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Air France-KLM S.A.

Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2020
Air France-KLM S.A.
2, rue Robert Esnault-Pelterie – 75007 Paris

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Air France-KLM S.A.

Registered office: 2, rue Robert Esnault-Pelterie – 75007 Paris
Share capital: €.428 634 035

Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2020

To Air France KLM S.A. Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings, we have audited the accompanying consolidated financial statements of Air France-KLM S.A. for the year ended December 31, 2020.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2020 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code (code de commerce) and the French Code of Ethics (code de déontologie) for statutory auditors for the period from January 1, 2020 to the date of our report, and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 « Covid-19 and going concern » to the consolidated financial statements which describes the material uncertainty resulting from events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Justification of Assessments – Key Audit Matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, and in addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, approved in the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Impairment test for non-current assets and impairment of flight equipment assets *(notes 3.16, 14 and 16 of consolidated financial statements)*	
Risk identified	**Our response**
Flight equipment assets amounted to €11,031 million as of December 31, 2020 (2019: €11,334 million). The resizing of the Network activity in 2020 led to the early phase out of certain fleets (A380, A340, B747, CRJ) leading to the recognition of an impairment loss of €670 million under non-recurring items. As of December 31, 2020, the carrying amount of intangible assets with an indefinite useful life amounted to €215 million (2019: €217 million). In accordance with IAS 36 "Impairment of Assets", property, plant and equipment, intangible assets, right-of-use assets and goodwill are tested for impairment if there is an indication of impairment, and at least once a year as of September 30 for goodwill and intangible assets with an indefinite useful life. Assets that cannot be directly linked to independent cash flows are grouped together into Cash Generating Units (CGU) to perform the impairment test. The Group concluded that the CGUs correspond to the Group's business segments - the Network, Maintenance and Transavia activities - which represent the smallest independent groups of assets whose use generates identifiable cash inflows. Their value in use is determined based on particularly sensitive forward-looking assumptions, given the current health and economic situation due to the COVID-19 pandemic, including the calculation of discounted cash flows estimated from 5-year budget assumptions validated by Management and communicated to the Board of Directors, the discount rate corresponding to the weighted average cost of capital, and growth rates reflecting assumptions relating to mid- and long-term business development.	We assessed the procedures and controls implemented by the Group to identify indicators of impairment, calculate the book value of non-current assets by CGU and determine their recoverable amount. We tested the key controls used by the Group in the design process of the asset impairment test. Our work includes: • assessing whether the methodology used by Management complies with current accounting standards (IAS 36), including validating the CGU independence and consistency criteria as well as the frequency of impairment tests; • reconciling the book value of the non-current assets of each CGU with the accounting balances and the corresponding analyses; • verifying (i) the cash flow projections with the Management-approved 5-year plans, (ii) the intermediate period and perpetual growth rates, as well as (iii) profit margin rates used; • assessing discount rate calculation assumptions such as risk-free rate, industry gearing, financing spread and specific risk premium; • assessing the sensitivity scenarios retained by Management by verifying arithmetic accuracy and re-performing sensitivity calculations based on WACC, perpetual growth rate and long-term profitability; • calculating enterprise value from Air France-KLM's market capitalization to corroborate the impairment test based on value in use. • assessing and analyzing the impacts of impairment recorded under non-recurring items following the early phase out of the A380, A340, B747 and CRJ fleets;

We considered the valuation of those assets to be a key audit matter in light of the high degree of judgment and estimates required by Management to determine the value of its assets in a context characterized by economic uncertainty.	• assessing the appropriateness of the disclosures provided in Notes 3.16, 14 and 16 to the consolidated financial statements.

Restructuring provisions *(notes 2.2, 3.21,10, 28.3 and 29 of consolidated financial statements)*	
Risk identified	**Our response**
In financial year 2020, in light of the COVID-19 pandemic and forecasts of a return to 2019 activity levels in 2024, Air France and KLM announced restructuring and downsizing plans. During the financial year, the Group set up voluntary departure plans ("PDV"), job restructuring plans ("PSE") and collective mutual termination agreements ("RCC"). The restructuring provision amounted to €741 million in Air France KLM Group's consolidated financial statements. The impacts for financial year 2020 have been recorded, net of the reversal of retirement obligations, in the income statement under non-recurring expenses and amounted to €822 million. Pilots, cabin crew and ground staff accounted for €584 million for Air France and Hop! and €205 million for KLM. Air France and KLM international commercial staff accounted for €33 million.	We examined the events relating to the implementation of the restructuring plans and assessed the judgments, estimates and assumptions made by the Group to determine the need to recognize a provision and, where applicable, its amount. Our work included: • conducting interviews with Management and the Human Resources departments to obtain an understanding of the restructuring plans and the estimates underlying the recorded provisions; • verifying the design and implementation of controls set up by Management to assess the amount of liabilities; • obtaining the required approvals and authorizations from the respective French and Dutch administrations to ensure that the terms and conditions of the plans are correctly reflected in the provisions;

We considered the restructuring provision to be a key audit matter due to the significant judgments and estimates made by the Group for the assumptions used to determine the recognized amounts.	• analyzing the assumptions used by Management in establishing the provision with regard to the eligibility conditions for departure plans, and data from the payroll system; • reconciling the Group's calculation of provisions with recognized amounts; • assessing the appropriateness of the disclosures provided in Notes 2.2, 3.21, 10, 28.3 and 29 to the consolidated financial statements.

