Air France-KLM Group

CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Commission for use in the European Union

January 1, 2019 – December 31, 2019

Air France-KLM Group

Table of contents

Air France-KLM Group

CONSOLIDATED INCOME STATEMENT

In € millions **Period from January 1 to December 31**	***Notes***	**2019**	**2018 restated** [1]
Sales	***6***	**27,188**	**26,224**
Other revenues		**1**	**3**
Revenues		**27,189**	**26,227**
External expenses	***7***	(15,893)	(14,946)
Salaries and related costs	***8***	(8,139)	(7,759)
Taxes other than income taxes		(154)	(166)
Other income and expenses	***10***	1,125	937
EBITDA		**4,128**	**4,293**
Amortization, depreciation and provisions	***9***	(2,987)	(2,888)
Income from current operations		**1,141**	**1,405**
Sales of aircraft equipment		22	4
Other non-current income and expenses	***11***	(153)	(16)
Income from operating activities		**1,010**	**1,393**
Cost of financial debt		(442)	(465)
Income from cash and cash equivalents		49	39
Net cost of financial debt	***12***	***(393)***	***(426)***
Other financial income and expenses	***12***	(271)	(336)
Income before tax		**346**	**631**
Income taxes	***13***	(76)	(224)
Net income of consolidated companies		**270**	**407**
Share of profits (losses) of associates	***21***	23	15
Net income for the period		**293**	**422**
Non-controlling interests		*3*	*2*
Net income - Group part		*290*	*420*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic	***14***	0.64	0.92
- diluted		0.61	0.92

The accompanying notes are an integral part of these consolidated financial statements.

[1] See note 2 in notes to the consolidated financial statements.

Air France-KLM Group

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES

In € millions **Period from January 1 to December 31**	***Notes***	**2019**	**2018 restated** [1]
Net income for the period		**293**	**422**
Cash flow hedges and cost of hedging			
Effective portion of changes in fair value hedge and cost of hedging recognized directly in other comprehensive income		435	(231)
Change in fair value and cost of hedging transferred to profit or loss		(46)	(621)
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	***13.2***	**(115)**	**270**
Total of other comprehensive income that will be reclassified to profit or loss		***274***	***(582)***
Remeasurements of defined benefit pension plans [2]		**1**	**(191)**
Fair value of equity instruments revalued through OCI		**(14)**	**(24)**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	***13.2***	**(68)**	**49**
Total of other comprehensive income that will not be reclassified to profit or loss		***(81)***	***(166)***
Total of other comprehensive income, after tax		**193**	**(748)**
Recognized income and expenses		**486**	**(326)**
- Equity holders of Air France-KLM		**483**	**(327)**
- Non-controlling interests		3	1

The accompanying notes are an integral part of these consolidated financial statements.

[1] See note 2 in notes to the consolidated financial statements.

[2] Remeasurement of defined benefit pension plans is composed of €1 290 million related to the difference between the expected and actual return on assets (2018: €(379) million) and € (1.289) million related to the change in actuarial assumptions (2018: €188 million)

Air France-KLM Group

CONSOLIDATED BALANCE SHEET

Assets *In € millions*	***Notes***	**December 31, 2019**	**December 31, 2018 restated [1]**	**January 1, 2018 restated [1]**
Goodwill	***15***	217	217	216
Intangible assets	***16***	1,305	1,194	1,122
Flight equipment	***18***	11,334	10,308	9,728
Other property, plant and equipment	***18***	1,580	1,503	1,418
Right-of-use assets	***20***	5,173	5,664	6,216
Investments in equity associates	***21***	307	311	301
Pension assets	***22***	420	331	590
Other financial assets	***23***	1,096	1,487	1,242
Deferred tax assets	***13.4***	523	559	417
Other non-current assets	***26***	241	264	239
Total non-current assets		**22,196**	**21,838**	**21,489**
Other short-term financial assets	***23***	800	325	421
Inventories	***24***	737	633	557
Trade receivables	***25***	2,164	2,191	2,164
Other current assets	***26***	1,123	1,065	1,243
Cash and cash equivalents	***27***	3,715	3,585	4,673
Total current assets		**8,539**	**7,799**	**9,058**
Total assets		**30,735**	**29,637**	**30,547**

The accompanying notes are an integral part of these consolidated financial statements.

[1] See note 2 in notes to the consolidated financial statements.

Air France-KLM Group

CONSOLIDATED BALANCE SHEET (continued)

Liabilities and equity *In € millions*	***Notes***	**December 31, 2019**	**December 31, 2018 restated [1]**	**January 1, 2018 restated [1]**
Issued capital	***28.1***	429	429	429
Additional paid-in capital	***28.2***	4,139	4,139	4,139
Treasury shares	***28.3***	(67)	(67)	(67)
Perpetual	***28.4***	403	403	600
Reserves and retained earnings	***28.5***	(2,620)	(3,118)	(2,771)
Equity attributable to equity holders of Air France-KLM		**2,284**	**1,786**	**2,330**
Non-controlling interests		15	12	12
Total equity		**2,299**	**1,798**	**2,342**
Pension provisions	***29***	2,253	2,098	2,202
Return obligation liability and other provisions	***30***	3,750	3,657	3,707
Financial debt	***31***	6,271	5,733	5,919
Lease debt	***32***	3,149	3,546	3,940
Deferred tax liabilities	***13.4***	142	4	-
Other non-current liabilities	***35***	222	459	361
Total non-current liabilities		**15,787**	**15,497**	**16,129**
Return obligation liability and other provisions	***30***	714	505	255
Current portion of financial debt	***31***	842	826	1,378
Lease debt	***32***	971	989	993
Trade payables		2,379	2,454	2,368
Deferred revenue on ticket sales		3,289	3,153	3,017
Frequent flyer programs	***34***	848	844	819
Other current liabilities	***35***	3,602	3,566	3,240
Bank overdrafts	***27***	4	5	6
Total current liabilities		**12,649**	**12,342**	**12,076**
Total liabilities		**28,436**	**27,839**	**28,205**
Total equity and liabilities		**30,735**	**29,637**	**30,547**

The accompanying notes are an integral part of these consolidated financial statements.

[1] See note 2 in notes to the consolidated financial statements.

Air France-KLM Group

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

In € millions	**Number of shares**	**Issued capital**	**Additional paid-in capital**	**Treasury shares**	**Perpetual**	**Reserves and retained earnings**	**Equity attributable to holders of Air France-KLM**	**Non-controlling interests**	**Total equity**
December 31, 2017	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,693)**	**2,408**	**12**	**2,420**
Change in accounting policy [(1)]						**(78)**	**(78)**	**-**	**(78)**
January 1, 2018 - Restated [(1)]	**428,634,035**	**429**	**4,139**	**(67)**	**600**	**(2,771)**	**2,330**	**12**	**2,342**
Gain / (loss) on cash flow hedges	-	-	-	-	-	(582)	**(582)**	-	**(582)**
Fair value of equity instruments through OCI	-	-	-	-	-	(24)	**(24)**	-	**(24)**
Remeasurements of defined benefit pension plans	-	-	-	-	-	(141)	**(141)**	(1)	**(142)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	***(747)***	***(747)***	***(1)***	***(748)***
Net result for the period	-	-	-	-	-	420	**420**	2	**422**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**(327)**	**(327)**	**1**	**(326)**
Perpetual	-	-	-	-	(197)	(14)	(211)	-	**(211)**
Dividends paid and coupons on perpetual	-	-	-	-	-	(25)	(25)	-	**(25)**
Other	-	-	-	-	-	19	19	(1)	**18**
December 31, 2018 - Restated [(1)]	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(3,118)**	**1,786**	**12**	**1,798**
December 31, 2018	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(3,118)**	**1,786**	**12**	**1,798**
Gain / (loss) on cash flow hedges	-	-	-	-	-	274	274	-	274
Fair value of equity instruments through OCI	-	-	-	-	-	(11)	(11)	-	(11)
Remeasurements of defined benefit pension plans	-	-	-	-	-	(70)	(70)	-	(70)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	***193***	***193***	**-**	***193***
Net result for the period	-	-	-	-	-	290	290	3	293
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**483**	**483**	**3**	**486**
OCEANE	-	-	-	-	-	35	35	-	35
Coupons on perpetual	-	-	-	-	-	(17)	(17)	-	(17)
Other	-	-	-	-	-	(3)	(3)	-	(3)
December 31, 2019	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(2,620)**	**2,284**	**15**	**2,299**

The accompanying notes are an integral part of these consolidated financial statements.

The amounts included in other comprehensive income are presented net of tax

[(1)] See note 2 in notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Period from January 1 to December 31	***Notes***	**2019**	**2018**
In € millions			**restated (1)**
Net income from continuing operations		293	422
Amortization, depreciation and operating provisions	***9***	2,987	2,888
Financial provisions	***12***	217	159
Loss (gain) on disposals of tangible and intangible assets		(43)	(33)
Derivatives – non monetary result		30	(49)
Unrealized foreign exchange gains and losses, net		82	223
Share of (profits) losses of associates	***21***	(23)	(15)
Deferred taxes	***13***	(21)	201
Other non-monetary items	***40.1***	238	(254)
Financial capacity		**3,760**	**3,542**
(Increase) / decrease in inventories		(93)	(31)
(Increase) / decrease in trade receivables		61	(39)
Increase / (decrease) in trade payables		(133)	57
Change in other receivables and payables		300	269
Change in working capital requirement		**135**	**256**
Net cash flow from operating activities [A]		**3,895**	**3,798**
Acquisition of subsidiaries, of shares in non-controlled entities		(1)	(9)
Purchase of property plant and equipment and intangible assets [B]	***19***	(3,372)	(2,844)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		13	6
Proceeds on disposal of property plant and equipment and intangible assets [C]		100	133
Dividends received		14	6
Decrease (increase) in net investments, more than 3 months		(72)	4
Net cash flow used in investing activities		**(3,318)**	**(2,704)**
Capital increase due to new convertible bonds		54	-
Perpetual	***28.4***	-	(211)
Issuance of debt	***31***	1,617	539
Repayment on debt	***31***	(1,156)	(1,400)
Payments on lease debts [D]	***32***	(1,008)	(972)
New loans		(89)	(195)
Repayment on loans		161	89
Dividends and coupons on perpetual paid		(26)	(38)
Net cash flow from financing activities		**(447)**	**(2,188)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		1	7
Change in cash and cash equivalents and bank overdrafts		**131**	**(1,087)**
Cash and cash equivalents and bank overdrafts at beginning of period	***27***	3,580	4,667
Cash and cash equivalents and bank overdrafts at end of period	***27***	3,711	3,580
Income tax (paid) / reimbursed (flow included in operating activities)		(6)	(35)
Interest paid (flow included in operating activities)		(436)	(465)
Interest received (flow included in operating activities)		25	12

The accompanying notes are an integral part of these consolidated financial statements.

(1) See note 2 in notes to the consolidated financial statements.

OPERATING FREE CASH-FLOW

Period from January 1 to December 31 *in € millions*	***Notes***	**2019**	**2018 restated** (1)
Net cash flow from operating activities	***[A]***	3,895	3,798
Purchase of property plant and equipment and intangible assets	***[B]***	(3,372)	(2,844)
Proceeds on disposal of property plant and equipment and intangible assets	***[C]***	100	133
Operating free cash flow	***33***	**623**	**1,087**
Payments on lease debts	***[D]***	**(1,008)**	**(972)**
Operating free cash flow adjusted		**(385)**	**115**

The accompanying notes are an integral part of these consolidated financial statements.
(1) See note 2 in notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Air France-KLM Group

1. BUSINESS DESCRIPTION

As used herein, the term "Air France–KLM" refers to Air France-KLM SA, a limited liability company organized under French law. The term “Group” is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world.

The Group’s core business is network activities which includes passenger transportation on scheduled flights and cargo activities. The Group’s activities also include aeronautics maintenance, “low cost” passenger transportation (Transavia) and other air-transport-related activities.

The limited company Air France-KLM, domiciled at 2, rue Robert Esnault-Pelterie 75007 Paris, France, is the parent company of the Air France-KLM Group. Air France-KLM is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

The presentation currency used in the Group’s financial statements is the euro, which is also Air France-KLM’s functional currency.

2. RESTATEMENT OF 2018 FINANCIAL STATEMENTS

Since January 1, 2019, the Air France-KLM Group has made the two following changes:

- Customer compensations

On September 17, 2019 the IFRS Interpretations Committee published a clarification of IFRS 15 concerning customer compensation for delays or cancellations. Obligations to compensate customers for delayed or cancelled flights are required to be recognized as variable compensation components within the meaning of IFRS 15, thus reducing the amount of revenue. Previously the Group had recognized these payments as costs in the income statement and, pursuant to the IFRIC decision, retrospectively changed the accounting method in the consolidated financial statements as of January 1, 2019. It also adjusted the comparable period.

- Component approach for Life Limited Parts

A Life Limited Part (LLP) is defined as a major engine part whose failure would jeopardize the engine’s operation. Consequently, as a precaution, engine manufacturers define limited useful lives in cycles beyond which the LLPs must be replaced.
The cost of a complete set of LLPs is significant and their useful lives (depending on the parts) range from 3,000 to 40,000 cycles (a cycle corresponds to one take-off and one landing).

Internal IT developments and data analytics have enabled the Group to improve its ability to track LLP accounting management more precisely. As a result, as of January 1, 2019, the Group has been able to implement the component approach for these spare parts. This means that their maintenance costs must be capitalized and amortized over the useful lives of the LLPs which are expressed in cycles.

In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, these changes in accounting policies have been applied retrospectively to each previous period for which financial information is presented.

For comparison purposes, the consolidated financial statements as of December 31, 2018 have been restated. The adjusted balance sheet as of January 1 and December 31, 2018 is also presented. The impacts are summarized as follows:

Impact on the consolidated income statement

In € million **Period from January 1 to December 31, 2018**	Published accounts	LLP componentization	Customer compensation	Restated accounts
Sales	**26,515**	**-**	**(288)**	**26,227**
External expenses	(15,224)	3	275	(14,946)
Salaries and related costs	(7,759)	-	-	(7,759)
Taxes other than income taxes	(166)	-	-	(166)
Other income and expenses	851	86	-	937
EBITDA	**4,217**	**89**	**(13)**	**4,293**
Amortization, depreciation and provisions	(2,885)	(16)	13	(2,888)
Income from current operations	**1,332**	**73**	**-**	**1,405**
Income from operating activities	**1,320**	**73**	**-**	**1,393**
Net cost of financial debt	(426)	-	-	(426)
Other financial income and expenses	(271)	(65)	-	(336)
Income before tax	**623**	**8**	**-**	**631**
Income taxes	(227)	3	-	(224)
Net income of consolidated companies	**396**	**11**	**-**	**407**
Net income in equity affiliates	**15**	**-**	**-**	**15**
Net income	**411**	**11**	**-**	**422**
Earnings per share (basic)	0.90	0.02	-	0.92
Earnings per share (diluted)	0.90	0.02	-	0.92

Impact on the consolidated statement of recognized income and expenses

In € million **Period from January 1 to December 31, 2018**	Published accounts	LLP componentization	Restated accounts
Net income for the period	**411**	**11**	**422**
Effective portion of changes in fair value hedge and cost of hedging recognized directly in other comprehensive income	(231)	-	(231)
Change in fair value and cost of hedging transferred to profit or loss	(621)	-	(621)
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	270	-	270
Total of other comprehensive income that will be reclassified to profit or loss	**(582)**	**-**	**(582)**
Remeasurements of defined benefit pension plans	(191)		(191)
Fair value of equity instruments revalued through OCI	(24)	-	(24)
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	49	-	49
Total of other comprehensive income that will not be reclassified to profit or loss	**(166)**	**-**	**(166)**
Total of other comprehensive income, after tax	**(748)**	**-**	**(748)**
Recognized income and expenses	**(337)**	**11**	**(326)**
• **Equity holders of Air France-KLM**	**(338)**	**11**	**(327)**
• Non-controlling interests	1	-	1

Impact on the consolidated balance sheet

Only the balance sheet items impacted by the changes in accounting principles are presented hereafter.

In € million **Balance sheet as of December 31, 2018**	Published accounts	LLP componentization	Customer compensation	Restated accounts
Asset				
Flight equipment	10,167	141	-	10,308
Right-of-use assets	5,243	421	-	5,664
Deferred tax assets	544	15	-	559
Other current asset	1,062	3	-	1,065
Equity and liabilities				
Return obligation liability and other provisions *(1)*	3,527	652	(17)	4,162
Trade payables	2,460	(6)		2,454
Other current liabilities	3,548	1	17	3,566
Equity	1,865	(67)	-	1,798
• Holders of Air France-KLM	1,853	(67)	-	1,786
• Non-controlling interests	12	-	-	12

(1) *Current and non-current*

In € million **Balance sheet as of January 1, 2018**	Published accounts	LLP componentization	Customer compensation	Restated accounts
Asset				
Flight equipment	9,636	92	-	9,728
Right-of-use assets	5,724	492	-	6,216
Equity and liabilities				
Return obligation liability and other provisions *(1)*	3,285	682	(5)	3,962
Deferred tax liabilities	12	(12)	-	-
Trade payables	2,365	3	-	2,368
Other current liabilities	3,246	(11)	5	3,240
Equity	2,420	(78)	-	2,342
• Holders of Air France-KLM	2,408	(78)	-	2,330
• Non-controlling interests	12	-	-	12

(1) *Current and non-current*

Impact on the consolidated statement of cash flows

Only the cash flow statement items impacted by the changes in accounting principles are presented hereafter.

In € million **Period from January 1 to December 31, 2018**	Published accounts	LLP componentization	Customer compensation	Restated accounts
Net income	411	11	-	422
Other items of the financial capacity	3,055	78	(13)	3,120
Financial capacity	**3,466**	**89**	**(13)**	**3,542**
Change in working capital requirement	246	(3)	13	256
Net cash flow from operating activities	**3,712**	**86**	**-**	**3,798**
Net cash flow used in investing activities	**(2,618)**	**(86)**	**-**	**(2,704)**
Net cash flow from financing activities	**(2,188)**	**-**	**-**	**(2,188)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	7	-	-	7
Change in cash and cash equivalents and bank overdrafts	**(1,087)**	**-**	**-**	**(1,087)**
Cash and cash equivalents and bank overdrafts at beginning of period	4,667	-	-	4,667
Cash and cash equivalents and bank overdrafts at end of period	3,580	-	-	3,580

3. SIGNIFICANT EVENTS

3.1. Events occurring during the period

Phase-out of the A380 aircraft

On July 30, 2019, the Group announced the progressive early phase-out of the A380 aircraft from the Air France fleet through to the end of 2022 (10 aircraft operating at the end of 2019). At this stage, the impact of this decision is estimated at around € (370) million, mainly due to the acceleration in the depreciation of the aircraft. The €126 million impact is accounted for in “other non-current incomes and expenses” for 2019 (see note 11).
The impact of the change in depreciation slopes will be spread over the period through to 2022, consistent with the retirement timetable for the aircraft.

Voluntary Departure Plan

As of December 31, 2019, Air France recognized a restructuring provision amounting to 31 M€, relating to the new Voluntary Departure Plan initiated on ground staff short-haul (254 FTEs).

Convertible bond (OCEANE) issued in 2019

On March 20, 2019, Air France-KLM issued 27,901,785 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) maturing on March 25, 2026 raising a total nominal amount of €500 million. Each bond has a nominal value of €17.92. The annual coupon amounts to 0.125 per cent. The conversion period of these bonds runs from May 4, 2019 to the seventh working day preceding the normal or early reimbursement date. The conversion ratio is one share for one bond.

Repayment at par, plus accrued interest, will be possible on March 25, 2024 at the request of the bond holders. Air France-KLM can enforce the cash reimbursement of these bonds by exercising a call option running from April 15, 2022 if the share price exceeds 130 per cent of the nominal, i.e. €23.29, encouraging OCEANE bond holders to convert their bonds into Air France-KLM shares.

On the issuance date for this convertible debt, Air France-KLM recorded a debt of €446 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. The option value was evaluated by deducting this debt value from the total nominal amount (i.e. €500 million) and was recorded in equity.

3.2. Subsequent events

There have been no significant events since the closing of the financial year.

4. ACCOUNTING POLICIES

4.1. Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2019 were established in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union on the date these consolidated financial statements were established.

IFRS, as adopted by the European Union, differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially if the Group had applied IFRS as published by the IASB.

The consolidated financial statements were approved by the Board of Directors on February 19, 2020.

Change in accounting principles

- **IFRS standards which are applicable on a mandatory basis to the 2019 financial statements**

Amendment to IFRS 9 "Financial Instruments"
This amendment deals with prepayment features with negative compensations.
The Group opted for the early adoption of this amendment, concurrently with the implementation of IFRS 9.

IFRIC 23 "Uncertainty over Income Tax Treatments"
This interpretation applies to any situation of uncertainty concerning the acceptability of a tax treatment that relates to income taxes, as regards tax law.
Fiscal treatments applied by the Group in terms of income taxes during the period do not relate to significant amounts.

Amendment to IAS 28 "Long-term Interests in an Associate or Joint-Venture"
This amendment relates to "other interests" in associates or joint ventures to which the equity method is not applied.

Amendment to IAS 19 "Employee Benefits"
This amendment concerns the consequences of a plan amendment, curtailment or settlement for the current service cost and the net interest.

Amendment to IAS 12 "Income Taxes"
This amendment clarifies that the tax effects resulting from dividend payments on financial instruments classified as equity are required to be recognized in net income, other comprehensive income or equity, depending on the accounting item in which these past events or transactions were recorded initially, at the date of the recognition of the liability in respect of the dividends payable.

Amendment to IFRS 11 "Joint Arrangements"
This amendment clarifies the accounting treatment for the acquisition of an interest in a joint operation.

Amendment to IAS 23 "Borrowing Costs"
This amendment clarifies the borrowing costs that are eligible for capitalization.

These amendments and interpretation had no significant impact on the Group's financial statements as of December 31, 2019.

