

Prospectus dated 14 January 2020



Air France-KLM SA
(incorporated as a *société anonyme* in France)

€750,000,000 1.875 per cent. Notes due 16 January 2025
Issue price: 99.411 per cent.

The €750,000,000 1.875 per cent. Notes due 16 January 2025 (the “Notes”) are to be issued by Air France-KLM (the “Issuer” or “Air France-KLM”) on 16 January 2020 (the “Issue Date”).

Each Note will bear interest on its principal amount from (and including) the Issue Date to (but excluding) 16 January 2025 at a fixed rate of 1.875 per cent. per annum payable annually in arrear on 16 January in each year and commencing on 16 January 2021, as further described in the section “Terms and Conditions of the Notes – Interest” of this Prospectus. Payments in respect of the Notes will be made without deduction for or on account of taxes imposed or levied by the Republic of France to the extent described under “Terms and Conditions of the Notes – Taxation”

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed in full at their principal amount on 16 January 2025 (the “Maturity Date”). The Notes may, and in certain circumstances shall, be redeemed before the Maturity Date, in whole only but not in part, at their principal amount, together with, any accrued interest, notably in the event that certain French taxes are imposed (See “Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons”).

The Issuer may, at its option (i) from and including the date falling three (3) months before the Maturity Date to but excluding the Maturity Date, redeem the Notes outstanding, in whole or in part, at par plus accrued interest, in accordance with the provisions set out in “Terms and Conditions of the Notes – Redemption and Purchase – Pre-Maturity Call Option”; (ii) redeem the Notes, in whole or in part, at any time, prior to the first day of the pre-maturity call option period, in accordance with the provisions set out in “Terms and Conditions of the Notes – Redemption and Purchase – Make-Whole Redemption by the Issuer” and (iii) redeem all but not some only of the outstanding Notes in the event that seventy-five (75) per cent. or more of the initial aggregate nominal amount of the Notes have been redeemed and cancelled, in accordance with the provisions set out in “Terms and Conditions of the Notes – Redemption and Purchase – Clean-Up Call Option”.

Noteholders (as defined in “Terms and Conditions of the Notes”) will be entitled, in the event of a Change of Control of the Issuer or in the event that a person, other than an entity controlled directly or indirectly by the Issuer (within the meaning of Article L.233-3 of the French *Code de commerce*), came to hold (via purchase, subscription or any other means) (i) more than 50% of the share capital of Société Air France and/or the economic rights of KLM or (ii) more than 50% of the voting rights of Société Air France and/or KLM, to request at their sole option the Issuer to redeem all or part of their Notes at their principal amount together with any accrued interest, subject to certain conditions as more fully described in “Terms and Conditions of the Notes – Change of Control”.

This Prospectus (including the documents incorporated by reference) constitutes a prospectus (the “Prospectus”) for the purposes of Article 6 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, as amended or superseded (the “Prospectus Regulation”). This Prospectus has been approved by the French *Autorité des marchés financiers* (the “AMF”) in France in its capacity as competent authority pursuant to the Prospectus Regulation. The AMF only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the quality of the Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

Application has been made for the Notes to be admitted to trading on the regulated market of Euronext Paris (“Euronext Paris”) with effect from the Issue Date. Euronext Paris is a regulated market for the purposes of Directive 2014/65/UE of the European Parliament and of the Council on markets in financial instruments, as amended, appearing on the list of regulated markets issued by the European Securities and Markets Authority (each a “Regulated Market”).

This Prospectus will be valid until the date of admission of the Notes to trading on Euronext Paris. The obligation to supplement the Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when the Prospectus is no longer valid.

The Notes will on the Issue Date be inscribed (*inscription en compte*) in the books of Euroclear France which shall credit the accounts of the Account Holders (as defined in “Terms and Conditions of the Notes – Form, Denomination and Title” herein) including Euroclear Bank SA/NV (“Euroclear”) and the depositary bank for Clearstream Banking S.A. (“Clearstream”).

The Notes will be issued in dematerialised bearer form (*au porteur*) in the denomination of €100,000 each. The Notes will at all times be represented in book entry form (*dématérialisé*) in the books of the Account Holders (as defined in “Terms and Conditions of the Notes – Form, Denomination and Title” herein) in compliance with Articles L. 211-3 *et seq.* and R. 211-1 *et seq.* of the French *Code monétaire et financier*. No physical document of title (including *certificats représentatifs* pursuant to Article R. 211-7 of the French *Code monétaire et financier*) will be issued in respect of the Notes.

The Notes are not expected to be assigned a rating. At the date hereof, the Issuer is not rated.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the Section “Risk Factors” in this Prospectus. Unless otherwise stated, references in this Prospectus to the “Group” or to the “Air France-KLM Group” are references to the Issuer and its consolidated subsidiaries.

Copies of this Prospectus and the documents incorporated by reference in this Prospectus will be published on the websites of the Issuer (www.airfranceklm.com) and of the AMF (www.amf-france.org), save for the 2019 First-Half Financial Report, the Third Quarter 2019 Financial Statements and the Third Quarter 2019 Results Press Release which will only be available on the website of the Issuer.

Joint Global Coordinators and Joint Bookrunners

BNP PARIBAS

Commerzbank

Joint Bookrunners

Deutsche Bank

Crédit Agricole CIB

Morgan Stanley

Santander Corporate & Investment Banking

This Prospectus constitutes a prospectus for the purposes of Article 6 of the Prospectus Regulation. This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see Section “Documents Incorporated by Reference” below).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Joint Bookrunners (as defined in “Subscription and Sale” below) to subscribe or purchase any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe any such restrictions.

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions (including as a result of change in law). Potential investors are advised to ask for their own tax adviser’s advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Notes. Only these advisers are in a position to duly consider the specific situation of the potential investor.

A number of Member States of the European Union are currently negotiating to introduce a financial transactions tax (“FTT”) in the scope of which transactions in the Notes may fall. The scope of any such tax is still uncertain as well as any potential timing of implementation. If the currently discussed text or any similar tax is adopted, transactions in the Notes would be subject to higher costs, and the liquidity of the market for the Notes may be diminished. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Neither the Notes nor the long-term debt of the Issuer are rated. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed below, and other factors that may affect the value of the Notes. A rating or the absence of a rating is not a recommendation to buy, sell or hold securities.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;*
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;*
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor’s currency;*
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and*
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.*

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase, sale or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

For a description of further restrictions on offers and sales of Notes and the distribution of this Prospectus, see Section “Subscription and Sale” below.

IMPORTANT - EEA RETAIL INVESTORS – *The Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2016/97(EU), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in*

the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes, taking into account the five (5) categories referred to in item 18 of the Guidelines published by the European Securities and Markets Authority on 5 February 2018, has led to the conclusion that: (i) the target market for Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

No person is or has been authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by, or on behalf of, the Issuer or the Joint Bookrunners.

Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Group, since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Joint Bookrunners have not separately verified the information or representation contained or incorporated by reference herein. To the fullest extent permitted by law, the Joint Bookrunners accept no responsibility whatsoever for the information or representation contained or incorporated by reference in this Prospectus or any other information provided by the Issuer or in connection with the Notes or their distribution or for any other statement, made or purported to be made by the Joint Bookrunners or on their behalf in connection with the Issuer or the offering and issue of the Notes. The Joint Bookrunners accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Prospectus or any such information or statement.

Neither this Prospectus nor any other information supplied in connection with the Notes or their distribution is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer or the Joint Bookrunners that any recipient of this Prospectus or any other information supplied in connection with the Notes or their distribution should purchase any of the Notes. None of the Joint Bookrunners acts as a fiduciary to any investor or potential investor in the Notes. Each investor contemplating subscribing or purchasing Notes should make its own independent investigation of the financial condition and affairs, its own appraisal of the creditworthiness, of the Issuer or the Group and of the terms of the offering, including the merits and risks involved. For further details, see Section “Risk Factors” herein. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should subscribe for or consult its own advisers as to legal, tax, financial, credit and related aspects of an investment in the Notes. None of the Joint Bookrunners undertakes to review the financial condition or affairs of the Issuer or the Group after the date of this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Bookrunners.

TABLE OF CONTENTS

RISK FACTORS	1
TERMS AND CONDITIONS OF THE NOTES	22
USE AND ESTIMATED NET AMOUNT OF PROCEEDS.....	32
RECENT DEVELOPMENTS	33
DOCUMENTS INCORPORATED BY REFERENCE	37
SUBSCRIPTION AND SALE	42
GENERAL INFORMATION.....	44
PERSONS RESPONSIBLE FOR THE INFORMATION GIVEN IN THE PROSPECTUS.....	48

RISK FACTORS

The Issuer considers that the risk factors described below are important to make an investment decision in the Notes and/or may alter its ability to fulfil its obligations under the Notes towards investors. The risk factors may relate to the Issuer and the Group. The risk factors that the Issuer considers to be the most important at the date of this Prospectus are mentioned first within each of the risk categories in this Prospectus.

The following describes the main risk factors that the Issuer considers, as of the date hereof, material with respect to the Notes. The risks described below are not the only risks the Issuer and its subsidiaries face and they do not describe all of the risks of an investment in the Notes. The inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Additional risks and uncertainties not currently known to the Issuer or that it currently believes to be immaterial could also have a material impact on its business operations or on an investment in the Notes.

Prior to making an investment decision in the Notes, prospective investors should consider carefully all the information contained or incorporated by reference in this Prospectus, including the risk factors detailed below. In particular, prospective investors, subscribers and holders of Notes must make their own analysis and assessment of all the risks associated to the Notes and the risks related to the Issuer, its activities and financial position. They should also consult their own financial or legal advisors as to the risks entailed by an investment in the Notes and the suitability of such an investment in light of their particular circumstances.

The Notes should only be purchased by investors who are financial institutions or other professional investors or qualified investors who are able to assess the specific risks implied by an investment in the Notes, or who act on the advice of financial institutions.

Terms defined in “Terms and Conditions of the Notes” below shall have the same meaning where used below.

1. Risks factors relating to the Issuer and the Group

The below section presents the principal risks that could, on the date of this Prospectus, impact the business, financial position, reputation, results or the outlook of the Group, as identified in the preparation of the Group’s risk mapping, which assesses their materiality, that is, the expected magnitude of their negative impact and their probability of occurrence, after taking into account the risk management action plans put in place. Within each of the risk categories described below, the risk factors that the Issuer considers to be the most material on the date of this Prospectus are described first. Other risks of which the Group is currently not aware, or risks that as of the date of this Prospectus it does not consider to be amongst the most material, could also negatively affect its activities.

1.1 Geopolitical and macro-economic risks

1.1.1 Competition in the short, medium and long-haul air passenger and air freight transportation market

Description of the risk

As the leading group in terms of intercontinental traffic on departure from Europe, the Group is a major global air transport player; in 2018, the Group carried 101 million passengers between Europe and the rest of the world as well as on intra-European routes on departure from the Group’s local markets.

The air transport industry is extremely competitive. The liberalization of the European market in 1997 and the ensuing increased competition between carriers has led to a reduction in fares.

In short and medium-haul, the Group competes with other airlines and, in particular, the low-cost carriers which have seen very rapid growth over the last fifteen years. It also competes with alternative means of transportation like the high-speed TGV rail network. An extension to the high-speed rail networks in Europe is likely to have a significant negative impact on the Group’s activity and financial results.

In addition, self-connect platforms like Kiwi.com or easyJet Worldwide give the ability for different point-to-point airlines to offer connecting journeys. If these initiatives were to develop significantly and proved successful, current hub and spoke model of hub carriers like Air France or KLM could be affected.

The competition is also very intense in long-haul, particularly on the routes between Europe and Asia, due to the development of new rapidly-growing players like the Gulf State airlines, or on the transatlantic routes due to the growth of the low-cost, long-haul carriers.

Mitigating principles and actions

The Group's different strategic plans seek to respond to these risks, particularly via the restructuring of the point-to-point operations, the accelerated development of Transavia, cost reduction, the product move up-market and the development of partnerships in large high-growth markets. In parallel, the Group is lobbying the authorities for a legal framework ensuring fair competition between carriers.

Furthermore, within the framework of the Open Skies agreement between Europe and the United States, European airlines are authorized to operate flights to the United States from any European airport. While this agreement potentially opens the way to increased competition for Paris-CDG and Amsterdam-Schiphol, it has also enabled Air France and KLM to expand their networks and strengthen cooperation within the SkyTeam alliance within the framework, notably, of a transatlantic joint-venture with their partners Delta Air Lines, Inc. and Alitalia.

1.1.2 Cyclical nature of the air transportation industry

Description of the risk

Local, regional and international economic conditions can have a significant negative impact on the Group's activities and, hence, its financial results. Periods of crisis or post-crisis with an unstable economic environment are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to accept delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions. For instance, as a result of the global financial crisis, in 2009, passenger demand decreased by 3.5% with an average load factor of 75.6% and freight showed a full-year decline of 10.1% with an average load factor of 49.1% (*source: IATA, January 2010*).

Mitigating principles and actions

Air France - KLM has a balanced international geographical network enabling it to limit its exposure to risk within a steadily-growing air transportation environment at global level.

1.1.3 Trend in the oil price

Description of the risk

The fuel bill is one of the largest cost items for airlines making oil price volatility a risk for the air transportation industry. For the financial year ended December 31, 2018, aircraft fuel costs amounted to €4,958 million. A sharp increase in the oil price can have a material negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies (as an illustration, average annual oil prices increased by more than 40% between 2016 and 2018). Similarly, a sharp decline in fuel prices is favorable for airline profitability. However, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty.

Mitigating principles and actions

In addition to permanent efforts to reduce fuel consumption, the Group has implemented a policy of systematically hedging the fuel price risk, as outlined in *Section 1.5 - Financial market risks on page 12 of this Prospectus*.

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

Description of the risk

Since 2016, the security situation resulting from terrorist attacks perpetrated in France, elsewhere in Europe and in the Group's operational zones, together with world-wide politico-security events (Middle Eastern and African countries) have all represented a range of security risks negatively impacting the Group. For example, the fourth quarter results of the financial year ended December 31, 2015 were affected by the Paris terrorist attacks in November 2015. The estimated impact in the fourth quarter revenues of the Group for the financial year ended December 31, 2015 amounted to €120 million.

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

Mitigating principles and actions

In terms of security, the Group's airlines comply with European and international regulations and submit regular reports to the competent authorities of the measures and procedures in place.

The Group has no hedging in place for air transportation operating losses but is insured for the consequences of an attack on one of its aircraft, and has subscribed war and assimilated risks insurance.

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

(a) Management of security risks

Protecting individuals and assets from assault, terrorist attacks and threatened attacks, and potential threats to their integrity of any nature is also a major priority for the Group. The Security departments in each of Air France and KLM establish the security policies, analyze the threats and take all the appropriate measures, particularly in relation to the factors involved in geopolitical instability.

(b) Management of health risks

Each airline is supported by a coordination structure responsible for prevention, crisis management, the circulation of health advice and liaising with the national and international authorities on outbreaks of epidemics or threats of epidemics. More recently, concerning the management of the health crises associated with the Ebola and Zika viruses, the airlines have been supported by a dedicated coordination structure. Air France bases its food safety standards on the ISO 22000 norm. To ensure strict control over the quality of catering services, Air France notably carries out some hundred hygiene audits and around 15,000 in-house microbiological checks every year.

The Group has also developed emergency plans and temporary adaptation procedures enabling an effective response to diverse situations should an epidemic, geopolitical or other type of event occur. The aim of these plans is the effective protection of passengers and staff, operational and service continuity, and the preservation of the long-term viability of the Group's businesses. These plans are regularly adjusted to take into account the lessons learnt from events experienced.

1.1.5 The United Kingdom's exit from the European Union (the "Brexit")

Description of the risk

Air France and KLM have originated approximately 30 000 international flights from the United Kingdom in 2019. The United Kingdom's exit from the European Union may take place on the basis of negotiated conditions and after a transition period ending December 31, 2020 or via a hard landing on January 31, 2020 ("hard Brexit"). On the latter hypothesis, there may be a number of adverse consequences in terms of the economy, market access and statutory authorizations.

