on this appointment is in line with the succession plan established by the Board of Directors on May 1, 2016.

July 2016

Air France-KLM strengthens its joint-venture with China Eastern Airlines

On July 1, 2016, Air France-KLM signs a new agreement with China Eastern Airlines which includes KLM as part of the existing joint-venture between Air France and the Chinese airline.

The addition of KLM enables the Air France-KLM Group and China Eastern Airlines to strengthen the entire network connecting Europe to China. These new agreements also optimize capacity on the Amsterdam-Schiphol-Shanghai route, in addition to the agreements on the Paris Charles-de-Gaulle-Shanghai route. In this way, all Air France-KLM and China Eastern Airlines customers enjoy a wider range of frequencies and connections, adapted schedules, harmonized ground and inflight services and competitive fares.

Air France-KLM again recognized by Skytrax

On July 12, 2016, at the World Airline Awards organized by Skytrax in London, Air France-KLM is once again ranked amongst the world's top 100 airlines.

- Air France ranks 14th, moving up 26 places over the past three years.
- KLM ranks 24th, moving up thirteen places over the past three years.

Air France also receives two awards for its *La Première* offer. The restaurant in its *La Première* lounge with its menu signed by chef Alain Ducasse at Paris Charles-de-Gaulle wins the award for Best First Class Lounge Dining. The cosmetics kit and sleep suit offered to customers in the *La Première* cabins also win Best First Class Comfort Amenities.

September 2016

Air France -KLM, ranked leader of the DJSI “Airlines” category for the twelfth consecutive year

Air France -KLM is ranked leader of the “Airlines” category for the twelfth consecutive year in the Dow Jones Sustainability Index (DJSI), the main international index evaluating companies on their performance in terms of sustainable development. Air France -KLM is one of the 58 most sustainable companies in the world, each in their own business sector.

Air France -KLM and Delta expand their codeshare cooperation with Jet Airways via Paris and Amsterdam

On September 27, 2016, following the success of the codeshare agreement launched in March 2016, Air France-KLM and Delta Air Lines enhance their existing codeshare agreement with the Indian carrier Jet Airways. This expanded agreement adds new travel options for customers flying from the United States via Paris-Charles de Gaulle to India, complementing the current service offered through Amsterdam-Schiphol.

The agreement comes into force on October 30, 2016. Delta customers flying from the United States and Europe will be able to connect with Jet Airways' flights to Mumbai via Paris-Charles de Gaulle or to New Delhi and Mumbai via Amsterdam-Schiphol. From the Netherlands, customers can then fly to over 20 destinations within India and beyond on the Jet Airways network.

October 2016

Air France -KLM successfully places an issue of six-year bonds for €400 million

Each bond has a nominal value of €100,000 and bears an annual coupon of 3.75%. The issue price is fixed at 100% of the nominal value and the bonds are redeemable at par in October 2022.

This transaction enables Air France -KLM to lengthen its debt profile.

November 2016

Air France -KLM: change in Air France governance

The Air France-KLM and Air France Boards of Directors decide to change the Group's governance to support the implementation of the “Trust Together” project. The functions of Chairman and Chief Executive Officer of Air France are separated and Jean-Marc Janaillac, Chairman and Chief Executive Officer of Air France-KLM, is also appointed Chairman of the Air France Board of Directors.

Franck Ternier, Executive Vice-President Engineering and Maintenance at Air France-KLM, is appointed Chief Executive Officer of Air France.

Frédéric Gagey is appointed Chief Financial Officer of the Air France-KLM Group.

“Trust Together”: Air France -KLM regains the offensive with a new strategic project

On November 3, 2016, Jean-Marc Janaillac unveils the new “Trust Together” strategic project.

“With “Trust Together”, Air France -KLM regains the offensive with a project which is both ambitious and realistic. It will enable us to capture our share of air transport industry growth by improving the competitiveness of our businesses. With our nine strategic priorities, we shall be fighting back on every front. Our strength lies in the fact that we are challengers. The status quo is not an option. We must launch a new dynamic to return to a leadership position in our markets.” says Jean-Marc Janaillac.

“Trust Together” must enable Air France-KLM 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. (See Section 2.2 Strategy of the Group, page 50).

Air France and KLM launch an enriched Economy offer on the European network

Air France and KLM introduce an enriched Economy offer on all their international flights within Europe, and to North Africa and Israel. Customers will now be able to choose between three travel ranges, each offering specific services and conditions. These new product ranges will be progressively rolled out in the different European markets:

- the “Light” product for passengers looking for the lowest available fare and travelling without checked-in baggage;
- the “Standard” product for an additional charge of €40 to €50, offers customers additional benefits such the possibility to check in one item of baggage free of charge and to change their ticket in return for a fee;
- the “Flex” product for an additional charge of €70 to €150, offering maximum flexibility (no modification charge and a refund at no extra cost) and the opportunity to benefit from the SkyPriority service for seamless, priority access at the airport.

Air France-KLM strengthens its partnership with Copa Airlines

Air France and Copa Airlines announce a new codeshare agreement on five routes operated by the Panamanian airline. Starting from November 19, Air France-KLM Group customers will be able to fly, as a continuation of flights operated by Air France, between Panama City and San José (Costa Rica) with two daily flights and San Salvador (Salvador) with one daily flight. Once governmental approval is obtained, the Group's customers will also be able to fly to Guatemala City (Guatemala), Managua (Nicaragua) and Tegucigalpa (Honduras) with one daily flight on departure from Panama City.

December 2016

Air France-KLM successfully places US\$145 million of ten-year senior notes

Air France-KLM successfully places US\$145 million of senior notes maturing on December 15, 2026 and bearing a 4.35% coupon with Asian institutional investors *via* an unlisted private placement.

The senior notes are swapped into euros, resulting in an all-in cost for Air France-KLM of 4%.

This transaction enables Air France-KLM to lengthen its debt profile.

Air France announces its new organization

- **Pierre-Olivier Bandet** is appointed Executive Vice-President Fleet and Scheduling;
- **Alain-Hervé Bernard** is appointed Chief Operating Officer and Accountable Manager;
- **Éric Caron** is appointed Executive Vice-President In-flight Services;
- **Gilles Gateau** is confirmed in his position of Executive Vice-President in charge of Human Resources;
- **Élisabeth Hérelrier** is appointed Executive Vice-President Cargo;
- **Gilles Laurent** is confirmed in his position of Executive Vice-President Flight Operations;
- **Alain Malka** is appointed Executive Vice-President of HOP! Air France;
- **Géry Montreux** is appointed Executive Vice-President of Air France Industries;
- **Jérôme Nanty** is appointed Executive Vice-President Corporate Secretary and Transformation;

- **Anne Rigail** is appointed Executive Vice-President Customer;
- **Jean-Charles Tréhan** is confirmed in his position as Senior Vice-President Communication;
- **Marc Verspyck** is confirmed in his position of Executive Vice-President Finance.

In addition, **Anne Brachet** takes the helm of Air France-KLM's maintenance business while **Marcel de Nooijer** is appointed Executive Vice-President, Air France-KLM Cargo.

Air France-KLM modernizes its fleet with the arrival of the B787 at Air France

On Friday December 2, 2016, Air France takes delivery of its first B787 at Paris Charles-de-Gaulle, arriving from the Boeing factories in Everett. This is the Air France-KLM Group's ninth B787. The B787s enable Air France-KLM to continue the modernization of its fleet and improve its energy efficiency.

Disposal by Air France-KLM of Amadeus shares representing around 1.13% of the share capital

Air France-KLM sells a total of 4,950,000 shares in Amadeus IT Group, SA ("Amadeus"), representing around 1.13% of the Amadeus share capital, within the framework of the unwinding and termination of a portion of the hedging transaction on 9,900,000 shares.

The net proceeds of the transaction amount to €201 million.

Air France-KLM maintains its hedging on 4,950,000 shares, representing around 1.13% of the Amadeus share capital.

This disposal is part of Air France-KLM's active balance sheet management policy. With this transaction, Air France-KLM pursues its debt reduction strategy.

Air France-KLM finalizes the transaction to sell 49.99% of the Servair share capital and transfer its operational control to the airline catering company gategroup

Following the acquisition of gategroup by HNA on December 22, 2016, Air France and gategroup finalize the agreement for the sale to gategroup of 49.99% of the Servair share capital and the transfer of its operational control for an enterprise value of €475 million (100% basis). This sale becomes effective on December 30, 2016 (see Section 2.7, *Catering business on page 72*).



This page has been intentionally left blank.

1

CORPORATE GOVERNANCE

1.1	The Board of Directors	12
1.1.1	Composition of the Board of Directors	12
1.1.2	Missions of the Board of Directors	28
1.1.3	Organization of the Board of Directors	28
1.1.4	Functioning of the Board of Directors	32
1.1.5	The Board of Director Committees	33
1.1.6	Compensation of the Company officers	36
1.1.7	Compensation of the executive officers for the 2016 financial year	38
1.1.8	Principles and criteria for determining, distributing and allocating the fixed, variable and extraordinary components of the total compensation and benefits of any	42
1.2	The Group Executive Committee	44

1.1 THE BOARD OF DIRECTORS

1.1.1 Composition of the Board of Directors

At December 31, 2016, the Board of Directors was composed of fifteen members:

- thirteen Board directors appointed by the General Shareholders' Meeting, including:
 - two directors proposed by the French State⁽¹⁾, and
 - two representing the employee shareholders⁽²⁾;
- one representative of the employees appointed by the *Comité de Groupe Français*⁽³⁾; and
- one representative of the French State appointed by ministerial order⁽⁴⁾.

Furthermore, as of December 31, 2016, the Board of Directors was composed of eleven members with French nationality and four members with Dutch nationality.

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, 2016, the Board of Directors numbered five women Board directors, *i.e.* a proportion of 35.7%⁽⁵⁾, pursuant as of that date to the provisions of Act No. 2011-103 of January 27, 2011 relating to the balanced representation of men and women within Boards of Directors and Supervisory Boards, and professional equality.

During the 2016 financial year, the composition of the Board of Directors saw a number of changes as shown in the following table.

Changes in the composition of the Board of Directors during the 2016 financial year:

Dates	Events	Function within the Board
May 19, 2016	Appointment of Anne-Marie Couderc by the Shareholders' Meeting	Independent director
May 19, 2016	Appointment of Hans N.J. Smits by the Shareholders' Meeting	Board director
May 19, 2016	Appointment of Alexander R. Wynaendts by the Shareholders' Meeting	Independent director
May 19, 2016	Expiry of Jean-François Dehecq's term of office	Independent director
May 19, 2016	Expiry of Cornelis van Lede's term of office	Independent director
May 19, 2016	Expiry of Leo van Wijk's term of office	Board director
June 3, 2016	Alexandre de Juniac steps down as Chairman and Chief Executive Officer ⁽⁶⁾ and as a Board director, effective July 4, 2016	Chairman of the Board of Directors
June 22, 2016	Co-opting of Jean-Marc Janailac by the Board of Directors as a Board director and his appointment as Chairman and Chief Executive Officer, effective July 4, 2016	Chairman of the Board of Directors
December 6, 2016	Resignation of Christian Magne and replacement by his deputy François Robardet	Board director representing the Ground Staff and Cabin Crew shareholders

(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 Article L. 225-23 of the Code of Commerce, Article L. 6411-9 of the Transport Code and Article 17-2 of the Articles of Incorporation.

(3) Pursuant to the provisions of Article L. 225-27-1 of the Code of Commerce and Article 17-3 of the Articles of Incorporation.

(4) 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.

(5) The Board directors representing the employees, appointed pursuant to Article L. 225-27-1 of the Code of Commerce, are not taken into account for the gender parity calculation in line with the provisions of the aforementioned Article.

(6) The appointment of Mr. Jean-Marc Janailac as a Board director will be subject to ratification by Air France-KLM's forthcoming Shareholders' Meeting on May 16, 2017.

Board directors appointed by the Shareholders' Meeting



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 Études 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.

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

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 Chief Executive Officer of Transdev from 2012 to 2016;
- Chairman of Thello until 2016;
- President of the Executive Board of RATP Dev from 2010 to 2012.



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, a Dutch national, 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 Engineering & 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 2013. **Since July 1, 2013, Mr. Hartman has been Vice-Chairman of the Air France-KLM⁽¹⁾ Board of Directors.**

Other directorships and offices

Non-French companies

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

Other

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

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

Non-French companies

- Member of the Supervisory Board of Royal Ten Cate NV⁽¹⁾, 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 April 2016;
- Chairman of the Advisory Council for Aeronautics Research in Europe until October 2015.
- Member of the Board of Directors of the Rotterdam School of Management, Netherlands, until October 2011;

(1) Listed company.



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:
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 and Chief Executive Officer of Affine Group SA⁽¹⁾ (office real estate), a company she founded in 1990.

Other directorships and offices

French companies

- Affine Group: Chair and CEO of Mab-Finances SAS, Chair of Promaffine SAS, Chief Executive Officer 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;
- Director of Veolia Environnement⁽¹⁾;
- Member of the BPCE group's (Banques Populaires Caisses d'Épargne) Supervisory Board.

Non-French companies

- Affine Group: Chair of Banimmo⁽¹⁾⁽²⁾, Belgium and Director of Holdaffine BV, Netherlands.

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

French companies

- Affine Group: Member of the Executive Committee of Concerto Development SAS until December 19, 2014, Director of Affiparis SA until December 7, 2012.

Other

- Director of European Asset Value Fund, Luxembourg, until 2011.



First appointed as a Board director:
May 16, 2013

Expiration date of current term of office:
2017 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

- President of CELPartners Ltd, Hong Kong;
- Director of Yafei Dendistry Limited⁽³⁾;
- Director of Crystal Orange Hotel Holdings Limited⁽³⁾.

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

French company

- Director of Saint Gobain⁽¹⁾ until June 2016.

Non-French companies

- Director of JD Holding Inc⁽³⁾ until December 2016;
- Director of Umicore, Belgium, until May 2015;
- Director of Dexia⁽¹⁾, Belgium, until May 2012.

(1) Listed company.

(2) Banimmo is jointly controlled by Affime (49.5%) and by Banimmo's historic shareholder.

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



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 and 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 staff. He occupied various positions within the Ministry of Budget 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 past five years and having expired.

French companies and public institutions

- Director of the *Établissement Public de l'Opéra Comique* until December 2014;
- Director of EDF⁽¹⁾ until November 2012;
- Director of the SNCF until October 2012;
- Member of the Areva⁽¹⁾ Supervisory Board until September 2012;
- Director of France Telecom⁽¹⁾ until September 2012;
- Director of the *Fonds Stratégique d'Investissement* until September 2012.



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
Chairman of the Remuneration Committee*

Expertise and professional experience

Born April 3, 1948, Jaap de Hoop Scheffer, a Dutch national, is a law graduate of Leiden University.

Mr. de Hoop Scheffer started his diplomatic career in 1976 and became Private Secretary to the Minister of Foreign Affairs (1980-86). He then became a member of the Dutch Parliament (1986-2002), leader of the Christian Democratic Alliance (CDA) (1997-2001), the Dutch Minister of Foreign Affairs (2002-03) and Secretary General of NATO (2004-09). **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

Others

- Chairman of the Supervisory Board of the Rijksmuseum, Netherlands;
- Member of the Board of Trustees of the Friends of Europe group, based in Brussels, Belgium;
- Co-President of the Security & Defense Agenda, based in 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;
- Member of the Trilateral Commission.

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

- 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.

(1) Listed company.



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 1997, she was named Chief Executive Officer followed, from 2006 to 2010, by Secretary-General of Lagardère Active (press and audiovisual).

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. **Since 2011, she has been President of the Presstalis Group (press distribution).**

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:
Presstalis, 30 rue Raoul Wallenberg, 75931 Cedex 19

Other directorships and offices

French companies

- Director of Ramsay Générale de Santé since 2014;
- Director of Veolia Transdev SA since 2012;
- Director of Plastic Omnium⁽¹⁾ since 2010;
- Director and Chair of the Presstalis Board of Directors since 2011;
- Director 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 during the last five years and having expired

N/A



Alexander R. Wynaendts

Independent director

Member of the Appointments and Governance Committee

Expertise and professional experience

Born August 1, 1960, Alex Wynaendts studied in France and holds an electrical engineering degree from the *École Supérieure d'Electricité* (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 London in 1984, where he was responsible for commercial and investment 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 President of the Executive Board of Aegon NV⁽¹⁾.

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

Other directorships and offices

Others

- 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 Committee 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.



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 actions

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 and 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 M.A. in business administration from Erasmus University in Rotterdam (1973-1975). Mr. Smits began his career in the Delta Department of the Dutch Ministry of Transport, Public Works and Water Management where he held various management positions from 1975 to 1986. 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 2003-04, he was a director of Arthur D. Little Benelux then, from 2005 to 2014, he was President and CEO of Havenbedrijf Rotterdam NV (the 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

N/A

(1) Listed company.



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 Betclac (2007-11) before joining Nocibé as President of the Managing Board (2011-16). **Isabelle Parize has been Chair and Chief Executive Officer of Douglas Holding AG since 2016.**

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:
Douglas Holding AG,
Hans-Günther-Sohl-Str. 7-11,
40235 Düsseldorf, Germany

Other directorships and offices

Non-French companies

- Nocibé/Douglas Group:
 - 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.

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;
- Vice-Chair of Betclac Everest until 2011.

Non-French companies

- 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 (*Agence Française pour les investisseurs internationaux*) until April 2014.

(1) Listed company.



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 and 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 (2005-08) then Director of Transport Services (2008-11) 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.**

Directorships and offices

N/A

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

N/A

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.



First appointed as a Board director:
March 21, 2013

Expiration date of current term of office:
May 2019

Professional address:
Agence des Participations de l'État, Ministère de l'Économie, 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 philosophy degree and a Diploma of Advanced Studies in history, and is a graduate of the *École Nationale des Chartes*, the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.

Having begun 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), between 2006 and 2009 she was Customer Relations 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 22, 2014.**

Other directorships and offices representing the French State

French companies and public institutions

- Director of SNCF Mobilités (ex SNCF), representing the French State;
- Director of ADP Group⁽¹⁾ (ex-Aéroports de Paris), representing the French State;
- Director of the *Régie Autonome des Transports Parisiens* (RATP), representing the French State.

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

French companies and public institutions

- Director of Réseau Ferré de France (now SNCF Réseau) until July 2015;
- Director of France Télévisions until September 2013;

- Director of External Audiovisual for 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 the *Société de Financement et d'Investissement pour la Réforme et le Développement* (SOFIRED) until January 2013;
- Director of the French Fractionation and Biotechnologies Laboratory (LFB) until October 2012;
- Director of the *Société d'Économie Mixte d'Aménagement et de Gestion du Marché d'Intérêt National de la Région Parisienne* (SEMMARIS) until October 2012.

(1) Listed company.

Board directors representing the employee shareholders

Pursuant to Articles L. 225-23 of the Code of 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 of 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.



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, notably, 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 retirement of this aircraft from the fleet in 2016. **Mr. Jobard has since been Flight Captain on the B777.**

First appointed as a Board director:
May 20, 2014

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

Number of shares 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

Other directorships and offices

- Titular member (elected) of the Supervisory Board of the Concorde employee shareholder FCPE;
- Vice-Chairman of the Association de Prévoyance du Personnel Navigant.

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

N/A



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.

Other directorships and offices held in the last five years and having expired

N/A

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

Board director representing the employees

Pursuant to Article 17-3 and Article L. 225-27-1 of the Code of Commerce, there is a Board director representing employees within the Air France-KLM Board of Directors.

This Board director representing the employees is appointed by the *Comité de groupe français* as stipulated in Article L. 2331-1 of the Employment Code for a two-year term of office expiring at the end of the Shareholders' Meeting held in the year in which his or her mandate expires.



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

Board director representing the employees

Expertise and professional experience

Born June 30, 1963, Antoine Santero began his career as a member of the UTA ground staff in 1985. He then became a Flight Attendant at Euralair from 1987 to 1998, the date on which he joined Air France still in the capacity of Flight Attendant. **Mr. Santero has been Senior Flight Attendant on the Air France long-haul network since 2007.**

Other directorships and offices

- Member of the Board of Directors of the *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 Inter Immobilier.

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

N/A

Board directors whose terms of office expired during the 2016 financial year



First appointed as a Board director:
January 11, 2012

End of term of office:
July 4, 2016

Number of shares held in the Company's stock:
2,000 shares

Professional address:
IATA, 33, Route de l'Aéroport, 1215 Geneva 15 Airport, Switzerland

Alexandre de Juniac

Chairman and Chief Executive Officer

Expertise and professional experience

Born November 10, 1962, Alexandre de Juniac is a graduate of the *École Polytechnique de Paris* and of the *École Nationale d'Administration*.

Having begun his career at the *Conseil d'État* in 1988, Mr. de Juniac joined the cabinet of Nicolas Sarkozy at the French Budget Ministry in 1993. Between 1995 and 2008 he occupied various functions in the aeronautical industry (Thomson, Sextant Avionique, Thales). In 2009, he became Chief of Staff to Christine Lagarde, Minister of the Economy, Industry and Employment.

Mr. de Juniac was Chairman and Chief Executive Officer of Air France between November 16, 2011 and June 30, 2013, then Chairman and Chief Executive Officer of Air France-KLM between July 1, 2013 and July 4, 2016.

Alexandre de Juniac has been Director General and CEO of IATA since September 1, 2016.

Other directorships and offices

French company

- Member of the Vivendi⁽¹⁾ Supervisory Board.

Other

- President of the *Club des Juristes*.

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

French companies and public institutions

- Chairman and Chief Executive Officer and Board director of Air France-KLM⁽¹⁾ until July 2016;
- Chairman and Chief Executive Officer and Board director of Société Air France until June 2013;
- Chief of Staff to Christine Lagarde, Minister of the Economy, Industry and Employment, from 2009 to 2011.



First appointed as a Board director:
September 15, 2004⁽²⁾

End of term of office:
December 6, 2016

Number of shares held in the Company's stock:
156 shares and
447 FCPE units

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

Christian Magne

*Board director representing the Ground Staff and Cabin Crew shareholders
Member of the Audit and Remuneration Committees*

Expertise and professional experience

Born August 20, 1952, Christian Magne joined Air France in 1974 and occupied various positions linked to crew management, the establishment of rosters and flight plans, the establishment of budgets and management control, the establishment of cost prices and the monitoring of IT methods and applications. **He also occupied numerous functions linked to defending the interests of Air France employees.**

Other directorships and offices

- Titular member (elected) of the Supervisory Board of the Aeropelican employee shareholder FCPE;
- Alternate member (elected) of the Supervisory Board of the Concorde employee shareholder FCPE;
- Member (elected) of the Supervisory Boards of three dedicated diversified savings funds (titular member of the *Horizon Épargne Mixte* and *Horizon Épargne Taux* funds and alternate member of the *Horizon Épargne Action* fund).

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

- Board director of Air France-KLM⁽¹⁾ representing the Ground Staff and Cabin Crew shareholders until December 2016.

(1) Listed company.

(2) Date first appointed as a Board member of Société Air France: September 14, 2001.



Leo M. van Wijk

Board director

Chairman of the Remuneration Committee

Expertise and professional experience

Born October 18, 1946, Leo van Wijk, a Dutch national, holds a Masters degree in Economic Sciences.

Mr. van Wijk began his career at KLM Dutch Airlines in 1971. Having occupied a number of positions in the Cargo division, he was appointed Vice-President KLM Marketing in 1984 before becoming Senior Vice-President Corporate Development in 1989. He joined the KLM Board of Managing Directors in 1991 and was President and Chief Executive Officer of the Company between 1997 and 2007. On October 17, 2011, he was appointed Deputy Chief Executive Officer of Air France-KLM, an office he held until June 30, 2013. Mr. van Wijk served as Chairman of the SkyTeam Governing Board between 2007 and 2015.

Other directorships and offices

Non-French company

- Chairman of the Supervisory Board of AFC Ajax NV⁽¹⁾, Netherlands, since April 2016.

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

French company

- Deputy Chief Executive Officer and Vice-Chairman of the Board of Directors of Air France-KLM⁽¹⁾ until June 2013.

Non-French companies

- Vice-Chairman of the AFC Ajax NV⁽¹⁾ Supervisory Board, Netherlands, until April 2016;
- Chairman of the SkyTeam Governing Board until November 2015;
- Member of the Aegon NV⁽¹⁾ Supervisory Board, Netherlands, until May 2015;
- Member of the Supervisory Board of Randstad Holding NV⁽¹⁾, Netherlands, until April 2014.

First appointed as a Board director:
September 15, 2004⁽²⁾

End of term of office:
2016 Shareholders' Meeting

Number of shares held in the Company's stock:
3,565 shares

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



Cornelis J.A. van Lede

Independent director

Member of the Audit Committee and of the Appointments and Governance Committee

Expertise and professional experience

Born November 21, 1942, Cornelis J.A. van Lede, a Dutch national, holds a law degree from Leiden University and an MBA from INSEAD (European Institute of Business Administration).

Mr. van Lede worked successively for Shell (1967-69) and McKinsey (1969-1976) before becoming Chairman and Chief Executive Officer of Koninklijke Nederhorst Bouw BV between 1977 and 1982. He was President of the Dutch Industry Federation between 1984 and 1991 and Chairman of the Akzo Nobel NV Management Board between 1994 and 2003. Mr. van Lede was Chairman of the Supervisory Board of Heineken⁽¹⁾ between 2004 and April 2013.

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Philips Lighting, Netherlands;
- Senior Advisor with JPMorgan.

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

French company

- Director of Air Liquide⁽¹⁾ until May 2015.

Non-French companies

- Member of the Supervisory Board of Royal Philipps, Netherlands, until May 2016;
- Chairman of the Supervisory Board of Royal Imtech, Netherlands, until May 2015;
- Chairman of the Supervisory Board of Heineken⁽¹⁾, Netherlands, until April 2013;
- Director of DE Master Blenders⁽¹⁾⁽³⁾, Netherlands, until February 2013;
- Director of Sara Lee Corporation, United States, until June 2012⁽³⁾.

First appointed as a Board director:
September 15, 2004

End of term of office:
2016 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

(1) Listed company.

(2) Date first appointed as a Board director of Société Air France: June 24, 2004.

(3) Sara Lee Corporation was dissolved on June 28, 2012 following a spin-off of two separate companies, one of which was DE Master Blenders.



Jean-François Dehecq

Independent director

Chairman of the Appointments and Governance Committee and member of the Audit Committee

Expertise and professional experience

Born January 1, 1940, Jean-François Dehecq is a graduate of the *École Nationale Supérieure des Arts et Métiers*. Having begun his career as a mathematics teacher, as of 1965 Mr. Dehecq occupied various positions within the Société Nationale des Pétroles d'Aquitaine (SNPA, ex Elf Aquitaine). He became Chief Executive Officer of Sanofi in 1973, then Vice-Chairman and Chief Executive Officer in 1982 before becoming Chairman and Chief Executive Officer in 1988. Between 2007 and 2010, he was Chairman of the Sanofi-Aventis Board of Directors. Between 2010 and 2016, Mr. Dehecq was Vice-Chairman of the National Industry Council.

First appointed as a Board director:

September 15, 2004 ⁽²⁾

End of term of office:

2016 Shareholders' Meeting

Number of shares held in the Company's stock:

523 shares

Professional address:

Air France-KLM, 2 rue
Robert Esnault-Pelterie,
75007 Paris

Other directorships and offices

French companies

- Balmain Group: Director of Pierre Balmain SA, Chairman of the Balmain SA Board of Directors;
- Director of Provepep since December 2014;
- Director of Provepharm.

Other

- Honorary Chairman of Sanofi ⁽¹⁾.

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

French companies

- Chairman of the Sanofi Espoir Foundation until October 2015;
- Chairman of the Strategy Committee of the *Commission des Titres d'Ingénieurs* (French Engineering accreditation institution) until October 2015;
- Chairman of the Pierre Balmain SA Board of Directors until November 2014;
- Chairman of the Maori Supervisory Board until September 2014;
- Chairman of the Strategy Committee of the *Fonds Stratégique d'Investissement* until July 2013;
- Director of Veolia Environnement ⁽¹⁾ until May 2012.

Other

- Chairman of ENSAM (*École Nationale Supérieure d'Arts et Métiers*) until June 2011.

(1) Listed company.

(2) Date first appointed as a Board director of Société Air France: January 25, 1995.

Composition of the Board of Directors at December 31, 2016

Board director (Age at December 31, 2016)	Functions within the Board of Directors	Date appointed to the Air France - KLM Board	Mandate expiry date	Principal current function
Jean-Marc Janailiac (63 years)	Chairman and Chief Executive Officer of Air France-KLM	July 4, 2016	2019 AGM	Chairman and CEO of Air France-KLM
Peter Hartman (67 years)	Vice-Chairman of the Air France-KLM Board of Directors Member of the Audit Committee	July 8, 2010	2017 AGM	Vice-Chairman of the Air France-KLM Board of Directors
Maryse Aulagnon (67 years)	Independent director Chair of the Audit Committee	July 8, 2010	2017 AGM	Chair and Chief Executive Officer of Affine
Isabelle Bouillot (67 years)	Independent director Member of the Remuneration Committee	May 16, 2013	2017 AGM	President of China Equity Links
Jean-Dominique Comolli (68 years)	Director appointed by the Shareholders' Meeting as proposed by the French State Member of the Appointments and Governance and Remuneration Committees	December 14, 2010	2019 AGM	Honorary Civil Administrator
Jaap de Hoop Scheffer (68 years)	Independent director Chairman of the Remuneration Committee	July 7, 2011	2019 AGM	Professor, Leiden University (Netherlands)
Louis Jobard (57 years)	Director representing the employee shareholders Member of the Audit Committee	May 20, 2014	2018 AGM	B777 Flight Captain
Solenne Lepage (44 years)	Director representing the French State Member of the Audit Committee	March 21, 2013	May 2019	Director of Transportation Shareholdings, Agency for State Shareholdings
François Robardet (59 years)	Director representing the employee shareholders Member of the Audit and Remuneration Committees	December 6, 2016	2018 AGM	Air France Executive
Isabelle Parize (59 years)	Independent director Member of the Remuneration Committee	March 27, 2014	2018 AGM	Chair and CEO of Douglas Holding AG (Germany)
Antoine Santero (53 years)	Director representing the employees	November 5, 2015	2017 AGM	Senior Flight Attendant, Long-haul, Air France
Patrick Vieu (52 years)	Director appointed by the Shareholders' Meeting as proposed by the French State	May 21, 2015	2019 AGM	Advisor to the Vice- President of the General Council for the Environment and Sustainable Development
Anne-Marie Couderc (66 years)	Independent director Chair of the Appointments and Governance Committee and member of the Audit Committee	May 19, 2016	2020 AGM	Chair of Presstalis Group
Alexander R. Wynaendts (56 years)	Independent director Member of the Appointments and Governance Committee	May 19, 2016	2020 AGM	President of the Aegon NV (Netherlands) Executive Board
Hans N.J. Smits (66 years)	Board director Member of the Remuneration Committee	May 19, 2016	2020 AGM	Chairman and Chief Executive Officer of Janssen de Jong Groep (Netherlands)

1.1.2 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 may be 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.

1.1.3 Organization of the Board of Directors

Combined functions of Chairman and Chief Executive Officer

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 Janailac as a Board director⁽¹⁾ and to appoint him Chairman and Chief Executive Officer of Air France-KLM replacing Mr. Alexandre de Juniac, effective July 4, 2016⁽²⁾.

As proposed by the Appointments Committee, the Board had appointed Mr. Alexandre de Juniac in the capacity of Chairman and Chief Executive Officer of Air France-KLM as of July 1, 2013. The Board of Directors had also appointed Mr. Peter Hartman in the capacity of Vice-Chairman of the Board of Directors as of the same date. As proposed by the Appointments and Governance Committee, the Board of Directors had reconfirmed Mr. Alexandre de Juniac in his functions of Chairman and Chief Executive following the renewal of his Board director's term of office by the Shareholders' Meeting of May 21, 2015.

The combination of the functions of Chairman of the Board of Directors and Chief Executive Officer 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 paragraph 1.1.2 above.

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⁽³⁾. 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.

(1) The appointment of Mr. Jean-Marc Janailac as a Board director is subject to ratification by Air France-KLM's forthcoming Shareholders' Meeting on May 16, 2017.

(2) Following his appointment as Director General and CEO of IATA, Mr. Alexandre de Juniac stepped down as Chairman and Chief Executive Officer and resigned his Board director mandate, effective July 4, 2016.

(3) These corporate governance principles constitute the Corporate Governance Code for listed corporations established by the AFEP and MEDEF (hereinafter the "AFEP-MEDEF Code")

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⁽¹⁾ and 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 abuse.

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

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⁽²⁾ 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⁽³⁾ 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, 2017, the Board of Directors adopted the following position:

- six Board directors (Maryse Aulagnon, Isabelle Bouillot, Anne-Marie Couderc, Jaap de Hoop Scheffer, Alexander R. Wynaendts and Isabelle Parize) may be deemed to be independent in the light of the criteria stipulated by the AFEP-MEDEF Code in that:
 - none of these six 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⁽⁴⁾, pursuant to the agreements signed in October 2003),
 - any business relationships (supplier/customer relationships) existing between the Group and each of these six directors (or the companies with which they are associated) are insignificant in nature relative to the revenues of both companies concerned given, notably, the nature of Air France-KLM's principal activity.

(1) This ordinance transposed Directive 2014/56/EC concerning the statutory auditing of accounts into French law. 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).

(2) 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.

(3) 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 of 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).

(4) The Dutch State is not a shareholder in Air France-KLM.

Criteria stipulated in the AFEP-MEDEF Corporate Governance Code to qualify as an Independent director 8.5 to 8.7

	Maryse AULAGNON	Isabelle BOUILLLOT	Anne-Marie COUDERC	Jaap DE HOOP SCHEFFER	Alexander R. WYNAENDTS	Isabelle PARIZE
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 of a company or a 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; or for a significant part of whose business Air France-KLM or its group accounts	✓	✓	✓	✓	✓	✓
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 the status of Independent director occurs on the date at which this period of twelve years is reached	✓	✓	✓	✓	✓	✓
Not to have been an 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 directors are either representatives of the French State (Solenne Lepage), or directors whose candidature was proposed to the Shareholders' Meeting by the French State (Jean-Dominique Comolli and Patrick Vieu), or representatives of the employee shareholders (François Robardet and Louis Jobard), or representatives of the employees (Antoine Santero), or current or former senior executives or corporate officers of Air France-KLM, Air France and KLM (Jean-Marc Janaillac, Peter Hartman and Hans 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 by which 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 (§8.3 and §14.1 of the AFEP-MEDEF Code), the percentages of independent directors at December 31, 2016 were:

- 50% of the Board of Directors;
- 50% of the Audit Committee (chaired by an Independent director);

- 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.

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.

**Recommendations of the
AFEP-MEDEF not applied**

Reasons

Evaluation of the Board of Directors – effective contribution of each director

*“The evaluation has three objectives:
(...)”*

- *measure the actual contribution of each director to the Board’s work”*
(§9.2 of the AFEP-MEDEF Code)

The annual evaluation covers the collegial functioning of the Board of Directors and its Committees and does not present an individual report for each of the Board directors.

On the occasion of the evaluation realized at the end of 2016, the Board directors expressed a positive opinion on the collegial functioning of the Board of Directors and its Committees that can only result from satisfactory individual contributions and a high level of attendance (*see attendance rates mentioned in Sections 1.1.5 and 1.1.6*).

The question of competence and the individual contributions from directors to the Board’s work and that of its Committees are notably addressed on the renewal of Board directors’ mandates.

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.

Proportion of independent directors within the Audit Committee

“The proportion of independent directors on the Audit Committee should be at least equal to two-thirds (...)” (§15.1 of the AFEP-MEDEF Code)

Following the departure of Mr. Dehecq and Mr. van Lede (independent directors), the composition of the Audit Committee changed with the arrival of Ms. Couderc (Independent director) and Mr. Hartman (Vice-Chairman of the Board of Directors). Mr. Hartman was appointed due, notably, to his good knowledge of the Group and the need to ensure continuity when following matters handled by the Audit Committee.

Mr. Hartman’s term of office will expire at the end of the Shareholders’ Meeting on May 16, 2017 and the composition of the Audit Committee will be reviewed at this time.

Stock market and ethical compliance

The Compliance Rules, adopted by the Board of Directors on March 25, 2004 and as amended on February 15, 2017, remind notably company officers, senior executives of the Company, anyone with close personal ties with the latter and certain employees of the Company 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 Board Directors pursuant to the applicable laws and regulations.

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.

Potential conflicts of interest

Pursuant to the recommendations of the AFEP-MEDEF Code, the internal regulations of the Board of Directors stipulate 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.”* Furthermore, individual directors are asked to confirm, on an annual basis, that no conflicts of interest exist.

To the Company’s knowledge, none of the Board of Directors members are related and there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the Company and their private interests or other duties. Note however that, as of December 31, 2016, the French State held 17.6% of the Air France-KLM share capital and 50.6% of the share capital of Aéroports de Paris. Furthermore, the SNCF, a State-owned company, is Air France’s main competitor on the domestic network. With the exception of the agreements concluded in October 2003 between Air France, KLM and the Dutch government, 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 appointed.

As of December 31, 2016, there were no service level contracts binding any member of the Board of Directors to Air France - KLM or one of its subsidiaries involving the granting of benefits under the terms of the contract.

The Board directors have not accepted any restrictions concerning the sale of their shareholdings in Air France - KLM with the exception 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 term of office⁽¹⁾.

1.1.4 Functioning 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 or English with simultaneous interpretation.

Board activity during the 2016 financial year

During the 2016 financial year, the Board of Directors met twelve times (eleven meetings in 2015), including four extraordinary meetings (only one in 2015). Board meetings averaged more than five hours and the attendance rate for directors was 90% (93% in 2015).

The individual attendance rates at Board of Directors and Shareholders' Meetings are presented in *Section 1.1.6* 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 investment plan;
- financing plan;
- monitoring of the "Perform 2020" strategic and competitiveness plan;
- "Trust Together" strategic project;
- growth of the Transavia business;
- long-haul strategy;
- maintenance business;
- update on HR issues at Air France and KLM;

- update on aviation safety;
- sale by Air France - KLM of 49.99% of the Servair share capital and transfer of its operational control;
- governance of the Group, appointment and compensation of the principal executives.

In June 2016, the Board of Directors held its annual meeting devoted to the Group's strategy, which took the form of a two-day seminar. A working meeting of the Board of Directors in October 2016 was also devoted to reviewing the "Trust Together" strategic project.

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 by 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 9, 2015 decided to determine the training program offered to the director 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. An independent firm assisted the Board of Directors in the evaluation of its functioning and that of its Committees during the 2015 financial year.

During the 2016 financial year, the Board of Directors conducted an internal evaluation of its functioning and that of its Committees.

(1) This requirement for Board directors to own 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 the employees and directors representing the employees (Article L. 225-25 paragraph 3 of the Code of Commerce) and to directors appointed by the French State or the Shareholders' Meeting as proposed by the French State (Articles 5 paragraph 5 and 6 VI of French Ordinance No. 2014-948 of August 20, 2014).

A number of themes were addressed during this evaluation, notably the:

- 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 done by the Board of Directors and those of its subsidiaries;
- main changes and areas requiring improvement.

The results of the evaluation, realized *via* a questionnaire sent to each Board Director, were handled under the seal of anonymity and gave rise to a presentation and discussion during the Board of Directors meeting of December 6, 2016. A status review on the monitoring and implementation of the recommendations resulting from this self-evaluation process is planned for mid-2017.

This evaluation highlighted an improvement in the Board's functioning thanks, notably, to better presentation of the dossiers. It was also stressed that the arrival of the new Chairman and Chief Executive Officer contributed a new dynamic to the deliberations.

Although the resources directed at improving the Group's governance were recognized, some improvements were suggested to ensure better coordination between the Air France-KLM and Air France Boards of Directors and the KLM Supervisory Board, and to pursue the simplification of the Group's governance. Areas requiring improvement like the monitoring of decisions taken by the Board of Directors and more information on HR matters were also raised.

Suggestions were also made on changes to the composition of the Board of Directors aimed, in particular, at diversifying director profiles by introducing new nationalities to the Board, reinforcing the aeronautical competencies and the addition of digital skills.

Regulated agreements and commitments

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

The Board of Directors did not authorize the signature of any regulated agreements or commitments during the 2016 financial year. Furthermore, there are no former regulated agreements whose execution continued during the 2016 financial year.

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

Aside from the agreements relating to current operations and concluded under ordinary conditions, no agreements were signed in 2016, 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.

1.1.5 The Board of Director Committees

Audit Committee

Composition

At December 31, 2016, the Audit Committee was composed of the following six members: Maryse Aulagnon (Chair of the Committee), Peter Hartman, 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 of 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 of 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 fees for the execution of statutory audit assignments, reviews and approves each year the amount of 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 of 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 2016 financial year, the Audit Committee met five times (as in 2015) with an attendance rate for members of 97% (93% in 2015). The meetings lasted an average of nearly four hours. The following matters were notably reviewed by the Audit Committee during the 2016 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 2016, particular attention was paid to the overall pension liabilities, fuel derivative instruments, stockholders' equity, the amortization of commercial developments, deferred taxes on temporary differences, the presentation of the Servair Group as a discontinued operation and the cash immobilized in countries for which there is a devaluation or high inflation risk.

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 a meeting to at least the 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.

During the 2016 financial year, the mandates of Deloitte & Associés and BEAS were renewed during the Shareholders' Meeting of May 19, 2016.

— 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 2016:

- monitoring of cash and the financing strategy;
- pension schemes;
- monitoring of changes in the KLM pension funds' assets and liabilities;
- the Group's insurance program and policy;
- review of the principal litigation, fiscal and financial risks;
- update on the preliminary conclusions on IFRS 9, IFRS 15 and IFRS 16;
- evaluation and monitoring of internal control and review of the management control systems;
- audit reform.

Remuneration Committee

Composition

At December 31, 2016, the Remuneration Committee was composed of the following six members: Jaap de Hoop Scheffer (Chairman 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 five times during the 2016 financial year (two meetings in 2015) and the attendance rate for members was 83% (100% in 2015).

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 executive officers (see Sections 1.1.6 to 1.1.8 hereafter, 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. It notably formulated recommendations concerning the compensation of the new Chief Financial Officer of the Group, the new Chairman of the Board of Directors of Air France and the new Chief Executive Officer of Air France when they assumed their functions in 2016. Pursuant to its internal regulations, the Board of Directors approved, as recommended by the Remuneration Committee, the compensation of the former Chairman and Chief Executive Officer of Air France, the new Chairman of the Air France Board of Directors, the new Chief Executive Officer of Air France and the President of the KLM Managing Board, due in respect of the 2016 financial year, together with their amount of fixed compensation and the criteria for their variable compensation for the 2017 financial year. The Committee is overseeing the gradual convergence of the remuneration of Air France's Chief Executive Officer with that of the President of the KLM Managing Board and, more generally, the remuneration of the Group's senior executives.

Appointments and Governance Committee

Composition

At December 31, 2016, 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 or members of the Management Board) and members of the Boards of Directors or 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 2016 financial year, the Appointments and Governance Committee met eight times (as in 2015) with an attendance rate for members of 96% (100% in 2015).

The Appointments and Governance Committee formulated proposals relating to changes in the composition of the Board of Directors to be submitted to the Shareholders' Meeting of May 2016, notably concerning the appointment of three new Board directors.

Furthermore, following the announcement that Alexandre de Juniac was stepping down as Chairman and Chief Executive Officer of Air France-KLM, in early April 2016 the Appointments and Governance Committee launched a process to identify the best candidate to replace Mr. de Juniac, assisted by an international recruitment firm. After less than four weeks' work, on May 1, 2016 the Committee unanimously recommended to the Board of Directors that it appoint Mr. Jean-Marc Janaillac as the Group's Chairman and Chief Executive Officer.

The Appointments and Governance Committee also ruled on changes to Air France's governance. It thus recommended to the Board of Directors meeting of November 2, 2016 the separation of the functions of Chairman and Chief Executive Officer of Air France, the co-opting of Mr. Janaillac as a Board director of Air France replacing Mr. Gagey, the appointment of Mr. Janaillac as Chairman of the Air France Board of Directors, and the appointment of Mr. Ternier as the Chief Executive Officer of Air France.

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

Lastly, this Committee oversaw and reviewed the results of the internal evaluation of the Board of Directors' functioning and that of its Committees, taking place during the 2016 financial year (see Section 1.1.4 - *Evaluation of the Functioning of the Board and its Committees above*).

1.1.6 Compensation of the Company officers

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 2016 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 March 15, 2016 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.

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. 4 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.

(1) Article L. 225-17 of the Code of Commerce.

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

The Directors' fees and other compensation paid in respect of the 2016 and 2015 financial years to Board directors other than executive officers were as follows:

		Amount of compensation paid (in €)	
		In respect of the 2016 financial year	In respect of the 2015 financial year
	Attendance at Board meetings and the Shareholders' Meeting (2016 financial year)		
Alexandre de Juniac	100%	N/A	N/A
Directors' fees		0	0
Other compensation		N/A ⁽²⁾	N/A ⁽²⁾
Jean-Marc Janailac	100%	N/A	N/A
Directors' fees		0	0
Other compensation		N/A ⁽²⁾	N/A ⁽²⁾
Peter Hartman	92%	49,877	44,917
Directors' fees		49,877	44,917
Other compensation		0	0
Maryse Aulagnon	92%	50,077	50,400
Isabelle Bouillot	92%	43,077	38,750
Régine Bréhier ⁽³⁾	N/A	N/A	11,667 ⁽⁴⁾
Jean-Dominique Comolli	100%	50,000 ⁽⁵⁾	47,626 ⁽⁵⁾
Jean-François Dehecq ⁽⁶⁾	100% ⁽¹⁾	30,363	57,100
Jaap de Hoop Scheffer	77%	47,731	49,917
Louis Jobard ⁽⁷⁾	92%	46,077	48,000
Cornelis J.A. van Lede ⁽⁶⁾	71% ⁽¹⁾	31,642	57,917
Solenne Lepage	100%	48,000 ⁽⁴⁾	48,000 ⁽⁴⁾
Christian Magne ⁽⁷⁾⁽⁸⁾	100% ⁽¹⁾	49,923	53,000
Isabelle Parize	62%	42,385	40,833
Antoine Santero ⁽⁷⁾	92%	38,077	3,333
Patrick Vieu	92%	36,154 ⁽⁴⁾	20,000 ⁽⁴⁾
Leo van Wijk ⁽⁶⁾	100% ⁽¹⁾	31,538	54,500
Anne-Marie Couderc ⁽⁹⁾	100% ⁽¹⁾	25,137	N/A
Hans Smits ⁽⁹⁾	67% ⁽¹⁾	24,615	N/A
Alexander R Wynaendts ⁽⁹⁾	67% ⁽¹⁾	22,865	N/A
François Robardet ⁽⁷⁾⁽¹⁰⁾	100% ⁽¹⁾	3,077	N/A
Total		670,615	625,960
of which directors' fees		670,615	625,960
of which other compensation		0	0

(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 2016.

(2) The compensation due and paid in his capacity as Chairman and Chief Executive Officer of Air France-KLM is outlined in the following section devoted to the executive officers.

(3) Director until May 21, 2015.

(4) Amount paid to the General Directorate of Public Finances.

(5) 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.

(6) Director until May 19, 2016.

(7) The Directors representing the employee shareholders and the director representing the employees receive remuneration in respect of their employment contracts with Air France, with no link to their Board director mandates within Air France-KLM. Furthermore, their directors' fees are paid to their unions.

(8) Director until December 6, 2016.

(9) Director since May 19, 2016.

(10) Director since December 6, 2016.

1.1.7 Compensation of the executive officers for the 2016 financial year

Principles for determining the compensation of the executive officers

Alexandre de Juniac, Chairman and Chief Executive Officer of Air France-KLM until July 4, 2016

Pursuant to the recommendations formulated by the Remuneration Committee for the 2016 financial year, during its meeting of June 22, 2016, the Board of Directors decided to:

- set Alexandre de Juniac’s annual fixed compensation, in his capacity as Chairman and Chief Executive Officer of Air France-KLM for the period from January 1 to July 4, 2016,

pro rata temporis based on the annual fixed compensation which had been set for 2016 by the Board of Directors during its meeting of March 15, 2016; this annual fixed compensation had been set at the same level for the fifth year running;

- set the amount of variable compensation to be paid to Alexandre de Juniac, in respect of the 2016 financial year, *pro rata temporis* for the period from January 1 to July 4, 2016, it being stipulated that this variable compensation would be evaluated in early 2017 on the basis of the applicable criteria which had been set by the Board of Directors during its meeting of March 15, 2016, as follows:

	Breakdown of the variable portion	
	Target: 80% of the fixed compensation	Maximum: 100% of the fixed compensation
Quantitative performance: Air France-KLM EBITDA (EBITDA compared with the budget)	40%	50%
Quantitative performance: Air France-KLM free cash-flow before divestments (free cash-flow before divestments compared with the budget)	8%	10%
Qualitative performance		
– implementation of the “Perform 2020” plan, (including the 1.5% reduction in costs and the international strategy)	16%	20%
– improvement in passenger satisfaction, punctuality and reliability	8%	10%
– improvement in the Group’s dynamic and governance	8%	10%

Alexandre de Juniac’s compensation in his capacity as Chairman and Chief Executive Officer in respect of the 2016 financial year, for the period from January 1 to July 4, 2016

Alexandre de Juniac’s fixed compensation in his capacity as Chairman and Chief Executive Officer of Air France-KLM, for the period from January 1 to July 4, 2016, amounted to €306,667 in 2016. His variable compensation was set at €229,933 in respect of the 2016 financial year for the aforementioned period.

This amount corresponds to:

- 50% of his fixed compensation in respect of the quantitative performance linked to the EBITDA estimated for the first half, Mr. de Juniac having stepped down mid-way through the year;
- 9% of his fixed compensation in respect of the quantitative performance linked to free cash-flow;
- 15% of his fixed compensation in respect of the qualitative performance evaluated as a whole (the qualitative criteria are the following: improvement in passenger satisfaction, punctuality and reliability, implementation of the “Perform 2020” plan strategy including the 1.5% reduction in costs and the international strategy, and an improvement in the Group’s dynamic and governance).

Summary of Alexandre de Juniac’s compensation in respect of the 2016 financial year, for the period from January 1 to July 4, 2016

In his capacity as Chairman and Chief Executive Officer until July 4, 2016, the Air France-KLM Board of Directors granted Alexandre de Juniac fixed compensation of €306,667 and variable compensation of €229,933, *i.e.* total compensation of €533,600 received in respect of the 2016 financial year, for the period from January 1 to July 4, 2016.

No severance payment was made to Mr. Alexandre de Juniac.

Jean-Marc Janaillac, Chairman and Chief Executive Officer of Air France-KLM from July 4, 2016

Pursuant to the proposals formulated by the Remuneration Committee for the 2016 financial year, during its meeting of June 22, 2016 the Board of Directors decided to:

- set Jean-Marc Janaillac’s annual fixed compensation in his capacity as Chairman and Chief Executive Officer of Air France-KLM at the same level as that of Alexandre de Juniac, it being stipulated that the total amount of variable compensation potentially payable to Jean-Marc Janaillac in

respect of the 2016 financial year would be calculated in early 2017 *pro rata temporis* based on the criteria set for the period from July 4 to December 31, 2016:

- set as follows the criteria for determining the variable compensation, it being stipulated that the total amount of variable compensation to be paid to Jean-Marc Janaillac in respect of the 2016 financial year would be calculated in early 2017 *pro rata temporis* based on these criteria for the period from July 4 to December 31, 2016:

	Breakdown of the variable portion	
	Target: 80% of the fixed compensation	Maximum: 100% of the fixed compensation
Quantitative performance: Air France-KLM EBITDA (EBITDA compared with the budget)	40%	50%
Quantitative performance: Air France-KLM free cash-flow before divestments (free cash-flow before divestments compared with the budget)	8%	10%
Qualitative performance		
— presentation by November 1, 2016 of a new strategic growth plan focused on competitiveness, long-term development and an international strategy	16%	20%
— mobilization around the new plan	16%	20%

Jean-Marc Janaillac’s compensation in his capacity as Chairman and Chief Executive Officer in respect of the 2016 financial year, for the period from July 4 to December 31, 2016

Jean-Marc Janaillac’s fixed compensation in his capacity as Chairman and Chief Executive Officer of Air France-KLM for the period from July 4 to December 31, 2016 amounted to €296,667. His variable compensation was set at €252,167 in respect of the 2016 financial year for the aforementioned period.

This amount corresponds to:

- 40% of his fixed compensation in respect of the quantitative performance linked to the EBITDA estimated for the second half, Mr. Janaillac having assumed his functions mid-way through the year;
- 9% of his fixed compensation in respect of the quantitative performance linked to free cash-flow;
- 16% of his fixed compensation in respect of the qualitative performance linked to the presentation of the “Trust Together” strategic plan;
- 20% of his fixed compensation in respect of the qualitative performance linked to mobilization around the new plan.

Summary of Jean-Marc Janaillac’s compensation in respect of the 2016 financial year, for the period from July 4 to December 31, 2016

In his capacity as Chairman and Chief Executive Officer from July 4, 2016, the Air France-KLM Board of Directors granted Jean-Marc Janaillac fixed compensation of €296,667 and variable compensation of €252,167, *i.e.* total compensation of €548,834 received in respect of the 2016 financial year, for the period from July 4 to December 31, 2016.

No bonus was paid to Mr. Jean-Marc Janaillac on assumption of his functions.

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 €)	2016 Financial Year	2015 Financial Year
Alexandre de Juniac, Chairman and Chief Executive Officer until July 4, 2016		
Compensation due in respect of the financial year	533,600	1,062,000
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	533,600	1,062,000
Jean-Marc Janailiac, Chairman and Chief Executive Officer from July 4, 2016		
Compensation due in respect of the financial year	548,834	N/A
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	548,834	N/A

Summary table of the compensation of each executive officer

Alexandre de Juniac, Chairman and Chief Executive Officer	Reminder of 2015		Reminder of 2016	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	600,000	600,000	306,667 ⁽¹⁾	306,667 ⁽¹⁾
Variable compensation	462,000	45,000 ⁽²⁾	226,933 ⁽¹⁾	462,000
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	1,062,000	645,000	533,600	768,667

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

(2) In his capacity of Chairman and Chief Executive Officer, the Air France-KLM Board of Directors granted Alexandre de Juniac variable compensation of €90,000 in respect of the 2014 financial year. In that he waived half his variable compensation in respect of 2014 to participate in the Group's recovery efforts and wage constraint, Alexandre de Juniac finally received variable compensation of €45,000 in respect of the 2014 financial year.

Jean-Marc Janaillac, Chairman and Chief Executive Officer	Reminder of 2015		Reminder of 2016	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	N/A	N/A	296,667 ⁽¹⁾	296,667 ⁽¹⁾
Variable compensation	N/A	N/A	252,167 ⁽¹⁾	N/A
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	N/A	N/A	548,834	296,667

(1) 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	
	Yes	No	Yes	No	Yes	No	Yes	No
Executive officers								
Alexandre de Juniac Chairman and CEO								
First appointed: July 1, 2013								
End of term of office: July 4, 2016		X		X		X		X
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

Société 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.

1.1.8 Principles and criteria for determining, distributing and allocating the fixed, variable and extraordinary components of the total compensation and benefits of any nature, granted to the Chairman and Chief Executive Officer (Article L. 225-37-2 of the Code of Commerce)

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). The Remuneration Committee also 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 nature, granted to the Chairman and Chief Executive Officer. All of these elements are outlined in this section, pursuant to the provisions of Article L. 225-37-2 of the Code of Commerce.

General principles

The fundamental principles of the compensation policy are aimed at:

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

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

Elements composing the compensation of the Chairman and Chief Executive Officer

The compensation package for the Chairman and Chief Executive Officer is composed of the following two elements set by the Board of Directors:

1. annual fixed compensation;
2. annual variable compensation linked to the performance of the previous financial year.

Annual fixed compensation

The amount of fixed compensation is linked to the degree 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 principal executives.

On the assumption of his functions in July 2016, Mr. Jean-Marc Janaillac's fixed compensation was set at the same level as that of his predecessor. This amount (€600,000) remains unchanged for the 2017 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 the Chairman and Chief Executive Officer of Air France - KLM 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 80% 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 2017 is subject to the prior approval of the Shareholders' Meeting held in 2018 in the conditions foreseen in Article L. 225-100 of the Code of Commerce.

Pursuant to the proposals formulated by the Remuneration Committee, during its meetings of February 15 and March 15, 2017, the Board of Directors decided, for the 2017 financial year, to set the criteria for determining the variable compensation as follows, subject to the approval of the Shareholders' Meeting.

	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 at budget)	40%	50%
Quantitative performance: Adjusted Net Debt (Adjusted net debt before divestments and excluding impact of exchange rate euro/dollar on aircraft operational leases, at budget)	8%	10%
Qualitative performance		
– efficiency of Group governance	8%	10%
– implementation of “Trust Together” strategic project and objectives, especially through restoration of trust amongst staff and reduction in unit costs (-1.5% excluding <i>intéressement</i> and profit-sharing)	16%	20%
– strengthening and development of group international alliances	8%	10%

Benefits of any nature

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.

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

The Chairman and Chief Executive Officer does not benefit from any 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 for Air France senior executives, established following a deliberation of the Board of Directors on January 15, 2004.

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 nature 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.

1.2 THE GROUP EXECUTIVE COMMITTEE

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

- 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 eight heads of the Group's functions.

In 2016, the total compensation (fixed and variable) paid to the members of the Group Executive Committee amounted to €6.6 million (€6.5 million in 2013, €6.4 million in 2014 and €5.6 million in 2015).

