**Project Blue Skies**

**Questions for Air France –KLM**

**Global strategy**

**1 What do these transactions consist of?**

Air France-KLM today announced its intention to take a 31% equity stake in Virgin Atlantic and to step up its strategic, commercial and equity alliances with Delta Air Lines and China Eastern Airlines. These two airlines will each acquire a 10% equity interest in the Air France-KLM group.

To reinforce the extension of the alliance, Delta will acquire a 10% equity stake in Air France-KLM for a consideration of around 375 million euros and will take a seat on the Board of Directors. Air France-KLM has signed an agreement with Virgin Group and will acquire a 31% equity interest in Virgin Atlantic for a consideration of around 250 million euros and join Virgin’s Board. In addition, Air France-KLM is to step up its partnership with China Eastern, which will acquire a 10% interest in the Group [375 million euros]

**2 When will the transaction be effective?**

All the conditions of this joint venture will come into effect after the US Department of Transport exempts it from anti-trust provisions and after the European Union’s competition authorities, the US Department of Justice, and the UK Ministry of Transport have approved it. In view of the benefits of this alliance for customers, we hope to obtain final agreement before the end of 2017. Moves to sell equity interests to CEA and DL should begin in early September 2017. Our stake into Virgin Atlantic’s capital should be effective early 2018, subject to all necessary approvals.

**3 Why strengthen the joint venture with Delta?**

It had become necessary to revise the transatlantic joint venture with Delta due to the existence of two distinct transatlantic joint ventures and the resulting losses in synergy. One was between Air France-KLM and Alitalia, and the other with Virgin Atlantic; the need was also due to its limited timeframe and the situation at Alitalia.

We have agreed the main principles of a new transatlantic joint venture with Delta and Virgin, which will supersede the existing ones. The new joint venture will allow us to provide a henceforth fully-integrated offering on the transatlantic market with a market share of around 25%.

**4 Why strengthen our partnership with China Eastern?**

Strengthening the joint venture with China Eastern is a strategic move because China is a priority for extending Air France-KLM operations, due in particular to the increase in tourism and trade between Europe and China. China Eastern has an extensive network in China, is benefitting from Shanghai’s growth momentum, and wants to step up its international development. In parallel, Air France-KLM is bolstering its position in China, which already comprises two commercial partnerships with China Southern and China Eastern.

**5 What will happen with Alitalia?**

Alitalia can join the joint venture. We are currently discussing this point.

**6 What is the overall rationale for these transactions?**

With these strategic transactions, Air France-KLM is going back on the offensive to conquer markets. In a complex competitive environment, it is primordial to take our destiny into our own hands and act. This is the rationale underlying our Trust Together strategic plan. And it is the rationale behind the launch of Joon.

It is also the rationale behind these transactions, which have a three-pronged objective:

1. The first is in line with the rationale behind Trust Together – which in particular aims to drive Air France-KLM growth in long-haul through reliance on stepped up commercial partnerships at the same time as we are the European pillar of the SkyTeam alliance;
2. The second consists in securing the Group’s share ownership structure and protect it from third-party operations that are potentially contrary to its strategic interests;
3. The third is to give us additional resources to finance our investments and growth.

**7 What will these transactions do for us?**

The transactions will give us a threefold strategic, commercial, and financial advantage.

Air France-KLM is bolstering its position as the European pillar of global air transport by entering into strategic, commercial and capitalistic alliances with two of its current partners, Delta Air Lines and China Eastern Airlines.

To this will be added a new partnership with Virgin Atlantic at a historic juncture that will allow us to set up a new joint venture for a longer and more profitable partnership (the new joint venture lasts 15 years). This will give us greater commercial integration so that we can benefit from an expanded market position for our customers, and benefit from a pooling of our distribution networks. This new joint-venture is expected to generate significant annual synergies in addition to the gains from the current joint venture.

We are improving the Group’s financial situation by strengthening its balance sheet. This will increase the Group’s equity capital and improve its creditworthiness. In addition to the financial transaction itself, which has a tenor of around 750 million euros, we estimate that renegotiating the conditions of the joint venture will also generate substantial savings.

**8 How much revenue will these transactions generate?**

The financial transaction will raise around 750 million euros in new equity capital.

In addition to that transaction, this new joint-venture is expected to generate significant annual synergies in addition to the gains from the current joint venture.

and substantial savings on the joint venture with Delta.

**9 Is this a first step towards a bigger acquisition?**

No, not at all. Several mechanisms protect the Group in this respect. In the framework of this agreement, the partners are banned from acquiring more than 10% of the Group’s capital for a given period that is longer than the market average.

