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, 2020 – December 31, 2020

Air France-KLM Group

Table of contents

Air France-KLM Group

CONSOLIDATED INCOME STATEMENT

In € millions **Period from January 1 to December 31**	***Notes***	**2020**	**2019**
Sales	***5.1***	**11,088**	**27,188**
Other revenues		-	1
Revenues		**11,088**	**27,189**
External expenses	***6***	(7,980)	(15,893)
Salaries and related costs	***7***	(5,300)	(8,139)
Taxes other than income taxes		(137)	(154)
Other income and expenses	***9***	640	1,125
EBITDA		**(1,689)**	**4,128**
Amortization, depreciation and provisions	***8***	(2,859)	(2,987)
Income from current operations		**(4,548)**	**1,141**
Sales of aircraft equipment		41	22
Other non-current income and expenses	***10***	(1,493)	(153)
Income from operating activities		**(6,000)**	**1,010**
Cost of financial debt	***11***	(496)	(442)
Income from cash and cash equivalents		19	49
Net cost of financial debt	***11***	***(477)***	***(393)***
Other financial income and expenses	***11***	(451)	(271)
Income before tax		**(6,928)**	**346**
Income taxes	***12.1***	(97)	(76)
Net income of consolidated companies		**(7,025)**	**270**
Share of profits (losses) of associates	***20***	(58)	23
Net income for the period		**(7,083)**	**293**
Non-controlling interests		*(5)*	*3*
Net income - Group part		*(7,078)*	*290*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic	***13***	(16.56)	0.64
- diluted		(16.56)	0.61

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

Air France-KLM Group

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES

In € millions **Period from January 1 to December 31**	***Notes***	**2020**	**2019**
Net income for the period		**(7,083)**	**293**
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		(946)	435
Change in fair value and cost of hedging transferred to profit or loss		969	(46)
Currency translation adjustment		(4)	-
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	***12.2***	(10)	(115)
Items of the recognized income and expenses of equity shares, net of tax			
Total of other comprehensive income that will be reclassified to profit or loss		***9***	***274***
Remeasurements of defined benefit pension plans		(282)	1
Fair value of equity instruments revalued through OCI		(21)	(14)
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	***12.2***	79	(68)
Total of other comprehensive income that will not be reclassified to profit or loss		***(224)***	***(81)***
Total of other comprehensive income, after tax		**(215)**	**193**
Recognized income and expenses		**(7,298)**	**486**
- Equity holders of Air France-KLM		**(7,292)**	**483**
- Non-controlling interests		(6)	3

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

Air France-KLM Group

CONSOLIDATED BALANCE SHEET

Assets *In € millions*	***Notes***	**December 31, 2020**	**December 31, 2019**
Goodwill	***14.2***	215	217
Intangible assets	***15***	1,230	1,305
Flight equipment	***17***	11,031	11,334
Other property, plant and equipment	***17***	1,548	1,580
Right-of-use assets	***19***	4,678	5,173
Investments in equity associates	***20***	230	307
Pension assets	***21***	211	420
Other financial assets	***22***	795	1,096
Derivatives	***36***	92	238
Deferred tax assets	***12.4***	282	523
Other non-current assets	***25***	4	3
Total non-current assets		**20,316**	**22,196**
Other short-term financial assets	***22***	607	800
Derivatives	***36***	160	258
Inventories	***23***	543	737
Trade receivables	***24***	1,248	2,164
Other current assets	***25***	914	865
Cash and cash equivalents	***26***	6,423	3,715
Total current assets		**9,895**	**8,539**
Total assets		**30,211**	**30,735**

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

CONSOLIDATED BALANCE SHEET (continued)

Liabilities and equity *In € millions*	*Notes*	**December 31, 2020**	**December 31, 2019**
Issued capital	***27.1***	429	429
Additional paid-in capital	***27.2***	4,139	4,139
Treasury shares	***27.3***	(25)	(67)
Perpetual	***27.4***	-	403
Reserves and retained earnings	***27.5***	(9,970)	(2,620)
Equity attributable to equity holders of Air France-KLM		**(5,427)**	**2,284**
Non-controlling interests		9	15
Total equity		**(5,418)**	**2,299**
Pension provisions	***28***	2,147	2,253
Return obligation liability and other provisions	***29***	3,670	3,750
Financial debt	***30***	14,171	6,271
Lease debt	***31***	2,425	3,149
Derivatives	***36***	122	107
Deferred tax liabilities	***12.4***	22	142
Other non-current liabilities	***35***	1,294	115
Total non-current liabilities		**23,851**	**15,787**
Return obligation liability and other provisions	***29***	1,337	714
Current portion of financial debt	***30***	1,318	842
Lease debt	***31***	839	971
Derivatives	***36***	363	154
Trade payables		1,435	2,379
Deferred revenue on ticket sales	***33***	2,394	3,289
Frequent flyer programs	***34***	916	848
Other current liabilities	***35***	3,175	3,448
Bank overdrafts	***26***	1	4
Total current liabilities		**11,778**	**12,649**
Total liabilities		**35,629**	**28,436**
Total equity and liabilities		**30,211**	**30,735**

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

In € millions	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Perpetual bonds	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non-controlling interests	Total equity
December 31, 2018	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(3,118)**	**1,786**	**12**	**1,798**
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**
December 31, 2019	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(2,620)**	**2,284**	**15**	**2,299**
Other comprehensive income	-	-	-	-	-	***(214)***	***(214)***	***(1)***	***(215)***
Net result for the period	-	-	-	-	-	(7,078)	(7,078)	(5)	(7,083)
Total of income and expenses recognized	-	-	-	-	-	**(7,292)**	**(7,292)**	**(6)**	**(7,298)**
Perpetual bonds	-	-	-	-	(403)	-	(403)	-	(403)
Coupons on perpetual	-	-	-	-	-	(17)	(17)	-	(17)
Other	-	-	-	42	-	(41)	1	-	1
December 31, 2020	**428,634,035**	**429**	**4,139**	**(25)**	-	**(9,970)**	**(5,427)**	**9**	**(5,418)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Period from January 1 to December 31 *In € millions*	***Notes***	**2020**	**2019**
Net income from continuing operations		(7,083)	293
Amortization, depreciation and operating provisions	***8***	2,859	2,987
Financial provisions	***11***	183	217
Loss (gain) on disposals of tangible and intangible assets		(50)	(43)
Loss (gain) on disposals of subsidiaries and associates		1	-
Derivatives – non monetary result		(27)	30
Unrealized foreign exchange gains and losses, net		(290)	82
Share of (profits) losses of associates	***20***	58	(23)
Deferred taxes	***12***	167	(21)
Impairment	***40.1***	680	-
Other non-monetary items	***40.1***	511	238
Financial capacity		**(2,991)**	**3,760**
(Increase) / decrease in inventories		138	(93)
(Increase) / decrease in trade receivables		760	61
Increase / (decrease) in trade payables		(898)	(133)
Increase / (decrease) in advanced ticket sales		(837)	160
Change in other receivables and payables		1,002	140
Change in working capital requirement		**165**	**135**
Net cash flow from operating activities [A]		**(2,826)**	**3,895**
Acquisition of subsidiaries, of shares in non-controlled entities		(1)	(1)
Purchase of property plant and equipment and intangible assets **[B]**	***18***	(2,099)	(3,372)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	***2.2***	357	13
Proceeds on disposal of property plant and equipment and intangible assets **[C]**		204	100
Dividends received		-	14
Decrease (increase) in net investments, more than 3 months		(44)	(72)
Net cash flow used in investing activities		**(1,583)**	**(3,318)**
Convertible bonds (OCEANE)		-	54
Issuance of debt	***30***	11,437	1,617
Repayment on debt	***30***	(3,389)	(1,156)
Payments on lease debts **[D]**	***31***	(940)	(1,008)
New loans		(282)	(89)
Repayment on loans		321	161
Dividends and coupons on perpetual paid		-	(26)
Net cash flow from financing activities		**7,147**	**(447)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(27)	1
Change in cash and cash equivalents and bank overdrafts		**2,711**	**131**
Cash and cash equivalents and bank overdrafts at beginning of period	***26***	3,711	3,580
Cash and cash equivalents and bank overdrafts at end of period	***26***	6,422	3,711
Income tax (paid) / reimbursed (flow included in operating activities)		(15)	(6)
Interest paid (flow included in operating activities)		(399)	(436)
Interest received (flow included in operating activities)		(1)	25