Members at December 31, 2016	Age at December 31, 2016	Relevant professional experience	
		Sector	Experience
Jean-Marc Janailiac Chairman and Chief Executive Officer, Air France-KLM Chairman of the Air France Board of Directors	63 years	Public Service Tourism Transport Air Transport	9 years 2 years 10 years 8 years
Pieter Elbers President and Chief Executive Officer, KLM	46 years	Air Transport	24 years
Frank Turner Chief Executive Officer, Air France	56 years	Air Transport	34 years
Patrick Alexandre Executive Vice-President Commercial –Sales & Alliances, Air France-KLM	61 years	Air Transport	35 years
Pieter Bootsma Executive Vice-President Commercial – Strategy, Air France-KLM	47 years	Air Transport	21 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	53 years	Air Transport	21 years
Adeline Challon-Kemoun Executive Vice-President, Marketing, Digital & Communication, Air France-KLM	49 years	Retail Media/Communication Air Transport	10 years 14 years 5 years
René de Groot Chief Operating Officer, KLM	47 years	Air Transport	26 years
Marcel de Nooijer Executive Vice-President Cargo, Air France-KLM	48 years	Air Transport	21 years
Frédéric Gagey Chief Financial Officer, Air France-KLM	60 years	Public Service Air Transport	7 years 23 years
Jean-Christophe Lalanne Executive Vice-President Information Technology, Air France-KLM	55 years	Industry, IT Services Air Transport	20 years 12 years
Jérôme Nanty Executive Vice-President Corporate Secretary and Executive Vice-President Human Resources, Air France-KLM, Executive Vice President Corporate Secretary and Transformation, Air France	55 years	Banking Transport Air Transport	22 years 3 years 6 months
Alexandre Boissy Secretary to the Executive Committee Chief of Staff, Air France-KLM	43 years	Air Transport	18 years

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

2

ACTIVITIES

2.1	Market and environment	46
2.1.1	The economic environment	46
2.1.2	The industry context and competition	48
2.2	Strategy	50
2.2.1	The Air France-KLM Group's ambitions	50
2.2.2	Strengths of the Air France-KLM Group	50
2.2.3	Strategy of the Air France-KLM Group	51
2.3	Passenger network business	54
2.3.1	Short and medium-haul operations	54
2.3.2	Long-haul operations	54
2.3.3	Reinforcing the hubs	56
2.3.4	Accelerating customer-centric initiatives to become the number one for customer intimacy	56
2.3.5	SkyTeam alliance and strategic partnerships	59
2.3.7	Key figures for the passenger network business	61
2.4	The low-cost business (Transavia)	63
2.5	Cargo business	64
2.5.1	Business environment	64
2.5.2	Strategic repositioning of the cargo business	65
2.5.3	Activity during the financial year	66
2.6	Maintenance business	67
2.6.1	Business environment	67
2.6.2	Affirming AFI KLM E&M's position as a world leader	68
2.6.3	Key figures for the maintenance business	72
2.7	Catering business	72
2.8	Fleet	73
2.8.1	The Air France Group fleet	75
2.8.2	The KLM Group fleet	76
2.9	Highlights of the beginning of the 2017 financial year	77

2.1 MARKET AND ENVIRONMENT

In 2016, global GDP growth was 2.2% whereas the initial forecasts had pointed to higher growth of around 2.6%. This overall growth figure masked some significant local disparities. The collapse in the oil price early in the year penalized the commodity producing countries whereas low inflation was also supportive for consumption.

2016 allowed some airline industry players to post record profits. The airlines were able to take full advantage of lower oil prices, with some of the benefit being passed on to passengers in the form of lower fares. The performances also saw considerable variations between zones, the US airlines alone being responsible for half of the industry's total profits. In the global aviation market, growth slightly slowed to 5.9% according to IATA, following +6.7% in 2015.

2.1.1 The economic environment

Economic context (source 1)

Real GDP growth (%)	2014	2015	2016 (estimates)
World	2.8	2.7	2.2
European Union	1.6	2.1	1.8
o/w France	0.7	1.2	1.1
o/w Netherlands	1.4	2.0	2.1
North America (NAFTA countries)	2.4	2.4	1.6
Asia-Pacific	4.3	4.4	4.3
o/w China	7.3	6.9	6.7
Middle East	2.6	2.3	2.5
Sub-Saharan Africa	4.7	3.0	1.2
Latin America	0.8	-0.8	-1.4

2016: Growth short of forecasts (source 1) and with significant global disparities

Retrospectively, and despite a difficult start, 2016 ended up reflecting a relative stabilization in the worldwide economic and financial environment, characterized by significant regional differences, a slight deceleration for the Chinese economy, the collapse in commodity and oil prices and geopolitical conflicts.

Thus:

- the oil-producing countries suffered a negative impact linked to the decline in oil prices while, at the same time, there was a less-perceptible positive impact from low prices for the major consumer countries (sources 1, 2 and 3);
- in Europe, fears of a vote in favor of Brexit materialized, unleashing a rapid devaluation in Sterling of around 11%, followed by a modest rebound as of November (source 4);
- Chinese growth continued to decelerate but at a slower-than-expected pace. Ultimately it was to slightly exceed forecasts at 6.5% (source 5);
- Iran saw the first positive effects from the lifting of international sanctions including an increase in its oil production, albeit with no inward flood of international capital for the moment (source 6);
- in Latin America, Brazil was hit by recession for the second year running, having been penalized by the collapse in commodity prices but also by the political crisis (source 7);
- 2016 was again marked by terrorist attacks across the world with a considerable impact on tourism, particularly concerning Asian customers (source 8).

Oil prices

Brent (US\$/bbl)	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Average price	53.9	61.7	50.2	43.6	33.7	45.5	45.8	49.2

During the first quarter, the Brent price in dollars stood at a relatively low level of US\$33.7 a barrel (*sources 9 and 10*). This decline in the Brent price was due to the over-capacity relative to demand which remained flat. On November 30, 2016, in response to this over-capacity, the Organization of Petroleum Exporting Countries (OPEC) opted to cut its production to 32.5 million barrels versus 33.6 million (*source 11*).

Following this decision, oil prices closed 2016 higher with Brent approaching US\$50 in the last quarter of 2016 (*source 9*). Respect of the OPEC agreement should underpin the higher oil price trend in 2017.

Currency exchange rates

For one euro (average)	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
USD	1.13	1.11	1.11	1.10	1.10	1.13	1.12	1.08
GBP	1.3	1.4	1.4	1.4	1.3	1.3	1.2	1.2
JPY	134.0	134.3	135.8	133.0	127.0	121.9	114.3	118.0
RUB	70.0	58.2	70.0	72.2	82.3	74.4	72.2	68.0
BRL	3.2	3.4	3.9	4.2	4.3	4.0	3.6	3.6

For much of 2016, the dollar remained within a stable EUR/USD range of 1.10 to 1.14 (*source 12*). However, owing to the return to growth in the United States and the announced rise in interest rates, the dollar again strengthened to EUR/USD 1.08 at the end of 2016 (*source 12*). The bullish factors should continue during 2017 (*source 13*).

On the other hand, the Brexit vote prompted a significant fall in UK Sterling relative to other currencies including the euro. As long as uncertainties surrounding the shape of the partnership with the European Union prevail, Sterling weakness seems likely to continue during 2017 (*source 14*).

In 2016, the Brazilian real recovered a portion of the previous year's depreciation to close the year at EUR/BRL 0.281 (*source 12*) and, in 2017, this recovery should continue. The trend is similar in Russia, where the rouble reversed some of its losses against the euro and dollar and should strengthen further in 2017 (*source 12*).

2.1.2 The industry context and competition

2016: a record year for industry profitability, masking ongoing disparities (*sources 15, 16 and 17*)

2016 was a record year in the history of the air transport industry with a total net profit of US\$35.6 billion and a net margin of +5.1%. These good results mainly reflect the positive effect of the decline in oil prices, and the more intensive use of aircraft (*source 15*).

However, the profits were not evenly spread: the North American airlines delivered the best results, posting earnings that accounted for more than half the industry's total profit (US\$20.3 billion) while the African carriers, which remained penalized by conflicts and the impact of weak commodity prices, registered losses of US\$800 million in 2006. The results of the Latin American carriers progressed relative to 2015, with a positive result of US\$300 million driven by signs of an improvement in the economic outlook. The European airlines posted stable results relative to 2015 (US\$7.5 billion). Although still in positive territory, the Asian and Gulf State carriers saw a profits decline this year.

In 2016, according to IATA, global air traffic continued to see strong growth: +5.9%, despite the multitude of risks facing the air transport industry (political, economic and security-related). The load factor remained high in 2016 (80.2%) but still to the detriment of the unit revenue per passenger which declined by 8% relative to 2015.

– Europe: consolidation gains momentum and the low-cost carriers maintain their strong growth

2016 was an eventful year for the European airlines, with consolidation continuing in the form of joint-ventures.

Within the IAG Group, Iberia joined the partnership formed by British Airways and Finnair with JAL in October (*source 18*). Lufthansa was able to expand and establish various partnerships with the signature of joint-venture agreements oriented towards Asia with Singapore Airlines (also including Swiss) (*source 19*) and Air China (*source 20*).

Some companies had to contend with serious difficulties: Air Berlin, in which Etihad has heavily invested, had to restructure and refocus on long-haul. Turkish Airlines had to face the consequences of successive terrorist attacks in its territory and national political unrest.

The leading low-cost carriers in Europe continued to see strong growth in the number of passengers transported in 2016, with 7% for easyJet, 15% for Ryanair and 19% for Wizz (*source 21*).

– The North American airlines post record results for the third year running

The US airlines continued to deliver record financial results in 2016. The consolidation taking place in recent years is supporting the high profitability in the region, despite the upwards pressure on costs (*source 22*).

The US carriers make no secret of their ambition to develop their partnerships *via* the formation of joint-ventures (in 2016, between Delta and Aeromexico (*source 23*) and between United Airlines and Air New Zealand (*source 24*) although the US authorities are increasingly vigilant on new requests. For example, American and Qantas did not obtain approval (*source 25*) and a decision regarding the approval request for American Airlines, LATAM and GOL is still awaited (*source 26*).

– Asia: 2016 proves another challenging year for the South-East Asian airlines

Having seen an erosion in their revenues, Cathay and Singapore launched strategic reviews.

In 2016, the HNA Group, which was already a 49% shareholder in Aigle Azur, continued to acquire stakes in numerous industry players like 13% of Virgin Australia (*source 22*), TAP (25% convertible bonds) and 23% of Azul (*source 27*).

– The Latin American airlines make progress on the back of an improvement in the economic outlook

In Brazil, the three largest companies – LATAM, GOL and Azul – continued to scale back their domestic capacity in 2016 (-12%, -5% and -6% respectively in the first ten months of 2016 versus 2015). Inversely, Avianca Brazil took advantage of this situation to increase its capacity (+15%) and gain market share (+22%) (*source 28*).

In response to the growth of the low-cost carrier VivaColombia, Copa Airlines launched its alternative low-cost business model in the Colombian market in late 2016, dubbed Wingo. In the same spirit, LATAM plans to adapt its fare structure as of early 2017 for the South American domestic markets – Chile, Peru, Brazil, Argentina, Ecuador and Colombia (*source 29*).

– Africa: a market with considerable potential but significant barriers to entry for the local players

In Africa, the absence of a “single market”, the high level of taxation, the cost of fuel (21% higher than in the rest of the market) (*source 30*), the still-modest size of the market (barely more than 3% of global traffic) and the strong presence of major long-haul players (*source 31*) all deny access to part of the market for the African airlines.

– The leading Gulf State carriers see growth differentials

Qatar pursued its strategy of acquiring stakes in Oneworld member airlines (from 10% to 20% in IAG, 10% in LATAM). Etihad embarked on the restructuring of its weakest partners, AirBerlin and Alitalia, and Emirates initiated codeshares with Copa and WestJet (*sources 32 and 33*).

Sources

1) Oxford Economics Snapshot, January 2017, 2) Brookings, November 2016: https://www.brookings.edu/wp-content/uploads/2016/09/5_baumeisterkilian.pdf, 3) Voxe.org, Why cheap oil fails to boost global economy, April 2016: <http://voxeu.org/article/why-cheap-oil-fails-boost-global-economy-imf-view>, 4) Oxford Economics, The UK's vote for Brexit: what next? November 2016: <http://www.oxfordeconomics.com/my-oxford/presentations/349397>, 5) Oxford Economics, 2016 growth target in reach but heightened international uncertainty clouds 2017 outlook, December 2016: <http://www.oxfordeconomics.com/my-oxford/publications/352763>, 6) Focus Economics, Iran Economic Outlook, January 2017 <http://www.focus-economics.com/countries/iran>, 7) Les Echos, Après une année folle le Brésil peut-il rebondir, December 2016: <http://www.lesechos.fr/idees-debats/editos-analyses/0211556825714-apres-une-annee-folle-le-bresil-peut-il-rebondir-2050308.php>, 8) The Guardian, Terror attacks cost Paris region €750m in lost tourism, officials say, August 2016 <https://www.theguardian.com/world/2016/aug/23/terror-attacks-cost-paris-region-750m-in-lost-tourism-officials-says>, 9) Oxford Economics, GDP Snapshot January 2017, 10) Investir Les Echos, Cette année fut celle du rebond pour le pétrole, Janvier 2017 <http://investir.lesechos.fr/marches/actualites/cette-annee-fut-celle-du-rebond-pour-le-petrole-1622246.php>, 11) La Tribune Afrique, Pétrole : le baril « fête » 2016 à son plus haut de l'année, Décembre 2016 <http://afrique.latribune.fr/finances/commodities/2016-12-30/petrole-le-baril-fete-2016-a-son-plus-haut-de-l-annee.html>, 12) Oxford Economics, exchange rates, Snapshot January 2017, 13) CNBC, Dollar to hit parity with euro during 2017, says Goldman Sachs' chief economist, January 2017 <http://www.cnbc.com/2017/01/09/dollar-to-hit-parity-with-euro-during-2017-says-goldman-sachs-chief-economist.html>, 14) The Guardian, Pound continues to fall against dollar amid 'hard Brexit' fears, October 2016 <https://www.theguardian.com/business/2016/oct/10/pound-continues-to-fall-against-dollar-and-euro-amid-hard-brexit-fears>, 15) IATA, Communiqué n° 76) 2017, une autre année profitable pour les compagnies aériennes, December 2016, 16) IATA, Fact Sheet Industry Statistics, December 2016, 17) IATA, Economic Performance of the Airline Industry (briefing and notes), December 2016, 18) Déplacements Pro, Iberia a rejoint la joint-venture de JAL, British et Finnair, October 2016, http://www.deplacementspros.com/Iberia-a-rejoint-la-joint-venture-de-JAL-British-et-Finnair_a40182.html, 19) Singapore Air, SIA Welcomes CCS Approval Of Joint Venture With Lufthansa Group, December 2016, https://www.singaporeair.com/en_UK/mv/media-centre/press-release/article/?q=en_UK/2016/October-December/jr1116-161212, 20) Lufthansa Group, Lufthansa Group and Air China sign commercial joint-venture, November 2016, <https://www.lufthansagroup.com/en/press/news-releases/singleview/archive/2016/September/20/article/4669.html>, 21) Flight Global, Ryanair leads European LCCs' traffic gains in 2016, January 2017 <https://www.flightglobal.com/news/articles/ryanair-leads-european-lccs-traffic-gains-in-2016-432944/>, 22) Financial Times, China's HNA group snaps up stake in Virgin Australia, 2016, <https://www.ft.com/content/27810a4e-2687-11e6-8b18-91555f2f4fde>, 23) Delta, Aeromexico accept DOT's conditions; move to establish JV, Air Travel Weekly, December 2016: <http://atwonline.com/airlines/delta-aeromexico-accept-dot-s-conditions-move-establish-jv>, 24) Air New Zealand-United Airlines joint-venture: 62% of NZ's long-haul capacity operated under JVs, CAPA, March 2016, 25) US DOT rejects Qantas-American Airlines joint venture under pressure of unchecked consolidation, CAPA, December 2016 <https://centreforaviation.com/analysis/us-dot-rejects-qantas-american-airlines-joint-venture-under-pressure-of-unchecked-consolidation-314397>, 26) LATAM sources new study to highlight benefits of JV with IAG and American Airlines, CAPA, October 2016: <https://centreforaviation.com/news/latam-sources-new-study-to-highlight-benefits-of-jv-with-iag-and-american-airlines-605858>, 27) CH Aviation, China's HNA Group completes acquisition of Azul stake, August 2016: <http://www.ch-aviation.com/portal/news/48322-chinas-hna-group-completes-acquisition-of-azul-stake>, 28) LATAM and GOL: Excess capacity could threaten arrival of crucial recovery in Brazil domestic market, CAPA, December 2016: <https://centreforaviation.com/analysis/latam-and-gol-excess-capacity-could-threaten-arrival-of-crucial-recovery-in-brazil-domestic-market-316672>, 29) LATAM Airlines Group is the latest in the region to build an arsenal to combat the LCC threat, CAPA, November 2016: <https://centreforaviation.com/analysis/latam-airlines-group-is-the-latest-in-the-region-to-build-an-arsenal-to-combat-the-lcc-threat-313641>, 30) Quel avenir pour le transport aérien africain?, La Tribune, November 2016 <http://www.latribune.fr/entreprises-finance/industrie/aeronautique-defense/qui-gagnera-la-bataille-du-ciel-africain-616657.html>, 31) Africa's international market: vision 2025, Airline Leader, August 2016: <http://www.airlineleader.com/categories/regions/africas-international-market-vision-2025-294975>, 32) <http://www.jbsolis.com/2016/08/dubai-saudi-and-qatar-terminal-will.html>, 33) <http://gulfnnews.com/business/aviation/abu-dhabi-adds-dh35-airport-fee-1.1845943>.

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 transportation 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 and KLM, 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. 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.

Lastly, Air France-KLM's expertise in the cargo business supports the Group's airline operations while making a material contribution to their economics.

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 within the framework of the trans-Atlantic joint-venture, in 2017 Air France and KLM will serve 134 long-haul destinations worldwide, 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 inter-continental 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 worldwide 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 and, in 2016, KLM won the FlightStats award for the most punctual airline globally.

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 during 2016, the low-cost brand Transavia, which is already the leading low-cost carrier in the Netherlands, became the number one low-cost airline at Paris-Orly. In total, Transavia now offers a wide range of more than 100 destinations.

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 flights. "Flying Blue" won awards in five categories at the 2016 Freddie Awards, including Best Program of the Year for the fourth year running.

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 portfolio.

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 accelerated growth for Transavia which carried some 13.3 million passengers in 2016 compared with 10.8 million in 2015, enables the Group to complete its portfolio of products to become customers' low-cost carrier of choice.

An efficient fleet

Air France-KLM is pursuing its fleet renewal and modernization strategy. In 2016, the Group retired KLM's last MD11 Freighters from the fleet along with Air France's remaining B747-400s, and took delivery of Air France's first B787-9. KLM also reinforced its

fleet of B787-9s which numbered eight aircraft at the end of 2016 while KLM Cityhopper began to retire its Fokker 70s with the introduction of four Embraer 175s.

2017 will see the ongoing retirement of the Fokker 70s from the KLM Cityhopper fleet and their replacement with eight Embraer 175s, and the arrival at Air France of two renovated first-generation A320s in the form of A320 Sharklets. Over the longer term, the modernization of the Group's fleet will be reflected in the withdrawal of KLM's B747-400s and their replacement with B787s and the planned entry into revenue service of the first A350-900s at Air France.

For its part, after growing by ten aircraft in 2016, Transavia will see its base fleet increased by nine aircraft in 2017.

Furthermore, having made a significant investment in cabin retrofitting, the Group now offers its passengers a higher standard of comfort, achieves substantial fuel savings and respects its sustainable development commitments by mitigating noise disturbance for local residents and limiting greenhouse gas emissions.

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 between 2% and 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 will be pursued. In particular, Air France will see the development of an additional tool - a new company- adapted to ultra-competitive situations and positioned on structurally loss-making routes or those that have been closed in recent years.

— Creation of a new company alongside Air France, which is competitive and innovative and will drive growth for the Paris-Charles de Gaulle hub

This new company will constitute the Group's response to the Gulf State airlines which are developing at low production costs on key markets where Air France-KLM is pursuing its growth ambition. This initiative to regain market share has been dubbed "Boost".

This company will be focused on ultra-competitive markets and will enable the Group to go on the offensive by opening new routes, re-opening routes closed due to their lack of profitability and maintaining routes under threat within the Group. This new company will propose a simple, modern and innovative offer, whose positioning will not be low-cost. It will offer 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.

The new company will also serve as 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. It will also include medium-haul operations feeding the Paris-CDG hub and operate with Air France pilots on a volunteer basis at 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 will be negotiated with the unions in early 2017.

— Deepening the alliances

Air France-KLM will 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.

The Group will thus work on reinforcing its trans-Atlantic joint-venture with its different partners and those of Delta Air Lines, in Europe and North America.

Towards China, in addition to its stand-alone presence as the European leader, Air France will be able to rely on its Chinese partners - China Eastern, 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.

In India, Air France-KLM will continue 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, and enhanced connectivity towards Europe and North America.

Lastly, the Group will pursue 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.

— **Development of 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 currently operated by Transavia, HOP!, Air France and KLM.

The priority for Transavia, the Group's low-cost airline, will be growth in its French and Dutch home markets. In France, Transavia will reinforce its position on some routes to compete with the TGV and the low-cost carriers, and will develop its European routes on departure from Paris-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.

Concerning the ground operations at Paris-Orly and the French regional stations, Air France will redefine an operational model on a station-by-station basis, to reconcile occupational and business changes.

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

With growth forecast to be 4.1% 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 will be 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 will be able to capitalize 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 is aiming 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 the operational performance of its airlines.

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.

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 performance will mainly come 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 its partners. The Group is going to strengthen the measures aimed at improving their Operational Efficiency and supporting the economic performance of the long and medium-haul operations to/from the hubs. This will involve, 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 will also gain renewed dynamism, within the framework of the "Boost" initiative, through the launch of the new company on the medium-haul network with a simple, modern and innovative offer.

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

— **Reinforcing operational competitiveness and the utilization of aircraft**

The unit cost reduction targets – more than 1.5% per year over the 2017-20 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 will focus its efforts on reducing fleet costs by optimizing the utilization of its aircraft.

This asset optimization process through, notably, increased utilization of aircraft, something which is already under way within KLM through the OpX program, will also involve seeking savings on the cost of ownership and leasing for the Group's fleet.

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

In recent years, Air France-KLM has significantly downsized 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 air lines.

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 the simplification of functioning modes will be pursued and intensified. Air France plans to launch a new HR ambition for employees, in the form of a commitment to greater recognition, career development, empowerment, 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 will be accelerated to facilitate collaborative working across the Group and gain agility.

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

The Group will pursue 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 years, 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 must 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 unit cost reduction target for the 2017-20 period is in excess of 1.5% per annum.

The Group will also maintain strict capex discipline, by targeting annual positive free cash-flow and limiting its investment. For 2017 and 2018, the capex forecast is between €1.7bn and €2.2bn per year. Deleveraging will remain the priority, with a mid-cycle adjusted net debt/EBITDAR ratio target of below 2.5x at the end of 2020.

2.3 PASSENGER NETWORK BUSINESS

The “passenger” business corresponds to passenger transportation services on the scheduled flights of the network airlines Air France, KLM and HOP!. The passenger network business is Air France-KLM’s principal activity, contributing nearly 79% of Air France-KLM’s revenues.

In 2016, the Group maintained a strategy of strict capacity discipline to regain competitiveness, while demonstrating the agility of its network by opening numerous new routes. Fleet modernization was accelerated, notably with the entry into the fleet of eight B787-9s for KLM and, at Air France, the inaugural flight for the B787-9 to Cairo on January 9, 2017.

With the announcement of the “Trust Together” strategic program in November, the Group affirmed its ambition of regaining the offensive to return to a leadership position in the worldwide airline industry. This will involve long-haul but also mean reinforcing the medium-haul feeding operations on departure from the dual hubs, and developing the point-to-point operations on departure from France and the Netherlands.

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 38 airports. Additionally, the *La Navette* product targets the specific needs of Business travelers by serving five cities to/from Paris-Orly (Marseille, Toulouse, Nice, Bordeaux and Montpellier since October 2016);
- 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). This new range is available on the whole of the European network for both Air France and KLM.

After several years of restructuring enabling a substantial turnaround in results, 2016 saw the opening of fourteen new routes on the short and medium-haul network. 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.

KLM opened daily services to Inverness (United Kingdom), Southampton (United Kingdom), Dublin (Ireland), Dresden (Germany), Genoa (Italy), Valencia, Alicante and Ibiza (Spain). On departure from Paris-Charles-de-Gaulle, Air France opened Krakow (Poland) and Oran (Algeria) with four flights a week, and Glasgow (United Kingdom), Biarritz, Ajaccio and Calvi, together with

Rennes-Amsterdam, with daily flights. This “Test & Learn” approach enables the opening of both all-year-round and seasonal destinations.

The Group is pursuing this offensive strategy in 2017. KLM is opening nine new destinations on departure from Amsterdam: Gdansk (Poland), Oporto (Portugal), Graz (Austria), Malaga (Spain), Split (Croatia), Cagliari and Catania (Italy), London City (United Kingdom) and Dublin (Ireland).

Air France is reinforcing its operations in North Africa: Oran (Algeria) will be served with daily flights as of the 2017 Summer season, and services to Marrakech and Agadir (Morocco) (the latter during the peak summer season) will be opened with three weekly frequencies. Two other new destinations will be added on departure from Paris-CDG: Oporto (Portugal) and Palma de Mallorca (Spain) (the latter during the peak summer season). These openings are enabled thanks to more intensive use of the fleet. On departure from the French provinces (Marseille, Bordeaux, Nice and Toulouse), nine new European leisure destinations, including Athens, Tel Aviv, Malta and Ibiza, operated during the peak Summer season, will be part of this approach, and contribute to regaining the offensive in the point-to-point market.

Fleet and the product move up-market

On the medium-haul routes, the cabin upgrading program continues with 25 A320s retrofitted in the Best & Beyond configuration since late October 2016 and the launch of the modification of eleven Air France A321s including, in particular, individual USB ports.

Since November 2016, Air France has also improved its proposition in the Economy cabin on board the long-haul flights (duration equal to or exceeding 2h50) by offering hot food: breakfast in the morning or a meal at other times of the day, designed to appeal to the most discerning palates. Children benefit from an adapted offer, mainly composed of organically-farmed products.

2.3.2 Long-haul operations

Capacity redeployed towards rapidly-growing regions

In 2016, on the long-haul operations, the Group maintained a strategy of moderate and profitable growth. Within an increasingly uncertain environment, the Group leveraged its balanced network by redeploying capacity from the most challenging regions towards areas which are seeing rapid growth, and by opening new destinations.

Changes in capacity by geographical region

In North America, the Group pursued its growth with joint-venture partner Delta Air Lines. Air France opened New York-JFK on departure from Paris-Orly, supplementing the flights on departure from Paris-CDG. KLM opened Salt Lake City with three weekly flights and Miami with three weekly flights (seasonal route, only in winter). The Dallas service on departure from Amsterdam was suspended.

In Central and Latin America, on departure from Paris-CDG, the Group opened San José (Costa Rica) with two weekly frequencies, but suspended the Brasilia service given the still-difficult context in Brazil.

In Asia, KLM opened Colombo (Sri Lanka) with two weekly flights and Astana with four flights a week (Kazakhstan). The Paris-CDG-Jakarta (Indonesia) and Amsterdam-Fukuoka (Japan) services were suspended although these destinations remain accessible notably thanks to the Group's partners. In India, the Group reinforced its presence with the signature of a codeshare agreement with Jet Airways.

In the Middle East, Air France and KLM relaunched Tehran services, to accompany the gradual pick-up in trade with Iran. The Amsterdam-Cairo (Egypt) route was suspended. In parallel, the Cairo service on departure from Paris-CDG was reinforced, flights having been operated to this destination in the B787-9 since January.

In Africa, since October, KLM has linked Windhoek (Namibia) with Amsterdam, operating three weekly flights in continuation from Luanda (Angola).

In 2017, the Group is reinforcing its presence in Africa with the opening of Accra (Ghana) *via* three weekly frequencies on departure from Paris, and Freetown Monrovia on departure from Amsterdam. Cape Town (South Africa) will be served all year round on departure from Paris, including during the summer.

KLM will inaugurate the Minneapolis service, thereby consolidating the presence of the trans-Atlantic joint-venture. Cartagena (Colombia) will once more be operated, in continuation from Bogota, while the Cali service will be suspended. The Amsterdam-Doha (Qatar) service has also been suspended.

Air France will also reopen the Cancun (Mexico) service over the summer and Malé (Maldives) with two weekly frequencies as of the Winter 2017 season (seasonal service).

Renewal of the fleet and the product move up-market

Fleet modernization was accelerated. 2016 began with the emblematic retirement from the Air France fleet of the remaining B747-400s while KLM took delivery of six new B787-9s. The inaugural flight for Air France's first B787-9 took off bound for Cairo on January 9, 2017. The arrival in the fleet of more efficient new-generation aircraft is consistent with the move up-market. The Air France and KLM B787s are thus fully WiFi connection enabled. For Air France, they are equipped with the latest BEST cabins, with a completely-redesigned seat in Premium Economy.

The move up-market is accelerating in the rest of the fleet. By the end of the Winter 2016-17 season, all of the KLM B777 fleet will have been equipped with the World Business Class, and the retrofitting of the A330 fleet completed, enabling the offer of up to 25 more seats per aircraft. KLM's excellent Net Promoter Score has clearly been supported by investment in the fleet. KLM's eight new B787 Dreamliners offer customers WiFi and are equipped

with a state-of-the-art inflight entertainment system, seats which transform into full-flat beds and extra legroom in the Economy cabin. Lastly, KLM completed the upgrading of the twelve aircraft in its B777-300 fleet. In 2017, the airline will begin installing "full flat" beds in its A330-300 and A330-200 aircraft, reaching 100% "full flat" by the end of 2018.

For Air France, the end of 2016 saw 34 B777s equipped with the new BEST cabins offered to customers in four cabins (*La Première*, Business, Premium Economy and Economy) and deployed on 34 destinations this winter.

Two innovations to highlight: since May 2016, a personalized in-seat service has been proposed to Business customers on board some flights to Singapore and New-York. This service has re-energized both customers and cabin crews, the latter having benefited from specific training in partnership with the Paul Bocuse Institute. Furthermore, since April 2016, an offer on departure from JFK has enabled customers traveling in Business on late-departing night flights to dine in the lounge before boarding the aircraft to get a really good night's sleep.

Once again in 2016, this renewed dynamic won numerous prizes. In the Skytrax ranking, Air France was amongst the World's Best First Class Airlines and made its debut appearance in the Top 10 Business Airlines. Air France also won two awards for its efforts on Customer Relations: the TNS Trophy 2016 for its Attentive Relationship with customers and the Spirit of Service 2016 award. Lastly, for the first time in 2016, Air France demonstrated its innovative capability with the launch of two hackathons around the redesign of the Kids Solo experience, then around the Airport Disruption theme (to offer customers rapid, efficient handling and a personalized service in the event of service disruption). A new agile co-creation method enables increased cooperation between the different professions (Digital, Customer Experience, IT). In February 2017, Air France will innovate in a new way by organizing the first Junior Lab, an opportunity for the children of staff to come along and imagine the connected aircraft of the future.

In 2016, KLM stepped up investment oriented towards customers and products. The corporate purpose was embodied by its staff, who directed resolute efforts towards improving the customer experience. KLM also invested in products and services to make customers feel recognized, comfortable and touched. An increase in the Net Promoter Score shows that the revamped customer intimacy strategy is bearing fruit.

To accompany its new corporate strategy, KLM took its customer intimacy strategy to the next level, by investing some €2 million a day in new products, equipment and services, serving customers throughout their journeys. In 2016, KLM embedded a culture more closely aligned with the desired customer experience. The KLM Compass, launched during the year, highlights the importance the airline gives to customers.

2.3.3 Reinforcing the hubs

Improving the attractiveness of the Paris-CDG hub

2016 and operations at the Paris-CDG hub were marked by the increased security measures at French airports in response to the geopolitical situation. In close cooperation with the French State agencies, Air France and its partner Paris Aéroport implemented an action plan to minimize waiting times at borders and promote the deployment of automated border controls over the medium term. The Air France hub continues to deploy e-services. 2016 saw the widespread roll-out of automated baggage drop and boarding systems. For customers, this enables simpler, faster transit, less stress and more free time. In the Skytrax ranking, Paris-CDG airport moved up a further fifteen places to rank number 33 amongst the world airports and number ten amongst airports handling more than 50 million passengers. A new structure for the Air France flight schedule was deployed with the transition to the 2016 Winter season. Flights times were rescheduled for some thirty to sixty minutes earlier in the morning to make the afternoon flights more attractive. The transfer of flights to these earlier times enables activity peaks to be smoothed, thereby freeing up capacity for future growth and gaining operational efficiency (punctuality on departure and average delay, successful customer and baggage connections).

Strong growth for Schiphol

Amsterdam-Schiphol is the airport with the highest number of air traffic movements in Europe and the number three European airport in terms of passenger numbers (64 million in 2016). This is the result of a proactive growth strategy, air traffic having grown by 6.3% in 2016. The ceiling of 500,000 air traffic movements a year, initially set for 2020, should thus be reached earlier than expected in 2017.

Since the infrastructures are reaching saturation point, this strong growth has generated operational difficulties for KLM and its partners. In view of the increased congestion in Departure Hall 1 and at Security Filter 1, KLM is working with Schiphol to build a temporary terminal on top of the South basement for additional KLM check-in capacity. This terminal will be ready in April 2017 and remain operational for three years.

In 2016, KLM continued to invest and innovate at Schiphol. The Group is eagerly awaiting the intended upgrade of Schiphol train station and the surrounding infrastructure, which will increase the accessibility of the airport to passengers. The Company also made a significant investment in the renovation of a state-of-the-art cargo building, enabling the more efficient handling of mail and packages. The facility should be up and running by the second half of 2017.

Lastly, one of KLM's major priorities is the establishment of a level playing field, particularly in respect of the security costs incurred by airlines in the Netherlands which rose by 51% between 2003 and 2015, and look set to rise in future years due to geopolitical events.

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

Within the framework of Skytrax, airline passengers score the customer experience quality for each airline, covering the product and service standards both on the ground and in the air.

In 2016, Air France won two awards: Best Dining Service in a First Class Lounge (for the third year running) and Best First Class Amenities. Air France was also ranked number three amongst the Best First Class Airlines (tenth in 2015). Air France now ranks number fourteen in the Top 100 (moving up one position versus 2015) and is approaching the Top 10.

KLM continues to improve its Skytrax ranking on a yearly basis (24th in 2016 from 28th in 2015) as well as its Net Promotor Score, the key performance indicator linked to customer satisfaction and recommendation (measuring both the loyalty of customers and the brand experience). In 2016, there was an overall two point improvement in performance.

The Air France-KLM Group is achieving further digital success

Within a context of rapidly-changing consumer needs, digital transformation and a changing landscape in the travel industry, Air France-KLM continues to be a front runner in digital innovation. The digital strategy will play a key role in the Group's ambition to become number one for customer intimacy.

The Group is permanently working on a rewarding customer experience, both online and on board. Partnerships are being established and/or further developed with brands like Uber, Airbnb, AccorHotels and Allianz to offer customers "door-to-door" solutions. Passengers are invited to rate and review their flights on arrival, and the ground staff and cabin crews are equipped with tablets and applications to be able to offer a personalized service and up-to-date information.

The Group's initiatives in the digital field were again recognized with, for example, a Webby award for KLM for the Best Customer Service for FlightFunding, KLM being named Best Airline in the Dutch market, a Best In Class first position for the Air France website in the Google "Mobile Masters" survey, a "Travel d'Or" award for the best airline website in France while, for the third year running, Air France was voted the most socially-devoted brand in France on Facebook (Social Bakers).

Websites and mobile

Customers are constantly online: whether planning trips, exploring destinations or sharing their memories, they turn to the web using multiple devices. With almost €5bn of revenues generated via its online channels, the Group is strengthening the performance of its brands' websites and mobile applications.

Together, Air France and KLM have a commercial online presence in more than 100 markets, to support their strong network footprint worldwide. Direct online sales are seeing steady growth with one in every three tickets being sold *via* AF.com and KLM.com.

Mobile offers constitute high-added-value services. 2016 marked an important step in the digital dimension of Air France and KLM as mobile became the first digital touchpoint with 56% of traffic. KLM launched the KLM core app on iOS and Android, with the same offer on phone, tablet and smartwatch. The KLM Media app was also introduced, enabling passengers to access a range of international newspapers on their smartphones or tablets.

The Air France mobile app, available since 2013, was revisited in 2016 with some personalized interactions like Follow My Bag, the Air France Press app, Travel By Air France, e-boarding cards and real time information about flight status, luggage belts and boarding gates. Air France was the first airline to launch a press and entertainment app in 2013. In 2017, efforts will be directed at geo-localization and real-time notifications, tailoring offers and services to the precise needs of customers based on their location.

The Air France mobile website won the “Best In Class” accolade in the Mobile Masters Awards (Google survey).

Other new initiatives and commercial formats

Innovation efforts by pure players, be they producers or distributors, are forcing the legacy players to always be anticipating the specific expectations of customers who book online. In addition to paying particular attention to user tests to optimize navigation and the implementation of new functionalities, Air France and KLM are launching new commercial formats. Air France introduced *La Collection Air France*, a new revenue stream for direct online sales. This new premium proposition offers customers exclusive sales of pre-packages, including flights, hotels and transfers. In addition, 360° inspirational videos are available *via* Travel by Air France. To enable customers to choose their flights based on their experience on board, they now have access to information and pictures about the services they will be offered directly in the booking flow. In 2016, amongst other innovations, KLM introduced a new e-ticket and boarding pass, an on-board connectivity portal, Follow My Bag, and self-service access to the Schengen Lounge 25 at Schiphol.

I. Be where our customers are

Air France-KLM Digital believes that “we should be where our customers are”. Customers should be able to contact both Air France and KLM *via* the channel of choice on all their devices.

In 2015, KLM activated the Messenger button on its Facebook Page, enabling customers to contact KLM even more directly *via* private messaging. Contact increased by 40%, showing how much customers appreciate this form of communication in that they feel comfortable sharing information *via* a more personal platform like Messenger. Currently, more than 50% of all KLM incoming

messages on the social media arrive *via* Messenger, *i.e.* some 50,000 per week. In 2016, KLM took its social service to customers on Messenger a step further, offering them the option of receiving all relevant flight documentation and information in a single overview. Air France will follow during the second quarter of 2017. Air France currently offers 7/7 customer services in nine languages on Facebook, Twitter, WeChat, Sina Weibo and Kakao Talk, with a 24/24 round-the-clock presence in English and French. KLM offers customers a 24/7 service in twelve different languages: Dutch, English, German, Spanish, Portuguese, Italian, French, Norwegian, Russian, Japanese, Chinese and Korean on various channels such as Facebook, Messenger, WeChat and Twitter. KLM receives 100,000 mentions a week *via* these various platforms.

II. Personalization

In recent years, Air France-KLM has developed significant expertise in Big Data technologies. In 2014, the Group decided to invest heavily in Big Data to better leverage the growing amount of Customer Data available in its systems. Since 2015, Air France and KLM have had their own internally-developed Customer Big Data Platforms, gathering data on their 90 million annual customers. In 2016, they were connected to all data sources in order to create a 360° customer view and enable personalization at every touchpoint to generate additional revenues, *i.e.* push paid options and personalized and contextual commercial offers.

To make all this customer information actionable within Digital Marketing, a Data Management Platform (DMP) is also in place for Air France and KLM. This combines all the internal data with real-time online behavioural data, enabling in-depth analysis and using machine learning. Most importantly it makes media buying decisions smarter and offers the opportunity to deliver highly-personalized content. Air France and KLM have also developed retargeting (re-showing ads to users with the destinations previously on the website) on new channels such as Display, email and Social Media. A recommendation engine, developed by internal Operational Research, which allows personalized destinations to be shown in a commercial email to individual customers based on their past travel, is also used. Such relevant and personalized communication has a very positive impact on the email opening and conversion rates and, as a result, ticket sales.

Furthermore, in the event of service disruption, the data platform enables frontline staff to take care of customers in a human and personalized way. In their interaction with service industries, customers are increasingly expressing a preference for brands that are capable of offering them genuine, empathetic and responsive human contact. For several years, Air France and KLM have continued to empower front-line staff to solve problems and pro-actively improve the on-the-spot customer experience.

Since October 2016, using iPads, cabin crew have had a new way to answer customer concerns directly with concrete commercial gestures (Electronic Miscellaneous Document, Miles, duty free gift vouchers).

They also have the possibility of offering small handcraft gifts even in the event of no service disruption. This leaves the crew more room for initiative in the way they handle service recovery and care on board, creating a surprise effect and giving them more ways to connect with passengers and discover their reactions. The gifts aim to trigger dialogue between crew and customers.

At Paris-CDG and Amsterdam-Schiphol airports, trolley deployment for both Air France and KLM provides assistance with drinks, baby food and other snacks for customers awaiting boarding.

Thanks to these major initiatives in 2015 and 2016, Air France-KLM is already amongst the few worldwide companies that collect and use their on- and offline data to offer customers personalized offers and services. By 2020, priority will be on leveraging data to personalize offers from which the Group expects to generate €200 million of additional revenues.

Air France - KLM continues to innovate throughout customer journeys

In 2015, Air France had already significantly enhanced its customer experience at the airport in response to customer needs.

After launching the Home Printed Bag Tag in January 2014, this new service has proven very popular, reaching 2.5 million tags on both the French domestic and long-haul routes. These tags now average 10% of the tags issued out of Paris-Orly (rising to above 15% on some days). Air France is one of the world leaders in Home Printed Bag Tags and is actively working on the next step: Electronic (or Permanent) Bag Tags to be trialed on the French domestic routes in 2017.

As a consequence of the Aruba Happy Flow concept, KLM will be testing biometric self-boarding (based on facial recognition) during the first half of 2017.

Furthermore, Air France and KLM are both working on new concepts/services to guide passengers through the airport terminals: various options and technologies are being tested paving the way for a whole new future customer experience: live information on waiting times, indoor guidance to the check-in area, the boarding gate, etc.

In March 2016, together with a consortium of European universities, KLM tested "Spencer": an intelligent robot, designed to guide passengers connecting at Amsterdam-Schiphol. This test has allowed researchers to further improve their concept.

On board, Air France-KLM plans to equip its entire long-haul fleet with Wi-Fi. After deploying the B787 which comes fully-equipped with connectivity (in service since late 2015), the installation of on-board Wi-Fi on the A330s and B777s will start from the second half of 2017. The objective is to equip the majority of the fleet by 2020.

Since December 2016, the Augmented Reality meal experience - Proof of Concept (POC) version - has been ready for use by KLM and soon will be for Air France. The experience runs on two

different platforms, mobile and HoloLens. The mobile version is available only for Android. The meal experience gives passengers information on the menu options on-board. The app provides details by item, like ingredients and nutritional and allergy information, which may be relevant for passengers with specific food preferences or diets. Moreover, the *À La Carte* meals have been included in the app to raise awareness of this ancillary product. A user test is planned for March 2017.

Air France-KLM has continued to develop ancillary services to give customers more choice like advance reservation of seats on all long-haul routes as a fee-paying option, while retaining the choice of seat free of charge for all customers at check-in. Air France and KLM's first B787s also enable customers to purchase Internet access during their flights. Finally, the introduction of new fares without hold baggage on the European network should generate additional baggage revenue in 2017.

The "Flying Blue" loyalty program reinforces its attractiveness and paves the way for its new ambition

The "Flying Blue" program has grown to more than 27 million members since the merger of the *Fréquence Plus* (AF) and Flying Dutchman (KL) programs in 2005. This growth has averaged one new member every 20 seconds, with this trend even accelerating in 2016 with more than two million new members. In 2016, "Flying Blue", its 37 airline partners and some 100 other partners, won five Freddie Awards (out of six) including the prestigious Program of the Year award and the Best Affinity Card, shared with American Express, for the third consecutive year.

In 2016, "Flying Blue" also set up instant benefits for its Ivory customers, namely an immediate discount of €10 on the first piece of baggage and a 10% discount on paid seat options. In addition, the upgrade mechanisms in miles have been revised and extended: upgrades can now be paid for in miles irrespective of the fare initially paid. Lastly, two new award ticket opportunities have been developed to extend the range of eligible seats for award tickets. "Flying Blue" is also continuing its digital transformation and quest for customization. Rapid enrolment in the program is still possible on board flights by contacting cabin crew equipped with iPads, with the miles automatically credited on arrival. The flyingblue.com website is being completely redesigned and a new version, enhanced with new features, is expected to be operational in early 2018. "Flying Blue" sent more than 250 million emails in 2016, with a constant focus on personalization and respect for its members' preferences. The number of emails opened is very high, reflecting customer interest in this messaging. At the end of 2015, Air France-KLM decided to completely redesign "Flying Blue". The main decisions related to this change were taken in 2016, aimed at rolling out the new program in 2018 after a preparation phase, including a technical phase in 2017. However, as in 2016 and despite the ongoing work, "Flying Blue" will continue to develop new benefits for customers throughout 2017.

Communication at the service of transformation

In 2016, the Group's transformation, with its ongoing move up-market, the promotion of its innovation notably in the field of digital services and the unveiling of the "Trust Together" project, received extensive media coverage. Air France continued to work on promoting its new medium/high-end products and services, including the arrival of its first B787 Dreamliner in December. Over the year, the move up-market was the subject of more than 2,000 articles in the print and audiovisual press and a Twitter audience of close to 300 million users (total number of Twitter accounts potentially exposed to messages). The "Trust Together" project, unveiled by Jean-Marc Janailac in November, also attracted a strong media audience, with more than 4,000 articles in the print and audiovisual press during the last months of the year.

KLM again caught the eye of the consumer with exceptional campaigns. A highlight of the year was the introduction of the B777 Orange Livery, followed by the new KLM "Moving Your World" commercial. The Christmas Bonding Buffet video, setting an inspirational and caring tone for KLM, reached a record number of 100 million people on social media in only three weeks.

Based on all these new digital and innovative services, in parallel with the product and service upgrade implemented by Air France since 2014 and by KLM since 2013, the Group is aiming to become the number one for customer intimacy by 2020.

2.3.5 SkyTeam alliance and strategic partnerships

The three large alliances, SkyTeam (to which Air France and KLM belong), Star Alliance and oneworld, represent some 60% of worldwide traffic. Of the 50 largest airlines, only the low-cost carriers, two of the three Gulf State airlines and a few niche carriers are not members of an alliance.

Mostly within SkyTeam or, to a lesser extent, with non-SkyTeam airlines, partnering with other carriers supplements the airlines' operating offers by expanding the number of travel opportunities for customers. These partnerships mostly involve codeshares or agreements relating to loyalty programs although they can sometimes be more integrated, like joint-venture agreements.

SkyTeam: a global alliance

SkyTeam, created in 2000, is a global alliance which numbered 20 airline members at December 31, 2016: Aéroflot, Aérolíneas Argentinas, Aeromexico, Air Europa, Air France, Alitalia, China Southern, China Eastern, China Airlines, Czech Airlines, Delta, Garuda Indonesia, Kenya Airways, KLM, Korean Air, MEA Middle East Airlines, Saudi Arabian Airlines, Tarom, Vietnam Airlines and Xiamen Airlines. While retaining their separate identities and brands, the airlines combine their networks to offer their customers a more extensive range of travel solutions and the related global services, such as earning miles more rapidly, wider access to airport lounges and a seamless transfer service (SkyPriority). SkyTeam also

provides an environment and tools enabling members to generate operational cost synergies (e.g. co-located facilities, better use of airport lounges, etc.).

SkyTeam is managed by a Governing Board comprising the Chairmen and Chief Executive Officers of the 20 member airlines. It meets twice a year to define the major strategic orientations of the alliance.

A centralized management entity, reporting to a Managing Director, is responsible for marketing, airport synergies, interface between information systems, the transfer product, cargo, advertising and the brand. In liaison with the Governing Board and the Steering Committee, it implements plans to support SkyTeam's development.

Airlines need to fulfil some very exacting standards before becoming an alliance member, relating to operations, technologies and products. Members must be linked by codesharing agreements and have signed agreements covering their loyalty programs and the sharing of lounges. They must also be able to offer the products and services proprietary to the alliance.

Belonging to SkyTeam strengthens the brand awareness for members by enabling them to extend their offer around the globe, thereby bolstering their commercial presence. Through their membership of SkyTeam, Air France and KLM gain access to a global network offering some 17,400 daily flights to more than 1,000 destinations in 177 countries.

The 665 million annual passengers benefit from a seamless travel experience on flights with one or several airline members and have access to 672 airport lounges around the world.

The alliance has developed proprietary products such as Passes enabling travel at competitive fares, global contracts exclusively for large companies or contracts for the organizers and attendees of international events.

The 220 million passengers who are members of frequent flyer programs earn air miles on all SkyTeam flights that can be redeemed with all the alliance member airlines. In 2016, the SkyTeam airlines rolled out SkyPriority in more than 1,000 airports, a ground services offer exclusively for their most loyal customers.

Strategic partnerships

Trans-Atlantic joint-venture with Delta

In 2009 the Group implemented a joint-venture with Delta which was extended to Alitalia in 2010. 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 deploy all the actions contributing to an improvement in the activity's operating result, to the benefit of all the members. The joint-venture contract was amended and renewed in 2012 for a further ten-year period. 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 250 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.

The organization of the joint-venture was adapted to take into account the creation of another joint-venture between Delta and Virgin Atlantic following the acquisition by Delta of a 49% stake in the latter. All these agreements were approved by the European Commission in 2015.

Alitalia

Since 2009, the relationship between Air France-KLM and Alitalia has consisted, firstly, of an equity investment by Air France-KLM in the capital of Alitalia Compagnia Aerea Italiana SpA (Alitalia-CAI) and, secondly, a commercial and industrial partnership between Air France-KLM and Alitalia.

Within the framework of the investment by Etihad Airways in the capital of Alitalia, Alitalia-CAI launched a restructuring process resulting mainly in the transfer of its operations to the company Alitalia-Societa Aerea Italiana (Alitalia-SAI), created on January 1, 2015. Air France-KLM's equity interest was reduced to 1.04% of the Compagnia Aerea Italiana SpA share capital, the latter holding 51% of the shares in the capital of Alitalia-SAI with the remaining 49% held by Etihad Airways.

Air France-KLM's industrial and commercial partnership with Alitalia remained in force during 2016 before ending on January 13, 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.

Chinese joint-ventures

Air France and KLM have established joint-venture agreements with two of the three largest Chinese airlines. KLM in 2006 and Air France in 2010 signed joint-venture agreements with China Southern, which offers the most extensive domestic network out of its Canton and Beijing hubs. The agreements with Air France and KLM were renewed in 2015.

In 2012, Air France signed a joint-venture agreement with China Eastern, based in Shanghai, China's economic capital. This agreement was extended to KLM in 2016.

Thanks to these partnerships, Air France and KLM can offer their customers access to some sixty destinations in the Chinese provinces. The joint-venture routes between Europe and China generated revenues of more than €1 billion in 2016.

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. In 2015, the partnership led to a significant increase in the number of Air France and KLM passengers transferring to GOL flights. 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.

Cooperation with Jet Airways

Jet Airways has been a partner of Air France since 2014, offering reciprocal codeshares between Europe and India. In March 2016, by transferring its operations from Brussels to Amsterdam-Schiphol, Jet Airways opened the way to new cooperation opportunities. Firstly, the link between the European and Indian markets was enhanced by using the marketing codes on the respective flights of the Indian airline and KLM. At the same time, a significant step forward was taken by extending, together with Delta, the cooperation to a range of destinations outbound from the United States and Canada to India, customers transiting through Amsterdam-Schiphol irrespective of the operating airline.

Effective October 2016, Air France, KLM and Delta added more travel options for customers flying between the North American region and the Indian sub-continent, this time through the Paris-Charles de Gaulle hub, completing an unrivaled multi-hub system.

2.3.7 Key figures for the passenger network business

Financial year	2016	2015	Actual Change
Number of passengers <i>(in thousands)</i>	80,163	79,016	+1.5%
Capacity <i>(in ASK million)</i>	278,807	276,899	+0.7%
Traffic <i>(in RPK million)</i>	238,183	235,715	+1.0%
Load factor	85.4%	85.1%	+0.3pt
Total passenger revenues <i>(in €m)</i>	19,682	20,541	-4.2%
Scheduled passenger revenues <i>(in €m)</i>	18,849	19,707	-4.4%
Unit revenue per ASK <i>(in € cents)</i>	6.76	7.12	-5.0%
Unit revenue per RPK <i>(in € cents)</i>	7.91	8.36	-5.3%
Unit cost per ASK <i>(in € cents)</i>	6.38	6.81	-6.3%
Income/(loss) from current operations <i>(in €m)</i>	1,057	842	+215
<i>of which long-haul (estimated)</i>	1,320	1,070	+250
<i>of which medium-haul hub feeding (estimated)</i>	(220)	(160)	-60
<i>of which medium-haul point-to-point (estimated)</i>	(50)	(70)	+20

Full year 2016 total passenger network revenues amounted to €19,682 million, down by 4.2%. The operating result of the passenger network business stood at €1,057 million, versus €842 million for the full year 2015. Like-for-like, the operating result was up by €456 million.

The Group maintained its strict capacity discipline, increasing total passenger network capacity by +0.7%. The unit revenue per available seat-kilometer (RASK) remained volatile and was down by 4.5% on average, excluding currency.

On the long-haul network, capacity measured in ASKs was up by 0.6%, while the unit revenue was down by 4.7% excluding currency, affected by the terrorist attacks in Europe which resulted in weak

local flows to France as a destination. In addition, the capacity-demand imbalances observed on different parts of the network caused additional downward pressures on the unit revenue. Nevertheless, the estimated operating result of the long-haul operations was up by €250 million to €1,320 million.

The medium-haul hubs network was particularly badly impacted by the weak flows to France. While capacity increased by 2%, the unit revenue declined by 5.4% excluding currency.

As planned, medium-haul point-to-point capacity (excluding the Paris and Amsterdam hubs) was reduced by 3.9%, leading to a 1.0% improvement in the unit revenue, which contributed to the €20 million improvement in the point-to-point operating result.

Key figures by network

Destination region	Capacity in ASK (in million)		Traffic in RPK (in million)		Load factor (in %)		No. of passengers (in thousands)		Scheduled passenger revenues (in € million)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
North America	61,586	60,285	53,673	53,225	87.2%	88.3%	7,516	7,497	3,904	4,036
Latin America	34,089	33,753	29,868	29,180	87.6%	86.5%	3,111	3,041	1,649	1,772
Asia-Pacific	60,317	62,945	52,848	54,625	87.6%	86.8%	6,033	6,278	3,039	3,365
Africa-Middle East	36,899	36,345	26,566	29,561	82.0%	81.3%	5,456	5,322	2,554	2,590
Caribbean-Indian Ocean	30,423	28,548	26,566	25,066	87.3%	87.8%	3,634	3,438	1,523	1,504
Total long-haul	223,313	221,875	193,212	191,658	86.5%	86.4%	25,751	25,577	12,669	13,267
Short and medium-haul	55,494	55,024	44,970	44,058	81.0%	80.1%	54,412	53,440	6,185	6,440
Total	278,807	276,899	238,183	235,715	85.4%	85.1%	80,163	79,016	18,854	19,707

The **North American** network is the Group's premier network with 22.5% of traffic and 22.1% of capacity. The Group carried 7.5 million passengers to/from these destinations. On this network, the Group operated within the framework of the joint-venture with Delta and pursued a policy of strict capacity discipline. Traffic increased by 0.8% and the load factor was slightly lower (-1.1 point) at 87.2%. Revenues amounted to €3.9 billion.

The **Asia-Pacific** network is the Group's second network with 22.2% of traffic and 21.6% of capacity. The Group carried 6 million passengers to/from these destinations. Traffic fell by 3.3% for a 4.2% reduction in capacity, the load factor standing at 87.6%. Revenues from this network amounted to €3 billion.

The **Africa-Middle East** network represents 11.2% of traffic and 13.2% of capacity. The Group carried 5.5 million passengers (+2.5%) to/from these destinations. The load factor rose by 0.7 point to 82.0%. Revenues stood at €2.6 billion.

The **Latin American** network represents 12.5% of traffic and 12.2% of capacity. The Group carried 3.1 million passengers to/from these destinations (+2.3%). Traffic increased by 2.4% and capacity by 1.0%, the load factor increasing by 1.1 point to 87.6%. Revenues amounted to €1.6 billion.

The **Caribbean and Indian Ocean** network represents 11.1% of traffic and 10.9% of capacity. The Group carried 3.6 million passengers to/from these destinations, up by 5.7%. Traffic was up by 6.0% and the load factor fell by 0.5 points to 87.3%. Revenues stood at €1.5 billion.

The **medium-haul** network, whose restructuring was one of the "Transform 2015" plan's major objectives, represents 18.9% of traffic. Capacity was up by 0.9% and the load factor gained 0.9 point to 81%. Revenues amounted to €6.2 billion.

2.4 THE 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 seats are mainly sold directly to end customers but the Company also operates charter flights on behalf of tour operators.

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, etc. 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, 2016, Transavia had a fleet of eight B737-700s and 55 B737-800s in service, of which 37 based in the Netherlands and 26 in France, and 2,666 full-time employees. In 2016, the Transavia network comprised 110 destinations in Europe and North Africa. Flights were operated from seven different bases, Amsterdam, Rotterdam, Eindhoven, Paris-Orly, Nantes, Lyons and Munich, offering a total of around 200 different routes.

2016 saw Transavia pursue its rapid development with capacity expansion of 14.8%. Transavia carried 13.3 million passengers, up by 22.7% relative to 2015. The load factor remained high (89.2%) despite the increase in capacity. Revenues reached €1.2 billion, up by 10.8%. The unit revenue per ASK declined by 3.3% while the unit cost per ASK fell by 6.3%. The operating result was at break-even, up €35 million like-for-like, one year ahead of target. In the Netherlands, where Transavia is the leader in the low-cost market, the shift in the charter business model in favor of scheduled flights underway for the past few years further accelerated. The focus is now 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 is pursuing its growth as planned, with a 23% increase in capacity.

In 2016, to support this accelerated growth at Transavia, the Group took delivery of four of the 17 aircraft in the order for B737-800s.