Mitigating principles and actions

Air France and KLM have measures in place to ensure that a hard landing by the UK has no serious consequences for the Group's airlines and is maintaining close, regular contact with the EU and national authorities. Based on an internal, in-depth evaluation of the risks, even in the event of a no-deal scenario, Air France - KLM and the Group's airlines will be able to maintain their operations and maintenance activities without their being impacted. In addition, Air France and KLM have relatively less exposure than the other European (LCCs) or British carriers, in light of the number of international flights originating from the United Kingdom in 2019. Customs and logistics issues will, however, require close monitoring and contingency planning.

1.1.6 Competition and market trends in aircraft, engine and component maintenance

Description of the risk

Airframers, engine manufacturers and aircraft component manufacturers are rapidly expanding their after-sales services to offer customers increasingly-integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to maintenance providers seeking to exercise their business activity on certain products. This competition is putting pressure on the revenue side of the maintenance business (which represented 7% of the Group revenue for the financial year ended December 31, 2018) due to increased competition in the sale of services and, on the cost side, owing to an aggressive Original Equipment Manufacturers (OEMs) escalation policy. Ultimately, if it were to result in reduced competition in the aeronautics maintenance market, this trend could have an 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.

The Maintenance, Repair, Overhaul (MRO) Market is showing healthy growth although most of this growth is outside the EU and especially in Asia. To maintain customer proximity and optimize the supply chain, further development of the AFI KLM E&M supply chain is needed via the expansion of local service centers and the regional industrial footprint.

Mitigating principles and actions

Air France - KLM is working on a number of initiatives to limit the impacts inherent to this risk:

- the involvement of the Maintenance teams in fleet renewal campaigns: procurement of licenses and the securing of industrial cooperation with OAMs/OEMs to be able to continue to develop Air France - KLM's commercial activity in maintenance;
- Air France - KLM's current strong market position has the scale and scope to serve as a basis for win-win partnerships with OEMs and other airlines;
- developing repair solutions and the use of Used Serviceable Materials, thereby reducing the dependence on certain OEMs;
- negotiation of the value added contributed by licenses.

Furthermore, at the request of the airlines, IATA is maintaining a watching brief on this issue.

1.2 Risks relating to the air transportation activity

1.2.1 Risks related to airline safety

Description of the risk

Accident risk is inherent to air transportation which is why airline activities - passenger and cargo transportation, aircraft maintenance - are regulated by a series of European regulatory provisions, transposed into French and Dutch law. Compliance with these regulations governs whether an airline is awarded the AOC (Air Operator Certificate) which is valid for three years.

The national Civil Aviation Authority carries out a series of checks on the proper application of these rules covering notably the:

- designation of a senior executive and managers responsible for the principal operational functions;
- appropriate organization of the flight, ground, cargo and maintenance operations;
- deployment of a Safety Management System (SMS);
- implementation of a quality assurance system.

The materialization of this risk could have a significant negative impact on the Group's reputation and legal or financial consequences (see note 30.2.3 of the consolidated financial statements of the Group for the year ended 31 December 2018 incorporated by reference in this Prospectus).

Mitigating principles and actions

For Air France - KLM, Flight Safety is the absolute priority. Safety is fundamental to maintaining the confidence of customers and staff and is a day-to-day imperative which determines the Group's activity and the long-term future of the air transportation industry.

All of the Group's businesses are subject to numerous checks and certifications, and meet extremely strict standards and the highest level of regulations in the industry, both at European level with the European Aviation Safety Agency (EASA), and globally with the International Air Transport Association (IATA), whose IOSA Operational Safety Audit is a benchmark within the industry and leads to certification which must be renewed every two years. In 2018, successful audits again took place for both airlines, renewing the certification as of 2019.

To reach the highest possible level of Flight Safety, each airline updates and reinforces its SMS which defines in concrete terms the conditions for the implementation of its risk management system. The SMS, which is an integral part of the organization, procedures and corporate culture, is supported by a commitment made at the highest level of management, and by training and awareness-raising programs for all staff.

This risk is covered by the aviation insurance policy.

1.2.2 Risks related to the environment

1.2.2.1 Acceptability of air transportation growth

Description of the risk

Airlines accommodate their customers' increased need for mobility, while improving their own energy efficiency and maintaining noise hindrance at an acceptable level for those living near airports. There is increasing public pressure, at both local and global level, concerning flight-related environmental impacts from the aviation industry.

In this respect, the actions implemented by Air France - KLM to limit and reduce its environmental impacts directly influence its ability to manage and develop its activities ("license to grow") in all regions of the world and over the long-term.

The air transport industry is subject to a significant level of environmental legislation governing areas such as the exposure of people to aircraft noise and gas emissions, air quality, the treatment of waste products, and the introduction of taxes on airlines and obligations to ensure the compliance of their operations. As an example, from 2020, airplane tickets are likely to be taxed from €1.50 to €18 on all flights departing from France (and not to those arriving), except connecting flights. This tax will apply to all airlines and will be €1.50 in eco-class for domestic and intra-European flights, €9 for business class flights, €3 for non-EU eco-class flights and €18 for business class flights. This tax will raise funds for investments in greener transport infrastructure, including rail.

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

Mitigating principles and actions

The airline industry is amongst the sectors that are mobilizing the most to reduce their carbon footprints and was the first sector to commit to collectively reducing its CO₂ emissions. As early as 2009, the International Air Transport Association (IATA) set an ambitious global commitment to stabilizing the CO₂ emissions from international aviation at the 2020 level (Carbon Neutral Growth as of 2020), and to reducing CO₂ emissions by 50% in 2050 relative to their 2005 level.

Air France - KLM is a member of the representative associations for the airline industry (IATA, ATAG, A4E, FNAM) which engage in lobbying activities directed at the relevant national, European and international authorities and bodies (ICAO, European Union, supervisory Ministries in France and the Netherlands) to promote effective solutions for the environment, but also to ensure that the measures which are put in place do not lead to any distortion in competition between the air transportation players. For example, Air France - KLM has always supported the implementation of a market-based mechanism for carbon emissions considering that, provided it is equitable, such a system is more effective from an environmental standpoint than a simple tax.

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

1.2.2.2 Climate change

Description of the risk

To meet the requirements relating to carbon budget and low-carbon strategy of Article 173 III of Act No. 2015-992 of August 17, 2015 relating to the Energy Transition for Green Growth, the Group takes into account the financial risks related to the effects of climate change.

Climate change will lead to more frequent extreme weather events that will have a greater or lesser impact on all world regions. Air operations depend on meteorological conditions and may be impacted by other natural phenomena (earthquakes, volcanic eruptions, floods, etc.) which may lead to operational disruption such as flight cancellations or delays and diversions. As a general rule, 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, such as the volcanic eruption of Eyjafjallajökull volcano in Island in 2010, where nearly 100,000 flights were cancelled in eleven European countries, leaving 10 million passengers on the ground. They may have a significant operational and financial repercussions for the Group's activity given the regulations requiring the Company to assist passengers in the European Union territory (e.g. passenger repatriation and accommodation).

Mitigating principles and actions

To adapt to the already-visible consequences of climate change such as more frequent extreme weather events, Air France - KLM has a policy in place to ensure safe operational and passenger handling conditions, and regularly conducts comprehensive risk analyses to optimize these arrangements.

Through its international operations, Air France - KLM is present in all continents and operates in different weather conditions, including the most extreme. It regularly reviews the operational risks to improve the existing procedures. The operation of a network balanced between the different continents and the flexibility related to the composition of the fleet enable the financial consequences of these impacts to be minimized.

Within this context, Air France - KLM lobbies the French and European authorities, either directly or through representative bodies, to develop robust crisis management tools.

With its partners, the Group has deployed procedures aimed at guaranteeing its services as far as possible and also minimizing the consequences of these situations for its customers. In such circumstances, the Group deploys commercial measures to enable passengers to defer their travel if they so wish, or change their destination. The Group has no hedging in place for operating losses incurred due to such events.

The Group implements measures to mitigate the impact of climate change through a low-carbon strategy. The use of sustainable fuels is a promising avenue towards reducing CO₂ emissions from aviation and a key element in achieving Air France - KLM's CO₂ emission reduction targets as well as those of the aviation industry as a whole.

1.2.2.3 Carbon credit risk

Description of the risk

As an air operator, the Group is an issuer of carbon dioxide, meaning that it has, since 2012, been subject to the European Union emission quota system (EU-ETS or European Union Emission Trading Scheme). It is thus required to offset its emissions by purchasing carbon quotas in the financial markets. For the financial year ended December 31, 2018, the Group's greenhouse gas emissions amounted to 27,571 ktons. In addition, for the financial year ended December 31, 2018, Air France, KLM, Transavia, HOP! and KLM Cityhopper purchased emission allowances equivalent to 3,081,906 tons of CO₂.

As of 2021, the Group will be subject to the global carbon offsetting mechanism, adopted by the ICAO in October 2016.

The ICAO resolution stipulates that "CORSIA is to be the market-based measure applying to CO₂ emissions from international aviation", thereby avoiding the imposition of overlapping national and regional mechanisms. Air France - KLM and the other IATA airlines are lobbying for the CORSIA provisions to replace the EU-ETS as of 2021 for the scope of international flights.

Mitigating principles and actions

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

At operational level, the Group is also committed to exploring all avenues potentially reducing its fuel consumption and carbon emissions:

- at its own initiative: modernization of the fleet and engines, improved fuel management, fuel savings plan, reduction in weight carried, improvement in operational procedures; and
- in cooperation with the authorities: SESAR project (Single European Sky, optimization of air traffic control), improvement in operational procedures.

Furthermore, the Group supports and calls for research into the development and use of new more-environmentally-friendly fuels (biofuels).

The Group also uses an internal carbon price (price range) when taking a decision on whether to proceed with investments and projects, to factor the carbon risk into its decision-making scenarios.

(For more details on Risks related to the environment see Section 1.2 - Risks relating to the air transportation activity of this Prospectus).

1.2.3 Loss of flight slots or lack of access to flight slots

Description of the risk

Due to the saturation of major European airports, air carriers must obtain flight slots which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers. Pursuant to this Regulation, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. The Regulation does not provide for any exemptions to this rule for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and no longer use their flight slots at the required 80% level during the period in question. The European Commission can, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots, as it has done on several occasions.

Any loss of flight slots or lack of access to flight slots due to airport saturation, which is particularly the case at Schiphol airport where growth capacity is currently limited, could have an impact in terms of market share, results and even growth.

Mitigating principles and actions

Air France - KLM applies the provisions of the European Regulation on the allocation of flight slots, guaranteeing an air carrier the ongoing use of these slots from one season to another provided they have been used for 80% of the time excluding exceptional circumstances. Air France and KLM also liaise with their national authorities to ensure the regular availability at their principal hubs of the capacity necessary to the Group's growth.

1.2.4 Out of sequence policy

Description of the risk

Air France and KLM, as well as many other airlines, have an out of sequence policy. This policy provides that a passenger purchasing a ticket and missing one stretch of its journey will not be authorized to fly the next stretch. This practice is being claimed as unfair by the European Bureau of Consumer's Union. Several court cases have been initiated. The risks related to possible negative decisions from those courts is for the Group to be driven to smoothen the above policy.

Mitigating principles and actions

The out of sequence policy itself is being evaluated on all aspects in order to ensure a better cope with customers.

1.2.5 Reinforcement of passenger compensation rights

Description of the risk

(a) European regulations

Within the European Union, the rights of passengers in the event of flight delays, cancellation or denied boarding are defined by Regulation (EC) No.261/2004 of February 11, 2004 which came into force in 2005. It applies to all flights, whether scheduled or unscheduled, departing from an airport located in a European Union Member State (including Paris-Charles de Gaulle and Amsterdam Schiphol, the Group's two hubs) and establishes the European rules for compensation and assistance on denied boarding, substantial delay, flight cancellation and class downgrading.

Numerous rulings by the European Court of Justice (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.

The ever-stricter regulations applying to the European airlines, but only partially applicable to airlines of third-party countries, only increase the existing distortions to competition. The emergence of companies specialized in passenger compensation is increasing the financial cost resulting from this risk. The amount of compensation is, however, the same for Air France - KLM, whether the customer contacts the company directly or via an intermediary.

(b) US regulations

In the United States, the regulation increasing US airline passenger protections came into effect on August 23, 2011, and its provisions are now in force.

The US regulations in terms of passenger rights apply to all airlines operating in the US territory and/or marketing flights to/from the United States which means that Air France - KLM is concerned by these US protections.

(c) *National regulations*

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

If the Group fails to comply with these regulations, this could have a negative effect on the Group's results, business, reputation, financial position and outlook.

Mitigating principles and actions

To keep the effects of these regulations as much as possible within financially-acceptable limits, the Group lobbies the national and European institutions, both directly and indirectly through the air transportation 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.

1.2.6 Changes in international, national or regional regulations and legislation

Description of the risk

Air transportation 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 slots). Within this context, the EU institutions can adopt regulations which may prove restrictive for airlines and are liable to have significant organizational and/or financial impacts. Any changes to regulations and legislation may increase the Group's operating expenses or reduce its revenues.

Mitigating principles and actions

The Air France - KLM Group actively defends its positions with the French and Dutch governments and European institutions, both directly and through industry bodies such as the Airlines for Europe association (A4E) regarding, firstly, changes to European and national regulations, and, secondly, a reasonable and balanced allocation of traffic rights to non-European airlines.

1.2.7 Regulatory authorities' inquiry into the commercial cooperation agreements between carriers

Description of the risk

Alliance operations and commercial cooperation are required to comply with the competition law in force. Airlines are required, particularly in Europe, to ensure that their operations are compliant 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. For example, the joint-venture between Air France, KLM, Delta and Alitalia was the subject of such an inquiry (it has been successfully closed in 2015). In case of such inquiries against the Group, this could have a negative effect on the Group's results, business, reputation, financial position and outlook.

Mitigating principles and actions

In May 2015, the Directorate General for Competition (DG COMP) adopted a favorable decision pursuant to Article 101 of the Treaty on the Functioning of the European Union on the transatlantic joint-venture (Air France - KLM, Delta Air Lines, Inc., Alitalia).

In light of the final undertakings offered by the transatlantic 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.

1.2.8 Commitments made by Air France and KLM vis-à-vis the European Commission

Description of the risk

In 2003, for the European Commission to authorize the business combination between Air France and KLM, the two companies had to make a number of commitments, notably with regard to the possibility of making landing and takeoff slots available to competitors at certain airports. These commitments (read in combination with those made within the framework of the May 2015 decision relating to SkyTeam) were recently invoked by Norwegian to access slots at the Amsterdam-Schiphol hub to be able to operate four flights a week between Amsterdam and New York as of the Summer 2019 season. In the event commitments would be challenged by competitors, this could have a negative effect on the Group's results, business, reputation, financial position and outlook.

Mitigating principles and actions

The Air France - KLM Group has ascertained that the eventual consequences of slot availability is unlikely to lead to a financial impact on its results for the relevant routes that is deemed to be material. Furthermore, Air France - KLM remains in regular touch with the Commission to discuss the need to maintain these commitments adopted nearly fifteen years ago.

1.3 Risks related to the Group's processes

1.3.1 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 functioning. The IT applications, deployed in the operating centers or via cloud computing systems, are accessed via a network comprising thousands of work positions and a growing number of mobile devices. The information contained in all these systems is exposed to a growing number of threats. The information exchanged with customers and third parties is proliferating while aircraft are increasingly connected to the Information System. The number of laws and regulations to be taken into account is also growing.

1.3.1.1 Business continuity and regulatory compliance

Description of the risk

The IT systems, including revenue management systems and booking systems (including Altea) used by the Group, 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. Despite a policy of strengthening and continuously monitoring the resilience and security of its information systems, a major failure or interruption resulting from an incident (such as a power outage or fire), computer virus, computer attack or other cause could have a significant negative impact on the Group's activity, reputation, revenues and costs, and thus its results.

Mitigating principles and actions

The Group Executive Vice-President, Information Technology, assisted by the Group IT Committee and the Group Chief Information Security Officer, is responsible for managing the risks relating to their processes and defining, in particular, the IT and Telecommunications Security policy.