- **IFRS standards which are applicable on a mandatory basis to the 2020 financial statements**

Amendments to IAS 1"Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors"
The amendments define the concept of materiality.

- **Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union**

Amendment to IFRS 3 "Business Combinations"
(Effective for the accounting periods opening as of January 1, 2020)
This amendment clarifies the definition of a business.

Amendments to IFRS 9 "Financial instruments" and IFRS 7 "Financial instruments: Disclosures"
(Effective for the accounting periods opening as of January 1, 2020)
These amendments are designed to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks (IBORs). They modify certain hedge accounting requirements. In this context, the Group pays increased attention to the modalities defined within the framework of new financing.

IBORs continue to be used as reference rates for financial markets and the valuation of financial instruments with maturities that exceed the expected end date of these IBORs.
The Group believes the current market structure supports the continuation of the hedge accounting as of December 31, 2019.

The Group does not opt for the early adoption of these amendments on the Group's financial statements as of December 31, 2019.

4.2. Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main areas of estimates are disclosed in the following notes:

- 4.6 Revenue recognition related to deferred revenue on ticket sales
- 4.7 Flying Blue frequent flyer program
- 4.11 Financial instruments
- 4.13 Intangible assets
- 4.14 Tangible assets
- 4.15 Lease contracts
- 4.19 Pension assets and provisions
- 4.20 Return obligation liability and provision for leased aircraft
- 4.21 Other provisions
- 4.24 Current and deferred tax

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

The consolidated financial statements for the financial year have thus been established on the basis of the financial parameters available at the closing date. Concerning the non-current assets, the assumptions are based on a limited level of growth.

These accounting estimates are based upon the most-recently available, reliable information.

The actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.3. Consolidation principles

Subsidiaries

In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial figures for all the entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated. An entity is controlled when the Group has power over it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken.
The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.

Non-controlling interests are presented within equity and on the income statement separately from Group stockholders' equity and the Group's net income, under the line "non-controlling interests".

The effects of a buyout of non-controlling interests in a subsidiary already controlled by the Group and divestment of a percentage interest without loss of control are recognized in equity. In a partial disposal resulting in loss of control, the retained equity interest is re-measured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this re-measurement and the gain or loss on the sale of the equity interest, including all the items initially recognized in equity and reclassified to profit and loss.

Interest in associates and joint ventures

In accordance with IFRS 11 "Joint Arrangements", the Group applies the equity method to partnerships over which it exercises control jointly with one or more partners (joint-venture). Control is considered to be joint when decisions about the relevant activities of the partnership require the unanimous consent of the Group and the other parties with whom control is shared.

In cases of a joint activity (joint operation), the Group recognizes assets and liabilities in proportion to its rights and obligations regarding the entity.

In accordance with IAS 28 “Investments in Associates and Joint Ventures”, companies in which the Group has the ability to exercise significant influence over financial and operating policy decisions are also accounted for using the equity method. The ability to exercise significant influence is presumed to exist when the Group holds more than 20 per cent of the voting rights.

The consolidated financial statements include the Group’s share in the net result of associates and joint ventures from the date the ability to exercise significant influence begins until the date it ceases, adjusted for any impairment loss.

The Group’s share of losses of an associate exceeding the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity are not accounted for, unless the Group has:
- incurred contractual obligations to recover losses, or
- made payments on behalf of the associate.

Any surplus in investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

Investments in which the Group has ceased to exercise significant influence or joint control are no longer accounted for by the equity method and are accounted at their fair value as other financial assets on the date of loss of significant influence or joint control.

Intra-Group operations

All intra-Group balances and transactions, including income, expenses and dividends, are fully eliminated. Profits and losses resulting from intra-Group transactions are also eliminated.
Gains and losses realized on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group’s interest in the entity, providing there is no impairment.

4.4. Translation of foreign companies’ financial statements and transactions in foreign currencies

Translation of foreign companies’ financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:
- Except for the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency exchange rates in effect at the closing date.
- The income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period.
- The resulting foreign currency exchange adjustment is recorded in the "Translation adjustments" item within equity.
- Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign exchange rate in effect at the closing date.

Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the closing date.

Non-monetary assets and liabilities denominated in foreign currencies assessed on an historical cost basis are translated using the rate in effect at the transaction date or the hedging rate, when applicable.

The corresponding exchange rate differences are recorded in the income statement. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in note 4.11. “Financial instruments”.

4.5. Business combinations

Business combinations completed on or after April 1, 2010

Business combinations completed on or after April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 “Business Combinations”. In accordance with this standard, for a first consolidation, all assets and liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition (except for non-current assets classified as assets held for sale which are measured at fair value less costs to sell).

Goodwill corresponding, at the acquisition date, to the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable assets acquired and the liabilities assumed at the acquisition date, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Costs other than those related to the issuance of debt or equity securities are recognized immediately as an expense when incurred.
For individual acquisitions, the Group has the option of using the “full” goodwill method, where goodwill is calculated by taking into account the fair value of non-controlling interests at the acquisition date rather than their proportionate interest in the fair value of the assets and liabilities of the acquiree.

If the fair values of the identifiable assets acquired and liabilities assumed exceed the consideration transferred, the resulting negative goodwill is recognized immediately in the income statement.

Contingent considerations or earn-outs are recorded in equity if the contingent payment is settled by delivery of a fixed number of the acquirer’s equity instruments (according to IAS 32). In all other cases, they are recognized in liabilities related to business combinations. Contingent payments or earn-outs are measured at fair value at the acquisition date. This initial measurement is subsequently adjusted through goodwill only when additional information is obtained after the acquisition date about facts and circumstances existing on that date. Such adjustments are made only during the 12-month measurement period that follows the acquisition date and insofar as the initial measurement had still been presented as provisional. Any other subsequent adjustments which do not meet these criteria are recorded as receivables or payables through the income statement.

In a step acquisition, the previously-held equity interest in the acquiree is remeasured at its acquisition-date fair value. The difference between the fair value and the net book value must be accounted in profit or loss as well as elements previously recognized in other comprehensive income.

Business combinations carried out before April 1, 2010

Business combinations carried out before April 1, 2010 were accounted for using the purchase method in accordance with IFRS 3 (2004) “Business Combinations”. In accordance with this standard, all assets, liabilities assumed and contingent liabilities were measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill did not exceed 12 months from the date of acquisition.

The goodwill that arose from the difference between the acquisition cost (including any equity instruments issued by the Group to gain control over the acquired entity and other costs potentially dedicated to the business combination) and the Group’s interest in the fair value of the identifiable assets and liabilities acquired, were subject to annual impairment tests or more frequently if events or changes in circumstances indicated that goodwill might be impaired.

When the fair value of identifiable assets acquired and liabilities assumed exceeded the cost of acquisition, the resulting negative goodwill was recognized immediately in the income statement.

4.6. Sales

Passenger and freight transportation

Sales related to air transportation operations, which consist of passenger and freight transportation, are recognized as revenue when the transportation service is provided, net of any discounts granted (see note 6). The transportation service is also the trigger for the recognition as external expenses of the commissions paid to agents (e.g. credit card companies and travel agencies) and the booking fees.

Both passenger tickets and freight airway bills are consequently recorded as "Deferred revenue upon issuance date". The recognition of the revenue known as "ticket breakage" is deferred until the transportation date initially foreseen. This revenue is calculated by applying a statistical rate on tickets issued and unused. This rate is regularly updated.

The Group applies the exemption provided by IFRS 15 which allows the balance of the outstanding transactions to remain unspecified as well as their planned recognition date for the performance obligations related to contracts with an initial term set at one year or less. If the tickets are not used, the performance obligations related to passenger and freight transportation effectively expire within one year.

Pursuant to the European Union's Regulation EC 261 the Group compensates passengers in the event of denied boarding and for flight cancellations or long delays. This compensation is booked as contra revenue. The Group recognizes a corresponding amount in liabilities for future refunds to passengers.

Passenger ticket taxes calculated on ticket sales are collected by the Group and paid to the airport authorities. Taxes are recorded as a liability until such time as they are paid to the relevant airport authority as a function of the chargeability conditions (on ticket issuance or transportation).

The Group considers that the company that issues the airway bill acts as principal since the latter has control over the achievement of the performance obligation. When the Group issues freight airway bills for its goods carried by another carrier (airline company or road carrier), the Group acts as principal. Therefore, at the time of transportation the Group recognizes as revenue the amount invoiced to the customer in its entirety as well as the chartering costs invoiced by the other carrier for the service provision.

Maintenance

The main types of contracts with customers identified within the Group are mainly:

- **Sales of maintenance and support contracts – Power by the hour contracts**

Some maintenance and support contracts cover the airworthiness of engines, equipment or airframes, an airframe being an aircraft without engines and equipment. The invoicing of these contracts is based on the number of flight hours or landings of the goods concerned by these contracts.

The different services included within each of these contracts consist of a unique performance obligation due to the existing interdependence between the services within the execution of these contracts.

The revenue is recognized: (i) if the level of completion can reliably be measured; and (ii) if the costs incurred and costs to achieve the contract can reliably be measured.

As there is a continuous transfer of the control of these services, the revenue from these contracts is recognized as the costs are incurred. As long as the margin on the contract cannot be measured in a reliable manner, the revenue will only be recognized at the level of the costs incurred.

Forecast margins on the contracts are assessed through the forecast future cash flows that take into account the obligations and factors inherent to the contracts as well as other internal parameters to the contract selected using historical and/or forecast data.

These forecast margins are regularly reviewed. If necessary, provisions are recorded as soon as any losses on completion of contracts are identified.

Amounts invoiced to customers, and therefore mostly collected, which are not yet recognized as revenue, are recorded as liabilities on contracts (deferred revenue) at the year end. Inversely, any revenue that has been recognized but not yet invoiced is recorded under assets on the balance sheet at the year end.

- **Sales of spare parts repair and labor - Time & Material contracts**

These services which relate to engines, equipment or airframes, an airframe being an aircraft without engines and equipment, are generally short term.

They consist of a unique performance obligation. The revenue is recognized as costs are incurred.

- **Third-party procurement**

The Group also purchases equipment on behalf of third-parties. In this situation, the revenue recognition method is as follows:
- when the Group serves as a broker between its suppliers and end customers, the Group acts as an agent and hence, recognizes the margin that results from this operation as revenue.
- when the Group puts in place Sale & Lease back agreements, the Group recognizes the proceeds on disposal as well as a net book value.

4.7. Loyalty programs

The airlines of the Group have a common frequent flyer program "Flying Blue". This program enables members to acquire Miles as they fly with Air France, KLM and airline partners and from transactions with non-airline partners (credit card companies, hotels, car rental agencies). These Miles entitle members to a range of benefits such as free flights with Air France, KLM and their airline partners or other free services with non-airline partners.

Miles are considered as separate elements of a sale of a ticket with multiple elements and one part of the price of the initial sale of the ticket is allocated to these Miles and deferred until the Group's commitments relating to these Miles have been met.

The deferred amount due in relation to the acquisition of Miles by members is estimated:
- according to the fair value of the Miles, defined as the amount for which the benefits could be sold separately;
- after taking into account the redemption rate, corresponding to the probability that the Miles will be used by members, using a statistical method.

With regard to the re-invoicing of Miles between the partners in the program, the margins realized on sales of these Miles are recorded immediately in the income statement.

4.8. Distinction between income from current operations and income from operating activities

The Group considers it relevant to the understanding of its financial performance to present in the income statement a subtotal within the "income from operating activities". This subtotal, entitled "Income from current operations", excludes unusual elements that do not have predictive value due to their nature, frequency and/or materiality, as defined in recommendation No. 2013-03 from the France's accounting standards authority.

Such elements are as follows:
- sales of aircraft equipment and disposals of other assets,
- accelerated aircraft phase-out,
- income from the disposal of subsidiaries and affiliates,
- restructuring costs when they are significant,
- significant and infrequent elements such as the recognition of badwill in the income statement, the recording of an impairment loss on goodwill and significant provisions for litigation.

4.9. Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization): by excluding the main line of the income statement which does not involve cash disbursement ("Amortization, depreciation and provision") from income from current operations, EBITDA provides a simple indicator of the cash generated by the Group's current operational activities. It is thus commonly used for the calculation of the financial coverage and enterprise value ratios.

Operating free cash flow: this corresponds to the net cash-flow from operating activities net of purchases of property, plant and equipment and intangible assets , plus the proceeds on the disposal of property, plant and equipment and intangible assets. It does not include the other cash flows linked to investment operations, particularly investments in subsidiaries and other financial assets and net cash flow from the operating activities of discontinued operations.

Operating free cash flow adjusted: this corresponds to operating free cash flow net of the payment of lease debts.

4.10. Earnings per share

Earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM, adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially-dilutive ordinary shares.

4.11. Financial instruments

Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are initially recorded at fair value. They are subsequently valued using the amortized cost method.

Regarding the impairment of trade receivables, the Group has chosen the simplified method approach in that the automated customer invoicing and settlement processes for the Passenger and Cargo businesses significantly limit the credit risk. The Group also uses credit insurance to reduce the risk of potential default regarding trade receivables concerning the clients of the Maintenance activity.

The Group considers that the change in credit risk on the non-current financial assets since their initial recognition is limited due to the current selection criteria (e.g. type of instrument, counterparty rating, maturity). The impairment recorded by the Group consists of the expect credit loss over the 12 months following the closing date.

Purchases and sales of financial assets are booked as of the transaction date.

Investments in equity instruments

Investments in equity securities qualifying as equity instruments are recorded at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price at the closing date. For non-quoted securities, the valuation is made on the basis of the financial statements of the entity.

The valuation of equity instruments is either in fair value through the income statement or in fair value through other comprehensive income:

- When the instrument is deemed to be a cash investment, i.e. it is held for the purposes of monetary transactions, its revaluations are recorded in "Other financial income and expenses".
- When the instrument is deemed to be a business investment, i.e. it is held for strategic reasons (as it mainly consists of investments in companies whose activity is very close to that of the Group) its revaluations are recorded in "Other comprehensive income" non-recyclable. Dividends are recorded in the income statement.

Derivative financial instruments

The Group uses various derivative financial instruments to hedge its exposure to the risks incurred on shares, exchange rates, changes in interest rates or fuel prices and the ETS (Emission Trading Scheme).

Forward currency contracts and options are used to hedge exposure to exchange rates.

The Group also uses interest rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

The exposure to fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Finally, the risk related to the ETS is hedged by forwards.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging relationship are documented as required by IFRS 9 “Financial Instruments”.

These derivative instruments are recorded on the Group’s consolidated balance sheet at their fair value adjusted for the market value of the Group’s credit risk (DVA) and the credit risk of the counterparty (CVA). The calculation of the credit risk follows a common model based on default probabilities from CDS counterparties. The method of accounting for changes in fair value depends on the classification of the derivative instruments.

There are three classifications:

- **Derivatives classified as fair value hedge**

Changes in the fair value of the derivative are recorded through the income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (asset, liability or firm commitment), which are also recognized through the income statement.

- **Derivatives classified as cash flow hedge**

The changes in fair value of the derivative are recorded in other comprehensive income for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or losses until the termination of the derivative. When the termination occurs, the residual ineffective portion is recycled on the hedged item.

- **Derivatives classified as trading**

Changes in the fair value of the derivative are recorded as financial income or losses.

For options, only the intrinsic risk can be hedged. The time value is excluded as it is considered as a cost of hedging. The change in fair value of the option time value is recognized in other comprehensive income in so far as it relates to the hedged item. When the latter occurs (if the hedged item is transaction related), the change in fair value is then recycled and impacts the hedged item or is amortized over the hedging period (if the hedged item is time-related).

The difference in time value between non-aligned structured options and the related “vanilla” (“aligned”) options is recognized in the profit and loss account.

Regarding forward contracts, only the spot component is considered as a hedging instrument, since the forward element is considered as a hedging cost and accounted for similarly to the option time value.

The currency swap basis spread is also excluded from the hedging instrument and considered to be a hedging cost.

Convertible bonds

Convertible bonds are deemed to be financial instruments comprising two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all the coupons due on the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Group's equity is calculated by the difference between this value and the bond's nominal value at issuance.

The difference between the financial expense recorded and the amounts effectively paid out is added, at each closing date, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

Financial assets, cash and cash equivalents

- Financial assets at fair value through profit and loss

Financial assets include financial assets at fair value through profit and loss (French mutual funds such as SICAVs and FCPs, certificates, etc.) that the Group intends to sell in the near term to realize a capital gain, or that are part of a portfolio of identified financial instruments managed collectively and for which there is evidence of a practice of short-term profit taking. They are classified in the balance sheet as current financial assets. Furthermore, the Group has opted not to designate any assets at fair value through the income statement.

- Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Financial debt

Financial debt is recognized initially at fair value. Subsequent to the initial measurement, financial debt is recorded at its net book value for bonds, based on amortized cost calculated using the effective interest rate for the other financial debt.
Under this principle, any redemption and issue premiums, as well as issue costs, are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans using the effective interest method.

Fair value hierarchy of the financial assets and liabilities

The table presenting a breakdown of financial assets and liabilities categorized by value (see note 36.4) meets the amended requirements of IFRS 7 "Financial Instruments: Disclosures". The fair values are classified using a scale which reflects the nature of the market data used to make the valuations.

This scale has three levels of fair value:
Level 1: Fair value calculated from the exchange rate/price quoted on an active market for identical instruments;
Level 2: Fair value calculated from valuation methods based on observable data such as the prices of similar assets and liabilities or scopes quoted on an active market;
Level 3: Fair value calculated from valuation methods which rely completely or in part on non-observable data such as prices on an inactive market or multiple-based valuation for non-quoted securities.

4.12. Goodwill

Goodwill corresponds, at the acquisition date, to the aggregation of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable amounts acquired and the liabilities assumed at the acquisition date.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations taking place prior to April 1, 2004 were not modified at the time international standards were adopted, on April 1, 2004, in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards".

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset in the balance sheet.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. As discussed in note 4.16, once recorded the impairment may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired exceeds the consideration transferred, there is negative goodwill which is recognized and immediately reversed in the Group's income statement.

At the time of the sale of a subsidiary or an equity affiliate, the amount of the goodwill attributable to the entity sold is included in the calculation of the income from the sale.

4.13. Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.

IT development costs are capitalized and amortized over their useful lives. The Group has the tools required to enable the tracking by project of all the stages of development, and, in particular, the internal and external costs directly related to each project during its development phase.

Identifiable intangible assets acquired with a finite useful life are amortized over their useful lives from the date they are available for use.

The KLM and Transavia brands and slots (takeoff and landing) acquired by the Group as part of the acquisition of KLM are identifiable intangible assets with an indefinite useful life. They are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, impairment as described in note 4.16 is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in note 4.22 and the "Risks on carbon credit" paragraph in note 36.1. As such, the Group is required to purchase CO_2 quotas to offset its emissions. The Group records the CO_2 quotas as intangible assets. These assets are not depreciable.

Intangible assets with a definite useful life are amortized on a straight-line basis over the following periods:

Software	1 to 5 years
Licenses	Duration of contract
Information Technology developments	Up to 20 years (*)

(*) IT developments are amortized over the same useful life as the underlying software. In some cases, they can be amortized over a longer period. This duration must be documented.

4.14. Property, plant and equipment

<u>Principles applicable</u>

Property, plant and equipment are recorded at their acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

Pursuant to IAS 23, the financial interest attributed to advance payments made on account of investments in aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. As prepayments on investments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on aircraft airframes and engines including parts with limited useful lives).

Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life which is between 20 and 25 years.

During the operating cycle, and when establishing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major aircraft airframe and engine overhaul including parts with limited useful lives are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft spare parts (maintenance business) which enable the use of the fleet are recorded as fixed assets and are amortized on a straight-line basis over the estimated residual lifetime of the aircraft/engine type on the world market. The useful life is limited to a maximum of 30 years.

Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight-line method over their useful lives as follows:

Buildings	20 to 50 years
Fixtures and fittings	8 to 20 years
Flight simulators	10 to 20 years
Equipment and tooling	3 to 15 years

4.15. Lease contracts

Lease contracts, as defined by IFRS 16 “Leases”, are recorded in the balance sheet and lead to the recognition of:
- an asset representing a right of use of the asset leased during the lease term of the contract and
- a liability related to the payment obligation.

Aircraft which are not eligible for an accounting treatment according to IFRS 16 are those:
- which were acquired by the airline or for which the airline took a major share in the acquisition process from the OEMs (Original Equipment Manufacturers);
- and which, in view of the contractual conditions, will almost certainly be purchased at the end of the lease term,.

Since these financing arrangements are “in substance purchases” and not leases, the related liability is considered as a financial debt under IFRS 9 and the asset, as an aeronautical asset, according to IAS 16.

Measurement of the right-of use asset

At the commencement date, the right-of-use asset is measured at cost and comprises:
- the amount of the initial measurement of the lease liability, to which is added, if applicable, any lease payments made at or before the commencement date, less any lease incentives received;
- where relevant, any initial direct costs incurred by the lessee for the conclusion of the contract. These are incremental costs which would not have been incurred if the contract had not been concluded;
- estimated costs for restoration and dismantling of the leased asset according to the terms of the contract. At the date of the initial recognition of the right-of-use asset, the lessee adds to these costs, the discounted amount of the restoration and dismantling costs through a return obligation liability or provision as described in note 4.20. These costs also include maintenance obligations with regard to the engines and airframes.

Following the initial recognition, the right-of-use asset must be depreciated over the useful life of the underlying assets (lease term for the rental component, flight hours for the component relating to engine maintenance or on a straight-line basis for the component relating to the airframe until the date of the next major overhaul).

Measurement of the lease liability

At the commencement date, the lease liability is recognized for an amount equal to the present value of the lease payments over the lease term.

Amounts involved in the measurement of the lease liability are:
- fixed payments (including in-substance fixed payments; meaning that even if they are variable in form, they are in-substance unavoidable);
- variable lease payments that depend on an index or a rate, initially measured using the index or the rate in force at the lease commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured based on a process similar to the amortized cost method using the discount rate:
- the liability is increased by the accrued interests resulting from the discounting of the lease liability, at the beginning of the lease period;
- less payments made.