Key figures for Transavia

Financial year	2016	2015	Actual Change
Number of passengers (<i>in thousands</i>)	13,279	10,820	+22.7%
Capacity (<i>in ASK million</i>)	25,762	22,432	+14.8%
Traffic (<i>in RPK million</i>)	22,983	20,169	+14.0%
Load factor	89.2%	89.9%	-0.7pt
Total passenger revenues (<i>in €m</i>)	1,218	1,099	+10.8%
Unit revenue per ASK (<i>in € cents</i>)	4.68	4.84	-3.3%
Unit revenue per RPK (<i>in € cents</i>)	5.24	5.38	-2.5%
Unit cost per ASK (<i>in € cents</i>)	4.68	5.00	-6.3%
Income/(loss) from current operations (<i>in €m</i>)	0	(35)	+35

2.5 CARGO BUSINESS

The cargo business generates revenues of €2.1 billion which represents 8.3% of total Group revenues. In addition to marketing the bellies of passenger aircraft, this business has a fleet of full-freighters operated out of Paris and Amsterdam. Furthermore, the joint-venture agreement between Air France, KLM and Delta also includes transporting air freight in the bellies of passenger aircraft.

2.5.1 Business environment

2016 ends on a more positive note for the air freight industry

Demand, measured in freight ton-kilometers (FTK), increased by 3.8% in 2016 relative to 2015. This represented a near-doubling in the 2% average growth for the industry witnessed in the past five years. Capacity, measured in Available Freight Ton-Kilometers, (AFTK) increased by 5.3% in 2016.

All the regions, with the exception of Latin America, posted positive growth in 2016, the European transporters being responsible for nearly half the total annual growth in demand.

After a weak start to the year, global air freight growth recovered in the second half of 2016. A strong peak season, an increase in silicon shipments and a pick-up in export orders all contributed to the increase in demand. The timing of the Chinese New Year in January 2017 may also have stimulated demand in December.

Regional results

The Asia-Pacific carriers posted cargo volume growth of 2.1% for 2016 relative to 2015, slightly down on the 2.3% growth rate seen in the previous year. However, deseasonalized volumes have now returned to their 2010 levels, during the recovery from the global financial crisis. The increase in demand is reflected in the optimistic forecasts expressed in business surveys for the region. In 2016, capacity in the region increased by 3.6%.

The North American carriers posted a modest 2.0% growth in demand for 2016, higher than the 1.3% growth recorded in the previous year. Capacity increased by 3.4% over the 2016 calendar year. The strength of the US dollar continued to stimulate the import market while maintaining the pressure on export markets.

The European carriers registered 7.6% growth in air freight for 2016, *i.e.* the strongest growth of all the regions. This represents nearly half the worldwide increase in demand in the air freight industry. The trend in deseasonalized growth was strong and corresponded to the significant growth in German export orders and the persistent weakness of the euro. Capacity in the region increased by 6.7% during the 2016 calendar year.

The Middle Eastern carriers saw air freight volumes increase by 6.9% for 2016, *i.e.* the second-highest growth rate of all the regions. However, for the region, this was the lowest growth rate since 2009, situated well below the average annual growth rate of 12% posted over the last decade. The growth slowdown was mainly due to the low volumes of cargo circulating between the Middle East, Asia and Europe.

The Latin American carriers suffered a 4.2% decline in air freight volume demand in 2016. This region experienced a fall in demand for the second year running. Despite this, on a deseasonalized basis, the levels of growth effectively correspond to their levels of early in 2016. The region continues to suffer from economic weakness and a difficult political situation, particularly in its largest economy, Brazil. Capacity in the region was down by 2.0% for 2016 as a whole, relative to its 2015 level.

The African carriers achieved a 3.1% growth rate for 2016, down relative to the 4.5% growth rate in 2015. However, capacity soared by 25.5% during 2016, due to the expansion in long-haul flights, particularly at Ethiopian Airlines, prompting a decline in load factors.

Outlook

For the past decade, traffic growth has been heavily concentrated on a few airlines: the Gulf State and Asian carriers, and the specialized operators. In 2016, amongst the largest carriers, Air Bridge Cargo, Qatar Airways, Turkish Airlines, All Nippon Airways and China Southern all enjoyed the strongest growth. Emirates maintained its leadership position in terms of cargo transported, followed by Cathay Pacific, Lufthansa, Qatar Airways and Air France-KLM.

The total worldwide full-freighter fleet increased during 2016, with the entry into revenue service of 31 new freighters and the return to service of cargo aircraft which had been parked for several years. This growth was partially offset by the progressive retirement of the B747-classic and the MD-11.

Purchases of new high-capacity cargo aircraft have progressively slowed, moving from 42 annual deliveries in 2012 to 19 deliveries planned for 2017.

Over the long term, the overall Cargo fleet worldwide should remain broadly stable at +0.5% on average per year due to the reduction in the number of orders and a strategy of replacement rather than outright expansion.

Belly capacity in the passenger aircraft fleet continued to see strong growth thanks to the expansion in the fleet itself, whose growth is expected to average 5% between 2011 and 2019. In the coming years, around 400 new aircraft (for the most part B777s, B787s and A350s) will be introduced each year, with the annual phase out of only some 100 to 200 aircraft (mostly B747s, B767s and A340s). Furthermore, the bellies of new aircraft have more capacity than the older aircraft they replace.

In view of this dynamic, several air freight carriers are following the Air France-KLM Group's example in scaling back their full freighter fleets. Within Europe, the most noteworthy example is Lufthansa which, having maintained its full freighter operations decided, in 2016, to reduce its full freighter fleet.

2.5.2 Strategic repositioning of the cargo business

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

Air France-KLM Cargo remains a major European and worldwide player with a market share of 4.5% in RTK for 2016, down by 0.5 of a point relative to 2015. This fall in market share reflects the Group's commitment to prioritizing an improvement in profitability and refocusing on the fastest-growing markets.

During 2016, the Group transported 8.4 billion Revenue Ton-Kilometers of which 80% in the bellies of passenger aircraft and 20% in the dedicated full-freighter fleet, to a network of 316 destinations in 115 countries.

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

The offering is structured around four product families, Equation, Variation, Cohesion and Dimension, which are also offered by the twelve members of the SkyTeam Cargo alliance. Founded in 2000, SkyTeam Cargo regroups Air France-KLM Cargo, Aeroflot Cargo, Aerolíneas Argentina Cargo, Aeromexico Cargo, Alitalia Cargo, China Airlines Cargo, China Cargo, China Southern Cargo, Czech Airlines Cargo, Delta Cargo and Korean Air Cargo, with a network of more than 850 destinations worldwide.

On the North Atlantic, the Group benefits from the joint-venture agreement with Delta. 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, "Transform 2015" and "Perform 2020"

In 2010, confronted with the crisis in the sector, the Group adopted a new "priority to bellies and combis" strategy aimed at optimizing 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.

Over the next four years, Air France-KLM Cargo subsequently 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.

This "Transform 2015" program enabled a maintained contribution of some €823 million from the cargo business to the Group's operating result, despite the significant reduction in capacity (-4.6% in 2016, of which -24% for the full-freighter operations) and the deterioration in its unit revenues (-11.6%). Thanks to full freighter fleet rationalization, strict cost control and adaptation to customer requirements, Air France-KLM's cargo business has engaged in a successful restructuring to contend with a highly competitive market, with a steadily-expanding offer.

Within an increasingly-difficult context, the positioning of Air France-KLM Cargo has been reinforced with new measures launched within the framework of the "Perform 2020" plan

A significant reduction in full-freighter capacity: the Group continues to scale back full-freighter capacity with, in 2016, the phasing out of the MD-11s based at Amsterdam in view of their age and operating costs. These additional measures foresee a capacity reduction with ultimately two full-freighter aircraft being based at Paris-CDG and four full-freighters at Amsterdam-Schiphol in 2017. Air France Cargo's choice of refocusing the business on its B777 freighters has enabled a return to profitability for the full freighter operations, heralding a positive development for KLM Cargo over a full year, after the retirement of the MD-11s. On the other hand, belly capacity will continue its growth in line with the development plan for the passenger fleet. The bellies of passenger aircraft thus accounted for 80% of total capacity in 2016 compared with 54% in 2007-08. In 2017, this figure should exceed 85%.

Strict control over costs: in 2016, under the impact of the "Transform 2015" and "Perform 2020" plans, staff costs continued to fall thanks to increased recourse to subcontracting (Roissy cargo hangar) and the voluntary departure plans in France and the Netherlands. Cargo headcount was reduced by 6.7% over the course of the 2016 financial year.

In addition to the reduction in full-freighter capacity, all the efforts launched by the Group enabled a 2.1% reduction in unit costs in 2016.

A new commercial strategy: following the deployment of a new strategy at global level to improve commercial effectiveness, the next steps are the rationalization and simplification of the cargo business products, the development of niche markets and an added-value customer proposition, within the framework of a Freight Made Personal program.

At the same time, the Group successfully completed the first phase of Cargobus, its new unique reservation and commercial inventory tool, and expanded its digital offer (Quote & Book, e-freight, etc.) aimed at improving the standard of the service offered to customers and their levels of satisfaction.

Thanks to all these measures, and despite an unfavorable backdrop, the cargo business continues to make an important contribution to the Group's results.

2.5.3 Activity during the financial year

As in previous years, in 2016 air freight continued to be affected by weak trade flows from/to Europe and by the situation of structural industry overcapacity.

Key figures for the cargo business

Financial year	2016	2015	Actual change	Like-for-like change
Tonnage transported (in thousands)	1,130	1,206	-6.2%	
Capacity (in millions of ATK)	14,229	14,909	-4.6%	
Traffic (in millions of RTK)	8,441	9,007	-6.3%	
Load factor	59.3%	60.4%	-1.1pt	
Total revenues (in €m)	2,086	2,446	-14.7%	-14.8%
Scheduled cargo revenues (in €m)	1,904	2,262	-15.8%	-15.9%
Unit revenue per ATK (in € cents)	13.38	15.2	-11.8%	-11.9%
Unit revenue per RTK (in € cents)	22.56	25.1	-10.2%	-10.3%
Unit cost per ATK (in € cents)	(15.10)	(16.82)	-10.2%	-10.9%
Income/(loss) from current operations (in €m)	(244)	(245)	1	17

The Group continued to restructure its Cargo activity to adapt to the weakness in trade to/from Europe and structural air cargo industry over-capacity. In 2016, full-freighter capacity was again reduced by more than 24%, leading to a 4.6% decrease in total cargo capacity. The unit revenue per available ton-kilometer (RATK) was down by 11.9% like-for-like, reflecting a further decline in cargo revenues of 15.9% like-for-like.

Thanks to a material reduction in unit costs, the operating result improved by €17 million like-for-like, but remained significantly in loss.

This result takes into account the purchase from the passenger business by the cargo business, on a full cost basis, of all the belly

capacity in the combi aircraft. The marginal contribution from cargo to the Group's long-haul network, measured by third-party revenues less the costs incurred, is strongly positive, even if it is declining given the significant reduction in the unit revenue.

With the framework of "Perform 2020", the Group retired six MD-11 full freighters in 2016, and has now operated six aircraft since the summer of 2016 (four B747s at Schiphol and two B777s at Roissy). This reduction has enabled a considerable decline in the losses of the full freighter business.

Traffic also declined implying a 1.1 fall in load factor (to 59.3%). Revenues reached €2.09 billion, down by 14.7% (-14.8% like-for-like).

Key figures by network

Destination region	Capacity in ATK (in million)		Traffic in RTK (in million)		Load factor (in %)		Cargo transportation revenues (in € million)	
	2016	2015	2016	2015	2016	2015	2016	2015
Europe and North Africa	493	497	57	60	11.7	12.0	40	45
Americas	6,383	6,437	3,672	3,790	57.5	58.9	798	934
Asia-Pacific	3,554	4,206	2,844	3,248	80.0	77.2	531	673
Africa-Middle East	2,642	2,680	1,422	1,488	53.8	55.5	393	470
Caribbean/Indian Ocean	1,157	1,089	446	422	38.5	38.8	141	140
Total	14,229	14,909	8,441	9,007	59.3	60.4	1,904	2,262

As the Group's premier cargo network, the **Americas** represent 45% of capacity, 44% of traffic and 42% of cargo transportation revenues. Over the year, traffic declined by 3.1% for a 0.8% capacity reduction, the load factor declining by 1.4 points to 57.5%. Revenues for this region amounted to €798 million (-14.5%).

The **Asia-Pacific** network accounts for 25% of capacity and 34% of traffic. It was on this network that the Group reduced its capacity most markedly (-15.5%). The decline in traffic was similar in proportion (-12.4%) and the load factor increased by 2.8 points (80.0%). Revenues stood at €531 million (-21%).

Africa-Middle East is the Group's third network with 19% of capacity and 17% of traffic. Traffic fell by 4.5% for capacity down by 1.4%, the load factor falling by 1.7 points to 53.8%. Revenues declined by 16.3% to €393 million.

The **Caribbean-Indian Ocean** network represents 8% of capacity but only 5% of traffic. Traffic increased (+5.7%) by less than capacity (+6.3%), taking the load factor to 38.5% (-0.2 of a point). Revenues amounted to €141 million (+0.7%).

2.6 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% of the total revenues in this business. In 2016, the AFI KLM E&M order book was up by 6% 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.

2.6.1 Business environment

An attractive market despite the growing constraints

The global MRO market, which comprises the maintenance and modification spending by aircraft operators either directly or through sub-contractors, is estimated at US\$68 billion for 2016 (*source: ICF International*).

Revenue trends in this market 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, airframers, 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, if it were to result in reduced competition on the MRO market, this trend could have a seriously adverse impact 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.

2.6.2 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 2016, AFI KLM E&M reinforced its global position on new-generation aircraft, reaching a total of twelve B787 component support contracts and its first customer contracts on the A350, B737 Max, 320 Neo and GENx.

Launched in 2015, The MRO Lab innovation program focuses 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.

As part of this MRO Lab program, in February 2016 AFI KLM E&M announced that its new Innovation Center in Singapore was now on stream.

In the digital field, another example is PROGNOS. 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. 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 launched to optimize activity on a site-by-site basis, strengthen external partnerships and deploy more efficient work organizations. As part of this program, the number of hangars in base maintenance were reduced at both Amsterdam and Orly, with the decoration and painting activities now being outsourced. All this was accompanied by efforts to match resources to the level of business activity and build new career paths.

A General & Administration project enabled an improvement in support activity costs while, in Amsterdam, a High Performance Organization concept has been implemented.

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 2016, AFI KLM E&M announced the creation of a joint-venture with Safran for engine airfoil repairs, and the extension of CRMA, a center of excellence in engine parts repair.

From a commercial standpoint, AFI KLM E&M's competitive offers were selected by major low-cost airlines like Jet Blue and Air Asia.

This dynamic was reflected in the Group being voted "MRO of the Year 2016" by trade publication Aviation Week.

Contributing to flight safety programs and operational performance

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.

In 2016, 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.

Light Maintenance Operations

Within the framework of the "Perform 2020" plan, the Light Maintenance Operations, which are mostly executed in Amsterdam, Paris-CDG and Paris-Orly for the entire Air France-KLM fleet, continued to implement new processes in order to significantly reduce its Turn Around Time and increase aircraft utilization.

At the same time, AFI KLM E&M set up a new joint-venture in Orly, iGO Solutions, aimed at delivering high-performance support to customers, which started operations with Transavia's B737 fleet and French Blue's A330s in 2016. The Air Caraïbes A350s will follow in early 2017.

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). 2016 also saw the launch of restructuring at Paris-Orly with a dual objective: firstly, to regroup all the heavy maintenance and B777 modifications in one as opposed to 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 Engines and Components segments.

Modifications

From engineering to production, 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.

In 2016, the move up-market for Air France's in-flight product was reflected in the delivery of the first A320 retrofitted in Toulouse and the ongoing modification of the Best 777 cabins at Orly and Schiphol. On the KLM fleet, the installation of the new *World Business Class* cabin was completed in Amsterdam.

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 second time in 2016, again proved to be a technical success.

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.

Within its component network, in 2016 AFI KLM E&M saw some new extensions like at Ames which increased its capabilities in Dubai, or with the opening of a logistic center in Kuala Lumpur.

The success of these offerings is reflected in the loyalty of AFI KLM E&M's clients. In 2016, a number of airline clients renewed their confidence by prolonging their contracts with AFI KLM E&M. This was the case, notably, of Air Austral for whom AFI KLM E&M will continue to provide full support on the airline's fleet of B777 components, with the addition of the B787 to the service portfolio.

Engines: Very Big Engines (VBE) maintenance capacity further expanded with the GENx

Component provisioning represents a growing proportion of engine maintenance costs. To contain these costs, AFI KLM E&M regrouped a wide range of supply solutions: development of parts repair, tear down, asset management and spare parts trading. The new joint-venture with Safran to develop airfoil repairs is in line with this strategy, as is the extension of the CRMA subsidiary.

Over the course of the year, the order book for the engines business saw a further increase under the effect of new contracts, including the first GENx contract signed with Xiamen Airlines.

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:** in 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.

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 2,500m² 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 May 2016, Safran Aircraft Engines and Air France Industries KLM Engineering & Maintenance signed a Memorandum of Understanding concerning the creation of a joint company dedicated to the repair of aircraft engine compressor airfoils.

In 2016, the Miami based **Bonus** joint-venture has been refocused on its engine tear down activity to offer serviceable spare parts at competitive prices.

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 three US sites: Miami, Phoenix and Louisville.

Also in Miami, **Aero Maintenance Group (AMG)** specializes in component support and extends AFI KLM E&M's reach in the American market (North and Latin America), in synergy with Barfield.

In 2015, Barfield and AMG significantly reinforced their synergies.

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.

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.

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 which are renewed every year.

In 2016, this momentum enabled the emergence of more than 4,700 so-called DPI participatory innovation ideas. At least 3,000 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 deposited 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 2016, the Group welcomed close to 300 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).

2.6.3 Key figures for the maintenance business

Financial year	2016	2015	Change
Total revenues (in €m)	4,182	3,987	+4.9%
Third-party revenues (in €m)	1,834	1,577	+16.3%
Income from current operations (in €m)	238	214	+24
Operating margin (%)	5.7%	5.4%	+0.3 pt

Full Year 2016 third-party maintenance revenues amounted to €1,834 million, up by 16.3%. Revenues were up on the back of the contracts won in previous years. Over the period, the maintenance order book recorded a 6.0% increase from the beginning of the year to reach a year-end record of US\$8.9 billion, including several new A350 support contracts, thereby securing future growth.

The operating result stood at €238 million, up by €24 million, reflecting a 0.3 point increase in operating margin to 5.7%. All segments (Airframe, Components and Engines) contributed to the improvement in results.

2.7 CATERING BUSINESS

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 and the transfer of its operational control for an enterprise value of €475 million (100% basis). This sale became effective as of December 30, 2016 and the new Board of Directors controlled by gategroup assumed its functions on January 1, 2017.

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 combination of 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.

The structure of the transaction will enable Air France to account for 50% of Servair’s net result using the equity method.

2.8 FLEET

At December 31, 2016, the Air France-KLM Group fleet comprised 552 aircraft, of which 534 were in revenue service compared with, respectively, 564 and 534 aircraft at December 31, 2015.

The main operational fleet consisted of 402 aircraft (395 aircraft at December 31, 2015), of which 168 were long-haul aircraft (169 at December 31, 2015), six were cargo aircraft (nine aircraft at December 31, 2015) and 228 were medium-haul aircraft (217 at December 31, 2015) including 63 aircraft in the Transavia Group fleet (53 aircraft at December 31, 2015). The regional fleet in operation comprised 132 aircraft (139 at December 31, 2015).

At December 31, 2016, the average age of the aircraft in the operational fleet was 11 years, 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. This compared with 11.0 years at December 31, 2015, of which 11.9 years for the long-haul fleet, 10.3 years for the medium-haul fleet, 14.9 years for the cargo fleet and 10.7 years for the regional fleet.

At December 31, 2016, 36.1% of the total Group fleet was fully owned (36.0% at December 31, 2015), 21.4% was under finance lease (22.2% at December 31, 2015), and 42.5% under operating lease (41.8% at December 31, 2015).

Excluding operating leases, there were firm orders outstanding for 82 aircraft at December 31, 2016, after the delivery of twelve aircraft fully owned by the Group. Options stood at 56 aircraft (68 at December 31, 2015).

Change in the Air France-KLM Group order book ⁽¹⁾	December 31, 2015	Deliveries during the period	New orders ⁽²⁾	Option conversion	December 31, 2016
Main fleet	77	8	-	-	69
Regional fleet	17	4	-	-	13
Total	94	12	-	-	82

(1) Excluding operating leases.

(2) A seventh B787-9 was converted into a B787-10.

Change in the Air France-KLM Group's option portfolio ⁽¹⁾	December 31, 2015	Exercise during the period	Options cancelled or expired	New options	December 31, 2016
Main fleet	53	-	6	-	47
Regional fleet	15	-	6	-	9
Total	68	-	12	-	56

(1) Excluding operating leases.

Fleet management

The 2016 financial year saw a slight acceleration in fleet renewal with the withdrawal of 40 aircraft (19.6 years average age) and 28 entering the fleet (of which 26 new aircraft and two recent aircraft). Additionally, one leased aircraft was exchanged.

These movements were balanced in long-haul and reflect the renewal of the fleet: the retirement of eleven aircraft (seven B747-400s, four A330/340s) and twelve aircraft entering the fleet

(five B777-300ERs and seven B787-9s). The medium-haul fleet saw both growth and renewal (twelve B737-800s entering the fleet and the retirement of six aircraft, two B737s, three A320s and one A321). The regional fleet was marked by the retirement of a large number of old aircraft (eighteen with an average age of 18.7 years) and the arrival of four new aircraft (Embraer 175s).

The five remaining MD-11 Freighters were retired from the fleet.

AFKL Group fleet at December 31, 2016

Aircraft type	AF (incl. HOP!)	KL (incl. KLC & Martinair)	Transavia France	Transavia NL	Owned	Finance lease	Operating lease	Total	In operation	Change over 31/12/15
B747-400		18			18			18	17	-8
B777-300	43	12			9	25	21	55	55	5
B777-200	25	15			19	10	11	40	40	
B787-9	1	8				1	8	9	8	6
A380-800	10				1	4	5	10	10	
A340-300	12				5	5	2	12	10	-2
A330-300		5					5	5	5	
A330-200	15	8			4	7	12	23	23	-2
Long-haul	106	66	0	0	56	52	64	172	168	-1
B737-900		5			1	1	3	5	5	
B737-800		25	26	29	12	9	59	80	80	10
B737-700		18		8	3	8	15	26	26	
A321	20				10	1	9	20	20	
A320	43				5	3	35	43	41	-2
A319	38				19	6	13	38	38	
A318	18				11	7		18	18	3
Medium-haul	119	48	26	37	61	35	134	230	228	11
ATR72-600	5						5	5	5	
ATR72-500	5				2	2	1	5	5	-1
ATR42-500	12				5	3	4	12	12	-1
CRJ1000	14				14			14	14	
CRJ700	11				11			11	11	-2
CRJ100	1				1			1		
Embraer 190	10	30			4	15	21	40	40	
Embraer 175		4				4		4	4	4
Embraer 170	15				8	2	5	15	15	-1
Embraer 145	18				13	5		18	15	-1
Embraer 135	4				4			4		
Fokker 70		13			13			13	11	-5
Regional	95	47	0	0	75	31	36	142	132	-7
B747-400ERF		3			3			3	3	
B747-400BCF		3			2		1	3	1	
B777-F	2				2			2	2	
MD-11										-3
Cargo	2	6	0	0	7	0	1	8	6	-3
Total AF-KLM	322	167	26	37	199	118	235	552	534	

2.8.1 The Air France Group fleet

The Air France Group fleet totaled 348 aircraft at December 31, 2016, of which 253 aircraft in the main fleet and 95 in the regional fleet. The average age of the aircraft in the operational fleet was 11.5 years (11.0 years at December 31, 2015). Firm orders amounted to 44 aircraft (excluding operating leases).

Air France fleet	Fleet at December 31, 2015	Aircraft entering the fleet over the period ⁽¹⁾	Aircraft withdrawn over the period ⁽¹⁾	Fleet at December 31, 2016
Long-haul fleet	106	4	4	106
Medium-haul fleet (including Transavia France)	144	5	4	145
Cargo	2	-	-	2
Regional fleet	108	-	13	95
Total	360	9	21	348

(1) Owned, operating lease and financial lease.

The Air France fleet

The Air France fleet comprised 227 aircraft at December 31, 2016, with 222 in operation (231 and 223 respectively at December 31, 2015). The fleet had 106 long-haul aircraft, 119 medium-haul aircraft and two freighters. At December 31, 2016, the average age of the operational 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. At December 31, 2015, the average age of the fleet was 11.5 years, with 11.5 years for the long-haul fleet, 11.6 years for the medium-haul fleet and 6.9 years for the cargo fleet.

Within the fleet, 82 aircraft were fully owned (36.1%), 48 were under finance lease (21.1%) and 97 under operating lease (42.8%).

During the 2016 financial year, the Company took delivery of three B777-300ERs while the remaining three B747-400s aircraft were retired. The first B787-9, under lease and delivered on November 29, 2016, will come into revenue service in January 2017. Three A320s and one A321 were withdrawn from the fleet.

The HOP! regional fleet

At December 31, 2016, the regional fleet comprised 95 aircraft with a maximum seat capacity of 100, of which 87 in operation. The average age of the fleet in operation was 11.7 years.

Thirteen aircraft were retired from the fleet over the course of the 2016 financial year: six CRJ 100s, three CRJ 700s, two ATRs, one Embraer 135 and one Embraer 170. Within the fleet, 65.3% was fully owned, 12.6% was under finance lease and 22.1% under operating lease.

The Transavia France fleet

The Transavia France fleet comprised 26 B737-800s (21 aircraft at December 31, 2015), of which three were fully owned. The average age of this fleet was 5.5 years.

2.8.2 The KLM Group fleet

The KLM Group fleet totaled 204 aircraft at December 31, 2016 (204 aircraft at December 31, 2015) of which 157 in the main fleet and 47 in the regional fleet. The average age of the aircraft in the operational fleet was 10.2 years (10.9 years at December 31, 2015). Firm orders stood at 38 aircraft (excluding operating leases).

KLM fleet	Fleet at December 31, 2015	Aircraft entering the fleet over the period ⁽¹⁾	Aircraft withdrawn over the period ⁽¹⁾	Fleet at December 31, 2016
Long-haul fleet	65	8	7	66
Medium-haul fleet (including Transavia Netherlands)	80	8	3	85
Cargo (including Martinair)	11	-	5	6
Regional fleet	48	4	5	47
Total	204	20	20	204

(1) Owned, operating lease and financing lease.

The KLM fleet

At December 31, 2016, the KLM fleet comprised 114 aircraft (113 at December 31, 2015), of which 66 long-haul aircraft and 48 medium-haul aircraft. Twenty-seven aircraft were fully owned (23.7%), 35 aircraft were under finance lease (30.7%) and 52 under operating lease (45.6%). In this fleet, 113 aircraft were operational. At December 31, 2016, the average age of the aircraft in revenue service was 10.9 years, with 11.2 years for the long-haul fleet and 10.3 years for the medium-haul fleet. At December 31, 2015, the aircraft in the fleet had an average age of 11.2 years, with 12.6 years for the long-haul fleet and 9.3 years for the medium-haul fleet.

During the 2016 financial year, seven aircraft were retired (four B747-400s and three A330-200s) and eight aircraft entered the fleet (two B777-300ERs and six B787-9s).

The regional fleet, KLM Cityhopper

The KLM Cityhopper fleet comprised 47 aircraft, of which 45 in operation at December 31, 2016. During the year, four Embraer 175s joined the fleet while five Fokker 70s were withdrawn. In this fleet, 27.7% of the aircraft were fully owned, 40.4% were under finance lease and 31.9% under operating lease. The aircraft in revenue service in this regional fleet had an average age of 8.8 years.

The Transavia Netherlands fleet

The Transavia Netherlands fleet comprised 37 aircraft, of which eight B737-700s and 29 B737-800s. During 2016, eight aircraft entered the fleet while three were retired. In this fleet, 10.8% was under finance lease, 70.3% was under operating lease and 18.9% was fully owned. The average age of the aircraft in the fleet was 9.0 years.

The Martinair fleet

Martinair had a fleet of six freighters, of which four in revenue service given the strategy of ongoing capacity reduction in the cargo business. The five remaining MD-11F Freighters were retired. In this fleet, 83.3% of the aircraft were fully owned and 16.7% were under operating lease. The average age of the aircraft in revenue service was 16.7 years.

2.9 HIGHLIGHTS OF THE BEGINNING OF THE 2017 FINANCIAL YEAR



2017 Summer season: 53 new routes

For the 2017 Summer season (from March 26 to October 28, 2017), Air France-KLM is returning to the offensive in its markets and pursuing its growth by opening 53 new routes, a record number for the Group. Capacity is being increased by 2.9% compared to the previous Summer season, with growth driven by the long-haul passenger network (+2%) the short and medium-haul passenger network (+2.7%) and Transavia's low-cost operations (+10.2%).

In its long-haul network, Air France-KLM is operating nine new routes, reinforcing the offer to the United States and Mexico, and to the growing African markets, enabling growth towards Cuba and Iran while consolidating its position in Asia.

With the capacity growth on its short and medium-haul network, the Group is again demonstrating its agility on the European network and is enriching its offer with 25 new routes this Summer. On departure from the Paris-Charles de Gaulle and Amsterdam-Schiphol hubs, the offer reflects the strategic offensive: growth in the Group's fleet combined with more intensive use of aircraft, enabling the Group to propose new destinations in Europe during the peak Summer season. On departure from Paris-Orly and the French regions, on the HOP! Air France network, ten daily flights will be offered to Montpellier, the fifth *La Navette* service on departure from Paris-Orly after Toulouse, Bordeaux, Marseilles and Nice. On departure from the French provinces, to meet the high demand in the busy Summer months, Air France will be offering direct flights. Capacity will also be increased to Corsica, which will be served on departure from 16 French regional cities.

Transavia, Air France-KLM's low-cost business which is seeing rapid development, is pursuing its growth on departure from France and the Netherlands. On departure from Paris-Orly, Transavia is strengthening its offer to Israel and Morocco. On departure from Amsterdam-Schiphol, Transavia is developing new markets to the Eastern European countries.

Air France -KLM moves up in Fortune's World's Most Admired Companies ranking and is now number two in its category

Air France-KLM moved up in Fortune's World's Most Admired Companies 2017 ranking, and is now number two in the "airlines" category.

The economic decision-makers polled applauded the excellent performance in terms of innovation, product and service quality and social and environmental responsibility.

Since 2010, Air France-KLM has been amongst the reference airlines and confirmed its excellence by moving up a rank this year: fifth position in 2015, third position in 2016 and second position in 2017.

Dominique Wood appointed SVP Corporate Communications at Air France -KLM

Replacing Jean-Charles Tréhan who opted to leave the Group, Dominique Wood joined Air France-KLM on March 13, 2017 as Air France's Senior Vice-President Corporate Communications and VP Corporate Communications at Air France. She will be a member of the Air France Executive Committee and will report directly to Adeline Challon-Kemoun, Executive Vice-President Marketing, Digital & Communication at Air France-KLM.

New decision of the European Commission against air cargo carriers regarding practices considered to be anti-competitive between December 1999 and February 2006

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 which are considered to be anti-competitive and relate 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. Air France-KLM will analyse the new decision, and the advisability of appealing it before the General Court of the European Union.

These fines have been fully covered in the financial accounts since 2010. At December 31, 2016, the corresponding provisions amounted to €340 million.

In any event, Air France-KLM confirms its commitment to comply strictly with the competition rules, while constantly ensuring the effectiveness of the prevention system implemented within Group divisions within the framework of its general compliance policy.

3

RISKS AND RISK MANAGEMENT

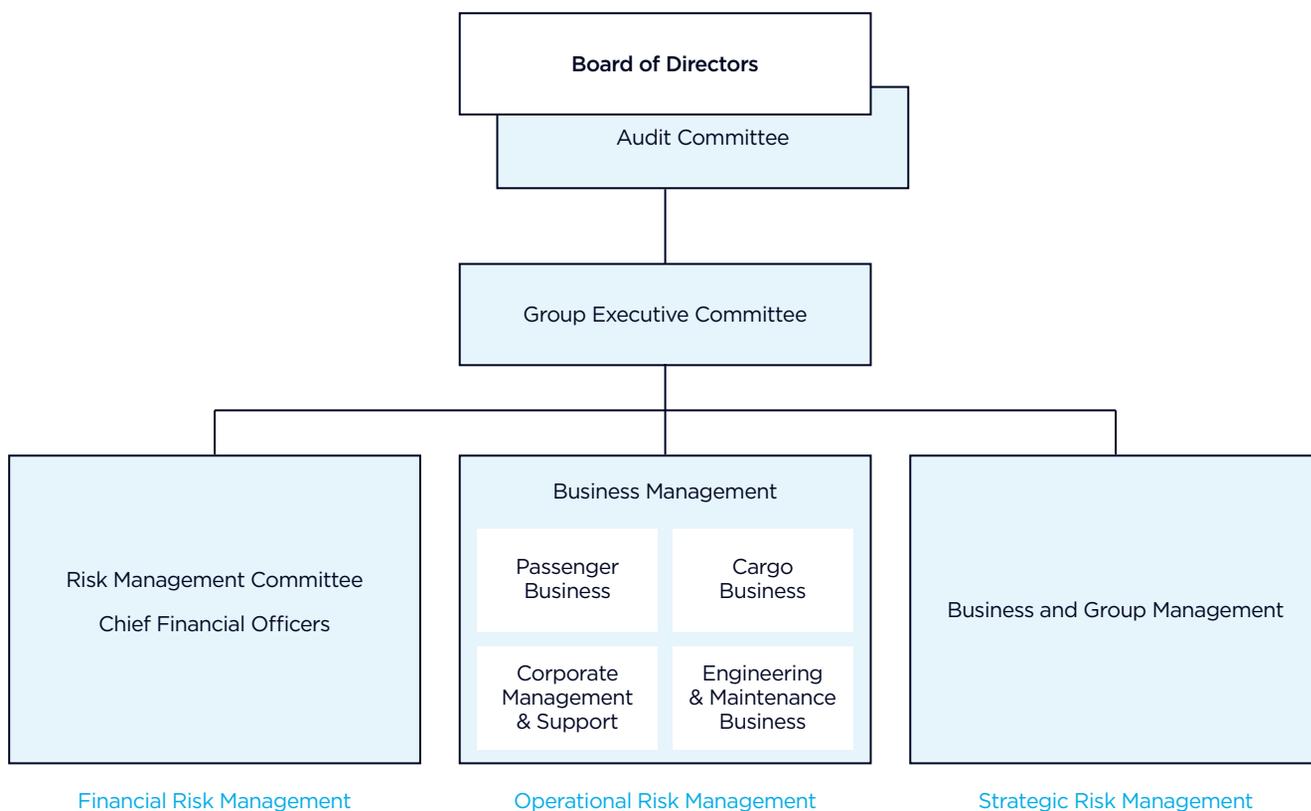
3.1	Risk management process	80
3.2	Risk factors and their management	81
3.2.1	Risks relating to the air transport activity	81
3.2.2	Risks linked to the Group's activity	85
3.2.3	Legal risks and risks of legal arbitration proceedings	86
3.3	Market risks and their management	87
3.3.1	Organization of the Air France - KLM Group	87
3.3.2	Market risks and their management	87
3.4	Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management - 2016 financial year(Article L. 225-37 of the Code of Commerce)	91
3.4.1	Definition and goal of internal control	91
3.4.2	Control environment	92
3.4.3	Risk assessment	94
3.4.4	Control activities	97
3.4.5	Information and communication	99
3.4.6	Management	99
3.4.7	Evaluation of the control environment	100
3.4.8	Detailed evaluation of key controls on financial and accounting information at significant process level	100
3.5	Statutory Auditors' report prepared in accordance with article L.225-235 of the French Commercial Code (Code de Commerce) on the report prepared by the Chairman of the Board of Directors	101

3.1 RISK MANAGEMENT PROCESS

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 risks. Risk mapping processes for strategic and operating risks have been established by all the relevant entities supervised by the Internal Audit and Control department. The operational risk mapping is updated every quarter and consolidated by subsidiary (Air France and KLM), and for the Air France-KLM Group. The strategic risk mapping is updated once a year. The Risk Management Committee is responsible for managing market risks (fuel, emission permits, currencies and interest rates), as presented in *Section 3.3.2 Market risks and their management on page 87 and in Note 36 to the consolidated financial statements on page 236*.

Risk mapping comprises a description of the risks, the probability that they will occur and their potential financial impact, together with the measures and controls in place to mitigate these risks. Risks are discussed within the management teams responsible for the corresponding area. The examination covers both risks specific to each entity and transverse risks potentially affecting the whole Group. For each of the risks, the executives concerned are responsible for reviewing the measures implemented to manage them. On a quarterly basis, presentations on the most significant operating and market risks are made by Internal Audit to the Executive Committee and the Audit Committee, together with the measures in place to manage them. The management also evaluates the strategic risks (competition, economic growth, etc.) on a yearly basis and establishes the related action plans. These risks and action plans are also reviewed by the Board of Directors.

Air France - KLM risk management system



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.

3.2 RISK FACTORS AND THEIR MANAGEMENT

3.2.1 Risks relating to the air transport activity

Situation of the air transport sector and competition from other air and rail transport operators

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, with 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. 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. Furthermore, within the framework of the Open Skies agreement between the European Union 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 the implementation of a trans-Atlantic joint-venture with their partners Delta and Alitalia.

The Group's different strategic plans seek to respond to these risks, particularly *via* the restructuring of the point-to-point activity, 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 fairer competition between carriers. *See also Section 2.2 – Strategy, page 50.*

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. To respond to these trends, the Group has implemented multiple measures focused on reducing exposure to the heavily-loss-making full-freighter activity. *See also Section 2.2 – Strategy, page 50.*

Seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest and a higher probability of operational risks linked to bad weather during the winter months. Consequently, the operating results for the first and second halves of the financial year are not comparable.

Cyclical nature of the air transport industry

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 take delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions.

Trend in the oil price

The fuel bill is one of the largest cost items for airlines meaning that oil price volatility represents 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. Reciprocally, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty.

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 3.3.2 – Market risks and their management on page 87.*

Terrorist attacks, threats of attack, geopolitical instability, epidemics and threats of epidemics

In 2016, the security situation resulting from terrorist attacks perpetrated in France, elsewhere in Europe and in the Group's operational zones, together with politico-security events (Middle Eastern and African countries) all had an impact on activity:

- 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 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.

The occurrence of geopolitical instability, terrorist attacks or threats of attack, closure of airspace, military action, the existence of an epidemic or perception that an epidemic could occur (e.g. Influenza A/H1N1) could have a negative impact on both the Group's passenger traffic, and thus its revenues, and on the level of operating expenses.

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.

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.

Changes in international, national or regional regulations and legislation

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, CO₂ emissions, airport access and the allocation of time slots). Within this context, the EU institutions decide on the regulations which may be 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.

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 (A4E) Airlines for Europe association 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

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 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 or even development.

Passenger compensation regulations

Within the European Union, the rights of passengers in the event of flight delays, cancellation and 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 common European rules for compensation and assistance on denied boarding, substantial delay, flight cancellation and class downgrading.

The ruling from the European Court of Justice (ECJ) in November 2009 (known as the "Sturgeon" ruling), which has since been confirmed, grants the same rights to passengers on delayed flights as to passengers whose flights are cancelled in terms of the compensation foreseen in Article 7 of this Regulation No.261/2004, when they reach their final destination three or more hours after the scheduled arrival time.

Other 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. In September 2015, a further step was taken ("Van der Lans" ruling) in which the ECJ ruled that unexpected technical problems resulting in flight cancellation could not be deemed to be extraordinary circumstances. Only hidden manufacturing defects, or acts of sabotage or terrorism and, for the moment, bird ingestions, now enable airlines to invoke "extraordinary circumstances" to exempt them from their obligation to pay compensation in the event of technical problems.

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.

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 new US protections.

IATA has collated some fifty national regulations in a database to be able to monitor changes more effectively.

To keep the effects of these regulations as far as possible within financially-bearable 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, with the potential impact on employment that this implies.

Environmental legislation

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.

Air France-KLM has always supported the implementation of a market-based mechanism considering that, provided it is equitable, such a system is more effective from an environmental standpoint than a simple tax. This is why, with the support of the representative associations (A4E, IATA, FNAM), Air France-KLM actively participates in lobbying and actions directed at the relevant national, European and international authorities and bodies (EU, DGAC, French Ministry of Ecology, Sustainable Development and Energy) 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.

Since 2012, the Group has been subject to the application of the EU-ETS. The EU-ETS, which is currently limited to the scope of intra-European flights, should be seen as a first step towards a global system whose guiding principles, baptized CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), have just been approved by the ICAO. Air France, KLM and the other IATA member airlines all actively contributed to this initiative and are continuing the work to define the implementation conditions for this ambitious agreement.

Presented during the 39th ICAO Assembly, the resolution covering the new global market-based mechanism (MBM) to limit CO₂ emissions from international aviation and targeting carbon neutral growth relative to the 2020 reference was adopted in the plenary session of October 6, 2016.

CORSIA implementation will begin with a first phase from 2021 to 2026, based on a voluntary contribution from the States, more than 60 countries already having declared their intention to participate. The following phase, staggered over 2027 to 2035, will be mandatory and will concern virtually all the States. Air France-KLM welcomes the adoption of this historic agreement whereby aviation is the first economic sector to address climate change at global level. The Group expects this system to ensure simplicity, environmental integrity and an acceptable cost-efficiency ratio, to establish fair competition between airlines and to avoid the imposition of overlapping local regulation; in this regard, the CORSIA provisions are expected to replace the EU-ETS as of 2021 for the scope of international flights.

The Group has implemented a carbon credit risk hedging strategy in the form of forward purchases, a strategy whose elements are approved by the Risk Management Committee.

The Group is also committed to exploring all avenues which could reduce 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 operating procedures; and
- in cooperation with the authorities: SESAR project (Single European Sky, optimization of traffic control), improvement in operating procedures. The Group supports and calls on research into the development and use of new more environmentally friendly fuels (biofuels).

Europe is a region where the regulatory requirements are amongst the strictest in the world with regard to noise and the reduction in noise hindrance around airports. To ensure its continued development, the Group must anticipate all the restrictive measures linked to noise at the airports constituting its main bases.

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

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 €17.6 million in 2016, its proceeds being allocated to the sound-proofing of homes situated around major airports and exposed to noise from aviation.

Operational risks

Natural phenomena leading to exceptional circumstances

Air transportation can be impacted by meteorological conditions and by other natural phenomena (earthquakes, volcanic eruptions, floods, etc.) which can 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, however, involve significant financial costs (passenger repatriation and accommodation, schedule modifications, flight diversions, etc.). 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, can 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.

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 such situations for its customers. The Group has no hedging in place for operating losses.

Airline safety

Accident risk is inherent to air transportation which is why airline activities – passenger and cargo transportation, aircraft maintenance – are regulated by an array of European regulatory procedures, 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 operating functions;
- appropriate organization of flight, ground, cargo and maintenance operations;
- deployment of a Safety Management System (SMS);
- implementation of a quality assurance system.

In addition to this regulatory framework, the IATA member airlines have defined and comply with the IATA Operational Safety Audit (IOSA) certification which is renewed every two years.

At Air France, the Independent Safety Review Team, created in September 2009, produced its final report in January 2011, formulating 35 recommendations covering the organization and operating modes with an impact on flight safety. Given its commitment to the highest possible standards of flight safety, the Company implemented these recommendations. The Corporate Flight Safety Committee within the Air France Board of Directors thus meets every quarter to analyze the flight safety indicators for the Air France Group. The results of a second in-flight observations 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.

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, Safety Risk Management, Safety Assurance and Safety Promotion which have all been deployed across the operating divisions. On this occasion, the Corporate Safety Policy – a priority for the Air France Group – was reaffirmed and the members of the Executive Committee made a personal commitment to implementing an “equitable” management policy aimed at reinforcing the functioning of the feedback system, a key element of any safety policy. Safety Management System

training modules, adapted to each user group, are deployed in all areas of the Company.

More generally, Air France has developed and is pursuing the development of an Integrated Management System (IMS), enabling the generation of synergies between all the progress-oriented and risk management approaches: Flight Safety, Health and Safety in the Workplace, Customer Service Quality, Operational Performance, the Environment and Sustainable Development, Food Safety and Security. The IMS is the vector for the steering and management of the operations, aimed at the ongoing improvement in results. It ensures compliance with the legal, regulatory and standards-based requirements.

In 2016, Air France’s Global Certification was confirmed within this framework, covering the following international standards: ISO 14001/Environment, ISO 22000/Food Hygiene, OHSAS 18001/Vocational Health & Safety.

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, operational and environmental safety plus operational security. 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)).

As a leader in aviation safety, KLM aims to continuously improve its industry-leading, risk and performance-based Safety Management System in which risk based decisions can be taken at all levels of KLM. Its Safety Culture program, which includes promotion, communication, training and learning interventions, is gradually expanding throughout the Company in order 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 will further professionalize the integrated approach of safety and compliance throughout the Company, grow the level of expertise on all domains across all safety and compliance processes, and advance KLM’s ISMS to the next level.

Building a company-wide awareness on the prerequisite of a profound safety culture in all operations is a gradual yet ongoing process which is starting to yield positive results at many levels. In order to monitor and manage all the complex SMS processes and support the relevant colleagues, the selection and specification of new software has taken place that will – when implemented – enable better safety and compliance monitoring, measuring and analyzing and maintaining structural compliance in the KLM manuals.

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.

3.2.2 Risks linked to the Group's activity

Failure of a critical IT system, IT risks and cyber criminality

The IT and telecommunications systems are of primordial importance when it comes to the Group's day-to-day operations. They comprise the IT applications in the operating centers which are used through the networking of tens of thousands of different devices (micro-computers, mobile systems, automated airport kiosks, etc.).

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.

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 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 the control over the data exchanged outside the Company all comply with rules in line with 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, comprising IT experts, 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 laws and regulations requiring its strict confidentiality. In December 2015, the Institutions of the European Union reached a consensus on the new European Union data protection regulation. The regulation foresees financial penalties in the event of a breach. Specialists within each company ensure that the processing of personal information complies with the relevant legislation (IT and Data Protection Officer within Air France and Privacy Officers within KLM).

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.

As with any business making extensive use of modern communication and IT data processing technologies, the Group is exposed to threats of cyber criminality.

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 Executive 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.

Non-compliance with competition rules

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

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 any breach of competition law. Since 2007, Air France-KLM has developed its policy to prevent anti-competitive practices by circulating a "Manual Relating to the Application of the Competition Rules" 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 subsidiaries with, in particular, a new e-learning module.

Regulatory authorities' inquiry into the commercial cooperation agreements between carriers

Alliance operations and commercial cooperation are subject to the competition legislation in force. The 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.

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, Alitalia). In light of the final commitments 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 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

In 2003, for the European Commission to authorize Air France's business combination with KLM, Air France and KLM 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. Note that no requests for slots have so far been made.

Implementation of the "Trust Together" strategic project

See also Section 2.2, *Strategy on page 50*.

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.

More specifically, the initiatives in the "Trust Together" project are based on 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 certain aspects of the project, represent a source of uncertainty for 2017, in terms of both financial targets and the social dynamic and reputation of the Company.

Pension plans

The Group's main commitments in terms of defined benefit schemes are the three KLM pension funds for ground staff, cabin crew and flight deck crew based in the Netherlands.

In view of the IAS 19 Revised accounting rules applicable as of January 1, 2013, the Group is exposed to changes in external financial parameters (particularly discount rates, future inflation rate) which could lead to annual fluctuations in the income statement and stockholders' equity. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions are recognized in stockholders' equity and are never taken against profit and loss. The actuarial calculations lead to the three main KLM pension funds figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the liabilities. In the financial statements, the potential volatility is explained in the "Accounting policies for the balance

sheet – provisions for employee benefits" section and in *Note 31.1 – Characteristics of the main defined benefit plans, on page 220 of the consolidated financial statements*.

Note 31.1 in the Notes to the consolidated financial statements presents the detailed sensitivity analysis on the impact of changes in interest rates and inflation, and the level of salary and pension increases, on the net cost of the defined benefit pension schemes figuring in the balance sheet.

The fiscal rules for accruing pension rights and the Financial Assessment Framework (part of the Pension legislation) in the Netherlands both changed as of January 2015 introducing, for example, higher minimum solvency requirements. Equally, pension funds now have more time to recover from immediate, material deficits by spreading the effects of financial shocks over rolling ten-year recovery plans.

In 2016 KLM began to modernize its three pension plans. The current pension schemes have a fairly volatile impact on Group equity. In addition, extremely low interest rates and new government regulations mean that, without changes, KLM could be forced to make substantial pension contributions. Therefore, in 2016, KLM agreed on a new pension scheme for cabin crew, which is expected to be implemented in 2017, and is continuing its dialogue with the pilots. An agreement on a de-risked pension plan could lead to derecognizing the pension asset related to the Flight Deck Crew Plan in 2017 and to a potential dowry payment, depending on the outcome of the negotiations. At the end of these negotiations, the rules of the new pension schemes should reduce the accounting volatility (*See also Note 31.1*).

Competition from aircraft, engine and component manufacturers in maintenance

Airframers, engine manufacturers and aircraft component manufacturers are rapidly expanding their after-sales departments 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.

3.2.3 Legal risks and risks of legal arbitration proceedings

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 228*).

3.3 MARKET RISKS AND THEIR MANAGEMENT

3.3.1 Organization of the Air France-KLM Group

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 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 and Fuel Purchasing departments 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 Fuel Purchasing and 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 daily 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 at the end of 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 sent to the General Managements.

The hedging strategy on fuel and emission permits is the responsibility of the Fuel Purchasing departments which are also in charge of purchasing fuel for physical delivery. 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 as well as 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 36 in the notes to the consolidated financial statements, page 236).

3.3.2 Market risks and their management

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 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, aircraft operating leases 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 result in a negative impact on the Group's activity and financial results.

Inversely, Air France-KLM 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.

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.

2017 operational exposure

(in millions of currencies at December 31, 2016)

	US Dollar	Sterling	Yen
Net position before hedging	(2,229)	579	25,819
Currency hedge	1,169	(274)	(14,785)
Net position after hedging	(1,061)	305	11,034

For 2017, 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	(92)	40	10
10% fall relative to the euro	112	(33)	(8)

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 at December 31, 2016.

(in € million)	2017	2018	2019	2020	2021	2022
Investments	(960)	(1,143)	(1,254)	(1,624)	(1,696)	(932)
Currency hedge	820	724	624	555	457	546
Hedge ratio	85%	63%	50%	34%	27%	59%

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2016, 73% 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 US dollar (12%), the Yen (10%) and the Swiss franc (4%).

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 their floating-rate debt into fixed rates. After swaps, the Air France-KLM Group's debt contracted at fixed rates represents 70% of the overall total. The interest rate on the Group's gross debt after swaps stood at 3.60% at December 31, 2016 (4.02% at December 31, 2015).

Exposure to interest rates

(in € million at December 31, 2016)

Financial assets at floating rates	2,054
Financial liabilities at floating rates	3,733
Net exposure before hedging	1,679
Hedging	(875)
Net exposure after hedging	804

The Group's net exposure to interest rates after hedging stands at €804 million. A 100-basis point increase in interest rates over twelve months would have an €8 million negative impact on the result.

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 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%. 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.

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, 2016, the Air France-KLM Group's fuel exposure, based on futures prices at December 30, 2016 (\$58.40 a barrel for 2017 and \$58.24 a barrel for 2018), was as follows:

(in US\$ million)	2017	2018
Gross expenditure before hedging	5,314	5,529
Hedge percentage	54%	20%
Gain on hedging	126	53
Net expenditure after hedging	5,188	5,475

Based on the forward curve at December 30, 2016, an increase of US\$10 per barrel over 2017 would give an average price of US\$68.40 per barrel and would lead to a US\$351 million increase in the fuel bill after hedging, *i.e.* a total fuel bill of US\$5.539 billion for the Air France-KLM Group. Symmetrically, a fall of US\$10 per barrel over 2017 would give an average price of US\$48.40 per barrel and would lead to a US\$413 million reduction in the fuel bill after hedging, *i.e.* a total expense of US\$4.775 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 A- (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, 2016, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth €243 million, principally comprising 1.1% of the Amadeus share capital. In May and June 2016, Air France-KLM entered into a hedging transaction in the form of a collar maturing in May and June 2017, to protect the value of the totality of these shares.

Liquidity risk

At December 31, 2016, the Group had credit facilities amounting to a total of €1.8 billion.

- On April 29, 2015, the Group signed a €1.1 billion revolving credit facility, finalizing the early refinancing of the Air France credit facility maturing in April 2016. This new credit facility subscribed with a syndicate of thirteen banks, comprises two €550 million tranches with respective three and five-year maturities. These credit facilities include covenants calculated based on the Air France-KLM Group's consolidated financial statements. As of December 31, 2016, the ratios were respected.
- On July 2, 2015, KLM signed a €575 million credit facility, finalizing the early refinancing of the credit facility maturing in July 2016. This new credit facility with a five-year duration was subscribed with a syndicate of ten banks. These credit facilities include covenants calculated based on KLM's consolidated financial statements. As of December 31, 2016, the ratios were respected.

Given the Group's €4.3 billion of cash resources at December 31, 2016, and the amount of available credit facilities (a total of €1.8 billion), the Group 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 requirement.

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. Air France-KLM SA is the issuer of the bonds.

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.

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 contend with 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

To finance its investments, 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.

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 convertible bonds with a six-year maturity raising €661 million in June 2009, fully redeemed at maturity in April 2015;
- an issue of plain vanilla bonds with a seven-year maturity raising €700 million in October 2009, partially redeemed in the amount of €97 million in 2014 and 2015, and redeemed at maturity in October 2016;
- an issue of plain vanilla bonds with a six-year maturity raising €500 million in December 2012;
- an issue of convertible bonds with a ten-year maturity raising €550 million in March 2013;
- 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.

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.

3.4 REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT – 2016 FINANCIAL YEAR

(ARTICLE L. 225-37 OF THE CODE OF COMMERCE)

For the establishment of this report, the Chairman consulted the Head of Internal Control and Internal Audit and tasked the latter with obtaining all the information required for the aforementioned report from the different entities of the Air France-KLM Group. This report was then commented on by the Audit Committee and the Statutory Auditors before being approved by the Board of Directors.

I Corporate governance and functioning of the Board of Directors

See also Section 1 – Corporate Governance, Board of Directors, *page 12 to 44*, including:

- 1.1.1 Composition of the Board of Directors
- 1.1.2 Missions of the Board of Directors
- 1.1.3 Organization of the Board of Directors
- 1.1.4 Functioning of the Board of Directors
- 1.1.5 The Board of Directors Committees
- 1.1.6 Compensation of the company officers
- 1.1.7 Compensation of the executive officers for the 2016 financial year
- 1.1.8 Principles and criteria for determining, distributing and allocating the fixed, variable and extraordinary components of the total compensation and benefits of any nature, granted to the Chairman and Chief Executive Officer.

II Modalities for shareholder participation in the Shareholders' Meeting

The modalities for shareholder participation in Shareholders' Meetings are those foreseen by the regulation in force. They are stipulated in Article 30 of the Articles of Incorporation and detailed in the documentation made available to shareholders ahead of the Shareholders' Meeting.

III Internal control

3.4.1 Definition and goal of internal control

In 2016, Air France-KLM based the internal control for the Group and the two sub-Groups, Air France and KLM, on the COSO 2013 (Committee Of Sponsoring Organisation of the Treadway Commission) standards.

The COSO 2013 Framework defines internal control as “a process, effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance”. The COSO Framework aims to enable the entities to evaluate the effectiveness of their internal control systems in the light of the achievement of objectives set by the management. It outlines three types of objectives:

- operational objectives (these objectives are linked to the effectiveness and efficiency of the entity's operations, notably the operational and financial performance objectives together with the safeguarding of assets from losses);
- financial disclosure objectives (these objectives are linked to the presentation of internal and external financial and non-financial information to stakeholders, including its reliability, timeliness, transparency and other criteria established by the regulatory or standards bodies, or stipulated in the entity's policies;
- compliance objectives (these objectives are linked to compliance with the laws, regulations and standards to which the entity is subject).

The COSO Framework is based on the following principal components:

- control environment;
- assessment of risks;
- control operations;
- information and communication;
- monitoring of internal control.

Underlying these five components of internal control there are 17 core principles, corresponding to a specific set of actions, tasks, practices and controls for each of the Company's functions.

One of the objectives of the internal control system is to prevent and control the risks linked to the Company's activity, as well as the risks of error or fraud, notably in the areas of accounting, finance and revenue management.

As with any control system, internal control is unable to provide an absolute guarantee that such risks have been totally eliminated.

3.4.2 Control environment

Internal control network

A Group Internal Control and Internal Audit Division has been operational within the Air France-KLM Group 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 40 Internal Control Coordinators.

Overall internal control structure

The structure described below is a summary of the organization in place in each of the two sub-Groups.

This organization takes into consideration the structure of each of the Group's two companies, characterized by the existence of three principal businesses (passenger transportation, cargo and maintenance), the subsidiaries of these two companies representing only 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 activities, IT services, etc.).

– The Board of Directors

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*.

– The Group Executive Committee

In December 2016, the Group Executive Committee was composed of 12 members (the Chairman and Chief Executive Officer, three representatives from Air France and KLM and eight heads of Group functions) and 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 (CEO Committee) meet 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

The Finance functions are performed by each of the two companies and report to the Group Executive Committee.

A Group Finance Division is constituted around the Group's Chief Financial Officer, staffed by some thirty people (Financial Communication and Investor Relations, Consolidation and Accounting, Group Management Control, Strategy & Mergers-Acquisitions, Financial Operations).

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 in corporate law, transport law, contract law and insurance law.

Legal Affairs draws up a systematic inventory of the disputes in process to assess the risks and be able to constitute the corresponding provisions booked as liabilities.

The Group's Legal Counsel fulfills a planning and steering role for the Group's policies on legal matters and coordinates the Group's actions in legal matters in all the relevant areas.

– Internal Audit

The management of an entity such as the Air France-KLM Group is based on the principle of a broad delegation of responsibilities. This principle of delegation necessarily implies the reinforcement

of the internal control functions so as to provide the Group's management with the reasonable assurance that this autonomy is being used correctly by each entity.

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 formal 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 implemented for the specific processes of 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 directly to Air France-KLM's Chief Financial Officer. Both internal control departments in the two sub-groups use identical methodologies (Group Charter, Group audit manual, etc.).

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 structure).