Moreover, no more than 49% of the Group’s capital may be owned by non-European investors. However, following this transaction, the proportion will amount to 42%. Our partners will, therefore, never be able to acquire a majority position in the capital.

Last, from a strategic point of view, this transaction is above all a commercial partnership transaction that enables the stakeholders to benefit from their partners’ networks. Which means that it is not simply a financial equity stake but an anchoring of those partnerships.

**10 If these are above all commercial partnerships, can you tell us how much additional revenue they will generate?**

In addition to that transaction, this new joint-venture is expected to generate significant annual synergies in addition to the gains from the current joint venture.

and substantial savings on the joint venture with Delta.

It also bolsters our position in the UK market and strengthens our presence in the Chinese market, and especially at the Shanghai hub.

**11 Why invest the cash from the reserved capital increase when we need cash to help drive our growth?**

The money will definitely be used to support the Group’s growth.

Around one-third will be used to acquire an equity stake in Virgin Atlantic, which in itself is a transaction that will improve our growth because it will boost the value of the transatlantic joint venture and open up new prospects for growth on the UK market.

The remaining 500 million euros will be used to support profitable growth projects for the Group and will help to reduce its debt.

**12 How will the 500 million dollars remaining after the transactions be used?**

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**13 Will there be a capital increase after the summer break?**

Yes, there will be a capital increase reserved for our two strategic partners

We are currently focused on this transaction, which will trigger an extraordinary General Meeting of Shareholders on 4 September this year.

Our liquidity position is very comfortable (€4.9 billion in cash and equivalent, and €1.7 billion in unused credit facilities) and this position should increase following the reserved capital increase. There is therefore no pressure to carry out a capital increase.

No decisions have as yet been taken on next steps.

**14 Is this reserved capital increase the proof that Air France is in a bad way and is desperately in need of partners and liquidity?**

No, this is not the case at all. It is not a Group rescue operation. The Group’s liquidity position is sufficiently comfortable and it is not a transaction to improve our liquidity.

The transaction is an offensive move, an assertion of our central position in Europe in the SkyTeam alliance through the strengthening of long-standing partnerships.

Last, we are not selling at a large discount, we are not in a desperate position, and it is a transaction restricted to 20% of our share capital allocated to partnership, growth and debt retirement operations without excessively diluting our shareholder structure.

**15 Are you not afraid that these partnerships will damage our brand image?**

These are long-standing partnerships for our Group. They are friendly investors, with whom we want to strengthen our partnerships and with whom we are ready to work.

We should not minimise the importance of these airlines that are leaders in their markets and offer the potential for considerable growth.

It gives us a central position in Europe for SkyTeam, which bolsters our image.

**16 To what extent are these announcements consistent with our need to compete with Middle Eastern airlines?**

These transactions do not settle the question of competition with Middle Eastern airlines but they help to strengthen the Group’s position and contribute to its growth, which in every case is beneficial.

That said, the competitiveness issue is a central one for our Group and must be addressed.

**17 Why not buy Alitalia, instead?**

Alitalia is in a complicated restructuring situation, and it would have been risky to choose this airline for an investment designed to boost our growth.

We examined the various possibilities and Virgin Atlantic seemed to be the most promising and most profitable option in the framework of an investment for our growth and our shareholders.

**18 Why not buy a low-cost carrier, instead?**

We already have our own low-cost airline and will continue to invest in it.

The aim of this transaction is to invest in Virgin Atlantic, an airline that will boost the value of our transatlantic joint venture. It is a cost-effective transaction for our Group.

**19 Why not have chosen a major partner like Singapore Airlines, Qantas or Qatay (Cathay ou Qatar?) which would have helped us to cover other regions?**

This transaction with China Eastern, a long-standing partner, strengthens our position in China and Asia, especially at the Shanghai hub. Ultimately, that could put us in a strategic position with respect to the new Beijing airport.

This choice does not rule out the possibility of investing in a partnership in South East Asia, but for the time being, this is not the aim of the transaction at all.

**20 Why make this announcement now? How long have you been aware of this?**

The transaction is the outcome of lengthy negotiations that have just been completed.

What’s more, even if this did not dictate the signing of these agreements, in the past few weeks, the Group’s situation has been calmer and the agreements with pilots and cabin crew testify to a general momentum and a desire to move on, which sends a positive signal to our partners.

**Trust Together**

**21 When you were talking about a long-haul offensive in the Trust Together plan, was this what you were talking about?**

It’s more about a global momentum for the Group, but this transaction is clearly an example of the way we are going back on the offensive.