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

Air France-KLM Group

OPERATING FREE CASH-FLOW

Period from January 1 to December 31 *in € millions*	***Notes***	**2020**	**2019**
Net cash flow from operating activities	***[A]***	(2,826)	3,895
Purchase of property plant and equipment and intangible assets	***[B]***	(2,099)	(3,372)
Proceeds on disposal of property plant and equipment and intangible assets	***[C]***	204	100
Operating free cash flow	***32***	**(4,721)**	**623**
Payments on lease debts	***[D]***	**(940)**	**(1,008)**
Operating free cash flow adjusted		**(5,661)**	**(385)**

The accompanying notes are an integral part of these 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. SIGNIFICANT EVENTS

2.1. Covid-19 and going concern

The worldwide spread of Covid-19 since the beginning of 2020 has had and continues to have a major impact on air traffic around the world. After the drastic reduction in traffic during the second quarter following very stringent constraints on worldwide travel, the recovery expected in the second semester was delayed with the resurgence of Covid-19 at the end of the summer. Further measures were implemented by the French and Dutch governments to slow the spread of the virus in the final quarter of 2020 (lockdowns, curfew). Since early January 2021, the restrictions on travel have been reinforced at global level following the emergence of new variants of the virus.

The Group has already taken a number of strong measures to mitigate the effect of Covid-19 on its business and continues to closely monitor and evaluate further developments. These actions include, amongst others, a substantial reduction in network capacity, structural changes to the fleet, cash preservation and salary measures.

Reduction in capacity and costs

Available seat-kilometers for the Passenger network and Transavia were down by 54.4% for full year 2020 compared to last year. As a consequence, the Group’s revenues amounted to €11,088 million, a decrease of 59.2% compared to last year, with Network revenues decreasing by 60.4%, Maintenance revenues down by 41.6% and Transavia down by 65.3%.

In parallel, the reduction in capacity linked to Covid-19 and the specific cost-saving initiatives led to a decline in the Group’s external expenses excluding fuel to €5,588 million, i.e. a 46.2% reduction compared to 2019.
Within external expenses, fuel costs fell by 56.6% versus 2019, in line with the reduction in capacity. However, following the drastic reduction in fuel consumption over the April-December 2020 period and the 2021 first quarter, the Group has been in a position of over-hedging. In this regard, an expense of €595 million has been booked under “Other financial income and expenses” at December 31, 2020 (see Note 11 Net cost of financial debt and other financial income and expenses).

Salaries and related costs stood to €5,300 million, down by 34.9% compared to 2019.
As of March 23, 2020, Air France and its French subsidiaries implemented partial activity measures (“*Activité Partielle*”) and KLM received support from the Dutch government thanks to “Temporary Emergency Bridging Measures for Sustained Employment” (*NOW*), applicable from March 1, 2020.
These measures had a positive impact of around €2,050 million for the year 2020. The impact has been booked under Salaries and related costs (see Note 7. Salaries and number of employees).

The Air France KLM Group also announced and implemented restructuring and staff reduction plans (see Note 2.2. Events occurring during the period).

The fleet was rescaled to adapt to the lower demand. It was thus decided to accelerate the phase-out from the fleet of the A380, A340, B747, CRJ and ERJ145 aircraft (see Note 10 Other non-current income and expenses). The rationalization in the number of aircraft types in operation will progressively generate cost savings and efficiency gains.

Asset valuation

In the current context, the Group also paid particular attention to the recoverability and the valuation of its deferred tax assets (see Note 12. Income taxes), its segment assets (see Note 16. Impairment), its trade receivables, inventories and margin rates on long-term contracts.

Liquidity position

Within the framework of the financial support packages from the French and Dutch States, the Air France KLM Group signed the legal documentation relating to the four financing mechanisms, approved by the European Commission on May 4, 2020 (Air France Group) and on July 13, 2020 (KLM Group), in the total amount of €10.4 billion (see note 30.3 Financial support by the French and the Dutch states). These financing packages thus enabled an improvement in the Group's liquidity position.

In addition, the Group decided to defer non-essential capital expenditures and internal projects, defer payment of the employee profit-sharing scheme and variable compensation, and defer payment of the wage tax, social contributions and aeronautical charges.

Lastly, the Air France-KLM Group offered customers whose flights had been cancelled the option of exchanging their tickets for vouchers, with a 15% uplift in their value.

At December 31, 2020, the Group's liquidity position consisted of total cash of €9.82 billion, of which €7.36 billion in liquidity (see Note 32 Net debt) and €2.46 billion in undrawn credit lines (see Note 30 Financial debt).

Despite these measures and a gradual resumption of activity, Air France KLM's financial performance for the coming period will continue to be affected by a significant fall in revenue, lost ticket sales and substantially negative cash flows in a proportion and for a duration that currently remain uncertain.

Going concern

In determining the appropriate basis for preparing the financial statements for the year ended December 31, 2020, the Board of Directors considered the Group as a going concern by evaluating the financial forecasts over a time horizon of at least one year and by analyzing, in particular, the trading position of the Group in the context of the current Covid-19 pandemic and taking into account the following elements.

As indicated above, the Group had total cash of €9.82 billion at December 31, 2020.

The 2021 budget, as modelled by the management and approved by the Board of Directors, assumes a gradual ramp-up in passenger demand with a stronger recovery in traffic in the second part of year thanks to the vaccination roll-out.

This plan will ensure a level of liquidity considered to be adequate thanks to the following elements:

- The adjustment of the flight schedule and capacity to the expected demand in order to operate only flights having a positive incremental impact in terms of operating cash flow;
- The continued specific mechanisms from the French and Dutch governments to partially cover staff costs through the "*NOW*" program in the Netherlands and the Long-Term Partial Activity ("*APLD*") in France;
- A high level of variable costs linked to a reduction in capacity;
- The reduction in the capital expenditure plans;
- The systematic refinancing secured by assets of new aircraft delivered from manufacturers.

Based on these financial forecasts, the banking covenants applicable in 2021, including the €2.46 billion Revolving Credit Facility at the level of KLM (see note 30. Financial Debt), are met.

In addition, the Group is working on financing projects, pursuant to the European Regulation, which would increase the stockholders' equity, provide further liquidity and secure access to additional financing secured by assets.

Lastly, and more generally, the French and Dutch States have shown their support to enable Air France and KLM to weather the current difficulties.

As the timing for the resumption of flights is uncertain, the Management has also modelled a more pessimistic, but plausible, scenario assuming a further 10% decline in activity during 2021 relative to the aforementioned budget, to assess the liquidity position over a period of at least 12 months from the date of the year end closing.

On this scenario, thanks to the high level of variable costs and the measures supporting payroll costs, the Group would have enough cash to continue its activities over this 12-month period.
Were this scenario to transpire, the Management has considered additional mitigating actions, including:

- Further optimization and reduction of the network and capacity;
- Asset disposals;
- Further staff restructuring;
- Other cost-saving measures; and
- The deferral of capital expenditure and charges.