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 different types of audit missions undertaken are:

- operational audits to review the effectiveness of the Group's internal control procedures,
- thematic audits dedicated to a theme common to several functions or entities or centered around the Company's projects,
- specific audit missions undertaken at the request of the General Management or the heads of operational units to ascertain that internal control is properly implemented in the entities,
- ICT audits,
- consultancy missions.

Completed investigations are summarized in a report that presents the mission's conclusions and highlights its findings, including the risks together with 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, engineering and maintenance as well as 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 the procedures defined by business process are up to date. They must ensure their consistency and adequacy and that these are taken into account in the main information systems and appropriately integrated within the organization.

Furthermore, pursuant to the preliminary recommendations of the Independent Safety Review Team (see *Section 3.2.1 Airline Accident Risk of the management report*), on July 8, 2010 the Board of Directors of Air France decided to set up a Flight Safety Committee.

Reference standards

— 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.

— 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 with regard to the anti-corruption legislation. An “anti-corruption” online training module was made available to all employees at the end of 2014.

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).

– Internal Audit Charter

The terms of the Air France-KLM Group’s new internal Audit Charter were determined in 2012 within the framework of the work carried out for Internal Audit certification. This new Charter was signed by the Chairman and Chief Executive Officer, the Chairman 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, signed by the three Chairmen and Chief Executive Officers of Air France-KLM, Air France and KLM, sets out the components of the Air France-KLM Group’s internal control framework and outlines the methodology adopted to guarantee its effective implementation and functioning. It also reaffirms their involvement in the prevention and control of the risks associated with the Group’s activity.

– 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 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.

Regulations: 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 Manual), 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.

3.4.3 Risk assessment

The Air France-KLM Group is exposed to the general risks associated with air transport and running a business (*see Chapter 3.2 Risk Factors in the management report*). 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 safeguard the Group’s assets and reputation.

Risk management of the Group

A risk mapping process has been established and is 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.

Chapter 3 of the management report on Risks and Risk Management outlines the risks to which the Group is exposed and the procedures in place to mitigate these risks.

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.

Group Internal Audit regularly reviews the processes for risk management and reporting. Its conclusions are presented to the Group Executive Committee and the Audit Committee. There is also a process in place to monitor any changes to the risks unfolding over time which are liable to have an impact on the financial statements.

Risk reporting process

Every quarter, Internal Audit produces a report for the Group Executive Committee and the Audit Committee on the Group's operational risks. It also produces an annual report on the strategic risks.

The operational risk management reporting process is based on a bottom-up approach starting in the different Air France and KLM divisions and the main sub-subsidiaries. Every quarter, the Internal Control Coordinators designated by the different businesses, entities and subsidiaries establish the risk sheets and send them to Internal Audit which is responsible for consolidating them at company and Group level.

The risk sheets detail 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 potential resulting impact (net risks). The risk owners and those responsible for the procedures to control risks are specifically named. To ensure the reliability of the process and avoid any errors, the risk sheets for each entity are systematically reviewed during quarterly meetings between Internal Audit and the individual Internal Control Coordinators.

The strategic risk sheet is established once a year. The management evaluates the strategic risks (competition, financial situation, etc.) and determines the action plans to reduce these risks.

The Group risk sheets (a summary of the operational risks), together with the accompanying documentation detailing the new risks, the main developments and risks that have been withdrawn, are the subject of a quarterly 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 Air France-KLM Group's steering procedure for the business lines. The additional contributions from the internal control procedure and the Integrated Management System enable the consolidation of an increasingly prevention-oriented approach. With regard to 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.

Management of market risks

The management of Air France-KLM's market risks (interest rates, currencies, oil price) is steered by the Risk Management Committee (RMC) which composes the Chief Financial Officer and the Senior Vice-President Financial Operations for Air France-KLM, the Chief Financial Officer for Air France and the Chief Financial Officer for KLM.

The RMC meets quarterly and decides on the hedging to be put in place: the targets for hedging ratios, the time periods for the respect of these targets and the types of hedging instruments.

These decisions are then implemented by the Treasury and Fuel Purchasing departments within each company, in compliance with the procedures governing the delegation of powers.

Management of treasury risk

Air France-KLM, Air France and KLM's cash positions are monitored daily. A weekly summary of the Air France-KLM, Air France and KLM cash positions is forwarded to the Air France-KLM Group's Finance Division and to the General Managements of two subsidiaries.

In each Air France and KLM company, a treasury Management Committee regrouping the principal finance executives defines the treasury management policy and implements comprehensive procedures to optimize cash management.

Management of the fuel hedging risk

The fuel hedges aim to reduce Air France-KLM's exposure and thus to preserve the budgeted margins. They are the subject of a weekly report to the General Managements of Air France-KLM, Air France and KLM.

Management of risks by the Risks-Insurance departments

Within Air France and KLM, each of the Risks-Insurance departments are an integral part of the internal control process. They identify the insurable risks at the level of each company and their subsidiaries, draw up insurance policies and contributes to the prevention recommendations.

Management of safety risks

Flight Safety is a day-to-day imperative. It must be the primary and permanent concern of every company employee. To this end, every airline in the Group (Air France, KLM and their subsidiaries) holding its own Airline Operator Certificate (AOC) applies Flight Safety procedures to ensure the effective management of this risk. Each of the airlines has deployed a Safety Management System that complies with the relevant regulations.

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 Air France and KLM establish the security policy,

analyze the threats and implement all the appropriate measures, particularly with regard to the factors involved in geopolitical instability.

Management of IT and telecommunications risks

The Group Executive Vice-President, Information Technology, assisted by the Group IT Committee and the Group Chief Information Security Officer (CISO), 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 operations. The IT applications, deployed in the operating centers or *via* cloud computing solutions, are accessed *via* a network of tens of thousands of work positions and a growing number of mobile devices. The information contained in these systems is exposed to a growing number of threats. The information exchanged with customers and third parties is growing 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 Head of IT and his staff who are responsible for Information System security. Air France and KLM ensure the allocation of the resources required to contend with such threats, secure the information and guarantee the regulatory compliance of the information systems.

Dedicated support centers and redundant networks guarantee the accessibility of the data and the processing of the information in the event of a major incident. The back-up operating center infrastructures and procedures enabling a migration to these back-up operating centers in the event of an emergency are regularly checked. The access controls to the information systems and the verification of the data exchanged outside the company are governed by rules which are compliant with international legislation and standards.

Specialized IT security companies, the external auditors, Internal Audit and Internal Control all regularly undertake evaluations of the effectiveness of the solutions in place.

Cybercrime refers to a wide range of different activities linked to the abusive use of data and the Information System for personal, financial and psychological purposes. Their heavy dependence on information and communication technologies means that airlines are vulnerable to cybercrime.

The Cybercrime program, approved by the Group Executive 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.

In each Air France and KLM company, the Chief Privacy Officer (CPO) establishes the applicable private data protection policy, promotes the data protection culture and ensures compliance with data protection legislation.

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 (e. g. Zika).

Management of risks linked to the impacts 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. The impacts of climate change will concern the entire planet but their consequences will be more or less serious depending on the world region.

Given its international activity, Air France-KLM operates in all the continents and in different weather conditions, including the most extreme. The Group 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 enables the economic consequences of these impacts to be minimized.

The more frequent emergence of extreme climate events could, however, affect the continuity of flight operations (re-routing, flight cancellations and delays, etc.). In response, Air France and KLM have developed management procedures in which employees receive special training on managing emergency situations to ensure the best operational conditions and passenger handling. In such circumstances, the Group deploys commercial measures to enable customers who so wish to defer their trips or change their destinations.

To reduce its environmental footprint, Air France-KLM is aiming to reduce its CO₂ emissions by 20% by 2020. To this end, its action plans focus on fleet modernization, operational efficiency and emission offsetting. The Group is also developing a low-carbon strategy, through its commitment to alternative sustainable fuels for aviation.

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, by establishing innovative partnerships with corporate customers, suppliers, airports and logistics partners. This commitment is also based on solid support from States and on the incentives required for the creation of large-scale production facilities that are economically viable for both producers and operators.

Management of operational risks

The entities manage the risks for which they are directly responsible under the supervision of the entity to which they report which defines the applicable policies in line with the Group's rules and guidelines. The functional divisions manage the transverse risks relating to the overall processes (human resources, finance, procurement, legal affairs, etc.). The prevention-based approach is supplemented by the risk management procedures which form an integral part of the Integrated Management System.

3.4.4 Control activities

Operational procedures and processes

Management of the quality system

Both the Air France (Integrated Management System manual) and KLM quality manuals outline all the general provisions of the quality system applied in each of 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 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 (confirmed in autumn 2015);
- 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, 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, which 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

The monitoring of 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.

Information systems

The control procedures also 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 on the production sites through a local contingency strategy, secure architecture and a security system covering external access points;
- confidentiality of information based on national laws and the security of IT infrastructure through the establishment of secure, monitored and effective accesses.

The managements of the two companies ensure that the resources and expertise required by the IT 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, reduce the risks at the earliest-possible opportunity, streamline the development and maintenance processes and increase 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 as regards risks such as business continuity.

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 has been structured around seven procurement teams since January 2013. 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. Their objective is to optimize the Group's external resources.

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, referrer, 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 every two months (DPO Day) to develop joint programs and share best practices.

Prevention of ticketing fraud

A Fraud Prevention unit is responsible for optimizing the prevention of risks relating to the fraudulent use of stolen, falsified or illegally-purchased tickets and improperly acquired "Flying Blue" miles.

A fraud prevention activity report was submitted to the Audit Committee in October 2016.

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 Senior Vice-President Financial Operations, Air France's Chief Financial Officer and the Chief Financial Officer of 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 and Fuel Purchasing departments in compliance with the procedures for the delegation of powers.

Regular meetings are organized between the Fuel Purchasing departments of the two companies, and between the Treasury Management departments, to optimize the coordination of decision implementation (hedging instruments, the strategies planned and counterparties).

A summary of the cash positions of Air France-KLM, Air France and KLM is communicated weekly to the Air France-KLM Group's Finance Division.

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 or the Chief Financial Officer of 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 comprised 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.

The accounting information reported by the different companies must comply with the Group's accounting rules, methods and standards 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 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 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 economic performance 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).

3.4.5 Information and communication

Communication within the Group is organized to ensure the effective circulation of information.

Internal communication supports the implementation of internal control and risk management by providing objectives, guidelines and information at all the levels of the Group's operational and support entities and by informing management of the results. It uses all the technical resources of the information systems and telecommunications function ranging from the intranet to the different production and management applications.

3.4.6 Management

Management procedures and processes

These procedures are based on the organization and structure of the Group and the companies within the Group, as follows:

- the passenger activity, covering all the operations involved in the transportation of passengers, including the network, marketing, sales and production departments that provide the services required for flight and ground operations;
- the cargo activity which conducts cargo marketing and operations (including parcel delivery and postal services);
- the engineering and maintenance activity responsible for maintenance and engineering operations for the airframes, components and engines;
- the leisure activity comprising the low-cost and chartering operations of Transavia France and Transavia Netherlands;
- the "other" activity comprising various services supplied by the Group and not covered by the four other segments mentioned above.

The Human Resources functions are proprietary to each company and are coordinated by the Executive Vice-President, Human Resources.

A Group Finance Division has been established to support the Group's Chief Financial Officer, and which is responsible for coordinating the finance functions in the companies.

The Group's Corporate Secretary coordinates the functioning of the governance of the Group and its entities and ensures the secretarial services to the Group's Board of Directors.

The coordination of strategic decisions impacting the commercial, financial, technical and operational areas is ensured by the Group Executive Committee, which is the principal governance body described in Section 3.2 above: this governance body is based on the nine functional units at the level of the Air France-KLM Group (commercial strategy, sales & alliances, marketing-digital-communication, cargo, maintenance, finance, IT, human resources and corporate secretary).

The Air France-KLM consolidation scope includes 80 companies that are fully consolidated and 18 that are equity accounted.

Air France represents 56.1% of the Group's revenues and 44.3% of the total balance sheet.

KLM represents 35.2% of the Group's revenues and 29.7% of the total balance sheet.

The strategic orientations of the Air France-KLM Group are defined and prioritized by the Board of Directors.

The work is prepared by the Group's Executive Committee within the framework of an annual forward planning and strategic work program.

Detailed estimates of the impact on revenues, costs, staff, investments and cash flows of the strategic orientations thus adopted are subsequently produced.

The budgets for the following financial year are established on this basis and are approved by the Air France-KLM Board of Directors.

IV Summary of the evaluation of internal control relating to accounting and financial information

Internal control is structured firstly around the annual evaluation of the Air France-KLM Group's control environment and, secondly, around a detailed evaluation of the checks carried out on the accounting and financial information for significant processes.

3.4.7 Evaluation of the control environment

Each Group division or department has been the subject of a multi-year evaluation of the five COSO components of its internal control using evaluation questionnaires corroborated by independent existence and effectiveness tests.

Air France and KLM have also established whistle blower procedures and formalized the anti-fraud program together with a procedure for identifying and testing the effectiveness of the control environment.

Similarly, overall control of the information systems is the subject of a formalized annual evaluation.

3.4.8 Detailed evaluation of key controls on financial and accounting information at significant process level

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 existence and effectiveness testing.

Following the delisting from the New York Stock Exchange, the Air France-KLM Group's Executive Committee and Audit Committee requested that high standards be maintained and that the work already undertaken (in rationalizing this) to comply with the Sarbanes-Oxley Act 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 internal control over financial information as at December 31, 2016.

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 the processing of 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.

Jean-Marc Janailac
Chairman and Chief Executive Officer
Air France-KLM

3.5 STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE) ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

YEAR ENDED DECEMBER 31, 2016

This is a free translation into English of a report issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Air France-KLM SA and in accordance with article L. 225-235 of the French Commercial Code (*Code de Commerce*), we hereby report on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code (*Code de Commerce*) for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by article L. 225-37 of the French Commercial Code (*Code de Commerce*), particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information; and
- to attest that this report contains the other information required by article L. 225-37 of the French Commercial Code (*Code de Commerce*), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with article L. 225-37 of the French Commercial Code (*Code de Commerce*).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L. 225-37 of the French Commercial Code (*Code de Commerce*).

Paris La Défense and Neuilly-sur-Seine, February 16, 2017

KPMG Audit
A division of KPMG SA

Deloitte et Associés

Jean-Paul Vellutini
Partner

Eric Jacquet
Partner

Pascal Pincemin
Partner

Guillaume Troussicot
Partner



This page has been intentionally left blank.

4

CORPORATE SOCIAL RESPONSIBILITY: SOCIAL, CITIZENSHIP AND ENVIRONMENTAL INFORMATION

4.1	Social information	104
4.1.1	A constructive and permanent workplace dialogue to contend with the economic challenges	105
4.1.2	Training	110
4.1.3	Health and safety in the workplace	112
4.1.4	Fostering diversity and combating discrimination	116
4.2	Social indicators for the Group	120
4.2.1	Consolidated social data for the Air France-KLM Group	120
4.2.2	Other social data for the Air France Group (according to local legislation)	122
4.2.3	Other data for the KLM Group (according to local legislation)	123
4.3	Note on the methodology for the reporting of the social performance indicators	124
4.3.1	Reporting scope	124
4.3.2	Reporting tools	124
4.3.3	Details and methodology - comments on changes in the indicators	125
4.4	Corporate citizenship information	127
4.4.1	Dialogue with stakeholders	127
4.4.2	Fair commercial practice	128
4.4.3	Measures to safeguard consumer health and safety	129
4.4.4	Contributing to regional economies	129
4.4.5	Sub-contracting and suppliers	132
4.5	Environmental information	134
4.5.1	Overall environmental policy	134
4.5.2	Pollution	136
4.5.3	Circular economy	137
4.5.4	Climate change	140
4.5.5	Protecting biodiversity	142
4.6	Environmental indicators	144
4.6.1	Flight Operations	144
4.6.2	Ground Operations	146
4.7	Note on the methodology for the reporting of the environmental indicators	148
4.7.1	Scope covered and scope N-1	148
4.7.2	Reporting tools	148
4.7.3	Details and methodology, comments on variations	148
4.7.4	Flight operations	149
4.7.5	Ground operations	149
4.8	Table of concordance for the social, corporate citizenship and environmental information	151
4.9	Assurance 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 2016	154

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 CSR 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.

4.1 SOCIAL INFORMATION

The number of Full Time Equivalent (FTE) employees in the Air France-KLM Group averaged 82,175 in the 2016 financial year (excluding external staff), i.e. a 2.17% reduction relative to the previous financial year.

Employees, expressed as full time equivalent (FTE)	Air France - KLM			Air France			KLM		
	2014	2015 ⁽¹⁾	2016	2014	2015 ⁽¹⁾	2016	2014	2015	2016
Ground staff	65,088	54,859	53,560	45,514	35,583	34,646	19,573	19,275	18,914
Cabin crew	21,552	21,287	20,942	13,720	13,449	13,096	7,832	7,838	7,847
Flight deck crew	8,027	7,856	7,673	4,720	4,554	4,431	3,306	3,302	3,242
Total	94,666	84,002	82,175	63,955	53,586	52,173	30,712	30,415	30,002

(1) Data restated excluding Servair employees (Servair Ground Staff in 2015: 9,299).

Taking into account external staff, averaging a respective 2,427 in Full Time Equivalent during the 2016 financial year and 2,455 in Full Time Equivalent for 2015, the number of employees in the Air France-KLM Group as a whole declined by 2.15%: 52,725 FTE for Air France (54,114 in 2015) and 31,877 FTE for KLM (32,343 in 2015). 62% of the Group's staff were employed by Air France and 38% by KLM.

90% of the Group's employees are based in Continental France and the Netherlands with 10% located in the Group's international operations.

62% of the Group's employees are aged between 30 and 50 years.

4.1.1 A constructive and permanent workplace 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 policies 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. This recognition and major action priority are at the heart of the diagnostic and vision enshrined in the new "Trust Together" project whose orientations were presented to the employees and employee representative bodies in early November 2016.

The 2016 financial year was characterized by the presentation of the new strategic project for the Air France-KLM Group. The establishment phase for this project came after a preliminary period between June and November involving a comprehensive analysis of the Group's situation based on:

- a direct dialogue within Air France and KLM with the management team, managers and employees in the different business segments (both on the ground and in the air, and with each of the representative union bodies);
- the organization of an internal survey of 500 senior executives in the Air France-KLM Group covering the major strategic issues (75% participation rate);
- an external process to listen to investors, the Group's airline partners, the French and Dutch governments and other air transport industry stakeholders.

2016 was also marked by an active and regular ongoing workplace dialogue, both to accompany the strategic plans across the Company, and within the framework of the Employee Representative Bodies and during the various negotiation periods.

In terms of the Employee Representative Bodies, the coordination of the workplace dialogue in Air France-KLM took 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. In 2016, five meetings of the European Works Council took place to share information and consult on matters such as the Cargo strategy in Europe, Transavia, the reorganization plans in Europe and the orientations of the "Trust Together" project.

Air France

"Trust Together": a listening process and a shared diagnostic

In addition to initiatives carried out at Air France-KLM Group level, the phase to establish "Trust Together" was accompanied by specific initiatives within Air France to listen to as many employees and their representatives as possible. These initiatives included:

- a survey based on open questions of all Air France employees (including in the subsidiaries), covering trust and the ways to rebuild it, with the achievement of a high participation rate through replies from 1,800 Pilots, 2,900 Cabin Crew and more than 8,000 Ground Staff;
- a dedicated listening exercise and work process was conducted with Young Executives and High Potentials ("Sounding Board").

Similarly, initiatives were launched to promote a shared, cross-cutting diagnostic with the unions representing employees:

- four meetings of the Strategic Monitoring Committee were organized in 2016. 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, enabled sensitive issues like the air transport industry environment and Air France's strategy in its different markets to be addressed in full transparency. Its functioning was renewed until the end of 2018 with the representative union bodies. Capitalizing on this cross-cutting dialogue body to promote the establishment of a shared diagnostic on the Company's situation, the stakeholders organized a series of Strategic Monitoring Committee meetings in 2016, enabling an in-depth review, with the company's experts, of various matters such as a situational analysis of the relative growth trends for Air France and KLM, Revenue Management Pricing, route economics, consolidation moves in the air transport industry and the alliance strategies. This series of meetings to discuss major issues for the Company will continue in 2017;
- external adviser Jean-Paul Bailly was entrusted with a special assignment, culminating in a shared report in full transparency with the Company's employees. This consisted of a process to listen to the representative union bodies aimed at establishing a diagnostic with the points of convergence/divergence on the Company's situation and resulting in a number of recommendations aimed at rebuilding confidence and social cohesion then, progressively, competitiveness and the Company's growth prospects.

HR Ambition and updating of the workplace dialogue

"Trust Together" establishes the guiding principle for the new HR Ambition: the promotion of an in-depth workplace dialogue (both inside teams and within the framework of social relations between the management and the unions), prioritizing the business challenges and customers. The concrete definition of this new HR Ambition is currently being established by the HR teams, in close cooperation with the management, with a view to consulting the Employee Representative Bodies and implementation in early 2017.

Functioning of the Employee Representative Bodies

In terms of the functioning of the Employee Representative Bodies, twelve meetings of the Air France Corporate Works Council were organized in 2016. 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, the "Trust Together" project and a Voluntary Departure Plan for Ground Staff and Cabin Crew, and on the HR policy, working conditions and employment.

The *Comité du Groupe Français*, regrouping the employee representatives from the Air France Group's different subsidiaries, met three times in 2016. During these meetings, presentations were made on the financial situation, business activity and the strategic outlook for Air France, HOP! (notably an update on the results and outlook following the merger), Transavia, Servair (particularly the process to open the share capital to a new shareholder), CRMA and BlueLink.

Negotiations and agreements

Forty-seven collective labor agreements were signed in the Air France Group during 2016 and negotiations are also underway at Air France (Quality of Life in the Workplace for Pilots), Sodexi (Mandatory Annual Negotiation) and BlueLink (2017-19 Forward Planning of Jobs and Skills).

For Société Air France, a number of agreements were approved following negotiation with the relevant representative union bodies:

- two inter-category agreements, notably on salary measures (Mandatory Annual Negotiation) and two technical clauses in line with legislative changes concerning the profit-sharing and PERCO schemes;
- nine corporate agreements at the level of the Ground Staff covering, notably, the management of employment, provisions to support mobility/redeployment and career paths (including the inter-generational contract), measures to support and complement the 2016 Voluntary Departure Plan for Ground Staff, the development of remote working, etc;
- a Pilots agreement linked the entry into revenue service of the B787, and two clauses relating to the routes operated by Transavia;
- two Cabin Crew agreements aimed at defining the methodology and negotiating the framework of the future Cabin Crew collective agreement.

In the other Air France Group subsidiaries, the following 2016 agreements are worthy of particular note:

- within Servair Group, against a 2016 backdrop characterized by the opening of the share capital to a new shareholder, seven agreements covering HR support for employees were approved in a year that saw the signature of a total of 27 agreements within this scope;
- in the context of the merger at the level of HOP!, correlated with the organization of professional elections across the scope, ten agreements were signed this year;
- the CRMA representative union bodies unanimously approved four corporate agreements covering salary measures, professional

gender equality, the Forward Planning of Jobs and Skills (including the inter-generational contract) and profit-sharing.

Furthermore, in addition to these different agreements signed within the Air France Group, eleven negotiation processes which were ultimately not concluded led to the establishment of unilateral action plans regarding, in particular, measures to support Air France's 2016 Voluntary Departure Plan for Cabin Crew, the inter-generational contracts within Société Air France for Pilots and Cabin Crews and the salary measures at ACNA SA, Transavia and HOP!.

Staff category-based negotiations and decentralized consultation

In addition to the agreements outlined above, the workplace dialogue was shaped by staff category-based discussions (particularly with the Pilots and Cabin Crew), consultation at the level of the entities (particularly on short-haul) and the ways and means to improve economic efficiency.

This approach based on staff category takes into account the different legal frameworks and the necessarily-separate levers of action to achieve the targets set and the required change management.

Consistent with the shared methodology established by an agreement signed with the majority of the Ground Staff representative unions, the differentiated approach by segment and the strengthening of the local discussion processes enabled the financial, commercial and competitiveness realities and outlook specific to each entity to be fully taken into account, and to prioritize the deployment of measures tailored as closely as possible to the local specificities.

In particular, on the outstations in the Orly-French Provinces network, the local consultation process resulted in the unanimous signature of a methodology agreement (applicable until the end of September 2017), aimed at:

- sharing the findings and orientations with the representative union bodies for the scope;
- evaluating the solutions to implement in response to the segment's financial and HR challenges, around two priorities: adapt the organizations to the Voluntary Departure Plan departures taking place during the 2017 first quarter, from the short-term perspective of the Summer 2017 season; identify the levers and actions enabling an improvement in medium/long-term competitiveness, particularly in the outstations whose costs are the furthest from the targeted levels.

Concerning the Ground Staff, discussions continued following the successful achievement of the targets in the ground staff component of the "Transform 2015" plan and the ongoing projects to improve organizational efficiency in 2015-16. It was against this backdrop, which was also marked by the deployment of a Voluntary Departure Plan for ground staff in 2016, that negotiations led to the signature of the Forward Planning of Jobs, Skills and Professions agreement with three unions representing more than 50% of the ground staff foreseeing, notably, the prolongation until June 2018 of certain guarantees, in particular no recourse to layoffs for economic reasons.

2016 was also the second year of implementation for the agreement covering organizational improvements, working conditions, quality of life in the workplace and risk prevention, with concrete measures arising, notably, from the joint observatories on Quality of Life in the Workplace conducted with the signatories of the agreement (three in 2016) and, in particular, support measures for numerous adaptation or reorganization projects, in all the entities.

With regard to Cabin Crews, the negotiations aimed at redefining the new contractual framework from November 2016 were launched in the spring with the three representative bodies. This negotiation process aimed to reinforce the Company's competitiveness by reducing the unit cost per available seat-kilometer and simplifying some working conditions. These discussions could not be concluded despite the proposed agreement prolonging the collective agreement in force until March 2018, including sixteen points of improvement.

After the summer, the reopening of negotiations resulted, on October 18, in the signature of an extension to the agreement in force until February 28, 2017, as a preliminary to the new negotiating process within the framework of the "Trust Together" project.

As regards the Pilots, discussions and negotiations with the Pilots representative union bodies (SNPL and SPAF) aimed at reaching an agreement on competitiveness, growth and Pilot jobs at Air France continued until the spring of 2016.

They were conducted within the framework of a quest for balance between the increased competitiveness vital to the Company and the pilots' high expectations on jobs and career development within Air France. To give the negotiation process every chance of succeeding, the implementation of the remaining measures in the Pilots section of the "Transform 2015" agreement was suspended.

The final draft agreement forwarded by the Company's management to the pilots' representative union bodies included a proposal to complete Transform and close this chapter by abandoning the option of arbitration. However, this negotiation did not result in the signature of a Pilots' agreement.

In May 2016, to preserve the Company's social cohesion, improve competitiveness and plan for the future, the Chairman and Chief Executive Officer of Air France decided to apply the arbitration rule and implement the measures set out in the Transform Pilots' agreement. In view of the new negotiation process within the framework of the "Trust Together" strategic project, it was decided to prolong the suspension until February 1, 2017 of the Transform measures thus arbitrated. The negotiations began in December 2016 and will continue during the 2017 first quarter.

A focus on the management of overstaffing within the framework of collective agreements

In return for the agreements signed with the three staff categories in 2012 and 2013 within the framework of "Transform 2015", the ongoing deployment of the projects to improve economic efficiency in 2015 and 2016 and the commitment to no layoffs, headcount reduction plans had been implemented on a

voluntary basis in 2012, 2013, 2014 and 2015 in the different staff categories, composed of Voluntary Departure Plans supporting personal and professional projects, retirement departures, and a series of additional temporary measures (Assisted Part Time Working, etc.).

The recourse to Voluntary Departure Plans (VDP) continued in 2016. For Ground Staff, this VDP deployed over an extensive scope was offered to contribute to the restoration of the company's long-term competitiveness. The VDP offer concerning 1,405 FTEs broadly coincided with demand, based on a departure calendar running through to the end of March 2017.

For Cabin Crew, this VDP was offered to adapt the level of staffing to changes in the medium and long-haul operations, while taking into account the priority on improved competitiveness in the business plan. In respect of 2017, the staff reduction from the VDP will amount to 200 Full Time Equivalents, the departures due to take place at the end of the year.

For Pilots, the overstaffing identified in previous years has been reabsorbed given, firstly, the last of the VDP Pilot departures at the end of 2014 of those resulting from the agreement to end B747-400 segment operations and, secondly, the proposed transfers of Air France pilots to Transavia France. As of the end of 2016, Pilot recruitment was again relaunched to meet the needs of Air France and Transavia France.

In summary, the number of employees on permanent contracts declined by 1,096 between 2015 and 2016 (headcount). In total, (permanent and fixed term contracts), the number of employees fell by 827 for Ground Staff (*i.e.* -2.5%), and by 359 for cabin crew (*i.e.* -2.6%). The number of pilots was also reduced by 26 (*i.e.* -0.7%).

Facilitating internal mobility

After three years characterized by a high level of staff mobility arising, in particular, from VDP departures, the number of inter-divisional transfers was significantly lower in 2016, returning to a more normal level with 630 inter-divisional transfers. The main segments welcoming internal mobility candidates were Commercial and Head Office and Support, while most employees transferring jobs originated from the Outstation Assistance activities (long-haul, medium-haul, short-haul).

The "mobility centers", staffed by some ten internal mobility support specialists, pursued the deployment of their activity in all the sites in metropolitan France (Paris-CDG, Orly, Montreuil and the French provinces).

Across the whole company, some 2,400 people thus benefited from personalized support within the framework of a mobility project in 2016 and more than 2,100 were concerned by mobility. Furthermore, 1,137 people attended the thematic conferences and job-dating events, showcasing the professions in the company which are recruiting, while the number of participants in the mobility workshops (interview preparation, job transfer planning) reached 686.

Internal mobility is thus considered to be one of the key factors 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 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 2016, the percentage of employees working part time in France remained high (22.7% in 2016), despite the steady fall since 2013 (23.6% in 2015, 24.5% in 2014 and 24.2% in 2013), and continued to be impacted by the measures to encourage part-time working.

Compensation

In 2016, after four years of no agreements, an agreement protocol on the 2016 salary measures was signed with the Air France General Management and the representative unions at the level of the company. This protocol notably established the payment in 2016 of an exceptional €300 bonus to Ground Staff and Cabin Crew, with €400 for non-executive staff, in respect of the realization of the measures in the "Transform 2015" plan. A budgeted 1.4% of the payroll, identical for both executives and non-executive staff, was earmarked for individual salary increases pursuant to the new provisions of the ground staff collective agreement. These individual salary increases were in respect of performance, promotion, exceptional adjustments, exceptional bonuses and seniority (for non-executive staff).

These various measures saw the basic salary increase by around 1.4% for ground staff present in 2016, 1.9% for Cabin Crew and 1.1% for Pilots.

The profit-sharing and bonus agreements signed on June 27, 2014 for the 2014 to 2016 financial years, enabled total bonus payments of €49.6 million to be made in June 2016, in respect of the 2015 financial year. Pursuant to the new provisions of the Act of August 6, 2015, this bonus was, by default, paid into the employee saving scheme's money market FCPE. On the other hand, the application of the profit-sharing agreement did not enable any profit-share payments in respect of the 2015 financial year.

An annual Personal Social Report is available on line 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 social security benefits.

KLM

At KLM the "Perform 2020" plan, launched in 2015, remained in force throughout 2016 under the watchwords "Change, Cooperate and Win!" To remain competitive in the airline sector, in 2015 KLM launched a transformation plan to become more flexible and relevant, testifying to KLM's pioneering aviation spirit.

KLM employees were encouraged to contribute by proposing and implementing innovative ideas. In November 2016, KLM organized four seminars in a conference center, attended by over 2,000 employees from across KLM. These interactive seminars, organized by and for KLM staff, were an opportunity to share information and for the management to answer frequently-asked questions from employees.

The HR activity Plan 2016 was based on the KLM Flight Plan 2016 and focused on facilitating the workplace dialogue. There was a major focus on signing new collective labor agreements for Cabin Crew and Ground Staff, targeting a 4% annual rise in productivity, and on the implementation of a High Performance Organization. Special emphasis was put on mobility in that the planned reorganization will have an impact on employees, with some functions potentially becoming redundant. Attention was also paid to the digitalization of the HR processes to encourage and facilitate dialogue between employees and the management.

Workplace dialogue and employee information

Ten meetings of the KLM Works Council were held during 2016 including one meeting attended by the Air France-KLM Group's Chairman and Chief Executive Officer devoted to a presentation of the new strategic project, "Trust Together". Thirty-seven requests for consultation and approval were handled this year. Winter 2016-17 saw the finalization of the implementation of the High Performance Organization plan within KLM.

At KLM, monthly meetings are held with the unions representing the Flight Deck Crew, Cabin Crew and Ground Staff to discuss matters relating to the collective labor agreements. In addition to these regular meetings, meetings were also scheduled in 2016 to modify the pension schemes due to changes in Dutch fiscal regulations.

New collective labor agreements

In December 2014, negotiations for the renewal of the three Collective Labor Agreements were launched. In 2015, KLM finalized the collective labor agreements with the nine unions, their duration being fifteen months for Cabin Crew, 18 months for Ground Staff and 36 months for the Pilots. These collective labor agreements mark a real break with the past. The major changes concerned an increase in the retirement age for Flight Deck crew from 56 to 58 years, new working and rest times for inter-continental cabin crew and a reduction in the number of days of leave. Furthermore, these new collective labor agreements support KLM's strategic objective of a 4% annual increase in productivity over the next five years. All these changes combined enabled KLM's payroll costs to become more competitive. In 2016, KLM renewed the Ground Staff Collective Labor Agreement for a period of 18 months, starting from July 1, 2016. These agreements contribute to the 4% annual increase in productivity through to 2020, thanks to the reduction in staff and days of leave. In April 2016, the Cabin Crew Collective Labor Agreements expired and had to be renegotiated. Due to a dispute on the pension scheme, the unions refused to negotiate new collective labor agreements. To further improve its competitiveness, KLM decided

to reduce the number of staff on board with one fewer cabin attendant on four aircraft types. As the Flight Deck Crew collective labor agreements will expire on January 1, 2018, negotiations will commence in 2017.

The MyCAO online platform, launched in 2014, was used to inform and foster dialogue with KLM employees on the progress and the content of these negotiations.

In 2016, faced with the recent organizational changes, KLM decided to develop a new methodology for measuring the level of employee engagement, corresponding with the new KLM organization. A structure will be developed to measure employee engagement, at both corporate and divisional level. This measure, 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 started in September 2016.

Employees were also encouraged to share their ideas *via* the President and CEO's mailbox and *via* a number of communication channels, during live webcasts and information meetings.

During 2015, the KLM Executive Committee established the corporate purpose for KLM – “Moving your World By Creating Memorable Experiences” – in cooperation with a group of around 120 employees from across the Company. The “KLM Compass” outlines the “Why” (KLM corporate purpose), the “Who” (KLM identity), the “Ambition” (KLM goals), the “What” (KLM offering) and the “How” (KLM corporate culture). In 2016, the KLM Compass was rolled out in the different divisions. For example, in 2016 the “Moving your World” project team organized immersion sessions accessible to all employees and attended by some 1,400 individuals.

Employment and mobility

For KLM, the HR targets in “Perform 2020” aim to improve productivity and reduce payroll costs. To support and deliver change, a Transformation Office was set up in 2015, to contribute to constructing the new KLM, in close cooperation with all the divisions, and to establish an innovative organization which is constantly improving and learning.

Within this framework, a number of transformation projects have been identified such as, for example, building a High Performance Organization, launching a Customer Experience Organization and programs on Digital Transformation, Operational Excellence and External Expenses.

As in 2015, there were very few external hires in 2016. In the past few years the search for internal candidates has become increasingly difficult and a resolute focus on optimizing the internal mobility processes is required. In 2015, the internal recruitment procedure for vacant positions was optimized and the lead time in this process significantly shortened. KLM implemented this new lean process in May 2016.

During the 2016 first half there was very little internal mobility due to the planned transformation of KLM into a High Performance Organization. This transformation led to a reduction in staff, and especially management positions. Employee transfers resulting from this transformation were realized pursuant to Dutch Legislation and the additional collective labor agreements signed with the unions (*Mobiliteitsafspraken 2015* protocol). Employees not assigned to a position in the new organization are being made redundant.

The aforementioned *Mobiliteitsafspraken 2015* protocol, agreed between KLM and the unions representing ground staff in 2015, was aimed at promoting and maximizing internal mobility. Within the framework of this protocol, the KLM Transition Center was launched. This unit aims to help employees being made redundant to find another job either internally or outside KLM. The KLM Transition Center also advises employees looking to start their own businesses. The Voluntary Department Plan, launched in 2015, is still in force and all employees being made redundant are invited to join this program. In 2016, 95 employees left KLM as a result of the voluntary departure plan.

Despite the difficult financial environment, KLM hired 22 young graduates for its various development programs during 2016. The year saw ten young graduates enroll in the KLM Management Trainee Program, four in the IT Management Program, six in the Development Program Finance and two in the MRO Talent Program. Additionally, some 939 interns joined KLM in 2016, illustrating the company's commitment to assuming its responsibility vis-à-vis students and young graduates by offering them the opportunity to gain valuable work experience and preparing them to enter the jobs market. Short and medium-term internships are offered to students drawn from both vocational training and higher education.

The high number of applications for both the Development Programs (3,266) and internships (approximately 2,700) testifies to KLM's attractiveness as an employer. This is also reflected in KLM occupying sixth position in the ranking of the 20 most popular Dutch employers (companies with 1000+ employees category), published by Glassdoor in December 2016.

In 2016, the number of employees hired on permanent and temporary contracts stood at 1,904 for the KLM Group (versus 1,730 new hires in 2015), while departures stood at 2,631 versus 2,146 in 2015.

Taking into account the recruitment and departures during 2016, the KLM Group had 33,793 employees at the end of 2016, compared with 34,333 at the end of 2015.

Employability and professional mobility are HR priorities. They enable employees to develop their careers and, at the same time, ensure that KLM has the flexibility required to contend with a difficult economic environment.

In 2016, 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 except in the event this would entail employer bankruptcy. Part-time working is very widespread, particularly amongst women, although this is also increasingly the case for men. In 2016, the proportion of KLM Group employees working part-time stood at 41%, slightly higher than in the previous year (40.3% in 2015).

In 2015, a new law updating the Dutch legislation on leave and working hours came into force, aimed at reconciling working hours with the personal lives of staff (e.g. healthcare and training). In January 2016, new Dutch legislation relating to working hours came into force and has since been transposed into KLM's internal regulation.

Compensation policy

In 2016, there were no general salary increases. Profit-sharing agreements were signed within the framework of the Ground Staff Collective Labor Agreements, leading to an advance profit-share payment in November 2016 to all ground staff on the KLM payroll at November 30, 2016.

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 €18 billion. These three funds still qualify as defined-benefit schemes, meaning that KLM financially guarantees the level of pensions.

Since this approach is particularly difficult to support over the long term given the current level of profitability, KLM aims to replace this system with collective defined contribution schemes. This would enable the pension risks to be more equally shared between KLM, its employees and retirees. To this end, KLM has launched negotiations with the flight deck and cabin crew unions while negotiations with the ground staff unions are set to follow.

4.1.2 Training

Air France

Concerning training, 2016 was characterized by a groundbreaking context for two reasons:

- the implementation of the recent application decrees for the Vocational Training Act of March 5, 2014 and the Rebsamen Act on workplace dialogue;
- the action plans deployed within the framework of “Perform 2020” and the new “Trust Together” corporate project.

Legislative changes led to an increase in training tax receipts: they currently amount to 1% of the payroll. The total investment in training remained stable at €185 million in 2016, of which €24.2 million in training taxes. Expressed in hours, the investment in training amounted to 1,426,985. Thus, by a renewed economic focus, training expenditure saw a limited increase while maintaining the investment per employee.

This resolute commitment was reflected in:

- a high and stable rate of access to training: 94.5% of Ground Staff received training in 2016. Access to training for everyone is a constant and permanent objective and is being supported, notably, through the deployment of the My Learning digital platform and other e-learning tools, and the implementation of registration workflows in the simplified HR e-services. Nearly half the training programs are realized (45%) in e-learning form, while maintaining a high level of investment per employee over the past few years (between 3.5 and four days/year for Ground Staff and Cabin Crews, and between ten and eleven days for Pilots). Note that the average access to training rate for employees on permanent contracts is around 53%;
- Air France also seeks to strengthen the employability of employees and support their development: employees mainly receive training linked to their professions (75% of training hours) while cross-cutting training represents 25% of training hours (languages, health and safety environment, office automation, etc.). Vocational training is oriented towards the core aviation business: safety training for cabin crews, training relating to the maintenance professions and ground operations, training relating to skills maintenance for Pilots;
- a high realization rate: in 2016, this rate reached 94% across all staff categories (95.4% in 2015), illustrating training management tailored to the priorities of both the company and employees.

In 2016, the support for mobility, re-training and ongoing vocational training was maintained given, in particular, the need to integrate new employees due to the voluntary departure plans. 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, that: the training courses supporting professional changes for employees and raising professional standards enabled 150 employees to obtain a diploma following training.

- maintenance: Bac Pro Systems, Aeronautics CAP, Maintenance CAP on Aircraft Systems, Aeronautics BTS, DUT in Transport Logistics Management, CESI Engineering qualification);
- IT: DUT in Telecoms Networks, License in IT Development;
- occupational health and safety: Ergonomics Diploma;
- human Resources: Social Worker Consultant Diploma, Masters in Human Resources, AFPA for adult training.

Given the skills requiring reinforcement, Air France is also developing vocational and Validation of Prior Learning (VAE) hybrid training courses combining collective training and a personalized VAE approach leading to a diploma or recognized from of certification.

As part of an innovative initiative, first launched in the form of a pilot in 2015 with the Shared Services Center teams responsible for the payroll, 99% of the participants obtained an HR License, Payroll Option.

In 2016, several professions/functions were concerned:

- commercial for the Shared Services Center: Customer Pro License: 99% of the participants gaining diplomas;
- license HR Pro, Payroll Option: 100% of participants gaining diplomas in year two;
- ground Staff and Cabin Crew Quality network: 100% gaining a Hygiene Quality, Health, Safety and Environment Pro License, with a second year starting training in October 2016.

Studies were also launched concerning new professions/functions:

- Cabin Crew Management;
- Management Control;
- Station Proximity Manager.

Lastly, 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.

The development of these different approaches illustrates Air France's commitment to developing training schemes to secure its employees' career paths.

KLM

At KLM, in 2016, the Learning & Development (L&D) tool provided vital support for managers and employees during the Company's major business transition to a High Performance Organization (HPO). Learning & Development support focused on the three stages of change (dealing with uncertainty, preparing for implementation and take-off) using a number of

resources and channels, like workshops, classroom-based learning, e-learning and self-assessments. For example, 360 managers participated in the "Dealing with Change" self-assessment program while more than 150 employees enrolled in the "How to apply for another job - Tips & Tricks" workshop.

KLM organized five Guest Seminars (around 200 participants coming from across the company), dedicated to topics linked to the HPO transition, enabling employees to understand the major changes happening within the airline, the impact of these changes and how to appropriate them.

In 2016, the Learning & Development tool was launched to raise awareness within KLM of the Company's new corporate purpose, "Moving Your World" and the related KLM Compass. Around 1,400 KLM employees enrolled in the immersion sessions.

E-learning modules were made available to all employees. There are currently 167 modules on collaborative and office-based tools available *via* KLM's MyLearning online platform. Similarly, 91 more general modules, on topics like personal effectiveness, communication and productivity, are also available *via* this platform.

In 2016, KLM continued to focus on vocational training and staff development while containing costs. New training programs were deployed to optimize skills transfer within the Company.

Within the Engineering & Maintenance division, training on maintenance of the B777 aircraft type was redesigned. By improving the content and introducing simulation-based practices, the duration of the training was reduced from 45 to 35 days. The training on maintenance of the B787 aircraft type will also be redesigned.

For Cabin Crew a new onboarding program has been developed with 270 new members of staff having been enrolled in this new program. The program was developed using the actual daily tasks as a starting point, then integrating the Service, Safety and Sales dimensions. For experienced Cabin Crew the "Be My Guest" program was developed. This program takes place during flights (18 per day) and focuses on optimal hospitality. The program was supported by two apps (the "Be My Guest On Board App" and the "Power App") and is an excellent example of Learning on the Job.

For Flight Safety Training, several training modules are offered using iPads. This enables flight crews to learn at their own speed and offers them a more pragmatic form of training. For example, a guided tour with specific assignments enables training specifically oriented towards realistic flight situations.

In 2016, a new concept for training on the Care program was developed. The Care program is the emergency response program in the event of an accident on a KLM aircraft, involving 2,000 KLM volunteers. The training prepares the volunteers to realize the tasks for which they are responsible in the program. The two-day classroom-based course has been replaced by an e-learning program and one day of face-to-face training. This online module is available anywhere and at any time (just in time).

Within Ground Services, kick-off meetings were organized to prepare 250 newly-appointed Shift-leaders for their new positions. In Baggage Services (a Ground Services department), a program was developed to support 44 Baggage Unit Leaders and their Unit Managers in their new roles and to ensure the implementation of the common policy.

Young Professionals (< 35 years of age) are offered a self-directed program. This six-month program, regrouping 60 participants, is focused on personal development. The Young Professionals collectively decide the themes on which they will work and plan the different sessions. The program includes the establishment of a personal development plan, which is discussed with a coach.

Within the Cargo division, Learning & Development is supporting the introduction of a new booking tool (CargoBus), managers in the Cargo division being offered face-to-face and remote training on managing cargo handlers.

In 2016, all KLM employees were offered an e-learning module focusing on Safety within the Company while senior managers were offered an e-learning module on Compliance Law.

A number of trials were also conducted in 2016. Some 25 KLM employees participated in a so-called Agility Hackathon (more than 1,000 participants worldwide), during which knowledge and experience of “Agile Working” were shared. The Hackathon lasted several weeks and consisted of digital lectures and webinars. Over the summer, around 75 KLM employees participated in the Digital Transformation program organized by a Belgian business school. The program took place over five successive weeks before culminating in a webinar.

In 2016, KLM pursued its partnership with Schiphol Aviation College. This foundation brings together aviation businesses, vocational education institutions and the regional authorities in initiatives to stimulate the Schiphol region employment market by developing and proposing innovative programs to individuals seeking work at Schiphol airport. Such programs enable participants to develop their skills and benefit from an initial internship at the airport.

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

2016 saw a results deterioration in terms of the frequency of accidents in the workplace (see the social indicators table). At the end of October, the company noted an increase in the accident frequency rate (+7% over twelve rolling months). However,

Air France continues to post very steady results in terms of both vocational disorders and Permanent Partial Disabilities.

Within this context, Health and Safety in the Workplace has been reaffirmed as one of the seven major commitments of the new HR Ambition and the Company intends to develop a sustainable corporate culture of prevention in terms of Health and Safety in the Workplace, enshrined as an absolute imperative in everyone’s daily lives, in the same capacity as Flight Safety in our businesses.

An individual and collective commitment, and the exercise in full of the associated responsibilities, are affirmed as the priority levers.

The Company pursued the process to consolidate its governance and stabilized its Safety Management System by obtaining the renewal of the OHSAS 18001 certification, the guarantor of a continuous improvement-based approach.

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 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 in the Workplace 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, 21 vocational disorders had been recognized in 2016 of the 70 in total reported by 60 employees, a number still subject to change in view of the time taken to handle requests by the social bodies. After a significant increase in requests to recognize vocational disorders in 2014, the 2015 and 2016 figures returned to their average level of the previous years. The main pathologies remain musculoskeletal disorders linked to repetitive strain injuries or heavy lifting. The incidence of vocational disorders declared and/or recognized at Air France remains very significantly below the French national averages.

In 2016, the Company’s 28 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, 2016 was marked by the ongoing measures to adapt to the Ebola epidemic in Western Africa, the unexpected development of the Mers-CoV respiratory syndrome in Asia, the emergence of the Zika virus in Latin America and the Caribbean archipelago, and repeated situations of peak pollution levels in different cities, whose local health impact and the indirect consequences on the reassurance required for cabin crew and staff on assignment proved substantial. At psycho-social level, employees impacted by the terrorist acts in Paris, Nice and Bamako benefited from the full commitment of the vocational health teams aimed at the prevention of psycho-traumatic risks. The vocational health teams were also called on at the fringes of these 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 40,000 medical examinations, and multiple screening and treatment interventions by vocational 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 and regular strategic updates reviewed by the Air France Executive Committee. Via the signature of target-based contracts, the Executive Vice-Presidents in each of the entities formalize their commitment to reducing vocational accidents through their prevention plans. The commitments 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.

Detection and sharing to promote a safety-first culture

Prevention is at the heart of the process to achieve high standards of health and safety in the workplace at Air France.

The inclusion of the vocational 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 have ergonomics experts embedded in the operational teams, in 2015 the Company made a commitment to the professional development of employees who obtained a diploma in ergonomics in 2016. This resolute commitment was again manifested by the professional development of a further three employees who are set to receive the Master 2 Ergonomics diploma in 2017.

The commitment 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 units 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 management 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.

In parallel, the Company has consolidated its weekly reporting process on occupational health and safety, enabling feedback on significant safety-related incidents and their handling to be shared. Regular in-depth analyses 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 Company is engaged in a program to redesign the evaluation tool for vocational risks, to facilitate the development of relevant 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 functional entities in both metropolitan France and the French overseas territories. The organization of benchmarking forums 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 culture, and are adapted to reflect changes in regulations and the development of new tools. 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.

The management collectively attends the annual Health and Safety in the Workplace convention but also forums on risks enabling 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.

Raising levels of performance 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 efficiency and working conditions.

Promoted at the highest level of the Company, and affirmed in the Health and Safety Policy applied within Air France, an improved Quality of Life in the Workplace is supported by a network of Quality of Life in the Workplace advisors having benefited from qualification-based training.

The “Ground Staff agreement to improve organizations, working conditions, the quality of life in the workplace and the prevention of risks and onerous work”, signed in December 2014 for the 2015-17 period, establishes the foundations of this approach.

Over the past decade, Air France has developed diagnostics and tools to improve working conditions and prevention procedures (diagnostic, action support, stress and anxiety evaluation tools, and innovative agreements serving as the framework for the Company’s pro-active policy in this area). This agreement further develops this policy by introducing four main improvements in the Air France approach:

- support measures to accompany local initiatives and encourage the sharing of effective practices in terms of encouraging a safety-first culture and improving working conditions;
- measures aimed at improving the Quality of Life in the Workplace and the prevention of psychosocial risks including, notably, the deployment of managerial actions to foster the quality of working relationships (development of employee spaces for discussion and dialogue, establishment of a common “How to Live Better Together With Mutual Respect and Trust” support system) and the development of organizational working methods, sometimes proposed on a voluntary, trial basis depending on the segment (remote working, hot-desking, job sharing, etc.). The use of the “Evaluation and Monitoring of Vocational Stress” diagnostic, action support and evaluation tool continues. More than 18,000 ground staff and flight crew have replied to this questionnaire since its introduction, with a response rate of approaching 90%, making this a major steering tool for the prevention of psychosocial risks within the Company. This tool is accompanied by a quick questionnaire enabling flash perception screening for rapid evaluations of the rapid actions being trialed by cabin crew at the Orly, Marseille, Nice and Toulouse bases;
- initiatives to prevent hazardous situations and physical risks using tools and concrete action plans which contribute to evaluating and minimizing situations exposing staff to risks (night working, hazardous tasks including postural stresses and heavy lifting, etc.), to promote the adaptation and equipping of work positions and enable voluntary adjustments for those approaching retirement;
- additional support measures for employees and other players through new measures to support staff facing temporary or long-term personal difficulties (help for family carers, etc.) and the deployment of the appropriate training (“Managing by Quality of Life In the Workplace”, “Preventing and Managing Violence and Incivility”, “Preventing the Risks Linked to Alcohol Consumption”, “Awareness-raising on the Prevention of Suicidal Behavior”, etc.). Tools aimed at managers developed in 2013 were trialed in 2014 and 2015, and are now being deployed: management self-assessment grid relating to psychosocial risks and quality of life in the workplace, quick questionnaire to identify psychosocial risk factors, and a special Handbook with guidance on how to respond in the event of an exceptional incident.

KLM

In matters of safety, KLM's objective is to become a world leader within the industry. The company's goal is to reduce the number of workplace incidents to the absolute minimum.

In 2016 (figures to late November 2016), three serious occupational accidents were recorded. Although this is fewer than four serious accidents (2016 target), KLM considers that its goal was not achieved due to one fatal accident in the Ground Services division on July 18, 2016, when an employee was hit by a Volk Trekker. He was taken to hospital by ambulance but unfortunately died from his injuries. The accident is being investigated and the Dutch Governmental Inspection Organization (*Inspectie SZW*) was immediately informed.

The total number of workplace accidents leading to time off work slightly increased to above the Company's target.

Managing vocational health and safety risks

KLM focuses on a combined approach to all health-related matters to be able to pursue a more concrete and efficient policy. This approach, launched in 2013, led to the establishment of a three-year plan and, for 2016, a detailed action plan constituting a framework with a common vision across all business units of the company-wide goals for health and safety. The implementation of this policy is reviewed annually and, if necessary, the long-term plan is updated.

The new health policy prolongs the initiatives already underway but also introduces a shift in focus. In future, KLM will be increasingly investing in prevention, to both improve working conditions and promote healthy lifestyles for its employees. Risk analysis on irregular working hours and workloads will be focal points in the upcoming years.

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 Company as a whole.

As a result of the implementation of the HPO Safety organization and the launch of the new Integrated Safety Services Organization (ISSO), the governance structure was changed as of October 1, 2016. Responsibility for monitoring the effectiveness of the ISMS, regrouping operational safety, environmental safety and health and safety in the workplace has been transferred from the Safety Review Board (SRB) to the ISMS Board. The main objectives of the Safety Review Board remain the execution, communication and promotion of KLM's Safety Policy and the review of the Integrated Safety Management. The SRB allocates the appropriate resources to ensure the proper execution of safety and compliance. The ISMS Board allocates the appropriate resources to ensure internal safety and compliance oversight.

For ground occupational safety, the risk of injury caused by a collision with a piece of equipment or slips and trips is classified as "high", and is ranked amongst the top five safety risks for the

Company. In 2016, a specific Safety Issue Risk Analysis exercise was carried out on the subject of "slips and trips," whose results were presented to the executive management. The implementation of actions to mitigate this risk began in the fall of 2016 and will continue over the course of 2017.

Training and awareness-raising initiatives

As part of the implementation of the ISSO, a training program for all KLM employees has been established and is currently being implemented.

In 2016, KLM organized two awareness-raising campaigns to promote healthy practices in relation to two major health risks. To counter the risk of remaining seated over a prolonged period, KLM launched the "Take the Stairs" campaign, in which employees are encouraged to take the stairs. The goal of this campaign was to improve awareness of the health risks of an over-sedentary life. The second campaign focused on stress in the workplace. A new website was introduced dedicated to tips for employees on avoiding work-related stress. The website also carries information and the opportunity to sign up for workshops, training and role-playing games.

Furthermore, KLM has developed a number of innovative initiatives that are now being trialed on a small scale. "Hello Fysio", delivering online physiotherapy irrespective of time and place, has been deployed in the Flight Operations and Inflight Services divisions and may next year be extended to all KLM employees. "Mirro" provides free online self-help with a range of problems like stress, insomnia, anxiety, etc. and is now being promoted over a number of channels within KLM.

Optimizing the health-related procedures

In 2015, various lean initiatives were launched to identify bottlenecks in the processes relating to absenteeism and workplace reintegration. The starting point for improvement is the dialogue between the manager and the employee. A case manager supports both managers and employees and can call on other experts if necessary. The role of case manager will be further optimized and professionalized.

In 2016, KLM developed and delivered a new annual Health Monitor. In each division, the Company had already been using a status update of the actual monthly and 12-month absenteeism data but now has access to more detailed analysis of the health parameters. This more detailed Health Monitor and the information it generates enables management to establish the appropriate actions.

Agreements aimed at improving the quality of life in the workplace

Back in 2013, three major agreements constituting the foundation of KLM's integrated approach to all health-related matters had been signed. These documents cover the new vision on health, the policy of continuous improvement and the three-year action plan to translate this vision and policy into concrete projects. All three documents were developed in close cooperation with the Works Council meaning that the health policy and the discussion

process with the Works Councils (both corporate and localized) are now more harmonized. For example, a number of corporate themes, such as the in-house emergency response organization (BHV), noise disturbance and psychosocial risks linked to the workplace, now form part of the decentralized plans and are discussed with the local Works Councils.

As in previous years, in 2016 the KLM Works Council was again consulted on a range of health and safety-related issues: the air quality in outstations, the in-house emergency response organization (BHV), TCP limits and diesel emissions. Furthermore, the Works Council approved a series of overall guidelines governing the reimbursement of health care costs by KLM.

For several years, KLM had agreements with two health insurance companies who gave discounts on insurance contracts with employees. This year KLM reviewed these agreements and sent a request for proposals to all Dutch insurance companies. After examining all these offers, KLM decided to choose two health insurance companies, Zilveren Kruis and CZ. These new agreements have a number of benefits. Firstly, like in other years, there is a substantial discount for KLM employees while the second benefit is that these companies are committed to investing in the KLM health policy. Finally, these insurance companies signed agreements with KLM Health Services to meet the cost of vaccinations, medicines and home visits by doctors.

Lastly, within the framework of the implementation of the High Performance Organization, the Human Resources department opted to replace the network of divisional health and safety managers with a specialized and centralized Center of Health Expertise. Thus, since October 2016, a new group of health experts has been working on health-related issues. Their role is to translate the business goals but they also aim to support the implementation of policies and programs to help reduce absenteeism and improve health, engagement and productivity. Their main concerns will be the employability of employees and the dialogue between employees and their managers.