The context requires a high level of security, which is guaranteed by the mandate of the Head of IT and his staff who are responsible for System security. Air France and KLM ensure the allocation of the resources required to counter such threats, secure the information and guarantee the regulatory compliance of the information systems.

Air France - KLM monitors the secure functioning of the IT systems on a permanent basis. Dedicated help centers and redundant networks guarantee the availability and accessibility of data and IT processing in the event of major incidents.

The infrastructures of the back-up operating centers and business continuity plans are tested regularly. The access controls to the IT systems and to the data exchanged within the Issuer are governed by rules which meet international laws and standards.

Companies specializing in IT security, external auditors, Internal Audit and Internal Control all regularly evaluate the relevance and effectiveness of the solutions in place.

The risk of damage to the IT facilities and any resulting business interruption are covered by an insurance policy.

1.3.1.2 Data security

Description of the risk

As airline companies, Air France and KLM collect personal data from their customers and employees. Management of the Group's assets is supported by rigorous management of the required data, whose consistency and integrity presents a permanent challenge in IT projects, and in the operation of digital services. Frequent changes to both applications and processes call for the ongoing adaptation of IT management tools and methods, in coordination with the businesses and their regulatory and operational requirements. If the Group fails to implement such frequent changes or to protect data of a personal nature pursuant to the relevant laws and regulation, this could have a negative impact on the Group's activity, reputation, revenues and costs, and thus its results.

Mitigating principles and actions

The Group's IT division implements security rules aimed at reducing the risks related to new technologies, particularly mobile data terminals. The access controls to IT applications and to the computer files at each work station together with control over the data exchanged outside the Company all comply with rules pursuant to national, European and international standards. Campaigns to raise the awareness of all staff on the potential threats and encourage best practices are regularly carried out. Specialized companies, external auditors and Internal Audit all regularly evaluate the effectiveness of the solutions in place.

Data security is a priority for the Group, and specifically the protection of data of a personal nature pursuant to the relevant laws and regulations. The new EU General Data Protection Regulation (GDPR) is being applied via the GDPR and NIS compliance programs. Within each company, specialist teams ensure that the processing of personal information by the company complies with the relevant legislation.

In each Air France and KLM company, the Data Privacy Officers define the applicable policies, promote the data protection culture and ensure the effective fulfilment of the regulatory standards.

1.3.1.3 Cybercriminality

Description of the risk

As with any business making extensive use of modern communication and IT data processing technologies, including revenue management systems and booking systems (including Altea), the Group is exposed to threats of cyber-criminality.

Cyber-criminality refers to a wide range of different activities related to the improper use of data and the Information System for personal, financial and psychological ends. Their heavy dependence on IT and communication technologies makes airlines vulnerable to cyber-criminality. If the Group fails to face such cyber-criminality, this could have a negative impact on the Group's activity, reputation, revenues and costs, and thus its results.

Mitigating principles and actions

To protect itself against this risk, the Group deploys substantial resources aimed at ensuring business continuity, data protection, the security of personal information pursuant to law and the safeguarding of at-risk tangible and intangible assets.

The Cybercrime program, approved by the Group's Audit Committee, covers the prevention and detection procedures such as Cyber-threat surveillance, evaluations of Information System security and tests to pinpoint any Information System incursions via the internet. There are regular awareness-raising campaigns on IT security for staff across the Issuer. An audit of this program was realized in 2017 which confirmed the best practices in place and the orientations adopted. The recommended improvements have been added to the program. The Group complies with the Cyber standards of the Original Aircraft Manufacturers.

In 2018, the Group subscribed a cyber insurance policy to transfer a part of this risk.

1.3.2 Non-compliance with regulations, including competition and anti-bribery laws

Description of the risk

Non-compliance with regulations, like competition laws, anti-bribery laws, trade sanctions or export control regulations owing to the unethical behavior of employees can result in a negative impact on the Group's reputation, and lead to substantial fines and other legal proceedings. The Group is currently involved in investigations in relation to anti-trust matters in the air-freight industry and in the passenger sector (see Note 17 on "Return obligation liability and other provisions" to the unaudited interim condensed consolidated first-half 2019 financial statements as at 30 June 2019 incorporated by reference in this Prospectus).

(For more details see Section 1.2.7 of this Prospectus - Regulatory authorities' inquiry into the commercial cooperation agreements between carriers).

Mitigating principles and actions

Various measures are in place to mitigate the risk of non-compliance with laws and regulations. The preventive measures include, for example, guidelines in the form of manuals, policies and instructions to clarify expected and acceptable behavior, training in the form of e-learning as well as personal training, and the ability to report any compliance concerns.

With regard to competition law, Air France - KLM has developed its policy to prevent anti-competitive practices by circulating a Competition Law Compliance Manual which is available in three languages.

Other prevention-based tools include dedicated training modules. Having completed this training and taken an evaluation test, employees sign an individual declaration promising to respect the competition rules applying to their functions.

Regarding corruption, further to the anti-bribery campaign at the end of 2017, ongoing efforts have been deployed to further strengthen the awareness and knowledge of employees regarding the prevention of bribery like, for example, presentations and discussions, improved access to compliance documents and communication by the Group's management.

1.3.3 Operational performance and customer risks

Description of the risk

For customers, operational performance is a cornerstone of the product. In the day-to-day operations, where there is pressure on airlines and growing congestion in airports and airlines, and where regulations are increasingly complex (e.g. security), within a context of social unrest within the airline industry but also externally (air traffic controller and ground handler strikes), increased traffic volume brings with it a risk of sub-optimal operational performance or a lower standard of customer service, leading to an increase in the costs of operational performance and a reduction in levels of customer satisfaction, which can result in a negative impact on the Group's reputation.

Mitigating principles and actions

For both Air France and KLM, the operations control center is at the heart of operations and any disruption is managed in an integral manner. In 2018, numerous action plans were deployed on operational excellence, service disruption management and recovery, security, network agility, compensation procedure (EU261), crew and other critical resources. The goal is to reduce the number of distortions, reduce the impact on customers, improve customer satisfaction and reduce the costs of sub-optimal performance.

1.3.4 Working conditions and social dialogue

Description of the risk

Employees are at the heart of Air France - KLM and maintaining their trust is vital to enabling them to attain their highest standards of performance to the benefit of customers. Employee engagement and social stability is imperative for the long-term viability and success of the Issuer.

The staff in the different Group entities have different (local) HR contracts and policies which comply with the employment legislation in force in their respective countries. Strategic changes and changes impacting the working conditions of staff are applied pursuant to the legislation and protocols as defined for each of the entities comprising the Group.

The 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, the Group seeks to preserve cohesion by fostering a constructive and transparent workplace dialogue and by pursuing a policy based on respect and responsibility.

The Group's operations have been in the past and may in the future be disrupted by labour disputes such as strikes, walkouts, industrial action or other social unrest, which could also have a negative impact on the Group's operations, profits and image.

Mitigating principles and actions

To ensure the effective coordination of the workplace dialogue, responsibilities and accountabilities are defined for each entity and category of staff. At Group level, coordination takes place between the different entities, specifically for transverse topics concerning categories of staff across several entities. Significant changes to the HR policies and collective labor agreements are approved at the highest level of management within the airlines and the Group.

Various initiatives aimed at improving the workplace dialogue are planned and implemented in the different Group entities

In Air France and KLM, an Employee Promotor Score indicator has been implemented to measure the engagement of employees. The results feed into local action plans aimed at improving employee engagement and opening up the dialogue between managers and their teams. Decreasing the distance between management and staff is key to understanding the needs and concerns of staff, tackling any issues in a pro-active manner and avoiding any escalation.

The level of employee engagement is included in the targets for the highest level of management within Air France - KLM. Continuous monitoring takes place and the methodology will be subject to ongoing improvement.

1.3.5 Pension plans

Description of the risk

As of December 31, 2018, the Group's main commitment in terms of defined benefit schemes was the pension plan for Ground Staff based in the Netherlands. For the financial year ended December 31, 2018, retirement benefits amounted to €2,098 million.

Under IAS 19, the Air France - KLM Group is exposed to changes in external financial parameters (e.g. discount rates, future inflation rate) which could lead to annual fluctuations in its income statement and equity with no impact on cash. The changes in pension obligations together with the level of plan assets related to changes in actuarial assumptions are recognized in equity and are not taken against profit and loss. The potential volatility is explained in Note 4 on "Accounting principles - Employee benefits" and in Note 29 "Other provisions" to the consolidated financial statements for the financial year ended December 31, 2018 incorporated by reference in this Prospectus.

In particular, the KLM Ground Staff pension plan may create accounting volatility for the Group's equity.

Note 29 to the consolidated financial statements for the financial year ended December 31, 2018 incorporated by reference in this Prospectus presents the sensitivity of the defined benefit cost recognized in profit and loss and the defined benefit obligation to changes in the discount rate, and the level of increases to salaries and pensions.

Mitigating principles and actions

The cash risk on recovery premiums for the Ground Staff pension plan is limited based on the funding agreement between the pension fund and KLM. The regular premium level is fixed.

The current calculations led to the KLM Ground Staff pension plan figuring as an asset in the balance sheet at December 31, 2018, the assets in the funds being higher than the value of the defined benefit obligations.

1.4 Legal risks

During their ordinary course of business, the Group's companies could be involved in legal, administrative, criminal, or arbitration proceedings, especially concerning civil liability, competition, industrial, fiscal, or intellectual property claims, or claims relating to the environment and discrimination. In some of these proceedings, significant monetary claims have been made or may be made against one or more Group companies. The relevant provisions, if any, that the Group may have to record in its financial statements may not be sufficient, which could have a material adverse effect on its business, financial position, results and outlook. As of June 30, 2019, the Group's total provisions for litigation amounted to €404 million (see Note 17 to the Group's unaudited interim condensed consolidated financial statements for the six-month period ended June 30, 2019).

New proceedings, stemming from existing proceedings or otherwise, related to risks already identified by the Group or to new risks, could be initiated against a Group entity. These procedures, if they were to have an unfavourable outcome, could have a significant adverse effect on the Group's business, financial position, results and outlook.

1.5 Financial market risks

1.5.1 Risks relating to the fuel price

Description of the risk

At December 31, 2018, the Air France - KLM Group's fuel exposure, based on futures prices at December 31, 2018 (\$54.80 a barrel for 2019 and \$56 a barrel for 2020), was as follows:

(in US\$ million)	2019	2020
Gross expenditure before hedging	5,707	6,050
Hedge percentage	58%	29%
Gain on hedging	(321)	(193)
Net expenditure after hedging	6,028	6,243

Based on the forward curve at December 31, 2018, an increase of US\$10 per barrel over 2019 would give an average price of US\$64.76 per barrel and would lead to a US\$425 million increase in the fuel bill after hedging, i.e. a total fuel bill of US\$6,456 million for the Air France - KLM Group. Symmetrically, a fall of US\$10 per barrel over 2019 would give an average price of US\$44.76 per barrel and would lead to a US\$411 million reduction in the fuel bill after hedging, i.e. a total expense of US\$5,620 million.

Mitigating principles and actions

Risks related to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC and approved by the Board of Directors for the whole of the Air France - KLM Group.

The hedging strategy sets the time span of the hedges at two years (a rolling 24 months) and the target hedging ratio at 60%. Furthermore, the hedging is based on the use of simple futures or option-based instruments. These hedging instruments must be eligible for hedging pursuant to the accounting standards in force.

In respect of the application of IFRS 9, hedging by component has applied since January 1, 2018. Since the Group's fuel procurement is strongly correlated to the Jet Kerosene Cargoes CIF NEW index, components specific to this fuel risk are used (Brent ICE, Gasoil ICE, Jet CIF NWE) to align the fuel hedging accounting and the Group's risk management policy more effectively.

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.

1.5.2 Currency risk

Most of Air France - KLM's revenues are generated in euros. However, because of its international activities, the Group incurs currency exchange risks.

The Group's main exposure relates to the US dollar. Since expenditure on items such as fuel and components exceeds the amount of overall revenues in US dollars, the Group is a net buyer of US dollars, representing a residual structural risk.

As a result, any significant appreciation in the US dollar against the euro could result in a volatile and negative impact on the Group's financial results.

Additionally, the Group is a net seller of other currencies, the level of its revenues in currencies other than the dollar exceeding its expenditure. This exposure is much lower than with the US dollar. A significant decline in these currencies against the euro could have a negative effect on the Group's financial results.

1.5.2.1 Operational exposure

Description of the risk

2019 operational exposure ("Transaction risk")

(in millions of currencies at December 31, 2018)	US Dollar	Sterling	Yen
Net position before hedging	(2,779)	533	33,432
Currency hedge	1,682	(339)	(16,100)
Net position after hedging	(1,097)	194	17,332

For 2019, 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 instruments.

(in € million)	US Dollar	Sterling	Yen
10% increase relative to the euro	(123)	28	41
10% fall relative to the euro	158	(30)	(38)

Mitigating principles and actions

The currency risk management for the Group's airline subsidiaries is centralized within each airline company while the currency risks incurred by investments by the Group's holding company are managed at holding company level.

The risk management of the Group's overall currency exposure is carried out on the basis of a forecast net exposure for each currency. Currencies highly correlated to the US dollar are usually aggregated with the US dollar exposure.

For each currency hedged, the time span of the hedging is a rolling 12 to 24-month period, the first four quarters being relatively more hedged than the following four. The RMC sets hedging targets for the US dollar, sterling and the yen.

1.5.2.2 Investment exposure ("Translation risk")

Description of the risk

Aircraft are purchased in US dollars, meaning that the Group is exposed to an appreciation in the US dollar relative to the euro in terms of its investment in flight equipment.

The net investments in US dollars figuring in the table below reflect the contractual commitments as of December 31, 2018.

(in € million)	2019	2020	2021	2022	2023	2024
Investments	(1,575)	(1,088)	(1,500)	(963)	(1,045)	(394)
Currency hedge	1,488	938	890	613	230	65
Hedge ratio	94%	86%	59%	64%	22%	17%

Mitigating principles and actions

The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

1.5.2.3 Exposure on indebtedness

Description of the risk

Since the application of IFRS 16 as of January 1, 2018, the Group's aircraft operating leases, which are mostly denominated in US dollars, have been recognized in the Group's debt. For airlines generating US dollar revenues, the revaluation of this debt in US dollars is neutralized at the accounting level in that this debt is a natural hedge against the Group's US dollar revenues. For airlines not generating US dollar revenues, US dollar-denominated assets and currency hedges are in place to mitigate the exchange rate risk.

The exchange rate risk on debt denominated in other currencies mostly concerns the yen (12%), the US dollar (6%) and the Swiss franc (5%).

Mitigating principles and actions

The exchange rate risk on non-operating lease debt (non-IFRS 16) is limited. At December 31, 2018, 78% 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.

1.5.3 Counterparty risk exposure

Description of the risk

Except in the event of express dispensation from the Risk Management Committee (RMC), counterparties must benefit from a minimum rating of BBB+ (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality and ranking 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.

Mitigating principles and actions

The rules concerning the management of counterparty risk are established by the RMC and applied within each company.

A monthly report is established and circulated to the members of the General Management of the two airline companies. It is supplemented by real time information in the event of any real risk of a rating downgrade for counterparties.

1.5.4 Financing risk exposure

Description of the risk

(a) 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.

(b) KLM

To finance its aircraft, KLM uses a number of different structures including traditional bank debt, finance leases and export credit.

In view of the application of prudential standards, the banks could continue to reduce their balance sheets in future years and consequently make a more limited volume of lending available to businesses.

(c) Air France - KLM

Air France - KLM has realized several bond issues. While the issues prior to 2014 had its subsidiaries Air France and KLM as guarantors, the issues since 2014 have been unsecured:

- an issue of plain vanilla bonds with a six-year maturity raising €500 million in December 2012, which was redeemed in January 2018;
- an issue of plain vanilla bonds with a seven-year maturity raising €600 million in June 2014;
- an issue of subordinated perpetual notes raising €600 million in March and April 2015. In accordance with IFRS, these securities were booked as equity. In September 2018, a tender offer was launched for their repurchase and €196.7 million of bonds were presented and accepted. The outstanding subordinated perpetual bonds therefore amount to €403.3 million, with a call feature at par and a coupon step up in 2020;
- an issue of plain vanilla bonds with a six-year maturity raising €400 million in October 2016; and
- an issue of plain vanilla bonds with a ten-year maturity raising US\$145 million via a private placement in December 2016.