The strengthening of our alliances, the signing of code share agreements, and the launch of Joon and its development in long-haul by summer 2018, are other examples.

**Virgin**

**22 Why choose Virgin?**

We examined the various possibilities and Virgin Atlantic seemed to be the most promising and most profitable option in the framework of an investment for our growth and our shareholders.

The aim of this transaction is to invest in Virgin Atlantic, an airline that will boost the value of our transatlantic joint venture. It is a cost-effective transaction for our Group.

**23 Won’t Virgin be a competitor for Joon?**

It’s true that Virgin Atlantic and Joon have similar positions. But they will serve different destinations.

Also, Joon’s size is relatively limited at a total of 18 aircraft, so the Joon and Virgin Atlantic offerings can be complementary in providing the younger customer base of the two airlines with a more comprehensive offering with an extended network.

**24 Why invest in a British company on the eve of Brexit?**

Independently of Brexit, the UK market is a fast-growing market where we need to have a presence.

Right now there are uncertainties about the UK’s withdrawal from the European Union (hard or soft Brexit) and we have taken this into account in our acquisition contract.

So if the Brexit conditions were to excessively restrict traffic rights or call Virgin Atlantic’s operator’s licence into question, our Group has an option to sell the stake back to Virgin at the same conditions.

**25 What will the commercial ties be with Virgin?**

Virgin will sell AF and KLM flights in the UK, and AF and KLM will market Virgin flights in France and the Netherlands.

It is a commercial coordination relationship.

**26 Will Virgin replace AFKL in the UK?**

There are no plans for that.

Virgin will sell AF and KLM flights in the UK, and AF and KLM will market Virgin flights in France and the Netherlands.

It is a commercial coordination relationship.

**Strengthening the alliance with Delta**

**27 You already have close ties with Delta; what more does this partnership bring you?**

We are stepping up our joint ventures to benefit from greater commercial integration and an expanded market position for our customers, and to take advantage of a pooling of our distribution networks.

As regards the transatlantic joint venture, renegotiation was necessary given its limited timeframe, the situation at Alitalia, and the losses in synergy resulting from Delta’s membership of two distinct transatlantic joint ventures, one with Air France-KLM and Alitalia, and the other with Virgin Atlantic.

We have agreed the main principles of a new transatlantic joint venture with Delta and Virgin, which will supersede the existing ones. The new joint venture will allow us to provide a henceforth fully-integrated offering on the transatlantic market with a market share of around 25%. That will mean large-scale additional gains and substantial savings linked to renegotiating the conditions.

**Strengthening the alliance with China Eastern**

**28 Are you selling Air France to the Chinese?**

No. This is a limited equity stake that amounts to only 8% of voting rights.

Several mechanisms protect the Group in this respect. In the framework of this agreement, the partners are banned from acquiring more than 10% of the Group’s capital for a given period that is longer than the market average (the duration is still being negotiated).

Moreover, no more than 49% of the Group’s capital may be owned by non-European investors. However, following this transaction, the proportion come to 42%. Our partners will, therefore, never be able to acquire a majority position in the capital.

Last, from a strategic point of view, this transaction is above all a commercial partnership transaction that enables the stakeholders to benefit from their partners’ networks. Which means that it is not simply a financial equity stake but an anchoring of those partnerships.

**29 You already have strong ties with China Eastern, what more does this partnership bring you?**

Strengthening the joint venture with China Eastern is a strategic move because China is a priority for extending Air France-KLM operations due in particular to the increase in tourism and trade between Europe and China. China Eastern has an extensive network in China, is benefitting from Shanghai’s growth momentum, and wants to step up its international development.

**30 Why partner with China Eastern rather than with China Southern?**

These are two key partners for our Group with which we will continue to work at least until 2020.

The transaction in no way means ending our partnership with China Southern and we will continue to be attentive to the development of this airline.

We have made a strategic choice with China Eastern because we believe that the Shanghai hub, which is China Eastern’s hub, offers greater potential than the Guangzhou hub.

**31 Are you going to step up capacity on the Paris-Shanghai and Amsterdam-Shanghai legs? / Are you going to offer new destinations in China?**

We are currently looking into this, but the agreement does include an increase in frequencies to Shanghai from Paris and Amsterdam and a strengthening of cooperation with China Eastern selling AF and KLM tickets. The launch of new destinations has yet to be confirmed.

**32 After selling Servair to HNA, you are selling a part of AFKL to China Eastern. Are these the only investors interested in the Company?**

It is not the same context nor the same type of transaction and in both cases it is not a choice by default but a deliberate strategic move.