The interest cost for the period as well as variable payments, not taken into account in the initial measurement of the lease liability and incurred over the relevant period, are recognized as costs.

In addition, the lease liability may be remeasured in the following situations:
- change in the lease term,
- modification related to the assessment of the reasonably certain nature (or not) of the exercise of an option,
- remeasurement linked to the residual value guarantees,
- adjustment to the rates and indices according to which the rents are calculated when rent adjustments occur.

Types of capitalized lease contracts

- **Aircraft lease contracts**

For the aircraft lease contracts fulfilling the capitalization criteria defined by IFRS 16, the lease term corresponds to the non-terminable period of each contracts except in cases where the Group is reasonably certain of exercising the renewal options contractually foreseen. For example, this may be the case if substantial cabin customization has taken place whereas the residual lease term is significantly shorter than the useful life of the cabins. The accounting treatment of the maintenance obligations related to leased aircraft is outlined in note 4.20.

Aircraft lease contracts concluded by the Group do not include guaranteed value clauses for leased assets.

The discount rate used to calculate the lease debt corresponds, for each aircraft, to the implicit interest rate induced by the contractual elements and residual market values. This rate is easy to calculate due to the availability of current and future data concerning the value of aircraft. It is recalculated on each contract renewal (prolongation). The implied rate of the contract is the discount rate that gives the aggregated present value of the minimum lease payments and the unguaranteed residual value. This present value should be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.
Since most of the aircraft lease contracts are denominated in US dollars, starting from January 1, 2018 the Group put in place a cash flow hedge for its US dollar revenues via the lease debt in US dollars. Consequently, the revaluation of the Group's debt at the closing rate is accounted for in "Other comprehensive income".

- **Real-estate lease contracts**

Based on its analysis, the Group has identified lease contracts according to the standard concerning surface areas rented in its hubs, lease contracts on building dedicated to the maintenance business, customized lounges in airports other than hubs and lease contracts on office buildings.

The lease term corresponds to the non-terminable period, with most of the contracts not including renewal options. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the signature date. The incremental borrowing rate is the rate that the lessee would pay to borrow the required funds to purchase the asset over a similar term, with a similar security and in a similar economic environment. This rate is achieved by the addition of the interest rate on government bonds and the credit spread. The coupon on government bonds is specific to the location, currency, period and maturity. The definition of the spread curve is based upon reference points, each point consisting of asset financing on assets other than aircraft.

- **Other-assets lease contracts**

The main lease contracts identified correspond to company cars, pools of spare parts and engines. The lease term corresponds to the non-terminable period. Most of the contracts do not provide renewal options. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the signature debt. The incremental borrowing rate is the rate that the lessee would pay to borrow the required funds to purchase the asset over a similar term, with a similar security and in a similar economic environment (for the method used to determine the incremental borrowing rate, see the “Real estate lease contracts” paragraph above).

Types of non-capitalized lease contracts

The Group uses the two exemptions foreseen by IFRS 16 allowing for non-recognition in the balance sheet: short-term lease contracts and lease contracts for which the underlying assets have a low value.

- **Short duration lease contracts**

These are contracts whose duration is equal to or less than 12 months. Within the Group, they mainly relate to leases of:
- Surface areas in our hubs with a reciprocal notice-period equal to or less than 12 months;
- Accommodations for expatriates with a notice period equal to or less than 12 months;
- Spare engines for a duration equal to or less than 12 months.

- **Low value lease contracts**

Low-value lease contracts concern assets with a value equal to or less than US$5,000. Within the Group, these include, notably, lease contracts on printers, tablets, laptops and mobile phones.

Sale and leaseback transactions

The Group qualifies as sale and leaseback transactions, operations which lead to a sale according to IFRS 15. More specifically, a sale is considered as such if there is no repurchase option on the goods at the end of the lease term.

- **Sale according to IFRS 15**

If the sale by the vendor-lessee is qualified as a sale according to IFRS 15, the vendor-lessee must: (i) de-recognize the underlying asset, (ii) recognize a right-of-use asset equal to the retained portion of the net carrying amount of the asset sold.

- **Transaction not deemed to be a sale according to IFRS 15**

If the sale by the vendor-lessee is not qualified as a sale according to IFRS 15, the vendor-lessee maintains the goods transferred on its balance sheet and recognizes a financial liability equal to the disposal price (received from the buyer-lessor).

4.16. Impairment test

In accordance with IAS 36 “Impairment of Assets”, tangible fixed assets, intangible assets, right-of-use assets and goodwill are tested for depreciation if there is an indication of impairment, and those with an indefinite useful life are tested at least once a year on September 30.

For this test, the Group deems the recoverable value of the asset to be the higher of the market value less cost of disposal and its value in use. The latter is determined according to the discounted future cash flow method, estimated based on budgetary assumptions approved by management, using an actuarial rate which corresponds to the weighted average cost of the Group’s capital and a growth rate which reflects the market hypotheses for the appropriate activity.

The depreciation tests are carried out individually for each asset, except for those assets to which it is not possible to attach independent cash flows. In this case, these assets are regrouped within the CGU to which they belong and it is this which is tested. The CGUs correspond to the Group’s business segments: network, maintenance, leisure and others which are homogeneous asset groups whose use generates identifiable cash inflows.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is recognized. The impairment of a CGU is charged in the first instance to goodwill, the remainder being charged to the other assets which comprise the CGU, prorated to their net book value.

4.17. Inventories

Inventories are measured at the lower of their cost and net realizable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

4.18. Treasury shares

Air-France-KLM shares held by the Group are recorded as a deduction from the Group’s consolidated equity at the acquisition cost. Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group’s income statement.

4.19. Employee benefits

The Group's obligations in respect of defined benefit pension plans, including termination indemnities, are calculated in accordance with IAS 19 Revised “Employee Benefits”, using the projected units of credit method based on actuarial assumptions and considering the specific economic conditions in each country concerned. The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.

The Group recognizes in “other comprehensive income” all the actuarial gains or losses relating to post-employment plans, the differential between the actual return and the expected return on the pension assets, and the impact of any plan curtailment.
The actuarial gains or losses relating to termination benefits (mainly jubilees) are recognized in the income statement.

The Group recognizes all the costs linked to pensions (defined contribution pension plans and defined benefit pension plans) in the income from current operations (salaries and related costs).

- **Specific information related to the recognition of some pension plan assets:**

Pension plans in The Netherlands are generally subject to minimum funding requirements ("MFR") that can involve the recognition of pension surpluses. These pension surpluses constituted by the KLM sub group are recognized in the balance sheet according to the IFRIC 14 interpretation (IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction").

4.20. Return obligation liability and provision on leased aircraft

The Group recognizes return obligation liabilities and provisions in respect of the required maintenance obligations within the framework of the leasing of aircraft from lessors. The constitution of these return obligation liabilities and provisions depends on the type of maintenance obligations to fulfill before returning these aircraft to the lessors: overhaul and restoration work, airframe and engine potential reconstitution as well as the replacement of limited life parts.

Overhaul and restoration works (not depending on aircraft utilization)

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul ("C Check") are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

Airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines)

The airframe and the engine potentials as well as the limited life parts are recognized as a complement to the right-of-use assets since they are considered as fully-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognized in its totality at the inception of the contract. When maintenance events aimed at reconstituting these potentials or replacing the limited life parts take place, the costs incurred are capitalized. These potentials and the limited life parts are depreciated over the period of use of the underlying assets (flight hours for the engine potentials component, straight-line for the airframe potentials component and cycles for the limited life parts).

4.21. Other provisions

The Group recognizes a provision in the balance sheet when it has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material. The effect of the time value of money is presented as a component of "Other financial income and expenses".

Restructuring provisions are recognized once the Group has established a detailed and formalized restructuring plan which has been announced to the parties concerned.

4.22. Emission Trading Scheme

Since January 1, 2012, European airlines have been included in the scope of companies subject to the Emission Trading Scheme (ETS). In the absence of IFRS standards or interpretations governing ETS accounting, the Group has adopted the accounting treatment known as the "netting approach".

According to this approach, the quotas are recognized as intangible assets in the following way:
- free quotas allocated by the State are valued at nil, and
- quotas purchased on the market are accounted at their acquisition cost.

These intangible assets are not amortized.

If the allocated quotas are insufficient to cover the actual emissions then the Group recognizes a provision. This provision is assessed at the acquisition cost for the acquired rights and, for the non-hedged portion, with reference to the market price as of each closing date.

At the date of the restitution to the State of the quotas corresponding to actual emissions, the provision is written-off in exchange for the intangible assets returned.

4.23. Capital increase costs

Capital increase costs are deducted from paid-in capital.

4.24. Current and deferred taxes

The Group records deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the exceptions described in IAS 12 "Income Taxes".

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity's tax position.

Deferred tax assets relating to temporary differences and tax losses carried forward are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

Deferred tax assets corresponding to fiscal losses are recognized as assets given the prospects of recoverability resulting from the budgets and medium-term plans prepared by the Group. The assumptions used are the same as those used for the impairment tests on assets (see note 4.16).

A deferred tax liability is also recognized for the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event recorded directly in other comprehensive income. In such a case, they are recorded directly in other comprehensive income.

Impact of the Contribution on Added Value of Enterprises

The CAVE (Contribution on Added Value of Enterprises/*Cotisation sur la Valeur Ajoutée des Entreprises – CVAE*) is calculated by the application of a tax rate to the added value generated by the company during the year. As the added value is a net amount of income and expenses, the CAVE meets the definition of a tax on profits as set out in IAS 12.2. Consequently, the expense relating to the CAVE is presented under the line "Income taxes".

4.25. Non-current assets held for sale and discontinued operations

Assets or groups of assets held for sale meet the criteria for this classification if their carrying amount is recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets were classified as assets held for sale.

The Group determines on each closing date whether any assets or groups of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".
Any liabilities related to these assets are also presented on a separate line in liabilities on the balance sheet.

Assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented separately from the results from continuing operations in the income statement.

5. CHANGE IN THE CONSOLIDATION SCOPE

- **Year ended December 31, 2019**

No significant acquisitions or disposals took place during the twelve-month period ended December 31, 2019.

- **Year ended December 31, 2018**

No significant acquisitions or disposals took place during the twelve-month period ended December 31, 2018.

6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

The segment information is prepared on the basis of internal management data communicated to the Executive Committee, the Group's principal operational decision-making body.

The Group is organized around the following segments:

Network: The revenues from this segment, which are composed of Passenger network and Cargo operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (excluding Transavia), including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third-party airlines and services linked to IT systems.
The revenues also including income from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties and transportation of shipments on behalf of the Goup by other airlines.

Maintenance: Third-party maintenance revenues are generated through maintenance services provided to other airlines and customers worldwide.

Transavia: The revenues from this segment come from the "low cost" activity realized by Transavia.

Other: The revenues from this segment come from various services provided by the Group and not covered by the four segments mentioned above.

The results of the business segments are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond to the EBITDA, current operating income and to the income from operating activities. Other elements of the income statement are presented in the "non-allocated" column.

Inter-segment transactions are evaluated based on normal market conditions.

Geographical segments

• Activity by origin of sales area

Group activities by origin of sale are broken down into eight geographical areas:

- Metropolitan France
- Benelux
- Europe (excluding France and Benelux)
- Africa
- Middle East, Gulf, India (MEGI)
- Asia-Pacific
- North America
- Caribbean, West Indies, French Guyana, Indian Ocean, South America (CILA)

Only segment revenue is allocated by geographical sales area.

• Activity by destination

Group activities by destination are broken down into seven geographical areas:

- Metropolitan France
- Europe (excluding France) and North Africa
- Caribbean, West Indies, French Guyana and Indian Ocean
- Africa (excluding North Africa), Middle East
- North America, Mexico
- South America (excluding Mexico)
- Asia and New Caledonia

6.1. Information by business segment

• Year ended December 31, 2019

In € millions	Network	Maintenance	Transavia	Other	Non-allocated	Total
Total sales	23,315	4,616	1,747	251	-	29,929
Intersegment sales	(43)	(2,478)	(3)	(217)	-	(2,741)
External sales	**23,272**	**2,138**	**1,744**	**34**	**-**	**27,188**
EBITDA	3,130	606	362	30	-	4,128
Income from current operations	749	260	131	1	-	1,141
Income from operating activities	655	220	130	5	-	1,010
Share of profits (losses) of associates	-	3	-	20	-	23
Net cost of financial debt and other financial income and expenses	-	-	-	-	(664)	(664)
Income taxes	-	-	-	-	(76)	(76)
Net income from continuing operations	**655**	**223**	**130**	**25**	**(740)**	**293**
Depreciation and amortization for the period	(2,359)	(326)	(230)	(26)	-	(2,941)
Other non-monetary items	179	43	10	18	(12)	238
Total assets	**16,679**	**3,936**	**1,661**	**1,996**	**6,463**	**30,735**
Segment liabilities	10,106	1,857	1,061	209	3,965	17,198
Financial debts, lease debts, bank overdrafts and equity	-	-	-	-	13,537	13,537
Total liabilities	**10,106**	**1,857**	**1,061**	**209**	**17,502**	**30,735**
Purchase of property, plant and equipment and intangible assets	**2,761**	**432**	**177**	**2**	**-**	**3,372**

The non-allocated assets, amounting to €6.5 billion, comprise cash and cash equivalents of €3.7 billion, pension assets of €0.4 billion, financial assets of €1.1 billion, deferred tax of €0.5 billion, income taxes of €0.2 billion and derivatives of €0.5 billion.

The non-allocated segment liabilities, amounting to €4 billion, mainly comprise pension provisions for €2.3 billion, tax and employee-related liabilities of €1.2 billion, deferred tax of €0.1 billion, income taxes of €0.1 billion and derivatives of €0.3 billion.

Financial debts, lease debts, bank overdrafts and equity are not allocated.

• Year ended December 31, 2018 (restated) [1]

In € millions	**Network**	**Maintenance**	**Transavia**	**Other**	**Non-allocated**	**Total**
Total sales	22,711	4,349	1,601	247	-	28,908
Intersegment sales	(40)	(2,429)	(6)	(209)	-	(2,684)
External sales	**22,671**	**1,920**	**1,595**	**38**	**-**	**26,224**
EBITDA	3,352	534	369	38	-	4,293
Income from current operations	1,042	214	145	4	-	1,405
Income from operating activities	999	216	145	33	-	1,393
Share of profits (losses) of associates	1	2	-	12	-	15
Net cost of financial debt and other financial income and expenses	-	-	-	-	(762)	(762)
Income taxes	-	-	-	-	(224)	(224)
Net income from continuing operations	**1,000**	**218**	**145**	**45**	**(986)**	**422**
Depreciation and amortization for the period	(2,297)	(316)	(223)	(34)	-	(2,870)
Other non-monetary items	(190)	(3)	(84)	(30)	53	(254)
Total assets	**17,158**	**4,121**	**1,585**	**495**	**6,278**	**29,637**
Segment liabilities	10,126	1,546	968	34	4,069	16,743
Financial debts, lease debts, bank overdrafts and equity	-	-	-	-	12,894	12,894
Total liabilities	**10,126**	**1,546**	**968**	**34**	**16,963**	**29,637**
Purchase of property, plant and equipment and intangible assets (continuing operations)	**2,199**	**455**	**190**	**-**	**-**	**2,844**

[1] See note 2. in notes to the consolidated financial statements.

The non-allocated assets, amounting to €6.3 billion, comprise cash and cash equivalents of €3.6 billion, pension assets of €0.3 billion, financial assets of €1.1 billion, deferred tax of €0.6 billion, income taxes of €0.2 billion and derivatives of €0.5 billion.

The non-allocated segment liabilities, amounting to €4.1 billion, mainly comprise pension provisions for €2.1 billion, a portion of other provisions for €0.1 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €0.7 billion.

Financial debts, lease debts, bank overdrafts and equity are not allocated.

6.2. Information by geographical area

External sales by geographical area

- **Year ended December 31, 2019**

In € millions	Metropolitan France	Benelux	Europe (excl. France and Benelux)	Africa	Middle-Eastern Gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Transportation	6,407	2,516	4,751	1,111	567	2,134	3,417	1,348	22,251
Other sales	389	152	169	65	20	128	52	46	1,021
Total Network	**6,796**	**2,668**	**4,920**	**1,176**	**587**	**2,262**	**3,469**	**1,394**	**23,272**
Transportation	511	1,020	187	13	5	5	9	4	1,754
Other sales	(12)	(10)	(3)	-	-	-	8	7	(10)
Total Transavia	**499**	**1,010**	**184**	**13**	**5**	**5**	**17**	**11**	**1,744**
Maintenance	1,214	796	24	-	-	3	101	-	2,138
Others	8	26	-	-	-	-	-	-	34
Total	**8,517**	**4,500**	**5,128**	**1,189**	**592**	**2,270**	**3,587**	**1,405**	**27,188**

- **Year ended December 31, 2018 (restated) (1)**

In € millions	Metropolitan France	Benelux	Europe (excl. France and Benelux)	Africa	Middle-Eastern Gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Transportation	6,235	2,446	4,782	1,051	571	2,083	3,143	1,421	21,732
Other sales	308	174	168	55	15	138	45	36	939
Total Network	**6,543**	**2,620**	**4,950**	**1,106**	**586**	**2,221**	**3,188**	**1,457**	**22,671**
Transportation	470	936	157	10	13	3	7	3	1,599
Other sales	(2)	(9)	(2)	-	-	-	9	-	(4)
Total Transavia	**468**	**927**	**155**	**10**	**13**	**3**	**16**	**3**	**1,595**
Maintenance	1,044	764	26	-	-	2	84	-	1,920
Others	10	28	-	-	-	-	-	-	38
Total	**8,065**	**4,339**	**5,131**	**1,116**	**599**	**2,226**	**3,288**	**1,460**	**26,224**

(1) See note 2. in notes to the consolidated financial statements.

Air France-KLM Group

Traffic sales by geographical area of destination

- **Year ended December 31, 2019**

In € millions	Metropolitan France	Europe (excl. France) North Africa	Caribbean, French Guyana, Indian Ocean	Africa (excl. North Africa) Middle East	North America, Mexico	South America, excl. Mexico	Asia, New Caledonia	Total
Network	1,700	4,963	1,668	2,900	4,859	2,182	3,979	22,251
Transavia	23	1,602	-	129	-	-	-	1,754
Total Transportation	**1,723**	**6,565**	**1,668**	**3,029**	**4,859**	**2,182**	**3,979**	**24,005**

- **Year ended December 31, 2018**

In € millions	Metropolitan France	Europe (excl. France) North Africa	Caribbean, French Guyana, Indian Ocean	Africa (excl. North Africa) Middle East	North America, Mexico	South America, excl. Mexico	Asia, New Caledonia	Total
Network	1,734	4,804	1,617	2,860	4,616	2,231	3,870	21,732
Transavia	24	1,459	-	116	-	-	-	1,599
Total Transportation	**1,758**	**6,263**	**1,617**	**2,976**	**4,616**	**2,231**	**3,870**	**23,331**

7. EXTERNAL EXPENSES

In € millions **Period from January 1 to December 31**	**2019**	**2018** **Restated** (1)
Aircraft fuel	5,511	4,958
Chartering costs	525	577
Landing fees and air route charges	1,933	1,893
Catering	822	783
Handling charges and other operating costs	1,715	1,673
Aircraft maintenance costs	2,628	2,410
Commercial and distribution costs	1,029	1,034
Other external expenses	1,730	1,618
Total	**15,893**	**14,946**
Excluding aircraft fuel	*10,382*	*9,988*

(1) See note 2 in notes to the consolidated financial statements.

A portion of external expenses, mainly aircraft fuel and maintenance, is sensitive to fluctuations in the US dollar exchange rate. The hedges covering this currency exposure are presented in note 10.

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions **Period from January 1 to December 31**	**2019**	**2018**
Wages and salaries	5,585	5,328
Social contributions	1,118	1,097
Pension costs on defined contribution plans	707	670
Pension costs of defined benefit plans	281	219
Cost of temporary employees	253	241
Profit sharing	131	191
Other expenses	64	13
Total	**8,139**	**7,759**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). Since this multi-employer plan is assimilated with a French State plan, it is accounted for as a defined contribution plan in "pension costs linked to defined contribution plans".

Average number of employees

Period from January 1 to December 31	**2019**	**2018**
Flight deck crew	8,512	7,983
Cabin crew	22,465	21,973
Ground staff	52,119	51,570
Temporary employees	3,042	3,188
Total	**86,138**	**84,714**

9. AMORTIZATION, DEPRECIATION AND PROVISIONS

In € millions **Period from January 1 to December 31**	**2019**	**2018 restated** (1)
Amortization		
Intangible assets	151	160
Flight equipment	1,238	1,194
Other property, plant and equipment	199	195
Right-of-use assets	1,353	1,321
	2,941	**2,870**
Depreciation and provisions		
Inventories	18	2
Trade receivables	16	43
Risks and contingencies	12	(27)
	46	**18**
Total	**2,987**	**2,888**

(1) See note 2. in notes to the consolidated financial statements.

The amortization variations for intangible and tangible assets are presented in notes 16 and 18 and for right-of-use assets in note 20.

The variations relating to inventories and trade receivables are presented in notes 24, 25 and 26.
The movements in provisions for risks and charges are detailed in note 30.

10. OTHER INCOME AND EXPENSES

In € millions **Period from January 1 to December 31**	**2019**	**2018 restated [1]**
Capitalized production	1,122	993
Joint operation of routes	(49)	(57)
Operations-related currency hedges	64	(16)
European carbon emission allowances (ETS)	(54)	(19)
Other	42	36
Other income and expenses	**1,125**	**937**

[1] See note 2. in notes to the consolidated financial statements.

11. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions **Period from January 1 to December 31**	**2019**	**2018**
Restructuring costs	(36)	(19)
Modification of pensions plans	(11)	(5)
Disposals of subsidiaries and affiliates	-	(1)
Disposals of other assets	6	32
Phase-out of A380 aircraft	(126)	-
Other	14	(23)
Other non-current income and expenses	**(153)**	**(16)**

- **Year ended December 31, 2019**

Restructuring costs

At December 31, 2019, this mainly includes the new provision relating to a voluntary departure plan for Air France ground staff (see note 3.1).

Modification of pension plans

On February 22, 2019, an agreement was signed amending the retirement indemnities for Air France pilots retiring at 60 years or above, if providing an advanced notice of at least 12 months, increasing the benefit obligation by €11 million.

Phase-out of the A380 aircraft

This line corresponds to the impact of the early phase-out of the A380 aircraft from the Air France fleet (see note 3.1) for €126 million in 2019. This significant non-recurring operation is considered by the Group to be a disposal of assets and a restructuring of the business activities. It includes:

- The difference between the initial depreciation plan, i.e. an expected 20-year operational life for this type of aircraft and the accelerated depreciation following the early phase-out, amounting to €52 million. Depreciation slopes have been revised so that the net book value as of the date of the aircraft's phase-out converges with the estimated realizable value.
- Impairment of fleet related assets for €74 million (including notably cabin retrofit projects, penalties on contracts and spare parts)

- **Year ended December 31, 2018**

Restructuring costs

These mainly include a new provision relating to the voluntary departure plan for KLM cabin crew.

Modification of pension schemes

In 2018, in the Lloyds Bank case, the UK High Court ruled that UK pension schemes must equalize Guaranteed Minimum Pension (GMP) between men and women. The Group has two UK-based pension schemes for which a best estimate calculation has been performed by external actuaries. A one-off expense of €5 million was accounted for in 2018 corresponding to an increase of the Defined Benefit Obligation.

Disposals of other assets

This line mainly includes the sale of Vilgénis real estate in the Paris area, France and the activities of Jet Center at Amsterdam Airport Schiphol.

Other

This line mainly includes the adjustment of the cargo claim provision for a net amount of €(8) million.

12. NET COST OF FINANCIAL DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

In € millions **Period from January 1 to December 31**	**2019**	**2018 restated [1]**
Income from marketable securities	2	3
Other financial income	47	36
Financial income	**49**	**39**
Interest on financial debt	(132)	(141)
Interest on lease debt	(276)	(293)
Capitalized interests	23	17
Other non-monetary items	(43)	(32)
Other financial expenses	(14)	(16)
Gross cost of financial debt	**(442)**	**(465)**
Net cost of financial debt	**(393)**	**(426)**
Foreign exchange gains (losses), net	(80)	(224)
Financial instruments and change in fair value of hedged shares	33	55
Net (charge)/release to provisions	(5)	(5)
Undiscounting of provision	(212)	(152)
Other	(7)	(10)
Other financial income and expenses	**(271)**	**(336)**
Total	**(664)**	**(762)**

[1] See note 2. in notes to the consolidated financial statements.

Net cost of financial debt

Financial income mainly consists of interest income on financial assets recognized at the effective interest rate and the gain on the disposal of financial assets at fair value recorded through the income statement.

Foreign exchange gains (losses)

As of December 31, 2019, the foreign exchange losses mainly include an unrealized currency loss of €82 million of which a loss of € 42 million on return obligation liabilities and provisions on aircraft in US dollars and an unrealized €36 million currency loss on debt in US Dollars (€15 million) and in Japanese Yen (€26 million).

As of December 31, 2018, the foreign exchange losses mainly include a currency loss of €224 million of which € (133) million on return obligation liabilities and provisions on aircraft in US dollars and an unrealized €101 million currency loss mainly on debt in US Dollar (€20 million) and in Japanese Yen (€56 million).

Financial instruments and change in fair value of hedged shares

As of December 31, 2019, this line mainly includes a gain due to the change in fair value of the hedged Amadeus shares amounting to €42 million and a loss on the non-aligned time value of dissymmetrical options with barriers for an amount of €4 million.

As of December 31, 2018, this line mainly includes a gain on the hedged Amadeus shares of €12 million and a gain on the non-aligned time value of dissymmetrical options with barriers for an amount of €41 million.

Undiscounting of provision

The rate used to undiscount the long term return obligation liability and provision for leased aircraft and other provisions is 6.0% in 2019 against 4.6% in 2018.

13. INCOME TAXES

13.1. Income tax charge

Current income tax expenses and deferred income tax are detailed as follows:

In € millions **Period from January 1 to December 31**	**2019**	**2018 restated [1]**
Current tax (expense) / income	**(97)**	**(24)**
Change in temporary differences	(44)	(41)
CAVE impact	3	3
(Use / de-recognition) / recognition of tax loss carry forwards	62	(162)
Deferred tax income / (expense) from continuing operations	**21**	**(200)**
Total	**(76)**	**(224)**

[1] See note 2. in notes to the consolidated financial statements.

The current income tax charge relates to the amounts paid or payable to the tax authorities in the short term for the period, in accordance with the regulations prevailing in various countries and any applicable treaties.

- **French fiscal group**

In France, tax losses can be carried forward for an unlimited period. However, there is a limitation on the amount of fiscal loss recoverable each year to 50 per cent of the profit for the period beyond the first million euros. The recoverability of the deferred tax losses corresponds to a period of seven years, consistent with the Group's operating visibility.

The Finance Act 2018, voted through in December 2017, provides for a gradual reduction in the French corporation tax rate to 25.83 per cent in 2022. The impact of this change in tax rate was reflected in a reduction in deferred tax assets and thus a deferred tax charge in 2017.

- **Dutch fiscal group**

In The Netherlands, tax losses can be carried forward over a period of nine years without limitation in the amount of recovery allowed each year.

In 2019, it was decided that the Dutch corporation tax rate will be lowered to 21.7 per cent in 2021. The impact of this upcoming change in tax rate was reflected in a reduction in deferred tax liabilities and thus a deferred tax gain of €6 million in 2019.

As of December 31, 2019, the Dutch fiscal group has no deferred tax losses.

13.2. Deferred tax recorded in equity (equity holders of Air France-KLM)

In € millions **Period from January 1 to December 31**	**2019**	**2018**
Coupons on Perpetual	**8**	**13**
OCEANE	**(19)**	**-**
Other comprehensive income that will be reclassified to profit and loss	**(115)**	**270**
Other comprehensive income that will not be reclassified to profit and loss	**(68)**	**49**
Equity instruments	3	**-**
Pensions	(71)	49
Total	**(194)**	**332**

13.3. Effective tax rate

The difference between the standard and effective tax rate applied in France is detailed as follows:

In € millions **Period from January 1 to December 31**	**2019**	**2018** **restated [(1)]**
Income before tax	346	631
Standard tax rate in France	34.43%	34.43%
Theoretical tax calculated based on the standard tax rate in France	(119)	(217)
Differences in French / foreign tax rates	57	84
Non-deductible expenses or non-taxable income	(10)	1
Variation in unrecognized deferred tax assets	(3)	(88)
Impact of change in income-tax rate	6	-
CAVE impact	(9)	(11)
Other	2	7
Income tax expenses	**(76)**	**(224)**
Effective tax rate	22.0%	35.5%

[(1)] See note 2. in notes to the consolidated financial statements.

In 2019, the applicable tax rate for the French fiscal group is 34.43%.

Deferred tax have been calculated with a tax rate gradually decreasing to 25.83 per cent in 2022 and in accordance with the timeline of repayment and the tax rate applicable to each period.

The current tax rate applicable in The Netherlands is 25 per cent. The Dutch income tax will be lowered to 21.7 per cent in 2021. The impact of the change in tax rate is presented in the line “Impact of change in income-tax rate.

13.4. Variation in deferred tax recorded during the period

In € millions	January 1, 2019 restated [1]	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Reclassification and other	December 31, 2019
Flight equipment	(1,208)	119	-	-	(2)	(1,091)
Right-of-use assets	(1,028)	145	-	-	-	(883)
Pension assets	(41)	(50)	(61)	-	60	(92)
Financial debt	727	(94)	3	(11)	2	627
Lease debt	855	(102)	4	-	-	757
Deferred revenue on ticket sales	171	(11)	-	-	-	160
Debtors and creditors	135	8	(123)	-	(34)	(14)
Provisions	406	(105)	(4)	-	21	318
Others	(226)	100	(2)	-	25	(103)
Deferred tax corresponding to fiscal losses	764	11	-	-	(73)	702
Deferred tax asset/ (liability) net	**555**	**21**	**(183)**	**(11)**	**(1)**	**381**

[1] See note 2. in notes to the consolidated financial statements.

In € millions	January 1, 2018 restated [1]	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Reclassification and other	December 31, 2018 restated [1]
Flight equipment	(1,235)	27	-	-	-	(1,208)
Right-of-use assets	(1,650)	102	-	-	520	(1,028)
Pension assets	(76)	(24)	59	-	-	(41)
Financial debt	740	(24)	-	13	(2)	727
Lease debt	1,405	(163)	23	-	(410)	855
Deferred revenue on ticket sales	202	18	-	-	(49)	171
Debtors and creditors	(59)	(57)	246	-	5	135
Provisions	400	69	(6)	-	(57)	406
Others	(223)	14	(3)	-	(14)	(226)
Deferred tax corresponding to fiscal losses	913	(162)	-	-	13	764
Deferred tax asset/ (liability) net	**417**	**(200)**	**319**	**13**	**6**	**555**

[1] See note 2. in notes to the consolidated financial statements.

- **French fiscal group**

The deferred taxes recognized on fiscal losses for the French fiscal group amounts to €693 million with a basis of €5,039 million as of December 31, 2019 and December 31, 2018.

The total deferred-tax position of the French fiscal group stands at a net asset of €497 million.

- **Dutch fiscal group**

The Dutch fiscal group has no deferred taxes recognized on fiscal losses as of December 31, 2019 versus €60 million as of December 31, 2018 with a base of €241 million.

13.5. Unrecognized deferred tax assets

In € millions	December 31, 2019		December 31, 2018 restated[1]	
	Basis	**Tax**	**Basis**	**Tax**
Temporary differences	1,022	264	910	235
Tax losses	4,947	1,277	4,947	1,278
Total	**5,969**	**1,541**	**5,857**	**1,513**

(1) See note 2. in notes to the consolidated financial statements.

- **French fiscal group**

As of December 31, 2019, the cumulative effect of the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €1,532 million (corresponding to a basis of €5,915 million), of which €1,272 million relating to tax losses and €260 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

As of December 31, 2018, the cumulative effect of the limitation of deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €1,503 million (corresponding to a basis of €5,803 million), of which €1,272 million relating to tax losses and €231 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

- **Dutch fiscal group**

As of December 31, 2019, the Dutch fiscal group has no non-recognized deferred tax assets.

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry forwards of the Air France and KLM subsidiaries not belonging to the fiscal groups, in particular in the United States of America and the United Kingdom.

14. EARNINGS PER SHARE

14.1 Income for the period – Equity holders of Air France-KLM per share

Reconciliation of income used to calculate earnings per share

The results used to calculate earnings per share are as follows:

- **Results used for the calculation of basic earnings per share:**

In € millions **As of December 31**	**2019**	**2018 restated [1]**
Net income for the period – Equity holders of Air France-KLM	290	420
Net income from continuing operations – Equity holders of Air France-KLM	290	420
Coupons on perpetual (net of tax)	(17)	(25)
Basic net income for the period – Equity holders of Air France-KLM	273	395
Basic net income from continuing operations – Equity holders of Air France-KLM	273	395

(1) See note 2. in notes to the consolidated financial statements.

The earnings per share before dilution (basic earnings per share) corresponds to the net result divided by the weighted average number of shares in circulation during the financial year, excluding the weighted average number of treasury shares.

- **Results used for the calculation of diluted earnings per share:**

In € millions **As of December 31**	**2019**	**2018 restated [1]**
Basic net income for the period – Equity holders of Air France-KLM	279	395
Basic net income for the period for continuing operations – Equity holders of Air France-KLM	279	395
Consequence of potential ordinary shares on net income: interests paid on convertible bonds and amortization of equity component (after tax)	6	-
Net income for the period – Equity holders of Air France-KLM (taken for calculation of diluted earnings per share)	**285**	**395**

(1) See note 2. in notes to the consolidated financial statements.

For the calculation of the diluted earnings per share, the weighted average number of shares in circulation is adjusted for the potential dilutive effect of all equity instruments issued by the Group, in particular stock option plans and performance shares. The dilution resulting from the exercise of stock option plans and performance shares is based on the IAS 33 methodology.

Since the perpetual subordinated loan is considered to be preferred shares, the coupons are included in the basic earnings per share.

Reconciliation of the number of shares used to calculate earnings per share

As of December 31	2019	2018
Weighted average number of:		
- Ordinary shares issued	428,634,035	428,634,035
- Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
- Other treasury stock	(85,151)	(85,151)
Number of shares used to calculate basic earnings per share	**427,432,464**	**427,432,464**
OCEANE conversion	27,901,785	-
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**455,334,249**	**427,432,464**

The change in the number of ordinary shares issued is disclosed in note 28.1.

14.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of December 31, 2019.

14.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

15. GOODWILL

15.1 Detail of consolidated goodwill

In € millions	2019			2018		
As of December 31	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Network	197	-	197	196	-	196
Maintenance	24	(4)	20	25	(4)	21
Total	**221**	**(4)**	**217**	**221**	**(4)**	**217**

15.2 Movement in net book value of goodwill

In € millions	2019	2018
As of December 31		
Opening balance	**217**	**216**
Currency translation adjustment	-	1
Closing balance	**217**	**217**

16. INTANGIBLE ASSETS

In € millions	Trademarks and slots	Other intangible assets	Total
Gross value			
Amount as of December 31, 2017	**280**	**1,744**	**2,024**
Additions	-	253	**253**
Disposals	-	(66)	**(66)**
Reclassification	-	(106)	**(106)**
Amount as of December 31, 2018	**280**	**1,825**	**2,105**
Additions	-	328	**328**
Disposals	-	(319)	**(319)**
Reclassification	-	(23)	**(23)**
Amount as of December 31, 2019	**280**	**1,811**	**2,091**
Depreciation			
Amount as of December 31, 2017	**(6)**	**(895)**	**(901)**
Charge to depreciation	-	(160)	**(160)**
Releases on disposals	-	44	**44**
Reclassification	-	106	**106**
Amount as of December 31, 2018	**(6)**	**(905)**	**(911)**
Charge to depreciation	-	(151)	**(151)**
Releases on disposals	-	253	**253**
Reclassification	-	23	**23**
Amount as of December 31, 2019	**(6)**	**(780)**	**(786)**
Net value			
As of December 31, 2018	274	920	**1,194**
As of December 31, 2019	274	1,031	**1,305**
Including:			
Network	*256*		
Transavia	*8*		
Maintenance	*5*		
Other	*5*		

The intangible assets mainly comprise:

- The KLM and Transavia brands and slots (takeoff and landing) acquired by the Group as part of the acquisition of KLM. These intangible assets have an indefinite useful life as the nature of the assets means that they have no time limit;
- Software and capitalized IT costs.

As of January 1, 2019, Air France KLM extended the useful life of core Information Technology developments to up to 20 years. This decision has led to a €22 million reduction in the 2019 depreciation charge.

17. IMPAIRMENT

- **Year ended December 31, 2019**

Concerning the methodology followed for the impairment test, the Group has allocated each item of goodwill and each intangible fixed asset with an indefinite useful life to Cash Generating Units (CGUs), corresponding to its business segments (see “Accounting Policies”).
The recoverable value of the CGU assets has been determined by reference to their value in use as of December 31, 2019. The tests were realized for all the CGUs on the basis of a three-year Group plan, approved by the management.

Revenues (network, leisure and maintenance), costs and investments forecasts are based on reasonable hypothesis and are the management’s best estimates. They lie on passenger traffic and savings related to pursuance of performance plans set up by the Group.

The discount rate used for the test corresponds to the Group’s weighted average cost of capital (WACC). This stood at 5.9 per cent as at December 31, 2019 versus 6.3 per cent as at December 31, 2018.

After the aforementioned test, no impairments were recognized on the Group’s other CGUs.

A 50-basis point increase in the WACC would have no impact on the tests results per Group CGU as of December 31, 2019. A 50-basis point decrease in the long-term growth rate would also have no impact on the value of the CGUs as of the same date. The same holds true for a 50-basis point decrease in the target operating margin.

- **Year ended December 31, 2018**

As of December 31, 2018, no impairment was recognized on the Group’s CGUs.

18. TANGIBLE ASSETS

In € millions	Flight equipment				Other tangible assets					Total
	Owned aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	
Gross value										
January 1, 2018 restated[(1)]	**16,263**	**988**	**2,021**	**19,272**	**2,639**	**1,251**	**156**	**943**	**4,989**	**24,261**
Acquisitions	389	1,889	35	2,313	24	46	157	47	274	**2,587**
Disposals	(1,156)	-	(171)	(1,327)	(60)	(25)	-	(36)	(121)	**(1,448)**
Fair value	-	(159)	-	(159)	-	-	-	-	-	**(159)**
Reclassification	722	(1,684)	311	(651)	71	35	(126)	24	4	**(647)**
Currency translation	-	-	-	-	-	1	-	-	1	**1**
Others	(33)	-	3	(30)	2	-	-	2	4	**(26)**
December 31, 2018 restated[(1)]	**16,185**	**1,034**	**2,199**	**19,418**	**2,676**	**1,308**	**187**	**980**	**5,151**	**24,569**
Acquisitions	407	1,970	376	2,753	27	47	179	40	293	**3,046**
Disposals	(825)	(24)	(238)	(1,087)	(88)	(206)	1	(58)	(351)	**(1,438)**
Fair value	-	(39)	-	(39)	-	-	-	-	-	**(39)**
Reclassification	1,346	(1,704)	167	(191)	86	19	(162)	31	(26)	**(217)**
Currency translation	-	-	-	-	-	-	-	-	-	-
Others	79	26	(79)	26	7	1	-	-	8	**34**
December 31, 2019	**17,192**	**1,263**	**2,425**	**20,880**	**2,708**	**1,169**	**205**	**993**	**5,075**	**25,955**
Depreciation										
January 1, 2018 restated[(1)]	**(8,578)**	**-**	**(750)**	**(9,328)**	**(1,811)**	**(977)**	**-**	**(783)**	**(3,571)**	**(12,899)**
Charge to depreciation	(1,053)	-	(94)	(1,147)	(92)	(61)	-	(42)	(195)	**(1,342)**
Releases on disposal	1,079	-	116	1,195	58	24	-	35	117	**1,312**
Reclassification	205	-	(1)	204	(1)	3	-	-	2	**206**
Currency translation	-	-	-		-	-	-	-	-	-
Others	50	-	(84)	(34)	-	(1)	-	-	(1)	**(35)**
December 31, 2018 restated[(1)]	**(8,297)**	**-**	**(813)**	**(9,110)**	**(1,846)**	**(1,012)**	**-**	**(790)**	**(3,648)**	**(12,758)**
Charge to depreciation	(1,112)	-	(128)	(1,240)	(91)	(62)	-	(46)	(199)	**(1,439)**
Releases on disposal	787	-	177	964	87	204	-	58	349	**1,313**
Reclassification	(117)	-	(18)	(135)	(1)	9	-	(4)	4	**(131)**
Currency translation	-	-	-	-	-	-	-	-	-	-
Others	55	-	(80)	(25)	-	(1)	-	-	(1)	**(26)**
December 31, 2019	**(8,684)**	**-**	**(862)**	**(9,546)**	**(1,851)**	**(862)**	**-**	**(782)**	**(3,495)**	**(13,041)**
Net value										
December 31, 2018 restated[(1)]	7,888	1,034	1,386	**10,308**	830	296	187	190	**1,503**	**11,811**
December 31, 2019	8,508	1,263	1,563	**11,334**	857	307	205	211	**1,580**	**12,914**

(1) See note 2. in notes to the consolidated financial statements.

Aeronautical assets under construction mainly comprise advance payments, engine maintenance work in progress and aircraft modifications.

As of January 1, 2019 Air France extended the useful life of its A330 fleet to 25 years. Previously the useful life had been 20 years. This decision led to a € 9 million reduction in depreciation charge in 2019 versus 2018.

Note 38 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in notes 37 and 38 to these financial statements.

19. CAPITAL EXPENDITURES

The detail of capital expenditures on tangible and intangible assets presented in the consolidated cash flow statements is as follows:

In € millions **As of December 31**	**2019**	**2018** **restated** [(1)]
Acquisition of flight equipment	2,746	2,325
Acquisition of tangible assets	293	274
Acquisition of other intangible assets	328	253
Accounts payable on acquisitions	5	(8)
Total	**3,372**	**2,844**

(1) See note 2 in notes to the consolidated financial statements.

20. RIGHT-OF-USE ASSETS

The table below presents the right-of-use assets per category:

In € millions	**Aircraft**	**Maintenance**	**Land & Real Estate**	**Others**	**Total**
<u>Net value</u>					
As of January 1, 2018 restated[(1)]	**3,792**	**1,695**	**473**	**246**	**6,206**
New contract	27	147	249	34	**457**
Change in contract	99	69	2	-	**170**
Disposals	(1)	(5)	-	-	**(6)**
Reclassification	(3)	132	6	45	**180**
Amortization	(795)	(343)	(122)	(62)	**(1,322)**
Others	18	(13)	(23)	(3)	**(21)**
As of December 31, 2018 restated[(1)]	**3,137**	**1,682**	**585**	**260**	**5,664**
New contract	165	120	53	34	**372**
Change in contract	287	(185)	48	9	**159**
Disposals	-	-	(19)	(5)	**(24)**
Reclassification	(8)	354	4	20	**370**
Amortization	(779)	(396)	(113)	(68)	**(1,356)**
Others	(4)	-	-	(8)	**(12)**
As of December 31, 2019	**2,798**	**1,575**	**558**	**242**	**5,173**

(1) See note 2. in notes to the consolidated financial statements.

Information related to lease debt is available in note 32.