Mitigating principles and actions

The financing strategy is decided by the Group in coordination with the Air France Group and the KLM Group. The Air France - KLM Group's financing is mainly composed of bonds and debt collateralized by assets. For the bonds, the issuer is mainly Air France - KLM SA.

Furthermore, 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.

The Group also plans to mitigate the risk to more limited volume of lending available to businesses by adapting its financing strategy:

- more systematic recourse to financing in the market via Air France - KLM;
- diversification in the number of banking counterparties.

1.5.5 Liquidity risk exposure

Description of the risk

At December 31, 2018, the Group had credit facilities amounting to a total of €1.8 billion.

- On May 17, 2018, KLM signed a €665 million credit facility. This credit facility with a five-year duration was subscribed with a syndicate of ten banks and includes covenants calculated based on KLM's consolidated financial statements. As of December 31, 2018, the ratios were respected;
- on November 6, 2017, with 18 banks, Air France - KLM and Air France signed the renewal of their joint syndicated credit facility amounting to €1.1 billion, put in place in April 2015, whose first tranche was due to mature in April 2018. This new facility is composed of two tranches each amounting to €550 million, the first for an initial period of three years (accompanied by two one-year extension options) and the second for a five-year period. This credit facility includes covenants calculated based on Air France - KLM's financial statements. At December 31, 2018, the ratios were respected. In November 2018, a first one-year extension option was triggered.

Mitigating principles and actions

Given the Group's €5 billion of cash resources at December 31, 2018 and the amount of available credit facilities (a total of €1.8 billion), Air France - KLM considers that it incurs no short or medium-term liquidity risk. It does, however, closely monitor its financing capability and the structure of its traditionally-negative working capital, which thus makes a positive contribution to the Group's cash requirements.

1.5.6 Interest rate risk

Description of the risk

A portion of the overall debt is linked to floating rates and therefore incurs volatility risk.

After swaps, the Air France - KLM Group's fixed-rate debt exposure represents 72% of the overall total debt exposure. The interest rate on the Group's gross debt after swaps stood at 2.82% at December 31, 2018 (versus 3.09% at December 31, 2017).

Interest rate exposure

(in € million at December 31, 2018)

Financial assets at floating rates	1,247
Financial liabilities at floating rates	3,384
Net exposure before hedging	2,137
Hedging	(1,418)
Net exposure after hedging	719

The Group's net exposure to interest rates after hedging stands at €719 million. A 100-basis point increase in interest rates over twelve months would therefore have an €7 million negative impact on the results.

Mitigating principles and actions

The interest rate risk is limited by the fact that floating rate debt represents only a small proportion of the total debt. Air France and KLM respectively use interest rate swap hedging strategies through derivatives contracts to convert their floating-rate debt exposure into fixed rate exposure.

1.5.7 Equity risk exposure

Description of the risk

At December 31, 2018, Air France - KLM directly or indirectly held a portfolio of shares in listed companies worth €325 million, principally comprising 1.1% of the Amadeus share capital. In November 2018, to protect the value of the totality of these shares, Air France - KLM extended a hedging transaction in the form of a collar maturing in November 2019.

Mitigating principles and actions

Air France and KLM's cash resources are not directly invested in the equity market or in equity mutual funds.

1.5.8 Investment risks

Description of the risk

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.

Mitigating principles and actions

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.

2. Risks factors relating to the Notes

2.1 Risks for the Noteholders as creditors of the Issuer

2.1.1 Credit Risk

As contemplated in Condition 2 of the Terms and Conditions of the Notes, the obligations of the Issuer in respect of the Notes and any interest payable under the Notes constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer. However, Noteholders are exposed to the credit risk of the Issuer. Credit risk refers to the risk that the Issuer may be unable to meet its financial obligations under the Notes. If the creditworthiness of the Issuer deteriorates, and notwithstanding Condition 9 of the Terms and Conditions of the Notes which enables the investors to request the redemption of the Notes, it may not be able to fulfil all or part of its payment obligations under the Notes. In such a case, the value of the Notes may decrease, which could materially negatively impact the Noteholders and investors may lose all or part of their investment.

2.1.2 French insolvency law

As a *société anonyme* incorporated in France, French insolvency laws apply to the Issuer. Under French insolvency law, in the case of the opening in France of a preservation procedure (*procédure de sauvegarde*, *procédure de sauvegarde accélérée* or *procédure de sauvegarde financière accélérée*), a judicial reorganisation procedure (*procédure de redressement judiciaire*) or a judicial liquidation (*liquidation judiciaire*) of the Issuer, all creditors of the Issuer (including Noteholders through the Representative of the *Masse*) must file their proof of claims with the creditors' representative or liquidator, as the case may be, within two months (or within four months in the case of creditors domiciled outside metropolitan France) of the publication of the opening of the procedure against the Issuer in the BODACC (*Bulletin officiel des annonces civiles et commerciales*).

Under French insolvency law holders of debt securities issued by a French company (as the Issuer) are automatically grouped into a single assembly of holders (the "**Assembly**") in order to defend their common interests in case of the opening in France of an accelerated preservation (*procédure de sauvegarde accélérée*) or an accelerated financial preservation (*procédure de sauvegarde financière accélérée*) or a preservation (*procédure de sauvegarde*) or a judicial reorganisation procedure (*procédure de redressement judiciaire*) of the Issuer.

The Assembly comprises holders of all debt securities issued by the Issuer regardless of their governing law and will not be convened in accordance with Condition 11. The Assembly deliberates on the proposed preservation plan (*projet de plan de sauvegarde*), the proposed accelerated preservation plan (*projet de plan de sauvegarde accélérée*), accelerated financial preservation plan (*projet de plan de sauvegarde financière accélérée*) or judicial reorganisation plan (*projet de plan de redressement*) applicable to the Issuer and may notably agree to:

- increase the liabilities (*charges*) of holders of debt securities (including the Noteholders) by rescheduling due payments and/or partially or totally writing off receivables in form of debt securities;
- establish an unequal treatment between holders of debt securities (including the Noteholders) if the differences in situation so justify; and/or
- decide to convert debt securities into securities that give or may give right to share capital.

Decisions of the Assembly will be taken by a two-third majority (calculated as a proportion of the amount of debt securities held by the holders who voted during such Assembly; notwithstanding any clause to the contrary and the law governing the issuance agreement). No quorum is required for the Assembly to be validly held.

Stipulations relating to the representation of holders of the Notes provided in Condition 11 will not be applicable if they depart from any imperative provisions of French insolvency law that may be applicable.

The procedures, as described above or as they may be amended, could have an adverse impact on holders of the Notes seeking repayment in the event that the Issuer or its subsidiaries were to be subject to French insolvency proceedings.

The insolvency procedure in France is regulated by the provisions of the French *Code de commerce* as amended by ordinance n°2014-326 dated 12 March 2014 and these provisions govern the common rights, interests and representation of the Noteholders in this context. As a result, Noteholders should be aware that they will generally have limited ability to influence the outcome of an accelerated preservation (*procédure de sauvegarde accélérée*), an accelerated financial preservation (*procédure de sauvegarde financière accélérée*), a preservation (*procédure de sauvegarde*) or a judicial reorganisation procedure (*procédure de redressement judiciaire*) of the Issuer in France, especially given the current capital structure of the Issuer.

It should be noted that a new European directive entitled “Directive (EU) 2019/1023 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132” has been adopted by the European Union on 20 June 2019. Once transposed into French law (which is scheduled to happen by 17 July 2021 at the latest), such directive should have a material impact on French insolvency law, especially with regard to the process of adoption of restructuring plans under insolvency proceedings. According to this directive, “affected parties” (i.e., creditors, including the Noteholders) shall be treated in separate classes which reflect certain class formation criteria for the purpose of adopting a restructuring plan. Classes shall be formed in such a way that each class comprises claims or interests with rights that are sufficiently similar to justify considering the members of the class a homogenous group with commonality of interest. As a minimum, secured and unsecured claims shall be treated in separate classes for the purpose of adopting a restructuring plan. A restructuring plan shall be deemed to be adopted by affected parties, provided that a majority in the amount of their claims or interests is obtained in each and every class (the required majorities shall be laid down by Member States at not higher than 75% in the amount of claims or interests in each class, it being noted that Member States may require that in addition a majority in number of affected parties be obtained in each class). If the restructuring plan is not approved by each and every class of affected parties, the plan may however be confirmed by a judicial or administrative authority by applying a cross-class cram-down, provided notably that:

- the plan has been notified to all known creditors likely to be affected by it;
- the plan complies with the best interest of creditors test (i.e., no dissenting creditor would be worse off under the restructuring plan than they would be in the event of liquidation, whether piecemeal or sale as a going concern);
- any new financing is necessary to implement the restructuring plan and does not unfairly prejudice the interest of creditors;
- the plan has been approved by a majority of the voting classes of affected parties, provided that at least one of those classes is a secured creditors class or is senior to the ordinary unsecured creditors class; or, failing that, by at least one of the voting classes of affected parties or where so provided under national law, impaired parties, other than an equity-holders class or any other class which, upon a valuation of the debtor as a going-concern, would not receive any payment or keep any interest, or, where so provided under national law, which could be reasonably presumed not to receive any payment or keep any interest, if the normal ranking of liquidation priorities were applied under national law;
- the plan complies with the relative priority rule (i.e. dissenting voting classes of affected creditors are treated at least as favourably as any other class of the same rank and more favourably than any junior class). By way of derogation, Member States may instead provide that the plan shall comply with the absolute priority rule (i.e., a dissenting voting class of creditors must be satisfied in full before a more junior class may receive any distribution or keep any interest under the restructuring plan); and
- no class of affected parties can, under the restructuring, plan receive or keep more than the full amount of its claims or interests.

Therefore, when such directive is transposed into French law, it cannot be excluded that the Noteholders will no longer deliberate on the proposed restructuring plan in a separate assembly, meaning that they will no longer benefit from a specific veto power on this plan. Instead, as any other affected parties, the Noteholders will be grouped into one or several classes (with potentially other types of creditors) and their dissenting vote may possibly be overridden by a cross-class cram down.

The commencement of insolvency proceedings against the Issuer would have a material adverse effect on the market value of Notes issued by the Issuer. Any decisions taken by the Assembly or a class of creditor, as the case may be, could

substantially impact the Noteholders and even cause them to lose all or part of their investment, should they not be able to recover amounts due to them from the Issuer.

2.1.3 Structural subordination due to holding company status

The Issuer is a holding company with no material assets other than its shareholdings in its subsidiaries Société Air France (“SAF”) and Koninklijke Luchtvaart Maatschappij N.V. (“KLM”). Investors will not have any direct claims on the cash flows or the assets of the Issuer’s subsidiaries and such subsidiaries have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make funds available to the Issuer for these payments. Therefore, in the event the Issuer fails to comply with its obligations under the Notes, the investors will not be able to recover all or part of their investment from the Issuer’s subsidiaries.

Claims of the creditors of the Issuer’s subsidiaries have priority as to the assets of such subsidiaries over the claims of the Noteholders. Consequently, Noteholders are in effect structurally subordinated on insolvency to the prior claims of the creditors of the Issuer’s subsidiaries. Hence, the investors may not be able to recover all or part of their investment once the claims of the creditors of the Issuer’s subsidiaries have been served.

2.2 Risks relating to the trading markets of the Notes

2.2.1 Market value of the Notes

The market value of the Notes will be affected by the creditworthiness of the Issuer and a number of additional factors.

The value of the Notes depends on a number of interrelated factors, including economic, financial and political events in France or elsewhere, including factors affecting capital markets generally and the stock exchanges on which such Notes are traded. The price at which a holder of such Notes will be able to sell such Notes prior to maturity may be at a discount, which could be substantial, from the issue price or the purchase price paid by such purchaser, which could materially negatively impact the Noteholders. Accordingly, all or part of the capital invested by the Noteholder may be lost upon any transfer of the Notes, so that the Noteholder in such case would receive significantly less than the total amount of capital invested.

2.2.2 The secondary market for the Notes

Application has been made to Euronext Paris for the Notes to be admitted to trading on Euronext Paris as from the Issue Date. An established trading market in the Notes may never develop or if a secondary market does develop, it may be illiquid. Although the Notes are expected to be admitted to trading on Euronext Paris as from the Issue Date, there is no assurance that the Notes will be so admitted or that an active market will develop. The absence of liquidity may have a significant material adverse effect on the value of the Notes.

The development or continued liquidity of any secondary market for the Notes will be affected by a number of factors such as general economic conditions, the financial condition, the creditworthiness of the Issuer and/or the Group, the outstanding amount of the Notes, any redemption features of the Notes as specified in Condition 5 of the Terms and Conditions of the Notes and the level, direction and volatility of interest rates generally. Such factors also will affect substantially the market value of the Notes.

The yield of the Notes as at the Issue Date is 2.00 per cent. per annum. However, investors may not be able to sell their Notes in the secondary market (in which case the market or trading price and liquidity may be adversely affected) or may not be able to sell their Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Hence, the investors may receive a lower yield than anticipated at the time of the issue.

2.2.3 Interest rate risks

The Notes bear interest on their outstanding principal amount from time to time at the rate of 1.875 per cent. *per annum*, payable annually in arrear on 16 January in each year and commencing on 16 January 2021, in accordance with Condition 4. Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value and the yield of the Notes and Noteholders may receive lower return on the Notes than anticipated at the time of the issue.

While the nominal interest rate of a fixed interest rate note is fixed during the life of such a note or during a certain period of time, the current interest rate on the capital market (market interest rate) typically changes on a daily basis. As the market interest rate changes, the price of such note changes in the opposite direction. If the market interest rate increases, the price of such note typically falls, until the yield of such note is approximately equal to the market interest rate. If the market interest rate decreases, the price of a fixed rate note typically increases, until the yield of such note is approximately equal to the market interest rate. Noteholders should be aware that movements of the market interest rate

can adversely affect the price of the Notes and can lead to losses for the Noteholders if they sell Notes during the period in which the market interest rate exceeds the fixed rate of the Notes.

2.3 Risks relating to the structure of the Notes

2.3.1 Limited restrictive covenants

The Notes do not restrict the Issuer from incurring additional debt. As contemplated in Condition 3, the Terms and Conditions of the Notes contain a negative pledge that prohibits the Issuer in certain circumstances from creating security over assets, but only to the extent that such is used to secure other notes or similar listed or quoted debt instruments, and there are certain exceptions to the negative pledge. The Terms and Conditions of the Notes do not contain any other covenants restricting the operations of the Issuer, or its ability to distribute dividends or buy back shares. These limited restricted covenants may not provide sufficient protection for investors in the Notes which could materially and negatively impact the Noteholders and increase the risk of losing all or part of their investment in the Notes.

2.3.2 The Notes may be redeemed by the Issuer prior to maturity

The Notes may at the option of the Issuer, and shall in certain circumstances, be redeemed, in whole but not in part, at their principal amount together with accrued interest for certain tax reasons (see “Terms and Conditions of the Notes – Redemption and Purchase”). In such circumstances, any early redemption of the Notes may result, for the Noteholders, in a yield that is considerably lower than anticipated. An investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate.

In addition, the Issuer may, at its option (i) from and including the date falling three (3) months before the Maturity Date to but excluding the Maturity Date, redeem the Notes outstanding, in whole or in part, at par plus accrued interest, as provided in Condition 5(c) (Pre-Maturity Call Option); (ii) redeem the Notes, in whole or in part, at any time, prior to the first day of the pre-maturity call option period, at the relevant make-whole redemption amount, as provided in Condition 5(d) (Make-Whole Redemption by the Issuer) and (iii) redeem all but not some only of the outstanding Notes in the event that seventy-five (75) per cent. or more of the initial aggregate nominal amount of the Notes have been redeemed and cancelled, as provided in Condition 5(e) (Clean-Up Call Option). Accordingly, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Potential investors should consider reinvestment risk in light of other investments available at that time.

