

# ACTION

## air

Air France-KLM's  
Shareholders' Newsletter  
February 2017



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

Dear Shareholders,

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

Within this buoyant environment, Air France and KLM pursued their turnaround efforts and, for the financial year ended December 31, the Group should achieve its broad financial objectives.

In 2017, despite the increasingly intense competition, we are going to give ourselves the resources to ensure stronger growth,



## Air France-KLM: change in Air France governance

[\(For more, see page 2\)](#)

## Third quarter 2016 results

[\(For more, see page 3\)](#)

## KLM: seven new destinations in Europe



[\(For more, see page 4\)](#)

## Air France welcomes its first Boeing 787



A modern, more efficient aircraft.  
An ongoing move up-market  
with a new Premium Economy seat.

[\(For more, see page 6\)](#)

→ Jean-Marc Janaillac editorial continued

enabling us to capture our share of the industry's growth. This is the aim of the Trust Together project.

This project, which aims to improve our economic performance and competitiveness, and thereby enable the Group to regain the offensive, is built on a series of clearly-identified priorities: the key pillars are the reinforcement of our network of alliances, improved operational efficiency, a continued customer-centric focus which should enable us to differentiate ourselves and the simplification of our organization.

In parallel, we plan to pursue our lobbying efforts to establish fair competition with the Gulf State and low-cost carriers and to reduce the gap in competitiveness due to taxes and charges, which are higher in France than elsewhere.

Ahead of our 2016 results announcement on February 16, I would like to thank you, our shareholders, for your confidence.

## Air France-KLM: change in Air France governance

To support the implementation of the **Trust Together** project and strengthen the decision-making chain, the Air France-KLM and Air France Boards of Directors decided to change the Group's governance. The functions of Chairman and Chief Executive Officer are now separate and **Jean-Marc Janaillac**, Chairman and Chief Executive Officer of Air France-KLM has also been appointed Chairman of Air France.

**Franck Terner**, currently Executive Vice-President Engineering and Maintenance of Air France-KLM, has been appointed Chief Executive Officer of Air France.

**Frédéric Gagey** has been appointed Chief Financial Officer of the Air France-KLM Group, replacing Pierre-François Riolacci, who had announced his departure a few months previously.

## Trust Together - Initial progress



Work has been under way since the announcements of November 3.

Jean-Marc Janaillac and Franck Terner have notably met with more than 2,000 employees in the different Group entities.

Following the changes taking place within the Executive Committee, Franck Terner gave a presentation on Air France's new organization to the Corporate Works Council meeting of January 26. The governance for the **Trust Together** project has been put in place at the level of the Air France-KLM and Air France Executive Committees.

It naturally includes the monitoring of the existing transformation projects. The aim is to ensure the project's deployment based on an ambitious calendar. The modification of the existing scope clauses in the pilots' agreements, the pre-condition required for the creation of a new company (Boost project), involves negotiations with the unions representing the pilots, which opened on December 21.

As regards **Cabin Crew**, negotiations on Air France's new collective labor agreement applying as of March 1 were officially re-opened on Friday December 16.

Concerning the **Maintenance** business, the goal of developing this business and improving its efficiency has not been abandoned however the General Management listened to the need to consider other avenues and renounced plans to study the advantages and disadvantages of a possible corporatization.

**On December 12, Air France's 2017 budget was approved by the Board of Directors.** Within a context of pressure on unit revenues, it puts the emphasis on stepping up commercial initiatives and control over costs. Lobbying to reduce the gap in competitiveness between Air France and its competitors linked to the amount of taxes and charges levied on airlines have been stepped up.

The government's plans to introduce a tax on airline passengers as of 2017 to finance the CDG Express have been postponed until its entry into service, i.e. as of April 2024 at the earliest.

The Secretary of State for Transport also communicated the government's wish to support the turnaround of Air France: several amendments aimed at reducing the amounts due in respect of various taxes and charges are currently being discussed by the French Parliament within the framework of the draft 2017 Finance Act.

## Third quarter 2016 results

The Air France-KLM Board of Directors, chaired by Jean-Marc Janaillac, met on November 2, 2016 to approve the financial statements for the third quarter 2016.

In the third quarter 2016, revenues amounted to €6.94 billion, down by 5.1%, and down by 4.1% like-for-like\*.

EBITDA stood at €1,149 million, a decrease of €174 million euros and down €84 million like-for-like.

During the same period, the reduction in unit costs on a constant currency, fuel price and pension-related expense basis continued, down by 0.2% and down by 1% excluding the strike, in line with forecasts and fully in line with the company's annual projection.