The table below indicates the rents resulting from lease and service contracts which are not capitalized:

In € millions **As of December 31**	**2019**	**2018**
Variable rents	19	27
Short term rents	153	123
Low value rents	22	23

21. EQUITY AFFILIATES

Movements over the period

The table below presents the movement in investments in associates and joint ventures:

In € millions	**Maintenance**	**Catering**	**Other**	**Total**
Carrying value of share in investment as of December 31, 2017	**56**	**224**	**21**	**301**
Share in net income of equity affiliates	2	7	6	15
Distributions	-	-	(4)	(4)
Other variations	-	-	(2)	(2)
Currency translation adjustment	1	-	(1)	-
Carrying value of share in investment as of December 31, 2018	**59**	**231**	**21**	**311**
Share in net income of equity affiliates	3	7	13	23
Distributions	-	(2)	(10)	(12)
Change in consolidation scope	(2)	-	(1)	(3)
Other variations	(4)	-	1	(3)
Capital increase	-	-	1	1
Capital decrease	-	-	(10)	(10)
Carrying value of share in investment as of December 31, 2019	**56**	**236**	**15**	**307**

<u>Maintenance</u>

As of December 31, 2019 and 2018, the equity affiliates in the maintenance business mainly comprise joint venture partnerships entered into by the Group to develop its maintenance activities worldwide. These partnerships, whose country localizations and percentages of interest are presented in note 42.2, have been concluded either with airlines or with independent players in the maintenance market.

<u>Servair Group</u>

The Servair Group is the French number one in aviation catering. With about 45 establishments in 26 countries and approximately 10,000 employees, Servair has a leading position in Paris and Africa. Servair numbers approximately 120 air carrier customers worldwide and proposes a set of services grouped around three core businesses: inflight and collective catering, airport services and additional services like engineering and the integration of services.

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. On conclusion of this transaction, the operational control of Servair was transferred to gategroup in application of the governance planned in the agreements between Air France and gategroup. As a consequence, the Servair group has been consolidated according to the equity method since December 31, 2016.

According to IFRS 10, the Servair shares were revalued at their fair value, the latter having been determined on the basis of the transaction value and amounted to €218 million as at December 31, 2016.

Other

As of December 31, 2019 and 2018, the equity affiliates linked to the Group's other businesses are mainly joint-venture partnerships entered into by the Group in the airport business. The localizations of the activities and the percentages of interest in these partnerships are presented in note 42.2.

22. PENSION ASSETS

In € millions	**2019**	**2018**
As of December 31,		
Opening balance	**331**	**590**
Net periodic pension (cost)/income	(138)	(96)
Contributions paid to the funds	101	84
Fair value revaluation	126	(247)
Closing balance	**420**	**331**

The analysis of these pension assets is presented in note 29.

23. OTHER FINANCIAL ASSETS

In € millions **As of December 31**	**2019**		**2018**	
	Current	**Non-current**	**Current**	**Non-current**
Equity instruments				
Equity instruments at fair value through OCI	-	73	-	89
Equity instruments at fair value in P&L	360	-	-	301
Assets - Debt instruments at fair value in P&L				
Marketable securities	73	38	41	32
Cash secured	300	-	265	-
Financial asset - at amortized cost				
AAA Bonds	50	535	5	517
Deposit on lease contracts	1	90	-	85
Deposit on lease with bargain option	2	225	2	341
Other loans and deposits	14	159	12	147
Gross value	**800**	**1,120**	**325**	**1,512**
Impairment at opening date	**-**	**(25)**	**-**	**(25)**
New impairment charge	-	(11)	-	(5)
Reversal	-	1	-	2
Other	-	11	-	3
Impairment at closing date	**-**	**(24)**	**-**	**(25)**
Total	**800**	**1,096**	**325**	**1,487**

Equity instruments

	Fair Value (In € millions)	% interest	Stockholder's equity (In billions of currency)	Net income (In billions of currency)	Classification methodology	Stock price	Closing date
As of December 31, 2019							
Amadeus (1)	360	1.11%	NA(2)	NA(2)	Income statement	72.80 €	December 2019
GOL Linhas Aéreas(1)	35	1.19%	NA(2)	NA(2)	OCI	36,8 BRL	December 2019
Kenya Airways (1)	8	7.76%	NA(2)	NA(2)	OCI	0.02 €	December 2019
Other	30	-	-	-		-	-
Total	**433**						
As of December 31, 2018							
Amadeus (1)	301	1.11%	3.2 EUR	1 EUR	Income statement	60.84 €	December 2018
GOL Linhas Aéreas(1)	24	1.21%	(4.5) BRL	(0.8) BRL	OCI	25,1 BRL	December 2018
Kenya Airways (1)	33	7.76%	(2.5) KES	(7.6) KES	OCI	0.07 €	December 2018
Other	32	-	-	-		-	-
Total	**390**						

(1) Listed company
(2) Not-available

The Group sold Amadeus shares on January 9, 2020 for € 356 million.

- **Year ended December 31, 2018**

Following a debt and equity restructuring within Kenya Airways Ltd., the Group's capital interest decreased from 26.73 per cent as at December 31, 2016 to 7.76 per cent as at December 31, 2017. The Group lost its ability to exercise significant influence over Kenya Airways in November 2017. Consequently, Kenya Airways has been accounted for as a financial asset at fair value through the income statement.

The capital interest in Kenya Airways is considered as a business investment and the change in the fair value has been recognized through Other Comprehensive Income.

Transfer of financial assets that are not derecognized in their entirety

Transfer of receivables agreement

The Group entered into a loan agreement secured by Air France's one per cent housing loans. For each of the CILs (*Comités Interprofessionnels du Logement*), Air France and the bank concluded, in July 2012, a tripartite receivables delegation agreement with reference to the loan agreement. Through this agreement, the CILs commit to repaying the bank directly on each payment date. These are imperfect delegations: in the event of non-repayment by the CILs, Air France remains liable to the bank for repayments of the loan and interest.

As of December 31, 2019, the amount of transferred receivables stood at €98 million (versus €101 million as of December 31, 2018). The associated loan stood at €78 million as of December 31, 2019 (versus €79 million as of December 31, 2018).

Loan of shares agreement

In May and June 2016, the Group entered into a loan of shares agreement on Amadeus shares. This loan was linked to the hedging transaction to protect the value of Amadeus shares. The entire 1.11 per cent Amadeus shareholding is covered by this hedge contract.

24. INVENTORIES

In € millions **As of December 31**	**2019**	**2018**
Aeronautical spare parts	772	654
Other supplies	143	127
Production work in progress	24	14
Gross value	**939**	**795**
Opening valuation allowance	**(162)**	**(159)**
Charge to allowance	(48)	(11)
Use of allowance	7	9
Reclassification	1	(1)
Closing valuation allowance	**(202)**	**(162)**
Net value of inventory	**737**	**633**

25. TRADE ACCOUNTS RECEIVABLES

In € millions **As of December 31**	**2019**	**2018**
Airlines	553	500
Other clients:		
* Network	862	1,002
* Maintenance	804	716
* Other	118	128
Gross value	**2,337**	**2,346**
Opening valuation allowance	(155)	(114)
Charge to allowance	(39)	(49)
Use of allowance	18	6
Currency translation adjustment	-	(1)
Reclassification	3	3
Closing valuation allowance	**(173)**	**(155)**
Net value	**2,164**	**2,191**

26. OTHER ASSETS

In € millions As of December 31	2019		2018 restated[1]	
	Current	**Non-current**	**Current**	**Non-current**
Suppliers with debit balances	99	-	97	-
State receivables (including income tax)	224	-	247	-
Derivative instruments	258	238	225	253
Prepaid expenses	221	-	242	-
Other debtors	322	3	255	11
Gross value	**1,124**	**241**	**1,066**	**264**
Opening valuation allowance	**(1)**	**-**	**(1)**	**-**
Closing valuation allowance	**(1)**	**-**	**(1)**	**-**
Other	**1,123**	**241**	**1,065**	**264**

[1] See note 2. in notes to the consolidated financial statements.

27. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

In € millions As of December 31	2019	2018
Liquidity funds (SICAV) (assets - debt instruments)	1,268	874
Bank deposits and term accounts (assets - debt instruments)	1,599	1,923
Cash in hand	848	788
Total cash and cash equivalents	**3,715**	**3,585**
Bank overdrafts	(4)	(5)
Cash, cash equivalents and bank overdrafts	**3,711**	**3,580**

28. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA

28.1 Issued capital

As of December 31, 2019, the issued capital of Air France-KLM comprised 428,634,035 fully paid-up shares. Each share with a nominal value of one euro is entitled to one vote. However, since April 3, 2016, shareholders who have owned their shares for at least two years have benefited from double voting rights.

The number of issued shares held is as follows:

In number of shares **As of December 31**	**2019**	**2018**
At the beginning of the period	**428,634,035**	**428,634,035**
French State	61,241,325	61,241,325
Dutch State	60,000,000	-
Delta Air Lines	37,527,410	37,527,410
China Eastern Airlines	37,527,410	37,527,410
Employees and former employees	16,103,590	16,758,690
Treasury shares	1,201,571	1,201,571
Others	215,032,729	274,377,629
At the end of the period	**428,634,035**	**428,634,035**
Of which: - number of shares issued and paid up	428,634,035	428,634,035

Authorized stock

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 28, 2019 authorized the Board of Directors, for a period of 26 months from the date of the Meeting of May 28, 2019 (i.e. until July 28, 2021), to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital, limited to a total maximum nominal amount of €214 million.

Acquisition by Dutch State

In the first quarter of 2019, the Dutch State acquired 60 million Air France-KLM shares, representing 14 per cent of the Group's share capital and, as of December 31, 2019, 10.2 per cent of the voting rights in Air France-KLM.

Breakdown of the share capital and voting rights

The breakdown of the share capital and voting rights is as follows:

	% of capital		% of voting rights	
As of December 31	**2019**	**2018**	**2019**	**2018**
French State	14.3	14.3	20.9	22.6
Dutch State	14.0		10.2	-
Delta Air Lines	8.8	8.8	12.8	7.4
China Eastern Airlines	8.8	8.8	12.8	7.4
Employees and former employees	3.8	3.9	5.5	6.7
Treasury shares	0.3	0.3	0.4	0.5
Other	50.0	63.9	37.4	55.4
Total	**100**	**100**	**100**	**100**

The line "Employees and former employees" includes the shares held by employees and former employees identified in the "*Fonds Communs de Placement d'Entreprise* (FCPE)".

Other securities giving access to common stock

- ***OCEANE***

For more information please refer to note 31.3.

28.2 Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of the equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

28.3 Treasury shares

	Treasury shares	
	Number	In € millions
December 31, 2017	**1,201,571**	**(67)**
Change in the period	-	-
December 31, 2018	**1,201,571**	**(67)**
Change in the period	-	-
December 31, 2019	**1,201,571**	**(67)**

All of these treasury shares are classified as a reduction of equity.

28.4 Perpetual subordinated bond

In early April 2015, the Group issued a perpetual subordinated bond for a total amount of €600 million. These securities, which have no maturity date and bear an annual coupon of 6.25 per cent, have a first repayment option in October 2020, at the issuer's discretion.

These securities are classified as equity, in accordance with the IFRS rules. The bond is subordinated to all other existing and future Air France-KLM debt.

On September 3, 2018, Air France-KLM launched a tender offer to repurchase any and all of this perpetual bond, the final results being announced on September 12, 2018. Notes for a nominal amount of €194.5 million were presented and accepted for repurchase. In addition to this public operation, €2.2 million of perpetual bonds were purchased by *“de gré à gré”* or over-the-counter agreement at the same price. As a result, the nominal amount of the outstanding notes after completion of the tender offer is €403.3 million.
On October 1, 2019 and October 1, 2018, Air France-KLM disbursed respectively coupons of €25 million and €38 million, before tax, relating to this instrument.

28.5 Reserves and retained earnings

In € millions	**December 31, 2019**	**December 31, 2018 restated [(1)]**
Legal reserve	70	70
Pension defined benefit reserves[(2)]	(1,590)	(1,527)
Derivatives reserves[(2)]	(15)	(285)
Equity instruments reserves[(2)]	(37)	(19)
Other reserves	(1,338)	(1,777)
Net income (loss) – Group share	290	420
Total	**(2,620)**	**(3,118)**

(1) See note 2 in notes to the consolidated financial statements.

(2) Net of tax

As of December 31, 2019, the legal reserve of €70 million represents 16 per cent of Air France-KLM’s issued capital. French company law requires a limited company (*société anonyme*) to allocate five per cent of its unconsolidated statutory net income each year to this legal reserve until it reaches ten per cent of the Group’s issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year.

The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Hedging reserves are composed as follows (before the effect of deferred tax) :

In € millions	**December 31, 2018**	**Variation of fair value**	**Recycling in income statement**	**December 31, 2019**	**Recycling allocated by rubric**
Fuel	(467)	469	(35)	(33)	External expenses
Interest rate	(18)	(26)	11	(33)	Cost of financial debt
Currency exchange	103	116	(64)	155	Other income and expenses
Change on revenues	(120)	(56)	42	(134)	Sales
European carbon emission allowances (ETS)	80	(68)		12	
Total	**(422)**	**435**	**(46)**	**(33)**	

(1) See note 2. in notes to the consolidated financial statements.

29. RETIREMENT BENEFITS

In € millions	**Retirement benefits**
Amount as of December 31, 2017	**2,202**
Of which: Non-current	*2,202*
New provision	137
Use of provision	(190)
Fair value revaluation	(55)
Currency translation adjustment	1
Amount as of December 31, 2018	**2,098**
Of which: Non-current	*2,098*
New provision	143
Use of provision	(124)
Fair value revaluation	125
Currency translation adjustment	11
Amount as of December 31, 2019	**2,253**
Of which: Non-current	*2,253*

Pension costs are recorded in the line “salary costs”, except for plan amendments and curtailments with a significant impact, which are recorded under ‘other non-current income and expense”. Curtailments of pension plans due to restructuring are also recorded under ‘other non-current income and expense”.

The plan amendments, curtailments and settlements in 2019 and 2018 are presented in note 29.3.

29.1 Characteristics of the main defined benefit plans

The Group has a large number of retirement and other long-term benefit plans for its employees, several of which are defined benefit plans. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular countries in which the employees are located.

Pension plan related to KLM Ground Staff – The Netherlands

The pension plan for Ground Staff in the KLM entity is a defined benefit plan based on average salary with reversion to the spouse on the beneficiary’s death. The retirement age as foreseen by the plan is 68 years.

Since September 1, 2018, the Board of the pension fund has been composed of members appointed by the employer, employees and an external expert. The Board is fully responsible for the execution of the plan. KLM can only control the financing agreement between KLM and the pension fund.

To satisfy the requirements of Dutch regulations and the rules set between the employer and the Board of the pension fund, the plan imposes a mandatory funding level of approximately 125 per cent of the projected long-term obligation. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) in force since January 1, 2015. One impact of the nFTK is a requirement for higher minimum solvency levels. On the other hand, pension funds have more time to recover from immediate and material shortfalls through a rolling ten-year recovery plan that also includes the projected future return on investment.

Based on the criteria under Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Ground Staff pension fund is 108.2 per cent as of December 31, 2019 versus 116.6 per cent as of December 31, 2018.

If the coverage ratio is under the funding ratio detailed above, the pension funds are required to implement a recovery plan that aims for compliance with the 125 per cent threshold within ten years and includes projected future returns on investment. As a consequence, the recovery plan for the Ground Staff plan was updated as of April 1, 2019. If the threshold is not reached within ten years, additional contributions are payable by the company and the employee (transitional period of 12 years as of 2015).

The amount of regular and additional employer contributions is not limited. Any additional employee contributions are limited to two per cent of the pensionable contribution basis.

A reduction in contributions is possible if the pension indexation is fully funded. Furthermore, according to Dutch Pension Law, this reduction is not limited and can be realized either by a reimbursement in contributions, or a reduction in future contributions. Since 2015, the new Dutch fiscal rules have foreseen a maximum pensionable salary of €107,593 as of January 1, 2019, and a lower future accrual rate for pensions.

The return on plan assets, the discount rate used to value the obligations and the longevity and characteristics of the active population are the main factors potentially impacting both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contribution for the yearly pension accrual is limited to 22 per cent of the pension base.

The funds, fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most of the assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks. For example, to reduce the sensitivity to a decline in interest rates, a substantial part of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Pension plan related to KLM Flight Deck crew and Cabin crew – The Netherlands

In 2017, the pension plans for KLM Cockpit crew and Cabin crew in the Netherlands were modified to collective defined contribution schemes. The modification of these two plans finalized the "de-risking" of the pension plans thereby significantly reducing the volatility of the Group's annual pension contributions and balance sheet.

Air France pension plan (CRAF) – France

The employees covered by this plan are the Air France ground staff affiliated to the CRAF until December 31, 1992.
The participants receive, or will receive on retirement, an additional pension paid monthly or a lump sum based on the monthly annuity and definitively calculated based on the data known as of December 31, 1992 and expressed in the form of points. The value of each point is adjusted every year based on the weighted increases seen in the CNAV and ARRCO schemes over the last twelve months.

Until 2009, the CRAF had the legal form of a supplementary pension institution (pursuant to the *"Code de Sécurité Sociale*"). With this status, the CRAF was responsible, on behalf of the Air France ground staff employed in France, for managing the pension plan resulting from the merging of the Air France ground staff plan with the mandatory pension plan for the private sector.
Following the 2003 law on pension reform foreseeing the disappearance of supplementary pension institutions as of December 31, 2009, the CRAF's Board of Directors opted to transform it into an institution managing supplementary pensions. The CRAF is now responsible for the administrative functions linked to the plan.
The pension rights were not amended by this reform. Air France is directly responsible for the pension obligations. As of December 31, 2009, all the funds managed by the CRAF had been transferred to two insurance companies.

On December 31, 2012, one of the insurance contracts was terminated and its funds were transferred to the other, which thus became the only insurer. This guarantees a capital of 17 per cent equal to the amount of capital invested in units of account in its collective fund, this percentage being automatically set to increase over time.

The annual payments made by Air France to the insurance company are governed by the agreement signed with the employee representative bodies on December 14, 2009. The minimum annual payment defined by this agreement amounts to €32.5 million as long as the life annuity guaranteed by the insurer does not reach 85 per cent of the benefits payments for this plan without future revaluations. If the value of the funds falls below 50 per cent of the total obligations calculated for funding purposes, Air France is required to make an additional payment to achieve a minimum 50 per cent coverage rate.

The funds are invested in bonds, equities and general assets of the insurance company. Studies of assets/liabilities allocation are carried out regularly, to verify the relevance of the investment strategy.

Air France end of service benefit plan (ICS) - France

Pursuant to French regulations and the company agreements, every employee receives an end of service indemnity on retirement.
In France, this indemnity depends on the number of years of service, the professional category of the employee (flight deck crew, cabin crew, ground staff, agent, technician and executive) and, in some cases, on the age of the employee at retirement.
On retirement, employees consequently receive an end of service indemnity based on their final salaries over the last twelve-months and on their seniority. The indemnity is only payable to employees on their retirement date.

There is no mandatory minimum funding requirement for this scheme. Air France has nevertheless signed contracts with three insurance companies to partly pre-finance the plan. Air France has sole responsibility for payment of the indemnities, but remains free to make payments to these insurance companies.
The relevant outsourced funds are invested in bonds and equities.

As of December 31, 2019, the KLM Ground Staff pension plan and the two French plans presented above represented a respective 72 per cent and 18 per cent of the Group's defined benefit obligation and 88 per cent and 5 per cent of the Group's pension plan assets.

29.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group’s benefit obligation were made as of December 31, 2019 and 2018.
These calculations include:

- assumptions on staff turnover and the life expectancy of the plan beneficiaries;
- assumptions on salary and pension increases;
- assumptions on retirement ages varying from 55 to 68 years depending on the localization and applicable laws;
- inflation rates determined with reference to the inflation swaps applied to the Group’s cash-flows and based on the duration of the schemes:

As of December 31	**2019**	**2018**
Euro zone – Duration 10 to 15 years	1.30%	1.60%
Euro zone – Duration 15 years and beyond	1.40%	1.75%

- Discount rates used to determine the actuarial present value of the projected benefit obligations.

  The discount rates for the different geographical areas are thus determined based on the duration of each plan, taking into account the average trend in interest rates on investment grade bonds, observed on the main available indices. In some countries, where the market in this type of bond is not sufficiently broad, the discount rate is determined with reference to government bonds. Most of the Group's benefit obligations are located in the Euro zone, where the discount rates used are as follows:

As of December 31	**2019**	**2018**
Euro zone - Duration 10 to 15 years	0.70% to 0.75%	1.45%
Euro zone - Duration 15 years and beyond	1.15%	1.85%

The duration of between 10 and 15 years mainly concerns the plans located in France while the duration of 15 years and beyond mainly concerns the KLM Ground Staff plan located in The Netherlands.

- Discount rates used to determine the actuarial present value of the service cost.

  Since January 1, 2016, by using adequate flows, the Group has refined its calculations on the discount rate used for the service-cost calculation. In the Euro zone, this implies using a discount rate for the service-cost calculation 15bps higher than the one used to discount the obligation.

- On average, the main assumptions used to value the liabilities are summarized below:

The rate of salary increase (excluding inflation) is 1.63 per cent for the Group as of December 31, 2019 against 1.18 per cent as of December 31, 2018.

The rate of pension increase (excluding inflation) is 0.85 per cent for the Group as of December 31, 2019 against 1.14 per cent as of December 31, 2018.