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, 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 men and women. This new measure is in addition to the other initiatives already in place:

- the recruitment and internal selection processes are ISO 9001 compliant, with this certification guaranteeing the management and efficiency of the processes having been renewed at the end of 2014;
- 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, Selection and Redeployment 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 men and women 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 commitments 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 men and women, 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 men and women;
- the 2015-17 Agreement on Professional Equality between Men and Women aims to:
 - perpetuate the measures and tools already in place on professional gender equality,
 - pursue and reinforce the efforts to combat all forms of stereotyping by employees and the in-field management, thereby ensuring the positive evolution of the Company culture,
 - take concrete measures to ensure that gender equality is an integral part of all human resources processes to eliminate any discrimination between men and women 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 made a commitment to developing parental representation across the business, creating a positive environment for employees who are also parents, particularly for pregnant women, and respecting 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 men and women. 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 2016.

To ensure respect of equal treatment between men and women, 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.

During 2016, two flagship initiatives were pursued, following research conducted amongst managers on their perception of the balance between men and women within the business (with the IMS-*Entreprendre pour la Cité* association):

- a mentoring scheme was established for high-potential women, alternating collective with individual coaching sessions to promote access for women to positions of responsibility;
- a special training module was established 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.

Furthermore, a Diversity sponsor has been designated within the Executive Committee, whose task is to promote this issue within this body but also mobilize managers around meetings and initiatives to support actions in favor of gender equality.

These initiatives will be pursued in 2017.

The Company also continues to participate in external awareness-raising initiatives upstream of the business, e.g.:

- participation of Air France employees (including female pilots) in the Women in Aviation Day, organized by the French Association of Women Pilots (AFFP). In 2016, Air France donated one of the three grants made during this event to young girls to encourage them to realize their ambitions in the fields of sports and the aviation professions;
- participation of the Maintenance division in the *Destination Logistique: vol direct vers la mixité* operation in partnership with Airemploi. In June 2016, fifteen school children studying for the professional logistics BAC qualification were welcomed to the Roissy Logistics Center within the framework of this competition. The aim: assemble a team composed of an aviation company and young school children or apprentices to give a more up-to-date and compelling image of these professions through the realization of a video clip.

Policy on internship

Air France pursues an ambitious policy based on the vocational integration of young people *via* internships. In 2016, more than 1,603 interns (representing around 2.34% of total employees) preparing for diplomas at all levels were welcomed into the Company.

In 2016, to continue the development of internship at Air France and involve the flight crew population in this dynamic, a trial was carried out involving 32 Cabin Crew interns.

This policy of promoting internship which is formalized within the framework of the Inter-generational Agreement is based on the Company's CSR commitments.

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. employment forums, networking with companies in the Paris-CDG labor pool, membership of the *Engagement Jeune* platform, seminars offering support on vocational integration, etc.).

Policy on disability

In 2016, Air France hired sixteen new employees with disabilities. The company also ensured the maintained employability of staff with disabilities through numerous support programs and the adaptation of work stations.

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 2016 (€20 million in 2015).

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 ninth three-year agreement covering 2015-17 was signed with the unions at the end of 2014.

Air France's employment rate for workers with disabilities stood at 5.59% in 2015, 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 2016. The Company also renewed multiple partnerships to give Air France's action in the disability area renewed momentum.

KLM

Gender equality and equal opportunities

KLM is committed to gender equality and respect for sexual orientation. The Diversity Council, established in 2013, met several times in 2016. In order to achieve more concrete results KLM has appointed so-called "owners" of gender, ethnic and sexual diversity, and the policies on employees with disabilities and senior employment. To raise awareness, as of 2017 the topic will be incorporated in the corporate communication strategy. Diversity is one of the themes featured in the Management Development plans. During the Team Journey seminars, organized for KLM's top 500 employees, particular attention was paid to diversity. Within this seminar, the strengths of individuals as contributors to team results is a key part of the program, again emphasizing team diversity as a driver of success.

The Over the Rainbow LGBT network, launched in 2010 and bringing together gay, bisexual and transgender employees, focusses on ensuring their equal treatment, irrespective of sexual orientation. KLM is a member of Workplace Pride, the international platform for LGBT inclusion at work. This past year, a number of KLM employees participated in Workplace Pride events and workshops, and in the annual Workplace Pride conference, strengthening ties and sharing best practices across various business sectors on the topic of LGBT inclusion.

The Women on Board network was formalized in 2016. All women within KLM actively wishing to contribute to KLM's ambitions are welcome to join the network. In 2016, two formal events were organized and attended by many new members. The new set up is much appreciated in that it facilitates connections between women, at all levels of the Company.

KLM is currently reinforcing its overall diversity strategy and is looking to further strengthen Over the Rainbow's presence and activities within the organization during 2017.

Vocational integration of persons with disabilities

The vocational integration of persons with disabilities represents a common goal for both KLM and its employees. Based on government guidelines, occupational physicians evaluate the employee's potential contribution then, in cooperation with other specialists, advise managers and employees on the adaptation in working hours, types of work and work stations that are required to optimize the potential of employees 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 seven 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. In 2016, to ensure more efficient and professional support, KLM centralized all activities with respect to case management (support for employees with disabilities in returning to their own or other work). Since 2010, KLM has benefited from an Advisory Committee supporting the monitoring of these measures and proposing improvements. In 2016, this Committee reviewed 597 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.

With the new Participation Act (*Participatiewet*) in force as of January 2015, the Dutch government has introduced legislation aimed at maximizing the vocational integration and potential economic contribution of disabled persons to the Dutch labor market. The government and businesses have set themselves a collective goal of creating 120,000 additional jobs for persons with disabilities by 2026, with Dutch companies responsible for some 100,000 of these additional jobs.

In view of the difficult economic backdrop and within the framework of Dutch legislation, 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. This co-operation, coordinated by the Schiphol Aviation College, is a concrete response to the new Dutch Participation Act. In September 2016, KLM participated in a seminar, organized by the Schiphol Aviation College, on the vocational integration of persons with disabilities. During this seminar, the aviation industry formulated a joint ambition: recruit 100 persons with disabilities in the aviation industry around Amsterdam-Schiphol Airport in 2017. An important part of the seminar's program was a Meet & Greet with 30 "air potentials", or persons with disabilities with the potential to work for one of the companies in the airline industry. This Meet & Greet has enabled the recruitment of five individuals, a further three being currently in the recruitment process. Besides internal employment opportunities, KLM is exploring other opportunities in cooperation with its suppliers to promote the vocational integration of persons with disabilities.

4.2 SOCIAL INDICATORS FOR THE GROUP

4.2.1 Consolidated social data for the Air France-KLM Group

Headcount at 12/31⁽¹⁾

Air France-KLM Group

(permanent contracts and fixed-term contracts)

	2014	2015	2015 Pro forma ^(c)	2016	16/15 Pro forma ^(c)
Scope of NRE Social reporting	96%	95%	97%	97%	0.0%
Total staff	99,277	96,282	89,490	87,917	-1.8%
Ground staff	65,545	63,110	56,318	54,969	-2.4%
Cabin crew	25,282	24,947	24,947	24,757	-0.8%
Flight deck crew	8,450	8,225	8,225	8,191	-0.4%
Staff under permanent contract	94,592	92,044	85,908	84,565	-1.6%
Recruitment under permanent contract at 12/31 ⁽²⁾	1,648	1,333	1,144	1,660	45.1%
Recruitment under fixed-term contract at 12/31 ⁽³⁾	5,643	5,896	4,382	3,747	-14.5%
Departures at 12/31 ⁽⁴⁾	10,577	11,638	9,867	9,123	-7.5%
Of which redundancies (incl. economic)	455	445	327	323	-1.2%
Percentage of women at 12/31 ⁽⁵⁾	43.2%	43.3%	43.9%	44.1%	0.4%
Percentage of part-time employees at 12/31	27.7%	27.8%	29.4%	29.0%	-1.4%
Breakdown of staff by age at 12/31					
≤ 29 years	7,058	6,432	5,749	5,654	-1.7%
Between 30 and 39 years inclusive	24,938	22,317	21,121	18,666	-11.6%
Between 40 and 49 years inclusive	36,823	36,288	33,948	33,219	-2.1%
50 Years and above	30,458	31,245	28,672	30,378	6.0%
Breakdown of staff by geographical area at 12/31					
Europe (except France and the Netherlands)	3,733	3,807	3,806	3,475	-8.7%
North & South America	2,021	1,871	1,868	1,805	-3.4%
Caribbean/Indian Ocean (including French overseas territories) ⁽⁶⁾	1,034	971	774	749	-3.2%
Asia/Pacific	1,702	1,588	1,586	1,425	-10.2%
Africa/Middle East	1,466	1,342	1,321	1,206	-8.7%
The Netherlands	30,477	30,101	30,101	29,747	-1.2%
Continental France	58,844	56,602	50,034	49,510	-1.0%

(a) Air France Group: Air France and Air France subsidiaries.

Air France subsidiaries: Aero Maintenance Group, BlueLink, CRMA, Hop!, Sodexi, Transavia France.

(b) KLM Group: KLM and KLM subsidiaries.

KLM subsidiaries: Cygnific, Cobalt Ground Solutions, KLM Cityhopper (UK and BV), Transavia, KLM Catering Services Schiphol B.V., KLM UK Engineering Limited and Martinair.

(c) These data exclude Servair Group information.

(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	
2015	2016	2015	2016	2015	2016	2015	2016
93%	96%	100%	100%	98%	98%	100%	100%
61,949	54,124	49,901	48,689	34,333	33,793	28,384	27,645
42,569	34,979	32,763	31,936	20,541	19,990	16,509	15,979
14,736	14,447	13,583	13,224	10,211	10,310	9,050	8,903
4,644	4,698	3,555	3,529	3,581	3,493	2,825	2,763
59,287	52,223	48,426	47,330	32,757	32,342	27,665	27,035
838	1,049	390	620	495	611	321	219
4,661	2,454	2,040	1,645	1,235	1,293	335	558
9,492	6,492	6,363	5,372	2,146	2,631	1,094	1,582
315	151	110	101	130	172	87	42
43.5%	44.6%	45.5%	45.5%	42.7%	43.2%	43.6%	43.5%
20.8%	21.6%	23.6%	22.7%	40.3%	41.0%	42.0%	42.2%
3,859	3,129	2,612	2,527	2,573	2,525	1,463	1,295
14,800	11,620	12,001	10,079	7,517	7,046	5,901	5,387
24,521	22,071	20,131	19,951	11,767	11,148	10,024	9,486
18,769	17,304	15,157	16,132	12,476	13,074	10,996	11,477
1,383	1,190	1,382	1,190	2,424	2,285	940	930
1,436	1,373	1,204	1,144	435	432	435	432
917	697	719	695	54	52	54	52
720	596	716	594	868	829	868	829
902	771	881	771	440	435	440	435
43	46	43	46	30,058	29,701	25,593	24,908
56,548	49,451	44,956	44,249	54	59	54	59

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)

	2015	2016	16/15
Absenteeism⁽¹⁾			
Due to illness	3.91%	4.20%	7%
Due to work accidents	0.72%	0.81%	13%
Maternity leave	0.75%	0.62%	-17%
Health and safety			
Total workplace accidents ⁽²⁾	2,256	2,381	6%
Number of fatal workplace accidents	1	0	
<i>Frequency rate of workplace accidents⁽³⁾</i>	30.93	33.35	8%
<i>Severity rate of workplace accidents⁽³⁾</i>	0.96	1.00	4%
Training			
Number of training hours by employee ⁽⁴⁾	29	29	1%
Disabled staff⁽⁵⁾			
Total staff with disabilities	1,560	1,617	4%
Total staff with disabilities recruited during year	12	16	33%
Yearly spending in the sheltered sector in €m ⁽⁶⁾	16	20	25%
Signed collective agreements	22	25	14%

(a) Data in italics concerns only Air France in Continental France and the French overseas territories.

Air France subsidiaries

	2015	2016	16/15 Pro forma ^(a)	2015 Pro forma ^(a)
Scope of reporting for Air France subsidiaries	71%	70%	0%	70%
Health and safety				
Total workplace accidents ⁽²⁾	1,031	423	-8%	462
Training				
Number of training hours by employee ⁽⁴⁾	22	27	-27%	37
Disabled staff⁽⁵⁾				
Total staff with disabilities	605	137	4%	133
Total staff with disabilities recruited during the year	10	5	25%	4
Signed collective agreements	40	22	-4%	23

(a) Those data exclude Servair group information.

(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)

	2015	2016	16/15
Absenteeism⁽¹⁾			
Due to illness	5.97%	6.35%	6%
Due to workplace accidents	0.11%	0.10%	-9%
Maternity leave	0.53%	0.49%	-8%
Health and safety			
Total workplace accidents ⁽²⁾	232	197	-15%
Number of fatal workplace accidents	0	1	
Frequency rate for workplace accidents ⁽³⁾	5.12	4.55	-11%
Severity rate of workplace accidents ⁽³⁾	0.18	0.17	-6%
Training			
Number of training hours by employee ⁽⁴⁾	31	27	-11%
Disabled staff⁽⁵⁾			
Total staff with disabilities	732	739	1%
Signed collective agreements	3	1	-67%

(a) KLM: data concerns KLM without international staff.

KLM Subsidiaries

	2015	2016	16/15
Scope of reporting for KLM subsidiaries	94%	94%	0%
Health and safety			
Total workplace accidents ⁽²⁾	86	90	5%
Number of fatal workplace accidents	0	0	0%
Frequency rate for workplace accidents ⁽³⁾	8.62	7.94	-8%
Severity rate of workplace accidents ⁽³⁾	0.29	0.29	0%
Training			
Number of training hours by employee ⁽⁴⁾	38	48	27%
Disabled staff⁽⁵⁾			
Total staff with disabilities	89	97	9%
Signed collective agreements	6	7	17%

(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 in order 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, a department of KPMG SA, 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 French Code of Commerce, it has been the responsibility of our Independent Third Party Body to:

- attest that the required CSR information is presented in the management report or, in the event of omission, is the subject of an explanation in application of paragraph three of Article R. 225-105 of the French 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 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.

One entity exceeding the above thresholds, BlueLink International CZ, is excluded from the scope due to difficulties currently being

encountered with its inclusion in the reporting process. Note that the number of employees for Air France and KLM and its subsidiaries comprises their entire workforces including staff employed internationally:

- for the 2016 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, BlueLink, CRMA, HOP!, Sodexi and Transavia France, representing 70% of the employees of the subsidiaries in the Air France Group;
- for the 2016 financial year, the KLM consolidated subsidiaries are: Cygnific, Cobalt Ground Solutions, KLM UK Engineering Limited, KLM Cityhopper (UK and B.V.), Transavia, KLM Catering Services Schiphol B.V. and Martinair, representing 92% of the employees in the subsidiaries of the KLM Group.

In 2016, Airlinair, Britair and Regional were regrouped within HOP! The Servair Group was withdrawn from the scope.

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 2016 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 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 Sustainable Development 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 2016 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 2016, the Air France Group employees in the French overseas Territories and Dominions, *i.e.* 695 employees, are included in the Caribbean and 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 are 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 13% 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 6% of Air France-KLM Group 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 Transavia and Cobalt Ground Solutions subsidiaries 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 Territories and Dominions, were on the payroll on December 31, 2016 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.

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 2016 was not yet known on the date the figures for the reporting of the NRE social indicators were produced within the framework of the management report and 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, 2016, for whom a valid certificate, pursuant with 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. 2016 saw the disclosure of more comprehensive information on greenhouse gas emissions, food waste and the circular economy.

At the end of 2016, Air France and KLM worked on analyzing the materiality of their main priorities. In early 2017, a survey will be sent to a representative panel of stakeholders (customers, shareholders, public authorities, NGOs, employees, partners, etc.), and to the Group's management bodies. The results will enable the updating of the materiality matrix, identifying the challenges deemed to be priorities in the light of both the Group's strategy and stakeholder expectations.

For the Sustainable Development Goals, a number of initiatives 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 taking place in 2016:

Employees

- "Trust Together" survey: within the framework of the preparation for Air France-KLM's new strategic plan, "Trust Together", all the employees of Air France and its subsidiaries HOPI, Transavia, and KLM were consulted between September 19 and October 7, 2016. Everyone was invited to respond to an online

questionnaire, aimed at evaluating their level of confidence in the Air France-KLM Group's ability to rise to its challenges and express their views on the priorities and actions to be undertaken to rebuild trust. 13,700 employees replied to this questionnaire, whose results were the subject of a presentation to all employees;

- annual CSR perception survey realized every two years: in 2015, more than 13,000 Air France employees pinpointed the actions that they deemed to be priority: reducing and recycling waste, offering innovative and sustainable products and services, guaranteeing high standards of health and safety in the workplace, supporting humanitarian and environmental initiatives, protecting and promoting human rights. Air France and KLM employees will receive the CSR materiality survey in early 2017;
- survey on the commuting habits of Air France employees based in the Île-de-France region, realized every two years: in 2015, the survey was organized by the *R'Pro'mobilité* inter-company association, of which Air France is a member, and which was established to facilitate travel for employees at the Paris-Charles de Gaulle hub. 4,400 employees from the seven member companies of the association replied to this survey;
- on the Air France-KLM Yammer platform, the "Air France Takes Care" and "CSR at KLM" groups were created to encourage employee communication and interaction. As of the end of 2016, the shared information and discussion forums have been open to all employees.

Customers

- CSR perception survey of "Flying Blue" customers: this survey enables a better understanding of customer expectations and the identification of issues they deem to be priorities. More than 1,900 customers replied to the CSR Monitor survey realized in May 2016, expressing their views on the issues and actions they consider key, and ranking the development of renewable energies in first place. Fleet modernization, the use of renewable energies and waste recycling also emerged as significant levers;
- 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;
- KLM customers and suppliers participated in a CSR seminar on The Future of Mobility during the KLM Open Golf tournament;
- social media: Air France and KLM have 23.1 million fans on Facebook, 3.6 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). Both Air France and KLM communicate extensively via the social media.

Partnerships and NGOs

- WWF-Netherlands: WWF-NL participated in the brainstorming process on KLM's CSR strategy between 2007 and 2015, notably on biofuels and sustainable catering;
- associations dedicated to CSR: as a member of associations like *IMS-Entreprendre pour la Cité*, *Entreprises pour l'Environnement* (EpE), *Orée*, *Comité 21* and Global Compact France, Air France maintains a permanent dialogue with experts and other French companies;
- UNICEF Netherlands: partners with KLM to promote knowledge and increased expertise on the issue of Children's Rights impacted by the airline sector, aimed at raising awareness on this subject.

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 are committed to respecting and applying 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.

In 2016, Air France, KLM and Air France-KLM all appointed Compliance Officers, tasked with pursuing the implementation of the Compliance programs within the Group.

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.

Furthermore, particular attention is paid to children's rights. Since 2013, KLM has been working with UNICEF Netherlands on Children's Rights and Business Principles (CRBP) and their impact within the Company.

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 and business integrity, confidentiality and respect of the CSR commitments.

Air France has drawn up and circulated to all employees a Compliance Update 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-Corruption Manual, circulated in late 2013, is available to all Air France and KLM employees in French and English. It is currently being deployed within the Air France Group subsidiaries. At the end of 2014, the Manual was supplemented with 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, then 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 13,300 Air France and KLM employees were offered this training module in 2015 and 2016.

Compliance with competition law

Air France-KLM has implemented a compliance policy to prevent anti-competitive practices by circulating the Air France and KLM Competition Law Compliance Manual to all employees. A range of prevention tools are at their disposal including, notably, a hotline dedicated to competition law and specific training by the Group's lawyers.

In October 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 will also be circulated to employees of 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 businesses are subject to extensive 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 January 2015, the Air France and KLM certification was renewed for a two-year period.

To achieve the highest attainable standard of flight safety, the two airlines continuously update and upgrade their respective Safety Management Systems (SMS) which deal specifically with the management of 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, health and safety in the workplace, service quality, operational performance, the environment, 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 a wealth of European and local regulations, imposing ever-stricter requirements: the auditing of suppliers, micro-biological and temperature analyses, staff training in the best hygiene practices, consumer information, etc. The two airlines have put in place quality control procedures to comply with these requirements.

Air France based its quality 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 an integral part of the Company's Integrated Management System. In 2016, the "Food services in the Paris departure lounges" process was included in the certification scope. The audit of the three chosen lounges, the *La Première* lounge and the Business lounges in CDG's terminals E-K and E-L) proved successful in that they now have ISO 22000 certification. In May 2017, within the framework of the forthcoming IMS unique certification audit, there will be a comprehensive audit of the scope aimed at renewing the ISO 22000 certification for a three-year period.

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 of 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. Air France's A380s also have a fully-equipped medical area.

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 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 2016, the KLM Group was the third largest private sector employer in the Netherlands with 29,701 of the 65,000 directly-generated jobs in the Schiphol catchment area.

With more than 38,600 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: 74% of Air France's procurement in France (excluding fuel) comes from the Paris region, and represents a total of €2.1 billion in France.

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. In the Île-de-France region, the airline industry represents 115,000 direct jobs, *i.e.* 2% of regional employment. Including indirect and spin-off jobs, the industry generates more than 270,000 jobs linked to aviation. 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.

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.

Air France partners Paris&Co and is a member of start-up incubators (Welcome City Lab, Starburst). Within the framework of the Lab'line for the Future operation, four projects supported by seven French start-ups were selected to test their products on the Toulouse-Orly route and benefit from an innovative "miles" crowd-funding program: "Flying Blue" members can donate their "miles" to these start-ups to help them with their development projects. Following this first Lab, one of the start-ups won a contract for a commercial offer with Air France.

Air France's Start Tech Lab project foresees the progressive roll-out of a "lab" network to meet the specific needs of different types of customers. Since these young companies are fragile, the Company also plans to support them in their financial and international development.

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, supports tourism in France with *Atout France* and the French bid for the 2025 universal exposition and, in 2015, signed a partnership with the French Ministry of Culture to showcase France's artistic and cultural heritage.

A permanent dialogue with local communities around airports

Air France and KLM maintain a pro-active and transparent dialogue with all the 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 *Alders Table*. 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 for elected representatives and other stakeholders to present their activities and engage in dialogue on matters like sustainable development and innovation. In January 2016, a Regional Meeting organized at the Air France head office enabled local stakeholders to learn more about the Company's action to reduce the environmental footprint of its operations and develop the dynamism of the region.

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 Europe* and *Hubstart Paris* associations to reinforce the international profile and economic attractiveness of Paris-CDG airport.

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.

For more than five years, Air France has invited school children from priority districts to spend a week learning about some of the Air France professions. In 2016, this initiative was repeated with 28 pupils from eight local schools having been welcomed to the airline's head office. Educational and vocational "1, 2, 3... professions" workshops gave the young visitors an unparalleled vision of the career opportunities in the corporate sector. Furthermore, in 2016, Air France joined a new inter-company initiative, again within the framework of the youth scheme. A second group of 27 pupils, also from schools in the region, was welcomed and given the opportunity to learn about four companies and four different professions in one week, including Air France.

In March 2016, for its debut contribution to the National Youth Day, under the auspices of the French Ministry of Education and the Economic and Social Council, Air France invited school children on a behind-the-scenes visit to the hub and visited pupils in the Île-de-France academies with its association partner Airemploi.

Since 2013, KLM has partnered the Luchtvaart College Schiphol (Schiphol Aviation College), a Schiphol Group and ROC Amsterdam initiative. 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 trains air transport industry apprentices at its training center which provides 25% of the training for the air transport professions in France.

473 young apprentices trained in 2016 of whom 233 were welcomed by Air France.

Airemploi offers information on career opportunities and training courses in the air transport and aeronautical professions.

In 2015-16, 187 *Terre et Ciel* conferences attended by 3,916 school children, six workshops with 88 careers advisors, participation in professional and qualifications-oriented campuses, 27 trade fairs and seminars involving 2,400 people.

Organization of an *On Va Mixer* competition: music videos produced by young people on the "Future logistics: direct flight to diversity theme". The aim: encourage a balanced mix between men and women, promote apprenticeship and showcase the logistics professions.

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 2016, 55 interns completed a foundation course leading to a qualification (Regional Council of the Île-de-France) or operational readiness training (*Pôle emploi* employment agency and OPCALIA) within Air France, a program implemented in partnership with the local support agencies in the Île-de-France region, the *Pôle emploi* and *Cap emploi* employment agencies and the Aviation Apprentice Training Center (CFA).

More than 350 interns also received support from JEREMY with a professional project in the aviation sector.

The vocational integration associations FACE 93 (*Fondation Agir contre l'Exclusion*), FAIRE (*Formation d'Aide à la Réinsertion*), *France Active*, and the local agencies.

Through its Sodesi subsidiary, Air France runs workshops on finding a job and creating companies addressing specific populations (prison inmates, young people, participants in vocational integration schemes).

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. Concretely, Air France-KLM supports development projects in various different ways:

Long-term programs and humanitarian partnerships

Air France works to help disadvantaged children through its Corporate Foundation which is involved in 84 projects across 38 countries.

For more than three decades the airline has partnered the Acting for Life NGO, which promotes child protection, economic development and sustainable tourism.

Air France supports *Aviation Sans Frontières*, providing it with financial assistance and transport facilities for crews 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 2016, 1,074 sick children were carried on board flights with the airline and 7,828 packages of drugs and minor medical supplies were shipped to 26 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 flights to so-called at-risk destinations.

The KLM Takes Care program partners UNICEF Netherlands and five other organizations: Close the Gap, Doctor2Doctor, Aviation Without Borders, Wings of Support and SHO.

In partnership with a number of treasured Dutch cultural icons, 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.

A total of 184 million miles were donated by members of the "Flying Blue" frequent flyer program to partner associations in 2016.

Logistical support

In 2016, through more than 42 partnerships with NGOs providing medical assistance to children, the Air France Humanitarian Aid department issued 428 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.

In 2016, KLM also donated tickets and excess baggage to charitable organizations and, following the April 16 earthquake, carried tons of relief goods from the Netherlands to Ecuador 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 2016 and was realized with some 3,700 contractual suppliers. 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 combined 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. In 2016, more than two-thirds of the contractual suppliers had demonstrated their CSR commitment. 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 products or services, 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 a services provider specialized in the evaluation of suppliers based on Corporate Social Responsibility criteria. Those not reaching an acceptable level will have to implement remedial measures to meet the Procurement division's requirements. At Air France, these cases are discussed during the quarterly steering committee meetings, overseen by the Procurement and CSR divisions.

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 encouraged to sign a Code of Ethics outlining the ethical rules to be followed when dealing with suppliers. With respect to the French buyers, this commitment was updated in 2015. This document, the 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.

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, during 2014, a Supplier Relations Management Program (SRM) was deployed. This program is based on building long-term relationships between Air France-KLM and strategic suppliers, enabling issues like Corporate Social Responsibility to be central to their discussions and to move forward together on these points. In 2015, the SRM was deployed in the procurement domains and established in close liaison with the businesses. Suppliers are deemed to be SRM suppliers when they qualify having first been segmented. In the different domains, the SRM program now applies to fifteen suppliers, ranging from aircraft interior cleaning companies, like Asito and Kluh, to handling companies like Swissport, IT companies like TCS and facility management companies like Atalian and Sodexo.

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 €20 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 2016, Air France Procurement launched a co-development trial with a start up for a procurement tool.

In 2016, for the fourth time, the Group obtained the SME label through the measures pursued within the framework of the Innovative SME Charter.

The Air France and KLM CSR departments participate jointly with Procurement in responsible purchasing working groups organized by AFNOR and others.

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 contractual procurement in 2016, 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 €2.7 billion in 2016.

Taking into account social and environmental priorities

The obligations of suppliers in terms of the environment and occupational 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 of sub-contractors is monitored by a performance indicator included 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.

In 2016, KLM refocused its sustainable catering policy in partnership with suppliers to contribute to the preservation of the environment, Human Rights and animal welfare. This sustainable and responsible catering policy focuses on products with less impact on the environment, particularly fish, soy and palm oil.

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 and targets.

At Air France, the Environment and Sustainable Development policy is overseen by the Executive Vice-President responsible for corporate administration and transformation steering, 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 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 Systems. 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 2016, 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. Assisted by 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 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 2014 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, 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, etc.). During the Sustainable Development Week in May 2016, a forum dedicated to sustainable development and a competition on the eco-mobility theme and commuting were organized at Air France;
- in-house communication channels provide information on the environmental initiatives. In late 2015, at Air France, information on the COP21 conference was circulated while, in October 2016, a Manager Info newsletter was published devoted to the adoption by the ICAO of the agreement on CO₂ emission offsetting in the aviation industry. At KLM, various environmental initiatives supported by employees were shared *via* the internal NewsApp and CSR at the KLM page in 2016;
- lastly, employee awareness of sustainable development is raised through regular in-house surveys to garner their perceptions and suggestions.

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 must be 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 "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.

The management of ICPE classified installations, whose functioning represents a risk for the environment, is the subject of specific monitoring. The Company numbers some 150 classified sites, of which 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 the 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. Air France's ICPE sites in France are included in the Group's environmental reporting.

In 2016, 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. This system implements risk management measures and monitors the results. The integration process will continue in 2017.

Environmental risk management also involves the inventorying and analysis of any in-field incidents and malfunctions. At Air France, such events are recorded and handled in the e-CARE tool. e-CARE is also a management system for operational incidents and compliance audits. It records all of the data relating to flight safety, customer service, the environment, occupational health and safety, security and food hygiene.

Lastly, a feedback system has been established in all the Air France and KLM operational divisions to record environmental incidents, enabling the analysis of environmental incidents and the implementation of risk prevention plans at Group level. The Air France Environmental managers regularly meet to review, at corporate level, any 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.

The monitoring and feedback systems embedded in the Environmental Management System enable any cases of non-compliance with the relevant requirements (regulations, standards, internal reference frameworks, stakeholder requests). 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.

Lastly, Air France and KLM have developed innovative participatory approaches encouraging employees to submit suggested improvements.

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, the French 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 Air France and KLM's 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 installation of new cabins, thereby offering passengers a higher standard of comfort, achieving substantial fuel savings and respecting its sustainable development commitments by reducing greenhouse gas 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 2016, the Air France Group's contribution (Air France, Transavia and HOP! Air France) to the Airport Noise Tax (TNSA) paid to the French State amounted to €17.6 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 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 CO₂, SO₂, NO_x and HC.

Most of these gas and particle emissions come from aircraft movements. The remainder is produced by the ground operations and the maintenance activities, airport logistics and road travel by passengers, employees and suppliers.

Air France-KLM reduces its local emissions through three 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 Auxiliary Power Units to ensure the functioning of on-board systems, replacing the auxiliary generators on kerosene-powered aircraft.

Air France is implementing 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 creating a car pooling website.

As of December 31, 2016, 1,148 Air France employees were registered as remote workers (alternating and temporary remote working). These fewer journeys to/from work representing more than 2.5 million kilometers, enabled a saving of 610 tons of CO₂ equivalent.

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 34% reduction in the Air France-KLM Group's noise footprint between 2000 and 2016, whereas the number of aircraft movements increased by 14% over the same period.

Specific solutions are also sought to reduce the noise emissions from aircraft. For example, local residents' associations had identified a specific issue with noise coming from the A320 in the approach phase. As soon as a technical solution was available, and although there was no regulation requiring this, Air France decided to fit it on all the aircraft in its medium-haul fleet. In 2016, Air France finished equipping its medium-haul aircraft (A320 family) with Air Flow Deflector noise-reduction kits. A number of residents' associations have reported the positive impacts coming from this measure: reduction in overall noise energy, faster emergence from noise as aircraft pass over, disappearance of the characteristic whistling sound.

Air France and KLM are committed to building relationships 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 the 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 Regional Consultative Committee (CROS).

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. In 2016, Air France was actively involved in a Night Flights working group, overseen by the Prefect of the region for Paris-Charles de Gaulle. 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 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. The target set for 2016 was to increase the recycling rates for both hazardous and non-hazardous waste by two percentage points (relative to their level in 2015). 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.

Similarly, in 2016, KLM redefined its goals by refocusing them on waste prevention, reduction and recycling, except for waste where recycling and recovery is not legally permitted. KLM has already achieved its 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 the halving of residual waste by 2025.

The Group implements recycling initiatives and is developing the principle of eco-design to reduce the overall impact of waste. For example, at Air France and KLM, 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 beakers. Glasses, cans, aluminum lids and PET plastic bottles are also sorted and recycled.

KLM Catering Services runs programs to continuously improve its waste management: reduction in waste, increase in the recycled portion and identification of the appropriate reprocessing facilities. Pursuant to the European Regulation, all food waste produced on the international routes is incinerated and used in energy generation.

Air France and KLM have 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 technical waste. The process foresees procedures to reuse and recycle spare parts. This program has been extended to four 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.

Every year, KLM Engineering & Maintenance evaluates the flows of waste that can potentially be reused or recycled. Since 2015, the program has focused on plastic waste and on the conditions for recycling the plastic components of aircraft cabins. KLM has opened a plastics repair workshop where aircraft components, that would previously have been systematically replaced, are repaired and recycled.

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 working clothes, 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.

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 2016, 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 avoid the destruction of products and promote reuse, in January 2017 Air France signed a framework agreement with the *Agence du Don en Nature* (AND). 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. A similar operation was realized in late 2016 with *La Mie de Pain*, an association supporting homeless people, to which Air France donated 51,800 blanket kits.

In 2015 and 2016, Air France supported the *Circ'R le Tour du Monde de l'Economie Circulaire*, a travelling project covering 22 countries, to discover more about 100 initiatives oriented towards the circular economy and the promotion of best practices.

KLM sorts 19 types of waste, paper, wood and glass 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.

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 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 really 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 CO₂ emissions.

To regularly renew the in-flight service proposition, a number of products, like wines, 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. 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 waste minimization.

Sustainable use of resources

Water consumption and the water supply adapted to 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 and KLM use 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.

Reducing water consumption 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. CO₂/passenger/km).

The main lever is fleet renewal since modern aircraft are more fuel efficient. The average age of the group's fleet is 10.7 years.

Operational measures can also significantly increase aircraft fuel efficiency. These cover four main areas:

- aircraft: reducing the mass loaded on board, reducing 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 (including fuel consumption). This approach has enabled the establishment of fuel consumption management targets for 2017, particularly on the green procedures and fuel loading.

In 2016, the Flight Efficiency department stepped up its communication with pilots regarding a reduction on the amount of 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 2016, within the framework of the Climate Action Plan, KLM saved 4,800 tons of fuel thanks to the deployment of operational measures like fleet renewal and weight reduction.

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 the efficiency of ground operations by 2020 (relative to the 2011 level) in eq. kWh/m², by optimizing energy consumption and increasing the use of renewable energies.

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.

In addition to the 2020 target, Air France set itself a target for 2016 corresponding to a 2% reduction in electricity consumption (in kWh/m²), thanks to the upgrading of equipment and the inclusion of this target in supplier contracts. Since 2014, Air France has sub-contracted the maintenance and operation of its facilities for both its industrial premises and aeronautics maintenance and cargo hangars and for tertiary buildings. Amongst other things, the contracts foresee incentives for the improvement of energy efficiency.

Initiatives have been launched at all Air France sites like, for example, at Valbonne, in southern France, where the bulk of the IT servers are located. The implementation of new energy-efficient equipment has enabled a 2% reduction in electricity consumption. Within the framework of this renovation, Air France also installed an exchanger enabling the heat generated by the air conditioning system to be reused to heat the tertiary buildings, meeting 100% of these buildings' heating requirements.

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 aircraft maintenance and tertiary activities, also generate indirect greenhouse gas emissions (scope 2) through electricity consumption and climate comfort.

Every year, the Group reports its scope 1 CO₂ emissions. These emissions are published in the form of indicators presented in environmental indicator tables (see section 4.6).

Within the framework of the expanded reporting of greenhouse gas emissions, as of this year Air France-KLM reports greenhouse gas emissions for scopes 1 and 2 and also the indirect emissions from the upstream phase in kerosene production (extraction, production, distribution, etc.) falling within scope 3. The other scope 3 components are the purchasing of goods and services, and employee commuting and passenger travel. Air France calculates these three components every four years, pursuant to Article 75 of the Grenelle II Act (GHG reporting).

Air France-KLM Group	2016
(in tonnes)	
Scope 1: GHG emissions from the flight and ground operations	28,229,369
Scope 2 and 3: GHG emissions from the ground operations (electricity and climate comfort) and upstream kerosene	2,485,277

(1) Total greenhouse gas emissions: CO₂ (97%), CH₄, HFC, N₂O.

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 access to information on the CO₂ emissions linked to their journeys and offering them offsetting opportunities;
- 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 on proposing 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 CO₂ emissions, particularly *via* market-based mechanisms;
- by 2050, a 50% reduction in CO₂ 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). Currently limited to the scope of intra-European flights, the EU-ETS should be considered a first step towards a global system whose main principles, known as CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), have just been approved by the ICAO. Air France, KLM and the other International Air Transport Association (IATA) airline members all contributed and continue to work on defining the implementation conditions for this agreement.

Presented during the 39th ICAO Assembly, the resolution defining CORSIA, the new global market-based mechanism (MBM) to offset CO₂ emissions from aviation and targeting carbon neutral growth relative to the 2020 reference, was adopted in the plenary session of October 6, 2016. This is a historic agreement wherein aviation is the first economic sector to address climate change at global level.

CORSIA implementation will begin with a first phase from 2021 to 2026, based on a voluntary contribution from the States, more than 60 countries already having declared their intention to participate. The following phase, staggered over 2027 to 2035, will be mandatory and will concern virtually all the States.

This new system aims to supplement the basket of mitigation measures already deployed by the international aviation industry to reduce its CO₂ 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 thus replace the EU-ETS as of 2021 for the scope of international flights.

Sustainable alternative biofuels

Sustainable alternative biofuels constitute one of the most promising avenues to reducing CO₂ emissions from aviation. They are key to achieving Air France-KLM's CO₂ 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 before 2050 at the earliest.

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 CO₂ 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, like the European Commission's ITAKA initiative (Initiative Towards sustainable Kerosene for Aviation). This project will establish links between farmers, biofuel producers, distributors and users to break down the barriers to a commercial rollout.

Supporting regulatory incentives: Air France and KLM are involved in the Biofuel Flightpath 2020 European initiative, which aims to produce two million tons of sustainable biofuels in Europe by 2020. Air France is participating in the Ini-FCA French Future Alternative Fuels Initiative, led by the French Civil Aviation Authority, working towards the production of 200,000 tons of biofuels in France by 2020.

Innovating in the supply chain: in 2010, in cooperation with Argos and Spring Associates, 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-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 refuelling process. This initiative was implemented for the first time at Oslo airport in Norway during March 2016 and also involved KLM, the latter operating 83 flights using biofuel between Oslo and Amsterdam.

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 2016, the Dutch Ministry of Infrastructure and the Environment became the first national government authority to join the KLM Corporate BioFuel Program.

Between September 2014 and January 2016, within the framework of the Lab'line for the Future project, Air France operated a weekly biofuel-powered flight between Toulouse and Paris-Orly, totaling 54 flights. This initiative benefited from the support of fourteen partners. In 2016, during the Cannes Film Festival, Air France pursued this initiative by operating 24 flights between Nice and Paris, with the support of partners, the Provence-Alpes-Côte d'Azur region and Nice airport. In October 2016, Air France published a White Paper on this project. By resuming the objectives, results and lessons learned from this operation, together with the testimonies of the main partners, this document presents the results of Lab'line for the Future and outlines the potential follow-up to this project.

Mandatory and voluntary emission offsetting

The Group's airlines are subject to the European emissions trading system (EU-ETS). Until the end of 2016, the EU-ETS application scope was limited to intra-European flights (so-called 'stop-the-clock' provision), aimed at ensuring that aviation emissions in Europe did not exceed the ETS cap (95% of the average 2005 emission levels).

On their websites, Air France and KLM also offer their customers an opportunity to offset their CO₂ emissions on a voluntary basis, by making CO₂ emission calculators available. 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 implementing waste recycling projects in Madagascar. These offsetting projects are systematically evaluated and registered for accreditation with the most exacting international labels, particularly the Gold Standard (GS) and the Voluntary Carbon Standard (VCS).

The Gold Standard CO₂ offsetting through KLM's CO₂ZERO program and the launch of the KLM BioFuel program for corporate customers enables KLM customers to take part in CO₂ emission saving and contribute, on a voluntary basis, to creating the market for sustainable bio-kerosene.

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. The impacts of climate change will concern the entire planet but their consequences will be more or less serious depending on the world region: more frequent extreme weather events, disruption of certain ecosystems, falling agricultural yields, increased health risks, 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 operates in all weather conditions. It has thus already 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 CO₂ emissions it generates.

The Holistic Forestry Conservation Program in Madagascar, supported by Air France since 2008 and co-founded by the French Development Agency (AFD) and the French Global Environment Facility (FFEM) since 2014, contributes to the development of 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.

KLM also contributes to combating deforestation *via* its CO₂ZERO-projects in several African countries. These projects aim, in particular, to develop the use of efficient cooking stoves to replace traditional techniques.

The investment in these projects, aimed at advancing knowledge and preserving biodiversity, also contributes a better understanding of the issues surrounding ecosystem services like sustainable biofuel production. Some research claims that certain types of sustainable alternative 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! is supporting 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 HOP! Biodiversity project was launched under the aegis of an independent scientific committee composed of multidisciplinary academics (Natural History Museum, CNRS, conservatories).

At the end of 2016, two years after its launch, HOP! Biodiversity, which became an association in June 2015, regrouped two airlines (HOP! Air France and Air Corsica), fourteen airports, the Natural History Museum and the *Direction Générale de l'Aviation Civile* (DGAC), all of which have made this project an integral part of their sustainable development policies. The program is recognized by the French Ministry of Ecology, Sustainability and Energy as part of the National Strategy for Biodiversity. In November 2016, it was recognized by the Secretary of State for Biodiversity within the framework of the *Biodiv en Action* initiative. HOP! Biodiversity was presented within the framework of the events organized during the COP22 United Nations climate change conference in November 2016.

A commitment to 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 sustainable catering policy focuses primarily on environmental preservation in production areas but also takes Human Rights and working conditions into account. Emissions from transportation and packaging waste are also accounted for in the procurement process. In view of their impact on the environment, particular attention is paid to fish, palm oil and soy. 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. Since 2009, KLM has maintained a sustainable catering policy in partnership with its suppliers to contribute to the preservation of the environment, Human Rights and animal welfare. KLM is actively working on its objective of replacing products containing palm oil and non-responsible soya with sustainable products. A number of products that are responsibly labelled, local and respectful of animal welfare are served on board (on departure from Amsterdam), like MSC-certified fish, eggs and chicken. UTZ-certified coffee is served on all KLM flights and in its passenger lounges at Schiphol and administrative offices.

4.6 ENVIRONMENTAL INDICATORS

4.6.1 Flight Operations

Environmental indicators		Unit	2014	2015	Air France-KLM Group	
					2016	16/15
Consumption						
Consumption of raw materials	Fuel ✓	ktonnes	8,755	8,752	8,681	-0.8%
Emissions						
Greenhouse gas emissions	CO ₂ ⁽³⁾ ✓	ktonnes	27,577	27,569	27,344	-0.8%
Emissions of substances contributing to acidification and eutrophication	NO _x low altitude (<3,000 ft)	ktonnes	9.9	10.2	9.8	-3.9%
	SO ₂	ktonnes	11.8	11.8	12.7	7.6%
	SO ₂ low altitude (<3,000 ft)	ktonnes	0.89	0.88	0.93	5.7%
In-flight fuel jettison	Occurrences of fuel jettison	number	36	N/A ⁽⁴⁾	N/A⁽⁴⁾	
	Fuel jettisoned	tonnes	1,283	N/A ⁽⁴⁾	N/A⁽⁴⁾	
Other emissions	HC low altitude (<3,000 ft)	ktonnes	0.8	0.8	0.8	0.0%
Noise impact						
Global noise energy indicator		10 ¹² kJ	1.54	1.70	1.65	-2.6%

✓ Figures verified by KPMG for 2016 (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) Greenhouse Gas Protocol scope 1.

(4) Data not available in 2015 and in 2016.

Air France Group ⁽¹⁾				KLM Group ⁽²⁾			
2014	2015	2016	16/15	2014	2015	2016	16/15
4,903	4,886	4,883	0.0%	3,852	3,866	3,798	-1.8%
15,443	15,392	15,382	0.0%	12,134	12,177	11,962	-1.8%
6.0	6.2	6.2	0.0%	3.9	4.0	3.6	-10.0%
6.9	6.8	6.4	-5.9%	4.9	5.0	6.3	26.0%
0.56	0.55	0.51	-7.2%	0.33	0.33	0.42	27.0%
20	N/A ⁽⁴⁾	N/A⁽⁴⁾		16	10	12	20.0%
671	N/A ⁽⁴⁾	N/A⁽⁴⁾		612	318	493	55.0%
0.6	0.6	0.6	0.0%	0.2	0.2	0.2	0.0%
1.03	1.02	1.00	-2.0%	0.51	0.67	0.65	-3.0%

4.6.2 Ground Operations

					Air France-KLM Group				
					2016	16/15 Pro forma ⁽⁴⁾			
					Unit	2014	2015	2016	16/15 Pro forma ⁽⁴⁾
Consumption									
Water consumption		m ³	792,767	806,038		546,622		3.3%	
Electricity consumption		MWh	374,064	366,243		297,768		-5.0%	
Consumption of other energies		MWh	451,626	446,276		375,972		-4.1%	
Emissions									
Greenhouse gas emissions	CO ₂ ⁽³⁾	tonnes	78,842	76,807		63,255		-4.1%	
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC	tonnes	107	98		78		-20.4%	
	Emissions of HC	tonnes	158	145		126		-3.9%	
Emissions of substances contributing to acidification and eutrophication	NO _x	tonnes	638	622		511		-1.7%	
	SO ₂	tonnes	14.5	7.8		6.8		4.6%	
Waste									
Waste production	Quantity of non-hazardous industrial waste	tonnes	57,895	55,259		19,896		-7.4%	
	Quantity of hazardous industrial waste	tonnes	5,808	6,291		6,445		3.8%	
	% of hazardous industrial waste recovered	%	51%	58%		69%		+11pts	
Effluents									
Compliance rate of effluents with regulatory limits	Nitrogen compounds	%	100%	100%		N/A⁽⁶⁾		N/A ⁽⁶⁾	
	Phosphorus compounds	%	98%	97%		N/A⁽⁶⁾		N/A ⁽⁶⁾	
	Metals ⁽⁵⁾	%	100%	99%		N/A⁽⁶⁾		N/A ⁽⁶⁾	

(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. EPCOR has been included for waste since 2014.

(3) Greenhouse Gas Protocol scope 1.

(4) Pro forma calculated without Servair figures.

(5) Cr, Cd, Ni, Cu, Pb, Sn et Zn.

(6) Data not available for the Air France Group in 2016.

		Air France Group ⁽¹⁾			KLM Group ⁽²⁾		
2014	2015	2016	16/15 Pro forma ⁽⁴⁾	2014	2015	2016	16/15 Pro forma
640,588	649,494	390,629	4.8%	152,179	156,545	155,993	-0.4%
279,945	276,265	210,721	-5.8%	94,119	89,978	87,047	-3.3%
260,891	244,557	185,560	-4.0%	190,735	201,719	193,412	-4.1%
36,704	33,466	21,679	-4.2%	42,138	43,341	41,576	-4.1%
55	52	42	-19.2%	52	46	36	-21.7%
100	91	75	-2.9%	58	54	51	-5.6%
387	426	321	-0.9%	251	196	190	-3.1%
11.1	4.8	3.1	-11.5%	3.4	3.0	3.7	23.3%
40,269	38,604	4,025	-16.9%	17,626	16,655	15,871	-4.7%
4,280	4,730	3,985	-15.7%	1,528	1,561	2,459	57.5%
43%	51%	56%	+5pts	75%	79%	90%	+11pts
94%	100%	N/A ⁽⁶⁾	N/A ⁽⁶⁾	100%	100%	100%	Opt
97%	95%	N/A ⁽⁶⁾	N/A ⁽⁶⁾	100%	100%	100%	Opt
100%	99%	N/A ⁽⁶⁾	N/A ⁽⁶⁾	100%	98%	100%	+2pts

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 exclusion of any information is explained in accordance with paragraph 3 of article R. 225-105 of the French 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 CSR Information)⁽¹⁾.

Furthermore, the data relating to the “fuel consumption” and “CO₂ emissions” indicators linked to the air 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, 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 activity of the Air France Group) was divested in 2016. The scope covers nearly 100% of the sites in France and the Netherlands (some very small subsidiaries being excluded). The international and overseas outstations are not taken into account.

- in 2016, the Air France consolidated subsidiaries are: HOP!, CRMA, Sodexi, BlueLink and Transavia France.

Furthermore, for Air France, the indicators in the domestic outstations are not reported when there is no detail available on the charges invoiced by airports. The contribution of the domestic outstations affected by this issue is, however, marginal compared with the reported data.

- the KLM consolidated subsidiaries are: KLM Cityhopper BV, 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, which are available, respectively, 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 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 set at a rolling twelve months from October 1 N-1 until September 30 N.

(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.

4.7.4 Flight operations

CO₂ emissions

The CO₂ emissions are those in the Greenhouse Gas Protocol scope 1 (direct emissions).

The Air France-KLM Group's CO₂ emissions were stable between 2014 and 2016, in line with the Group's activity.

Note that there are differences between the scope of the CO₂ emissions reported and those of the European Emissions Trading Scheme for Greenhouse Gas emission quotas (EU-ETS), so comparison is not meaningful.

SO₂ and SO₂ low altitude (LTO) emissions

Note: the "low altitude" and "LTO" for Landing-TakeOff cycle denominations are equivalent.

The calculation of the SO₂ 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 2015 and 2016 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 effected 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).

For the Air France Group, the data on in-flight fuel jettison were not available in time for publication of the figures. Due to the significant volatility from one year to another linked to the exceptional nature of this type of operation, the indicator may change and cannot be estimated from a year to another.

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⁾. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

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 KLM Group, the decline in total noise energy between 2015 and 2016 is explained by fleet renewal. Martinair (MP) and Transavia (HV) were not included in the indicator calculation in 2015.

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.

Consumption of other energies

The indicator includes the different sources 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 (Paris Aéroport) at the Orly and Roissy sites. The KLM facilities do not consume this type of energy;
- jet fuel A1 for testing engines;
- domestic Fuel Oil (DFO) for power generators;
- 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).

For KLM, the energy consumption returned to normal after a weather-related increase in 2015.

Emissions from ground operations (CO₂, SO₂ and NO_x)

As for the air operations, the CO₂ emission calculation is based on the Greenhouse Gas Protocol scope 1 (direct emissions).

CO₂, SO₂ and NO_x emissions and their trends are linked to the energy consumption listed above.

For Air France, the 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.

(1) International Civil Aviation Organisation.

(2) Direction Générale de l'Aviation Civile.

The CO₂ emissions for the 2016 reporting campaign are based on the emission factors in the Ademe Carbon Database, <http://bilans-ges.ademe.fr/>, except for kerosene for which the factor is the one used by the ICAO.

The decrease in SO₂ emissions for the Air France Group is explained by a reduction of sulfur content in the Jet fuel for testing engines, and a reduction of the use of generator sets in datacenters.

Despite the decrease in fuel consumption, there was an increase in SO₂ emissions for KLM. This was due to a significant increase of sulfur content in the fuel.

NO_x emissions for the Air France Group remained stable. The figures are based on the European standards EURO I 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 vehicles and runway equipment are determined by direct measurements, or from manufacturer data or external databases.

VOC Emissions

VOC emissions are calculated based on the direct emissions of solvents contained in the products used. VOCs contained in disposed waste are excluded.

The decrease between 2015 and 2016 for Air France and KLM was due to a decline in aircraft painting activities.

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fueling.

Non-hazardous waste

Since Servair has been divested, non-hazardous waste mainly comes from the catering activity, which represented about 55% of Ground Operation waste. Last year, this type of waste represented 80% of total waste.

The 20% reduction for Air France is mainly explained by the quantity of waste which had not been communicated in time for the closing date of the reporting campaign. This represents 5% of the Air France-KLM Group data.

For the KLM Group, the decline is due to a reduction in the quantity of waste generated by the Maintenance activities.

The waste arising from demolition is not taken into account.

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 is, however, estimated to be marginal.

The reprocessing channels taken into account are those in the European Regulation.

The increase for the KLM Group is due to the fact that PFOS was found (perfluorooctane sulfonate, a former ingredient in fire-fighting foams) in the oil/water waste generated from cleaning oil skimmers. As a result, the oil separators were not cleaned for a period in 2015, leading to an increase in oil/water/sludge waste in 2016. Also in 2016, an additional oil separator was added to the cleaning program.

Effluents

Both Air France and KLM entities 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 2016.

4.8 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 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	
4.7.1 “Comply or explain”	Principle	
4.3, 4.7		
4.2, 4.6 Data comparability	G4-22; 23	Criteria 1 and 2
4.8 Reference to international reporting standards	G4-32	
4.9 Attestation	G4-33	
Certification by an independent party	G4-33	
SOCIAL INFORMATION		
Employment		
4.1 Total headcount and distribution of employees	G4-9; 10; LA1; LA12	
4.2.1		
4.1.1 Recruitment and redundancies	LA1; EC6	Criteria 3 to 8
4.1.1 Remuneration and changes in remuneration	G4-51; 52; EC1	
4.2.1		
Work organization		
4.1.1 Work time organization	LA	
4.1.1 Absenteeism	LA6	Criteria 3 to 8
4.2.2		
Labor relations		
4.1.1 Organization of social dialogue	LA4	
4.1.1 Summary of collective agreements		Criteria 3 to 8
4.2.2		
Health and safety		
4.1.3 Occupational health and safety conditions	LA5 to LA8	
4.1.3 Summary of collective agreements regarding health and safety	LA8	Criteria 3 to 8
4.1.3 Occupational accidents and diseases	LA6; LA7	
4.2.2		
Training		
4.1.2 Policy on training	LA10	
4.1.2 Total number of training hours	LA9	Criteria 3 to 8
4.2.2		

Equal opportunities

4.1.4	Measures implemented to promote gender equality	LA12	
4.1.4	Measures implemented to promote the employment and integration of disabled people	LA12	Criteria 3 to 8
4.1.4	Policy against discrimination	LA12; HR3	

Promotion and compliance with ILO fundamental conventions

4.1.4	Freedom of association and recognition of the right to collective bargaining	LA4; HR4	
4.1.4	Elimination of discrimination in respect of employment	HR3	Criteria 3 to 8
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		
4.5.1	Information and training measures for employees regarding environmental protection		Criteria 9 to 11
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	Provision for noise disturbance		
4.6.1			

Circular economy

4.5.3	Prevention and management of waste	EN23, EN25	
4.6.2			
4.5.3	Actions to combat food waste		
4.5.3	Water consumption and water supply adapted to local constraints	EN8; EN9	
4.6.2			
4.5.3	Consumption of raw materials and measures to improve the efficiency of their use	EN1; EN27	Criteria 9 to 11
4.6.1			
4.6.2			
4.5.3	Energy consumption and measures implemented to improve energy efficiency and renewable energy use	EN3; EN6; EN7	
4.6.2			
4.5.3	Land usage		

Climate change

4.5.4	Greenhouse gas emissions	EN15 to EN19	
4.6.1			
4.6.2			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 On local populations	EC8; EC9; SO1	Criteria 16 to 18 and 21
-------	---	---------------	--------------------------

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

4.9 ASSURANCE 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 2016

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.

For the year ended December 31, 2016

To the Shareholders,

In our capacity as Statutory Auditor of Air France-KLM SA, 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 31, 2016, 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 Guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request to the Environment and Sustainable Development division of Air France-KLM.

— 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 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, French professional standards 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 Group, express reasonable assurance that the CSR Information selected 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.

Our work involved seven persons and was conducted between October 2016 and February 2017 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 doctrine of the CNCC (Compagnie Nationale des Commissaires aux Comptes) and, concerning our conclusion on the fairness of CSR Information, in accordance with ISAE 3000⁽²⁾.

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.

(1) Whose scope is available at www.cofrac.fr.

(2) ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information.

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 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 conducted ten interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the 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 and listed in the tables below:

- 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 to identify potential undisclosed data, 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 and between 43% and 100% of quantitative environmental data disclosed⁽²⁾.

(1) **Environment** : Air France in France, KLM Schiphol **for ground operations**.
Air France, HOP!, KLM, KLM Cithopper and Martinair, **for air operations**.
Social : Air France and HOP! in France, KLM and Martinair in Netherlands.

(2) See the *Environmental Indicators table* in this report.

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 (<i>incl. Economic</i>)	
Absenteeism due to illness and work accidents	
Total workplace accidents with time off work	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	Assurance level
---------------------------------	------------------------

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 informations

Social	Organization of social dialogue including information procedures, consultation and negotiation with the employees Occupational health and safety conditions
Environmental	Measures of prevention, reduction or repair of discharges into the air, water and ground, impacting severely the environment Consideration of noise and of any other activity specific pollution
Societal	Territorial, economic and social impact of the Company activity regarding regional employment and development

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 the 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 the CSR Information considered the most important, but in a more extensive way, particularly regarding the number of tests.

The sample selected represents 94% of the quantitative environmental information identified by the symbol √.

We consider that this work enables us to express a reasonable assurance for the information selected by the Group and identified by the symbol √.

Conclusion

In our opinion, the CSR Information selected by the Group and identified by the symbol √ is fairly presented, in all material aspects, in compliance with the Guidelines.

Paris-La Défense, February 16, 2017

KPMG SA

Jean-Paul Vellutini
Partner

Éric Jacquet
Partner

Philippe Arnaud
Partner

Sustainability Services



This page has been intentionally left blank.