Thanks to lower oil prices, there were savings on the fuel bill during the quarter, although these were more than offset by the pressure on unit revenues and a negative currency impact.

The operating result was €737 million, down by €143 million, a like-for-like decline of €49 million.

The impact on the operating result of the strike by Air France cabin crew during the summer was estimated at €90 million.

### > First nine months of 2016

During this nine-month period, revenue reached €18.76 billion, down by 3.5% reported and a decline of 3.1% like-for-like.

However, EBITDAR stood at €2,941 million, an improvement of €324 million and of €526 million like-for-like.

Net debt stood at €4.16 billion, down by 144 million on its level at December 31, 2015.

The adjusted net debt/EBITDAR ratio thus stood at 3.1x, an 0.3 point improvement relative to December 31, 2015.

### > 2016 Outlook

Numerous geopolitical and economic uncertainties remain, resulting in significant pressure on unit revenues.

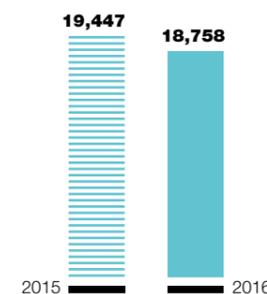
France should continue to be impacted as a destination due to the risks linked to terrorist attacks which are holding back travel by Asian and American customers.

In terms of fuel savings, the results impact is expected to be more than offset in the coming quarters by downward pressure on unit revenues and negative currency impacts. In parallel, progress continues to be made on unit cost savings with a targeted reduction of around 1% in 2016.

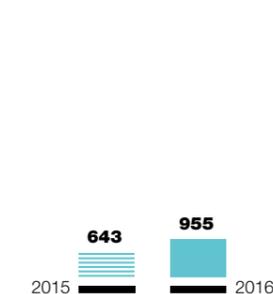
Operating free cash flow generation after divestments is expected to be between €0.6 billion and €0.8 billion in 2016, enabling a further reduction in net debt.

\* Like-for-like: excluding currency. See definition in the appendix to the press release

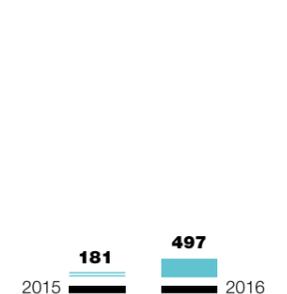
**Revenues**  
In € million  
(9 months to 09/30/2016)



**Operating result**  
In € million  
(9 months to 09/30/2016)



**Restated net result, Group share**  
In € million  
(9 months to 09/30/2016)



# KLM in 2016

“Moving your world by creating memorable experiences”

New aircraft:

B787 “Dreamliners” 6/21    Embraer 175+ 4/17

The fleet:

Boeing 777s: 27    Boeing 747s: 20    A330s: 13    Boeing 737s: 48    Embraer 190s: 30    Fokker 70s: 11



30 million  
passengers  
carried

50<sup>th</sup> anniversary  
of KLM Cityhopper and Transavia, Netherlands



Success  
in the social  
medias:



11,433,891  
followers



2,194,281  
followers



398,344  
followers



102,474.856  
followers

Availability:

24/7 via Facebook, Twitter,  
Linkedin in 12 languages

Managing

100,000 contributions  
on average per week

“A rapid response in your language, irrespective of time and place”

Carrier of the  
Olympic medals



45,000 visitors  
to the KLM Open  
to applaud the victory  
of Joost Luiten

97<sup>th</sup> anniversary of the airline  
and 97<sup>th</sup> Delft house evoking  
Rotterdam’s New York Hotel

Cargo

More than  
630,000 tons  
transported  
including a  
Tyrannosaurus  
Rex!



Voted the most  
“responsible” company  
for the 12<sup>th</sup>  
year running in 2016

2,500  
tons of CO<sub>2</sub>  
saved

by 83 flights

powered with biofuel  
between Oslo and Amsterdam

and daily

on the Los Angeles/Amsterdam  
flights

Engineering & Maintenance  
voted the best maintenance,  
repair and overhaul provider  
for the third year running



## Highlights

### KLM: seven new destinations in Europe...



As of the Summer 2017 season, KLM will serve seven new European destinations including new daily flights bound for **Gdansk** (Poland), **Graz** (Austria), **Oporto** (Portugal) Malaga (Spain) and three new seasonal destinations: **Split** (Croatia), **Cagliari** and **Catane** (Italy) which will initially be served at the weekend, then daily in July and August.