Within a context of significant uncertainty linked to the Covid-19 public health crisis, the Board of Directors nonetheless considers that there are pessimistic scenarios which could cast significant doubt upon the Group's ability to continue as a going concern, in particular were the pandemic, including the uncontrolled spread of new variants and the maintenance or even reinforcement of the related health measures, to call into question the gradual recovery in demand, especially in the 2021 second semester.

Furthermore, the non-realization of financing projects, the inadequacy of the aforementioned mitigation measures, the possibility that the banking covenants might, in certain situations, not be respected, the lack of alternative sources of finance like the sale and leaseback of aircraft, the impact of a possible forced reduction in slots and a potentially negative change in some behavior relating to air travel also constitute, to various degrees, factors of additional uncertainty in the short and medium term.

In the event that these factors of uncertainty were to materialize, the Group might not be able to realize its assets and repay its debts within the normal framework of its activity while the application of the IFRS accounting rules and principles in a normal context of a going concern, concerning notably the assessment of the assets and liabilities, could prove inappropriate. This situation creates a situation of significant uncertainty with regard to operating as a going concern.

Notwithstanding, the Board of Directors does not consider those pessimistic scenarios to be likely or that they are likely to have an impact sufficient to call into question the business as a going concern. It thus considers it appropriate to prepare the financial statements on the basis of going concern principle.

2.2. Events occurring during the period

Sales of Amadeus shares

On January 9, 2020, Air France-KLM sold its remaining shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), for an amount of €356 million. The fair value of the shares stood at €360 million as of December 31, 2019. Since the entire 1.11 per cent Amadeus shareholding was covered by a hedge contract, the result of the transaction is nil in the income statement in 2020. The cash proceeds of €356 million are included in "Proceeds on disposal of subsidiaries, of shares in non-controlled entities" in the cash flow statement.

Issue of notes and tender offer on series of existing notes

On January 10, 2020, Air France-KLM issued a €750 million senior notes with a 5- year maturity and bearing coupon at an annual rate of 1.875%.

Part of the net proceeds of this issuance were used to fund, in whole or in part, the tender offer on existing notes launched by the Company on January 6, 2020 and finalized on January 14, 2020. On the existing notes brought to the tender offer, €350 million were accepted of which €311.2 million of notes with a maturity date in 2021 and €38.8 million of notes with maturity date on 2022.

Phase-out of A380, A340, CRJ and B747 aircraft from Air France-KLM group's fleet

Following the drastic reduction in air traffic in relation with Covid-19, it has been decided to speed up the phase-out from the fleet of the A380, A340, B747 and CRJ. The related impact of €(670) million has been accounted for in "other non-current income and expenses".

Drawn down of revolving credit facility during the first quarter 2020

On March 13, 2020, Air France-KLM drawn down its revolving credit facility for a total amount of €1,1 billion divided into two tranches of €550 million each. On May 7, 2020, following the financial support package backed by the French State for Air France Group, Air France KLM reimbursed the €1.1 billion credit facility and terminated the revolving credit facility.

Furthermore, on March 19, 2020, KLM drawn down its revolving credit facility concluded on May 23, 2018 for the full amount of €665 million. On August 26, 2020, following the financial support package backed by the Dutch State, KLM reimbursed the €665 million credit facility and terminated the revolving credit facility.

Financial support package of €7.0 billion backed by the French State

On 6 May 2020, Air France-KLM Group signed the legal documentation relating to the financing for a total amount of 7 billion euros, announced in its press release of 24 April 2020 and approved by the European Commission on 4 May 2020. This financing intends to support the liquidity needs of Air France and its subsidiaries and includes two loans:

- A loan of €4 billion, 90% guaranteed by the French State, provided by a syndicate of nine banks, with an initial 12-month maturity and a one-year or two-year extension option exercisable by Air France-KLM (see note 30.3 Financial support by the French and the Dutch states).

- A subordinated shareholder loan of €3 billion, granted by the French State to Air France-KLM, with a maturity of four years, with two consecutive one-year extension options exercisable by Air France-KLM (see note 30.3 Financial support by the French and the Dutch states).

As of December 31, 2020, Air France-KLM has withdrawn the €4 billion of the loan guaranteed by the French State and the €3 billion of shareholders loan.

Financial support package of €3.4 billion backed by the Dutch State

On June 25, 2020, following discussions with the Dutch State and several international banking institutions, the Air France-KLM Group and KLM were able to finalize the various components of a financial support package.

It includes two sections for KLM and its subsidiaries:

- A revolving credit facility of €2.4 billion, 90% guaranteed by the Dutch State and a maturity of 5 years (see note 30.3 Financial support by the French and the Dutch states).

- A direct loan of €1 billion, granted by the Dutch State to KLM, with a maturity of 5.5 years (see note 30.3 Financial support by the French and the Dutch states).
  Main conditions associated with the direct state loan are linked to the airline becoming more sustainable, cut cost effectively, as well as the restored performance and competitiveness of KLM, including a comprehensive restructuring plan and contributions made by employees.

Air France-KLM Group

On October 1, 2020, KLM submitted its restructuring plan to the Netherlands Ministry of Finance. The presentation of this restructuring plan was a key condition in obtaining the aforementioned government loan and guarantees to the value of €3.4 billion. The plan outlines how KLM intends to fulfil the conditions imposed by the Netherlands government. The presentation of the plan is a very important milestone. Substantively, the plan includes elements such as the reassessment of strategy, cost-cutting initiatives, financial considerations and how KLM staff will contribute by way of reduced employment conditions. On November 3, 2020, the ministry has approved the plan. Consequently, KLM has the possibility to draw additional amounts under the financial support package.

As of December 31, 2020, KLM has withdrawn €942 million of the financial support package (€665 million from the revolving credit facility and €277 million from the direct loan).

Restructuring plan for Air France-KLM Group

To face the Covid-19 crisis and forecasts expecting a return at the same level of activity of 2019 in 2024, Air France KLM must accelerate its transformation to regain its competitiveness and strengthen its leading position in terms of sustainable development. In this context, Air France Group and KLM Group announced the restructuring of the company and a reduction of staff.

- **KLM Voluntary Resignation Scheme**

The Covid-19 has had a major impact on KLM and, to the contend with the reduction of workload expected until 2024, the option to leave the company on a voluntary basis with financial compensation was opened for KLM employees for a period starting June 1, 2020 and ending July 12, 2020. The 2020 Voluntary Resignation Scheme offers a financial incentive, the level of which depends on the number of years in service.
The option to leave the company on a voluntary basis with similar financial compensation was reopened, for specific divisions and departments in order to minimize involuntary dismissals, for a period starting October 19, 2020 and ending November 9, 2020 (December 2020 for cockpit crew).

The impact of €(175) million, net of KLM ground staff pensions curtailment, has been accounted for in “Other non-current income and expenses”

In addition, a restructuring plan has been announced in the last quarter 2020 for ground staff. The impact of this decision is estimated at (16) M€ and has been accounted for in “Other non-current income and expenses”.

- **Air France Group**

On July 3, 2020, Air France and HOP! announced their strategic orientations and planned to adapt their workforce in the coming months. Within the framework of these strategic orientations, the negotiations have been conducted by Air France and HOP! with their representatives of pilots, cabin crew, and ground staff.

During the meeting of the Social Economic Establishment Committee (“CSEE”) Flight Operations of June 26, 2020, the management of Air France presented the mutual agreement on termination of contract (“RCC”) for its pilots.

On July 6, 2020, during the meeting of the Social Economic Establishment Committee (“CSEE”), Flight Operations, the management of Air France presented the project of mutually agreement on termination of contract (“RCC”) for flight attendants.