In particular, with respect to the Clean-Up Call Option at the option of the Issuer provided in Condition 5(e), there is no obligation under the Terms and Conditions of the Notes for the Issuer to inform investors if and when the threshold of 75% of the initial aggregate nominal amount of the Notes has been reached or is about to be reached, and the Issuer’s right to redeem will exist notwithstanding that immediately prior to the serving of a notice in respect of the exercise of the Clean-Up Call Option, the Notes may have been trading significantly above par, thus potentially resulting in a loss of capital invested.

In the event of a Change of Control of the Issuer or in the event that a person, other than an entity controlled directly or indirectly by the Issuer (within the meaning of Article L.233-3 of the French *Code de commerce*), came to hold (via purchase, subscription or any other means) (i) more than 50% of the share capital of Société Air France and/or the economic rights of KLM or (ii) more than 50% of the voting rights of Société Air France and/or KLM, each Noteholder will have the right at its sole option to request the Issuer to redeem all or part of its Notes at their principal amount together with any accrued interest (subject to certain conditions, all as more fully described in “Terms and Conditions of the Notes – Change of Control”). In such case, any trading market in respect of those Notes in respect of which such redemption right is not exercised may become illiquid. At the date of this Prospectus, the Issuer holds 100% of the share capital and voting rights of Société Air France and 99.70% of the dividend rights and 49% of the voting rights of KLM. In addition, investors may not be able to reinvest the moneys they receive upon such early redemption in securities with the same yield as the redeemed Notes.

Furthermore, the Issuer may be unable to redeem the Notes at the Maturity Date. The Issuer could also be compelled to redeem the Notes if an event of default, Change of Control or Share Transfer (as defined in “Terms and Conditions of the Notes – Change of Control”) were to occur. If the Noteholders, upon an event of default, a Change of Control or a Share Transfer, were to require from the Issuer the redemption of their Notes, the Issuer cannot guarantee that it will be able to pay the whole required amount. The Issuer’s capacity to redeem the Notes will in particular depend on its financial situation at the time of the redemption and may be limited by any applicable legislation, by the conditions of its indebtedness and also by any new financings in place at that date and which shall replace, add or modify the existing or future debt of the Issuer. Furthermore, the Issuer’s failure to redeem the Notes may result in an event of default pursuant to the terms and conditions of another loan.

In addition, in case of partial redemption of Notes by the Issuer or the Noteholders, any trading market in respect of those Notes that have not been so redeemed may become illiquid.

All of the above may reduce the profits potential investors in the Notes may have expected in subscribing the Notes and could negatively impact the Noteholders.

2.3.3 Modification of the Terms and Conditions of the Notes

Condition 11 of the Terms and Conditions of the Notes contains provisions for calling meetings of Noteholders or taking written decisions to consider matters affecting the Noteholders' interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting, and Noteholders who voted in a manner contrary to the majority, Noteholders may through Collective Decisions (as such term is defined in Condition 11 of the Terms and Conditions of the Notes) adopt any proposal relating to the modification of the Terms and Conditions of the Notes including any proposal, whether for arbitration or settlement, relating to rights in controversy or which were the subject of judicial decisions, as more fully described in Condition 11 of the Terms and Conditions. This may have a negative impact on the market value of the Notes and hence investors may lose part of their investment.

2.3.4 Exercise of the Make-Whole Redemption and the Pre-Maturity Call Option by the Issuer in respect of the Notes may affect the liquidity of the Notes in respect of which such option is not exercised

Both the Pre-Maturity Call Option by the Issuer provided in Condition 5(c) of the Terms and Conditions of the Notes and the Make Whole Redemption by the Issuer provided in Condition 5(d) of the Terms and Conditions of the Notes are exercisable in whole or in part. If the Issuer decides to redeem the Notes in part, such partial redemption shall be effected by reducing the nominal amount of all Notes in proportion to the aggregate principal amount redeemed. Depending on the number of Notes in respect of which such option is exercised, any trading market in respect of the remaining Notes for which such option is not exercised may become illiquid. As a result, investors in the Notes may not be able to sell their Notes on the market without incurring a significant discount from the nominal value of the Notes and may have to wait until the Maturity Date to obtain redemption of their investments in the Notes, which may have a negative impact on the Noteholders and reduce the profits anticipated by the investors at the time of the issue.

2.3.5 Exercise of put option or notice of event of default in respect of certain Notes may affect the liquidity of the Notes in respect of which such put option is not exercised or a notice of event of default is not given

Depending on the number of Notes in respect of which the put option provided in Condition 8 (Change of Control) of the Terms and Conditions of the Notes is exercised or in respect of which notice of an event of default is given as provided in Condition 9 (Events of Default) of the Terms and Conditions of the Notes, any trading market in respect of those Notes in respect of which such put option is not exercised may become illiquid. Therefore, investors in the Notes not having exercised their put option or not having given their notice of event of default may not be able to sell their Notes on the market and may have to wait until the Maturity Date to obtain redemption of their investments in the Notes, which may have a negative impact on the Noteholders and reduce the profits anticipated by the investors at the time of the issue.

2.3.6 Purchases by the Issuer in the open market or otherwise (including by way of a tender offer) in respect of certain Notes may affect the liquidity of the Notes which have not been so purchased

Depending on the number of Notes purchased by the Issuer as provided in Condition 5(f) (Purchase) of the Terms and Conditions of the Notes, any trading market in respect of those Notes that have not been so purchased may become illiquid. Therefore, investors in the Notes not having exercised their put options may not be able to sell their Notes on the market and may have to wait until the Maturity Date to obtain redemption of their investments in the Notes which may have a negative impact on the Noteholders and reduce the profits anticipated by the investors at the time of the issue.

TERMS AND CONDITIONS OF THE NOTES

The terms and conditions of the Notes (the “**Conditions**”) will be as follows:

The issue of the €750,000,000 1.875 per cent. Notes due 16 January 2025 (the “**Notes**”) by Air France-KLM (the “**Issuer**”) has been authorised pursuant to a resolution of the Board of Directors (*Conseil d’administration*) of the Issuer dated October 30, 2019 and a decision of its *Directeur Général Adjoint Finance* dated 10 January 2020. The Issuer has entered into (i) an agency agreement dated 14 January 2020 as amended and supplemented from time to time (the “**Fiscal Agency Agreement**”) with BNP Paribas Securities Services as fiscal agent, paying agent and put agent (the “**Fiscal Agent**”, the “**Paying Agent**” and the “**Put Agent**” which expressions shall, where the context so admits, include any successor for the time being as fiscal agent, paying agent or put agent, as the case may be) and (ii) a calculation agent letter dated 14 January 2020 (the “**Calculation Agent Letter**”) with Aether Financial Services as calculation agent (the “**Calculation Agent**” which expression shall, where the context so admits, include any successor for the time being as calculation agent). Copies of the Fiscal Agency Agreement and the Calculation Agent Letter are available for inspection during usual business hours at the specified office of the Fiscal Agent and at the registered office of the Issuer.

References below to “**Conditions**” are, unless the context otherwise requires, to the numbered paragraphs below. In these Conditions, “**holder of Notes**”, “**holder of any Note**” or “**Noteholder**” means the person whose name appears in the account of the relevant Account Holder as being entitled to such Notes.

1. Form, Denomination and Title

The Notes are issued in dematerialised bearer form (*au porteur*) in the denomination of €100,000 each. Title to the Notes will be evidenced in accordance with Articles L.211-3 *et seq.* and R.211-1 *et seq.* of the French *Code monétaire et financier* by book-entries (*inscription en compte*). No physical document of title (including *certificats représentatifs* pursuant to Article R.211-7 of the French *Code monétaire et financier*) will be issued in respect of the Notes.

The Notes will, upon issue, be inscribed in the books of Euroclear France, which shall credit the accounts of the Account Holders. For the purpose of these Conditions, “**Account Holders**” shall mean any authorised financial intermediary institution entitled to hold, directly or indirectly, accounts on behalf of its customers with Euroclear France, and includes Euroclear Bank SA/NV (“**Euroclear**”) and the depositary bank for Clearstream Banking S.A. (“**Clearstream**”).

Title to the Notes shall be evidenced by entries in the books of Account Holders and will pass upon, and transfer of Notes may only be effected through, registration of the transfer in such books.

2. Status of the Notes

The Notes and the interest thereon constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 below) unsecured obligations of the Issuer and rank and will rank at all times *pari passu* without any preference among themselves and (subject to such exceptions as are from time to time mandatory under French law) equally and rateably with any other unsubordinated and unsecured obligations, present or future, of the Issuer.

3. Negative Pledge

So long as any of the Notes remains outstanding (as defined below), the Issuer undertakes not to, and undertakes to ensure that none of its Principal Subsidiaries (as defined below), grant to holders of other present or future notes (*obligations*), any mortgage (*hypothèque*) over the Issuer’s or its Principal Subsidiaries’ present or future assets or real property interests, nor any pledge (*nantissement*) on all or part of the Issuer’s or its Principal Subsidiaries’ business (*fonds de commerce*), nor any other security (*sûreté réelle, gage* or *nantissement*) on its present or future assets or income, unless the Issuer’s obligations under the Notes are equally and rateably secured so as to rank *pari passu* with such other present or future notes (*obligations*) so secured. Such undertaking is given only in relation to security interests given for the benefit of holders of notes (*obligations*) and does not affect in any way the right of the Issuer to dispose of its assets or to grant any security in respect of such assets in any other circumstance.

For the purposes of these Conditions:

“**outstanding**” means in relation to the Notes, all the Notes issued other than (i) those which have been redeemed on their due date or otherwise in accordance with the Conditions, (ii) those in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest accrued on such Notes to the date for such redemption and any interest payable under Condition 4 after such date) have been duly paid to the Fiscal Agent, (iii) those which have become void or in respect of which

claims have become prescribed and (iv) those which have been purchased by the Issuer and that are held or that have been cancelled as provided in the Conditions.

“**Principal Subsidiary**” means at any time relevant:

- (a) Société Air France (“**SAF**”); or
- (b) Koninklijke Luchtvaart Maatschappij N.V. (“**KLM**”); or
- (c) any Subsidiary of the Issuer (other than SAF and KLM) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

“**Subsidiary**” means in relation to any person or entity at any time, a subsidiary as defined in Article L.233-1 of the French *Code de commerce* or any other person or entity controlled directly or indirectly by such person or entity within the meaning of Article L.233-3 I.1 and I.2 of the French *Code de commerce*.

4. Interest

(a) **Interest Payment Dates**

The Notes bear interest from, and including, 16 January 2020 (the “**Issue Date**”) to but excluding 16 January 2025 at the rate of 1.875 per cent. *per annum* payable annually in arrear on 16 January in each year (each an “**Interest Payment Date**”), and for the first time on 16 January 2021

(b) **Interest Payments**

Each Note will cease to bear interest from the due date for redemption, unless payment of principal is improperly withheld or refused on such date. In such event, interest on such Note shall continue to accrue at such rate until, and including, whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (ii) the day of receipt by or on behalf of Euroclear France of all sums due in respect of all the Notes.

Interest shall be calculated on an Actual/Actual – ICMA basis, as follows:

- (i) if the Accrual Period is equal to or shorter than the Determination Period during which it falls, the Actual/Actual-ICMA basis will be the number of days in the Accrual Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (ii) if the Accrual Period is longer than one Determination Period, the Actual/Actual- ICMA basis will be the sum of:
 - (a) the number of days in such Accrual Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (b) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where

“**Accrual Period**” means the relevant period for which interest is to be calculated (from and including the first such day to but excluding the last); and

“**Determination Period**” means the period from, and including, the Issue Date to, but excluding, the first Interest Payment Date and each successive period from, and including, an Interest Payment Date to, but excluding, the next succeeding Interest Payment Date.

5. Redemption and Purchase

The Notes may not be redeemed otherwise than in accordance with this Condition and with Conditions 8 and 9.

(a) ***Final Redemption***

Unless previously redeemed or purchased and cancelled as provided below, the Notes will be redeemed by the Issuer at their principal amount on 16 January 2025 (the “**Maturity Date**”).

(b) ***Redemption for Taxation Reasons***

- (i) If, by reason of a change in any law or regulation of the Republic of France or any political subdivision or authority therein or thereof having power to tax, or any change in the official application or interpretation of such law or regulation (including a holding by a competent court), becoming effective on or after the Issue Date, the Issuer would, on the occasion of the next payment of principal or interest due in respect of the Notes, not be able to make such payment without having to pay additional amounts as specified in Condition 7, the Issuer may, at its sole discretion, at any time, subject to having given not more than sixty (60) nor less than thirty (30) days’ prior notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all, but not some only, of the Notes at their principal amount, together with all interest accrued to the date set for redemption, provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the latest practicable date on which the Issuer could make payment of principal or interest without withholding for French taxes.
- (ii) If the Issuer would on the next payment of principal or interest in respect of the Notes be prevented by French law from making payment to the Noteholders of the full amount then due and payable, notwithstanding the undertaking to pay additional amounts contained in Condition 7, then the Issuer shall forthwith give notice of such fact to the Fiscal Agent and the Issuer shall, subject to having given not less than seven (7) calendar days’ prior notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all, but not some only, of the Notes at their principal amount, together with all interest accrued to the date fixed for redemption of which notice hereunder may be given, provided that the due date for redemption shall be no earlier than the latest practicable date on which the Issuer could make payment of the full amount of principal or interest payable in respect of the Notes or, if such date has passed, as soon as practicable thereafter.

(c) ***Pre-Maturity Call Option***

The Issuer may, at its option, from and including the date falling three (3) months before the Maturity Date to but excluding the Maturity Date, subject to having given not more than thirty (30) nor less than fifteen (15) calendar days’ prior notice to the Noteholders in accordance with Condition 12 (Notices) (which notice shall be irrevocable), redeem the outstanding Notes, in whole or in part, at their principal amount together with all interest accrued up to but excluding the date set for redemption.

(d) ***Make-Whole Redemption by the Issuer***

The Issuer will, subject to compliance by the Issuer with all relevant laws, regulations and directives and subject to having given not more than thirty (30) nor less than fifteen (15) calendar days’ prior notice to the Noteholders in accordance with Condition 12 (Notices) (which notice shall be irrevocable), have the option to redeem the Notes, in whole or in part, at any time prior to the first day of the pre-maturity call option period (the “**Optional Make-Whole Redemption Date**”) at their Optional Redemption Amount (as defined below) together with any accrued and unpaid interest up to, but excluding, the Optional Make-Whole Redemption Date.

The “**Optional Redemption Amount**” will be calculated by the Calculation Agent and will be an amount in Euro rounded to the nearest cent (half a cent being rounded upwards) being the greater of (x) 100 per cent. of the outstanding principal amount of the Notes so redeemed and (y) the sum of the then present values on the relevant Optional Make-Whole Redemption Date of (i) the outstanding principal amount of each Note and (ii) the remaining scheduled payments of interest on such Note for the remaining term of such Note until the first day of the pre-maturity call option period (determined on the basis of the interest rate applicable to such Note from the relevant Optional Make-Whole Redemption Date (excluding any interest accruing on such Note to, but excluding, such Optional Make-Whole Redemption Date)), discounted to the relevant Optional Make-Whole Redemption Date on an annual basis at the Early Redemption Rate (as defined below) plus the Early Redemption Margin (as defined below).

The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent shall (in the absence of wilful default, bad faith

or manifest error) be final and binding upon all parties. The Calculation Agent shall act as an independent expert and not as agent of the Issuer or the Noteholders.

For this purpose of this Condition 5(d) (*Make-Whole Redemption by the Issuer*):

“**Business Day**” means a day, not being a Saturday or a Sunday, on which (i) Euroclear France, Euroclear and Clearstream are open for business, (ii) commercial banks and foreign exchange markets are open for business in Paris, and (iii) on which the TARGET System is operating, and “**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System or any successor thereto.

“**Early Redemption Margin**” means 0.40 per cent. *per annum*.

“**Early Redemption Rate**” means the rate *per annum* equal to the average of the four (4) quotations given by the Reference Dealers of the mid-market annual yield to maturity of the Reference Benchmark Security on the fourth Business Day in Paris preceding the relevant Optional Make-Whole Redemption Date at 11.00 a.m. (Central European time (CET)).