### Marrakech and Oporto join the new Air France destinations

From March 26, 2017, Air France customers will be able to fly to Marrakech (Morocco) and Oporto (Portugal) on board three new weekly flights operated on departure from Paris-Charles de Gaulle in the Airbus 320, with a 166-seat capacity and equipped with the latest medium-haul travel cabins.

This summer, Air France will be offering up to 38 weekly flights to two destinations in Portugal and up to 48 weekly flights to three destinations in Morocco.

Air France will connect Paris-Charles de Gaulle to Marrakech and Oporto respectively on Wednesdays, Fridays and Sundays, and on Tuesdays, Thursdays and Saturdays in the Airbus A320.

### ...and a new flight to Carthagena

From March 28, 2017, KLM is abandoning the Cali service which has attracted little interest from business customers, in favor of Carthagena via Bogota with three weekly flights, on Tuesdays, Thursday and Saturdays.

Situated on the Caribbean coast, Carthagena is a major historic city which is attracting a growing number of international tourists.

This new destination, combined with Bogota which benefits from a major business center, enables KLM to reinforce its presence in Colombia.

The flights will be operated in Boeing 787-9s equipped with 30 seats in World Business Class, 45 in Economy Comfort and 219 in Economy Class.



Carthagena is situated on the north coast of Colombia and numbers around 900,000 inhabitants. Founded on June 1, 1533, its name is linked to the colonial period during which it was a political and economic center playing an important role in the expansion of the Spanish empire. Currently, the city's economy is mainly based on its maritime, petrochemical and tourism industries. Since 1984, its walls and fortresses have been listed as a UNESCO World Heritage site. Carthagena also benefits from superb Caribbean beaches and a very lively night life.



### KLM and China Airlines extend their cooperation

This year KLM and China Airlines are extending their cooperation by operating, notably since January 9, four new weekly non-stop flights between Taipei and Amsterdam with a new Airbus A350 for China Airlines and, for KLM, a daily non-stop flight by Boeing 777 between Amsterdam and Taipei, with an extension to Manila in the Philippines. The codeshare agreement between the two airlines enables China Airlines to offer its passengers a daily service between Taipei and Amsterdam, and KLM to offer 11 flights a week on this route. The two airlines have decided to expand their codeshare program beyond their hubs. Thus, in addition to the existing codes between Taipei and Okinawa, Fukuoka and Singapore-Kaohsiung, KLM shares the following routes: Taipei-Busan, Taipei-Kaohsiung, Taipei-Nagoya, Taipei-Shizuoka, Taipei-Miyazaki and Taipei-Takamatsu. In addition to the Amsterdam-London and Amsterdam-Manchester routes, China Airlines shares the KLM services between Amsterdam-Paris, Amsterdam-Barcelona and Amsterdam-Madrid.

## Air France welcomes its first Boeing 787



**A modern, more efficient aircraft. The ongoing move up-market with a new Premium Economy seat. On board WiFi for everyone. On Friday December 2, Air France welcomed its first Boeing 787 and, as is the custom, the Paris-Charles de Gaulle firemen carried out a “water salute”.**

### On board the Boeing 787, the best of Air France

For Air France customers, the Boeing 787 has many assets:

- the very latest Air France cabins: a veritable cocoon in the sky in the Business cabin (30 seats) and comfort for everyone in the new Premium Economy (21 seats) and Economy (225 seats) cabins;
- a WiFi connection on board adapted to the requirements and habits of customers (from 20MB to 200MB for a price ranging from €5 to €30);
- additional comfort and space with the new Premium Economy seats;
- windows that are some 30% larger than on similar aircraft;
- a lower cabin altitude and enhanced in-flight humidity levels for greater travel comfort.

### New operational assets

There are also many operational assets in that this new-generation aircraft has:

- fuel consumption reduced by 20% compared with previous-generation aircraft, an asset that reduces the effects of an increase in the price of fuel;
- a significant reduction in CO<sub>2</sub> (around 20%) and noise emissions.

### Maintenance ensured by AFI KLM E&M

As a major MRO player, Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) provides maintenance support on the Air France-KLM Group's Boeing 787s.

AFI KLM E&M offers one of the most comprehensive maintenance offers on the market, particularly for new-generation fleets: components, engineering and line maintenance, engine overhaul and aerostructure support (high composite capability with the new Hélios facility at Paris-CDG), modification capabili-

ty (design and production certification), APUs, training (innovative digital tools), etc.

As a major player in 787 maintenance, AFI KLM E&M has successfully developed a maintenance capability for the GENx-1B powerplant, making it the first MRO present on this market, excluding the engine manufacturers.