5

FINANCIAL REPORT

5.1	Investments and financing	160
5.1.1	Investments	160
5.1.2	Financing	161
5.1.3	Structure of the debt and reimbursement profile	161
5.2	Property, plant and equipment	162
5.2.1	Property, plant and equipment of the Air France - KLM Group	162
5.2.2	The Air France - KLM Group's land and buildings	162
5.2.3	Assets in progress	163
5.3	Comments on the financial statements	164
5.3.1	Consolidated results for the financial year ended December 31, 2016	164
5.3.2	Investments and financing of the Group	168
5.3.3	Air France - KLM parent company results	168
5.3.4	Equity as of December 31, 2016	168
5.4	Key financial indicators	169
5.5	Consolidated financial statements	174
5.5.1	Consolidated income statement	174
5.5.2	Consolidated statement of recognized income and expenses	175
5.5.3	Consolidated balance sheet	176
5.5.4	Consolidated statement of changes in stockholders' equity	178
5.5.5	Consolidated statement of cash flows	179
5.6	Notes to the consolidated financial statements	181
5.7	Statutory Auditors' report on the consolidated financial statements	257
5.8	Subsequent events	259
5.9	Statutory financial statements	259
5.9.1	Income statement and balance sheet	259
5.9.2	Notes	261
5.10	Five-year results summary	271
5.11	Statutory Auditors' report on the financial statements	272
5.12	Statutory Auditors' special report on regulated agreements and commitments	274

5.1 INVESTMENTS AND FINANCING

During the 2016 financial year, the Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €2,072 million. The €213 million proceeds on disposals of tangible and intangible assets comprised, in particular, €40 million from sale and lease-back transactions (€20 million in 2015) and the impact of the transfer to two other airlines of two pairs of slots at London Heathrow airport in return for a total of €49 million. Within the framework of its different cost savings schemes, the Group maintained strict control over investments before sale and lease-back transactions and the operation to transfer pairs of slots at London Heathrow. Investments thus amounted to €1,948 million, up by €403 million relative to 2015. With net cash-flow from operating activities (continuing activities) amounting to €2,206 million, the Group generated positive operating free cash-flow of €347 million.

At December 31, 2016, the Group's net cash position amounted to €4.32 billion, including €53 million of investments with maturities of above three months, €50 million of cash pledges and €298 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, 2016 (see also Section 3 – *Liquidity risk*, page 90).

Net debt stood at €3.655 billion (€4.31 billion at December 31, 2015). The detailed net debt calculation can be found in *Note 34 in the notes to the financial statements*, page 235.

5.1.1 Investments

(in € millions)	2016	2015 adjusted
Acquisition of intangible assets	(210)	(171)
Investment in flight equipment	(1,711)	(1,347)
Other property, plant and equipment	(151)	(110)
Acquisitions of subsidiaries, of shares in non-controlled entities	(18)	(6)
Loss of control over subsidiaries, disposal of shares in non-controlled entities (of which Amadeus)	364	342
Proceeds on disposal of property, plant and equipment and intangible assets	213	350
Dividends received	7	2
Net decrease (increase) in investments between 3 months and 1 year	791	(208)
Net cash-flow used in investing activities of discontinued operations	(12)	(14)
Net cash-flow used in investing activities	(727)	(1,162)

Investment in tangible and intangible assets amounted to €2,072 million during the 2016 financial year (€1,628 million in 2015), of which €1,711 million in flight equipment. Investment in intangible assets amounted to €210 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 €213 million (€350 million in 2015) including €91 million on the sale of flight equipment (€86 million in 2015), €40 million of proceeds on sale and lease-back transactions (€20 million in 2015) and the impact of the transfer of two pairs of slots at London Heathrow airport to two other airlines in return for a total of €49 million.

On December 23, 2016, the Group sold a block of Amadeus shares representing around 1.13% of the share capital in return for cash proceeds of €201 million included in the line "Loss of control over subsidiaries, disposal of shares in non-controlled entities".

On December 30, 2016, the Group sold 49.99% of Servair to gategroup in return for cash proceeds of €218 million. 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. The exit of the cash and cash equivalents of the Servair Group had an impact of €(71) million on the line "Loss of control over subsidiaries, disposal of shares in non-controlled entities".

In total, including financial investments and disposals, dividends and discontinued operations, the net cash-flow used in investing activities amounted to €727 million in 2016.

5.1.2 Financing

(in € millions)	2016	2015 adjusted
Perpetual	-	600
Change of minority interest without change in control	15	-
Issuance of new debt	1,331	1,062
Repayment on debt	(1,430)	(1,540)
Repayment of debt on finance lease liabilities	(481)	(661)
New loans	(129)	(87)
Repayment on loans	43	140
Dividends and coupons paid on perpetual	(38)	(19)
Net cash-flow used in financing activities of discontinued operations	22	1
Net cash-flow from financing activities	(667)	(504)

Excluding commercial paper, the financing put in place during 2016 mostly related to asset financing for eight aircraft and one building.

In parallel, the Group repaid €1,430 million of borrowings (€1,540 million in 2015) and €481 million of debt relating to finance lease liabilities (€661 million in 2015).

5.1.3 Structure of the debt and reimbursement profile

Structure of the debt

The Group's gross debt stood at €8.45 billion at December 31, 2016, of which €5.18 billion is guaranteed by pledged or mortgaged assets amounting to €6.21 billion, representing 48% of the net book value of the relevant assets (see also Note 39.1 in the notes to the consolidated financial statements, page 249). After hedging, 70% of the gross debt is at fixed rates and 73% is denominated in euros. The average cost of the debt is 3.60%. (See also Section 3.3 - Market risks and their management, page 87).

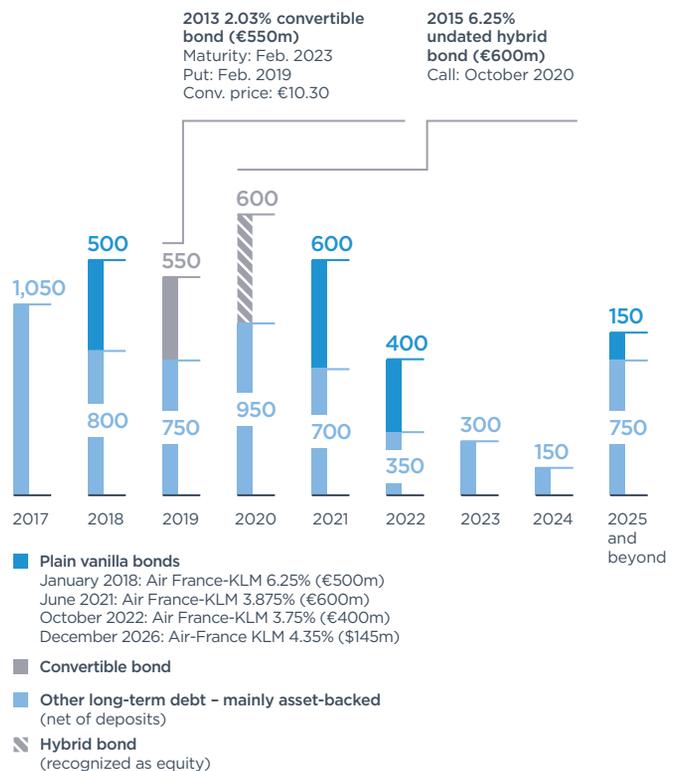
The structure of the debt is as follows:

- market financing (OCEANES, bonds and perpetual subordinated loan stock): €2.75 billion;
- capital lease commitments: €4.26 billion;
- other borrowings including bank debt and accrued interest: €1.44 billion.

Reimbursement profile for the 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 (€632m)



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, 2016	December 31, 2015
Flight equipment	9,119	8,743
Other property, plant and equipment		
Land and buildings	939	1,063
Equipment and machinery	274	338
Assets in progress	115	83
Others	152	186
Total other property, plant and equipment	1,480	1,670

Information on flight equipment is provided in the Activity-Fleet section of this document and flight equipment orders are covered in *Note 38 to the consolidated financial statements on page 248*.

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, 2016 (in square meters)	Air France Group		KLM Group		Air France-KLM Group	
	2016	2015	2016	2015	2016	2015
Passenger	272,779	461,193	147,329	150,421	420,108	611,614
Cargo	305,082	314,805	102,026	101,626	407,108	416,431
Maintenance	664,545	617,072	299,110	299,549	963,655	916,621
Support	352,879	359,515	102,764	100,138	455,643	459,653
Total	1,595,285	1,752,585	651,230	651,734	2,246,515	2,404,319

The Air France buildings represent 83% of the Air France Group's property, plant and equipment, of which 87% is situated in Continental France.

At the end of 2016, Air France Industries' hangars HN7 and HN8 spanning 76,862 m² at Paris-Orly were restituted and are in the demolition process in early 2017. Premises were also restituted in the support activities and international cargo.

In 2016, 49.9% of Servair was sold to HNA.

Financing

	Air France Group	KLM Group	Total
Fully owned	35%	86%	50%
Finance lease	16%	-	11%
Operating lease	49%	14%	39%
Total	100%	100%	100%

The minimum future payments on operating leases relating to buildings amounted to €1,3 billion at December 31, 2016 (see also Note 37.2 to the consolidated financial statements, page 247).

In 2016, Air France again became the owner of the buildings at its Roissy head office site.

Most of the Air France Group's facilities are based in airport zones where land availability is subject to occupancy agreements or long-term leases. Only 8% of the fully-owned or finance-leased premises belong to the real estate portfolio controlled by Air France.

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	35,847	Operating lease
Schiphol Centrum	137,621	Ownership, operating lease
Schiphol Oost	380,133	Ownership, operating lease
Schiphol Rijk	16,846	Ownership, operating lease
Schiphol Noord	22,025	Ownership
Amstelveen	29,572	Ownership
Other	29,185	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, 2016

Restatement of the 2015 financial statements

Within the framework of a considerable consolidation in the airline catering business, the Group studied various scenarios to ensure the development of its subsidiary Servair before opting for the participation of a new shareholder in the Servair share capital.

In March 2016, both Servair and Air France informed the employee representative bodies of this search for a new shareholder to participate in the share capital of Servair.

On May 30, 2016, the Group had announced that it had entered into exclusive negotiations with HNA for the disposal of 49.99% of Servair and the transfer of its operational control. On July 7, HNA published the interim result on the public tender offer for the shares in gategroup, declaring the offer successful. The settlement of this offer took place on December 22, 2016, enabling Air France and gategroup to finalize the agreement for the sale to gategroup of 49.99% of the Servair share capital. On 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.

This led to a loss of control over Servair by Air France-KLM Group, as defined in IFRS 10. As a consequence, the Servair Group has been

consolidated according to the equity method since December 30, 2016. Servair used to constitute the main cash-generating unit of the "Other" segment.

The above elements triggered the accounting treatment of the Servair Group under "discontinued operations" as of March 31, 2016, as defined in IFRS 5.

Except for the balance sheet, the consolidated financial statements as at December 31, 2015 have consequently been restated for the purposes of comparison.

Scope at December 31, 2016

The consolidation scope is composed of 80 fully consolidated companies and 18 companies consolidated using the equity method. The two main subsidiaries, Air France and KLM, represent 91% of revenues and 74% 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 € millions)	2016	2015 adjusted	Change
Revenues	24,844	25,689	(845)
EBITDAR	3,787	3,414	373
EBITDA	2,714	2,387	327
Income/(loss) from current operations	1,049	780	269
Income/(loss) from operating activities	1,116	1,080	36
Net income/(loss) from continuing operations	522	101	421
Net income/(loss) from discontinued operations	270	26	244
Net income/(loss), Group share	792	118	674
Basic earnings/(loss) per share, Group (in €)	2.59	0.34	2.25

Revenues

Consolidated revenues for the period amounted to €24.8 billion, a decrease of 3.3% and of 2.9% on a constant currency basis. The 2016 financial year was characterized by a significant fall in unit revenues on a constant currency basis, mainly linked to the decline in fuel costs and also due to a decline in France's attractiveness as a destination following the terrorist attacks. From a capacity perspective, Air France-KLM pursued its policy

of strict discipline (passenger network capacity up by only 0.7% like-for-like) whereas the industry as a whole saw capacity growth. For its part, air cargo continued to be affected by the weakness in global trade and structural industry overcapacity. Revenues in the passenger network business decreased by 4.2% while those of the maintenance business were 4.9% higher. Cargo business revenues declined by 14.7% while Transavia revenues increased by 10.8%.

Operating expenses

Operating expenses decreased by 4.5% to €23.8 billion. On a constant currency basis, operating expenses were down by 5.2% despite inflation, the decline being greater than that of capacity.

The breakdown of external expenses was as follows:

(in € millions)	2016	2015 adjusted	% Ch.
Aircraft fuel	4,597	6,183	(25.7)
Chartering costs	424	430	(1.4)
Landing fees and en route charges	1,900	1,947	(2.4)
Catering	445	462	(3.7)
Handling charges and other operating costs	1,565	1,536	1.9
Aircraft maintenance costs	2,469	2,372	4.1
Commercial and distribution costs	905	896	1.0
Other external expenses	1,958	1,942	0.8
Total	14,263	15,768	(9.5)

The main changes were as follows:

- **aircraft fuel:** fuel expense for the year declined by 26.3% on a constant currency basis and by 25.7% reported. This fall was mainly the result of a price effect and better fuel efficiency, volumes consumed being slightly lower compared to the previous year (decrease of 1.8%);
- **chartering costs** incurred through leasing aircraft capacity from other airlines fell by 1.4% relative to the previous year, and by 1.7% on a constant currency basis, under the effect of a reduction in the capacity purchased;
- **landing fees and en route charges** relating to air navigation services and the use of airports decreased by 2.4%, and by 1.6% on a constant currency basis, despite an increase in activity;
- **catering costs** relating to services supplied on board aircraft were down by 3.7%. These expenses comprise the expenses incurred for services provided on board the Air France-KLM Group's own aircraft;
- **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. They increased by 1.9% reported and by 3.1% on a constant currency basis, mainly due to an increase in commercial incidents;
- **aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. These costs increased by 4.1% reported. This growth was mainly explained by the growth in third-party sales (+15.2% on a constant currency basis) and by a significant currency effect (€22 million);

External expenses decreased by 9.5% to €14.26 billion versus €15.77 billion over the previous twelve months. Excluding fuel, external expenses remained stable relative to the previous twelve months.

- **commercial and distribution costs** increased by 1.0% reported, notably due to the increase in GDS costs and advertising which had been reduced at the end of 2015;
- **other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. They increased by 0.8% reported and by 1.3% like-for-like (on a constant currency basis). This rise was notably explained by IT sub-contracting.

Salaries and related costs remained stable at €7.47 billion versus €7.46 billion in 2015. On a constant scope and pension expense basis, they increased by 0.6%. The average headcount declined (-2.2%) to 84,602 employees.

Taxes other than income taxes stood at €164 million versus €155 million at December 31, 2015, up by 5.8%.

Other income and expenses stood at a net profit of €842 million versus €1,110 million at December 31, 2015. This €268 million decrease is mainly explained by the reduced gain on the settlement of currency hedges (-€155 million) and by the decrease in capitalized production (-€108 million). The decrease in capitalized production is mainly explained by a reduction in the amount of cabin-modification work at Air France and KLM.

EBITDAR

EBITDAR amounted to €3,787 million (versus €3,414 million at December 31, 2015).

The contributions to EBITDAR by business segment were as follows:

(in € millions)	2016	2015 adjusted	% Ch.
Passenger network	3,348	3,016	11.0
Cargo	(210)	(196)	(7.1)
Maintenance	439	453	(3.3)
Transavia	197	122	61.5
Others	13	19	(27.8)
Total	3,787	3,414	10.9

Aircraft operating lease costs

Aircraft operating lease costs increased by 4.5%, following the delivery of the first B787s and B777s. On a constant currency basis, they increased by 3.6%.

EBITDA

EBITDA amounted to €2,714 million (versus €2,387 million at December 31, 2015).

The contributions to EBITDA by business segment were as follows:

(in € millions)	2016	2015 adjusted	% Ch.
Passenger network	2,429	2,124	14.3
Cargo	(215)	(210)	(2.4)
Maintenance	439	453	(3.3)
Transavia	49	2	ns
Others	12	18	(23.5)
Total	2,714	2,387	13.7

Amortization, depreciation and provisions

This line totalled €1.67 billion at December 31, 2016 versus €1.61 billion at December 31, 2015.

Income/(loss) from current operations

The result from current operations was income of €1,049 million (versus €780 million at December 31, 2015).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

(in € millions)	2016		2015 adjusted	
	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Passenger network	19,682	1,057	20,541	842
Cargo	2,069	(244)	2,425	(245)
Maintenance	1,834	238	1,577	214
Transavia	1,218	-	1,099	(35)
Others	41	(2)	47	4
Total	24,844	1,049	25,689	780

The unit cost per EASK (equivalent available seat-kilometer) was reduced by 7.0%. This change was the combined result of a 6.7% fall due to the decline in fuel price and an 0.8% increase on currency variation.

Income/(loss) from operating activities

The result from operating activities was a €1,116 million profit versus a profit of €1,080 million at December 31, 2015.

Over the financial year ended December 31, 2016, the result from operating activities included, notably:

- sales of aircraft and aeronautical equipment, and other property, plant and equipment, amounting to €21 million;
- restructuring costs amounting to €157 million;
- a disposal gain of €133 million on Amadeus shares;
- a gain on the disposal of subsidiaries and affiliates amounting to €13 million;
- a gain on the sale of slots at London Heathrow amounting to €49 million.

These operations are detailed in *Note 11 in the notes to the financial statements on page 199*.

Net cost of financial debt

The net cost of financial debt fell to €260 million versus €310 million during the previous financial year. The cost of net debt decreased by 39 basis points from 6.67% in the 2015 financial year to 6.28% in 2016.

Other financial income and expenses

Other net financial income amounted to a negative €33 million at December 31, 2016 versus a negative €604 million at December 31, 2015. The breakdown was as follows:

- a currency loss of €105 million (versus a €360 million loss at December 31, 2015). At December 31, 2016, the foreign exchange loss principally included a currency loss on the net debt amounting to €92 million, mainly linked to the appreciation in the US dollar and the Japanese yen relative to the euro and a currency loss of €17 million on provisions, mainly linked to the revaluation of the dollar portion of the maintenance and phase-out provisions;
- a €84 million positive variation in the fair value of financial assets and liabilities (€178 million negative variation at December 31, 2015) mostly due to the €99 million positive impact of the fuel hedges;
- positive allocations to provisions of €55 million versus a €28 million negative at December 31, 2015. Since the European Commission did not appeal the decision taken by European Court before February 29, 2016, at December 31, 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;
- a €67 million negative item versus €38 million at December 31, 2015. This mainly corresponded to the effect of accretion on long-term provisions amounting to €59 million.

Net income/(loss) - Group share

Income taxes stood at €294 million versus €30 million at December 31, 2015. The effective tax rate as of December 31, 2016 was 35.8% (versus 18.2% as of December 31, 2015).

Share of profits/(losses) from associates contributed a loss of €(7) million at December 31, 2016 versus a negative contribution of €(35) million in the previous year. At December 31, 2015, this had essentially comprised the Group's share of Kenya Airways' losses. At December 31, 2015, the equity value of Kenya Airways was nil.

The result from discontinued operations amounted to €270 million versus €26 million at December 31, 2015. It corresponds to the following items:

- the result of the Servair Group for 2016 amounting to €13 million (versus €26 million as of December 31, 2015);
- the result on the disposal of 49.99% of the Servair share capital to gategroup for €123 million;
- the revaluation of the remaining Servair shares (50.01% of the share capital) for an amount of €134 million.

These operations are outlined in *Note 14 to the consolidated financial statements*.

The net income/(loss), Group share stood at income of €792 million at December 31, 2016 versus €127 million at December 31, 2015. Adjusted for non-recurring items, the adjusted net result amounted to a €409 million profit, up relative to its level of 2015 (€193 million, see *Section 5.4, Key financial indicators*).

The contributions to the net result by quarter were, respectively, €(155) million at March 31, 2016, €41 million at June 30, 2016, €544 million at September 30, 2016 and €362 million at December 31, 2016.

Basic earnings/(loss) per share, Group share, amounted to €2.59 at December 31, 2016 versus €0.34 at December 31, 2015.

5.3.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €2.07 billion over the financial year (€1.63 billion at December 31, 2015) of which €874 million of investment in the fleet, €401 million in maintenance, €204 million in components, €232 million in cabin refurbishment and €361 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and leaseback transactions amounted to €213 million versus €350 million at December 31, 2015.

Operating cash-flow was positive to the tune of €2.24 billion (€1.90 billion at December 31, 2015).

At December 31, 2016, the Group had €4.32 billion of net cash, of which €3.94 billion in cash and cash equivalents. Furthermore, the Group has undrawn credit facilities amounting to a total of €1.8 billion.

Net financial debt amounted to €3.65 billion at December 31, 2016 (€4.31 billion at December 31, 2015).

5.3.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2016.

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 and 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, 2016, the operating result was a loss of €(11) million.

The net result was a €(161) 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, 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.

At December 31, 2015, accounts payable stood at €11 million of which €4 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, 2016

Equity attributable to equity holders of Air France-KLM amounted to €1,284 million against €225 million as of December 31, 2015. The €1,059 million change was mainly explained by:

- €(434) million from the change in fair value of the Group's defined benefit pension schemes (net of tax);
- €833 million from the change in fair value of the Group's financial instruments (net of tax);
- income for the period – equity holders amounting to €792 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.

The 2015 financial statements have been restated with Servair reclassified under “discontinued operations”.

(in € millions)	2016	2015 restated
Income/(loss) from current operations	1,049	780
Portion of operating leases corresponding to financial charges (34%)	365	349
Adjusted income/(loss) from current operations	1,414	1,129
Revenues	24,844	25,689
Adjusted operating margin	5.7%	4.4%

Restated net result

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

(in € millions)	2016	2015 restated
Net income/(loss), Group share	792	118
Net income/(loss) from discontinued operations	(270)	(26)
Impairment on shares available for sale	-	16
Non-current items included in deferred income tax	44	-
Change in fair value of financial assets and liabilities (derivatives)	(179)	91
Unrealized foreign exchange gains and losses	89	294
Non-current income and expenses	(67)	(300)
Restated net income/(loss), Group share	409	193
Restated net income/(loss) per share, Group share (<i>in euros</i>)	1.30	0.59

Financial cover ratios

Within the framework of the different savings schemes of the Group, the financial cover ratios considerably improved with, for example, the net debt/EBITDA ratio falling from 4.8x at December 31, 2011 to 1.4x at December 31, 2016.

Net debt/EBITDA ratio

	2016	2015 adjusted
Net debt (<i>in €m</i>)	3,655	4,307
EBITDA (<i>in €m</i>)	2,714	2,387
Net debt/EBITDA	1.4x	1.8x

EBITDA/net cost of financial debt ratio

	2016	2015 adjusted
EBITDA (in €m)	2,714	2,387
Net cost of financial debt (in €m)	260	310
EBITDA/net cost of financial debt	10.4x	7.7x

Adjusted net debt/EBITDAR ratio

Adjusted net debt amounts to net debt added to the annual amount of operating leases capitalized at seven times.

	2016	2015 adjusted
Net debt (in €m)	3,655	4,307
Aircraft operating leases x 7 (in €m)	7,511	7,189
Total adjusted net debt (in €m)	11,166	11,496
EBITDAR (in €m)	3,787	3,414
Adjusted net debt/EBITDAR	2.9x	3.4x

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%).

	2016	2015 adjusted
EBITDAR (in €m)	3,787	3,414
Net cost of financial debt (in €m)	260	310
Portion of operating leases corresponding to interest charges (34%) (in €m)	365	349
Adjusted net cost of financial debt (in €m)	625	659
EBITDAR/adjusted net cost of financial debt	6.1x	5.2x

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 € millions)	Dec 31, 2016	Dec 31, 2015 ⁽¹⁾	Dec 31, 2015 ⁽¹⁾	Dec 31, 2014
Goodwill and intangible assets	1,284	1,265	1,265	1,252
Flight equipment	9,119	8,743	8,743	8,728
Other property, plant and equipment	1,480	1,670	1,670	1,750
Investments in equity associates	292	118	118	139
Other financial assets excluding shares available for sale, marketable securities and financial deposits	224	225	225	152
Provisions excluding pension, cargo litigation and restructuring	(1,706)	(1,558)	(1,558)	(1,434)
WCR, excluding market value of derivatives	(5,317)	(5,125)	(5,125)	(4,928)
Capital employed on the balance sheet	5,376	5,338	5,338	5,659
Capital employed corresponding to flight equipment under operating leases (<i>operating leases X 7</i>)	7,511		7,189	
Average capital employed (A)	12,868		12,688	
Operating result, adjusted for operating leases	1,414		1,129	
Dividends received	(2)		(2)	
Share of profits/(losses) of associates	(7)		(35)	
Tax recognized in the adjusted net result	(250)		(30)	
Adjusted result after tax (B)	1,155		1,062	
ROCE (B/A)	9.0%		8.4%	

(1) Servair has been reclassified as a discontinued operation.

Cost of capital

	2016	2015
Cost of stockholders' equity	15.6%	16.1%
Marginal cost of debt, post tax	3.0%	2.8%
Percentage of stockholders' equity/target debt		
Stockholders' equity	31.9%	32.7%
Debt	68.1%	67.3%
Weighted average cost of capital after taxation	7.0%	7.1%

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.

	2016	2015 ⁽¹⁾
Revenues (in €m)	24,844	25,689
Income/(loss) from current operations (in €m)	1,049	780
Total operating expense (in €m)	(23,795)	(24,909)
Passenger business – other passenger revenues (in €m)	833	834
Cargo business – other air freight revenues (in €m)	165	162
Third-party revenues in maintenance (in €m)	1,834	1,577
Transavia – other revenues (in €m)	12	13
Other businesses – revenues other than Transavia transportation (in €m)	41	47
Net cost (in €m)	20,910	22,276
Capacity produced, reported in EASK	341,334	337,993
Net cost, excluding strike (in € cents per EASK)	6.13	6.59
Gross change	-7.0%	
Currency effect on net costs (in €m)	188	
Change at constant currencies	-7.8%	
Oil price effect (in €m)	(1,531)	
Change on a constant currency and fuel price basis	-1.1%	
Change in pension-related expenses (in €m)	(28)	
Net cost per EASK on a constant currency, fuel price and pension-related expenses basis (in € cents per EASK)	6.13	6.18
Change on a constant currency, fuel price and pension-related expense basis	-1.0%	

(1) Servair has been reclassified as a discontinued operation.

CONTENT

5.5	Consolidated financial statements				174
5.5.1	Consolidated income statement	174	5.5.4	Consolidated statement of changes in stockholders' equity	178
5.5.2	Consolidated statement of recognized income and expenses	175	5.5.5	Consolidated statement of cash flows	179
5.5.3	Consolidated balance sheet	176			
5.6	Notes to the consolidated financial statements				181
Note 1.	Business description	181	Note 22.	Equity affiliates	212
Note 2.	Restatement of accounts 2015	181	Note 23.	Pension assets	214
Note 3.	Significant events	181	Note 24.	Other financial assets	214
Note 4.	Accounting policies	182	Note 25.	Inventories	216
Note 5.	Change in the consolidation scope	192	Note 26.	Trade accounts receivables	216
Note 6.	Information by activity and geographical area	192	Note 27.	Other assets	217
Note 7.	External expenses	196	Note 28.	Cash, cash equivalents and bank overdrafts	217
Note 8.	Salaries and number of employees	197	Note 29.	Equity attributable to equity holders of Air France-KLM SA	218
Note 9.	Amortization, depreciation and provisions	198	Note 30.	Share-based compensation	220
Note 10.	Other income and expenses	198	Note 31.	Retirement benefits	220
Note 11.	Other non-current income and expenses	199	Note 32.	Other provisions	227
Note 12.	Other financial income and expenses	201	Note 33.	Financial debt	230
Note 13.	Income taxes	202	Note 34.	Net debt	235
Note 14.	Net income from discontinued operations	205	Note 35.	Other liabilities	236
Note 15.	Assets held for sale and liabilities related to assets to be disposed	206	Note 36.	Financial instruments	236
Note 16.	Earnings per share	207	Note 37.	Lease commitments	246
Note 17.	Goodwill	208	Note 38.	Flight equipment orders	248
Note 18.	Intangible assets	209	Note 39.	Other commitments	249
Note 19.	Impairment	210	Note 40.	Related parties	250
Note 20.	Tangible assets	211	Note 41.	Consolidated statement of cash flow	251
Note 21.	Capital expenditures	212	Note 42.	Statutory Auditors' fees	253
			Note 43.	Consolidation scope	254

5.5 CONSOLIDATED FINANCIAL STATEMENTS

5.5.1 Consolidated income statement

Period from January 1 to December 31
(in € millions)

	Notes	2016	2015 restated ⁽¹⁾
Sales	6	24,844	25,689
Other revenues		2	2
Revenues		24,846	25,691
External expenses	7	(14,263)	(15,768)
Salaries and related costs	8	(7,474)	(7,464)
Taxes other than income taxes		(164)	(155)
Other income and expenses	10	842	1,110
EBITDAR ⁽²⁾		3,787	3,414
Aircraft operating lease costs		(1,073)	(1,027)
EBITDA ⁽²⁾		2,714	2,387
Amortization, depreciation and provisions	9	(1,665)	(1,607)
Income from current operations		1,049	780
Sales of aircraft equipment		21	(5)
Other non-current income and expenses	11	46	305
Income from operating activities		1,116	1,080
Cost of financial debt	12	(309)	(372)
Income from cash and cash equivalents		49	62
Net cost of financial debt		(260)	(310)
Other financial income and expenses	12	(33)	(604)
Income before tax		823	166
Income taxes	13	(294)	(30)
Net income of consolidated companies		529	136
Share of profits (<i>losses</i>) of associates	22	(7)	(35)
Net income from continuing operations		522	101
Net income from discontinued operations	14	270	26
Net income for the period		792	127
Non-controlling interests		-	9
Net income – Group part		792	118
Earnings per share – Equity holders of Air France-KLM (<i>in euros</i>)			
– basic	16	2.59	0.34
– diluted		2.25	0.34
Net income from continuing operations – Equity holders of Air France-KLM (<i>in euros</i>)			
– basic	16	1.68	0.25
– diluted		1.48	0.25
Net income from discontinued operations – Equity holders of Air France-KLM (<i>in euros</i>)			
– basic	16	0.91	0.09
– diluted		0.77	0.09

(1) See Note 2 in notes to the consolidated financial statements.

(2) See Note 4.9 in notes to the consolidated financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

5.5.2 Consolidated statement of recognized income and expenses

Period from January 1 to December 31
(in € millions)

	Notes	2016	2015
Net income for the period		792	127
Fair value adjustment on available-for-sale securities			
Change in fair value recognized directly in other comprehensive income		32	11
Change in fair value transferred to profit or loss		(133)	(221)
Cash flow hedges			
Effective portion of changes in fair value hedge recognized directly in other comprehensive income		429	(955)
Change in fair value transferred to profit or loss		731	1,216
Currency translation adjustment		8	8
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	13.2	(352)	(48)
Total of other comprehensive income that will be reclassified to profit or loss		715	11
Remeasurements of defined benefit pension plans		(547)	498
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	13.2	114	(295)
Total of other comprehensive income that will not be reclassified to profit or loss		(433)	203
Total of other comprehensive income, after tax		282	214
Recognized income and expenses		1,074	341
Equity holders of Air France-KLM		1,073	330
Non-controlling interests		1	11

The accompanying notes are an integral part of these consolidated financial statements.

5.5.3 Consolidated balance sheet

Assets (in € millions)	Notes	December 31, 2016	December 31, 2015
Goodwill	17	218	247
Intangible assets	18	1,066	1,018
Flight equipment	20	9,119	8,743
Other property, plant and equipment	20	1,480	1,670
Investments in equity associates	22	292	118
Pension assets	23	1,462	1,773
Other financial assets	24	1,064	1,224
Deferred tax assets	13.4	176	702
Other non-current assets	27	448	295
Total non-current assets		15,325	15,790
Assets held for sale	15	-	4
Other short-term financial assets	24	130	967
Inventories	25	566	532
Trade receivables	26	1,868	1,800
Other current assets	27	1,105	1,138
Cash and cash equivalents	28	3,938	3,104
Total current assets		7,607	7,545
Total assets		22,932	23,335

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and equity (in € millions)	Notes	December 31, 2016	December 31, 2015
Issued capital	29.1	300	300
Additional paid-in capital	29.2	2,971	2,971
Treasury shares	29.3	(67)	(85)
Perpetual	29.4	600	600
Reserves and retained earnings	29.5	(2,520)	(3,561)
Equity attributable to equity holders of Air France-KLM		1,284	225
Non-controlling interests		12	48
Total equity		1,296	273
Pension provisions	31	2,119	1,995
Other provisions	32	1,673	1,513
Long-term debt	33	7,431	7,060
Deferred tax liabilities	13.4	(12)	11
Other non-current liabilities	35	284	484
Total non-current liabilities		11,495	11,063
Liabilities relating to assets held for sale	15	-	-
Other provisions	32	654	742
Current portion of long-term debt	33	1,021	2,017
Trade payables		2,359	2,395
Deferred revenue on ticket sales		2,517	2,515
Frequent flyer programs		810	760
Other current liabilities	35	2,775	3,567
Bank overdrafts	28	5	3
Total current liabilities		10,141	11,999
Total liabilities		21,636	23,062
Total equity and liabilities		22,932	23,335

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, 2014 – Restated ⁽¹⁾	300,219,278	300	2,971	(86)	-	(3,877)	(692)	39	(653)
Fair value adjustment on available for sale securities	-	-	-	-	-	(138)	(138)	-	(138)
Gain/(loss) on cash-flow hedges	-	-	-	-	-	179	179	-	179
Gain/(loss) on fair value hedges	-	-	-	-	-	(38)	(38)	-	(38)
Remeasurements of defined benefit pension plans	-	-	-	-	-	201	201	2	203
Currency translation adjustment	-	-	-	-	-	8	8	-	8
Other comprehensive income	-	-	-	-	-	212	212	2	214
Net result for the period	-	-	-	-	-	118	118	9	127
Total of income and expenses recognized	-	-	-	-	-	330	330	11	341
Treasury shares	-	-	-	1	-	-	1	-	1
Dividends paid and coupons on perpetual	-	-	-	-	-	(12)	(12)	(5)	(17)
Change in scope	-	-	-	-	-	(2)	(2)	3	1
Perpetual	-	-	-	-	600	-	600	-	600
December 31, 2015	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	-	-	-	-	-	(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
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	(1)	(26)
Change in scope	-	-	-	-	-	(7)	(7)	(36)	(43)
Treasury shares	-	-	-	18	-	-	18	-	18
December 31, 2016	300,219,278	300	2,971	(67)	600	(2,520)	1,284	12	1,296

(1) Modification in the conversion method for provisions in foreign currencies.

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	2016	2015 restated ⁽¹⁾
Net income from continuing operations		522	101
Net income from discontinued operations	14	270	26
Amortization, depreciation and operating provisions	9	1,665	1,632
Financial provisions	12	5	59
Loss (gain) on disposals of tangible and intangible assets	11	(86)	(224)
Loss (gain) on disposals of subsidiaries and associates	11	(312)	(224)
Derivatives - non monetary result		(179)	91
Unrealized foreign exchange gains and losses, net		89	294
Share of (profits) losses of associates	22	6	30
Deferred taxes	13	264	4
Impairment	41.1	2	5
Other non-monetary items	41.1	(64)	31
Financial capacity		2,182	1,825
including discontinued operations (D)		43	41
(Increase)/decrease in inventories		(61)	36
(Increase)/decrease in trade receivables		(104)	(55)
Increase/(decrease) in trade payables		23	(64)
Change in other receivables and payables		209	166
Change in working capital requirement		67	83
Change in working capital from discontinued operations (D)		(10)	(12)
Net cash-flow from operating activities (A)		2,239	1,896
Acquisition of subsidiaries, of shares in non-controlled entities	41.2	(18)	(6)
Purchase of property plant and equipment and intangible assets (B)	21	(2,072)	(1,628)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	11	364	342
Proceeds on disposal of property plant and equipment and intangible assets (C)	11	213	350
Dividends received		7	2
Decrease (increase) in net investments, more than 3 months		791	(208)
Net cash-flow used in investing activities of discontinued operations		(12)	(14)
Net cash-flow used in investing activities		(727)	(1,162)

Period from January 1 to December 31 (in € millions)	Notes	2016	2015 restated ⁽¹⁾
Perpetual	29.4	-	600
Sale of minority interest without change in control		15	-
Issuance of debt	33	1,331	1,062
Repayment on debt	33	(1,430)	(1,540)
Payment of debt resulting from finance lease liabilities		(481)	(661)
New loans		(129)	(87)
Repayment on loans		43	140
Dividends and coupons on perpetual paid		(38)	(19)
Net cash-flow used in financing activities of discontinued operations		22	1
Net cash-flow from financing activities		(667)	(504)
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(13)	(43)
Effect of exchange rate on cash and cash equivalent and bank overdrafts of discontinued operations (net of cash acquired or sold)		-	4
Change in cash and cash equivalents and bank overdrafts		832	191
Cash and cash equivalents and bank overdrafts at beginning of period (including cash of discontinued operations)	28	3,101	2,910
Cash and cash equivalents and bank overdrafts at end of period (including cash of discontinued operations)	28	3,933	3,101
Income tax (paid)/reimbursed (flow included in operating activities)		19	35
Interest paid (flow included in operating activities)		(273)	(358)
Interest received (flow included in operating activities)		31	36

(1) See Note 2 in notes to the consolidated financial statements..

Period from January 1 to December 31 (in € millions)	Notes	2016	2015 restated ⁽¹⁾
Net cash-flow from operating activities	A	2,239	1,896
Purchase of property plant and equipment and intangible assets	B	(2,072)	(1,628)
Proceeds on disposal of property plant and equipment and intangible assets	C	213	350
Net cash-flow from operating activities from discontinued operations	D	(33)	(29)
Operating free cash-flow excluding discontinued activities⁽²⁾	34	347	589

(1) See Note 2 in notes to the consolidated financial statements.

(2) See Note 4.9 in notes to the consolidated financial statements.

The accompanying notes are an integral part of these 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 2015

Presentation of Servair Group as discontinued operation

Within the framework of a substantial consolidation in the catering business providing services to airlines, the Group studied various scenarios to ensure the development of its subsidiary Servair. The Group opted for the participation of another company in the share capital of Servair.

In March 2016, both Servair and Air France informed the representative bodies of their employees about this process of searching a partner to participate in the share capital of Servair.

On May 30, 2016, the Group has announced to be entered into exclusive negotiations with HNA for the disposal of 49.99% of Servair and the transfer of its operational control. Subject to HNA’s acquisition of gategroup, Air France and HNA intend to create, with gategroup, the leading platform in the inflight catering business. On July 7, HNA has published the interim result on the public tender offer for the shares of gategroup and has declared the offer successful. The settlement of this offer has occurred at December 22, 2016 which allows Air France and

gategroup to finalize 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.

This has led to a loss of control of Servair by Air France-KLM Group, as defined in IFRS 10 standard. As a consequence, the Servair group is consolidated according to the equity method since December 30, 2016. Servair constituted the main cash-generating unit of the segment “Other”.

The above elements have triggered the accounting treatment of the Servair Group in “discontinued operations” as of March 31, 2016, as defined in IFRS 5 standard.

The consolidated figures as at December 31, 2015 have consequently been restated for the purpose of comparison, except for the balance sheet.

Detailed information of net income from discontinued operations is presented in *Note 14 on page 205*.

NOTE 3. SIGNIFICANT EVENTS

3.1 Events that occurred in the period

Voluntary Departure Plan

During the meeting of the Corporate Works Council on February 26, 2016, the Air France management presented the Voluntary Departure Plan for ground staff and cabin crew, aimed at the respective departure of some 1,400 and 200 full time equivalents.

The Group accordingly made a provision of €137 million to the income statement as of December 31, 2016 (*see Note 11 on page 199*). This provision is the best estimate of the costs involved in this Voluntary Departure Plan.

Issuance of new bond

On the second half year 2016, the Group issued two bonds amounting to a total €538 million as of December 31, 2016, as detailed in the *Note 33 on page 230*.

Shares in Amadeus

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. The net result from the sale amounted to €133 million, for cash proceeds of €201 million (see Note 17).

After this operation, the Group still holds 4.95 million Amadeus shares. The value of these shares is completely covered by a hedging transaction concluded on May and June 2016 (see Notes 24 and 36.1 on pages 214 and 236 respectively).

Brexit (British Exit)

Brexit’s announcement had no material impact on the Group’s financial statements as of December 31 2016.

Transaction of selling 49.99% of the Servair share capital and transfer of its operational control

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.

This operation has generated a €257 million profit presented on the line “net income from discontinued operations”. This profit is composed by the disposal result of 49.99% of the Servair share capital amounting to €123 million (for a cash amount of €218 million) and by the revaluation profit amounting to €134 million linked to the fair value adjustment of the kept shares based on the transaction value.

The impact of these two operations is detailed in the Note 14 on page 205.

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, 2016 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, 2017.

Change in accounting principles

- IFRS standards and amendments which are applicable on a mandatory basis to the 2016 financial statements
 - Amendment to IFRS 11 “Joint Arrangements”, effective for the period beginning January 1, 2016;

- Amendment to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”, effective for the period beginning January 1, 2016;
- Amendment to IAS 1 “Presentation of Financial Statements”, effective for the period beginning January 1, 2016;
- Amendment to IAS 19 “Employee benefit”, effective for the period beginning January 1, 2016.

These amendments had no significant impact on the Group’s financial statements as of December 31, 2016.

- IFRS standard which is applicable on a mandatory basis to the 2018 financial statements
 - Standard IFRS 9 “Financial Instruments”, effective for the period beginning January 1, 2018;
 - Standard IFRS 15 “Revenue Recognition from Contracts with Customers”, effective for the period beginning January 1, 2018, and replacing the standards IAS 18 “Revenues”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”.

The implementation of IFRS 9 began in mid-2015. The Group has set up dedicated working groups within the Air France and KLM head-accounting departments together with the Air France and KLM middle-office treasury departments.

Two major impacts are expected following the implementation of this new standard.

The first impact relates to the recognition of the variation in the time value of options to be accounted for in “Other Comprehensive Income” whereas it is currently recognized in the income statement.

The second impact relates to the valuation of equity instruments either assessed at fair value through the income statement, or at fair value through Other Comprehensive Income. The methodology for the classification the equity instruments is currently being established.

The implementation IFRS 15 started in 2015 in project mode. The Group has set up dedicated working groups within the relevant business segments and departments to establish an inventory of customer contract types throughout 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 main impacts on the Group are expected to relate to the recognition of Passenger network and Cargo segments revenue and are currently being evaluated: agent versus principal recognition, unearned revenue recognition and customer loyalty programs recognition.

Furthermore, with regard to the maintenance services segment, the Group has worked in collaboration with other airlines within the IAWG facing the same maintenance revenue issues. The impacts in this area are currently being identified.

— **Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union**

- Standard IFRS 16 “Leases”, effective for the period beginning January 1, 2019;
- Amendment to IAS 7 “cash flow Statement”, effective for the period beginning January 1, 2017;
- Amendment to IAS 12 “Income tax”, effective for the period beginning January 1, 2017;
- Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”, effective for the period beginning January 1, 2018;
- Amendment to IFRS 15 Clarification on “Revenue Recognition from Contracts with Customers”, effective for the period beginning January 1, 2018.

Regarding the implementation of IFRS 16, the project was launched as of the publication of the standard in January 2016. The Group has set up dedicated working groups within the relevant business

segments and departments to firstly explain all the changes introduced by the new standard relative to the current standard, IAS 17, and secondly, to determine contract typologies within the scope of IFRS 16. Based on the inventory of current contracts as of December 31, 2015, a preliminary assessment of the financial impacts of this standard has been carried out.

The Group’s net debt is expected to be significantly increased by the application of this standard. However, as the analyst community already adjusts net debt by increasing accounting net debt by seven times the aircraft operational lease rents, the impact should be limited. The main expected impact relates to the balance-sheet recognition of the aircraft right-of-use assets.

The Group will early adopt the amendment to IAS 7 as of December 31, 2016.

The Group does not expect any significant impacts related to the application of the amendments to IAS 12 and IFRS 2. The implementation of the amendment to IFRS 15 is being handled within the framework of the project to apply IFRS 15.

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 remeasured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this remeasurement 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 that exceed 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 of the 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 on page 189).

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" on page 186.

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 that existed at 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 on page 192). 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 goodwill 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 counterparty (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 on page 246*) 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 on page 189* is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in *Note 4.21 on page 191 and the “Risks on carbon credit” paragraph in Note 36.1 on page 236*. As such, the Group is required to purchase CO₂ quotas to offset its emissions. The Group records the CO₂ 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:

Softwares 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: passenger, cargo, 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 retribute 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 regarding 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 on page 189).

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 Economique 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, 2016

In 2016, the Group has sold:

- 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. The impact of this operation is detailed in the *Note 14 on page 205*;
- 100% of the Cobalt Ground Solutions Limited share capital. Impact of this operation is detailed in the *Note 11 on page 199*.

— Year ended December 31, 2015

In 2015, several operations were initiated within the catering business (Servair Group). The main transactions were the following:

- acquisition of Panima;
- increase of the share capital in Lomé Catering, Macau Catering Services and Dutyfly Solutions.

All these entities were fully consolidated as of fiscal year 2015.

The goodwill generated by these transactions amounted to €2 million as of December 31, 2015.

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:

Passenger network: passenger network 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. 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.

Cargo: cargo operating revenues come 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, 2016

(in € millions)	Passenger network	Cargo	Maintenance	Transavia	Other	Non allocated	Total
Total sales	20,947	2,086	4,182	1,218	664	-	29,097
Intersegment sales	(1,265)	(17)	(2,348)	-	(623)	-	(4,253)
External sales	19,682	2,069	1,834	1,218	41	-	24,844
EBITDAR ⁽¹⁾	3,348	(210)	439	197	13	-	3,787
EBITDA ⁽¹⁾	2,429	(215)	439	49	12	-	2,714
Income from current operations	1,057	(244)	238	-	(2)	-	1,049
Income from operating activities	1,103	(234)	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	1,101	(234)	251	(1)	(8)	(587)	522
Depreciation and amortization for the period	(1,249)	(37)	(231)	(40)	(14)	-	(1,571)
Other non-monetary items	(522)	56	2	(300)	(359)	(146)	(1,269)
Total assets	10,619	814	3,281	637	423	7,158	22,932
Segment liabilities	7,056	557	1,280	435	24	3,834	13,186
Financial debt, bank overdraft and equity	-	-	-	-	-	9,746	9,746
Total liabilities	7,056	557	1,280	435	24	13,580	22,932
Purchase of property, plant and equipment and intangible assets (continuing operations)	1,466	9	285	210	102	-	2,072

(1) See Note 4.9 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.

Year ended December 31, 2015 (restated)

(in € millions)	Passenger network	Cargo	Maintenance	Transavia	Other	Non allocated	Total
Total sales	21,972	2,446	3,990	1,100	668	-	30,176
Intersegment sales	(1,431)	(21)	(2,413)	(1)	(621)	-	(4,487)
External sales	20,541	2,425	1,577	1,099	47	-	25,689
EBITDAR ⁽¹⁾	3,016	(196)	453	122	19	-	3,414
EBITDA ⁽¹⁾	2,124	(210)	453	2	18	-	2,387
Income from current operations	842	(245)	214	(35)	4	-	780
Income from operating activities	1,180	(286)	179	10	(3)	-	1,080
Share of profits (losses) of associates	(37)	-	1	-	1	-	(35)
Net cost of financial debt and other financial income and expenses	-	-	-	-	-	(914)	(914)
Income taxes	-	-	-	-	-	(30)	(30)
Net income from continuing operations	1,143	(286)	180	10	(2)	(944)	101
Depreciation and amortization for the period	(1,247)	(48)	(236)	(29)	(13)	-	(1,573)
Other non-monetary items	(386)	23	(27)	21	(239)	(238)	(846)
Total assets	10,310	879	2,975	460	475	8,236	23,335
Segment liabilities	6,693	639	1,007	370	111	5,162	13,982
Financial debt, bank overdraft and equity	-	-	-	-	-	9,353	9,353
Total liabilities	6,693	639	1,007	370	111	14,515	23,335
Purchase of property, plant and equipment and intangible assets (continuing operations)	1,245	15	194	86	107	-	1,647

(1) See Note 4.9 in Notes to the consolidated financial statements.

The non-allocated assets, amounting to €8.2 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €4 billion, pension assets of €1.8 billion, financial assets of €0.9 billion, deferred tax of €0.7 billion and derivatives of €0.8 billion.

The non-allocated segment liabilities, amounting to €5.2 billion, mainly comprise pension provisions for €2 billion, a portion of other provisions for €0.3 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €1.6 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, 2016

(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
Scheduled passenger	5,710	1,887	4,168	996	495	1,646	2,838	1,109	18,849
Other passenger sales	369	100	161	48	4	95	34	22	833
Total passenger	6,079	1,987	4,329	1,044	499	1,741	2,872	1,131	19,682
Scheduled cargo	302	263	492	131	70	316	174	156	1,904
Other cargo sales	40	15	35	9	9	18	26	13	165
Total cargo	342	278	527	140	79	334	200	169	2,069
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

Year ended December 31, 2015 (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
Scheduled passenger	5,823	1,799	4,362	1,051	505	1,957	2,970	1,240	19,707
Other passenger sales	346	144	144	57	5	91	24	23	834
Total passenger	6,169	1,943	4,506	1,108	510	2,048	2,994	1,263	20,541
Scheduled cargo	313	299	617	156	58	412	244	164	2,263
Other cargo sales	30	13	37	9	9	20	24	20	162
Total cargo	343	312	654	165	67	432	268	184	2,425
Transavia	390	647	50	-	4	2	6	-	1,099
Maintenance	943	511	25	-	-	-	98	-	1,577
Others	14	32	-	-	-	-	-	1	47
Total	7,859	3,445	5,235	1,273	581	2,482	3,366	1,448	25,689

Traffic sales by geographical area of destination

Year ended December 31, 2016

(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
Scheduled passenger	1,827	4,346	1,524	2,556	3,906	1,650	3,040	18,849
Scheduled cargo	2	30	141	406	446	347	532	1,904
Scheduled Transavia	21	1,144	-	40	-	-	-	1,205
Total	1,850	5,520	1,665	3,002	4,352	1,997	3,572	21,958

Year ended December 31, 2015

(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
Scheduled passenger	1,902	4,538	1,504	2,590	4,036	1,772	3,365	19,707
Scheduled cargo	3	39	141	467	535	398	680	2,263
Transavia	28	1,037	-	34	-	-	-	1,099
Total	1,933	5,614	1,645	3,091	4,571	2,170	4,045	23,069

NOTE 7. EXTERNAL EXPENSES

Period from January 1 to December 31 (in € millions)

	2016	2015 restated
Aircraft fuel	4,597	6,183
Chartering costs	424	430
Landing fees and air route charges	1,900	1,947
Catering	445	462
Handling charges and other operating costs	1,565	1,536
Aircraft maintenance costs	2,469	2,372
Commercial and distribution costs	905	896
Other external expenses	1,958	1,942
Total	14,263	15,768
Excluding aircraft fuel	9,666	9,585

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)	2016	2015 restated
Wages and salaries	5,234	5,295
Pension costs linked to defined contribution plans	580	563
Net periodic pension cost of defined benefit plans	238	294
Social contributions	1,056	1,080
Expenses related to share-based compensation	54	-
Cost of temporary employees	155	160
Other expenses	157	72
Total	7,474	7,464

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, 2016, the line “Expenses related to share-based compensation” includes an amount of €54 million linked

to the CLA agreement concluded in August 2015 between KLM and the pilot union VNV and described in *Note 30 on page 220*.

As of December 31, 2016, the line “Other expenses” includes an amount of €148 million of profit-sharing expenses (against €69 million as of December 31, 2015).

Average number of employees

Period from January 1 to December 31

	2016	2015 restated
Flight deck crew	7,673	7,856
Cabin crew	20,942	21,287
Ground staff	53,560	54,859
Temporary employees	2,427	2,455
Total	84,602	86,457

NOTE 9. AMORTIZATION, DEPRECIATION AND PROVISIONS

Period from January 1 to December 31

(in € millions)	2016	2015 restated
Amortization		
Intangible assets	127	108
Flight equipment	1,234	1,246
Other property, plant and equipment	210	219
	1,571	1,573
Depreciation and provisions		
Inventories	(9)	(6)
Trade receivables	(9)	6
Risks and contingencies	112	34
	94	34
Total	1,665	1,607

The amortization changes for intangible and tangible assets are presented in *Notes 18 and 20 on pages 209 and 211*.

The movements in provisions for risks and charges are detailed in *Note 32*.

The changes relating to inventories and trade receivables are presented in *Notes 25, 26 and 27 on pages 216 and 217*.

NOTE 10. OTHER INCOME AND EXPENSES

Period from January 1 to December 31

(in € millions)	2016	2015 restated
Capitalized production	767	875
Joint operation of routes	(89)	(87)
Operations-related currency hedges	155	310
Other	9	12
Other income and expenses	842	1,110

NOTE 11. OTHER NON-CURRENT INCOME AND EXPENSES

Period from January 1 to December 31

(in € millions)

	2016	2015
Modification on pension plans	-	20
Depreciation of assets available for sale	-	(4)
Restructuring costs	(157)	(159)
Disposal of slots	49	230
Disposal of shares available for sale	133	221
Disposals of subsidiaries and affiliates	13	3
Other	8	(6)
Other non-current income and expenses	46	305

Year ended December 31, 2016

Restructuring costs

As of December 31, 2016, these include mainly:

- €137 million relating to the Voluntary Departure Plans announced by Air France in February 2016 (see Note 3.7);
- €8 million relating to several Voluntary Departure Plans initiated in the Air France establishments located abroad;
- €13 million relating to an additional provision for KLM's restructuring plans.

Sale of slots

During the 2016 first half, the Group transferred two pairs of slots at London Heathrow airport to two other airlines. An amount of €49 million has been 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 concluded in May and June 2016.

Disposal of subsidiaries and affiliates

As of December 31, 2016, this includes 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 includes:

- the positive result relating to the disposal of two lands for a global amount of €13 million;
- a provision of €7 million for onerous lease contracts of two B747 aircraft of Martinair;

Year ended December 31, 2015

Change in pension plans

Following the re-negotiation of the KLM and Transavia Airlines C.V. pension plans for pilots, as of December 31, 2015 the Group booked net income of €20 million in "Other non-current income and expenses", as described in Note 31.3.

Restructuring costs

As of December 31, 2015, this line included:

- a provision of €56 million relating to the Voluntary Departure Plans announced by Air France in February 2015;
- a provision of €40 million relating to the Voluntary Departure Plan for Martinair pilots;
- a provision of €31 million relating to the new Voluntary Departure Plan announced by KLM in June 2015.

This line also included provisions, amounting to:

- €22 million relating to the Voluntary Departure Plans announced by HOP! Group within the context of its reorganization and the merger initiated between several Group entities;
- €11 million relating to several Voluntary Departure Plans initiated in the other Air France and KLM subsidiaries and establishments located abroad.

Sale of slots

On October 21, 2015, the Group transferred to Delta Air Lines six pairs of slots at London Heathrow airport in return for a total of €247 million, generating a gain of €230 million.

Disposal of shares available for sale

On January 15, 2015, the Group sold a block of 9,857,202 shares in the Spanish company Amadeus IT Holding SA (“Amadeus”), representing approximately 2.2 per cent of the Company’s share capital. This transaction generated:

- a positive result on the disposal of the shares amounting to €218 million in the “Other non-current income and expenses” line of the income statement;
- cash proceeds of €327 million.

After this operation, the Group still holds 9.9 million Amadeus shares. The value of these shares was fully hedged in a transaction concluded on November 25, 2014.

NOTE 12. OTHER FINANCIAL INCOME AND EXPENSES

Period from January 1 to December 31

(in € millions)	2016	2015 restated
Income from marketable securities	12	17
Other financial income	37	45
Financial income	49	62
Loan interests	(183)	(230)
Lease interests	(57)	(68)
Capitalized interests	11	14
Other financial expenses	(80)	(88)
Gross cost of financial debt	(309)	(372)
Net cost of financial debt	(260)	(310)
Foreign exchange gains (losses), net	(105)	(360)
Change in fair value of financial instruments	84	(178)
Including:		
– fuel derivatives	99	(163)
– currency derivatives	(4)	(9)
– interest rates derivatives	3	(4)
– other derivatives	(14)	(2)
Net (charge)/release to provisions	55	(28)
Other	(67)	(38)
Other financial income and expenses	(33)	(604)
Total	(293)	(914)

Net cost of financial debt

The 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, 2016 the gross cost of financial debt includes an amount of €22 million corresponding to the difference between the nominal and effective interest rates (after taking into account the equity component) on the OCEANE bonds (versus €36 million as of December 31, 2015).

Foreign exchange gains (losses)

As of December 31, 2016, the foreign exchange losses mainly include:

- an unrealized currency loss of €47 million on Japanese Yen debt and €21 million on USD debt;
- an unrealized currency loss of €17 million linked to the revaluation of the US dollar portion of the maintenance provision.

As of December 31, 2015, the foreign exchange losses mainly included:

- an unrealized currency loss on the net debt amounting to €188 million mainly linked to the appreciation in the US

dollar, Swiss franc and Japanese yen relative to the euro and also to an additional adjustment in the value of the cash held by the Group in Venezuelan bank accounts to take into account the currency conversion risk; and

- an unrealized currency loss of €112 million mainly linked to the revaluation of the US dollar portion of the maintenance provisions.

Net (charge)/release to provisions

As of December 31, 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, as the European Commission did not appeal before February 29, 2016 the decision taken by European Court.

As of December 31, 2015, the net addition to provisions comprised mainly the constitution of a provision on GOL shares.

Others

As of December 31, 2016, this line comprises the accretion effect on long-term provisions for €59 million.

As of December 31, 2015, this line mainly comprised the accretion effect on long-term provisions (€57 million expense) and

a €26 million gain on the repurchase by KLM of perpetual subordinated loan stock in Swiss francs.

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)	2016	2015 restated
Current tax (expense)/income	(31)	(20)
Change in temporary differences	(99)	189
CAVE impact	3	3
(Use/de-recognition)/recognition of tax loss carry forwards	(167)	(202)
Deferred tax income/(expense) from continuing operations	(263)	(10)
Total	(294)	(30)

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.

The Finance law 2017, voted in December, 2016, plans a decrease of the income tax rate from 34.43% to 28.92% applicable to the French fiscal group as from fiscal year 2020. The impact of this change in tax rate was translated by a decrease of 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 due each year.

As of December 31, 2016, the income taxes of the Dutch fiscal group include an amount of €70 positive corresponding to the use of non-recognized fiscal losses. This deferred tax asset on non-recognized fiscal losses concerns the Dutch fiscal group for €65 million and Martinair Company before its entry to the Dutch fiscal group for €5 million. The recoverability of the deferred tax losses corresponds to a period of three years.

As of December 31, 2015, some accounting principles in the KLM income tax fiscal unity were changed as a result of which the result for tax purposes increased with €730 million. This decrease in tax losses carried forward was fully offset by an increase in temporary differences.