On July 24, 2020, during the meeting of the Social Economic Central Committee (“CSEC”), the management of Air France presented the project of voluntary departure plan for ground staff.

As of December 31, 2020, the Hop! Departure Plan (“PDV-PSE”) for ground staff, pilots and flight attendants, presented in August 2020, has been submitted to the Central Committee (« CSE »). Hop! is waiting for the approval of the plan by the French Labour Ministry.

The impact of these decisions of €(584) million, net of pensions curtailment, has been accounted for in “Other non-current income and expenses” as of December 31, 2020.

- **Air France-KLM International Commercial staff**

In July 2020, the management of Air France-KLM presented the project of reorganization of international sales force. The impact of this decision is estimated at €(33) million and has been accounted for in "other non-current income and expenses" as of December 31, 2020.

Redemption of the EUR 600 million undated deeply subordinated notes (of which EUR 403.3 million are outstanding) issued in 2015

Air France-KLM has decided to redeem all the outstanding perpetual subordinated notes issued in 2015 representing a total nominal amount of €403.3 million.
Redemption has been made on 1st October 2020 at par, i.e. €100,000 per note, plus interest accrued since the last date on which interest were paid under the notes (i.e. 1st October 2019) until the early redemption date (included).

2.3. Subsequent events

Long-term partial activity agreement

At the end of January 2021, Air France has finalized the agreements with representative trade unions allowing the use of the Long Term Partial Activity (LTPA) applicable from January 1, 2021 for a maximum period of 24 months.

Approval of Hop ! departure plan

As part of its restructuring, HOP! has launched a departure plan ("PDV-PSE") (see note 2.2 Events occurring during the period) which was pending approval at year-end. On February 16, 2021, HOP! received a request from the French Labour Ministry (DIRECCTE) to amend some measures of the plan concerning flight crew. This request does not call into question either the company's transformation plan or the appropriateness of the provision accounted for in the financial statements as of December 31, 2020.

Additional restructuring KLM

An additional restructuring plan has been announced on January 21, 2021 for 1 000 employees.

3. ACCOUNTING POLICIES

3.1. 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, 2020 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 17, 2021.

Change in accounting principles

- **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"

These amendments, which define the term "materiality", give guidance on the information to be disclosed in the financial statements, based on its importance.

Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosures"

Since January 1, 2020, the Group has applied "Phase 1" amendments to IFRS 9, IAS 39 and IFRS 7 released by the IASB in September 2019 as part of the interest-rate benchmarks reform (IBORs). These amendments allow the Group not to consider the uncertainties over the future of the interest-rate benchmarks in the assessment of hedging relationships and/or in the appraisal of the highly probable hedged flows, enabling to maintain the existing and future hedging relationships until the effective set up of these new interest-rate benchmarks.

The application of this amendment has no impact on the Group's financial statements and allows to continue with the hedge accounting of instruments indexed notably to Euribor and Libor US.

Amendments to IFRS 3 "Business Combinations"

The amendment provides changes in the definitions of the separate components of a business. Hence, an acquired set of activities must be substantive and, like the operating staff, able to create outputs.

IFRS IC interpretations of the lease term (IFRS 16) and useful life of leasehold improvements (IAS 16)

This interpretation gives some clarification concerning the enforceable duration of indefinite lease contracts cancellable by either party, subject to prior notice, or concluded for an initial contractual term, and renewable by tacit agreement, unless terminated by either party.

This interpretation also gives clarification on the link between the enforceable lease term and useful life of leasehold improvements.

Amendments to IFRS 16 « Leases »

This amendment permits to lessees not to assess whether a rent concession occurring as a direct consequence of the Covid-19 pandemic is a lease modification.

This practical expedient allows the lessee to account for those rent concessions related to the Covid-19 pandemic as if they were not lease modifications and to recognize the impact of the rent concession in the result of the period. This practical expedient applies to rent concessions related to Covid-19 fulfilling the following conditions:

- the modification leads to a revision of the lease debt that is substantially the same or inferior to the initial lease debt immediately prior to the modification;
- the rents are initially owed by June 30, 2021 latest;
- there is no other substantial modification in the contract.

These amendments and this interpretation had no significant impact on the Group's financial statements as of December 31, 2020.

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

Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial instruments: Disclosures" and IFRS 16 "Leases"

(Effective for accounting periods as of January 1, 2021)
These amendments relate to the "Phase 2" of the interest rate benchmark reform (IBORs) and are applicable retrospectively.
They mainly address issues regarding the accounting treatment to apply if the basis for determining the contractual cash flows of financial assets or financial liabilities changes and the effects of these changes on the hedging relationships included in the scope of the IBORs reform. They also indicate the financial information to disclose relating to this reform and its accounting impacts as well as the accounting treatment of these changes applicable to the standards different from those, which are specific to financial instruments such as the standard for leases. Amendments to IFRS 9 and IAS 39 mainly suggest to:

- manage changes linked to the IBOR reform by modifying the effective interest rate of the concerned financial assets and liabilities on a prospective basis, without impact on the net result;
- introduce some flexibilities in terms of the eligibility criteria for the fair value hedge or the cash flow hedge accounting in order to be able to maintain the relations in the scope of this reform.

These amendments apply to financial assets and liabilities for which contractual changes are a direct consequence of the interest rate reform, and insofar as the new basis for determining the contractual cash flows is economically similar to the previous one.

Amendments to IAS 1 "Presentation of financial statements"

(Effective for the accounting periods as of January 1, 2022)
These amendments clarify the classification of current or non-current liabilities and aim to promote a consistent approach to this classification.

Amendments to IAS 16 "Property, Plant and Equipment"

(Effective for accounting periods as of January 1, 2022)
These amendments aim at standardizing the accounting method for the proceeds and costs while an item of property, plant or equipment is in the testing phase.

Amendments to IFRS 3 "Business combinations"

(Effective for accounting periods as of January 1, 2022)
These amendments update the standard IFRS 3 following the publication of the new Conceptual Framework in March 2018.

This new conceptual framework effectively modified the definition of assets and liabilities which could have led to the derecognition of some types of liabilities immediately after an acquisition.

Reference to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” or IFRIC 21 “Levies” must be made to identify the liabilities assumed in a business combination for transactions or other events falling within the scope of these texts.

The contingent assets acquired in a business combination shall not be accounted for.

Amendments to IAS 37 “Provisions, Contingent liabilities and Contingent Assets”

(Effective for accounting periods as of January 1, 2022)
These amendments standardize the identification and assessment practices related to the provisions for onerous contracts, especially regarding losses upon termination arising from contracts concluded with customers within the scope of IFRS 15 “Revenue from Contracts with Customers”.

These amendments indicate that the costs, including in the assessment of the “cost of fulfilling a contract”, are the costs that relate directly to the contract.

These amendments will apply to the contracts for which the entity has not yet fulfilled all its obligations as from the commencement date of the year of the first-time adoption.

Amendment to IFRS 9 “Financial instruments”

(Effective for accounting periods as of January 1, 2022)
The amendment to IFRS 9 is included in the annual improvements to IFRS standards 2018 – 2020.

The amendment indicates that the fees included in the 10 per cent test for assessing whether a financial liability must be derecognized are only the costs paid or fees received between the borrower and the lender, including those which are paid or received on the behalf of the other party.

Concerning the first adoption, the amendment to IFRS 9 will apply to financial liabilities that are modified or exchanged as from the commencement date of the earliest comparative period presented in the financial statements of the first adoption of the annual improvements to IFRS standards 2018 – 2020.