A first customer has moreover already signed up with AFI KLM E&M: Xiamen Air (China).

AFI KLM E&M has extensive experience of Boeing 787 maintenance and, since 2012, has carried out the 787 component support for several customer airlines (12 to date).

Air France operated its first commercial flight in the B787 to Cairo on January 9. A second aircraft, to be delivered in April 2017, will serve Montreal.

## Unveiling of the new Premium Economy cabin



A photographic preview Air France's Premium Economy cabin in the 787. Air France is renewing its seats to offer a higher level of passenger comfort. Revisited in close cooperation with its customers, the airline's new Premium Economy seat marks the first phase of a series of upgrades. On board the inaugural commercial flight for the Boeing 787 to Cairo on January 9, Premium Economy passengers benefited from the move up-market initiated by Air France.

## AFI KLM E&M signs an agreement with AirAsia for its fleet of 304 A320neos

On December 8, 2016, Air France Industries KLM Engineering & Maintenance and AirAsia signed a component support agreement for the Asian carrier's fleet of 304 A320neo passenger jets. The contract between the two groups includes component repair services and solutions designed to maximize aircraft availability. In an extremely competitive environment, the contract was won thanks, amongst other things, to an adapted, ultra-competitive proposition.

AFI KLM E&M was also able to propose a bespoke support offer, tailored to the expectations of the carrier which was looking for maximum aircraft availability. With its experience of large-scale support, AFI KLM E&M is able to offer maintenance solutions for very large fleets like the one operated by AirAsia. Since 2009, AirAsia has already had an opportunity to test the effectiveness of the MRO solutions delivered by AFI KLM E&M for its fleet of A330s operated by AirAsia X, AirAsia's budget long-haul subsidiary.

## Maintenance recognized for its commitment to promoting Flight Safety



Last November, the Airframe, Component and Engine support activities of Air France's Maintenance Division (DGI) won two international awards for the concrete commitment made by Air France's technicians/mechanics to promoting Flight Safety. The work of Maintenance was recognized by the US administration, in this case the FAA (Federal Aviation Authority: US civil aviation safety authority), but also by the Flight Safety Foundation, responsible for promoting and making progress in all areas of flight safety.

AFI KLM E&M is the first European MRO to have introduced this initiative and shown its commitment to complying with international standards, to the benefit of flight safety. This initiative highlighted the maintenance division's technical expertise and ability to mobilize all the teams to realize a diagnostic of its activities by implementing in-field monitoring. The DGI succeeded in showcasing its commitment to Flight Safety across the entire aeronautics industry.

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

Air France-KLM sold a total of 4,950,000 shares in Amadeus IT Group, S.A. (“Amadeus”), representing around 1.13% of the Amadeus share capital, within the framework of the unwinding and termination of part of Air France's operations to hedge 9,900,000 Amadeus shares. The net proceeds of the transaction amounted to €201 million.

Air France-KLM retains its hedging on 4,950,000 shares, representing around 1.13% of the Amadeus share capital. This sale was part of Air France-KLM's active balance sheet management policy. With this operation, Air France-KLM pursues its debt reduction strategy.

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

Following the acquisition of gategroup by HNA on December 22, 2016, Air France and gategroup finalized the agreement for the sale to gategroup of 49.99% of the Servair share capital and the transfer of its operational control for an enterprise value of €475 million (100% basis). This sale took place on December 30, 2016.

Through this transaction, Air France provides Servair with the resources required for its future growth to enable the company

to maintain the highest standards in the airline catering industry globally, thanks to its industrial partnership with a leading player. The combination of Servair and gategroup creates the global number one in inflight catering, supported by the assets, expertise and networks of the two companies. With more than 200 facilities and 39,000 employees, the new entity will be able to accelerate the introduction of innovative products and services and create an unprecedented offer at the service of more than 300 airline customers.

Thanks to this transaction, 9,500 Servair employees will see their company's prospects reinforced.

With this transaction, Air France pursues the refocusing on its core businesses and its debt reduction strategy. The structure of the transaction will also enable Air France to account for 50% of Servair's net result using the equity method.

## Lobbying against unfair competition in Brussels

On Tuesday December 20, Jean-Marc Janaillac met with Frans Timmermans, First Vice-President of the European Commission, in Brussels. During this meeting, Air France-KLM's Chairman and Chief Executive Officer stressed the importance for Europe of continuing to have major airlines but also the need for equitable competition between all these players.