If the Reference Benchmark Security is no longer outstanding, a Similar Security will be chosen by the Calculation Agent after prior consultation with the Issuer if practicable under the circumstances, at 11.00 a.m. (Central European time (CET)) on the third Business Day in Paris preceding the Optional Make-Whole Redemption Date, quoted in writing by the Calculation Agent to the Issuer.

“**Reference Benchmark Security**” means the German government bond bearing interest at a rate of 0 per cent. *per annum* and maturing in 2024 with ISIN DE0001141802.

“**Reference Dealers**” means each of the four banks (that may include the Joint Bookrunners), selected by the Calculation Agent which are primary European government security dealers, and their respective successors, or market makers in pricing corporate bond issues.

“**Similar Security**” means a reference bond or reference bonds issued by the German government having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

For the purposes of Conditions 5(c) and 5(d), in the case of a partial redemption, the redemption may be effected by reducing the nominal amount of all such Notes in proportion to the aggregate nominal amount redeemed, subject to compliance with any applicable laws and regulated market or stock exchange requirements.

So long as the Notes are admitted to trading on Euronext Paris and the rules of that stock exchange so require, the Issuer shall, each year in which there has been a partial redemption of the Notes, cause to be published in accordance with Articles 221-3 and 221-4 of the General Regulations (*Règlement Général*) of the French *Autorité des marchés financiers*, a notice specifying the aggregate nominal amount of Notes outstanding.

(e) ***Clean-Up Call Option***

In the event that seventy-five (75) per cent. or more of the initial aggregate nominal amount of the Notes (including any further notes to be consolidated and form a single series with the Notes pursuant to Condition 13) have been redeemed, other than by way of a redemption at the option of the Issuer in accordance with Condition 5(d) (*Make-Whole Redemption by the Issuer*), or purchased (and subsequently cancelled), the Issuer may, at its option, subject to having given not more than forty-five (45) nor less than fifteen (15) calendar days' prior notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem the outstanding Notes, in whole but not in part, at their principal amount plus accrued interest up to but excluding the date fixed for redemption.

(f) ***Purchase***

The Issuer may at any time purchase Notes in the open market or otherwise, without any limitation as to price and quantity, (including by way of tender or exchange offer) at any price and on any condition. Notes so purchased by the Issuer may be cancelled or held and resold in accordance with applicable laws and regulations.

(g) ***Cancellation***

All Notes which are purchased for cancellation by, or on behalf of, the Issuer pursuant to this Condition 5 or redeemed by the Issuer pursuant to Conditions 8 and 9 shall be immediately cancelled (together with rights to interest any other amounts relating thereto) by transfer to an account in accordance with the rules and procedures of Euroclear France and may not be re-issued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

6. **Payments**

(a) ***Method of Payment***

Payments of principal, interest and other amounts in respect of the Notes will be made in euro, by credit or transfer to an account denominated in euro (or any other account to which euro may be credited or transferred) specified by the payee with a bank in a city in which banks use the TARGET System (as defined in Condition 5(d) (*Make-Whole Redemption by the Issuer*) above). Such payments shall be made for the benefit of the Noteholders to the Account Holders and all payments validly made to such Account Holders in favour of Noteholders will be an effective discharge of the Issuer and the Paying Agent, as the case may be, in respect of such payments.

Payments of principal, interest and other amounts in respect of the Notes will be made subject to any fiscal or other laws and regulations or orders of courts of competent jurisdiction applicable thereto, but without prejudice to the provisions described in Condition 7. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(b) ***Payments on Business Days***

If the due date for payment of any amount of principal or interest in respect of any Note is not a Business Day (as defined in Condition 5(d) (*Make-Whole Redemption by the Issuer*) above), payment shall not be made of the amount due and credit or transfer instructions shall not be given in respect thereof until the next following Business Day and the relevant Noteholder shall not be entitled to any interest or other sums in respect of such postponed payment.

(c) ***Fiscal Agent, Paying Agent, Calculation Agent and Put Agent***

The name and specified offices of the initial Fiscal Agent, initial Put Agent and other initial Paying Agent are as follows:

FISCAL AGENT, PAYING AGENT AND PUT AGENT

BNP Paribas Securities Services
3, 5, 7, rue du Général Compans
93500 Pantin
France

The name and specified office of the initial Calculation Agent is as follows:

CALCULATION AGENT

Aether Financial Services
36, rue de Monceau
75008 Paris
France

The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the Put Agent, the Calculation Agent or any Paying Agent and/or appoint a substitute Fiscal Agent, Calculation Agent or Put Agent and additional or other Paying Agents or approve any change in the office through which the Fiscal Agent, the Put Agent, the Calculation Agent or any Paying Agent acts, provided that, so long as any Note is outstanding, there will at all times be (i) a Fiscal Agent having a specified office in a major European city, (ii) so long as the Notes are admitted to trading on Euronext Paris and the rules applicable to such stock exchange so require, at least one Paying Agent having a specified office in a European city and ensuring financial services in the Republic of France (which may be the Fiscal Agent) and (iii) a Calculation Agent.

Such appointment or termination shall be notified to the Noteholders in accordance with Condition 12.

7. Taxation

(a) *Withholding Tax*

All payments of principal, interest and other assimilated revenues by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes or duties of whatever nature imposed, levied or collected by or on behalf of France or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

(b) *Additional Amounts*

If any French law or regulation should require that any payment of principal, interest and other assimilated revenues in respect of the Notes be subject to deduction or withholding with respect to any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of the Republic of France or any political subdivision or authority therein or thereof having power to tax, the Issuer will, to the fullest extent then permitted by law, pay such additional amounts as may be necessary in order that the Noteholders, after such deduction or withholding, receive the full amount provided in such Notes to be then due and payable; provided, however, that the Issuer shall not be liable to pay any such additional amounts in respect of any Note to a holder (or beneficial owner (*ayant droit*)) who would not be liable or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority or who is subject to such taxes, duties, assessments or other governmental charges, in respect of such Note by reason of his having some connection with the Republic of France other than the mere holding of such Note.

Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 7.

8. Change of Control

In the event of a Change of Control, as defined below, or in the event that a person, other than an entity controlled directly or indirectly by the Issuer (within the meaning of Article L.233-3 of the French *Code de commerce*), came to hold (via purchase, subscription or any other means) (i) more than 50% of the share capital of Société Air France and/or the economic rights of KLM or (ii) more than 50% of the voting rights of Société Air France and/or KLM (a “**Share Transfer**”), each Noteholder may at its sole option require the early redemption of all or part of its Notes, subject to the conditions set out below.

The Notes will be redeemed at their principal amount plus interest accrued since the last Interest Payment Date (or, as the case may be, since the Issue Date).

In the event of a Change of Control or Share Transfer, the Issuer will inform the Noteholders, no later than thirty (30) calendar days following the effective Change of Control or Share Transfer, by means of a notice in accordance with Condition 12. This notice will remind Noteholders that they are entitled to require the early redemption of all or part of their Notes and will indicate (i) the date which has been set for the early redemption, such date should fall between the twenty-fifth (25th) and the thirtieth (30th) Business Day following the date of the publication of the notice, (ii) the redemption amount and (iii) the period of at least fifteen (15) Business Days, during which early redemption requests and the corresponding Notes should be transmitted to the Put Agent.

The Noteholders seeking early redemption of their Notes must make such request to the financial intermediary through whose books the Notes are held. Once received by the financial intermediary through whose books the Notes are held, the request for early redemption will be irrevocable.

Redemption requests and the corresponding Notes shall be submitted to the Put Agent between the twentieth (20th) and the fifth (5th) Business Day before the early redemption date.

A form of redemption request will be obtainable from the specified office of any Paying Agent.

The date of the early redemption request shall correspond to the Business Day during the course of which the last of conditions (1) and (2) below is met, at the latest at 5 p.m. Paris time or the next following Business Day if such condition is met after 5 p.m. Paris time:

- (1) the Put Agent would have received the early redemption request from the financial intermediary through whose books the Notes are held;

- (2) the Notes would have been transferred to the Put Agent by the relevant financial intermediary.

For the purposes of this Condition 8, “**Change of Control**” means, for one or more individuals or entities acting alone or in concert, acquiring the control of the Issuer, being specified that “**control**” means, for the purpose of the present definition, the holding (directly or indirectly via entities controlled by the relevant person(s)) of (x) the majority of the voting rights of the shares of the Issuer or (y) more than 40% of such voting rights if no other shareholder of the Issuer, acting alone or in concert, holds (directly or indirectly via entities controlled by such shareholder(s)) a percentage of voting rights in excess of the above stake.

9. Events of Default

Any Noteholder may, upon written notice given by registered letter with acknowledgment of receipt to the Issuer (copy to the Fiscal Agent) before all defaults shall have been cured, cause all, but not some only, of its Notes to become immediately due and payable, at their principal amount together with any accrued interest thereon until their actual redemption date, upon the occurrence of any of the following events:

- (a) the Issuer fails to make payment of any sum due in respect of the Notes and if the Issuer does not remedy such default within fifteen (15) calendar days from such due date; or
- (b) the Issuer breaches any of the other provisions relating to the Notes, as the case may be, and does not remedy such breach within thirty (30) calendar days from the date the Issuer receives written notice of such breach from the Representative; or
- (c) a payment default by the Issuer and/or any of its Principal Subsidiaries occurs in relation to any payment of any other borrowed money or loans guaranteed by the Issuer and/or any of its Principal Subsidiaries for an amount equal to or in excess of €125 million, or its equivalent in any other currency, on their due date, or on such date as may have been extended by any applicable grace period, unless the Issuer and/or its relevant Principal Subsidiary challenges such default in good faith before a competent court, in which case an early redemption of the Notes will be mandatory only if the court has decided on the merits of the case (*statué au fond*); or
- (d) judgment is rendered ordering the liquidation or transfer of the entirety of the assets of the Issuer or any of its Principal Subsidiaries, or any equivalent procedure; if the Issuer or any of its Principal Subsidiaries is subject to a conciliation procedure (*procédure de conciliation*) as provided under Articles L.611-4 *et seq.* of the French *Code de commerce*, or any equivalent procedure, are in a state of suspension of payments (*cessation de paiements*) or any similar state, or subject to judicial liquidation proceedings (*procédure de liquidation judiciaire*) or any equivalent procedure.

10. Prescription

Claims against the Issuer for the payment of principal and interest in respect of the Notes shall become prescribed 10 years (in the case of principal) and 5 years (in the case of interest) from the due date for payment thereof.

11. Representation of the Noteholders

The Noteholders will be grouped automatically for the defence of their common interests in a *masse* (hereinafter referred to as the “**Masse**”).

The *Masse* will be governed by the provisions of the French *Code de commerce* with the exception of Articles L.228-48, L.228-59, L.228-65 I 1°, L.228-65 II, L.228-71, R.228-67, R.228-69, R.228-72 and R.228-79 thereof, and by the conditions set out below, provided that notices calling a general meeting of the Noteholders (a “**General Meeting**”) and the resolutions passed at any General Meeting or by a Written Decision (as defined below) and any other decision to be published pursuant to French legal and regulatory provisions will be published only as provided under Condition 12 below.

The *Masse* alone, to the exclusion of all individual Noteholders, shall exercise the common rights, actions and benefits which may accrue with respect to the Notes, without prejudice to the rights that Noteholders may exercise individually in accordance with, and subject to, the provisions of the terms and conditions of the Notes.

The *Masse* will be a separate legal entity and will act in part through a representative (the “**Representative**”) and in part through collective decisions of the Noteholders (the “**Collective Decisions**”).

11.1 Representative

The office of Representative may be conferred on a person of any nationality. However, the following persons may not be chosen as Representative:

- the Issuer, the members of its Board of Directors (*Conseil d'administration*), its general managers (*directeurs généraux*), its statutory auditors, or its employees as well as their ascendants, descendants and spouse; or
- companies guaranteeing all or part of the obligations of the Issuer, their respective managers (*gérants*), general managers (*directeurs généraux*), members of their Board of Directors (*Conseil d'administration*), Management Board (*Directoire*) or Supervisory Board (*Conseil de surveillance*), their statutory auditors, or employees as well as their ascendants, descendants and spouse; or
- companies holding 10 per cent. or more of the share capital of the Issuer or companies having 10 per cent. or more of their share capital held by the Issuer; or
- persons to whom the practice of banker is forbidden or who have been deprived of the right of directing, administering or managing a company in whatever capacity.

The initial Representative shall be:

Aether Financial Services

36, rue de Monceau

75008 Paris

France

agency@aetherfs.com

The Issuer shall pay to the Representative an amount equal to 1,500 euros (excluding VAT) due and payable on the Issue Date. No additional remuneration is payable in relation to any subsequent issue pursuant to Condition 13.

In the event of death, liquidation, dissolution, incompatibility, resignation or revocation of the Representative, a replacement will be elected by the General Meeting.

All Noteholders may at all times obtain the names and addresses of the Representative at the principal office of the Issuer and the specified office of any of the Paying Agents.

The Representative shall (in the absence of any decision to the contrary of the General Meeting) have the power to take all acts of management necessary in order to defend the common interests of the Noteholders.

All legal proceedings against the Noteholders or initiated by them, must be brought by or against the Representative and any legal proceedings which shall not be brought in accordance with this provision shall not be legally valid.

The Representative may not interfere in the management of the affairs of the Issuer.

11.2 Collective Decisions

Collective Decisions are adopted either in a General Meeting or by Written Decision (as such term is defined below).

In accordance with Article R.228-71 of the French *Code de commerce*, the right of each Noteholder to participate in Collective Decisions will be evidenced by the entries in the books of the relevant Account Holder of the name of such Noteholder as of 0:00, Paris time, on the second (2nd) Business Day preceding the date set for the relevant Collective Decision.

The Issuer shall hold a register of the Collective Decisions and shall make it available, upon request, to any Noteholder.

(a) General Meeting

A General Meeting may be held at any time, on convocation either by the Issuer or by the Representative. One or more Noteholders, holding together at least one-thirtieth of the principal amount of the Notes outstanding, may address to the Issuer and the Representative a demand for convocation of the General Meeting, together with the proposed agenda for such General Meeting. If such General Meeting has not been convened within two

months after such demand, the Noteholders may commission one of their members to petition a competent court in Paris to appoint an agent (*mandataire*) who will call the General Meeting.

In accordance with the provisions of Articles L.228-51 of the French *Code de commerce*, notice of the date, time, place, agenda and required quorum of any General Meeting will be published in accordance with Condition 12, not less than fifteen (15) calendar days prior to the date of the general meeting on first convocation and not less than six (6) calendar days prior to the date of the General Meeting on second convocation.

General Meetings may deliberate validly on first convocation only if the Noteholders present or represented hold at least one-fifth (1/5) of the principal amount of the Notes then outstanding. On second convocation, no quorum shall be required. The decisions of the General Meeting shall be taken by a simple majority of votes cast by the Noteholders attending such General Meeting or represented thereat.

In accordance with Article L.228-61 of the French *Code de commerce*, each Noteholder has the right to participate in General Meetings in person, by proxy, by correspondence, by videoconference, or by any other means of telecommunication allowing the identification of participating Noteholders.

Each Noteholder or representative thereof will have the right to consult or make a copy of the text of the resolutions which will be proposed and of the reports, if any, which will be presented at the General Meeting, all of which will be available for inspection by the relevant Noteholders at the registered office of the Issuer and at any other place specified in the notice of the General Meeting, during the ten (10) calendar day period preceding the holding of the General Meeting on first convocation, or during the five (5) calendar day period preceding the holding of the General Meeting on second convocation.

The General Meeting is empowered to deliberate on the dismissal and replacement of the Representative and also may act with respect to any other matter that relates to the common rights, actions and benefits of the Noteholders which now or in the future may accrue, including authorizing the Representative to act at law as plaintiff or defendant in the name and on behalf of the Noteholders.

The General Meeting may further deliberate on any proposal relating to the modification of the Conditions including any proposal, whether for arbitration or settlement, relating to rights in controversy or which were the subject of judicial decisions, it being specified, however, that the General Meeting may not increase the liabilities (*charges*) to Noteholders, nor establish any unequal treatment between the Noteholders, nor to decide to convert the Notes into shares.

(b) Written Decision

In accordance with Article L.228-46-1 of the French *Code de commerce*, Collective Decisions may also be taken by a Written Decision, at the initiative of the Issuer or the Representative.