3.2. 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:

- 3.6 Revenue recognition related to deferred revenue on ticket sales
- 3.7 Flying Blue frequent flyer program
- 3.11 Financial instruments
- 3.13 Intangible assets
- 3.14 Tangible assets
- 3.15 Lease contracts
- 3.19 Employee benefits
- 3.20 Return obligation liability and provision for leased aircraft
- 3.21 Other provisions
- 3.24 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.

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.

3.3. 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.

3.4. 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 3.11. "Financial instruments".

3.5. 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.

3.6. 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. 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. The determination of this liability for future refunds relies on a statistical approach.

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.

3.7. 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.

3.8. 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,
- modification of pension plans,
- 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.

3.9. 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.

3.10. 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.

3.11. 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. In addition, they are written off based on the expected loss.

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 and 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 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 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.

- **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.

3.12. 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 3.16, 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.

3.13. 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 3.16 is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in note 3.22 and the "Risks on carbon credit" paragraph in note 36.2.4. 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.

3.14. Property, plant and equipment

Principles applicable

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 for all types of aircraft except in specific cases.

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 and the adequate useful life.

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

3.15. 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.

Assets (aeronauticals and buildings) 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 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 3.20. 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 3.20.

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.

- **Transactions deemed to be a sale**

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**

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).

3.16. 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.

3.17. 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.

3.18. 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.

3.19. 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 asset ceiling.

When a defined benefit pension plan is converted into a defined contribution pension plan or closed, the amounts recorded in the other comprehensive income will be reclassified in the other reserves.

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").

3.20. 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).

3.21. 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.

3.22. 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.

3.23. Capital increase costs

Capital increase costs are deducted from paid-in capital.

3.24. 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 3.16).

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”.

3.25. 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.

4. CHANGE IN THE CONSOLIDATION SCOPE

• Year ended December 31, 2020

No significant acquisitions or disposals took place during 2020.

• Year ended December 31, 2019

No significant acquisitions or disposals took place during 2019.

5. 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

5.1. Information by business segment

• Year ended December 31, 2020

In € millions	Network	Maintenance	Transavia	Other	Non-allocated	Total
Total sales	9,234	2,858	606	157	-	12,855
Intersegment sales	(28)	(1,610)	-	(129)	-	(1,767)
External sales	**9,206**	**1,248**	**606**	**28**	**-**	**11,088**
EBITDA	(1,678)	26	(77)	40	-	(1,689)
Income from current operations	(3,722)	(543)	(299)	16	-	(4,548)
Income from operating activities	(5,043)	(678)	(303)	24	-	(6,000)
Share of profits (losses) of associates	-	-	-	(58)	-	(58)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(928)	(928)
Income taxes	-	-	-	-	(97)	(97)
Net income from continuing operations	**(5,043)**	**(678)**	**(303)**	**(34)**	**(1,025)**	**(7,083)**
Depreciation and amortization for the period	(2,087)	(408)	(219)	(22)	-	(2,736)
Other non-monetary items	558	126	5	(163)	(15)	511
Total assets	**15,641**	**3,963**	**1,615**	**202**	**8,790**	**30,211**
Segment liabilities	7,988	1,984	918	28	5,957	16,875
Financial debts, lease debts, bank overdrafts and equity	-	-	-	-	13,336	13,336
Total liabilities	**7,988**	**1,984**	**918**	**28**	**19,293**	**30,211**
Purchase of property, plant and equipment and intangible assets	**1,826**	**224**	**57**	**(7)**	**-**	**2,099**

The non-allocated assets, amounting to €8.8 billion, comprise cash and cash equivalents of €6.4 billion, pension assets of €0.2 billion, financial assets of €1.2 billion, deferred tax of €0.3 billion, income taxes of €0.4 billion and derivatives of €0.3 billion.

The non-allocated segment liabilities, amounting to €5.9 billion, mainly comprise pension provisions for €2.1 billion, tax and employee-related liabilities of €2.5 billion, other provisions for €0.8 billion and derivatives of €0.5 billion.

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

• 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 (continuing operations)	**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 €4.0 billion, mainly comprise pension provisions for €2.3 billion, a portion of other provisions for €0.2 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €0.3 billion.

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

Air France-KLM Group

5.2. Information by geographical area

External sales by geographical area

- **Year ended December 31, 2020**

In € millions	Metropo-litan 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	2,381	983	2,010	538	305	810	989	554	8,570
Other sales	184	60	147	45	23	86	50	41	636
Total Network	**2,565**	**1,043**	**2,157**	**583**	**328**	**896**	**1,039**	**595**	**9,206**
Transportation	165	363	50	3	1	1	2	1	586
Other sales	(1)	(1)	1	-	-	3	5	13	20
Total Transavia	**164**	**362**	**51**	**3**	**1**	**4**	**7**	**14**	**606**
Maintenance	605	562	24	-	-	3	54	-	1,248
Others	7	21	-	-	-	-	-	-	28
Total	**3,341**	**1,988**	**2,232**	**586**	**329**	**903**	**1,100**	**609**	**11,088**

- **Year ended December 31, 2019**

In € millions	Metropo-litan 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**

Traffic sales by geographical area of destination

- **Year ended December 31, 2020**

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	662	1,503	880	1,381	1,674	1,040	1,430	8,570
Transavia	8	552	-	26	-	-	-	586
Total Transportation	**670**	**2,055**	**880**	**1,407**	**1,674**	**1,040**	**1,430**	**9,156**

- **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**

6. EXTERNAL EXPENSES

In € millions **Period from January 1 to December 31**	**2020**	**2019**
Aircraft fuel	2,392	5,511
Chartering costs	253	525
Landing fees and air route charges	969	1,933
Catering	294	822
Handling charges and other operating costs	833	1,715
Aircraft maintenance costs	1,618	2,628
Commercial and distribution costs	346	1,029
Other external expenses	1,275	1,730
Total	**7,980**	**15,893**
Excluding aircraft fuel	*5,588*	*10,382*

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 9.

7. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions **Period from January 1 to December 31**	**2020**	**2019**
Wages and salaries	4,660	5,585
Social contributions	846	1,118
Pension costs on defined contribution plans	547	707
Pension costs of defined benefit plans	301	281
Cost of temporary employees	83	253
Profit sharing and payment linked with shares	(8)	131
Temporary Emergency Bridging Measure for Sustained Employment	(1,049)	-
Other expenses	(80)	64
Total	**5,300**	**8,139**

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".

Following the impact of the Covid-19 public health crisis, starting from March 23, 2020 Air France and its main subsidiaries implemented part-time activity, facilitated by the French State, for its employees. The impact of this measure amounts to €999 million, including €924 million allocated to the lines "Wages and salaries" and "Social contributions" and €75 million allocated in the line "Other" corresponding to the aid in relation with part-time activity for the month of December 2020 which has not been processed by the payroll and therefore not yet allocated to the line "Salaries".

The line "Temporary Emergency Bridging Measure for Sustained Employment (NOW)" includes the compensation received from the Dutch State for the KLM Group's labor expenses during the period from March 1 until December 31, 2020. This compensation amounts to 1,049 million euros.

Average number of employees

Period from January 1 to December 31	**2020**	**2019**
Flight deck crew	8,641	8,512
Cabin crew	21,871	22,465
Ground staff	50,714	52,119
Temporary employees	941	3,042
Total*	**82,167**	**86,138**

**Excluding partial activity effect for 2020*

8. AMORTIZATION, DEPRECIATION AND PROVISIONS

In € millions **Period from January 1 to December 31**	**2020**	**2019**
Amortization		
Intangible assets	187	151
Flight equipment	1,167	1,238
Other property, plant and equipment	197	199
Right-of-use assets	1,185	1,353
	2,736	**2,941**
Depreciation and provisions		
Inventories	27	18
Trade receivables	118	16
Risks and contingencies	(22)	12
	123	**46**
Total	**2,859**	**2,987**

The amortization variations for intangible and tangible assets are presented in notes 15 and 17 and for right-of-use assets in note 19.