- The sensitivity of the pension obligations to a change in assumptions, based on actuarial calculations, is as follows:

Sensitivity to changes in the inflation rate

In € millions	**Sensitivity of the assumptions for the year ended December 31, 2019**	**Sensitivity of the assumptions for the year ended December 31, 2018**
25 bp increase in the inflation rate	277	240
25 bp decrease in the inflation rate	(266)	(230)

Sensitivity to changes in the discount rate

In € millions	**Sensitivity of the assumptions for the year ended December 31, 2019**	**Sensitivity of the assumptions for the year ended December 31, 2018**
100 bp increase in the discount rate	(2,120)	(1,754)
100 bp decrease in the discount rate	2,803	2,284

Sensitivity to changes in salary increase (excluding inflation)

In € millions	**Sensitivity of the assumptions for the year ended December 31, 2019**	**Sensitivity of the assumptions for the year ended December 31, 2018**
25 bp increase in the salary increase rate	80	67
25 bp decrease in the salary increase rate	(74)	(63)

Sensitivity to changes in pension increase

In € millions	**Sensitivity of the assumptions for the year ended December 31, 2019**	**Sensitivity of the assumptions for the year ended December 31, 2018**
25 bp increase in the pension increase rate	536	439
25 bp decrease in the pension increase rate	(534)	(336)

29.3 Evolution of commitments

The following table details the reconciliation between the benefits obligation and the plan assets of the Group and the amounts recorded in the financial statements for the years ended December 31, 2019 and December 31, 2018.

In € millions	As of December 31, 2019			As of December 31, 2018		
	Netherlands	France	Others	Netherlands	France	Others
Benefit obligation at beginning of year	**8,364**	**2,234**	**833**	**8,346**	**2,277**	**889**
Service cost	154	71	14	120	70	13
Interest cost	152	31	24	155	28	22
Employees' contribution	32	-	1	64	-	1
Plan amendments and curtailment	2	4	(3)	-	5	6
Benefits paid	(192)	(115)	(39)	(256)	(101)	(38)
Transfers of assets/liability through balance sheet	-	-	18	17	-	3
Actuarial loss / (gain) demographic assumptions	(1)	(47)	(12)	(100)	3	(17)
Actuarial loss / (gain) financial assumptions	1,013	187	98	54	(41)	(29)
Actuarial loss / (gain) experience gap	46	39	(19)	(37)	(7)	(11)
Change in currency exchange rates	-	-	41	1	-	(6)
Benefit obligation at end of year	**9,570**	**2,404**	**956**	**8,364**	**2,234**	**833**
Including benefit obligation resulting from schemes totally or partly funded	*9,339*	*2,301*	*896*	*8,152*	*2,148*	*763*
Including unfunded benefit obligation	*231*	*103*	*60*	*212*	*86*	*70*
Fair value of plan assets at beginning of year	**8,483**	**589**	**592**	**8,667**	**650**	**583**
Actual return on plan assets	1,319	58	95	(161)	(32)	2
Employers' contributions	76	33	16	84	33	17
Employees' contributions	32	-	1	64	-	1
Benefits paid	(157)	(57)	(32)	(171)	(61)	(29)
Transfers of assets/liability through balance sheet	-	-	18	-	-	24
Change in currency exchange rates and others	2	(2)	31	-	(1)	(6)
Fair value of plan assets at end of year	**9,755**	**621**	**721**	**8,483**	**589**	**592**
Amounts recorded in the balance sheet[(1)]						
Pension asset	418	-	2	330	-	1
Provision for retirement benefits	(233)	(1,783)	(237)	(211)	(1,645)	(242)
Net amount recognized	**185**	**(1,783)**	**(235)**	**119**	**(1,645)**	**(241)**
Net periodic cost:						
Service cost	154	71	14	120	70	13
Net interest cost/(income)	(5)	23	6	(10)	20	7
Plan amendments, curtailment and settlement	2	4	(3)	-	5	6
Actuarial losses/ (gain) recognized in income statement	14	2	(1)	3	-	(1)
Net periodic cost	**165**	**100**	**16**	**113**	**95**	**25**

(1) All the obligations are recorded as non-current liabilities, except for the pension plans for which the balance is a net asset and therefore fully recorded as a non-current asset.

Amendments, curtailment and settlement of pension plans

- **As of December 31, 2019**

ICS benefits have been increased for the Air France cockpit crew as part of a retirement at the minimum age of 60, if providing an advanced notice of at least 12 months.
In this case, the cockpit crew member is entitled to the determined ICS compensation. In this respect, an exceptional expense of 11M€ has been recorded.

A curtailment of the ICS pension plan at Air France is made, amounting to a profit of 7 M€, within the framework of the voluntary departure plan for ground staff.

- **As of December 31, 2018**

In 2018, in the Lloyds Bank case, the UK High Court ruled that UK pension schemes must equalize Guaranteed Minimum Pension (GMP) between men and women. The Group has two UK-based pension schemes for which the best estimate calculation has been performed by external actuaries. The 2018 one-off expense is a €5 million increase of the Defined Benefit Obligation.

29.4 Asset allocation

The weighted average allocation of the funds invested in the Group's pension and other long-term benefit plans is as follows:

In %	**Funds invested as of December 31, 2019**		**Funds invested as of December 31, 2018**	
	France	**The Netherlands**	**France**	**The Netherlands**
Equities	26	40	31	38
Bonds	51	50	46	52
Real estate	-	10	-	10
Others	23	-	23	-
Total	**100**	**100**	**100**	**100**

The equity portion is mainly invested in active markets in Europe, the United States and emerging countries. The bonds primarily comprise government bonds, rated at least BBB, and invested in Europe, the United States and emerging countries. The real estate assets are mainly located in Europe and the United States.

The Group's pension assets do not include assets occupied or used by the Group.

29.5 Expected cash-out flows and risks linked to the pension obligations

The employer contributions relating to the defined benefit pension plans amount to € 134 million for the year ended December 31, 2020. The weighted average duration of the obligation is 18.4 years.

The funding, capitalization and matching strategies implemented by the Group are presented in note 29.1.

As indicated above, the fiscal rules for accruing pensions and the new Financial Assessment Framework, as part of the Dutch pension law, in The Netherlands changed as of January 1, 2015. Amongst other things, this resulted in a requirement for higher minimum solvency levels. For the Group, the risk could be that, in the event of a long term shortfall of KLM ground staff, based on existing or future financing agreements, KLM could be required to make additional cash payments (the actual funding ratios are presented in note 29.1).

For 2020, this additional payment risk concerning the KLM Ground Staff pension plan is mitigated by the solvency levels and the rolling ten year recovery plan noted since December 31, 2019.

30. RETURN OBLIGATION LIABILITY AND PROVISION FOR LEASED AIRCRAFT AND OTHER PROVISIONS

In € millions	**Return obligation liability on leased aircraft**	**Maintenance on leased aircraft**	**Restructuring**	**Litigation**	**Others**	**Total**
Amount as of December 31, 2018 restated (1)	**2,902**	**389**	**159**	**406**	**106**	**3,962**
Of which: Non-current	*2,851*	*391*	*-*	*383*	*82*	***3,707***
Current	*51*	*(2)*	*159*	*23*	*24*	***255***
New provision	-	29	34	26	24	**113**
Use of provision	(44)	(15)	(140)	(33)	(30)	**(262)**
Reversal of unnecessary provisions	-	-	(5)	(6)	(1)	**(12)**
New lease contract/Change in lease contract	85	1	-	-	-	**86**
Currency translation adjustment	112	17	-	-	-	**129**
Accretion impact	132	14	-	-	6	**152**
Reclassification	-	-	-	-	(6)	**(6)**
Amount as of December 31, 2018 restated (1)	**3,188**	**434**	**48**	**393**	**99**	**4,162**
Of which: Non-current	*3,119*	*425*	*-*	*47*	*65*	***3,657***
Current	*69*	*8*	*48*	*346*	*34*	***505***
New provision	-	15	49	32	61	**157**
Use of provision	(5)	(10)	(30)	(9)	(41)	**(95)**
Reversal of unnecessary provisions	-	-	(4)	(5)	-	**(9)**
New lease contract/Change in lease contract	(121)	19	-	-	-	**(102)**
Currency translation adjustment	48	(6)	-	-	-	**42**
Accretion impact	186	24	-	-	2	**212**
Reclassification	80	10	-	1	6	**97**
Amount as of December 31, 2019	**3,376**	**486**	**63**	**412**	**127**	**4,464**
Of which: Non-current	*3,209*	*410*	*-*	*59*	*72*	***3,750***
Current	*167*	*76*	*63*	*353*	*55*	***714***

(1) See note 2. in notes to the consolidated financial statements.

The movements in provisions for litigation and other risks and charges with an impact on the income statement are charged to the lines of the income statement corresponding to the nature of the expenses.

30.1 Provisions

30.1.1 Return obligation liability and provision on leased aircraft

The movements in return obligation liabilities and provisions (revaluation of future costs and change in discount rate) are booked in the components corresponding to the potential and restoration work performed on leased aircraft and recorded in the right-of-use assets. The effects of accretion and foreign exchange translation of return obligation liabilities and provisions recorded in local currencies are recognized in “Other financial income and expenses” (see note 12).

The discount rate used to calculate these restitution liabilities and provisions relating to leased aircraft, determined on the basis of a short-term risk-free rate increased by a spread on risky debt (used for companies with high financial leverage), is 4.5 per cent as of December 31, 2019 versus 6.0 per cent as of December 31, 2018.

30.1.2 Restructuring provisions

The movements in restructuring provisions with a significant impact on the income statement are charged to “Other non-current income and expenses” (see note 11).

As of December 31 2019 and 2018, the restructuring provisions mainly concern the voluntary departure plans at Air France and its regional subsidiaries, and at KLM and Martinair.

30.1.3 Litigation

An assessment of litigation risks with third parties has been carried out with the Group’s attorneys and provisions have been recorded whenever circumstances require.
Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities, within the framework of tax audits, could reasonably challenge a tax position adopted by the Group or one of its subsidiaries.

In the normal course of its activities, the Air France-KLM Group, its subsidiaries Air France and KLM and their subsidiaries are involved in litigation cases, some of which may be significant.

30.1.4 Litigation concerning anti-trust laws in the air-freight industry

Air France, KLM and Martinair, a wholly-owned subsidiary of KLM since January 1, 2009, have been involved, since February 2006, with up to twenty-five other airlines in investigations initiated by the antitrust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air freight industry.

As of December 31, 2019, most of these investigations had been terminated following the entry into plea agreements between Air France, KLM and Martinair and the appropriate competition authorities providing for the payment of settlement amounts or fines, with the exception of the proceedings initiated by the European Commission, and by the Swiss antitrust authority, which are still pending.

In Europe, the decision of the European Commission of 2010 against eleven air cargo carriers, including the companies of the Group, Air France, KLM and Martinair, was annulled by the General Court of the European Union on December 16, 2015 because it contained a contradiction regarding the exact scope of the practices sanctioned. On March 17, 2017, the European Commission issued a new decision against the aforementioned cargo carriers, including Air France, KLM and Martinair. The total amount of fines imposed in respect of this decision at the Air France-KLM Group level was €339 million. This amount was slightly reduced by €15.4 million as compared to the initial decision owing to a lower fine for Martinair due to technical reasons. On May 29 and 30, 2017 the Group companies filed an appeal against this decision before the General Court of the European Union. The Group has maintained a provision covering the total amount of these fines.

In Switzerland, Air France and KLM are challenging a decision imposing a €4 million fine before the relevant court. The Group has provisioned the totality of this fine.

As of December 31, 2019, the total amount of provisions in connection with proceedings which have yet to give rise to definitive decisions amounts to €343 million.

30.1.5 Other provisions

Other provisions relate principally to provisions for onerous contracts, provisions for the portion of CO2 emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

30.2 Contingent liabilities

The Group is involved in several governmental, judicial and arbitration procedures for which in most cases provisions have not been recorded in the financial statements in accordance with the applicable accounting rules. Indeed, with respect to most cases the Group is not in a position at this stage in these procedures to give a reliable estimate of the potential loss that would be incurred in connection with these disputes.

30.2.1 Litigations concerning anti-trust laws in the air-freight industry

Following the initiation of various investigations by the competition authorities in 2006 and the European Commission decision in 2010, several collective and individual actions were brought by forwarders and air-freight shippers in the civil courts against Air France, KLM and Martinair, and other cargo operators, in a number of jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to alleged competition law infringement.

Although significant amounts have been reported by the media, plaintiffs are mostly claiming for unspecified and/or insufficiently substantiated damages against defendants taken as a whole (and not individually) and the EU decision to which the plaintiffs refer to is still not definitive.

The Group companies and the other airlines involved in these lawsuits continue to vigorously oppose all such civil claims. For Air France, KLM and Martinair the main civil claims still pending are those in the Netherlands and in Norway.

30.2.2 Litigations concerning anti-trust laws in the passenger sector

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including Air France and KLM. The plaintiffs allege that the defendants participated in a conspiracy in the passenger air transport service from Canada on the cross-Atlantic routes, for which they are claiming damages. Air France and KLM strongly deny any participation in such a conspiracy.

30.2.3 Other litigations

Rio-Paris AF447 flight

Following to the crash in the South Atlantic ocean of the Rio-Paris AF447 flight, a number of legal actions for damages have been brought by heirs of the victims in the United States and Brazil and, more recently, in France.

Damages to heirs of the victims are covered by third-party liability insurance subscribed by Air France.

In 2011, Air France and Airbus were indicted as legal entities for unintentional manslaughter and therefore are exposed to applicable fines under the French criminal code. Air France is challenging its implication in this criminal case.

US Department of Justice investigation related to United States Postal Service

In March 2016, the US Department of Justice (DOJ) informed Air France and KLM of a civil inquiry regarding contracts with the United States Postal Service for the international transportation of mail by air. In September 2016, a Civil Information Demand from the DOJ has been received seeking certain information relating to these contracts. The DOJ has indicated it is investigating potential violations of the False Claims Act. Air France and KLM are cooperating with the DOJ investigation.

Case brought against KLM by (former) Martinair Cargo pilots

In 2015, a case was brought against KLM by 152 (former) Martinair airline pilots on the basis that the cargo department of Martinair was transferred to KLM and that all former cockpit crew are entitled to remuneration from KLM, taking into account the Martinair seniority. The lower Court in 2016 and the Court of appeal in 2018 rejected all claims made against KLM. The Martinair airline pilots appealed the 2018 judgment. In November 2019, the Supreme Court ruled that the judgement of the court of appeal lacked sufficient motivation and referred the case to another Court of appeal. This Court will have to reconsider certain arguments that were brought forward by the airline pilots.

Except for the matters specified under the paragraphs 30.1 and 30.2, the Group is not aware of any governmental, judicial or arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

31. FINANCIAL DEBT

In € millions	2019			2018		
As of December 31	**Non current**	**Current**	**Total**	**Non current**	**Current**	**Total**
Perpetual subordinated loan in Yen	164	-	**164**	239	-	**239**
Perpetual subordinated loan in Swiss francs	345	-	**345**	333	-	**333**
OCEANE (convertible bonds)	454	-	**454**	-	-	**-**
Bonds	1,128	-	**1,128**	1,131	-	**1,131**
Debt on financial lease with bargain option	2,938	547	**3,485**	2,907	640	**3,547**
Other debt	1,242	252	**1,494**	1,123	140	**1,263**
Accrued interest	-	43	**43**	-	46	**46**
Total - Financial debt	**6,271**	**842**	**7,113**	**5,733**	**826**	**6,559**

Change in financial debt

In € millions	December 31, 2018	New financial debt	Non monetary change	Reimbursement of financial debt	Currency translation adjustment	Other	December 31, 2019
Perpetual subordinated loan	572	-	-	(83)	20	-	**509**
OCEANE	-	446	8	-	-	-	**454**
Bonds	1,131	-	(1)	-	(2)	-	**1,128**
Debt on financial lease with bargain option	3,547	566	6	(619)	25	(40)	**3,485**
Other long-term debt	1,263	629	3	(454)	2	89	**1,494**
Accrued interest	46	-	13	-	-	(16)	**43**
Total	**6,559**	**1,641**	**29**	**(1,156)**	**45**	**33**	**7,113**

In € millions	December 31, 2017	New financial debt	Non monetary change	Reimbursement of financial debt	Currency translation adjustment	Other	December 31, 2018
Perpetual subordinated loan	544	-	-	-	27	1	**572**
Bonds	1,628	1	-	(500)	16	(14)	**1,131**
Debt on financial lease with bargain option	3,778	426	4	(735)	74	-	**3,547**
Other long-term debt	1,272	140	4	(165)	3	9	**1,263**
Accrued interest	75	-	-	-	-	(29)	**46**
Total	**7,297**	**567**	**8**	**(1,400)**	**120**	**(33)**	**6,559**

31.1 Perpetual subordinated debt

31.1.1 KLM Perpetual subordinated debt in Japanese Yen

The perpetual subordinated loan in Japanese Yen was provided to KLM in 1999 for a principal amount of JPY 30 billion. The total amount outstanding is JPY 20 billion, i.e. €164 million as of December 31, 2019.

As per August 28, 2019 KLM has partially redeemed JPY 10 billion, leaving the residual outstanding principal amount to JPY 20 billion. As from this date, the fixed JPY interest was reset to 4% per annum applicable on residual notional amount.

This perpetual loan can be redeemed at KLM’s discretion on each fifth anniversary of the first interest payment date, August 28, 1999. The next repayment option date at Par is therefore set on August 28, 2024. Note that an indemnity is due if the JPY loan is redeemed in another currency than JPY.

This loan debt is subordinated to all other existing and future debt at KLM.

31.1.2 KLM Perpetual subordinated debt in Swiss francs

The perpetual subordinated bond debt in Swiss francs was issued by KLM in two tranches, one in 1985 and one in 1986. The initial nominal amount for these two perpetual bonds combined was CHF 500 million. Over the years, KLM has proceed several partial buy back transactions to partially redeem debt. The total amount now outstanding is CHF 375 million, i.e. €345 million as of December 31, 2019.

Concerning the perpetual bond debt issued in 1985, KLM is entitled to early redeem at Par the then prevailing outstanding residual amount on each tenth anniversary of the interest payment date. The next “Call date” is February 12, 2025. The coupon reset date is fully aligned with the above mentioned frequency. If not Called, the next coupon reset date is set on February 12, 2025. The current outstanding coupon is 0.75% per annum.

Concerning the perpetual bond debt issued in 1986, KLM is entitled to early redeem at Par the outstanding residual amount on each fifth anniversary of the interest payment date. The next “Call date” is May 15, 2021. The Call price amount in 2001 was 101.75 per cent of the notional face value, and thereafter with a premium declining by 0.25 per cent on each fifth anniversary of the interest payment date. Therefore from May 15, 2036, the Call price amount will be set at Par. The fixed interest coupon is 5.75% per annum.

The bond debt is subordinated to all other existing and future KLM debts.

The two CHF perpetual bond debts are ranked “pari passu” with the JPY perpetual loan debt.

31.2 Bonds

Bond	**Issuing date**	**Amount issued (in millions)**	**Maturity date**	**Reimbursement date**	**Coupon**
Bond issued in 2014	4 June 2014	€ 600	18 June 2021	-	3.875%
€ Bond issued in 2016	5 Oct. 2016	€ 400	5 Oct. 2022	-	3.75%
$ Bond issued in 2016[1]	12 Dec. 2016	$ 145	15 Dec. 2026	-	4.35%

(1) Bonds issued to Asian institutional investors via an unlisted private placement

31.3 OCEANE

On March 20, 2019, Air France-KLM issued 27,901,785 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at March 25, 2026 for a total nominal amount of €500 million. Each bond has a nominal value of €17.92. The annual coupon amounts to 0.125 per cent. The conversion period of these bonds runs from May 4, 2019 to the seventh working day preceding the normal or early reimbursement date. The conversion ratio is one share for one bond.

Repayment at par, plus accrued interest, will be possible on March 25, 2024 at the request of the bond holders. Air France-KLM can enforce the cash reimbursement of these bonds by exercising a call option running from April 15, 2022 if the share price exceeds 130 per cent of the nominal, i.e. €23.29, encouraging OCEANE bond holders to convert their bonds into Air France-KLM shares.

Upon issue of these convertible bonds, Air France-KLM recorded a debt of €446 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. The option value, calculated by deducting this debt value from the total nominal amount of the issue (i.e. €500 million), was recorded in equity.

As of December 31, 2019, the debt value amount to €454 million.

31.4 Other debt

Other debt breaks down as follows:

In € millions	**2019**	**2018**
As of December 31		
Reservation of ownership clause and mortgage debt	1,072	646
Other debt	422	617
Total	**1,494**	**1,263**

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed with the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgage a right to enforce the security (by order of a judge), the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

Other debt mainly corresponds to bank borrowings. This also includes €20 million related to issuance expenses on financial debt.

31.5 Maturity analysis

The financial debt maturities break down as follows:

In € millions **As of December 31**	**2019**	**2018**
Maturities in		
Y+1	970	1,077
Y+2	1,456	897
Y+3	1,071	1,548
Y+4	570	683
Y+5	964	828
Over 5 years	2,870	2,335
Total	**7,901**	**7,368**
Including: - Principal	7,113	6,559
- Interest	788	809

As of December 31, 2019, the expected financial costs amount to €128 million for the 2020 financial year, €369 million for the 2021 to 2024 financial years, and €291 million thereafter.

As of December 31, 2019, it has been considered that the perpetual subordinated loan would be reimbursed according to their most probable maturities (probable exercise date of the issuer call).

The bonds issued in 2014 and 2016 will be reimbursed on their contractual maturity date (see note 31.2).

31.6 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

In € millions **As of December 31**	**2019**	**2018**
Euro	5,247	4,820
US Dollar	691	541
Swiss franc	355	341
Yen	820	857
Total	**7,113**	**6,559**

31.7 Credit lines

As of December 31, 2019, the Group holds undrawn credit lines amounting to €1,765 million. The two undrawn revolving credit lines facilities amount for respectively €1,100 million for Air France-KLM holding company and Air France, and €665 million for KLM standalone.

After having exercised a first extension option in November 2018, Air France-KLM and Air France exercised their second extension option on their joint revolving credit facility in November 2019. Following this exercise, the two tranches of the revolving credit facility, amounting respectively to €550 million and €550 million, have now same duration and maturity date in November 2022. These revolving credit facility lines are subject to financial covenants calculated based on the Air France-KLM Group's consolidated financial statements. These financial covenants were respected as of December 31, 2019.