China Eastern is one of the biggest Chinese airlines with which we have a strong, long-standing partnership.

Strengthening the joint venture with China Eastern is a strategic move because China is a priority for extending Air France-KLM operations due in particular to the increase in tourism and trade between Europe and China. China Eastern has an extensive network in China, is benefitting from Shanghai’s growth momentum, and wants to step up its international development.

**33 Where do China Eastern’s funds come from? What does their shareholder structure look like? Chinese money?**

**China Eastern will fund the acquisition by taking out a bank loan from international banks.**

**China Eastern is a listed company, two-thirds owned by the Chinese state, by strategic investors such as Delta (3.5%), and a public float.**

**New shareholders**

**34 Will the new shareholders have seats on the AFKL Board?**

Each will have one seat on the Board.

**35 What power will that give them over the strategic decisions?**

The same as other members. Their power is also restricted because each of them accounts for only 8% of voting rights.

Their presence will bring an external view of the airline market with interesting viewpoints and expertise.

**36 Will we be paying a dividend in 2018?**

There is no commitment linked to the capital increase for paying a dividend.

**37 Will we become a subsidiary of Delta or China Eastern?**

No, we will be presented as a minority shareholder. Similarly, Virgin will not be consolidated in the Group’s financial statements, but will be recorded as a minority shareholder.

**38 Is there not a real cultural risk in bringing Chinese and Americans onto the Board? Are they able to understand the fragility of the social balance at Air France?**

It will require a time to adapt, of course, and to understand the particular cultural and legal aspects in Europe, but they will rapidly adapt.

Their social impact will be very limited because they will be in a minority position.

We need to see the positive sides of these cultural differences: it is an opportunity to be able to count on the expertise and vision of major players in our sector, with an external view and sensitivity linked to Chinese and American culture, and we stand to learn a lot in order to understand their markets.

**39 How big a share in the AFKL capital will Delta and China Eastern be able to take?**

Several mechanisms protect the Group in this respect. In the framework of this agreement, the partners are banned from acquiring more than 10% of the Group’s capital for a given period that is longer than the market average (the duration is still being negotiated).

Moreover, no more than 49% of the Group’s capital may be owned by non-European investors. However, following this transaction, the proportion will come to 42%. Our partners will, therefore, never be able to acquire a majority position in the capital..

**The French state**

**40 How far will the French state’s stake be diluted by this transaction?**

To a very limited extent: the state currently owns 18% of the share capital with 28% of the voting rights and their share will fall to 14% (23% of voting rights) after the transaction. For comparison’s sake, China Eastern and Delta will have 8% of the voting rights.

**41 How did the state react to the announcement? Had they been informed much earlier?**

The state largely supports the transaction, which will help make AFKL a central plank of the SkyTeam alliance with strong strategic partners and considerable growth prospects.

**42 Just as the Minister of Transport has decided to set up an Air Transport Summit, why have you decided to dispense with the state’s help?**

The Group will not be dispensing with the state’s help, as it remains an important shareholder and an essential partner.

The air transport summit will mostly address issues of regulating competition, whereas this transaction does not provide a solution in terms of the Group’s competitiveness. This is a distinct and essential component on which we need to continue working with the state and also with the European Union institutions.

This agreement, which also has the state’s support, concerns a strengthening of the Group’s partnerships and its growth.

**KLM**

**43 Does KLM approve of the deal?**

**YES. KLM, like Air France, will benefit from the commercial synergies of this new joint venture.**

**KLM will also benefit from being part of a Group with a stronger balance sheet and a healthier financial situation.**

**44 How will they benefit from these transactions?**

KLM will benefit from the same advantages as Air France in this transaction.

The gains generated by the new transatlantic joint venture concern the whole Group, and consequently KLM as much as Air France.

**AF internal / Labour relations**

**46 Was Virgin the alternative for setting up Boost if you hadn’t managed to reach an agreement with the pilots?**

**It’s a different rationale. Virgin’s operations are 75% on UK-US transatlantic routes**

**47 Aren’t you worried that flight crews will feel betrayed by the announcement of these transactions, only days after signing an agreement with the General Management?**

Employees are strongly committed and we know that they all want our Group to get back on the path to growth.

Our flight crews have demonstrated their desire to move forward and this transaction is a great opportunity to take our Group in the right direction and go back on the offensive in the market.

It is a very positive move that will help us strengthen our commercial position, provide our customers with an extended offering, and improve our financial health to achieve sustainable growth, which is beneficial for all employees.