The variations relating to inventories and trade receivables are presented in notes 23, 24 and 25.

The movements in provisions for risks and charges are detailed in note 29.

9. OTHER INCOME AND EXPENSES

In € millions **Period from January 1 to December 31**	**2020**	**2019**
Capitalized production	610	1,122
Joint operation of routes	(7)	(49)
Operations-related currency hedges	79	64
European carbon emission allowances (ETS)	(32)	(54)
Other	(10)	42
Other income and expenses	**640**	**1,125**

10. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions	2020	2019
Period from January 1 to December 31		
Restructuring costs	(822)	(36)
Impairment of fleet	(672)	(126)
Impairment of intangible assets	(8)	-
Modification of pensions plans	-	(11)
Disposals of other assets	11	6
Other	(2)	14
Other non-current income and expenses	**(1,493)**	**(153)**

- **Year ended December 31, 2020**

Restructuring costs

As of December 31, 2020, this line mainly includes (see note 2.2. Events that occurred in the period and note 29. Return obligation liability and provision for leased aircraft and other provisions):

- KLM's voluntary departure plans, amounting to € (175) million, net of KLM ground staff pension curtailment and a restructuring provision of €(16) million for KLM ground staff,
- KLM Group subsidiaries, various voluntary and restructuring plans, amounting to (14) M€,
- a net cost related to the project of collective mutual agreement on termination of contract ("Rupture Conventionnelle Collective") for Air France pilots and flight attendants, to the voluntary departure plan for Air France ground staff and the departure plan ("PDV-PSE") for HOP! employees amounting to € (584) million
- Air France-KLM voluntary departure plan for the international sales force for €(33) million.

The impacts on pension provisions relating to its restructuring are detailed in note 28. Retirement Benefits.

Impairment of fleet

As of December 31, 2020, this line relates to the impact of the phase-out from the fleet of the A380, A340, B747 and CRJ fleet by Air France-KLM Group, following the drastic reduction in air traffic in relation with Covid-19 (see note 2.2. Events that occurred in the period).

- **Phase-out of the Air France A380 aircraft**

The final phase-out of the nine aircraft in the A380 fleet announced on May 20, 2020, and initially planned for the end of 2022, has been brought forward to 2020. The related impact amounts to € (553) million as of December 31, 2020.
At the end of December 2020, five A380 aircraft are still owned and four are leased.

- **Phase-out of KLM's B747 aircraft**

A €19 million impairment has been recorded to revalue the eight KLM B747s at their estimated market value.

- **Phase-out of Air France's A340 aircraft**

A €72 million impairment has been recorded to revalue the four Air France A340 aircraft at their estimated market value following the phase-out decision on May 6, 2020.
At the end of December 2020, one A340 aircraft is still owned.

- **Phase-out of HOP! CRJ aircraft**

This line includes the impact of the early phase-out of the 25 CRJ aircraft from the HOP! fleet for €(26) million. Depreciation slopes have been revised so that the net book value as of the date of the aircraft's phase-out expected in 2022 converges with the estimated realizable value.

- **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.

Impairment of fleet

This line corresponds to the impact of the early phase-out of the A380 aircraft from the Air France fleet 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).

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.

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

In € millions	**2020**	**2019**
Period from January 1 to December 31		
Income from marketable securities	(7)	2
Other financial income	26	47
Financial income	**19**	**49**
Interest on financial debt	(186)	(132)
Interest on lease debt	(252)	(276)
Capitalized interests	23	23
Other non-monetary items	(73)	(43)
Other financial expenses	(8)	(14)
Gross cost of financial debt	**(496)**	**(442)**
Net cost of financial debt	**(477)**	**(393)**
Foreign exchange gains (losses), net	300	(80)
Financial instruments and change in fair value of hedged shares	(561)	33
Net (charge)/release to provisions	(17)	(5)
Undiscounting of provision	(165)	(212)
Other	(6)	(7)
Other financial income and expenses	**(451)**	**(271)**
Total	**(928)**	**(664)**

Net cost of financial debt

Financial income mainly consists of interest income on financial assets recognized at the effective interest rate.

Foreign exchange gains (losses)

As of December 31, 2020, the foreign exchange losses mainly include an unrealized currency gain of €302 million of which a gain of €277 million on return obligation liabilities and provisions on aircraft in US dollars and an unrealized €42 million currency gain mainly on debt in US Dollars (€28 million) and in Japanese Yen (€29 million).

As of December 31, 2019, the foreign exchange losses mainly include a 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 mainly on debt in US Dollar (€15 million) and in Japanese Yen (€26 million).

Financial instruments and change in fair value of hedged shares

Due to the significant reduction in fuel consumption for 2020 and expected for the beginning of 2021, this line includes the impact of over-hedging, amounting to € (595) million of which Air France Group € (357) millions and KLM Group € (238) million, recycled to the income statement. As of December 31, 2020, an amount of € (589) million of these derivatives had been settled and € (6) million relates to the period January-March 2021.

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

Undiscounting of provision

The rate used to undiscount the long term return obligation liability and provision for leased aircraft and other provisions is 4.5% in 2020 against 6.0% in 2019 (see note 3.20 Return obligation liability and provision for leased aircraft).

Other

As of December 31, 2020, this line mainly includes premiums paid on early reimbursement on part of the bonds with maturity dates in 2021 and 2022. The total premium is €22 million (see note 2).

12. INCOME TAXES

12.1. Income tax charge

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

In € millions **Period from January 1 to December 31**	**2020**	**2019**
Current tax (expense) / income	**70**	**(97)**
Change in temporary differences	233	(44)
CAVE impact	3	3
(Use / de-recognition) / recognition of tax loss carry forwards	(403)	62
Deferred tax income / (expense) from continuing operations	**(167)**	**21**
Total	**(97)**	**(76)**

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, the tax rate is 32.02 per cent and the French Finance Act 2018 provides for a gradual reduction in the French corporate tax rate to 25.83 per cent in 2022. 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 went from seven to five years as of December 31, 2020 and consistent with the Group's visibility.

Following the current Covid-19 crisis, the prospects of recoverability within the five-year horizon have been revised downwards leading to a write-off of €408 million of deferred tax assets for tax losses compared to the opening position of the fiscal year. Moreover, €1.375 million of deferred tax assets on fiscal losses have not been recognized for the yearly period ended December 31, 2020.

- **Dutch fiscal group**

In The Netherlands, the tax rate is 25 per cent in 2020 and would have been lowered to 21.7 per cent in 2021. Following the current COVID-19 crises the Dutch Government announced that the tax rate remains 25 per cent going forward. Under income tax law in The Netherlands, the maximum future period for utilising tax losses carried forward is currently six years. As from January 1, 2022, this period is likely to become indefinite for tax losses. However, the amount of fiscal loss recoverable each year is limited to 50 per cent of the profit for the period beyond the first million euros. The Dutch Parliament has not formalized these changes in the Dutch tax law yet.

As of December 31, 2020, the Dutch fiscal group has deferred taxes assets on fiscal losses amounting to €10 million, relating to an interest deduction allowance which can be carried forward indefinitely. The deferred tax assets on fiscal loss excluding interest for 2020 amounted to €352 million. KLM has used the carry back facility from 2019, amounting to €82 million. The remaining €270 million of deferred tax assets have not been recognized.