13.2 Deferred tax recorded in equity (equity holders of Air France-KLM)

Period from January 1 to December 31

(in € millions)	2016	2015
Treasury shares	2	-
Coupons on Perpetual	13	6
Other comprehensive income that will be reclassified to profit and loss	(352)	(48)
Assets available for sale	7	12
Derivatives	(359)	(60)
Other comprehensive income that will not be reclassified to profit and loss	114	(295)
Pensions	114	(295)
Total	(223)	(337)

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)	2016	2015 restated
Income before tax	823	166
Standard tax rate in France	34.43%	34.43%
Theoretical tax calculated based on the standard tax rate in France	(283)	(56)
Differences in French/foreign tax rates	56	10
Non-deductible expenses or non-taxable income	68	67
Variation in unrecognized deferred tax assets	(20)	(40)
Impact of change in income-tax rate	(102)	-
CAVE impact	(18)	(16)
Other	5	5
Income tax expenses	(294)	(30)
Effective tax rate	35.8%	18.2%

For 2016, the tax rate applicable in France is 34.43%. Deferred tax has been calculated on the same basis for amounts that will be used before January 1, 2020 and with a 28.92% rate for those which will be used after this date. The impact of this change in tax rate is presented on 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, 2016 (restated) ⁽¹⁾	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Change in scope	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	-	(5)	(4)	237
Others	(346)	33	7	2	4	(1)	(301)
Deferred tax corresponding to fiscal losses	1,013	(167)	-	-	(13)	5	838
Deferred tax asset/(liability) net	691	(263)	(238)	15	(14)	(3)	188

(in € millions)	January 1, 2015 (restated)	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	December 31, 2015 (restated) ⁽¹⁾
Flight equipment	(1,163)	(30)	-	-	-	-	(1,193)
Pension assets	(297)	(12)	(87)	-	-	-	(396)
Financial debt	763	76	-	6	-	-	845
Deferred revenue on ticket sales	165	49	-	-	-	-	214
Debtors and creditors	365	-	(59)	-	-	-	306
Provisions	344	111	(210)	-	2	1	248
Others	(359)	(2)	13	-	-	2	(346)
Deferred tax corresponding to fiscal losses	1,210	(202)	-	-	1	4	1,013
Deferred tax asset/(liability) net	1,028	(10)	(343)	6	3	7	691

(1) See Note 2.

— French fiscal group

The deferred taxes recognized on fiscal losses for the French fiscal group amount to €600 million as of December 31, 2016 with a basis of €2,036 million. The total deferred-tax position of the French fiscal group is a net asset of €117 million.

As of December 31, 2015, the deferred taxes recognized on fiscal losses for the French fiscal group stood at €710 million with a basis of €2,062 million.

— Dutch fiscal group

The deferred taxes recognized on fiscal losses for the Dutch fiscal group amounts to €220 million as of December 31, 2016 versus €274 million as of December 31, 2015 with respective bases of €882 million and €1,107 million.

13.5 Unrecognized deferred tax assets

(in € millions)	December 31, 2016		December 31, 2015	
	Basis	Tax	Basis	Tax
Temporary differences	807	276	731	248
Tax losses	5,120	1,475	5,105	1,721
Total	5,927	1,751	5,836	1,969

— French fiscal group

As of December 31, 2016, the cumulative effect on the limitation of deferred tax assets results 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).

As of December 31, 2015, the cumulative effect on the limitation of deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €1,827 million (corresponding to a basis of €5,306 million), of which €1,586 million relating to tax losses and €241 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

— Dutch fiscal group

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 €17 million (corresponding to a basis of €68 million), entirely constituted of tax losses.

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry forward by Air France and KLM subsidiaries, not belonging to the fiscal groups, in particular some in the United Kingdom.

NOTE 14. NET INCOME FROM DISCONTINUED OPERATIONS

Period from January 1 to December 31

(in € millions)	2016	2015 restated
Net result of Servair Group	13	26
Disposals of subsidiaries and affiliates	123	-
Revaluation of investments in equity associates	134	-
Net income from discontinued operations	270	26

Net result of Servair Group

As of December 31, 2016 and 2015, the Servair Group result (see Note 2 and 3.1), after intercompany eliminations is detailed as follows:

Period from January 1 to December 31

(in € millions)	2016	2015 restated
Revenues	402	371
EBITDAR	56	60
EBITDA	56	60
<i>Income from current operations</i>	50	36
Non current item	(7)	(1)
<i>Income from operating activities</i>	43	35
Financial Income	2	(1)
<i>Income before tax</i>	45	34
Income taxes	(21)	(13)
Share of profits (losses) of associates and minority interests	(11)	5
Net income from discontinued operations	13	26

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 Servairs' share capital. The gain realized amounts to €123 million. The cash received amounts to €218 million.

Revaluation of investments in equity associates

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. In accordance with IFRS 10, the kept shares of Servair have been revaluated at their fair value. The impact of the revaluation amounts to € 134 million positive.

NOTE 15. ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS TO BE DISPOSED

— Year ended December 31, 2015

As of December 31, 2015, the line "Assets held for sale" includes the fair value of eight aircraft held for sale for a total amount of €4 million.

NOTE 16. EARNINGS PER SHARE

16.1 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)	2016	2015 restated
Net income for the period – Equity holders of Air France-KLM	792	118
Net income from continuing operations – Equity holders of Air France-KLM	522	92
Net income from discontinued operations – Equity holders of Air France-KLM	270	26
Coupons on perpetual	(25)	(18)
Basic net income for the period – Equity holders of Air France-KLM	767	100
Basic net income from continuing operations – Equity holders of Air France-KLM	497	74
Basic net income from discontinued operations – Equity holders of Air France-KLM	270	26

– Results used for the calculation of diluted earnings per share

As of December 31

(in € millions)	2016	2015 restated
Basic net income for the period – Equity holders of Air France-KLM	812	118
Basic net income for the period for continuing operations – Equity holders of Air France-KLM	542	92
Basic net income for the period for discontinued operations – Equity holders of Air France-KLM	270	26
Consequence of potential ordinary shares on net income: interests paid on convertible bonds <i>(after tax)</i>	(25)	(18)
Net income for the period – Equity holders of Air France-KLM <i>(taken for calculation of diluted earnings per share)</i>	787	100

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

	2016	2015
Weighted average number of:		
– ordinary shares issued	300,219,278	300,219,278
– treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
– other treasury stock	(2,877,251)	(3,040,345)
Number of shares used to calculate basic earnings per share	296,225,607	296,062,513
OCEANE conversion	53,386,532	-
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	349,612,139	296,062,513

16.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of December 31, 2016.

16.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

NOTE 17. GOODWILL

17.1 Detail of consolidated goodwill

As of December 31

(in € millions)	2016			2015		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Passenger network	195	-	195	195	-	195
Cargo	1	-	1	1	-	1
Maintenance	26	(5)	21	25	(4)	21
Other	1	-	1	31	(1)	30
Total	223	(5)	218	252	(5)	247

17.2 Movement in net book value of goodwill

As of December 31

(in € millions)	2016	2015
Opening balance	247	243
Change in scope	(30)	2
Currency translation adjustment	1	2
Closing balance	218	247

NOTE 18. INTANGIBLE ASSETS

(in € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of December 31, 2014	297	109	1,270	1,676
Additions	-	-	174	174
Disposals	(17)	-	(74)	(91)
Reclassification	-	-	(2)	(2)
Amount as of December 31, 2015	280	109	1,368	1,757
Additions	-	-	210	210
Change in scope	-	-	(29)	(29)
Disposals	-	-	(53)	(53)
Reclassification	-	-	-	-
Amount as of December 31, 2016	280	109	1,496	1,885
Depreciation				
Amount as of December 31, 2014	(4)	(106)	(557)	(667)
Charge to depreciation	(1)	(1)	(109)	(111)
Releases on disposals	-	-	36	36
Reclassification	-	-	3	3
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)
Net value				
As of December 31, 2015	275	2	741	1,018
As of December 31, 2016	274	1	791	1,066
Including:				
– passenger 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 19. IMPAIRMENT

Year ended December 31, 2016

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 (CGU), corresponding to its business segments (see "Accounting Policies").

The recoverable value of the CGU assets (other than cargo) has been determined by reference to their value in use as of December 31, 2016. The tests were realized for all the CGUs on the basis of a three-year Group plan, approved by the management.

The recoverable value of the cargo CGU assets has been determined by reference to their market value, based on appraiser valuations, for both the aeronautical and other tangible assets. All the depreciations historically booked on the tangible assets of this CGU have been progressively reversed with the relating fleet disposal.

The recoverable value of the cargo CGU being determined by reference to their market value, a US dollar sensitivity does exist.

A decrease of the dollar compared to euro amounting to 20% would not have any impact on the value of the cargo CGU valued as of December 31, 2016.

The discount rate used for the test corresponds to the Group's weighted average cost of capital (WACC). This stood at 7.0 per cent as at December 31, 2016 versus 7.1 per cent as at December 31, 2015.

After the aforementioned test, no impairment was 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's CGUs as of December 31, 2016. 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, 2015

As of December 31, 2015, no impairment was recognized on the Group's CGUs.

NOTE 20. TANGIBLE ASSETS

(in € millions)	Flight equipment					Other tangible assets					Total
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	
Gross value											
As of December 31, 2014	8,350	6,883	543	2,296	18,072	2,805	1,368	135	907	5,215	23,287
Acquisitions	163	129	1,110	86	1,488	44	38	94	15	191	1,679
Disposals	(621)	(111)	(4)	(191)	(927)	(5)	(19)	(7)	(32)	(63)	(990)
Change in scope	-	-	-	-	-	5	5	1	2	13	13
Fair value	-	-	(112)	-	(112)	-	-	-	-	-	(112)
Reclassification	981	(162)	(1,024)	166	(39)	40	(86)	(140)	163	(23)	(62)
Currency translation	-	-	-	-	-	1	4	-	1	6	6
Impairment	(4)	-	-	-	(4)	(1)	-	-	-	(1)	(5)
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
Depreciation											
As of December 31, 2014	(5,371)	(2,936)	-	(1,037)	(9,344)	(1,723)	(1,003)	-	(739)	(3,465)	(12,809)
Charge to depreciation	(673)	(423)	-	(123)	(1,219)	(124)	(70)	-	(44)	(238)	(1,457)
Releases on disposal	580	111	-	126	817	5	17	-	25	47	864
Change in scope	-	-	-	-	-	(1)	(3)	-	(2)	(6)	(6)
Reclassification	(400)	401	-	10	11	17	89	-	(110)	(4)	7
Currency translation	-	-	-	-	-	-	(2)	-	-	(2)	(2)
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)
Net value											
As of December 31, 2015	3,005	3,892	513	1,333	8,743	1,063	338	83	186	1,670	10,413
As of December 31, 2016	3,066	4,021	616	1,416	9,119	939	274	115	152	1,480	10,599

Aeronautical assets under construction mainly comprise advance payments, engine maintenance work in progress and aircraft modifications.

Note 39 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in Notes 38 and 39.

The net book value of tangible assets financed under capital lease amounts to €4,356 million as of December 31, 2016 versus €4,373 million as of December 31, 2015.

NOTE 21. 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)	2016	2015 restated
Acquisition of tangible assets	1,915	1,526
Acquisition of intangible assets	210	174
Accounts payable on acquisitions and capitalized interest	(53)	(53)
Subtotal	2,072	1,647
Acquisition linked to the discontinued operations	-	(19)
Total	2,072	1,628

NOTE 22. EQUITY AFFILIATES

Movements over the period

The table below presents the movement in investments in associates and joint ventures:

(in € millions)	Passenger network	Maintenance	Servair Group	Other	Total
Carrying value of share in investment as of December 31, 2014	30	43	41	25	139
Share in net income of equity affiliates	(37)	1	5	1	(30)
Distributions	-	-	(2)	-	(2)
Change in consolidation scope	-	3	(2)	2	3
Other variations	2	-	-	-	2
Currency translation adjustment	2	1	3	-	6
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
Capital increase	-	-	-	3	3
Currency translation adjustment	1	-	(1)	-	-
Carrying value of share in investment as of December 31, 2016	-	49	218	25	292

Passenger network

As of December 31, 2016 and 2015, the equity affiliates in the passenger business mainly concerned Kenya Airways, a Kenyan airline based in Nairobi over which the Group exercises a significant influence.

The financial statements of Kenya Airways as of March 31, 2016 include revenues of €1,041 million, a net result of €(235) million, equity of €(314) million and a total balance sheet of €1,393 million.

The market value of the shares in this listed company amounts to €21 million as of December 31, 2016.

Given the net equity position of this entity, the carrying amount of the Kenya Airways shares is zero as of December 31, 2016.

Maintenance

As of December 31, 2016 and 2015, 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 the percentages of interest are presented in *Note 43.2*, have been concluded either with airlines or with independent players in the maintenance market.

Servair Group

The Servair Group is the first French company of aviation catering. With about 45 establishments in 26 countries and approximately 9,500 employees, Servair has a leading position in Paris and in Africa. Servair counts 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 as the engineering and the integration of services.

As of December 31, 2015, 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, 2016 are as follows:

Simplified income statement

Period from January 1 to December 31

(in € millions)	2016
Sales	824
<i>Income from current operations</i>	34
Non-current items	(8)
<i>Income from operating activities</i>	26
Financial result	2
<i>Income before tax</i>	28
Income taxes	(21)
Share of profits (losses) of associates and non-controlling interests	(11)
Net result	(4)

Simplified balance sheet

Asset

(in € millions)	December 31, 2016
Non-current asset	200
Current asset	250
Total asset	450

Liabilities and equity

(in € millions)	December 31, 2016
Equity	194
Non-current liability	73
Current liability	183
Total liabilities and equity	450

Other

As of December 31, 2016 and 2015, the equity affiliates in the Group's other businesses are mainly joint-venture partnerships entered into by the Group in airport business. The localizations of the activities and the percentages of interest in these partnerships are presented in *Note 43.2 on page 256*.

NOTE 23. PENSION ASSETS

As of December 31,

(in € millions)	2016	2015
Opening balance	1,773	1,409
Net periodic pension (cost)/income for the period	(111)	(159)
Contributions paid to the funds	170	190
Reclassification	-	(25)
Fair value revaluation	(370)	358
Closing balance	1,462	1,773

The detail of these pension assets is presented in *Note 31 on page 220*.

Further to a renegotiation of the pilot pension plan in KLM, the Group accounted for a non-current expense of €(25) million as of December 31, 2015.

NOTE 24. OTHER FINANCIAL ASSETS

As of December 31

(in € millions)	2016		2015	
	Current	Non-current	Current	Non-current
Financial assets available for sale				
Available shares	-	29	-	29
Shares secured	-	214	-	403
Assets at fair value through profit and loss				
Marketable securities	38	15	406	60
Cash secured	50	-	411	-
Loans and receivables				
Financial lease deposit (<i>bonds</i>)	19	279	-	204
Financial lease deposit (<i>others</i>)	9	327	131	322
Loans and receivables	14	222	19	229
Gross value	130	1,086	967	1,247
Impairment at opening date	-	(23)	-	(21)
New impairment charge	-	(9)	-	(2)
Reversal	-	5	-	-
Variation on scope	-	4	-	-
Other	-	1	-	-
Impairment at closing date	-	(22)	-	(23)
Total	130	1,064	967	1,224

Financial assets available for sale

(in € millions)	Fair Value	% interest	Stockholder's equity	Net income	Stock price (in €)	Closing date
As of December 31, 2016						
Amadeus ⁽¹⁾	214	1.11%	NA ⁽²⁾	NA ⁽²⁾	-	December 2016
Alitalia-CAI	-	1.00%	NA ⁽²⁾	NA ⁽²⁾	NA ⁽³⁾	December 2016
Other	29	-	-	-	-	-
Total	243					
As of December 31, 2015						
Amadeus ⁽¹⁾	403	2.21%	2,297	684	40.69	December 2015
Alitalia-CAI	-	1.04%	(225)	(287)	NA ⁽³⁾	December 2015
Other	29	-	-	-	-	-
Total	432					

(1) Listed company.

(2) Non-available.

(3) Non-applicable.

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 (see Note 3 on page 181).

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 on May and June 2016 (see Note 36.1 on page 236).

On January 15, 2015, the Group sold a block of 9,857,202 shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), representing approximately 2.2 per cent of the capital of the Company.

After this transaction, the Group still held 9.9 million Amadeus shares. The value of these shares was fully covered by a hedging transaction concluded on November 2014.

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 one 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 repay 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, 2016, the amount of transferred receivables stood at €106 million (versus €108 million as of December 31, 2015). The associated loan stood at €81 million as of December 31, 2016 and 2015).

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 €193 million as of December 31, 2016, against €233 million as of December 31, 2015.

The Group retains the risk of dilution regarding these transferred assets for which guarantees have been secured for €15 million as of December 31, 2016 and 2015.

At the end of December 2016, the Group concluded a non-recourse cash transfer by way of discount on the entire Receivable Tax Credit for Competitiveness Employment (CICE) 2016 with a bank for a notional amount of €53 million versus €63 million as of December 31, 2015. Since the assignment agreement transfers substantially all the risks and rewards of the debt to the bank, the debt has been derecognized in full.

NOTE 25. INVENTORIES

As of December 31

(in € millions)	2016	2015
Aeronautical spare parts	591	544
Other supplies	117	135
Production work in progress	11	16
Gross value	719	695
Opening valuation allowance	(162)	(165)
Charge to allowance	(9)	(18)
Use of allowance	18	22
Currency translation adjustment	-	(1)
Reclassification	-	(1)
Closing valuation allowance	(153)	(163)
Net value of inventory	566	532

NOTE 26. TRADE ACCOUNTS RECEIVABLES

As of December 31

(in € millions)	2016	2015
Airlines	354	445
Other clients:		
– passenger network	659	641
– cargo	283	329
– maintenance	598	430
– other	59	60
Gross value	1,953	1,905
Opening valuation allowance	(105)	(98)
Charge to allowance	(9)	(25)
Use of allowance	18	17
Change of scope	10	-
Currency translation adjustment	(1)	(2)
Reclassification	2	3
Closing valuation allowance	(85)	(105)
Net value	1,868	1,800

NOTE 27. OTHER ASSETS

As of December 31

(in € millions)	2016		2015	
	Current	Non-current	Current	Non-current
Suppliers with debit balances	143	-	105	-
State receivables (including income tax)	115	-	118	-
Derivative instruments	396	404	480	291
Prepaid expenses	173	-	128	-
Other debtors	279	44	310	4
Gross value	1,106	448	1,141	295
Opening valuation allowance	(3)	-	(6)	-
Charge to allowance	-	-	(1)	-
Use of allowance	-	-	4	-
Change of scope	2	-	-	-
Closing valuation allowance	(1)	-	(3)	-
Net value	1,105	448	1,138	295

As of December 31, 2016, non-current derivatives include €54 million relating to currency hedges on financial debt, against €37 million as of December 31, 2015.

As of December 31, 2016, current derivatives include €3 million relating to currency hedges on financial debt, against €4 million as of December 31, 2015.

NOTE 28. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

As of December 31

(in € millions)	2016	2015
Liquidity funds (SICAV) (assets at fair value through profit and loss)	1,856	1,085
Bank deposits and term accounts (assets at fair value through profit and loss)	1,349	1,261
Cash in hand	733	758
Total cash and cash equivalents	3,938	3,104
Bank overdrafts	(5)	(3)
Cash, cash equivalents and bank overdrafts	3,933	3,101

NOTE 29. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA

29.1 Issued capital

As of December 31, 2016, the issued capital of Air France-KLM comprised 300,219,278 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 benefit from double voting rights.

The change in the number of issued shares is as follows:

As of December 31

(in number of shares)

	2016	2015
At the beginning of the period	300,219,278	300,219,278
Issuance of shares for OCEANE conversion	-	-
At the end of the period	300,219,278	300,219,278
Of which:		
– number of shares issued and paid up	300,219,278	300,219,278
– number of shares issued and not paid up	-	-

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 21, 2015 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:

As of December 31

	% of capital		% of voting rights	
	2016	2015	2016	2015
French State	18	18	27	18
Employees and former employees	6	7	10	7
Treasury shares	-	1	-	-
Other	76	74	63	75
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 33.2 on page 231.

29.2 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.

29.3 Treasury shares

	Treasury shares	
	Number	In € millions
December 31, 2014	4,179,804	(86)
Change in the period	(30,209)	1
December 31, 2015	4,149,595	(85)
Change in the period	(3,000,392)	18
December 31, 2016	1,149,203	(67)

All the treasury shares are classified as a reduction of equity.

29.4 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 debts.

On October 3, 2016, Air France-KLM disbursed coupons of €38 million relating to this instrument.

29.5 Reserves and retained earnings

(in € millions)	December 31, 2016	December 31, 2015
Legal reserve	70	70
Distributable reserves	176	301
Pension defined benefit reserves	(3,094)	(2,660)
Derivatives reserves	102	(736)
Available for sale securities reserves	161	289
Other reserves	(727)	(943)
Net income (loss) – Group share	792	118
Total	(2,520)	(3,561)

As of December 31, 2016, the legal reserve of €70 million represents 23 per cent of Air France-KLM’s issued capital. French company law requires that a limited company (*société anonyme*) allocates five per cent of its unconsolidated statutory net income each year to this legal reserve until it reaches ten 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 30. SHARE-BASED COMPENSATION

The Air France-KLM Group has no significant stock option plan or share-based plan with settlement in cash (Phantom Performance Shares) index-linked to the change in the Air France-KLM share price as of December 31, 2016 and December 31, 2015 (See Section 1 of the Reference 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 formed by the VNV. Within the framework of this agreement, the Group recorded a €54 million

cost in “Expenses related to share-based compensation” relative to the years 2015 and 2016.

Under this agreement, and in consideration for the August 2015 agreement, KLM financed on December 12, 2016 the acquisition at market price of 3 million of Air France-KLM treasury shares, representing around 1% of the Air France-KLM’s share capital by the foundation, and will transfer a cash amount to the foundation of about €12 million for the purpose of the foundation acquiring Air France-KLM shares on the market.

NOTE 31. RETIREMENT BENEFITS

(in € millions)

Retirement benefits

Amount as of December 31, 2014	2,119
Of which: non-current	2,119
New provision	94
Use of provision	(77)
Fair value revaluation	(135)
Currency translation adjustment	17
Reclassification	(23)
Amount as of December 31, 2015	1,995
Of which: non-current	1,995
New provision	126
Use of provision	(67)
Fair value revaluation	177
Currency translation adjustment	(21)
Reclassification	(47)
Amount as of December 31, 2016	2,119
Of which: non-current	2,119

As of December 31, 2016, a curtailment of the pension plan at Air France and its regional subsidiaries is made, amounting to €46 million, within the framework of the Voluntary Departure Plan and has been recorded to “Other non-current income and expenses” (see Note 11 on page 199). As of December 31, 2015, this amount stood at €22 million.

31.1 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 country in which the employees are located.

Pension plan related to KLM flight deck crew - The Netherlands

The pension plan related to the flight deck crew in the KLM entity is a defined benefit plan based on average salary with a reversion to the spouse on the beneficiary’s death. Until July 2016 the age of retirement defined in the plan is 56 years old. As of July 2016 the retirement age for pension accrual will gradually increase to 58 years. Implementation of the increase is phased in four steps of a half year starting July 2016. As of July 2019 the retirement will be 58 years for all members.

The Board of the pension fund is composed of members appointed by the employer and employees. The board is full responsible for the execution of the plan. KLM can only control the financing agreement between KLM and the pension fund. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions.

To satisfy the requirements of the 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 123% to 125% 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) applicable as per January 1, 2015. The impact of the nFTK amongst others resulted in higher minimum required 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 investments.

Based on the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Cockpit Crew pension fund is 114.6 per cent as of December 31, 2016 versus 122.9 per cent as of December 31, 2015.

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. If the threshold cannot be realized within ten years (transitional period of twelve years as from 2015) additional contributions are payable by the Company and the employees. Nevertheless in case of unconditional indexation and of a coverage under the funding ratio, no extension of time is given to reach the required funding ratio. The pension plan related to KLM flight deck crew is under a specific funding agreement (STROT agreement) which warrants unconditionally the financing of the indexation for the pre-2007 rights.

The amount of regular and additional employer contributions is not limited. The employee contributions cannot be increased in the event of non-compliance with these minimum funding rules.

The decrease in discount rates during the year 2016 has involved the decrease in the funding ratio. This funding-ratio decrease could bring KLM to have to pay a very significant exceptional contribution without possibility of spreading. In December 2016, KLM and the pilots Union VNV came to a funding agreement concerning indexation for the year 2017. This agreement indicates that KLM and the pilots Union VNV must agree on a new de-risked pension plan in 2017 and that KLM could have to pay a maximum €94 million contribution according to the future agreement. An agreement on a de-risked pension plan could lead to derecognizing the pension asset linked to the KLM flight deck crew pension plan in 2017.

A reduction in the employer contribution is possible if the indexation of pensions is fully funded. This reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the new Dutch fiscal

rules, amongst others, a maximum pensionable salary of €100,000 and lower future accrual rate are applicable since 2015.

The return on plan assets, the discount rate used to value the commitments and the longevity and characteristics of the active population are the main factors that impact the coverage ratio and could lead to a risk of additional contributions for KLM on the long term.

The funds, fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most 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.

Pension plan related to KLM ground staff – The Netherlands

The pension plan related to 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 is 67 years.

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. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions/Works Council.

To satisfy the requirements of Dutch regulations and 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 new Financial Assessment Framework (nFTK) applicable as per January 1, 2015. The impact of nFTK amongst others resulted in higher minimum required 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. As a consequence the existing recovery plan for the Ground Staff plan has been updated as per July 1, 2015.

Based on the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Ground Staff pension fund is 103.4 per cent as of December 31, 2016 versus 111.1 per cent as of December 31, 2015.

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. If the threshold cannot be realized within ten years (transitional period of twelve years as from 2015) 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 two per cent of the pension basis.

A reduction in contributions is possible if the indexation of pensions is fully funded. This reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the new Dutch fiscal rules, amongst others, a maximum pensionable salary of €100,000 and lower future accrual rate are applicable since 2015.

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 that impact 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 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 of the interest rate, approximately 50 per cent of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Pension plan related to cabin crew – The Netherlands

The pension plan related to the cabin crew in the KLM entity is a defined benefit plan with reversion to the spouse on the beneficiary's death. The pension is based on final salary. For a closed group of active members the pension is based on an average salary. The age of retirement defined in the plan is 60 years.

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. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions.

To satisfy the requirements of Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding ratio 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), applicable as per January 1, 2015. The impact of the nFTK amongst others resulted in higher minimum required 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. As a consequence the existing recovery plan for the Cabin Crew plan has been updated as per July 1, 2015.

Based on the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Cabin Crew pension fund is 100.0 per cent as of December 31, 2016 versus 108.5 per cent as of December 31, 2015.

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. If the threshold cannot be realized within ten years (transitional period of twelve years as from 2015) additional contributions are payable by the Company and the employee. The amount of regular and additional employer contributions is limited to 48 per cent of the pension basis. Any additional employee contributions are limited to 0.7 per cent of the pension basis.

A reduction of contribution is possible if the indexation of pensions is fully funded. This reduction in a year is limited to twice the normal annual contribution. Given the new Dutch fiscal rules, amongst others, a lower future accrual rate is applicable as from 2015.

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 that impact both the coverage ratio and the level of the regular contribution for future pension accrual.

The funds, fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most 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 of the interest rate, approximately 50 per cent of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

In December 2016, KLM and the cabin crew Unions started discussion with the aim to draw up a Protocol in order to reach a new future proof pension agreement. This new scheme could have the characteristics of a collective defined contribution pension scheme. It will require, before its implementation, amongst others, the agreement of the Dutch fiscal authorities. It is expected to be implemented in 2017. On December 31, 2016, the pension scheme related to KLM cabin crew is in asset position for a €65 million amount.

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 and permanently 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, 2008, 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, 2008, 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 ten 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. 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. The Company 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, 2016, the three Dutch plans and the two French plans presented above represented a respective 84 per cent and ten per cent of the Group’s pension liabilities and 94 per cent and three per cent of the Group’s pension assets.

31.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group’s benefit obligation were made as of December 31, 2016 and December 31, 2015. These calculations include:

- assumptions on staff turnover and life expectancy of the beneficiaries of the plan;
- assumptions on salary and pension increases;
- assumptions of retirement ages varying from 55 to 67 years depending on the localization and the applicable laws;
- inflation rates are determined using the inflation swaps listed as reference applied on the Group cash-flows and are also determined according to the schemes’ duration:

As of December 31	2016	2015
Euro zone – Duration 10 to 15 years	1.50%	1.50%
Euro zone – Duration 15 years and more	1.75%	1.65%

- 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 broad enough, 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	2016	2015
Euro zone – Duration 10 to 15 years	1.50%	1.80%
Euro zone – Duration 15 years and more	1.90%	2.35%

The duration of between ten and fifteen years mainly concerns the plans located in France while the duration of fifteen years and beyond mainly concerns plans located in The Netherlands.

- discount rates used to determine the actuarial present value of the service cost.

Since January 1, 2016, the Group refined its calculations, by retaining the adequate flows, on the discount rate used for the service-cost calculation. In the Euro zone, this leads to use 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 1.18 per cent for the Group as of December 31, 2016 against 1.36 per cent as of December 31, 2015.

The rate of pension increase (excluding inflation) is 1.14 per cent for the Group as of December 31, 2016 against 1.12 per cent as of December 31, 2015.

- 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, 2016	Sensitivity of the assumptions for the year ended December 31, 2015
25 bp increase in the inflation rate	252	283
25 bp decrease in the inflation rate	(233)	(264)

Sensitivity to changes in the discount rate

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2016	Sensitivity of the assumptions for the year ended December 31, 2015
100 bp increase in the discount rate	(3,526)	(3,141)
100 bp decrease in the discount rate	4,677	4,162

Sensitivity to changes in salary increase (excluding inflation)

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2016	Sensitivity of the assumptions for the year ended December 31, 2015
25 bp increase in the salary increase rate	114	106
25 bp decrease in the salary increase rate	(99)	(97)

Sensitivity to changes in pension increase

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2016	Sensitivity of the assumptions for the year ended December 31, 2015
25 bp increase in the pension increase rate	934	835
25 bp decrease in the pension increase rate	(739)	(658)

31.3 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, 2016 and December 31, 2015.

(in € millions)	As of December 31, 2016			As of December 31, 2015		
	Netherlands	France	Others	Netherlands	France	Others
Benefit obligation at beginning of year	16,220	2,226	892	16,862	2,373	878
Service cost	128	64	12	212	73	13
Interest cost	377	38	29	391	38	36
Employees' contribution	100	-	-	129	-	1
Plan amendments and curtailment	38	(48)	-	26	-	(9)
Change in consolidation scope	-	(45)	(6)	-	-	-
Settlement	-	-	-	(438)	(23)	-
Benefits paid	(406)	(96)	(44)	(414)	(96)	(36)
Transfers of assets/liability through balance sheet	-	-	-	2	-	-
Actuarial loss/(gain) demographic assumptions	8	4	2	3	8	2
Actuarial loss/(gain) financial assumptions	1,513	65	186	(433)	(134)	(18)
Actuarial loss/(gain) experience gap	16	3	(27)	(121)	(13)	(22)
Currency translation adjustment and other	-	-	(94)	1	-	47
Benefit obligation at end of year	17,994	2,211	950	16,220	2,226	892
Including benefit obligation resulting from schemes totally or partly funded	17,797	2,142	846	16,108	2,159	777
Including unfunded benefit obligation	197	69	104	112	67	115
Fair value of plan assets at beginning of year	17,806	712	598	18,039	750	614
Actual return on plan assets	1,577	16	78	223	39	(37)
Employers' contributions	170	28	16	202	13	18
Employees' contributions	100	-	-	129	-	1
Change in consolidation scope	-	(7)	-	-	-	-
Settlements	-	-	-	(394)	-	-
Benefits paid	(394)	(92)	(37)	(393)	(91)	(28)
Currency translation adjustment and other	-	-	(73)	-	1	30
Fair value of plan assets at end of year	19,259	657	582	17,806	712	598
Amounts recorded in the balance sheet⁽¹⁾:						
Pension asset	1,462	-	-	1,773	-	-
Provision for retirement benefits	(197)	(1,554)	(368)	(187)	(1,514)	(294)
Net amount recognized	1,265	(1,554)	(368)	1,586	(1,514)	(294)
Net periodic cost:						
Service cost	128	64	12	212	73	13
Interest cost	(41)	26	8	(32)	27	10
Plan amendments, curtailment and settlement	38	(48)	-	(18)	(23)	(9)
Actuarial losses/(gain) recognized in income statement	3	-	-	-	-	-
Net periodic cost	128	42	20	162	77	14

(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, 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 has been recorded concerning the KLM pension schemes related to ground staff and cabin crew. This plan amendment corresponds to additional pension benefits linked to increase in employees' contribution compensated by an increase of their salaries. All these operations are cash neutral.

— As of December 31, 2015

As of January 1, 2016, Transavia Airlines Cockpit Crew pension plan changed from a defined benefit to a defined contribution arrangement. The plan assets and defined benefit obligations decreased with respectively €394 million and €439 million. The net positive settlement amounted to €45 million and was recorded in "Other non-current income and expenses" (see Note 11 on page 199).

Furthermore, with regard to the KLM Cockpit crew pension plan an increase in the pension age from 56 to 58 years offset by an increased yearly accrual rate was agreed, which overall resulted in a negative settlement of €25 million. This settlement was recorded in "Other non-current income and expenses" (see Note 11 on page 199).

As of December 31, 2015, a curtailment of the pension plan at Air France and its regional subsidiaries was made, amounting to a €22 million gain, within the framework of the Voluntary Departure Plan.

31.4 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, 2016		Funds invested as of December 31, 2015	
	France	The Netherlands	France	The Netherlands
Equities	35%	38%	38%	32%
Bonds	46%	50%	47%	53%
Real estate	-	12%	-	13%
Others	19%	-	15%	2%
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.

31.5 Expected cash flows and risks linked to the pension obligations

The expected cash flows relative to the defined benefit pension plans will amount to €189 million for the year ending December 31, 2016. The weighted average duration of the obligation is 19 years.

The funding, capitalization and matching strategies implemented by the Group are presented in *Note 31.1 on page 220*.

According to this description, both the fiscal rules for accruing pensions as well as the new Financial Assessment Framework, part of the Dutch pension law, in The Netherlands has changed as from January 1, 2015. Amongst other this results in higher minimum required solvency levels. The risk for the Group could remain that in case of a long term shortage, based on existing or future financing agreements, KLM could be required to make additional cash payments (actual funding ratios are presented in *Note 31.1 on page 220*). On the other hand, as from 2015, pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan. Nevertheless

in case of unconditional indexation and of a coverage under the funding ratio, no extension of time is given to reach the required funding ratio. The pension plan related to KLM flight deck crew is under a specific funding agreement (STROT agreement) which warrants unconditionally the financing of the indexation for the pre-2007 rights.

The decrease in discount rates during the year 2016 has involved the decrease in the funding ratio of the three main KLM schemes. Concerning the plan related to KLM flight deck crew, the unconditional indexation joint to the funding-ratio decrease could bring KLM to have to pay a very significant exceptional contribution without possibility of spreading. In December 2016, KLM and the pilots Union VNV came to a funding agreement concerning indexation for the year 2017. This agreement indicates that KLM and the pilots Union VNV must agree on a new de-risked pension plan in 2017 and that KLM could have to pay a maximum €94 million contribution according to the future agreement.

For 2016, this additional payment risk concerning the pension plan related to ground staff and to cabin crew is mitigated by the solvency levels and the rolling 10 year recovery plan noted since December 31, 2015.

NOTE 32. OTHER PROVISIONS

(in € millions)	Maintenance and restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of December 31, 2014 (Restated)⁽¹⁾	1,090	323	479	243	2,135
Of which:					
— non-current	774	-	447	183	1,404
— current	316	323	32	60	731
New provision	333	161	26	86	606
Use of provision	(279)	(195)	(29)	(142)	(645)
Reversal of unnecessary provisions	(1)	-	(15)	(7)	(23)
Currency translation adjustment	102	-	-	6	108
Accretion impact	51	-	-	6	57
Reclassification	(26)	21	13	9	17
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

(1) Modification in the conversion method for provisions in foreign currencies.

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 on page 199).

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 on page 201).

The discount rate used to calculate these provisions for maintenance and restitution relating to operational leased aircraft, based on a short term risk-free increased by a spread on risky debt (used for the companies with high financial leverage), is 5.2 per cent as of December 31 2016 and six per cent as of December 31, 2015.

The Group is exposed to the risk of variation of the discount rate mentioned above. A 25 basis point variation (increase or decrease) of this discount rate would have an impact of €10 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.

32.1 Provisions

32.1.1 Restructuring provisions

As of December 31, 2016 and 2015, the restructuring provisions mainly concern the Voluntary Departure Plans of Air France and its regional subsidiaries, KLM and Martinair.

32.1.2 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.

32.1.3 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 anti-trust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air-freight industry.

As of December 31, 2016, 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 anti-trust authority, which are still pending.

In Europe, the decision of the European Commission of 2010 against a dozen airline companies, including the companies of the Group Air France, KLM and Martinair, was annulled by the General Court of the European Union on December 16, 2015.

As the European Commission has indicated its intention, following such annulment, to adopt a new decision against Air France-KLM, Air France, KLM and Martinair, the €340 million provision in respect of the fine has been maintained in the accounts of the Group as of December 31, 2016.

During the 1st semester 2016, the Group released to the consolidated income statement the €41 million provision covering the accrued interest (see Note 12).

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court.

As of December 31, 2016, the total amount of provisions in connection with the anti-trust cases amounts to €343 million.

32.1.4 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 CO₂ emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

32.2 Contingent liabilities

The Group is involved in several governmental, judicial and arbitration procedures for which provisions have not been recorded in the financial statements in accordance with applicable accounting rules.

32.2.1 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 for damages to compensate alleged higher prices due to the cartel.

Air France, KLM and/or Martinair remain defendants, either as main defendants (in particular in The Netherlands, Norway, South Korea and the United States of America) 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.

No provision has been recognized at present in connection with these disputes as the Group is not in a position at this stage of the judicial proceedings to give a reliable estimate of the potential loss that would be incurred if the outcome of these proceedings were negative. In particular, 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.

32.2.2 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.

32.2.3 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 32.1 on page 228 and 32.2 on page 229*, 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 33. FINANCIAL DEBT

As of December 31

(in € millions)

	2016	2015
Non-current financial debt		
Perpetual subordinated loan stock in Yen	251	238
Perpetual subordinated loan stock in Swiss francs	349	346
OCEANE (convertible bonds)	507	489
Bonds	1,646	1,104
Capital lease obligations	3,567	3,647
Other debt	1,111	1,236
Total	7,431	7,060
Current financial debt		
OCEANE (convertible bond)	-	415
Bonds	-	603
Capital lease obligations	696	577
Other debt	236	327
Accrued interest	89	95
Total	1,021	2,017

Change in financial debt

(in € millions)	December 31 2015	New financial debt	Non monetary change in financial lease	Reimbursement of financial debt	Currency translation adjustment	Change in scope	Other	December 31 2016
Perpetual subordinated loan stock	584	-	-	-	16	-	-	600
OCEANE & Bonds	2,611	538	-	(1,022)	-	-	26	2,153
Capital lease obligations	4,224	623	(186)	(481)	51	(4)	36	4,263
Other long-term debt	1,563	170	9	(408)	4	(15)	24	1,347
Accrued interest	95	-	-	-	-	-	(6)	89
Total	9,077	1,331	(177)	(1,911)	71	(19)	80	8,452

33.1 Perpetual subordinated bond

33.1.1 Perpetual subordinated bond in Japanese Yen

The perpetual subordinated bond in Japanese Yen was issued by KLM in 1999 for a total amount of JPY 30 billion, *i.e.* €251 million as of December 31, 2016. Until 2019, this perpetual subordinated bond is subject to the payment of a 5.28 per cent coupon on a notional of USD 248 million.

The debt is perpetual. It is nevertheless reimbursable at its nominal value at the Group's discretion as of August 28, 2019. This reimbursement does not involve a premium. A premium would however be due if the debt were to be reimbursed in a currency other than the yen.

This debt is subordinated to all other existing and future KLM debts.

33.1.2 Perpetual subordinated bond in Swiss francs

The perpetual subordinated bond in Swiss francs was issued by KLM in two installments in 1985 and 1986 for a total original amount of CHF 500 million. In 2015, this loan is the result of a partial redemption by mutual agreement for an amount of CHF 44 million. Following the repurchases made by KLM, the outstanding subordinated bond loan amounts to CHF 375 million, *i.e.* €349 million as of December 31, 2016.

The bonds are reimbursable on certain dates at the Group's discretion, at a price between their nominal value and 101.25 per cent (depending on the bond and date of early repayment).

This loan is subject to the payment of a coupon considered to be a fixed-rate (5.75 per cent on a CHF 270 million portion and 0.75 per cent on a CHF 105 million portion).

This debt is subordinated to all other existing and future KLM debts.

33.2 OCEANE

33.2.1 OCEANE issued in 2005

On April 1, 2016, the Group redeemed the OCEANE issued in 2005. The relating swap expired on this same date.

33.2.2 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.

The conversion period of these bonds runs from May 7, 2013 to the seventh working day preceding the normal or early reimbursement date. The conversion ratio is one share for one bond.

Repayment at par, plus accrued interest, will be possible as of February 15, 2019 on request of the bond holders. Air France-KLM can impose the cash reimbursement of these bonds by exercising a call from September 28, 2016 if the share price exceeds 130 per cent of the nominal, amounting to €13.39, encouraging OCEANE owners to convert their bonds into Air France-KLM shares.

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, 2016, the debt value amounts to €507 million.

The option value was evaluated by deducting this debt value from the total nominal amount (*i.e.* €550 million) and was recorded in equity.

33.3 Bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Reimbursement date	Coupon
Bond issued in 2009	27 Oct. 2009	€ 700	27 Oct. 2016	27 Oct. 2016	6.75%
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.

33.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

As of December 31

(in € millions)

	2016	2015
Aircraft		
Future minimum lease payments - due dates		
Y+1	682	583
Y+2	619	640
Y+3	622	576
Y+4	477	573
Y+5	478	418
Over 5 years	1,286	1,259
Total	4,164	4,049
Including:		
— principal	3,937	3,789
— interest	227	260
Buildings		
Future minimum lease payments - due dates		
Y+1	58	53
Y+2	61	57
Y+3	38	61
Y+4	39	38
Y+5	39	39
Over 5 years	197	241
Total	432	489
Including:		
— principal	320	359
— interest	112	130

As of December 31

(in € millions)

	2016	2015
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	1	12
Y+2	1	11
Y+3	1	10
Y+4	1	10
Y+5	1	10
Over 5 years	2	57
Total	7	110
Including:		
– principal	6	76
– interest	1	34

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in *Note 24 on page 214*.

33.5 Other debt

Other debt breaks down as follows:

As of December 31

(in € millions)

	2016	2015
Reservation of ownership clause and mortgage debt	963	814
Other debt	384	749
Total	1,347	1,563

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 corresponds mainly to bank borrowings. They also include €27 million related to debt issuing expenses on financial debt.

33.6 Maturity analysis

The financial debt maturities break down as follows:

As of December 31

(in € millions)	2016	2015
Maturities in		
Y+1	1,227	2,439
Y+2	1,577	1,239
Y+3	1,495	1,471
Y+4	855	1,397
Y+5	1,420	664
Over 5 years	2,915	3,084
Total	9,489	10,294
Including:		
– principal	8,452	9,077
– interest	1,037	1,217

As of December 31, 2016, the expected financial costs amount to €213 million for the 2017 financial year, €573 million for the 2018 to 2021 financial years, and €251 million thereafter.

As of December 31, 2016, it has been considered that the perpetual subordinated loan stocks and the OCEANEs would be reimbursed according to their most probable maturities:

- probable exercise date of the issuer call for the perpetual subordinated loans;
- probable exercise date of the investor put, *i.e.* February 15, 2019, for the majority of the OCEANEs issued in 2013 (see Note 33.2.2 on page 229).

Repayable bonds issued in 2012, 2014 and 2016 will be reimbursed at their contractual maturity date (see Notes 33.3 on page 232).

33.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

As of December 31

(in € millions)	2016	2015
Euro	6,211	7,293
US Dollar	1,015	650
Swiss franc	359	356
Yen	867	778
Total	8,452	9,077

33.8 Credit lines

As of December 31, 2016, the Group holds undrawn credit lines amounting to €1755 million. The two main undrawn credit lines amount, respectively, to €1180 million for the holding Air France-KLM and Air France and €575 million for KLM.

On April 29, 2015, the Group signed a credit facility for €1.1 billion, finalizing the early refinancing of the Air France's credit facility maturing in April 2016. This new credit facility, implemented through a syndicate of thirteen leading banks, comprises two €550 million tranches with respective three and five-year maturities.

The financial covenant ratios are calculated based on Air France-KLM's consolidated financial statements and are respected as of December 31, 2016.

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 was 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, 2016.

NOTE 34. NET DEBT

As of December 31

(in € millions)	Note	2016	2015
Current and non-current financial debt	33	8,452	9,077
Financial lease deposits (<i>others</i>)	24	(336)	(453)
Cash secured on OCEANE swap ⁽¹⁾		-	(393)
Currency hedge on financial debt	27 and 35	(49)	(40)
Accrued interest	33	(89)	(95)
Gross financial debt (I)		7,978	8,096
Cash and cash equivalents	28	3,938	3,104
Marketable securities	24	53	466
Cash secured (<i>on other than OCEANE swap</i>) ⁽¹⁾		50	18
Financial lease deposit (<i>bonds</i>)	24	298	204
Other		(11)	-
Bank overdrafts	28	(5)	(3)
Net cash (II)		4,323	3,789
Net debt (I-II)		3,655	4,307
(1) Cash secured.	24	50	411

As of December 31

(in € millions)	Note	2016	2015
Opening net debt		4,307	5,407
Operating free cash, cash-flow excluding discontinued activities		(347)	(589)
Operating free cash, cash-flow of discontinued activities		(33)	(17)
Change in perpetual	29.4	-	(588)
Disposal of subsidiaries, of shares in non-controlled entities	11 and 14	(364)	(342)
Acquisition of subsidiaries, of shares in non-controlled entities	41.2	18	6
Non monetary variation of the debt	41.4	(64)	156
Currency translation adjustment		73	185
Amortization of OCEANE optional part		21	36
Reclassification		2	(4)
Change in scope		(19)	(8)
Other		61	65
Closing net debt		3,655	4,307

The decrease in the “Cash secured on OCEANE swap” is linked to the fact that the Group reimbursed the OCEANE 2005 and the relating swap expired on April 1, 2016. As of December 31, 2015, the OCEANE 2005 contract was the subject of a guarantee with cash collateral for 100 per cent of the notional of the swap.

As of December 31, 2015 the free cash-flow included €247 million related to the sale of six pairs of slots at London Heathrow airport to Delta Air Lines.

NOTE 35. OTHER LIABILITIES

As of December 31

(in € millions)	2016		2015	
	Current	Non-current	Current	Non-current
Tax liabilities	828	-	680	-
Employee-related liabilities	1,000	-	895	-
Non current assets' payables	111	-	70	-
Derivative instruments	109	129	1,283	319
Deferred income	288	27	249	97
Other	439	128	390	68
Total	2,775	284	3,567	484

As of December 31 2016, the non-current derivatives used to cover the debts in foreign currencies amount to €26 million versus €1 million as of December 31, 2015.

As of December 31 2016 and 2015, there were no current derivative instruments used to cover the debts in foreign currencies.

NOTE 36. FINANCIAL INSTRUMENTS

36.1 Risk management

– Market risk management

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Financial Officer of Air France-KLM, the Chief for 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, interest rates and carbon quota prices, and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument. The aim is to reduce the exposure of Air France-KLM to market fluctuations. The RMC also defines the policy of the counterparty-risk management.

The decisions made by the RMC are implemented by the treasury and Fuel Purchasing departments within each company. In-house procedures governing risk management prohibit speculation. The instruments used are swaps, futures and options.

Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as the hedging instruments used, strategies planned and counterparties.

The treasury management departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a regular basis. Every month, a detailed report including, amongst other information, 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 transmitted to the executive managements.

The implementation of the policy on fuel hedging is the responsibility of the Fuel Purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current fiscal year and the two following years, is sent to the executive management. This mainly covers the transactions carried out during the week, the valuation of all the positions, the hedge percentages as well as the breakdown of instruments and the underlying used, average hedge levels, the resulting net prices and stress scenarios, as well as market commentary. Furthermore,

the fuel purchasing department issues a weekly Air France-KLM Group report (known as the GEC Report) which consolidates the figures from the two companies relating to fuel hedging and physical cost.

Lastly, a monthly report, which is submitted to the executive management by the fuel purchasing department, indicates the level of advancement on carbon quota purchases and the forecast related expenditure.

— Currency risk

Most of the Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The principal exposure is to the US dollar.

With regard to the US dollar, since expenditure on items such as fuel, operational leases and component costs exceed the level of revenues; the Group is a net buyer. This means that any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Conversely, the Group is a net seller of other currencies, the level of revenues exceeding expenditure. The main exposures concern the yen and sterling. As a result, any significant decline in these currencies relative to the euro could have a negative effect on the Group's activity and financial results.

In order to reduce its currency exposure, the Group has adopted hedging strategies. Both companies progressively hedge their net exposure over a rolling 24-month period.

Aircraft are mainly purchased in US dollars, meaning that the Group is highly exposed to a rise in the dollar against the euro for its aeronautics investments. The hedging policy plans the progressive and systematic implementation of hedging between the date of the aircraft order and their delivery date.

The exchange rate risk on the Group's financial debt is limited. At December 31, 2016, 73 per cent of the Group's debt, after taking into account derivative instruments, was issued in or converted into euros, thereby markedly reducing the risk of currency fluctuation on the debt. The exposure of the debt to other currencies mainly concerns the yen, the US dollar and the Swiss Francs.

Despite this active hedging policy, not all exchange rate risks are covered. The Group and its subsidiaries might then encounter difficulties in managing currency risks, which could have a negative impact on the Group's business and financial results.

— Interest rate risk

Market financing is contracted at fixed rates. The financing of assets is mainly contracted at floating rates, in line with market practice. The Air France-KLM Group uses interest rate swaps to modulate the fixed part of its financial debt. After hedging, the Air France-KLM Group's gross debt contracted at fixed rates represents 70 per cent of the overall total.

— Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of the Air France-KLM Group and approved by the executive management. The RMC reviews the hedging strategy quarterly and may decide to change the hedge percentage or underlyings.

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.

Nota bene: since January 1, 2016, the fuel consumption of the Group's cargo activities has no longer been hedged. The increment and minimum hedge percentages are solely based on the fuel consumption of the passenger activities.

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 CO₂ 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 2017 as well as a part of the needs for the year 2018 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 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 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).

After this operation, the Group still holds 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 its Amadeus IT Holding SA shares.

On January 15, 2015, the Group sold a block of 9,857,202 shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), representing approximately 2.2 per cent of the capital of the Company. The cash proceeds were €327 million (see Note 11).

After this transaction, Air France-KLM still holds 9.9 million Amadeus shares which are fully covered by a hedge agreement.

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 its Amadeus IT Holding SA shares.

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 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 & Pooers)	Total exposure (in € millions)	
	As of December 31, 2016	As of December 31, 2015
Higher than AA	-	204
AA	208	-
A	1,712	1,378
BBB	77	17
Total	1,997	1,599

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 33.8*.

36.2 Derivative instruments

As of December 31, 2016, 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	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)
OCEANE swap ⁽¹⁾ instrument	Asset	-	-	-	-	-	-	-
	Liability	-	-	-	-	-	-	-
Amadeus 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 33.2.1.

As of December 31, 2015, 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	138	136	2	-	-	-	-
	Liability	(1,300)	(1,119)	(181)	-	-	-	-
Interest rate derivative instruments	Asset	44	4	1	-	-	-	39
	Liability	(82)	(2)	(10)	(11)	(17)	(8)	(34)
Currency exchange derivative instruments	Asset	583	335	77	57	19	17	78
	Liability	(149)	(91)	(22)	(25)	(3)	(5)	(3)
OCEANE swap ⁽¹⁾ instrument	Asset	-	-	-	-	-	-	-
	Liability	(7)	(7)	-	-	-	-	-
Amadeus shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(64)	(64)	-	-	-	-	-
Carbon credit derivative instruments	Asset	6	5	1	-	-	-	-
	Liability	-	-	-	-	-	-	-
Total	Asset	771	480	81	57	19	17	117
	Liability	(1,602)	(1,283)	(213)	(36)	(20)	(13)	(37)

(1) See Note 33.2.1 on page 231.

36.2.1 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, 2016

(in € millions)	Nominal	Maturities between 1 and 5 years						Fair value
		Maturity below 1 year	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

Further to the significant decline in the Brent price over the period, the fair value is very negative.

As of December 31, 2015

(in € millions)	Nominal	Maturities between 1 and 5 years						Fair value
		Maturity below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Commodity risk (cash-flow hedging operating flows)								
Swap	309	217	92	-	-	-	-	(113)
Options	2,178	1,452	726	-	-	-	-	(1,049)
Total	2,487	1,669	818	-	-	-	-	(1,162)

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 +/- USD 10 variation in the price of a barrel of Brent is as follows:

As of December 31

(in € millions)	2016		2015	
	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent
Income before tax	(54)	(46)	(26)	35
Gains/(losses) taken to equity	469	(377)	414	(422)

36.2.2 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, 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)

As of December 31, 2015 (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	1,597	105	349	200	105	64	774	(67)
Interest rate swaps	1,458	73	242	200	105	64	774	(64)
Options	139	32	107	-	-	-	-	(3)
Operations qualified as fair value hedging	395	17	-	-	-	-	378	35
Interest rate swaps	395	17	-	-	-	-	378	35
Operations qualified as fair value through profit and loss	284	8	-	-	76	-	200	(6)
Interest rate swaps	84	8	-	-	76	-	-	(8)
Options	200	-	-	-	-	-	200	(2)
Other	-	-	-	-	-	-	-	4
Total	2,276	130	349	200	181	64	1,352	(38)

Taking into account the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

As of December 31 (in € millions)	2016				2015			
	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	1,878	2.0%	1,878	2.0%	2,053	2.0%	2,053	2.0%
Fixed-rate financial liabilities	4,762	4.0%	5,637	3.8%	5,110	4.2%	5,864	4.0%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	2,054	0.3%	2,054	0.3%	1,931	0.4%	1,931	0.4%
Floating-rate financial liabilities	3,733	1.5%	2,858	1.7%	4,020	1.5%	3,266	1.7%
Without-rate financial assets	1,191	-	1,191	-	1,306	-	1,306	-
Without-rate financial liabilities	20	-	20	-	11	-	11	-

As of December 31, 2016 and December 31, 2015, 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 €8 million on the financial income for the year ended December 31, 2016 versus €13 million for the year ended December 31, 2015.

36.2.3 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, 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
Exchange rate options	121	-	-	-	-	14	107	23
Forward purchases	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)
Others	-	-	-	-	-	-	-	-
Total	6,934	3,101	1,665	460	516	359	833	365

As of December 31, 2015 (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)	2,718	1,939	779	-	-	-	-	167
Exchange rate options	1,255	839	416	-	-	-	-	73
Forward purchases	1,032	757	275	-	-	-	-	94
Forward sales	431	343	88	-	-	-	-	-
Exchange risk (fair value hedging of flight equipment acquisition)	3,378	1,284	689	396	238	255	516	264
Forward purchases	2,763	928	632	378	205	193	427	328
Forward sales	615	356	57	18	33	62	89	(64)
Exchange risk (trading)	399	13	122	140	32	64	28	3
Forward purchases	193	-	61	70	16	32	14	37
Forward sales	193	-	61	70	16	32	14	(37)
Others	13	13	-	-	-	-	-	3
Total	6,495	3,236	1,590	536	270	319	544	434

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	
	2016	2015	2016	2015
US dollar	841	254	1,131	561
Pound sterling	37	36	33	-
Yen	13	1	952	843
Swiss francs	11	5	355	346
Others	260		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 ten per cent appreciation in foreign currencies relative to the euro is presented below:

As of December 31 (in € millions)	US dollar		Pound Sterling		Yen	
	2016	2015	2016	2015	2016	2015
Income before tax	(13)	(25)	(9)	(12)	(97)	(89)
Gains/(losses) taken to equity	171	179	(30)	(28)	(9)	(15)

The impact of the change in fair value of currency derivatives on “income before tax” and on “gains/(losses) taken to equity” of a ten per cent depreciation in foreign currencies relative to the euro is presented below:

As of December 31 (in € millions)	US dollar		Pound Sterling		Yen	
	2016	2015	2016	2015	2016	2015
Income before tax	(25)	2	1	-	85	78
Gains/(losses) taken to equity	(92)	(131)	34	31	11	12

36.2.4 Carbon credit risk

As of December 31, 2016, the Group has hedged its future purchases of CO₂ quotas *via* forward purchase for a nominal of €48 million with a nil fair value, versus a nominal of €34 million with a fair value of €6 million as of December 31, 2015.

These contracts mostly expire within three years.

36.3 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 bear the following inherent limitations:

- the estimated market values of financial instruments are estimated on the basis of the market price as of December 31, 2016 and 2015;
- the estimated amounts as of December 31, 2016 and 2015 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, 2016 and 2015, 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:

As of December 31 (in € millions)	2016		2015	
	Net book value	Estimated market value	Net book value	Estimated market value
Financial assets				
Loans	357	361	275	279
Financial liabilities				
Bonds	2,153	2,245	2,611	2,771
OCEANE 2005	-	-	415	433
OCEANE 2013	507	559	489	577
Bond 2009	-	-	603	630
Bond 2012	500	530	500	532
Bond 2014	609	624	604	599
Bond € 2016	400	404	-	-
Bond \$ 2016	137	128	-	-
Perpetual subordinated loans	600	289	584	279
Other borrowings and financial debt	1,976	2,032	1,872	1,945

36.4 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 4.17):

As of December 31 (in € millions)	Level 1		Level 2		Level 3		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Financial assets available for sale								
Shares	243	429	-	3	-	-	243	432
Assets at fair value through profit and loss								
Marketable securities and cash secured	17	37	86	840	-	-	103	877
Cash equivalents	1,835	1,063	1,370	1,283	-	-	3,205	2,346
Derivative instruments assets								
Interest rate derivatives	-	-	58	44	-	-	58	44
Currency exchange derivatives	-	-	462	583	-	-	462	583
Commodity derivatives	-	-	276	138	-	-	276	138
ETS derivatives	-	-	4	6	-	-	4	6
Others	-	-	-	-	-	-	-	-

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 37. LEASE COMMITMENTS

37.1 Capital leases

The debt related to capital leases is presented in Note 33.4 on page 232.