On May 17, 2018, KLM signed a €665 million revolving credit facility with twelve banks. This new credit facility holds a five-year tenor, with two one-year extension options. In 2019, the first one-year extension was granted extending the revolving credit facility maturity date to May 17, 2024. The financial covenant ratios are calculated based on the KLM Group's consolidated financial statements, and are respected as of December 31, 2019.

32. LEASE DEBT

In € millions	2019			2018		
As of December 31	**Non current**	**Current**	**Total**	**Non current**	**Current**	**Total**
Lease debt - aircraft	2,338	789	**3,127**	2,657	821	**3,478**
Lease debt - real estate	618	107	**725**	654	119	**773**
Lease debt - other	193	56	**249**	234	30	**264**
Accrued interest	-	19	**19**	1	19	**20**
Total - Lease debt	**3,149**	**971**	**4,120**	**3,546**	**989**	**4,535**

Change in lease debt

In € millions	**December 31 2018**	**New contracts and renewals of contracts**	**Reimbursment**	**Currency translation adjustment**	**Others**	**December 31 2019**
Lease debt - Aircraft	3,478	435	(807)	24	(3)	**3,127**
Lease debt - Real estate	773	88	(141)	-	5	**725**
Lease debt - Others	264	66	(60)	2	(23)	**249**
Interests	20	-	-	-	(1)	**19**
Total	**4,535**	**589**	**(1,008)**	**26**	**(22)**	**4,120**

In € millions	**December 31, 2017**	**New contracts and renewals of contracts**	**Reimbursment**	**Currency translation adjustment**	**Others**	**December 31 2018**
Lease debt - Aircraft	3,993	129	(781)	146	(9)	3,478
Lease debt - Real estate	674	251	(136)	-	(16)	773
Lease debt - Others	266	59	(55)	9	(15)	264
Interests	-	-	-	1	19	20
Total	**4,933**	**439**	**(972)**	**156**	**(21)**	**4,535**

The lease debt maturity breaks down as follows:

In € millions	**As of December 31, 2019**	**As of December 31, 2018**
Y+1	1,231	1,236
Y+2	1,058	1,090
Y+3	868	921
Y+4	631	744
Y+5	391	490
Over 5 years	1,025	1,124
Total	**5,204**	**5,605**
Including: - Principal	*4,120*	*4,535*
- Interest	*1,084*	*1,070*

33. NET DEBT

In € millions	*Note*	2019	2018
As of December 31			
Current and non-current financial debt	*31*	7,113	6,559
Current and non-current lease debt	*32*	4,120	4,535
Accrued interest	*31 and 32*	(62)	(67)
Deposits related to financial debt	*23*	(227)	(343)
Deposits related to lease debt	*23*	(91)	(85)
Derivatives impact on debt		4	7
Gross financial debt (I)		**10,857**	**10,606**
Cash and cash equivalents	*27*	3,715	3,585
Marketable securities[1]	*23*	111	74
Cash secured [1]	*23*	300	265
Triple A bonds[1]	*23*	585	522
Other		3	1
Bank overdrafts	*27*	(4)	(5)
Net cash (II)		**4,710**	**4,442**
Net debt (I-II)		**6,147**	**6,164**

[1] Included in "other financial assets"

In € millions **As of December 31**	*Note*	2019	2018 restated [1]
Opening net debt		**6,164**	**6,359**
Operating free cash, cash flow excluding discontinued activities		(623)	(1,087)
Perpetual	28.4	-	197
Coupons paid on perpetual paid	28.4	26	38
Disposal of subsidiaries, of shares in non-controlled entities		(13)	(6)
Acquisition of subsidiaries, of shares in non-controlled entities		1	9
New lease debts (new and renewed contracts)	*32*	589	439
Unrealized exchange gains and losses on lease financial debts through OCI		13	121
Currency translation adjustment		48	66
Capital increase	31.3	(54)	-
Amortization of OCEANE optional part		8	-
Reclassification		(5)	3
Other		(7)	25
Closing net debt		**6,147**	**6,164**

[1] See note 2 in notes to the consolidated financial statements.

34. LOYALTY PROGRAM

Within Air-France-KLM, there are two loyalty programs: Flying Blue and BlueBiz.

As of December 31, 2019 the deferred revenues relating to the outstanding miles of the Flying Blue customer loyalty program amounts €774 million. This will be recognized as revenue once the miles are redeemed. The Group expects that 53 per cent of the miles will be recognized as revenue over the next five years.

The breakdown of the Flying Blue program is as follows:

Flying Blue - Deferred revenues *In € millions*	**2019**	**2018**
As of January 1	**763**	**747**
Accumulation	319	302
Redemption	(308)	(286)
As of December 31	**774**	**763**

35. OTHER LIABILITIES

In € millions	2019		2018 restated	
As of December 31	**Current**	**Non-current**	**Current**	**Non-current**
Tax liabilities	892	-	825	-
Employee-related liabilities	1,033	-	1,059	-
Non-current asset payables	96	-	93	-
Derivative instruments	154	107	329	339
Deferred income	739	17	632	18
Prepayments received	469	1	434	-
Other	220	98	194	102
Total	**3,602**	**222**	**3,566**	**459**

Non-current deferred income mainly relates to long-term contracts in the maintenance business.

36. FINANCIAL INSTRUMENTS

36.1 Risk management

- **Market risk management**

The aim of the Air France-KLM Group's risk management strategy is to reduce its exposure to such risks. Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which is composed of the Chief Financial Officer and Senior Vice President Financial Operations of Air France-KLM and the Chief Financial Officers of Air France and of KLM.

The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, the principal currency exchange rates and counterparties. During these meetings, it decides on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the Treasury Management departments within each company, in compliance with the procedures governing the delegation of powers.
Each company centralizes the management of the market risks of its subsidiaries.
Regular meetings are organized between the Treasury Management departments of the two companies on the hedging instruments used, strategies planned and counterparties.

In order to implement the strategy most appropriate to each circumstance, any type of instrument may be used provided it qualifies as hedging within IFRS. Any exception to this rule must be approved by the Risk Management Committee. As a general rule, no trading or speculation is allowed.

The treasury management departments of each company circulate weekly information on the level of cash and cash equivalents to their respective General Managements. The level of the Group's consolidated cash is communicated every week and the end on the month to the Group's General Management.

Every month, a detailed report including, amongst other information, the interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is send to the General Managements.

The hedging strategy on fuel and emission permits is fully under the responsibility of the Treasury Management departments. The General Managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of the positions, the percentages hedged as well as the breakdown of the instruments and underlying used, the average hedge levels and the resulting net prices. All this data covers rolling 24 months. Furthermore, a weekly Air France-KLM Group report (known as the Fuel Hedge report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update.

- **Fuel price risk**

The fuel bill is one of the largest cost items for airlines making oil price volatility a risk for the air transport industry. A sharp increase in the oil price can have a very material negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies. Similarly, a sharp decline in fuel prices is favorable for airline profitability. However, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty.
Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC for the whole of the Air France-KLM Group.

The hedging strategy, approved by the Board of Directors, sets the time span of the hedges at two years (a rolling 24 months) and the target hedging ratio at 60 per cent. Furthermore, the hedging is based on the use of simple futures or option-based instruments. These hedging instruments must also be compatible with IFRS 9.

With the application of IFRS 9 as of January 1, 2018, the hedging strategy of the Group has evolved and involves now component on non-financial item (crude oil and gasoil oil are specified as components of jet fuel prices). These components are considered as separately identifiable and reliably measurable as required by IFRS 9.

Main characteristics of the hedge strategy

Hedge horizon: two years rolling

Minimum hedge percentage, to reach at the end of the current quarter:
- quarter underway: 60% of the volumes consumed;
- quarter 1 to quarter 3: 60% of the volumes consumed;
- quarter 4: 50% of the volumes consumed;
- quarter 5: 40% of the volumes consumed;
- quarter 6: 30% of the volumes consumed;
- quarter 7: 20% of the volumes consumed;
- quarter 8: 10% of the volumes consumed.

Increment of coverage ratios: 10% by quarter

Underlyings: Brent, Gas Oil and Jet Fuel

Instruments:
Swap, call, call spread, three ways, four ways and collar.

Implementation of monitoring indicators on positions:
To ensure more effective monitoring of the marked-to-market positions and a dynamic management of its exposure, the Group uses the VAR (value at risk) metric to help measure the risk incurred by its portfolio. This monitoring is also reinforced by taking into account the maximum loss and maximum gain which limit the scale of variation of this same portfolio and enable the appropriate reaction.

- **Currency risk**

Most of the Air France-KLM Group’s revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The management of the currency risk for the subsidiaries of the two companies is centralized by each company. The principal exposure relates to the US dollar. Since the expenditure on items such as fuel and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars. As the result, any significant appreciation in the dollar against the euro could result in a negative impact on the Group’s activity and financial results.
Inversely Air France-KLM Group is a net seller of other currencies, the level of revenues in these currencies exceeding its expenditure. This exposure is far less significant than with the US dollar. As a result, any significant decline in these currencies against the euro would have a negative effect on the Group’s financial results.
The management of the Group’s exchange rate risk is carried out on the basis of the forecast net exposure for each currency. Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.
For each currency hedged, the time span of the hedging is a rolling 24-month period, the first four quarters having more hedging than the following four. The RMC sets the hedging targets for the dollar, sterling and the yen.

Air France uses some zero-cost structured options, as hedging instruments. These generate volatility in the financial result because on their non-aligned time value, unlike vanilla options whose time value is aligned. Changes in aligned time values are recorded in the consolidated statement of comprehensive income in accordance with IFRS9.

Aircraft are purchased in US dollars, meaning that the Group is exposed to an appreciation in the dollar relative to the euro in terms of its investment in flight equipment.
The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

The exchange rate risk on the Group's financial debt is limited. At December 31, 2019, 74% of the Group's debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt. The exchange rate risk on debt denominated in other currencies mostly concerns the Yen 11%, the US dollar 10% and the Swiss franc 5%.

As of January 1, 2018, the Group has applied IFRS16 meaning that aircraft leases mostly denominated in US dollars, are accounted for in the Group's debt. These loans have been requalified as hedging for the Network's future revenues in USD dollars. Consequently, the impact of foreign exchange differences in US dollars is accounted in other comprehensive income. For both Transavia and KLM Cityhopper which have no US dollar revenues, hedging programs specific to these commitments have been defined.

- **Interest rate risk**

A portion of the debt is contracted at floating rates. However, to limit its volatility Air France and KLM have used option and swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates; after swaps, the Air France-KLM Group's debt contracted at fixed rates represents 71 per cent of the overall total. The interest rate on the Group's gross debt after swaps stood at 2.54 per cent at December 31, 2019 versus 2.96 per cent at December 31, 2018.

- **Risks on carbon credit**

To meet its regulatory obligations, the CO_2 emission quota acquisition strategy has been monitored and reviewed during every RMC meeting since October 2011. Its implementation led to the progressive hedging of the future requirement through the use of forwards contracts meaning that the 2019 requirement and a portion of the 2020 requirement are hedged.

Underlyings: EUA, EUAA and CER quotas.

Instruments: Forwards, delivery and payment during the quarter preceding the compliance application date.

- **Investment risks**

The cash resources of Air France, KLM and Air France-KLM are currently invested over a short-term time horizon, primarily deposits, money market mutual funds and certificates mainly rated A1/P1, the other lines being rated A2/P2.
Lastly, in order to reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in high-quality foreign-currency denominated bonds.

- **Equity risks**

The Air France-KLM Group holds a limited number of shares which are listed for trading. The value of these investments may vary during their period of ownership. These investments are accounted for using either the equity method (associates) if the Group has the ability to exercise significant influence, or at their fair value. If the fair value cannot be determined from a practical point of view, the value of the investment is measured at its acquisition cost.

As of December 31, 2019, the Group continues to own 4.95 million shares in Amadeus IT Holding S.A., the totality of these shares being covered by a hedging transaction. This hedge transaction (collar) enables the Group to protect the value of these shares. In November 2019, Air France-KLM rolled over a hedging transaction in the form of a forward to protect the value of the totality of these shares.

The treasury shares held by Air France-KLM are not deemed to be investments. Furthermore, the treasury shares are not deemed to be exposed to risk, since any variation in the value of these shares is only recognized directly in equity when they are sold in the market, with no impact on the net result.

- **Counterparty risk management**

The rules concerning the management of counterparty risk are established by the RMC and applied by the companies.
Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of 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 of their rating. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the Air France-KLM parent company, are taken into account in the assessment of the overall exposure. A monthly report is established and circulated to the members of the General Management in the two companies. It is supplemented by real time information in the event of any real risk of a rating downgrade for counterparties.

The transactions involving potential counterparty risk are as follows:

- financial investments;
- derivative instruments;
- trade receivables.

(1) Counterparty risk linked to financial investments and derivative instruments is managed by the Risk Management Committee which establishes limits by counterparty, for all instruments except investments in money market funds (OPCVM) for which the counterparty risk is deemed not to be significant. The Group's counterparty-risk reporting is circulated each month to the executive managements, the risk being measured at the fair market value of the various instruments. Any exceeding of a limit immediately results in the implementation of corrective measures.

(2) The counterparty risk linked to derivative instruments is taken into account in the valuation of their market value as described in note 4.11. Derivative instruments are governed by the ISDA and FBF compensation master agreements. Within the framework of these agreements, compensation (in the event of default) must be made by counterparty for all the derivatives governed by each type of agreement.

(3) Counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of the customers comprising the trade receivables portfolio.

The Group has identified the following exposure to counterparty risk:

LT Rating (Standard & Poors)	**Total exposure in € millions**	
	As of December 31, 2019	**As of December 31, 2018**
AAA	242	-
AA	393	135
A	2,280	2,429
BBB	16	17
Total	**2,931**	**2,581**

This presentation does not include money market funds (OPCVM) and current accounts.

- **Liquidity risk**

The liquidity risk relates to the credit lines held by the Group, as described in note 31.7.

36.2 Derivative instruments

As of December 31, 2019, the fair value of the Group’s derivative instruments and their expected maturities are as follows:

In € millions		**Total**	**Y+1**	**Y+2**	**Y+3**	**Y+4**	**Y+5**	**> Y+5**
Commodities derivative instruments	Asset	75	55	20				
	Liability	(100)	(86)	(14)				
Interest rate derivative instruments	Asset	16	-	9		5		2
	Liability	(49)	(12)	(8)	(5)	(4)	(5)	(15)
Currency exchange derivative instruments	Asset	388	186	96	64	26	15	
	Liability	(104)	(51)	(35)	(3)	(1)	(3)	(12)
Amadeus instrument*	Asset							
	Liability	(4)	(4)					
Carbon credit derivative instruments	Asset	17	17					
	Liability	(4)	(1)	(3)				
Total	**Asset**	**496**	**258**	**125**	**64**	**31**	**15**	**2**
	Liability	**(261)**	**(154)**	**(60)**	**(8)**	**(5)**	**(8)**	**(27)**

As of December 31, 2018, the fair value of the Group’s derivative instruments and their expected maturities were as follows:

In € millions		**Total**	**Y+1**	**Y+2**	**Y+3**	**Y+4**	**Y+5**	**> Y+5**
Commodities derivative instruments	Asset	78	52	26	-	-	-	-
	Liability	(542)	(297)	(245)	-	-	-	-
Interest rate derivative instruments	Asset	21	1	1	8	-	8	3
	Liability	(35)	(5)	(4)	(9)	(5)	(2)	(10)
Currency exchange derivative instruments	Asset	285	95	82	41	42	14	11
	Liability	(89)	(25)	(16)	(12)	(6)	-	(30)
Amadeus shares derivative instrument*	Asset	13	13	-	-	-	-	-
	Liability	(1)	(1)	-	-	-	-	-
Carbon credit derivative instruments	Asset	81	64	17	-	-	-	-
	Liability	(1)	(1)	-	-	-	-	-
Total	**Asset**	**478**	**225**	**126**	**49**	**42**	**22**	**14**
	Liability	**(668)**	**(329)**	**(265)**	**(21)**	**(11)**	**(2)**	**(40)**

36.2.1 Commodity risk linked to fuel prices

The Group's commitments on Brent, Gas Oil and Jet CIF are presented below, at their nominal value:

• As of December 31, 2019

In € millions	Nominal	Maturity	Maturities between 1 and 5 years					Fair value
		below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)								
Swap	1,111	909	203	-	-	-	-	(10)
Options	3,405	2,239	1,166	-	-	-	-	(15)
Total	**4,516**	**3,148**	**1,369**	**-**	**-**	**-**	**-**	**(25)**
Price after hedge USD/ Metric Tons		**697**	667	-	-	-	-	-

No inefficiencies on fuel hedging have been recognized because of the hedging by component.

The price after hedge of the total fuel expenses is equal to the market price, to which unitary into-plane costs and hedge results have been added. The hedge results reflects the payout of the hedging strategy based on the forward curve as of December 31, 2019. The hedge results include realized over-effectiveness, option premiums, results of unwound structures and exclude time value.

• As of December 31, 2018

In € millions	Nominal	Maturity	Maturities between 1 and 5 years					Fair value
		below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)								
Swap	869	632	237	-	-	-	-	(80)
Options	3,311	2,148	1,163	-	-	-	-	(384)
Total	**4,180**	**2,780**	**1,400**	**-**	**-**	**-**	**-**	**(464)**
Price after hedge USD/ Metric Tons		**650**	662	-	-	-	-	-

Fuel hedge sensitivity

The impact on "income before tax" and on "gains/(losses) taken to equity" of a variation in the fair value of the fuel hedges following a +/- USD 10 variation in the price of a barrel of Brent is as follows:

In € millions	2019		2018	
As of December 31	**Increase of USD 10 per barrel of Brent**	**Decrease of USD 10 per barrel of Brent**	**Increase of USD 10 per barrel of Brent**	**Decrease of USD 10 per barrel of Brent**
Income before tax	-	-	-	-
Gains / (losses) taken to equity	577	(584)	563	(564)

36.2.2 Exposure to interest rate risk

To manage the interest rate risk on its short and long-term borrowings, the Group uses instruments with the following nominal values:

As of December 31, 2019

In € millions	Nominal	Balance sheet item of underlying items	Maturity	Maturities between 1 and 5 years					Fair value
			below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging	**1,742**		**8**	**254**	**52**	**189**	**144**	**1,095**	**(41)**
Rate swaps	1,592	Financial debt	8	254	52	189	144	945	(41)
Options	150	Financial debt	-	-	-	-	-	150	-
Operations qualified as fair value hedging	-		-	-	-	-	-	-	-
Rate swaps			-	-		-	-	-	
Operations qualified as fair value through profit and loss	**325**		**-**	**209**	**-**	**24**	**-**	**92**	**8**
Rate swaps	125	Financial debt	-	9	-	24	-	92	9
Options	200	Financial debt	-	200	-	-	-	-	(1)
Total	**2,067**		**8**	**463**	**52**	**213**	**144**	**1,187**	**(33)**

As of December 31, 2018

In € millions	Nominal	Balance sheet item of underlying items	Maturity below 1 year	Maturities between 1 and 5 years: 1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	Fair value
Operations qualified as cash flow hedging	**1,768**		**136**	**75**	**67**	**39**	**226**	**1,225**	**(28)**
Rate swaps	1,618	Financial debt	136	75	67	39	226	1,075	(29)
Options	150	Financial debt	-	-	-	-	-	150	1
Operations qualified as fair value hedging	**200**		**-**	**-**	**200**	**-**	**-**	**-**	**6**
Rate swaps	200	Financial debt	-	-	200	-	-	-	6
Operations qualified as fair value through profit and loss	**147**		**22**	**23**	**20**	**18**	**12**	**52**	**8**
Rate swaps	147		22	23	20	18	12	52	8
Total	**2,115**		**158**	**98**	**287**	**57**	**238**	**1,277**	**(14)**

In 2019, given the perfect economic relationship between hedging instruments and hedged items, no ineffectiveness has been recognized on interest rate hedging strategies.

Taking into account the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

In € millions	**2019**				**2018**			
As of December 31	**Before hedging**		**After hedging**		**Before hedging**		**After hedging**	
	Base	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	2,393	1.2%	2,393	1.2%	2,662	1.4%	2,662	1.4%
Fixed-rate financial liabilities	8,203	4.5%	9,101	3.8%	7,702	5.0%	8,765	4.5%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	1,352	0.4%	1,352	0.4%	1,247	0.1%	1,247	0.1%
Floating-rate financial liabilities	3,078	1.4%	2,195	1.5%	3,384	1.4%	2,321	1.7%
Without-rate financial assets	1,758	-	1,531	-	1,495	-	1,497	-
Without-rate financial liabilities	-	-	-	-	7	-	9	-

As of December 31, 2019 and December 31, 2018, without-rate financial assets mainly include cash and the revaluation of Amadeus shares at their fair value.

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. A 100-basis point variation (increase or decrease) in interest rates would have an impact of €22 million on the financial income for the year ended December 31, 2019 versus €19 million for the year ended December 31, 2018.