The issue of unfair competition with the Gulf State carriers was at the heart of the discussions. Pieter Elbers, President and Chief Executive Officer of KLM, also attended this meeting. This initiative supplements the lobbying efforts already underway with the French State to reduce the gap in competitiveness between Air France and its competitors.

## 31 MY MEETINGS

### Next news

**Thursday February 16, 2017**

Annual results

### Forthcoming invitations

**Tuesday February 28, 2017**

**"Flexible Silence"**  
by Saburo Teshigawara  
at the Théâtre National  
de la Danse-Chaillet in Paris

**Friday March 10, 2017**

National Ballet of Canada,  
Montréal  
**"La jeune fille et la mort"**  
by Stephan Toss  
at the Théâtre National  
de la Danse-Chaillet à Paris

Number of places limited

Sign up by Friday February 10, 2017  
inclusive by email at:  
mail.actionnaires@airfranceklm.com

### Forthcoming meetings of the Shareholders' Committee

**Wednesday April 26, 2017**

**Tuesday May 16, 2017**

**Wednesday September 27, 2017**

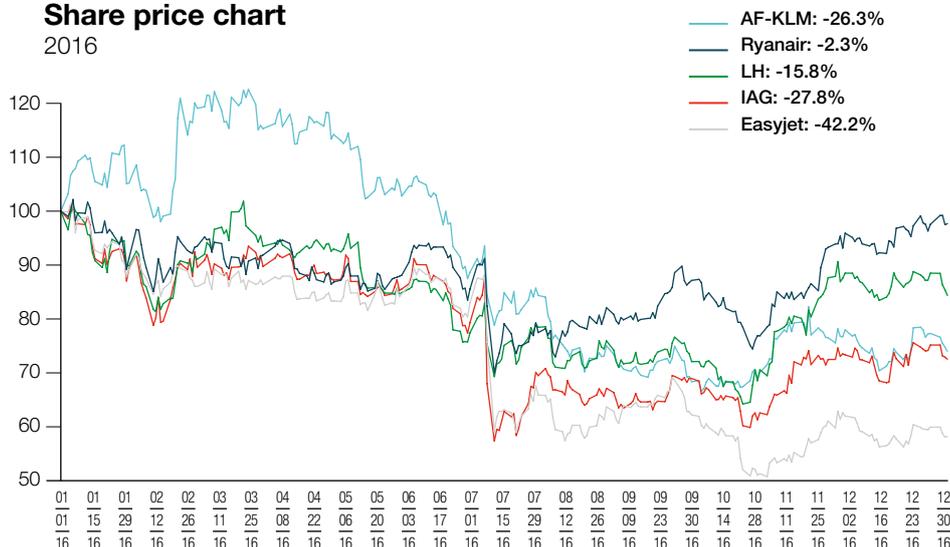
### Next Annual General Shareholders' Meeting

**Tuesday May 16, 2017**

at the Espace Grande Arche,  
La Défense

## My shares

### Share price chart 2016



## Stock information

Eligible for deferred settlement and for PEAs (tax-exempt equity savings plans)

### INCLUDED IN THE FOLLOWING MAIN INDICES

**French/Dutch:** CAC Mid 60  
SBF 120  
AEX-index

**Global:** DJ Eurostoxx 600

**Sector:** DJ Eurostoxx 600 Travel  
& Leisure

**Euronext FAS IAS index** of stocks with  
a significant proportion of employee  
shareholders

Securities services:

**Société Générale**  
SBO/CSS/BOC  
32 rue du Champ de Tir  
CS 30812  
44308 Nantes Cedex 3  
France

### DUAL LISTING

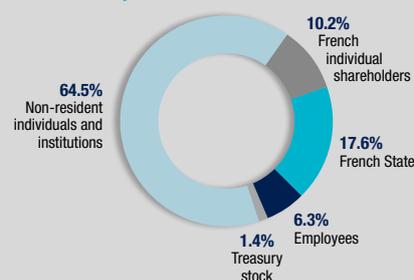
Euronext Paris and Amsterdam

**ISIN equity code** FR0000031122  
**Reuters code** AIRF.PA  
**Bloomberg code** AFFP  
**OTC Market** AFLY

### 2016 DECLARATION

**Wealth Tax share price** €5.17

### SHAREHOLDER BREAKDOWN AT JUNE 30, 2016



## Contact information

**Website:** [www.airfranceklm.com](http://www.airfranceklm.com)

**By mail:**  
Air France-KLM  
Relations actionnaires  
FI.IR  
95735 Roissy Ch. de Gaulle Cedex

**By e-mail:**  
mail.actionnaires@airfranceklm.com