37.2 Operating leases

The minimum future payments on operating leases are as follows:

As of December 31 (in € millions)	Minimum lease payments	
	2016	2015
Flight equipment		
Due dates:		
Y+1	1,246	1,131
Y+2	1,122	1,099
Y+3	951	952
Y+4	727	804
Y+5	584	640
Over 5 years	929	1,360
Total	5,559	5,986
Buildings		
Due dates:		
Y+1	204	210
Y+2	134	153
Y+3	117	127
Y+4	97	111
Y+5	82	92
Over 5 years	689	707
Total	1,323	1,400

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 38. 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)	2016	2015
Y+1	1,053	811
Y+2	1,134	972
Y+3	1,151	984
Y+4	1,362	1,462
Y+5	1,337	1,644
> Year Y+5	2,065	2,870
Total	8,102	8,743

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 2016, the total amount of commitments relating to flight equipment orders is USD 8,540 million, against USD 9,519 million as of December 31 2015.

The number of aircraft under firm order (excluding operational lease) as of December 31, 2016 decreased by twelve units compared with December 31, 2015 and stood at 82 aircraft.

This change is explained by the delivery of twelve aircraft.

Long-haul fleet (passenger)

The Group took delivery of three B777-300s and one B787-900.

Medium-haul fleet

The Group took delivery of four B737-800s.

Regional fleet

The Group took delivery of four Embraer 175s.

The Group's commitments concern the following aircraft:

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, 2016	-	-	3	6	6	13	28
	As of December 31, 2015	-	-	-	6	8	14	28
B787	As of December 31, 2016	2	5	5	4	5	3	24
	As of December 31, 2015	1	2	3	4	4	11	25
B777	As of December 31, 2016	1	-	-	-	-	-	1
	As of December 31, 2015	3	1	-	-	-	-	4
Medium-haul fleet								
A320	As of December 31, 2016	2	1	-	-	-	-	3
	As of December 31, 2015	-	2	1	-	-	-	3
B737	As of December 31, 2016	8	5	-	-	-	-	13
	As of December 31, 2015	4	8	5	-	-	-	17
Regional fleet								
Embraer 175	As of December 31, 2016	8	5	-	-	-	-	13
	As of December 31, 2015	4	8	5	-	-	-	17
Total	As of December 31, 2016	21	16	8	10	11	16	82
	As of December 31, 2015	12	21	14	10	12	25	94

NOTE 39. OTHER COMMITMENTS

39.1 Commitments made

As of December 31
(in € millions)

	2016	2015
Call on investment securities	-	4
Warranties, sureties and guarantees	333	280
Secured debts	5,177	5,051
Other purchase commitments	134	104

The restrictions and pledges as of December 31, 2016 are as follows:

(in € millions)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	1,066	-
Tangible assets	July 2000	August 2027	5,606	10,599	52.9%
Other financial assets	July 2000	May 2027	599	1,194	50.2%
Total			6,205	12,859	

39.2 Commitments received

As of December 31
(in € millions)

	2016	2015
Warranties, sureties and guarantees	219	185
Put on shares	130 ⁽¹⁾	-

(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 has 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 owns the following call options on Servair's shares:

- call option on a number of shares allowing in gategroup to achieve between 80% and 100% of the capital of Servair;
- in case of 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 allowing in gategroup to reach 50% of the capital of Servair plus one share.

NOTE 40. RELATED PARTIES

40.1 Transactions with the principal executives

As of December 31, 2016, directors and their relatives held less than 0.03 per cent of the voting rights.

Short-term benefits granted to the principal company officers and booked in expenses amount to €0.7 million as of December 31, 2016, versus €0.6 million as of December 31, 2015.

During these two financial years, there were no payments of post-employment benefits.

40.2 Transactions with the other related parties

The total amounts of transactions with related parties are as follows:

As of December 31 (in € millions)	2016	2015
Assets		
Net trade accounts receivable	62	65
Other current assets	15	8
Other non-current assets	9	9
Total	86	82
Liabilities		
Trade accounts payable	68	104
Other current liabilities	43	48
Other long-term liabilities	66	69
Total	177	221
As of December 31 (in € millions)	2016	2015
Net sales	157	173
Landing fees and other rents	(434)	(421)
Other selling expenses	(25)	(158)
Passenger service	(28)	(44)
Other	(34)	(28)
Total	(364)	(478)

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 aforementioned arrangements amounted to a respective €357 million and €371 million for the periods ended December 31, 2016 and 2015.

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 €41 million for the year ended December 31, 2016 versus €37 million as of December 31, 2015.

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 €104 million as of December 31, 2016 versus €109 million for the year ended December 31, 2015.

Amadeus

Total transactions with Amadeus amount to an expense of €128 million for the year ended December 31, 2015. On the year 2016, Amadeus has not the characteristics of a related party anymore.

Servair

For the year ended December 31, 2016, transactions with Servair and its subsidiaries have been canceled, the Group controlling Servair until December 30, 2016 (see Note 3 on page 181).

NOTE 41. CONSOLIDATED STATEMENT OF CASH FLOW

41.1 Other non-monetary items and impairment

Other non-monetary items and impairment can be analyzed as follows:

As of December 31 (in € millions)	2016	2015
Variation of provisions relating to restructuring plan	(69)	(12)
Variation of provisions relating to pension	16	36
Other Impairment	2	5
Changes of pension plan KLM	-	(20)
Depreciation of assets held for sale	-	4
Other	(11)	23
Total	(62)	36

41.2 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)	2016	2015
Cash disbursement for acquisitions	(18)	(15)
Cash from acquired subsidiaries	-	9
Net cash disbursement	(18)	(6)

In 2016, the Net cash disbursement mainly includes the acquisition of the 2.47 percent of Servair capital and the increase of the share

interest in KLM Group amounting to €11 million and €3 million respectively.

41.3 Disposal of subsidiaries, of shares in non-controlled entities

As of December 31, 2016, the proceeds from disposal of subsidiaries and shares in non-controlled entities consists of the following:

As of December 31 (in € millions)	Notes	2016	2015
Proceeds from the sale of Amadeus shares	11	201	327
Proceeds from the sale of Club Med shares		-	15
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		15	-
Other disposals		6	-
Total		364	342

41.4 Non cash transactions

In 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.

During financial year 2015, four operational lease contracts on B777-200 aircraft were reclassified as financial lease contracts. The total amount of these contracts was €128 million. The Group also concluded non-monetary financial leases amounting to a total of €28 million.

These operations have no impact on the cash-flow statement.

NOTE 42. STATUTORY AUDITORS' FEES

KPMG

As of December 31 (in € millions)	2016		2015	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.0	83%	3.5	90%
— Air France-KLM SA	0.6		0.7	
— Consolidated subsidiaries	2.4		2.8	
Other ancillary services and audit services	0.4	11%	0.3	8%
— Air France-KLM SA	0.1		0.1	
— Consolidated subsidiaries	0.3		0.2	
Sub-total	3.4	94%	3.8	97%
Other services				
Legal, tax and corporate	0.2	6%	0.1	3%
Total Air France-KLM	3.6	100%	3.9	100%

Deloitte & Associés

As of December 31 (in € millions)	2016		2015	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	2.9	97%	3.5	95%
— Air France-KLM SA	0.6		0.6	
— Consolidated subsidiaries	2.3		2.9	
Other ancillary services and audit services	0.1	3%	0.1	3%
— Air France-KLM SA	0.1		0.1	
Sub-total	3.0	100%	3.6	97%
Other services				
Legal, tax and corporate	-	0%	0.1	3%
Total Air France-KLM	3.0	100%	3.7	100%

NOTE 43. CONSOLIDATION SCOPE

As of December 31, 2016, the scope includes 80 fully-consolidated entities and 18 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.

43.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KLM NV	Netherlands	Multisegment	100	49
AIR FRANCE GROUND HANDLING INDIA PVT LTD	India	Passenger	51	51
BLUE CONNECT	Mauritius	Passenger	70	70
BLUE TEAM VI	France	Passenger	100	100
BLUELINK	France	Passenger	100	100
BLUELINK INTERNATIONAL	France	Passenger	100	100
BLUELINK INTERNATIONAL AUSTRALIA	Australia	Passenger	100	100
BLUELINK INTERNATIONAL CZ	Czech Rep.	Passenger	100	100
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	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
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 FINANCIAL SERVICES BV	Netherlands	Passenger	100	49
KLM FLIGHT ACADEMY BV	Netherlands	Passenger	100	49
LYON MAINTENANCE	France	Passenger	100	100
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

Entity	Country	Segment	% interest	% control
SODEXI	France	Cargo	65	65
AEROMAINTENANCE GROUP	United States	Maintenance	100	100
AFI KLM E&M TEARDOWN MANAGEMENT	France	Maintenance	100	100
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
CRMA	France	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) BV	Netherlands	Maintenance	100	49
KLM EM MALAYSIA	Malaysia	Maintenance	100	49
KLM UK ENGINEERING LIMITED	United Kingdom	Maintenance	100	49
REGIONAL JET CENTER	Netherlands	Maintenance	100	49
BLUE TEAM III	France	Transavia	100	100
TRANSAVIA AIRLINES BV	Netherlands	Transavia	100	49
TRANSAVIA AIRLINES C.V.	Netherlands	Transavia	100	49
TRANSAVIA COMPANY	France	Transavia	100	100
TRANSAVIA France SAS	France	Transavia	100	100
TRANSAVIA SERVICES GmbH	Netherlands	Transavia	100	49
AIR FRANCE FINANCE	France	Other	100	100
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR France KLM E&M PARTICIPATIONS	France	Other	100	100
AIR France KLM FINANCE LIMITED	France	Other	100	100
Airport MEDICAL SERVICES C.V.	Netherlands	Other	80	39
AMSTERDAM SCHIPOL PIJPLEIDING BEHEER BV	Netherlands	Other	60	49
AMSTERDAM SCHIPOL PIJPLEIDING C.V.	Netherlands	Other	76	49
BLUE TEAM IV	France	Other	100	100
BLUE TEAM V	France	Other	100	100
BLUE YONDER IX BV	Netherlands	Other	100	49
BLUE YONDER XIV BV	Netherlands	Other	100	49
BV KANTOORGEBOUWEN	Netherlands	Other	100	49
CELL K16 INSURANCE COMPANY	United Kingdom	Other	100	0
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ BV	Netherlands	Other	100	49
KLM AIRLINE CHARTER BV	Netherlands	Other	100	49
KLM CATERING SERVICES SCHIPOL 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	Luxembourg	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 BAROGE	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

43.2 Equity affiliates

Entity	Country	Segment	% interest	% control
KENYA AIRWAYS LIMITED	Kenya	Passenger	26	27
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
IGO SOLUTIONS	France	Maintenance	40	40
MAX MRO SERVICES	India	Maintenance	26	26
SHS TECHNICS	Senegal	Maintenance	49	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
SERVAIR	France	Other	50	50
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
MAINPORT INNOVATION FUND	Netherlands	Other	25	25
SCHIPHOL LOGISTICS PARK CV	Netherlands	Other	52	45
SKYNRG	Netherlands	Other	30	30
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25

5.7 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

This is a free translation into English of the Statutory Auditors' reports on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking readers.

The Statutory Auditors' report includes information specifically required by French law in such report, whether qualified or not. This information is presented below the audit opinion on consolidated financial statements and includes explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of Air France-KLM SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

2. Justification of assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de Commerce*), we bring to your attention the following matters:

- the Company recognized deferred tax assets based on the future taxable income determined based on medium and long term business plans as described in *Notes 4.2, 4.23 and 13* to the consolidated financial statements. Our procedures consisted in analyzing the data and assumptions used by Air France-KLM's management in order to verify the recoverability of these deferred tax assets;
- *notes 4.2, 4.18 and 31* to the consolidated financial statements specify the accounting policies for employee benefits. These benefits and obligations were evaluated by external actuaries. Our procedures consisted in examining the data used, assessing the assumptions made and verifying that the information included in *Note 31* to the consolidated financial statements was appropriate. In addition, we verified that the accounting policy used for the recognition of the pension fund surplus as outlined in *Note 4.18* to the consolidated financial statements was appropriate;
- Air France-KLM's management is required to adopt judgment and estimates concerning determination of the provisions for risk and charges which are described in *Notes 32.1 and 32.2* to the consolidated financial statements. We have examined particularly the estimates and the assumptions used regarding the restructuring provisions and the provisions accounted for the anti-trust litigations to which the Company is exposed. We have also verified that the information as disclosed in the notes to the consolidated financial statements was appropriate;
- *notes 4.2, 4.13, 4.14 and 19* to the consolidated financial statements describe the estimates and assumptions that Air France-KLM's management was required to make regarding the impairment tests of tangible and intangible assets. We have examined the data and assumptions on which these impairment tests were based as well as the procedures for implementing impairment tests, as described in the notes. We have also verified that the

information as disclosed in the notes to the consolidated financial statements was appropriate;

- Air France-KLM's management is required to make estimates and assumptions relating to the recognition of revenue arising from issued but unused tickets and its Frequent Flyer Program, in accordance with the terms and conditions described in *Notes 4.2, 4.6 and 4.7* to the consolidated financial statements. Our procedures consisted in analyzing the data used, assessing the assumptions made and reviewing the calculations performed.

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 in the first part of this report.

3. Specific procedures

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, February 16, 2017
The Statutory Auditors

KPMG Audit
A division of KPMG SA

Jean-Paul Vellutini
Partner

Eric Jacquet
Partner

Deloitte et Associés

Pascal Pincemin
Partner

Guillaume Troussicot
Partner

5.8 SUBSEQUENT EVENTS

The significant events taking place between February 15, 2017, the date on which the Board of Directors closed the financial statements for the 2016 financial year, are outlined in note 3.2 "Subsequent events" in the notes to the consolidated financial statements on page 182.

In addition, on March 17, 2017, the European Commission issued a new decision against 11 air cargo carriers, including Air France, KLM and Martinair, regarding practices in the air cargo sector deemed to have been anti-competitive between December 1999 and February 2006. The total amount of fines imposed on the Air France-KLM Group is €325 million. Air France-KLM will analyze the new decision, and the advisability of appealing it before the General Court of the European Union. These fines have been provisioned in full in the financial statements since 2010. At December 31, 2016, the corresponding provisions amounted to €340 million.

5.9 STATUTORY FINANCIAL STATEMENTS

Year ending December 31, 2016

5.9.1 Income statement and balance sheet

Income statement

Year ending December 31, (in € millions)	Notes	2016	2015
Operating income	3	31	50
External expenses	4	(39)	(47)
Salaries and related costs		(2)	(2)
Other expenses		(1)	(1)
Total operating expenses		(42)	(50)
Income from current operations		(11)	-
Financial income		33	41
Financial expenses		(195)	(176)
Net financial income	6	(162)	(135)
Earnings before tax and non-recurring items		(173)	(135)
Non-recurring income		74	-
Non-recurring expenses		(73)	(1)
Non-recurring income/(loss)		1	(1)
Income tax	7	11	11
Net income/(loss)		(161)	(125)

Balance sheet

Assets (in € millions)	Notes	December 31, 2016	December 31, 2015
Long-term investments	8	4,655	4,671
Loans & receivables related to long-term investment	8-12	489	692
Fixed assets		5,144	5,363
Trade receivables	12	26	28
Other receivables	12	26	45
Marketable securities	9	1,304	942
Cash		160	81
Prepaid expenses		6	8
Current assets		1,522	1,104
Amortisation of capital expenses		17	16
Bond redemption premium		2	2
Total Assets		6,685	6,485
Liabilities & equity (in € millions)	Notes	December 31, 2016	December 31, 2015
Capital	10.1	300	300
Additional paid-in capital	10.2	2,971	2,971
Legal reserve		70	70
Reserves		177	302
Income for the year	10.2	(161)	(125)
Shareholders' equity	10.2	3,357	3,518
Other equity	11	600	600
Provision for risks & liabilities	11-16	2	-
Financial debt	11	2,252	2,321
Trade payable:	12	11	12
<i>including trade payables and related accounts</i>		10	11
<i>including tax security and social debts</i>		1	1
Other liabilities		463	34
Liabilities	12	2,726	2,367
Total Liabilities & equity		6,685	6,485

5.9.2 Notes

The following information constitutes the notes to the financial statements for the year ended December 31, 2016.

It is an integral part of the financial statements.

Air France-KLM SA, a Public Limited Company (*société anonyme*) with 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 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 that of 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 last month average market price at the end 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 payable and receivable in foreign currencies are valued at the exchange rate in effect at December 31, 2016.

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 and;
- 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 hedged rate.

Financial instruments

Financial derivative instruments are used to reduce exposure to interest rates risk and to foreign exchange. They are over the counter instruments with first class counterpart. Group management policy bans subscription of trading instruments.

Dividends received

Dividends are recognized – when they are approved by the competent bodies in the companies (*i.e.*: the Board of Directors or the Shareholders' Meeting depending on the local regulations) – or according to the terms of the bylaws.

2. Significant events of the period

On October 12, 2016, Air France-KLM has issued of a €400 million bond.

On December 15, 2016 Air France-KLM has issued senior notes by way of unlisted private placement for an amount of \$145 million.

These two issuances are detailed in *Note 11*.

3. Other income

This primarily involves royalties of €17 million paid by Air France and KLM at December 31, 2016 to use the "Air France-KLM" brand (€18 million as of December 31, 2015). It also encloses the provision of services paid by Air France and KLM for €13 million as of December 31, 2016 (including an adjustment of € (6) million on previous financial year), €31 million as of December 31, 2015.

4. External expenses

Period (in € millions)	2016	2015
Fees and surveys	12	12
Insurance	1	2
Sub-contracting and rents re-invoiced by Air France and KLM	21	28
Financial communication	2	2
Other	3	3
Total	39	47

During the financial year 2016, the teams assigned to Air France-KLM holding company were reduced. They represent 62 full time equivalent seconded from Air France and 21 full-time equivalent seconded from KLM. As a result the amount of sub-contracting re-invoiced by Air France and KLM decreased.

5. Non recurring income

It is related to the sale to the foundation of KLM pilots, at stock price, of treasury shares and it includes the reversal of the respective provisions.

6. Net financial income

This section regroups interest paid or received, currency losses and gains, and allocations and write-backs of financial provisions. The break-down is as follows.

Period	2016	2015
Interest on loans and other financial expenses	(163)	(170)
<i>of which related companies commission on the guarantees granted by Air France and KLM</i>	(13)	(18)
<i>of which interest on OCEANE</i>	(11)	(19)
<i>of which interest on bonds</i>	(89)	(84)
<i>of which perpetual subordinated loan</i>	(37)	(28)
<i>of which a tax group for the CICE</i>	(1)	(1)
Interest on loans	23	26
<i>of which related companies</i>	23	26
Other financial income	10	14
<i>of which related companies</i>	2	6
<i>of which investment in mutual funds and certificates of deposit</i>	8	8
Allocation to provisions	(32)	(6)
<i>of which provision for risks & liabilities</i>	(2)	-
<i>of which Air France-KLM Finance shares</i>	(25)	-
<i>of which treasury shares</i>	(5)	(4)
Total	(162)	(135)

7. 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, primarily includes Air France-KLM, Air France, HOP! Company and its subsidiaries.

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 that are beneficiaries of the tax consolidation scope paid a tax consolidation gain of €11 million to Air France-KLM for this financial year (€11 million on the previous financial year).

8. Long-term investments

8.1 Net book value

(in € millions)	Beginning of year	Acquisitions Capital increases	Transfer	Provision Variation	End of year
Equity investments	5,006	29 ⁽¹⁾	-	-	5,035
Loans & receivables related to long term investment	692	-	(177) ⁽²⁾	(26)	489
Other long-term investments	74	-	-	(73)	1
Gross amount	5,772	29	(177)	(99)	5,525
Depreciation	(409)	28	-	-	(381)
Net amount	5,363	57	(177)	(99)	5,144

(1) During financial year, purchase of KLM shares from a minority holder, increasing share of capital held to 99.7% (see Note 12) and increase of Air France-KLM Finance shares capital compensated by loans and receivables related to long term investments for an amount of €26 million.

(2) Net increases of loans & receivables related to long term investment granted to KLM, Air France-KLM Finance, and Transavia Company.

8.2 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	821	3	-	824
Compagnia Aerea Italiana SpA	355	-	-	355
Air France-KLM Finance	5	26	-	31
Transavia Company	4	-	-	4
Total	5,006	29	-	5,035

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)	(25)
Impairment	(355)	-	-	(380)
Net Value	4,651	29	(25)	4,655

(1) Compagnia Aerea italiana SpA shares are fully impaired.

8.3 Other financial investments

(in € millions)	Gross value at beginning of year	Acquisition	Reversal	Sales	Gross value at end of year
Treasury shares	74	-	-	(73)	1

(in € millions)	Provision at beginning of year	Allocation	Reversal	Sales	Provision at end of year
Impairment on treasury shares	(54)	(5)	58	-	(1)
Net Value	20	(5)	58	(73)	-

9. Marketable securities

(in € millions)	December 31, 2016	December 31, 2015
	Net carrying amount	Net carrying amount
Mutual funds, certificates of deposit & marketable term notes	1,304	942
Total	1,304	942

The net carrying amount for the mutual funds and certificates of deposit is the market value.

10. Shareholders' equity

10.1 Distribution of share capital and voting rights

The issued capital comprises 300,219,278 fully paid-up shares with a nominal value of one euro. Each share is entitled to one voting right. However since April 3, 2016, any shareholder who has been owning registered shares for more than two years is entitled to double voting rights, raising the number of voting rights to 371 373 828 as at December 31, 2016.

Distribution is as follows:

	% of capital		% of voting rights	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
French State	18%	18%	27%	18%
Employees and former employees ⁽¹⁾	6%	7%	10%	7%
Treasury stock	-	1%	-	-
Public	76%	74%	63%	75%
Total	100%	100%	100%	100%

(1) Employees and former employees identified in funds or by a Sicovam code.

In April 2005, Air France issued €450 million of bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing in fifteen years. At December 31, 2014 only 595 OCEANE had been converted, of which 510 into 525 new shares during 2007-08 financial year. Between January 1, 2016 and April 1, 2016, no bonds were converted.

Furthermore on December 6, 2011, Air France signed a swap contract with Natixis postponing until April 2016 the probability of the repayment option initially foreseen for April 1, 2012. In April 2016, Air France reimbursed this OCEANE.

See Note 11 on page 199 for comments on other OCEANE.

10.2 Statement of changes in shareholders' equity

(in € millions)	Capital	Additional paid-in capital	Réserves	Earnings for the year	Shareholders' equity
At December 31, 2014	300	2,971	483	(111)	3,643
Allocation of earnings	-	-	(111)	111	-
Earnings for the period	-	-	-	(125)	(125)
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

11. Financial debt and other equity

(in € millions)	December 31, 2016	December 31, 2015
Other equity		
Perpetual subordinated loan	600	600
Total Other equity	600	600
Non-current financial debt		
OCEANE (convertible bonds)	550	550
Bonds	1,637	1,100
Total non-current debt	2,187	1,650
Current Financial Debt		
Bonds	-	603
Accrued interest	65	68
Total current debt	65	671
Total financial debt	2,252	2,321

On October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and with an annual coupon of 6.75%. On June 18, 2014, a nominal amount of €93.8 million of these bonds was bought and then cancelled by Air France-KLM, as part of a bid intermediate and the issuance of new bonds (see below). On October 1, 2015, Air France-KLM bought and then cancelled bonds for a nominal amount of € 3.5 million. After these operations, the par value of the bond issued in 2009 is €603 million. On January 28, 2016, Air France-KLM bought and then cancelled €3.2 million. Then at maturity i.e October 27, 2016, Air France-KLM reimbursed the balance of this bond.

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 with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing on February 15,

2023 for a total amount of €550 million. The bonds have a nominal value of €10.30 and the annual coupon is 2.03%. During the financial year, 392 OCEANE were converted. The conversion ratio is one Air France-KLM share for one bond.

On June 18, 2014, Air France-KLM issued € 600 million of bonds maturing on June 18, 2021 with an annual coupon of 3.875%. In August 2015, an amount of €200 million has been hedged and converted to a floating rate through a swap and is connected to a floor. On December 31, 2016, the fair value of the floor is € (2) million leading to a provision for risks and liabilities of the same amount (see Note 16).

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 discretion. The first annual coupon of 6,25% has been paid on October 1, 2015

for €19 million. The second coupon amounting to €37.5 million has been paid on October 3, 2016.

On October 12, 2016, Air France-KLM issued €400 million of bonds with a 6 years maturity. The annual coupon arises 3.75%.

On December 15, 2016, Air France-KLM issued -fully hedged- USD 145 million senior notes by way of unlisted private placement to Asian institutional investors. Maturity is December 15, 2026 and annual coupon arises 4.35% (see Note 16).

Some of the proceeds were used to issue loans to Air France, KLM, Air France-KLM Finance and Transavia Company. As of December 31, 2016 these loans amount to €123 million with Air France, €288 million with KLM, €77 million with Air France-KLM Finance and €1 million with Transavia Company, (see Note 8.1 on page 197).

12. Maturity of receivables and debt

As of December 31, 2016

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	489	25	464	489
Current assets				
Trade receivables and related accounts	26	26	-	26
Other receivables (including tax receivables) ⁽¹⁾⁽²⁾	26	26	-	4
Total	52	52	-	29

(1) Of which €1 million as accrued income with related companies on December 31, 2016.

(2) The €53 million CICE 2016 tax receivable of the tax group was sold to a bank, thus this receivable has been withdrawn from assets.

As of December 31, 2016

Debt (in € millions)	Gross amount	Up to one year	More than one year	Related companies
Financial debt ⁽¹⁾	2,252	201	2,050	-
Trade payables and related accounts	11	11	-	4
Other payables ⁽²⁾	463	463	-	463
Total	2,726	676	2,050	467

(1) See Note 11 on page 199.

This amount includes €65 million of accrued interests (€68 million at December 31, 2015).

(2) Other liabilities include, mainly, a financial current account with Air France including cash pooling.

13. 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	(59)	100%	3,820	3,820	123	21	14,358	416	-
KLM (Netherlands) ⁽¹⁾	94	894	99.7%	824	824	288	-	9,800	519	1
Air France - KLM Finance ⁽¹⁾	15	-	100%	31	7	77	-	-	(9)	-
2. Equity investments (held at less than 50%)										
Compagnia Aerea Italiana SpA	359	(584) ⁽²⁾	1,00%	356 ⁽²⁾	-	-	-	-	(287) ⁽²⁾	-

(1) Statutory financial statements at December 31, 2016.

(2) Italian financial standards as of December 31, 2015.

14. 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	821	821	824	824
Air France - KLM Finance	5	5	31	7
Compagnia Aerea Italiana SpA	356	-	356	-

Estimated value is based on consolidated equity or on equity calculated on Italian Gaap or on medium term profitability outlook.

This estimated value supports net book value at year end.

15. Items concerning related companies

(in € millions)

Amount

Trade receivables & related accounts

Of which:

– Air France	11
– KLM	14

Other receivables

Of which:

– Air France Finance	1
– Transavia Company	2

Trade payables and related accounts

Of which:

– Air France	2
– KLM	1

Other payables

Of which:

– Air France	420
– Servair	16
– HOP!	11
– ACNA	6
– CPA	5
– OAT	3
– SIA	1
– Blueink S.A	1

16. 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 Air France-KLM's 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 dated June 18, 2014, is hedged for a nominal value of €200 million converting fix rate to a floating rate through a swap connected to a floor-isolated open position. On December 31, 2016, the fair value of the swap is €9 million and the fair value of the floor amounts to € (2) million. (See Note 17).

The \$145 million bond is fully hedged by a cross currency swap. As of December 31, the fair value of this derivative instrument is € (7) million. (See Note 17 on page 199).

— 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 has been renewed in July 2014.

The guarantee is now expressly limited to €21 million.

17. 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 anti-trust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air-freight industry.

As of December 31, 2015, 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 anti-trust authority, which are still pending.

In Europe, the decision of the European Commission of 2010 against a dozen airline companies, including the companies of the Group Air France, KLM and Martinair, was annulled by the General Court of the European Union on December 16, 2015.

As the European Commission has indicated its intention, following such annulment, to adopt a new decision against Air France-KLM, Air France, KLM and Martinair, the €340 million provision in respect of the fine has been maintained in the accounts of the Group as of December 31, 2016.

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court.

18. Contingent liabilities

The Group is involved in several governmental, judicial and arbitration procedures for which provisions have not been recorded in the financial statements in accordance with applicable accounting rules.

Litigations concerning anti-trust laws in the air-freight industry

Following the initiation of various investigations by the competition authorities in 2006 and the E.U. 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 several jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to the cartel.

Air France, KLM and/or Martinair remain defendants, either as main defendants (in particular in The Netherlands, Norway, South Korea and the United States of America) 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.

No provision has been recognized at present in connection with these disputes as the Group is not in a position at this stage of the judicial proceedings to give a reliable estimate of the potential loss that would be incurred if the outcome of these proceedings were negative. In particular, 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 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/to 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 above paragraphs, 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 including at least the past twelve months.

19. Subsequent events

Nil.

5.10 FIVE-YEAR RESULTS SUMMARY

Year ended 31	December 2016	December 2015	December 2014	December 2013	December 2012
	12 months	12 months	12 months	12 months	12 months
1. Share capital at year end					
Share capital (<i>in €</i>)	300,219,278	300,219,278	300,219,278	300,219,278	300,219,278
Number of ordinary shares outstanding	300,219,278	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	77,070,585
– by exercise of subscription rights		-	-	-	-
2. Transactions and results for the year <i>(in € thousand)</i>					
Net revenues		-	-	-	-
Net income/(loss) before income tax, employee profit-sharing, net depreciation, amortization and provisions	(204,605)	(134,768)	(103,207)	(104,303)	(67,637)
Income tax	(11,343)	(10,484)	(12,273)	(3,779)	(4,947)
Employee profit-sharing for the year		-	-	-	-
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(160,569)	(125,192)	(111,263)	(322,275)	(116,429)
Distributed net income		-	-	-	-
3. Per share data (<i>in €</i>)					
Net income/(loss) after income tax and employee profit-sharing but before net depreciation, amortization and provisions	(0.64)	(0.41)	(0.30)	(0.33)	(0.21)
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(0.53)	(0.42)	(0.37)	(1.07)	(0.39)
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.)	-	-	-	-	-

5.11 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of Air France-KLM SA;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

2. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code ("*Code de Commerce*") relating to the justification of our assessments, we bring to your attention the following matters:

- *note 1* to the financial statements outlines the accounting rules and methods relating to the recognition and measurement of long-term investments. As part of our assessment of the Company's accounting policies, we verified the appropriateness of the aforementioned accounting methods and the information provided in *Notes 8, 13 and 14* to the financial statements and satisfied ourselves as to their correct application;
- *notes 17 and 18* to the financial statements describes the nature of the anti-trust litigations to which Air France-KLM is exposed. Our work consisted in verifying that the information disclosed in these notes was appropriate.

These assessments were made as part of our audit of the financial statements, taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verifications and information

We have also performed the specific verifications required by French law, in accordance with professional standards applicable in France.

We have no matters to report regarding 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 documents addressed to the Shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French commercial Code ("*Code de Commerce*") relating to remunerations and benefits received by the Directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, when applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Paris La Défense and Neuilly-sur-Seine, February 16, 2017
 The Statutory Auditors

KPMG Audit
Division of KPMG SA

Jean-Paul Vellutini
 Partner

Eric Jacquet
 Partner

Deloitte et Associés

Pascal Pincemin
 Partner

Guillaume Troussicot
 Partner

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in the French language and is provided solely for the convenience of English speaking user. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verifications of information given in the management report and in the document addressed to the Shareholders.

This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

5.12 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

SHAREHOLDERS' MEETING HELD TO APPROVE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016.

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

Agreements and commitments approved in prior years which remained current during the year

We hereby inform you that we have not been advised of any agreement or commitment previously approved by the Shareholders' Meeting which remained in force during the year.

Paris La Défense and Neuilly-sur-Seine, February 16, 2017
The Statutory Auditors

KPMG Audit
A division of KPMG SA

Jean-Paul Vellutini
Partner

Eric Jacquet
Partner

Deloitte et Associés

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	276
6.2	General information	278
6.3	Information relating to the share capital	279
6.3.1	Share capital	279
6.3.2	Securities conferring entitlement to shares	281
6.3.3	Authorization to buy back Air France - KLM's own shares	281
6.3.4	Air France - KLM shareholder structure	281
6.3.5	A regular dialogue with individual shareholders and investors	282
6.3.6	Legal and statutory investment thresholds	283
6.3.7	Identification of shareholders and statutory provisions concerning shareholders	284
6.4	Information on trading in the stock	285
6.4.1	Air France - KLM in the stock market	285
6.4.2	Stock market performance	285
6.4.3	Transactions in Air France - KLM shares in the past 18 months	286
6.5	Information on the agreements concluded in connection with the business combination between Air France and KLM	288
6.5.1	Agreements relating to the KLM shareholding structure	288
6.5.2	Agreements with the Dutch State	289
6.5.3	Assurances given to KLM	290
6.6	Legislative and regulatory environment for the air transport industry	290
6.6.1	Freedoms	290
6.6.2	European legislation	290
6.6.3	International conventions	291
6.6.4	Other legal aspects of Air France - KLM's activities	292
6.7	Information and control	293
6.7.1	Person responsible for the Registration Document and for the Annual Financial Report	293
6.7.2	Certification by the person responsible for the Registration Document	293
6.7.3	Statutory Auditors	294
6.7.4	Head of Investor Relations	294
6.7.5	Documents available to the public	294
	Glossaries	295
	Air transport glossary	295
	Financial Glossary	297
	Table of concordance for the Registration Document	299
	Information included by reference	302
	Table of concordance for the Annual Financial Report	303

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

1945-1946

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.

1970-1971

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 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.

2005-2006

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.

2006-2007

Signature of the Open Skies agreement between Europe and the United States to come into force in March 2008.

2007-2008

Air France-KLM is delisted from the New York Stock Exchange and trading in its ADR program transfers to the OTCQX market.

2008-2009

The US Department of Transportation grants Air France, KLM, Delta 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.

2009-2010

In April, Air France, KLM and Delta 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.

2010-2011

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 Janailac as the new Chairman and Chief Executive Officer of the Group and the launch of the new "Trust Together" strategic project.

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 of 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 RELATING TO THE SHARE CAPITAL

6.3.1 Share capital

At December 31, 2016, the Air France-KLM share capital comprised 300,219,278 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, 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, 2014	300,219,278	300,219,278
December 31, 2015	300,219,278	300,219,278
December 31, 2016	300,219,278	300,219,278

Authorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 21, 2015 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, 2016, the Company had not used these authorizations. The Shareholders' Meeting of May 19, 2016 granted no new authorizations to issue shares/and or other securities conferring immediate or future rights to Air France-KLM's share capital.

The authorizations currently in force are summarized in the following table.

Resolution	Delegation	Maximum amount of emissions in nominal	Balance available at December 31, 2016
No.10	Capital increase (outside the context of public tender offers) maintaining preferential subscription rights	€150 million in nominal (i.e. 50% of the current share capital)	€150 million in nominal (i.e. 50% of the current share capital)
No.11	Capital increase (outside the context of public tender offers) without preferential subscription rights but with a mandatory priority subscription period	€45 million in nominal (i.e. 15% of the current share capital)	€45 million in nominal (i.e. 15% of the current share capital)
No.12	Capital increase (outside the context of public tender offers) without preferential subscription rights but with an optional priority subscription period (authorization limited to issues by the Company and one of its subsidiaries of securities granting access to securities to be issued in the future and the issuance of securities within the framework of public exchange offers)	€30 million in nominal (i.e. 10% of the current share capital)	€30 million in nominal (i.e. 10% of the current share capital)
No.13	Capital increase (outside the context of public tender offers) by way of a private placement with qualified/limited number of investors	€30 million (i.e. 10% of the current share capital)	€30 million (i.e. 10% of the current share capital)
No.14	Increase in the amount of the initial issue in the event of a capital increase (outside the context of public tender offers) with or without preferential subscription rights ("greenshoe")	15% of the initial issue (within a limit not to exceed the ceilings set by resolutions 10, 11, 12 and 13)	15% of the initial issue (within a limit not to exceed the ceilings set by resolutions 10, 11, 12 and 13)
No.15	Capital increase (outside the context of public tender offers) to compensate contributions in kind granted to the Company	€30 million in nominal (i.e. 10% of the current share capital)	€30 million in nominal (i.e. 10% of the current share capital)
No.16	Capital increase (outside the context of public tender offers) via capitalization of reserves, profits, premiums or other amounts eligible for capitalization	€150 million in nominal (i.e. 50% of the current share capital)	€150 million in nominal (i.e. 50% of the current share capital)
No.23	Capital increase (within the context of public tender offers) via capitalization of reserves, profits, premiums or other amounts eligible for capitalization	€75 million in nominal (i.e. 25% of the current share capital) [charged against the ceiling of the 16th resolution, usable outside the context of public tender offers]	€75 million in nominal (i.e. 25% of the current share capital) [charged against the ceiling of the 16th resolution, usable outside the context of public tender offers]
No.24	Capital increases reserved to members of a company or Group savings scheme	€150 million (i.e. 50% of the current share capital) limited to 2% of the share capital at the time of each issue	€150 million (i.e. 50% of the current share capital) limited to 2% of the share capital at the time of each issue

A common sub-ceiling of €30 million applies to resolutions 12, 13, 14 and 15. A common sub-ceiling of €45 million applies to resolutions 11, 12, 13, 14 and 15. A common sub-ceiling of €150 million applies to resolutions 10, 11, 12, 13, 14, 16 and 24.

6.3.2 Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France - KLM shares (OCEANEs) 2.75% 2020

The bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE 2.75% 2020), issued in 2009, were redeemed in full in 2016: 20,383,985 OCEANEs were redeemed on April 1, 2016 following the exercise by the bearers of their redemption options and 65,161 bonds were redeemed on July 4, 2016.

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 have a nominal unit value of €10.30, a conversion/exchange ratio of one new or existing Air France-KLM share per bond and mature on February 15, 2023. The annual coupon is 2.03% payable annually in arrears on February 15. Bond holders may request the early redemption of their bonds on February 15, 2019, at par plus accrued interest. At December 31, 2016, 11,526 bonds had been converted into existing shares, reducing the number of bonds in circulation to 53,386,532.

6.3.3 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 2016 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, 2016, Air France-KLM held 1,149,203 of its own shares, *i.e.* 0.4% 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 €5.9 million at December 31, 2016.

6.3.4 Air France-KLM shareholder structure

Changes in the shareholder structure

Financial year ended	% of share capital			% of voting rights		
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Number of shares and voting rights	300,219,278	300,219,278	300,219,278	371,373,828	296,069,683	296,039,574
French State	17.6	17.6	15.9	27.0	17.8	16.1
Employees (FCPE)	6.3	6.5	6.8	10.2	6.6	7.0
Treasury stock	0.4	1.4	1.4	-	-	-
Others	75.7	74.5	75.9	62.8	75.6	76.9

The number of shares did not change in 2016.

As of April 3, 2016, in application of French law, shareholders holding their shares in registered form for more than two years benefit 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, 2016 on the basis of the following thresholds: inter-

mediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 5,000 shares. Including the registered shares, the holders of 99.7% of the capital were identified. Based on the TPI analysis of December 31, 2016, 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, of whom 50.1% are French nationals.

Financial year ended	Number of shares			% of the share capital		
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
French State	52,763,693	52,763,693	47,663,693	17.6	17.6	15.9
Employees (FCPE)	18,981,625	19,541,980	20,454,150	6.3	6.5	6.8
Treasury stock	1,149,203	4,149,585	4,179,804	0.4	1.4	1.4
French individual shareholders	27,177,630	35,550,502	44,235,517	9.1	11.8	14.7
French institutions	50,446,330	64,187,628	57,978,825	16.8	21.4	19.3
Non-resident institutions and individual shareholders	149,700,797	124,025,880	125,705,083	49.9	41.3	41.9

At December 31, 2016, Air France-KLM was 50.1% owned by French interests (58.7% at December 31, 2015) and 72.4% by European nationals (78.3% at December 31, 2015). Amongst the institutional investors, British nationals hold 5.4% of the share capital, ahead of Swiss (2.7%), German (1.6%) and Dutch (1.5%) nationals. North American nationals hold 20.1% of the share capital (18.7% at December 31, 2015) of which 20.1 million shares in ADR form (16 million at December 31, 2015).

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 €)
2014 ⁽¹⁾	(0.76)	-
2015	0.34	-
2016	2.59	-

(1) Restated figures, see *consolidated financial statements on page 207*.

6.3.5 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 and the United States. Investor Days may also be regularly 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 2016, the Group thus met with shareholders in Lille and Rheims. 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 four or five times a year including one meeting devoted to planning the Shareholders' Meeting. It also participates in major company events.

In December 2016, within the framework of its relations with individual shareholders, during the Shareholder Relations Trophies 2016, the magazine *Le Revenu* awarded the Group the Gold Award for the Best Shareholders' Meeting in the SBF120.

6.3.6 Legal and statutory investment thresholds

Pursuant to the option provided in Article L. 233-7 of the Code of 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 of Commerce.

Based on the most recent declarations, the following shareholders are likely to hold at least 0.5% of Air France-KLM's share capital.

Shareholders	Declaration date	Number of shares	% of the share capital	Increase or reduction
DONALD SMITH & CO	July 3, 2013	18,108,763	6.03	I
ROTHSCHILD & CIE	June 23, 2015	13,166,539	4.39	R
MARATHON ASSET MANAGEMENT	April 13, 2015	11,414,571	3.80	R
INFINITE MILES LTD	October 24, 2016	10,615,172	3.54	I
DNCA FINANCE	May 18, 2015	10,100,000	3.36	R
THE CAPITAL GROUP COMPANIES	October 9, 2015	9,233,795	3.08	I
OCH ZIFF	June 24, 2015	5,958,900	1.98	I
LAZARD	March 31, 2015	4,789,996	1.60	R
WELLINGTON	September 30, 2016	4,740,949	1.58	R
FIDECUM	September 30, 2016	3,850,000	1.30	I
SPAAK/KLM Pilots Foundation	December 19, 2016	3,000,000	1.00	I
DIMENSIONAL FUND ADVISORS LP	December 13, 2016	2,949,613	0.98	I
GMO	September 30, 2016	2,839,129	0.95	I
NORGES BANK	August 30, 2016	2,672,878	0.89	R
ARROWSTREET CAPITAL	December 30, 2016	2,230,991	0.74	I
AMUNDI ASSET MANAGEMENT	January 3, 2017	1,851,144	0.62	I
AQR CAPITAL	January 13, 2017	1,509,971	0.50	R
GLG PARTNERS LP	January 13, 2017	1,509,971	0.50	R

6.3.7 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.

6.4 INFORMATION ON TRADING IN THE STOCK

6.4.1 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. It is a CAC MID 60 component.

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.

The OCEANE 2.03% 2023 is listed for trading on Euronext Paris, under the ISIN Code FR0011453463.

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.

6.4.2 Stock market performance

The Air France-KLM share price fell by 19.44% during the first half of 2016, before declining by 9.62% during the second half. Over the 2016 financial year, the share price was down by 27.18% compared with an increase of 4.86% for the CAC 40.

	2016	2015	2014
Share price high (in €)	8.84	8.5	11.945
Share price low (in €)	4.61	5.51	5.932
Number of shares in circulation	300,219,278	300,219,278	300,219,278
Market capitalization at December 31 (in €bn)	1.6	2.1	2.4

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

Air France - KLM shares

Euronext Paris Actions	Trading range (in €)					Amount (in €m)
	Trading days	Average price (in €)	High	Low	Volumes	
2015						
September	22	6.41	6.95	5.90	59,159,372	381.4
October	22	6.34	7.06	5.81	66,895,737	423.4
November	21	6.65	7.27	6.05	63,848,122	423.2
December	22	6.60	7.05	6.15	49,512,109	324.4
2016						
January	20	7.58	8.03	7.02	82,611,464	625.9
February	21	7.613	8.59	6.68	85,931,727	654.2
March	21	8.36	8.84	7.89	51,198,806	428.0
April	21	8.10	8.48	7.47	53,292,213	431.7
May	22	7.38	7.95	7.08	55,252,265	407.8
June	22	6.42	7.34	5.48	84,108,179	561.8
July	21	5.63	6.06	5.04	84,261,079	474.4
August	23	5.02	5.30	4.80	70,440,496	368.4
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

Source: NYSE Euronext.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) 2.75% 2020

The bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) 2.75% 2020, issued in 2009, were redeemed in full in 2016: 20,383,985 bonds were redeemed on April 1, 2016 following the exercise by the bearers of their redemption options, and 65,161 bonds were redeemed on July 4, 2016.

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

Trading range (in €)					
	Trading days	Average price (in €)	High	Low	Volumes
2015					
September	22	10.28	10.50	10.06	308
October	22	10.33	10.59	10.06	238
November	21	10.45	10.85	10.10	4,211
December	22	10.24	10.80	10.12	5,253
2016					
January	20	10.80	11.00	10.14	2,443
February	21	10.81	11.16	10.51	58
March	21	11.28	11.39	11.15	409
April	21	10.61	10.61	10.61	14
May	22	10.64	10.66	10.61	59
June	22	10.45	10.52	10.31	3,081
July	21	10.87	11.39	10.35	298
August	23	10.20	10.20	10.20	36
September	22	10.00	10.20	9.80	300
October	21	9.88	10.30	9.80	4,726
November	22	9.80	9.80	9.80	13
December	21	9.93	10.40	9.80	1,032
2017					
January	22	10.40	10.40	10.40	785
February	20	10.40	10.40	9.80	496

Source: Market Map.

6.5 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.

6.5.1 Agreements relating to the KLM shareholding structure

Holding of shareholder voting rights by two Dutch foundations

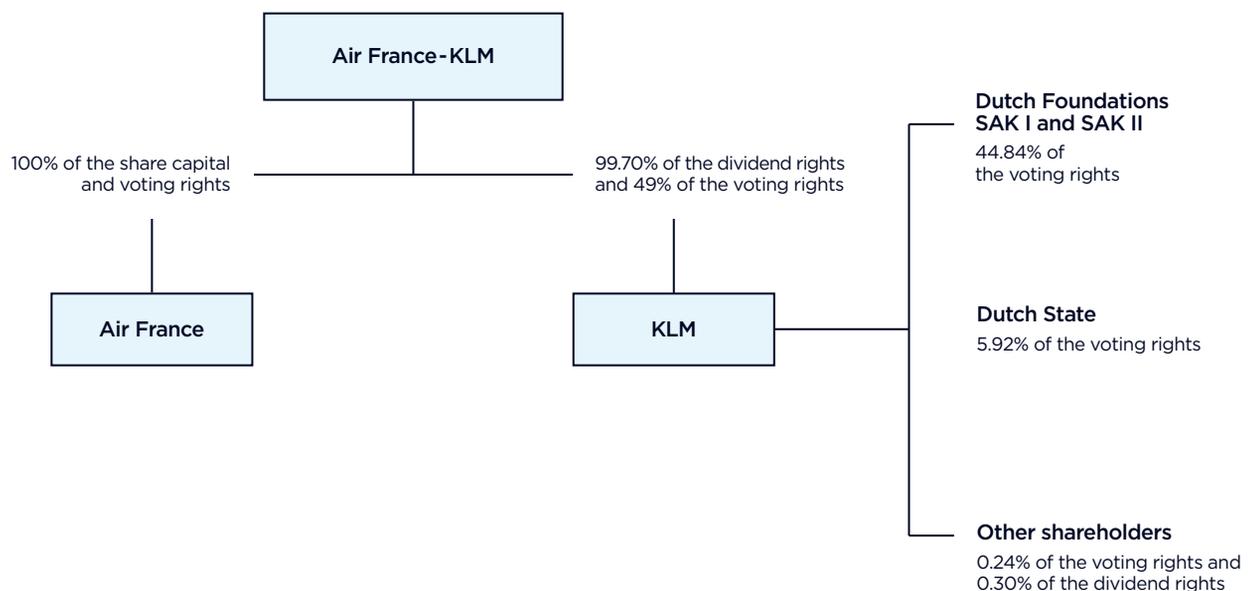
In order to continue to comply with specific regulatory requirements relating to KLM air transport operations, a system to separate the rights attached to KLM shares and the exercise of the voting rights attached to these shares by two Dutch foundations (SAK I and SAK II) was put in place in 2004.

Pursuant to this system which is still in force, Air France-KLM held, as at December 31, 2016, 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, 2016, 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.

6.5.2 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, 2016, no Advice had been rendered by the KLM Assurances Foundation Committee.

6.5.3 Assurances given to KLM

The assurances granted to KLM have been null and void since May 6, 2009.

6.6 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 ratification.

6.6.1 Freedoms

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.

6.6.2 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.

6.6.3 International conventions

In addition to the eight freedoms and legislation, three main treaties establish the legal and regulatory framework governing commercial air transportation: the Montreal Convention, the Chicago Convention and the Rome Convention.

A fourth treaty, the Tokyo Convention (1963), plays a particular role in combating safety offences committed on board aircraft.

The Montreal Convention (1999)

The Montreal Convention of May 1999, ratified to date by 103 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 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 airspace and their relations with one another.

Signed in December 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 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 nine States, for the most part African, is still not applicable. It has only been ratified by seven (Congo, and the Democratic Republic of Congo, Ivory Coast, Ecuador, Gabon, Kuwait and Montenegro) of the 35 States required for its entry into force.

(1) The passenger compensation rules are detailed in paragraph 3.2.1 Risks relating to the air transport activity, page 82.

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 29 States but only one ratification has been recorded to date (that of Congo in February 2015). The Protocol can only enter into force when 22 ratifications or signatures have been filed.

Neither France nor the United States have signed the Protocol. Spain is the only member of the European Union to have signed the Protocol (in September 2015) but has not ratified 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.

6.6.4 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.

6.7 INFORMATION AND CONTROL

6.7.1 Person responsible for the Registration Document and for the Annual Financial Report

Jean-Marc Janailac, Chairman and Chief Executive Officer.

6.7.2 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 9, on pages 12 to 44, on pages 46 to 53, on pages 61 to 63, on pages 66 to 67, on pages 72 to 76, on pages 77 to 78, on pages 80 to 90, on pages 104 to 126, on pages 127 to 133, on pages 134 to 153, on pages 164 to 172 and on pages 279 to 282, 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, 2016 included in this Registration Document are 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 the registration number D. 16-0323 were the subject of a Statutory Auditors' report figuring on pages 253 and 254, which contains an observation regarding a change in accounting policies related to the presentation of some aggregates in the income statement and the statement of cash flows, a change in accounting policies related to the presentation of capitalized production and temporary staff expenses in the income statement as well as the conversion method of provisions in foreign currencies.

The consolidated financial statements for the financial year ended December 31, 2014 included in the Registration Document filed with the AMF on April 8, 2015 under registration number D. 15-0299 were the subject of a Statutory Auditors' report figuring on pages 264 and 265.

Jean-Marc Janailac
Chairman and Chief Executive Officer

6.7.3 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.

6.7.4 Head of Investor Relations

Marie-Agnès Lucas de Peslouan
Mailing address: Air France-KLM/AFKL.FI 95737 Paris-CDG Cedex

6.7.5 Documents available to the public

Amongst the documents available on the Company's website (www.airfranceklm.com) figure, notably:

- the 2016, 2015, 2014, 2013 and 2012 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. 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 171*.

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 169*.

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 169*.

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 169*.

EBITDAR

Earnings before interest, taxation, depreciation, amortization and operating leases. This metric facilitates comparison between companies with different aircraft financing policies. The calculation is detailed in *Section 5.4, page 169*.

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 3.3, page 88*.

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 manoeuvre.

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 170*.

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 185*).

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. 293
2	Statutory Auditors	p. 294
3	Selected financial information	p. 4 and 5
3.1	Historical information	p. 4 and 5, p. 6 to 9, p. 169 to 172, p. 173 to 180, p. 302
3.2	Financial information for interim periods	Not applicable
4	Risk factors	p. 80 to 100
5	Information about the issuer	
5.1	History and development of the issuer – general information	p. 276 to 278
5.2	Principal investments	p. 73 to 76, p. 160 to 163, p. 211 to 246
6	Business overview	
6.1	Principal activities	p. 54 to 72
6.2	Principal markets	p. 61 to 62, p. 67
6.3	Exceptional factors	p. 6 to 9, p. 77 to 78
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. 46 to 49
7	Organizational structure	
7.1	Brief description	p. 91 to 94, p. 97 to 100, p. 164, p. 288
7.2	List of significant subsidiaries	p. 164, p. 254 to 256, p. 267 and 268
8	Property, plant and equipment	
8.1	Material tangible fixed assets	p. 73 to 76, p. 162 to 163, p. 168, p. 211 to 212 and p. 248 to 250
8.2	Environmental issues that may affect the issuer’s utilization of the tangible fixed assets	p. 84, p. 134 to 153
9	Operating and financial review	
9.1	Financial situation	p. 160 to 161, p. 164, p. 168, p. 169 to 172
9.2	Operating results	p. 4, p. 164, p. 167, p. 169 to p. 170
10	Cash and capital resources	
10.1	Issuer’s capital resources	p. 218, p. 264 and p. 279 to 284
10.2	Sources and amounts of cash flows	p. 89 and 90, p. 160 and 161, p. 168, p. 178 and 179, p. 251
10.3	Borrowing conditions and funding structure	p. 87 and 88, p. 90, p. 161, p. 168 to 171, p. 231 to 235, p. 263 to 265
10.4	Restrictions on the use of capital resources	p. 87 to 90 and p. 234
10.5	Anticipated sources of funds	p. 87 and 90 and p. 161 and p. 53
11	Research and development, patents and licenses	Not applicable
12	Trend information	p. 46 to 49

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. 13 to 27, p. 44
14.2	Conflicts of interest	p. 31
15	Compensation and benefits	
15.1	Remuneration and benefits in kind	p. 37 to 43 and p. 44
15.2	Pension, retirement or similar benefits	p. 43 and p. 250
16	Functioning of the administrative and management bodies	
16.1	Terms of office of members of the Board of Directors	p. 13 to 26
16.2	Service contracts relating to members of the management bodies	p. 30 and 31
16.3	Information about the Audit Committee and the Remuneration Committee	p. 33 to 35
16.4	Statement relating to corporate governance	p. 31 and 32 and p. 91 to p. 100
17	Employees	
17.1	Number of employees	p. 104, p. 120 to 123, p. 197
17.2	Shareholdings and stock options	p. 13 to 27, p. 41, p. 218, p. 281 to 284
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. 281 to 284
18.2	Existence of different voting rights	p. 279 to 280
18.3	Control of the issuer	Not applicable
18.4	Arrangement whose operation could lead to a change in control of the issuer	p. 284
19	Related party transactions	p. 250
20	Financial information concerning the issuer's assets, financial position and results	
20.1	Historical financial information	p. 4 and 5, p. 174 to 256, p. 259 to 270 and p. 302
20.2	Pro forma financial information	Not applicable
20.3	Financial statements	p. 174 to 256, p. 259 to 270
20.4	Auditing of the historical annual financial information	p. 257 to 258, p. 272 to 273
20.5	Date of the latest financial information	p. 257 to 258, p. 272 to 273
20.6	Interim and other financial information	Not applicable
20.7	Dividends	p. 282
20.8	Legal and arbitration proceedings	p. 86, p. 228 to 229
20.9	Significant change in the issuer's financial or trading position	p. 77 to 78 and p. 181

No.	Information based on Annex 1 of the regulation	Pages
21	Additional information	
21.1	Share capital	p. 218, p. 264, p. 271, p. 279
21.2	Memorandum and bylaws	p. 278, p. 284 to 285
21.2.1	Corporate purpose	p. 278
21.2.2	Provisions relating to the Company officers and the General Management	p. 28 to 31, p. 44
21.2.3	Rights, privileges and restrictions attached to the shares	p. 279
21.2.4	Actions required to modify the rights of shareholders	p. 284 to 285
21.2.5	Convening of General Shareholders' Meetings	p. 91
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. 32, p. 294
25	Information on holdings	p. 212 and p. 256, p. 257, p. 263, p. 267

INFORMATION INCLUDED BY REFERENCE

Pursuant to Article 28 (EC) No. 809/2004, the following information is included by reference in this Registration Document:

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**, page **266** and pages **275** to **279**.

2014 Financial Year

The Registration Document for the 2014 financial year was filed with the *Autorité des Marchés Financiers* on April 8, 2015 under the registration number D. 15-0299. The consolidated financial statements are presented on pages **178** to **184** and the related Statutory Auditors' report on pages **264** and **265**. The full statutory financial statements can be found on pages **266** to **267** and the related Statutory Auditors' certification on page **278** to **279**. The selected financial information is presented on pages **2** and **3** of the Registration Document. The management report figures on pages **4** and **5** pages **8** to **36**, **38** to **53**, **61** to **63**, **66** and **67**, **74** to **77**, **78** to **85**, **88** to **100**, **112** to **160**, **167** to **176**, page **277** and pages **286** to **290**.

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. 259 to 260
The Group's consolidated financial statements	p. 174 to 270
Management report	p. 6 to 9, p. 12 to 44, p. 46 to 53, p. 61 to 63, p. 66, p. 72, p. 73 to 76, p. 77 to 78, p. 80 to 90, p. 104 to 126, p. 127 to 133, p. 134 to 153, p. 279 to 282, p. 164 to 172
Certification by the person responsible for the Annual Financial Report	p. 293
Statutory Auditors' report on the statutory financial statements	p. 272 to 273
Statutory Auditors' report on the consolidated financial statements	p. 257 to 258
Statutory Auditors' fees	p. 253
Report of the Chairman of the Board of Directors on internal control	p. 91 to 100
Statutory Auditors' report, prepared in accordance with Article L. 225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of the Company Air France-KLM	p. 101

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.

AIRFRANCE KLM

www.airfranceklm.com