Recognition of deferred tax assets of the French tax group *(notes 3.24 and 12 of consolidated financial statements)*

Risk identified	Our response
Deferred tax assets relating to tax loss carryforwards are only recognized if the Group has deferred tax liabilities against which they can be offset or if their recovery is probable. As of December 31, 2020, a net amount of €260 million in deferred tax assets was recognized in the consolidated balance sheet for the global scope. The amount comprised €285 million in deferred tax assets relating to tax loss carryforwards for the French tax consolidation group as presented in Note 12.4 to the consolidated financial statements. These deferred tax assets are recognized based on their likelihood of recovery pursuant to budgets and medium-term plans prepared by the Group. As presented in Note 12.4 to the consolidated financial statements, the recovery horizon for these deferred tax assets of the French tax consolidation group was reduced to five years as of December 31, 2020 compared with seven years as of December 31, 2019. Unrecognized deferred tax assets relating to the tax losses of the French tax consolidation group amounted to €3,265 million as presented in Note 12.4 to the consolidated financial statements.	Our audit approach consisted in examining the compliance of the Group's approach with IAS 12 and assessing the probability of the Company making future use of the tax loss carryforwards generated to date, particularly with regard to: – deferred tax liabilities in the same tax jurisdiction, where the base could be offset against deferred tax assets with the same maturity; and – the Group's ability to generate future taxable profits in the French tax jurisdiction in order to use prior-year tax losses recognized as deferred tax assets. We assessed the appropriateness of the methodology adopted by the Group to identify existing tax loss carryforwards that will be utilized, either through deferred tax liabilities or future taxable profits. To determine future taxable profits, we assessed the forecasting process by: – examining the procedure for preparing the last taxable income forecasts used as a basis for estimates; – comparing income forecasts for prior years with actual results;

We identified this issue as a key audit matter due to the significant amount of French tax loss carryforwards and the high degree of judgments and estimates made by the Group to assess the validity of the related deferred tax assets recognized.	– comparing the assumptions used by Management to prepare taxable income forecasts with the ones adopted for non-current asset impairment tests. We assessed the appropriateness of the disclosures provided in Notes 3.24 and 12 to the consolidated financial statements.

Provisions for litigations and contingent liabilities *(notes 3.21, 29.1 and 29.2 of consolidated financial statements)*	
Risk identified	**Our response**
Air France-KLM is involved in several governmental, judicial or arbitration procedures and litigations, particularly concerning anti-trust laws, as specified in Notes 29.1 and 29.2 to the consolidated financial statements. The outcome of these procedures and litigations depends on future events, and the Company's estimates are inherently based on the use of Group assumptions and assessments. We considered the measurement of the litigation provisions to be a key audit matter due to the uncertainty surrounding the outcome of current procedures, the high degree of Group estimates and judgment and the potentially material nature of the impact of provision amounts on consolidated net income and equity should these estimates change.	We specifically assessed the estimates and assumptions adopted by the Group in determining the need to recognize a provision and, where applicable, its amount. Based on discussions with the Group, we familiarized ourselves with the latter's analysis of the risks and status of each significant litigation, whether reported or potential. We assessed the items justifying the recognition or not of a provision. We analyzed the lawyers' replies to your enquiries, familiarized ourselves with the exchanges between the Company, its lawyers and other parties to the suits and considered any new developments up to the issue date of our report. Based on these items, we conducted a critical review of the estimates and positions adopted by the Group. We also assessed the appropriateness of the disclosures in Notes 3.21 and 29 to the consolidated financial statements.

Specific Verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement required by Article L.225-102-1 of the French Commercial Code (code de commerce) is included in Group management report, it being specified that, in accordance with the provisions of Article L.823-10 of the code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein. This information should be reported on by an independent third party.

Other Legal and Regulatory Verifications or Information

Format of presentation of the consolidated financial statements intended to be included in the annual financial report

We have also verified, in accordance with the professional standard applicable in France relating to the procedures performed by the statutory auditor relating to the annual and consolidated financial statements presented in the European single electronic format, that the presentation of the consolidated financial statements intended to be included in the annual financial report mentioned in Article L.451-1-2, I of the French Monetary and Financial Code (code monétaire et financier), prepared under the responsibility of Chief Executive Officer, complies with the single electronic format defined in the European Delegated Regulation N° 2019/815 of 17 December 2018. As it relates to consolidated financial statements, our work includes verifying that the tagging of these consolidated financial statements complies with the format defined in the above delegated regulation.

Based on the work we have performed, we conclude that the presentation of the consolidated financial statements intended to be included in the annual financial report complies, in all material respects, with the European single electronic format.

We have no responsibility to verify that the consolidated financial statements that will ultimately be included by your company in the annual financial report filed with the AMF are in agreement with those on which we have performed our work.

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Air France KLM S.A. Company by the Annual General Meetings held on September 25, 1998 for Deloitte & Associés and on September 25, 2002 for KPMG Audit, department of KPMG S.A.

As at December 31, 2020, Deloitte & Associés was in the 23rd year of total uninterrupted engagement and KPMG Audit, department of KPMG S.A. was in the 19th year of total uninterrupted engagement, which are the 22nd year and 19th year since securities of the Company were admitted to trading on a regulated market respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters, that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La-Défense, February 18, 2021

Statutory Auditors

KPMG Audit *Departement of KPMG S.A.*		Deloitte & Associés	
Valérie Besson *Partner*	Eric Dupré *Partner*	Guillaume Crunelle *Partner*	Pascal Colin *Partner*