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

In € millions	**2020**	**2019**
Period from January 1 to December 31		
Coupons on Perpetual	**8**	**8**
OCEANE	**-**	**(19)**
Other comprehensive income that will be reclassified to profit and loss	**(10)**	**(115)**
Other comprehensive income that will not be reclassified to profit and loss	**79**	**(68)**
Equity instruments	6	3
Pensions	73	(71)
Total	**77**	**(194)**

12.3. Effective tax rate

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

In € millions	**2020**	**2019**
Period from January 1 to December 31		
Income before tax	(6,928)	346
Standard tax rate in France	32.02%	34.43%
Theoretical tax calculated based on the standard tax rate in France	2,218	(119)
Differences in French / foreign tax rates	(137)	57
Non-deductible expenses or non-taxable income	(40)	(10)
Variation in unrecognized deferred tax assets	(2,133)	(3)
Impact of change in income-tax rate	-	6
CAVE impact	(10)	(9)
Other	5	2
Income tax expenses	**(97)**	**(76)**
Effective tax rate	-1.4%	22.0%

In 2020, the applicable tax rate for the French fiscal group is 32.02 per cent.

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.

12.4. Variation in deferred tax recorded during the period

In € millions	January 1, 2020	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Reclassification and other	December 31, 2020
Flight equipment	(1,091)	215	-	-	(72)	(948)
Right-of-use assets	(883)	165	-	-	(85)	(803)
Pension assets	(92)	(66)	66	-	92	-
Financial debt	627	(20)	-	8	(9)	606
Lease debt	757	(200)	(34)	-	74	597
Deferred revenue on ticket sales	160	(17)	-	-	-	143
Debtors and creditors	(14)	(45)	56	-	44	41
Provisions	318	87	7	-	127	539
Others	(103)	117	(26)	-	(210)	(222)
Deferred tax corresponding to fiscal losses	702	(403)	-	-	8	307
Deferred tax asset/ (liability) net	**381**	**(167)**	**69**	**8**	**(31)**	**260**

In € millions	January 1, 2019	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**

- **French fiscal group**

The deferred taxes recognized on fiscal losses for the French fiscal group amounts to €285 million with a basis of €1,104 million as of December 31, 2020. As of December 31, 2019, the amount was €693 million. The decrease in deferred tax assets in respect of tax losses carry forward is mainly due to lower forecasts of future tax profits and a shorter recovery horizon for deferred tax assets on tax losses (five years as of December 31, 2020 compared to seven years as of December 31, 2019).

The total deferred-tax position of the French fiscal group stands at a net asset of €272 million.

- **Dutch fiscal group**

The Dutch fiscal group recognized €10 million deferred taxes on fiscal losses with a basis of € 40 million as of December 31, 2020 versus no deffered taxes as of December 31, 2019.

The total deferred-tax position of the Dutch fiscal group stands at a net liability of €17 million.

12.5. Unrecognized deferred tax assets

In € millions	December 31, 2020		December 31, 2019	
	Basis	**Tax**	**Basis**	**Tax**
Temporary differences	1,359	386	1,022	264
Tax losses	11,312	3,203	4,947	1,277
Total	**12,671**	**3,589**	**5,969**	**1,541**

- **French fiscal group**

As of December 31, 2020, the cumulative effect of the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €3,319 million (corresponding to a basis of €11,596 million), of which €2,933 million relating to tax losses and €386 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

As of December 31, 2019, the cumulative effect of the limitation of deferred tax assets resulted 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).

- **Dutch fiscal group**

As of December 31, 2020, the cumulative effect of the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €270 million (corresponding to a basis of €1,075 million), entirely constituted of tax losses.

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

- **Other**

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.

13. EARNINGS PER SHARE

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

<u>Reconciliation of income used to calculate earnings per share</u>

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**	**2020**	**2019**
Net income for the period – Equity holders of Air France-KLM	(7,078)	290
Coupons on perpetual (net of tax)	-	(17)
Basic net income for the period – Equity holders of Air France-KLM	(7,078)	273

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**	**2020**	**2019**
Basic net income for the period – Equity holders of Air France-KLM	(7,078)	273
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)	**(7,078)**	**279**

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

Period from January 1 to December 31	2020	2019
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	(91,585)	(85,151)
Number of shares used to calculate basic earnings per share	**427,426,030**	**427,432,464**
OCEANE conversion	**-**	**27,901,785**
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**427,426,030**	**455,334,249**

For the year 2020, the potential conversion of OCEANE, representing 27 901 785 shares, and its impacts on net income, have not been taken into account. The ordinary shares potentially created would indeed have not decreased the earning per share or increased the loss per share.

The change in the number of ordinary shares issued is disclosed in note 27.1 Issued capital.

13.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of December 31, 2020.

13.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

14. GOODWILL

14.1 Detail of consolidated goodwill

In € millions	2020			2019		
As of December 31	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Network	197	-	197	197	-	197
Maintenance	22	(4)	18	24	(4)	20
Total	**219**	**(4)**	**215**	**221**	**(4)**	**217**

14.2 Movement in net book value of goodwill

In € millions	2020	2019
As of December 31		
Opening balance	**217**	**217**
Currency translation adjustment	(2)	-
Closing balance	**215**	**217**

15. INTANGIBLE ASSETS

In € millions	**Trademarks and slots**	**Other intangible assets**	**Total**
Gross value			
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**
Additions	-	198	**198**
Disposals	-	(102)	**(102)**
Reclassification	-	1	**1**
Amount as of December 31, 2020	**280**	**1,908**	**2,188**
Depreciation			
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)**
Charge to depreciation	(4)	(195)	**(199)**
Releases on disposals		27	**27**
Amount as of December 31, 2020	**(10)**	**(948)**	**(958)**
Net value			
As of December 31, 2019	274	1,031	**1,305**
As of December 31, 2020	270	960	**1,230**
Including:			
Network	*256*		
Transavia	*8*		
Maintenance	*3*		
Other	*3*		

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.

16. IMPAIRMENT

- **Year ended December 31, 2020**

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 CGUs assets has been determined by reference to their value in use as of September 30, 2020. The tests were realized for all the CGUs on the basis of a five-year Group plan, presented by the management to the Board early December 2020.

Revenues (network, leisure and maintenance), costs and investments forecasts are based on reasonable hypothesis and are the management's best estimates. They are subject to the uncertainties related to the current situation. They forecasts a return to the level of 2019 activity in 2024 and lie on savings related to pursuance of reorganization/restructuring 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 6.3 per cent as at December 31, 2020 versus 5.9 per cent as at December 31, 2019. Growth rate for revenues varies between 2 and 5 per cent depending on the CGUs over the intermediary period (2026-2032). Long term growth rate for the calculation of the terminal value is 1 per cent.

After the aforementioned test, no impairment was recognized on the Group's CGUs, including with a WACC 100-basis point higher combined with a decrease of 100-basis point in the long-term growth rate or a decrease of 100-basis point in the target operating margin.

- **Year ended December 31, 2019**

As of December 31, 2019, no impairment was recognized on the Group's CGUs.