36.2.3 Exposure to exchange rate risk

The nominal amounts of futures and options linked to exchange rates are detailed below given the nature of the hedging operations:

- **As of December 31, 2019**

In € millions	Hedged item		Maturity	Maturities between 1 and 5 years					Fair value
	Nominal	Balance sheet Item	below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	**3,871**		**2,233**	**1,501**	**7**	**-**	**-**	**129**	**59**
Exchange rate options	2,115	N/A	1,259	856	-	-	-	-	22
Forward purchases	994	N/A	577	413	4	-	-	-	69
Forward sales	633	N/A	397	232	3	-	-	-	(20)
Debt	129	Debt	-	-	-	-	-	129	(12)
Exchange risk (fair value hedging of flight equipment acquisition	**4,435**		**1,626**	**1,326**	**1,020**	**268**	**196**	**-**	**210**
Exchange rate options	159	Other commitments		**14**	**107**	**38**	**-**	**-**	**28**
Forward purchases	3,198	Other commitments	1,289	955	630	190	134	-	234
Forward sales	1,078	Other commitments	337	357	283	40	62	-	(52)
Exchange risk (trading)	**153**		**109**	**44**	**-**	**-**	**-**	**-**	**15**
Forward purchases	153		109	44	-	-	-	-	15
Forward sales	-		-	-	-	-	-	-	-
Total	**8,459**		**3,968**	**2,871**	**1,027**	**268**	**196**	**129**	**284**

• As of December 31, 2018

In € millions	Hedged item		Maturity	Maturities between 1 and 5 years					Fair value
	Nominal	Balance sheet Item	below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	**3,927**		**2,418**	**1,382**	**-**	**-**	**-**	**127**	**47**
Exchange rate options	1,948	N/A	1,208	740	-	-	-	-	20
Forward purchases	1,419	N/A	897	522	-	-	-	-	47
Forward sales	433	N/A	313	120	-	-	-	-	(2)
Debt	127	Debt	-	-	-	-	-	127	(18)
Exchange risk (fair value hedging of flight equipment acquisition	**4,646**		**1,373**	**1,268**	**1,025**	**587**	**256**	**137**	**133**
Exchange rate options	159	Other commitments			**14**	**107**	**38**	**-**	**18**
Forward purchases	3,523	Other commitments	1,175	909	757	410	179	93	122
Forward sales	964	Other commitments	198	359	254	70	39	44	(7)
Exchange risk (trading)	**215**		**90**	**95**	**30**	**-**	**-**	**-**	**16**
Forward purchases	215		90	95	30	-	-	-	16
Total	**8,788**		**3,881**	**2,745**	**1,055**	**587**	**256**	**264**	**196**

Unaligned time value of options with-barrier is booked under other financial income and expenses in the income statement for a loss of €4 million.

Currency hedge sensitivity

The value in euros of the monetary assets and liabilities is presented below:

In € millions	**Monetary assets**		**Monetary liabilities**	
As of December 31	**2019**	**2018**	**2019**	**2018**
US dollar	1,231	1,442	4,035	3,680
Pound sterling	67	38	34	30
Yen	17	25	805	841
Swiss francs	13	15	354	330
Others	239	272	104	131

The amounts of monetary assets and liabilities disclosed above do not include the effect of the revaluation of assets and liabilities documented in fair value hedge.

The impact on "income before tax" and on "gains/(losses) taken to equity" of a 10 per cent appreciation in foreign currencies relative to the euro is presented below:

In € millions	US dollar		Pound sterling		Yen	
As of December 31	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Income before tax	(134)	(84)	(37)	5	(91)	(93)
Gains / (losses) taken to equity	240	251	(49)	(62)	(3)	(6)

The impact of the change in fair value of currency derivatives on "income before tax" and on "gains/ (losses) taken to equity" of a 10 per cent depreciation in foreign currencies relative to the euro is presented below:

In € millions	US dollar		Pound sterling		Yen	
As of December 31	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Income before tax	91	43	1	(5)	78	81
Gains / (losses) taken to equity	(100)	(130)	50	48	11	12

36.2.4 Carbon credit risk

As of December 31, 2019, the Group has hedged its future purchases of CO_2 quotas as follow:

As of December 31, 2019

In € millions	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	Fair value
Operating flows as cash flow hedging	**151**	**88**	**63**	**-**	**-**	**-**	**-**	**13**
Forwards	151	88	63	-	-	-	-	13
Total	**151**	**88**	**63**	**-**	**-**	**-**	**-**	**13**

As of December 31, 2018

In € millions	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	Fair value
Operating flows as cash flow hedging	**170**	**109**	**61**	**-**	**-**	**-**	**-**	**80**
Forwards	170	109	61	-	-	-	-	80
Total	**170**	**109**	**61**	**-**	**-**	**-**	**-**	**80**

These contracts mostly expire within three years.

36.3 Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods. However, the methods and assumptions used to provide the information set out below are theoretical in nature.

They include the following inherent limitations:
* The estimated market values of financial instruments are estimated on the basis of the market price as of December 31, 2019 and December 31, 2018.
* The estimated amounts as of December 31, 2019 and December 31, 2018 are not indicative of gains and/or losses potentially arising on maturity or in the event of cancellation of a financial instrument.

The application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values.

The methods used are as follows:

* *Cash, trade receivables, other receivables, short-term bank facilities, trade payables and other payables:*
The Group considers that, due to their short-term nature, net book value can be deemed a reasonable approximation of their market value.

* *Marketable securities, investments and other securities:*
The market value of securities is determined based mainly on the market price or the prices available on other similar securities. Securities classified under equity instruments are recorded at their stock market value.
Where no market comparable exists, the Group uses their book value, which is deemed a reasonable approximation of their market value in this instance.

* *Borrowings, other financial debts and loans:*
The market value of fixed and floating-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features.

* *Derivative instruments:*
The market value of derivative instruments corresponds to the amounts that would be payable or receivable were the positions to be closed out as of December 31, 2019 and December 31, 2018, calculated using the year-end market rate.

Only the financial assets and liabilities whose fair values differs from their net book values are presented in the following table:

In € millions	**2019**		**2018**	
As of December 31	**Net book value**	**Estimated market value**	**Net book value**	**Estimated market value**
Financial assets				
Loans	694	694	612	594
Financial liabilities				
Bonds	1,586	1,659	1,131	1,171
OCEANE 2019	*454*	*464*	-	-
Bond 2014	*604*	*631*	*604*	*626*
Bond € 2016	*400*	*430*	*400*	*412*
Bond $ 2016	*128*	*134*	*127*	*133*
Perpetual subordinated loans	541	489	572	527
Other borrowings and financial debt	1,955	2,002	1,641	1,771

36.4 Valuation methods for financial assets and liabilities at their fair value

The breakdown of the Group's financial assets and liabilities is as follows based on the three classification levels (see note 4.11):

In € millions	**Level 1**		**Level 2**		**Level 3**		**Total**	
As of December 31	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Financial asset equity instruments	432	377	1	13	-	-	**433**	**390**
Asset debt instruments								
Marketable securities and cash secured	19	11	392	327	-	-	**411**	**338**
Cash equivalents liquidity funds (JV/P&L)	1,260	479	1,607	2,318	-	-	**2,867**	**2,797**
Derivative instruments assets								
Interest rate derivatives	-	-	16	21	-	-	**16**	**21**
Currency exchange derivatives	-	-	386	285	-	-	**386**	**285**
Commodity derivatives	-	-	74	78	-	-	**74**	**78**
ETS derivatives	-	-	17	81	-	-	**17**	**81**
Others	-	-	3	13	-	-	**3**	**13**

Financial liabilities at fair value comprise the fair value of interest rate and foreign exchange. These valuations are classified as level 2.

37. FLIGHT EQUIPMENT ORDERS

Due dates for commitments to firm orders with a view to the purchase of flight equipment are as follows:

In € millions	**2019**	**2018**
As of December 31		
Y+1	1,469	1,274
Y+2	1,203	914
Y+3	1,266	1,279
Y+4	1,153	831
Y+5	768	913
> Year Y+5	1,210	344
Total	**7,069**	**5,555**

These commitments mainly relate to amounts in US dollars, converted into euros at the closing date exchange rate. All these amounts are hedged.

The number of aircraft under firm order as of December 31, 2019 increased by 59 units compared with December 31, 2018 and stood at 108 aircraft.
This change is explained by the delivery of 13 aircraft and 72 aircraft on order.

Long-haul fleet (passenger)

The Group took delivery of six Boeing B787s and three Airbus A350s.

Medium-haul fleet

The Group took delivery of four Boeing B737s.

Regional fleet

The Group did not take delivery of an aircraft.

Aircraft type	To be delivered in	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger								
A350	As of December 31, 2019	6	7	5	7	4	6	**35**
	As of December 31, 2018	3	3	7	5	7	3	**28**
B787	As of December 31, 2019	5	3	3	-	-		**11**
	As of December 31, 2018	6	4	4	2	1	-	**17**
B777	As of December 31, 2019	2	-	-	-	-	-	**2**
	As of December 31, 2018	-	-	-	-	-	-	-
Medium-haul fleet								
A220	-	-	6	15	15	12	12	**60**
	-	-	-	-	-	-	-	-
B737	As of December 31, 2019	-	-	-	-	-	-	-
	As of December 31, 2018	4	-	-	-	-	-	**4**
Regional fleet								
Total	**As of December 31, 2019**	**13**	**16**	**23**	**22**	**16**	**18**	**108**
	As of December 31, 2018	**13**	**7**	**11**	**7**	**8**	**3**	**49**

38. OTHER COMMITMENTS

38.1 Commitments made

In € millions **As of December 31**	**2019**	**2018**
Order on leased aircraft, not yet in operation	490	-
Call on investment securities	142	143
Warranties, sureties and guarantees	364	381
Secured debts	4,431	4,213
Other purchase commitments	140	350

The restrictions and pledges as of December 31, 2019 are as follows:

In € millions	**Amount pledged**	**NBV of balance sheet entry concerned**	**Corresponding %**
Intangible assets	-	1 305	-
Tangible assets	4 889	12 915	37.9 %
Other financial assets	984	1 896	51.9 %
Total	**5 873**	**16 116**	

38.2 Commitments received

In € millions **As of December 31**	**2019**	**2018**
Warranties, sureties and guarantees	274	235
Put option on shares (1)	240	241

(1) estimation based on the price for the disposal of 49.99 % of Servair at the end of 2016

The warranties, sureties and guarantees principally comprise letters of credit from financial institutions.

The Group disposes of the following put options on Servair shares:

- As of each first quarter between 2020 and 2025 inclusive: put options on a number of shares enabling gategroup to reach 80% of Servair's share capital (initial option).
- One year after the exercise of the initial put option, in each first quarter between 2021 and 2025: put options on all the shares still held by the Group.

If the Group does not exercise the initial option, in each first quarter between 2020 and 2025: Gategroup disposes of call options on a number of Servair shares enabling Gategroup to reach 80% of the Servair share capital.

38.3 Order book

Long term contracts of maintenance business

The future revenues from long-term contracts in the maintenance business amount to €8,706 million. The Group expects 60% of the order book will be recognized as revenue over the next five years.

Passenger and freight transportation

As indicated in note 4.6, the Group applies the exemption provided by IFRS 15.

Loyalty program

The redemption of the liability on the loyalty program is presented in note 34.

39. RELATED PARTIES

39.1 Transactions with the principal executives

The total compensation recorded as costs for the members of the Group Executive Committee in respect of their functions within the Group breaks down as follows:

In € millions **Period from January 1 to December 31**	**2019**	**2018**
Short-term employee benefits	8.5	6.4
Post-employment benefits	0.4	0.4
Termination benefits	-	1.2
Share-based payment	1.5	0.6
Total	**10.4**	**8.6**

The compensation of the non-executive Chariman of the Board amounts to €0.20 million.

Directors fees booked in expenses amount to €0.8 million as of December 31, 2019, versus €0.9 million as of December 31, 2018.

39.2 Transactions with the other related parties

The total amounts of transactions with related parties are as follows:

In € millions **As of December 31**	**2019**	**2018**
Assets		
Net trade accounts receivable	181	189
Other current assets	18	20
Other non-current assets	9	9
Total	**208**	**218**
Liabilities		
Trade accounts payable	196	165
Other current liabilities	164	188
Other long-term liabilities	1	2
Total	**362**	**356**

In € millions **As of December 31**	**2019**	**2018**
Net sales	192	243
Landing fees and other rents	(339)	(349)
Other selling expenses	(22)	(21)
Passenger service	(414)	(442)
Other	(87)	(79)
Total	**(670)**	**(648)**

As a part of its normal business, the Group enters into transactions with related parties including transactions with State-owned and governmental entities such as the French Defense Ministry, the Paris Airport Authority ("Aéroports de Paris", or "ADP"), Schiphol Airport, the Dutch State and the French civil aviation regulator ("DGAC"). Air France-KLM considers that such transactions are concluded on terms equivalent to those on transactions with third parties. The most significant transactions are described below:

Aéroports De Paris (ADP)

- Land and property rental agreements,
- Airport and passenger-related fee arrangements.

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Group in connection with the afore-mentioned arrangements amounted to a respective €325 million and €323 million for the periods ended December 31, 2019 and December 31, 2018.

Amsterdam Airport Schiphol (AAS)

- Land and property rental agreements,
- Airport and passenger-related fee arrangements.

In addition, AAS collects airport fees on behalf of the Dutch State.

Total expenses incurred by the Group in connection with the afore-mentioned arrangements amounted to €204 million for the periods ended December 31, 2019.

French Defense Ministry

Air France-KLM has entered into contracts with the French Defense Ministry concerning the maintenance of aircraft in the French Air Force. The net revenue derived from this activity amounts to €37 million for the year ended December 31, 2019 versus €61 million as of December 31, 2018.

Direction Générale de l'Aviation Civile (DGAC)

This civil aviation regulator is under the authority of the French Ministry of Transport, which manages security and safety in the French air space and at airports. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services which amounts to €92 million as of December 31, 2019 versus €96 million for the year ended December 31, 2018.

China Eastern Airlines

The net revenue derived by the Group in connection with the afore-mentioned arrangement amounted to a respective €20 million and €12 million for the periods ended December 31, 2019 and December 31, 2018.

Delta Air Lines

The net revenue derived by the Group in connection with the afore-mentioned arrangement amounted to a respective €58 million and €62 million for the periods ended December 31, 2019 and December 31, 2018.

40. CONSOLIDATED STATEMENT OF CASH FLOW

40.1 Other non-monetary items and impairment

Other non-monetary items and impairment can be analyzed as follows:

In € millions	Notes	**2019**	**2018**
As of December 31			
Variation of provisions relating to restructuring plan	*30*	10	(111)
Variation of provisions relating to pension	*22 & 29*	85	(13)
Changes to the KLM pension plans	*29*	-	(74)
Phase out of A380 aircraft		126	-
European carbon emission allowances (ETS)		53	19
Change in fair value of hedged shares		(59)	(4)
Other		23	(71)
Total		**238**	**(254)**

41. STATUTORY AUDITORS' FEES

KPMG:

In € millions	2019				2018			
As of December 31	**Statutory auditor**		**Network**		**Statutory auditor**		**Réseau**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit, certification, review of stand-alone and consolidated accounts	2.0	95%	0.9	90%	2.1	81%	0.9	69%
- Air France-KLM SA	*0.5*		-		*0.6*		-	
- Consolidated subsidiaries	*1.5*		*0.9*		*1.5*		*0.9*	
Other services	0.1	5%	0.1	10%	0.5	19%	0.4	31%
- Air France-KLM SA	*0.1*		-		*0.1*		-	
- Consolidated subsidiaries	-		*0.1*		*0.4*		*0.4*	
Total Air France-KLM	**2.1**		**1.0**		**2.6**		**1.3**	

Deloitte & Associés:

In € millions	2019				2018			
As of December 31	**Statutory auditor**		**Network**		**Statutory auditor**		**Réseau**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit, certification, review of stand-alone and consolidated accounts	1.9	100%	0.8	89%	2.0	83%	0.8	73%
- Air France-KLM SA	*0.5*		-		*0.6*		-	
- Consolidated subsidiaries	*1.4*		*0.8*		*1.4*		*0.8*	
Other services	-	0%	0.1	11%	0.4	17%	0.3	27%
- Air France-KLM SA	-		-		-		-	
- Consolidated subsidiaries	-		*0.1*		*0.4*		*0.3*	
Total Air France-KLM	**1.9**		**0.9**		**2.4**		**1.1**	

42. CONSOLIDATION SCOPE

As of December 31, 2019, the scope includes 75 fully-consolidated entities, 21 equity affiliates and 1 joint operation.
Based on the Air France-KLM ownership in terms of both voting rights and equity interest and on the functioning mode of the Group's Executive Committee, Air France-KLM has the power to manage the KLM Group's financial and operational strategies and controls KLM. As a result, KLM is fully consolidated in Air France-KLM's consolidated financial statements.

The interest percentage in KLM is calculated based on the ordinary shares.

42.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V.	Netherlands	Multisegment	100	49
BLUE CONNECT	Mauritius	Passenger	70	70
BLUELINK	France	Passenger	100	100
BLUELINK INTERNATIONAL	France	Passenger	100	100
BLUELINK INTERNATIONAL AUSTRALIA	Australia	Passenger	100	100
BLUELINK INTERNATIONAL CZ S.R.O.	Czech Rep.	Passenger	100	100
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	Passenger	100	100
BLUELINK INTERNATIONAL CHILE	Chile	Passenger	100	100
BLUELINK INTERNATIONAL STRASBOURG	France	Passenger	100	100
CONSTELLATION FINANCE LIMITED	Ireland	Passenger	100	100
CYGNIFIC B.V.	Netherlands	Passenger	100	49
HOP!	France	Passenger	100	100
HOP! TRAINING	France	Passenger	100	100
IASA INCORPORATED	Philippines	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
KLM CITYHOPPER B.V.	Netherlands	Passenger	100	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	100	49
KLM EQUIPMENT SERVICES B.V.	Netherlands	Passenger	100	49
KLM LUCHTVAARTSCHOOL B.V.	Netherlands	Passenger	100	49
STICHTING STUDENTENHUISVESTING VLIEGVELD EELDE	Netherlands	Passenger	100	49
BLUE CROWN B.V.	Netherlands	Cargo	100	49
MARTINAIR HOLLAND N.V.	Netherlands	Cargo	100	49
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
SODEXI	France	Cargo	65	65
AFI KLM E&M TEARDOWN MANAGEMENT SAS	France	Maintenance	100	100
AFI KLM E&M-BGAC LINE MAINTENANCE CO LTD	China	Maintenance	60	60
AIR FRANCE INDUSTRIE US	United States	Maintenance	100	100
AIR FRANCE KLM COMPONENT SERVICES CO LTD	China	Maintenance	100	100
AIR ORIENT SERVICES	France	Maintenance	100	100
BARFIELD INC	United States	Maintenance	100	100
CRMA	France	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V.	Netherlands	Maintenance	100	49
KLM E&M MALAYSIA SDN BHD	Malaysia	Maintenance	100	49
KLM UK ENGINEERING LIMITED	United Kingdom	Maintenance	100	49
REGIONAL JET CENTER B.V.	Netherlands	Maintenance	100	49
BLUE TEAM III SAS	France	Transavia	100	100

TRANSAVIA AIRLINES B.V.	Netherlands	Transavia	100	49
TRANSAVIA AIRLINES C.V.	Netherlands	Transavia	100	49
TRANSAVIA COMPANY SAS	France	Transavia	100	100
TRANSAVIA FRANCE SAS	France	Transavia	100	100
TRANSAVIA SERVICES GMBH i.L.	Germany	Transavia	100	49
TRANSAVIA VENTURES B.V.	Netherlands	Transavia	100	49
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE FINANCE SAS	France	Other	100	100
AIR FRANCE KLM E&M PARTICIPATIONS SAS	France	Other	100	100
AIR FRANCE KLM FINANCE SAS	France	Other	100	100
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	80	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	80	39
ASP BEHEER B.V.	Netherlands	Other	60	49
AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	76	49
BIGBLANK	France	Other	100	100
BLUE TEAM V SAS	France	Other	100	100
BLUE YONDER IX B.V.	Netherlands	Other	100	100
BLUE YONDER XIV B.V.	Netherlands	Other	100	49
BV KANTOORGEBOUW MARTINAIR	Netherlands	Other	100	49
CELL K16 INSURANCE COMPANY	United Kingdom	Other	100	0
EXECUTIVE HEALTH MANAGEMENT B.V.	Netherlands	Other	100	49
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Netherlands	Other	100	49
KLM AIR CHARTER B.V.	Netherlands	Other	100	49
KLM CATERING SERVICES SCHIPHOL B.V.	Netherlands	Other	100	49
KLM HEALTH SERVICES B.V.	Netherlands	Other	100	49
KLM INTERNATIONAL CHARTER B.V.	Netherlands	Other	100	49
KLM OLIEMAATSCHAPPIJ B.V.	Netherlands	Other	100	49
MARTINAIR VESTIGING VLIEGVELD LELYSTAD B.V.	Netherlands	Other	100	49
ORION-STAETE B.V.	Netherlands	Other	100	49
PELICAN	Luxembourg	Other	100	100
PYRHELIO-STAETE B.V.	Netherlands	Other	100	49
RIGEL-STAETE B.V.	Netherlands	Other	100	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	100	49
TRAVEL INDUSTRY SYSTEMS B.V.	Netherlands	Other	100	49
TREASURY SERVICES KLM B.V.	Netherlands	Other	100	49
WEBLOK B.V.	Netherlands	Other	100	49

42.2 Equity affiliates

Entity	**Country**	**Segment**	**% interest**	**% control**
ADM BLUE	Madagascar	Passenger	40	40
AAF SPARES	Ireland	Maintenance	50	50
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
BGAC LINE MAINTENANCE COMPANY LTD	China	Maintenance	60	60
IGO SOLUTIONS SAS	France	Maintenance	40	40
MAX MRO SERVICE	India	Maintenance	26	26
SHS TECHNICS	Senegal	Maintenance	49	50
SINGAPOUR COMPONENT SOLUTIONS PTE	Singapore	Maintenance	50	50
SPAIRLINERS	Germany	Maintenance	50	50
TRADEWINDS ENGINE SERVICES LLC	United States	Maintenance	50	50
TURBINE SUPPORT INTERNATIONAL LLC	United States	Maintenance	50	50
AIR ANTWERP B.V.	Belgium	Other	25	25
AIRCRAFT CAPITAL LTD	United Kingdom	Other	40	40
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
MAINPORT INNOVATION FUND B.V.	Netherlands	Other	25	25
MAINPORT INNOVATION FUND II B.V.	Netherlands	Other	24	24
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	53	45
SERVAIR	France	Other	50	50

SKYNRG B.V.	Netherlands	Other	20	20
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25

42.3 Joint operations

Entity	Country	Segment	% interest	% control
AIRFOILS ADVANCES SOLUTIONS SAS	France	Maintenance	49	49