Such Written Decision shall be signed by or on behalf of all the Noteholders without having to comply with formalities and time limits referred to above. Any Written Decision shall, for all purposes, have the same effect as a resolution passed at a General Meeting of such Noteholders. Subject to the following sentence, a Written Decision may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of such Noteholders. Approval of a Written Decision may also be given by way of electronic communication allowing the identification of Noteholders (“**Electronic Consent**”).

Notice seeking the approval of a Written Decision (including by way of Electronic Consent) will be published as provided under Condition 12 not less than 15 days prior to the date fixed for the passing of such Written Decision (the “**Written Decision Date**”). Notices seeking the approval of a Written Decision will contain the conditions of form and time-limits to be complied with by the Noteholders who wish to express their approval or rejection of such proposed Written Decision. Noteholders expressing their approval or rejection before the Written Decision Date will undertake not to dispose of their Notes until after the Written Decision Date.

For the purpose hereof, a Written Decision means a resolution in writing signed by or approved by or on behalf of the holders of not less than seventy five 75 per cent. in nominal amount of the Notes outstanding. References to a Written Decision include, unless the context otherwise requires, a resolution approved by Electronic Consent.

(c) Effect of resolutions

A resolution passed at a General Meeting, and a Written Decision or an Electronic Consent, shall be binding on all Noteholders, whether or not present at the General Meeting and whether or not, in the case of a Written

Decision or an Electronic Consent, they have participated in such Written Decision or Electronic Consent and each of them shall be bound to give effect to the resolution accordingly.

(d) Notices of decisions

Decisions of the meetings shall be published in accordance with the provisions set out in Condition 12 not more than 90 calendar days from the date thereof. The decisions referred to in Articles R.228-61 and R.236-11 of the French *Code de commerce* will be published, to the extent permitted by such Articles, in accordance with Condition 12.

(e) Sole Noteholder

If and for so long as the Notes are held by a sole Noteholder and unless a Representative has been appointed, such Noteholder shall exercise all powers, rights and obligations entrusted to the Masse by the provisions of the French *Code de commerce*. The Issuer shall hold a register of the decisions taken by the sole Noteholder in this capacity and shall make it available, upon request, to any subsequent holder of any of the Notes.

12. Notices

Any notice to the Noteholders will be valid if delivered to Euroclear France, Euroclear or Clearstream for so long as the Notes are cleared through such clearing systems and published on the website of the Issuer (www.airfranceklm.com), provided that, so long as the Notes are admitted to trading on Euronext Paris and the rules applicable to that stock exchange so require, such notice shall also be published in a leading daily newspaper having general circulation in the Republic of France (which is expected to be *Les Echos* or such other newspaper as the Fiscal Agent shall deem necessary to give fair and reasonable notice to the Noteholders) or on the website of Euronext Paris (www.euronext.com).

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

13. Further Issues and Assimilation

The Issuer may from time to time without the consent of the Noteholders issue further notes to be assimilated (*assimilables*) with the Notes as regards their financial service, provided that such further notes and the Notes shall carry rights identical in all respects (or in all respects save for the issue price, the amount and date of the first payment of interest thereon) and that the terms of such further notes shall provide for such assimilation.

In the event of such an assimilation, the Noteholders and the holders of such further notes will be grouped together in a single *Masse* for the defence of their common interests. References in these Conditions to the Notes include any other notes issued pursuant to this Condition and assimilated with the Notes.

14. Governing Law and Jurisdiction

(a) Governing Law

The Notes and all matters arising from or connected with the Notes are governed by, and shall be construed in accordance with, the laws of the Republic of France.

(b) Jurisdiction

Any legal action or proceeding arising out of or in connection with the Notes will be irrevocably submitted to the exclusive jurisdiction of the competent courts of the Issuer's head office.

USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The estimated net proceeds of the issue of the Notes will amount to €742,207,500 and be used to refinance part of the existing debt of the Issuer by purchasing all or part of the existing €400,000,000 3.750 per cent. Notes due 12 October 2022 (of which €400,000,000 are outstanding prior to any such purchase) (ISIN: FR0013212958), €600,000,000 3.875 per cent. Notes due 18 June 2021 (of which €600,000,000 are outstanding prior to any such purchase) (ISIN: FR0011965177) and €600,000,000 6.250 per cent. Notes with a perpetual maturity and a first call date on 1st October 2020 (of which €403,300,000 are outstanding prior to any such purchase) (ISIN: FR0012650281) (together, the “**Existing Notes**”). The 2021 Notes and the 2022 Notes will be purchased in priority to the 2020 Notes. The part of the net proceeds of the issue of the Notes not used for purchasing such Existing Notes will be used for general corporate purposes.

RECENT DEVELOPMENTS

On 11 December 2019, the Issuer published the following press release:

Roissy, Amstelveen, December 11, 2019

Air France-KLM accelerates its fleet renewal and orders an additional 10 Airbus A350-900s for Air France

The Air France and Air France-KLM Boards of Directors have reached a decision concerning the replacement of Air France's Airbus A380s and approved an order of 10 Airbus A350-900s.

With this decision, Air France-KLM is pursuing its fleet rationalization and simplification strategy.

KLM is already well on its way to simplifying its long-haul fleet which will ultimately consist of only Boeing 777 and 787 aircraft, sharing a common pilot type rating .

At Air France, this upcoming order will bring the total number of A350 aircraft to 38, including three that have already been delivered.

This is the next step for Air France as it pursues the same fleet simplification strategy. As a result, in 2023, the Air France long-haul fleet will consist of 116 aircraft split amongst only four families: Airbus A330s and A350s, and Boeing 787s and 777s. As at KLM, this will bring Air France greater operational flexibility, as well as the opportunity to make significant economies of scale, thanks in particular to reducing the number of pilot qualifications to three by 2023 – Airbus A330/A350, Boeing 787, and Boeing 777.

These new-generation aircraft will replace the Airbus A380s currently in operation at Air France and which are to be retired between now and the end of 2022. Their arrival will also allow the company to accelerate the departure of the Airbus A340s during the first quarter of 2021.

The Airbus A350-900 combines economic efficiency and environmental performance, with 25% less fuel consumed compared to previous-generation aircraft, i.e., 2.5 litres per passenger/100km. It also boasts a 40% reduction in noise footprint. The Air France A350-900 is equipped with a spacious and silent cabin, a latest-generation IFE system and Wi-Fi connection for customer comfort.

“The rationalization and modernization of the Air France-KLM fleet is essential to improve its economic and operational performance,” said Benjamin Smith, CEO of Air France-KLM Group. “The result of Airbus’ European expertise, the A350-900 is a high-performing aircraft at every level and I am happy that Air France can make it one of the jewels in its fleet, to enhance our group’s competitiveness.”

Anne Rigail, CEO of Air France, said “The first results observed from Air France’s operation of the Airbus A350 are excellent in every way – customer satisfaction, operational performance, and a reduced environmental footprint. With an investment of over one billion euros per year, our fleet modernization is our main lever for meeting our objective to reduce our CO₂ emissions by 50% per passenger/km by 2030.”

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On 4 December 2019, the Issuer published the following press release:

Roissy, 4 December 2019

On 21 November 2019, Air France-KLM, Delta Air Lines and Virgin Atlantic welcomed the U.S. Department of Transportation’s decision to grant them Antitrust Immunity (ATI) in the framework of the extension of the transatlantic joint venture. This was the final regulatory step for the airlines to move forward with their alliance.

In parallel, the partners finalized the expanded joint venture’s governance agreeing on simplified decision making processes that will enable the joint-venture to deliver its full synergy potential. Air France-KLM and Virgin have considered that Air France-KLM's acquisition of a stake in Virgin Atlantic is no longer necessary and are negotiating an

agreement whereby Air France-KLM will not acquire a stake in Virgin Atlantic, without any impact on Air France-KLM's position in the commercial Delta -Virgin Atlantic- Air France-KLM joint venture.

Air France-KLM will pursue its ambitious investment plan to regain its leadership position and will continue final preparations towards the launch of the expanded trans-Atlantic joint venture in the coming weeks.

This partnership is key to strengthen the Group's leadership position between Europe and North America and will offer its customers the best streamlined travel experience across the Atlantic.

Investor Relations

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On 5 November 2019, the Issuer published the following press release:

Roissy, 5 November 2019

Air France-KLM presents its go forward plan to recapture a leadership position in Europe

Today, in Paris, Air France-KLM is organizing a presentation for investors. On this occasion, Benjamin Smith, Air France-KLM CEO, along with Pieter Elbers, KLM President and CEO, Anne Rigail, Air France CEO, and Frederic Gagey, Air France-KLM CFO, will outline the group's strategic priorities and its financial trajectory over the next five years.

- Restore a dynamic of sustainable profitability based on a new value-focused model for the group's primary stakeholders: employees, customers, and shareholders.
- A plan built around four main strategic priorities: optimising the operational model, refocusing passenger revenue growth around the most profitable segments, developing initiatives on customer data, the Flying Blue loyalty program, maintenance and cargo, and pragmatically analyzing consolidation opportunities. Each of these initiatives support the group's goal to remain a leader in the sector's ecological transition.
- Financial targets:
 - o Profit: Medium-term operating margin of 7-8%
 - o Cash: Medium-term positive adjusted Free Cash Flows
 - o Leverage: Net debt/EBITDA ratio circa 1.5x
 - o Shareholder returns: Prospects for returning to dividend distribution

"In a competitive and fast-transforming environment for European airlines, the Air France-KLM Group has all the assets to regain its leadership position", said Benjamin Smith, CEO of the Air France-KLM Group. "Thanks to the dedication of our employees at Air France, KLM and Transavia, since the end of 2018 we have been able to establish the fundamentals of our go forward plan: simplifying our fleet, clarifying our brand and market positioning, and unlocking significant commercial and operational flexibility thanks to new labour agreements. This is the starting point of a strategy that will allow Air France-KLM to reinvent itself, creating value for all key stakeholders. We will optimize our operational model and increase revenues to significantly improve our operating margin. Everything we do will support our goal of remaining an industry pioneer as the airline group most committed to global environmental sustainability."

The Air France-KLM Group has several unique assets: the strength of its three brands Air France, KLM and Transavia, its two hubs in Paris – the world's leading inbound destination – and Amsterdam – the leading European connection hub and where the airline hub-and-spoke model was first invented, its extensive and highly complementary combined network, and its powerful commercial partnerships.

To fully leverage these assets, the Group must simplify and optimize its mode of operation and reposition itself to pursue the most profitable traffic.

At the end of 2018 work was started to lay the foundation for future success, and the next steps will revolve around four main strategic priorities, to be rolled out at each airline.

1. Optimize the Operating Model: Reduce Operating Costs and Increase Efficiency

- Managing fleet and product in a more flexible and optimal way
- Simplifying each airline's internal processes
- Accelerating fleet renewal
- Implementing additional Group synergies
- Lobbying French authorities to create a more competitive airline business environment

2. Refocus Growth of Passenger Revenue on Most Profitable Segments by Leveraging Hubs and Powerful Brand Identities

- Simplifying the brand portfolio around the three master brands: Air France, KLM, and Transavia, to better target relevant and most profitable market segments
- Optimizing the networks, each airline focusing on its unique expertise and core assets:
 - o For KLM, strengthen its leadership position at Schiphol while continuing to grow in order to become the benchmark carrier for connecting traffic to and from Europe.
 - o For Air France, leverage its local market and premium strength, with Paris and France being the world's leading inbound destinations.
 - o For Air France and Transavia, strengthen their positions at Paris-Orly by better leveraging the slot portfolios at the slot-constrained airport.
 - o For Transavia, consolidate its leading low-cost position in The Netherlands and aim to become the leading low-cost airline in France in terms of number of based aircraft.
- More accurate targeting of customers for an increasingly personalized offer at a reduced cost of sale

3. At the same time, the group will continue to grow its other businesses and leverage Customer Data, Flying Blue, Cargo, and Engineering & Maintenance

- Leverage customer data as a major asset of the Group
- Accelerate development of Flying Blue, continuing 2018 program evolution
- Further develop Cargo contribution
- Position E&M on a profitable growth path, while contributing to airline operational performance

4. The Air France-KLM Group will continue to pragmatically evaluate consolidation opportunities

- On the strength of its numerous successful global partnerships, Air France-KLM will pragmatically consider consolidation opportunities when and where they make sense, with a view to complementing and strengthening the Air France and KLM networks while maintaining strict financial discipline.

The Group's strategic roadmap is an integral part of a global responsible and sustainable road to European leadership

- Air France-KLM will remain an industry pioneer in terms of sustainable aviation, notably by implementing an environmental and societal plan to 2030.

- From an environmental perspective, the three airlines have adopted important measures aimed at cutting their CO2 emissions per passenger by 50% by 2030, as well as promoting the emergence of sustainable fuels.

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DOCUMENTS INCORPORATED BY REFERENCE

The following sections identified in the cross-reference table below of the following documents, which have previously been published, are incorporated by reference in, and form part of, this Prospectus:

- (i) the English translation of the Issuer's 2017 registration document (the "**2017 Registration Document**") (being an English translation of the Issuer's *document de référence* 2017 filed with the AMF on 29 March 2018 under n° D.18-0232), which contains, *inter alia*, the English translation of the Issuer's audited consolidated financial statements as at 31 December 2017 and the free English translation of the statutory auditors' report thereon;
https://www.airfranceklm.com/en/system/files/ddr_air_france-klm_2017_va_0_1_0.pdf
- (ii) the English translation of the Issuer's 2018 registration document (the "**2018 Registration Document**") (being an English translation of the Issuer's *document de référence* 2018 filed with the AMF on 8 April 2019 under n° D.19-0285), which contains, *inter alia*, the English translation of the Issuer's audited consolidated financial statements as at 31 December 2018 and the free English translation of the statutory auditors' report thereon;
https://www.airfranceklm.com/en/system/files/registration_document_air_france-klm_2018_va_def.pdf
- (iii) the English translation of the Issuer's 2019 first-half financial report (the "**2019 First-Half Financial Report**") (being an English translation of the Issuer's *rapport financier semestriel* 2019), which contains, *inter alia*, the English translation of the Issuer's unaudited interim condensed consolidated first-half 2019 financial statements as at 30 June 2019 and the free English translation of the statutory auditors' report thereon;
https://www.airfranceklm.com/en/system/files/rapport_financier_semestriel_air_france_klm_2019_va_v_def.pdf
- (iv) the English translation of the Issuer's unaudited interim condensed consolidated financial statements as at 30 September 2019 (the "**Third Quarter 2019 Financial Statements**") (being an English translation of the Issuer's *états financiers consolidés non audités au 30 septembre 2019*); and
https://www.airfranceklm.com/sites/default/files/financial_statements_notes_afklm_sept_2019_8855736.pdf
- (v) the English translation of the Issuer's third quarter 2019 results press release (the "**Third Quarter 2019 Results Press Release**") (being an English translation of the Issuer's *communiqué de presse des résultats du troisième trimestre 2019*);
https://www.airfranceklm.com/sites/default/files/q3_2019_press_release_en_8855736.pdf

save that any statement included in the sections of a document which are deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The 2017 Registration Document, the 2018 Registration Document, the 2019 First-Half Financial Report, the Third Quarter 2019 Financial Statements and the Third Quarter 2019 Results Press Release are available on the Issuer's website (www.airfranceklm.com) and those reports only and no other information or documents of such site nor the website itself are incorporated by reference herein.

Any information not listed in the cross-reference list below but included in the 2017 Registration Document, the 2018 Registration Document, the 2019 First-Half Financial Report, the Third Quarter 2019 Financial Statements and the Third Quarter 2019 Results Press Release is not incorporated by reference. Other than in relation to the documents which are deemed to be incorporated by reference, the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinized or approved by the AMF.

Cross-reference list for information incorporated by reference

Annex 7 of the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation	Third Quarter 2019 Results Press Release (page number)	Third Quarter 2019 Financial Statements	2019 First-Half Financial Report (page number)	2018 Registration Document (page number)	2017 Registration Document (page number)	
SECTION 2	STATUTORY AUDITORS					
2.1	Names and addresses of the Issuer’s auditors for the period covered by the historical financial information (together with their membership in a professional body).	N/A	N/A	N/A	Page 337	N/A
SECTION 4	INFORMATION ABOUT THE ISSUER					
4.1	History and development of the Issuer	N/A	N/A	N/A	Pages 328 to 333	N/A
4.1.1	The legal and commercial name of the Issuer.	N/A	N/A	N/A	Page 330	N/A
4.1.2	The place of registration of the Issuer, its registration number and legal entity identifier (‘LEI’).	N/A	N/A	N/A	Page 330	N/A
4.1.3	The date of incorporation and the length of life of the Issuer, except where the period is indefinite.	N/A	N/A	N/A	Page 330	N/A
4.1.4	The domicile and legal form of the Issuer, the legislation under which the Issuer operates, its country of incorporation, the address, telephone number of its registered office (or principal place of business if different from its registered office) and website of the Issuer, if any, with a disclaimer that the information on the website does not form part of the prospectus unless that information is incorporated by reference into the prospectus.	N/A	N/A	N/A	Pages 330	N/A
4.1.5	Any recent events particular to the Issuer and which are to a material extent relevant to an evaluation of the Issuer’s solvency.	N/A	N/A	N/A	Pages 6 to 8	N/A
SECTION	BUSINESS OVERVIEW					

Annex 7 of the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation	Third Quarter 2019 Results Press Release (page number)	Third Quarter 2019 Financial Statements	2019 First-Half Financial Report (page number)	2018 Registration Document (page number)	2017 Registration Document (page number)	
5						
5.1	Principal activities	Pages 1 to 6	N/A	Pages 4 to 18	Pages 20 to 42	N/A
5.1.1	A brief description of the Issuer's principal activities stating the main categories of products sold and/or services performed.	N/A	N/A	N/A	Pages 20 to 42	N/A
5.1.2	The basis for any statements made by the Issuer regarding its competitive position.	N/A	N/A	N/A	Pages 10 to 13	N/A
SECTION 6	ORGANISATIONAL STRUCTURE					
6.1	If the Issuer is part of a group, a brief description of the group and the Issuer's position within the group. This may be in the form of, or accompanied by, a diagram of the organisational structure if this helps to clarify the structure.	N/A	N/A	N/A	Pages 16 to 17, 140 to 146, 204, 298 to 301, 316 and 331	N/A
SECTION 7	TREND INFORMATION					
		Pages 1 and 6	N/A	Page 17	Pages 10 to 13	N/A
SECTION 9	ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES					
9.1	Names, business addresses and functions within the Issuer of the following persons and an indication of the principal activities performed by them outside of that Issuer where these are significant with respect to that Issuer: (a) members of the administrative, management or supervisory bodies; (b) partners with unlimited liability, in the case of a limited partnership with a share capital.	N/A	N/A	Pages 19 to 23	Pages 44 to 68	N/A
SECTION	MAJOR SHAREHOLDERS					

Annex 7 of the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation	Third Quarter 2019 Results Press Release (page number)	Third Quarter 2019 Financial Statements	2019 First-Half Financial Report (page number)	2018 Registration Document (page number)	2017 Registration Document (page number)	
10						
10.1	To the extent known to the Issuer, state whether the Issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control and describe the measures in place to ensure that such control is not abused.	N/A	N/A	Page 24	N/A	N/A
10.2	A description of any arrangements, known to the Issuer, the operation of which may at a subsequent date result in a change in control of the Issuer.	N/A	N/A	N/A	Page 121	N/A
SECTION 11	FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES					
11.1	Historical financial information	Pages 8 to 14	Pages 1 to 24	Pages 33 to 68	Pages 4, 5, 212 to 301, 308 to 310, 345	Pages 4, 5, 199 to 286, 293 to 305, 329
11.1.1	Historical financial information covering the latest two financial years (at least 24 months) or such shorter period as the Issuer has been in operation and the audit report in respect of each year.	Pages 8 to 14	Pages 1 to 24	Pages 33 to 68	Pages 212 to 301, 308 to 310, 345	Pages 199 to 286, 293 to 305
11.1.3	Accounting standards	N/A	Pages 12 to 14	Page 44 to 45	Pages 227 to 228	Pages 208 to 212
11.1.4 and 11.1.5	Financial information	Pages 8 to 14	Pages 1 to 24	Pages 33 to 68	Pages 212 to 301, 308 to 310	Pages 199 to 286, 293 to 305
	- Consolidated balance sheet	Page 9	Pages 5 to 6	Pages 36 to 37	Pages 215 to 216	Pages 202 to 203
	- Consolidated income statement	Page 8	Page 3	Pages 34	Pages 213	Page 200
	- Consolidated statement of cash flows	Page 10	Pages 8 to 9	Pages 39 to 41	Pages 218 to 219	Page 205 to 206
	- Consolidated statement of changes in equity	N/A	Page 7	Page 38	Page 217	Page 204
	- Accounting policies	N/A	Pages 10 to	Pages 42	Pages 220 to	Pages 207 to

Annex 7 of the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation		Third Quarter 2019 Results Press Release (page number)	Third Quarter 2019 Financial Statements	2019 First-Half Financial Report (page number)	2018 Registration Document (page number)	2017 Registration Document (page number)
	and explanatory notes		24	to 66	301	286
11.1.6	Age of financial information	Page 1	Page 1	Page 33	Pages 302 to 307, 321 to 324	Pages 287 to 292, 307 to 309
11.2	Auditing of Historical financial information	N/A	N/A	Pages 67 to 68	Pages 302 to 307, 321 to 324	Pages 287 to 292, 307 to 309
11.3	Legal and arbitration proceedings	N/A	N/A	Pages 59 to 61	Page 136, 272 to 274	Pages 112, 258 to 259
11.4	Significant change in the Issuer's financial position	N/A	N/A	N/A	Pages 6 to 8, and 220	Pages 8 and 207
SECTION 13	DOCUMENTS AVAILABLE					
		N/A	N/A	N/A	Pages 69, 337	N/A

SUBSCRIPTION AND SALE

BNP Paribas, Commerzbank Aktiengesellschaft, Banco Santander, S.A., Crédit Agricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft and Morgan Stanley & Co. International plc (the “**Joint Bookrunners**”) have jointly and severally agreed, pursuant to a subscription agreement (the “**Subscription Agreement**”) dated 14 January 2020, subject to satisfaction of certain conditions, procure subscribers and payment for, or failing which to subscribe and pay for, the Notes at the issue price of 99.411 per cent. of the principal amount of Notes (the “**Issue Price**”), less a combined management and underwriting commission as separately agreed between the Joint Bookrunners and the Issuer. The Issuer will also reimburse the Joint Bookrunners in respect of certain of their expenses, and has agreed to indemnify the Joint Bookrunners against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act (“**Regulation S**”). The Notes are being offered and sold outside of the United States reliance on Regulation S.

Each Joint Bookrunner has agreed that it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Bonds, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Rule 903 of Regulation S. Accordingly, neither the Joint Bookrunners nor any of their respective affiliates, nor any persons acting on their behalf, have engaged or will engage in any directed selling efforts with respect to the Notes, and the Joint Bookrunners, their respective affiliates and any persons acting on their behalf have complied and will comply with the offering restrictions requirement of Regulation S. Each Joint Bookrunner has agreed that, at or prior to confirmation of sale of the Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each of the Joint Bookrunners has represented, warranted and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

France

Each Joint Bookrunner has represented and agreed that, it has only offered or sold and will only offer or sell, directly or indirectly, any Notes to the public in France pursuant to an exemption under Article 1(4) of the Prospectus Regulation and under Article L.411-2 of the French *Code monétaire et financier* and that the Prospectus or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to qualified investors (*investisseurs qualifiés*), as defined in the Prospectus Regulation as amended from time to time and in Article L.411-2 1° of the French *Code monétaire et financier*.

Prohibition of Sales to European Economic Area Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
- (ii) a customer within the meaning of Directive 2016/97/(EU), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

General

No action has been or will be taken by the Issuer or the Joint Bookrunners that would, or is intended to, permit a public offer of the Notes or possession or distribution of this Prospectus or any other offering material relating to the Notes, in any country or jurisdiction where any such action for that purpose is required. Accordingly, each of the Joint Bookrunners has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes or has not, directly or indirectly, distributed or published and will not, directly or indirectly, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information relating to the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

1. Authorisation

The Notes were issued pursuant to a resolution of the *Conseil d'administration* (Board of Directors) of the Issuer adopted on October 30, 2019 and a decision of the *Directeur Général Adjoint Finance* of the Issuer dated 10 January 2020.

2. Approval by the AMF

This Prospectus has been approved by the AMF in France in its capacity as competent authority pursuant to the Prospectus Regulation and received the approval number no. 20-008 dated 14 January 2020. The AMF only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the quality of the Notes that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Notes.

This Prospectus will be valid until the date of admission of the Notes to trading on Euronext Paris. The obligation to supplement the Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when the Prospectus is no longer valid.

3. Admission to trading and listing fees

Application has been made for the Notes to be admitted to trading on Euronext Paris as from the Issue Date.

The estimated costs for the admission to trading of the Notes are €12,500 (including AMF and Euronext Paris fees).

4. Clearing systems

The Notes have been accepted for clearance through Clearstream and Euroclear with the Common Code number 210411526 and Euroclear France with the International Securities Identification Number (ISIN) FR0013477254. The address of Euroclear is 1 boulevard du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream is 42 avenue John Fitzgerald Kennedy, L-1855 Luxembourg, Grand-Duchy of Luxembourg. The address of Euroclear France is 66, rue de la Victoire, 75009 Paris, France.

5. Conflict of interest

At the date of this Prospectus, there are no conflicts of interest which are material to the issue of the Notes between the duties of the members of the Board of Directors (*Conseil d'administration*) to the Issuer and their private interests and/or their other duties.

6. No significant or material change

Save as disclosed in this Prospectus, there has been no significant change in the financial position or financial performance of the Issuer and the Group since 30 September 2019 and there has been no material adverse change in the prospects of the Issuer and the Group since 31 December 2018.

7. Legal proceedings

Save as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Issuer is aware) which may have, or have had in the past twelve (12) months prior to the date of this Prospectus, significant effects on the financial position or profitability of the Issuer and/or the Group.

8. Financial statements

The statutory auditors of the Issuer are Deloitte & Associés and KPMG SA, who have audited the Issuer's consolidated financial statements in accordance with generally accepted auditing standards in France for each of the two financial years ended 31 December 2017 and 2018 and have rendered a limited review report on the consolidated half-year financial statements of the Issuer for the period ended 30 June 2019. Their reports on these financial statements were issued with unqualified opinions and conclusion. The auditors are independent statutory auditors with respect to the

Issuer as required by the laws of the French Republic and under the applicable rules of the *Compagnie Nationale des Commissaires aux Comptes*.

Deloitte & Associés is a member of the Compagnie régionale des Commissaires aux comptes de Versailles.

KPMG SA is a member of the Compagnie régionale des Commissaires aux comptes de Versailles.

9. Documents

So long as any of the Notes are outstanding, the following documents can be inspected on the website of the Issuer (www.airfranceklm.com):

- (i) the *statuts* of the Issuer;
- (ii) 2017 Registration Document (as defined in section “Documents incorporated by reference”);
- (iii) 2018 Registration Document (as defined in section “Documents incorporated by reference”);
- (iv) 2019 First-Half Financial Report (as defined in section “Documents incorporated by reference”);
- (v) Third Quarter 2019 Financial Statements;
- (vi) Third Quarter 2019 Results Press Release;
- (vii) a copy of this Prospectus together with any supplement to this Prospectus and any document incorporated by reference; and
- (viii) all reports, letters and other documents, valuations and statements prepared by any expert at the Issuer’s request of which is included or referred to in this Prospectus in respect of the issue of the Notes.

A copy of this Prospectus together with any supplement to this Prospectus and any document incorporated by reference (a) may be obtained, free of charge, at the registered office of the Issuer during normal business hours and (b) will be available on the website of the Issuer (www.airfranceklm.com). Copies of this Prospectus, the 2017 Registration Document and the 2018 Registration Document will also be available on the website of the *Autorité des marchés financiers* (www.amf-france.org).

Any websites included in this Prospectus are for information purposes only and the information in such websites does not form any part of this Prospectus unless that information is incorporated by reference into the Prospectus.

10. Yield

The yield of the Notes is equal to 2.00 per cent. *per annum* and is calculated on the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

11. Net amount of the proceeds

The estimated net amount of the proceeds of the Notes amounts to €742,207,500.

12. Currency

All references in this document to “euro”, “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended.

13. LEI number

The Legal Entity Identifier number of the Issuer is 969500AQW31GYO8JZD66.

14. Interest

So far as the Issuer is aware, no person involved in the issue of the Notes has any interest, including conflicting ones, that is material to the issue.

15. Taxation

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions (including as a result of change in law). Potential investors are advised to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Notes. Only these advisers are in a position to duly consider the specific situation of the potential investor.

A number of Member States of the European Union are currently negotiating to introduce a financial transactions tax ("FTT") in the scope of which transactions in the Notes may fall. The scope of any such tax is still uncertain as well as any potential timing of implementation. If the currently discussed text or any similar tax is adopted, transactions in the Notes would be subject to higher costs, and the liquidity of the market for the Notes may be diminished. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

16. Joint Bookrunners

Certain of the Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Joint Bookrunners or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Bookrunners and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

17. Stabilisation

In connection with the issue of the Notes, BNP Paribas (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may (but will not be required to) over-allot Notes or effect transactions within a specified period, with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 calendar days after the Issue Date and 60 calendar days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager in accordance with all applicable laws and rules.

The Issuer confirms the appointment of BNP Paribas as the central point responsible for adequate public disclosure of information, and handling any request from a competent authority, in accordance with Article 6(5) of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

18. Absence of ratings

Neither the Notes nor the Issuer are rated. One or more independent credit rating agencies may assign credit ratings to the Notes on an unsolicited basis. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A rating or the absence of rating is not a recommendation to buy, sell or hold securities.

19. Forward-looking statements

This Prospectus contains or incorporates by reference objectives, forecasts or other forward-looking statements that may be identified by the use of words such as "anticipate," "believe," "expect," "estimate," "plan," "outlook," and "project" and other similar expressions that predict or indicate future events or trends or that are not statements of historical matters. Such objectives, forecasts or other forward-looking statements with respect to revenues, earnings, performance, strategies, prospects and other aspects of the businesses of the Group, as well as assumptions and analysis made by the Group in light of its perception of historical trends, current conditions and expected future developments and other

factors it believes are appropriate in the circumstances. By their nature, forward-looking statements involve known and unknown risks, uncertainties and assumptions that could cause actual results, performance and the timing of events to differ materially from those expressed or implied by the forward-looking statements.

These forward-looking statements speak only as of the date on which the statements were made, and no obligation has been undertaken to publicly update or revise any forward-looking statements made in this Prospectus or elsewhere as a result of new information, future events or otherwise, except as required by applicable laws and regulations.

PERSONS RESPONSIBLE FOR THE INFORMATION GIVEN IN THE PROSPECTUS

I hereby certify that, to the best of my knowledge, the information contained in this Prospectus is in accordance with the facts and makes no omission likely to affect its import.

14 January 2020

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

Duly represented by Frédéric Gagey, *Directeur Général Adjoint Finance* of the Issuer, authorised signatory, pursuant to the resolution of the Board of Directors (*Conseil d'administration*) dated 30 October 2019.



This Prospectus has been approved by the AMF, in its capacity as competent authority under Regulation (EU) 2017/1129.

The AMF has approved this Prospectus after having verified that the information it contains is complete, coherent and comprehensible within the meaning of Regulation (EU) 2017/1129.

This approval is not a favourable opinion on the Issuer and on the quality of the Notes described in this Prospectus. Investors should make their own assessment of the opportunity to invest in such Notes.

This Prospectus has been approved on 14 January 2020 and is valid until the date of admission to trading and shall, during this period and in accordance with the conditions set out in article 23 of Regulation (EU) 2017/1129, be completed by a supplement to the Prospectus in the event of new material facts or substantial errors or inaccuracies. This Prospectus has the following approval number: 20-008

ISSUER

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