17. 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, 2019	**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**
Acquisitions	354	1,222	174	1,749	13	17	127	14	171	**1,920**
Disposals	(959)	-	(176)	(1,135)	(51)	(15)	-	(72)	(138)	**(1,273)**
Fair value	-	206	-	206	-	-	-	-	-	**206**
Reclassification	441	(1,141)	188	(512)	75	(99)	(143)	167	-	**(512)**
Currency translation	1	-	-	1	-	-	-	-	-	**1**
Others	129	(44)	(93)	(8)	13	(2)	2	-	13	**5**
December 31, 2020	**17,158**	**1,506**	**2,518**	**21,181**	**2,758**	**1,070**	**191**	**1,102**	**5,121**	**26,302**
Depreciation										
January 1, 2019	**(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)**
Charge to depreciation	(1,316)	-	(284)	(1,600)	(92)	(49)	-	(62)	(203)	**(1,803)**
Releases on disposal	896	-	133	1,029	49	14	-	68	131	**1,160**
Reclassification	64	-	8	72	1	74	-	(82)	(7)	**65**
Currency translation	-	-	-	-	-	-	-	-	-	-
Others	(65)	-	(41)	(106)	-	1	-	-	1	**(105)**
December 31, 2020	**(9,105)**	**-**	**(1,046)**	**(10,151)**	**(1,893)**	**(822)**	**-**	**(858)**	**(3,573)**	**(13,724)**
Net value										
December 31, 2019	8,508	1,263	1,563	**11,334**	857	307	205	211	**1,580**	**12,914**
December 31, 2020	8,053	1,506	1,472	**11,031**	865	248	191	244	**1,548**	**12,579**

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

Note 38 details the amount of pledged tangible assets.

The line "Charge to depreciation" of 2020 includes the accelerated depreciation, amounting to €(514) million, following the decision of phasing-out the A380, A340, B747 and CRJ aircraft.
Commitments to property purchases are detailed in notes 37 and 38 to these financial statements.

18. CAPITAL EXPENDITURES

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

In € millions	**2020**	**2019**
As of December 31		
Acquisition of flight equipment	1,745	2,746
Acquisition of tangible assets	170	293
Acquisition of other intangible assets	198	328
Accounts payable on acquisitions	(14)	5
Total	**2,099**	**3,372**

19. RIGHT-OF-USE ASSETS

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

In € millions	**Aircraft**	**Maintenance**	**Land & Real Estate**	**Others**	**Total**
Net value					
As of January 1, 2019	**3,137**	**1,682**	**585**	**260**	**5,664**
New contracts	165	120	53	34	**372**
Change in contracts	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**
New contracts	95	109	56	-	**260**
Change in contracts	117	35	36	7	**195**
Disposals	-	(52)	-	-	**(52)**
Reclassification	(12)	369	-	24	**381**
Amortization	(805)	(285)	(111)	(66)	**(1,267)**
Others	(2)	(12)	2	-	**(12)**
As of December 31, 2020	**2,191**	**1,739**	**541**	**207**	**4,678**

Information related to lease debt is available in note 31.

The line "Amortization" of 2020 includes the accelerated amortization relating to the early phase-out of A380 including leased amounting to €(88) million.

The amount recognized in the income statement in respect of lease contracts not subject to IFRS 16 amounts to:

In € millions **As of December 31**	**2020**	**2019**
Variable rents	35	19
Short term rents	80	153
Low value rents	19	22
Total	**134**	**194**

20. 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, 2018	**59**	**231**	**21**	**311**
Share in net income of equity affiliates	3	7	13	23
Distributions	-	(2)	(10)	(12)
Other variations	(4)	-	1	(3)
Capital decrease	-	-	(10)	
Currency translation adjustment	1	-	(1)	-
Carrying value of share in investment as of December 31, 2019	**57**	**236**	**14**	**307**
Share in net income of equity affiliates	1	(62)	3	(58)
Other variations	(20)	-	1	(19)
Capital increase	-	-	1	1
Capital decrease	-	-	-	-
Carrying value of share in investment as of December 31, 2020	**37**	**174**	**19**	**230**

Maintenance

As of December 31, 2020 and 2019, 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.

Servair Group

The Servair Group is the French number one in aviation catering. With about 36 establishments in 19 countries and approximately 10,500 employees, Servair has a leading position in Paris and Africa. Servair numbers more than a hundred 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 amounts to €243 million as at December 31, 2020.

Net result of catering is mainly impacted by the operating loss of Servair. However, the total fair value of the Group's 49.9 per cent share interest in Servair Group, includes the put option recorded in the balance sheet in the line other derivatives, remains unchanged (see note 38. Other Commitments).

Other

As of December 31, 2020 and 2019, 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.

21. PENSION ASSETS

In € millions **As of December 31,**	**2020**	**2019**
Opening balance	**420**	**331**
Net periodic pension (cost)/income	(175)	(138)
Payments of benefits and contributions to the funds	119	101
Reclassification	(28)	-
Fair value revaluation	(125)	126
Closing balance	**211**	**420**

The analysis of these pension assets is presented in note 28.

22. OTHER FINANCIAL ASSETS

In € millions **As of December 31**	**2020**		**2019**	
	Current	**Non-current**	**Current**	**Non-current**
Equity instruments				
Equity instruments at fair value through OCI	-	51	-	73
Equity instruments at fair value in P&L	-	-	360	-
Assets - Debt instruments at fair value in P&L				
Marketable securities	105	88	73	38
Cash secured	309	-	300	-
Financial asset - at amortized cost				
AAA Bonds	180	338	50	535
Deposit on lease contracts	5	75	1	90
Deposit on lease with bargain option	-	101	2	225
Other loans and deposits	8	171	14	159
Gross value	**607**	**824**	**800**	**1,120**
Impairment at opening date	**-**	**(24)**	**-**	**(25)**
New impairment charge	-	(6)	-	(11)
Reversal	-	1	-	1
Other	-	(2)	-	11
Impairment at closing date	**-**	**(29)**	**-**	**(24)**
Total	**607**	**795**	**800**	**1,096**

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, 2020							
GOL Linhas Aéreas(1)	17	1.19%	NA(2)	NA(2)	OCI	24.9 BRL	December 2020
Kenya Airways(2)	12	7.76%	NA(2)	NA(2)	OCI	-	December 2020
Other	22	-	-	-		-	-
Total	**51**						
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**						

(1) Listed company
(2) Not-available

- **Year ended December 31, 2020**

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

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, 2020, the amount of transferred receivables stood at €94 million (versus €98 million as of December 31, 2019). The associated loan stood at €76 million as of December 31, 2020 (versus €78 million as of December 31, 2019).

23. INVENTORIES

In € millions **As of December 31**	**2020**	**2019**
Aeronautical spare parts	663	772
Other supplies	106	143
Production work in progress	14	24
Gross value	**783**	**939**
Opening valuation allowance	**(202)**	**(162)**
Charge to allowance	(49)	(48)
Use of allowance	10	7
Reclassification	1	1
Closing valuation allowance	**(240)**	**(202)**
Net value of inventory	**543**	**737**

24. TRADE ACCOUNTS RECEIVABLES

In € millions **As of December 31**	**2020**	**2019**
Airlines	329	553
Other clients:		
* Network	660	862
* Maintenance	512	804
* Other	49	118
Gross value	**1,550**	**2,337**
Opening valuation allowance	(173)	(155)
Charge to allowance	(136)	(39)
Use of allowance	4	18
Currency translation adjustment	3	-
Reclassification	1	3
Closing valuation allowance	**(302)**	**(173)**
Net value	**1,248**	**2,164**

The charge to allowance mainly relates to maintenance receivables.

25. OTHER ASSETS

In € millions As of December 31	2020		2019[1]	
	Current	**Non-current**	**Current**	**Non-current**
Suppliers with debit balances	86	-	99	-
State receivables (including tax credit)	188	-	224	-
Prepaid expenses	134	-	221	-
Other debtors	510	4	322	3
Gross value	**918**	**4**	**866**	**3**
Opening valuation allowance	**(1)**	**-**	**(1)**	**-**
Charge to allowance	(3)	-	-	-
Closing valuation allowance	**(4)**	**-**	**(1)**	**-**
Total	**914**	**4**	**865**	**3**

(1) The restatement with the published figures is explained by the fact that derivatives instruments are reported on a specific line in the balance sheet

26. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

In € millions As of December 31	2020	2019
Liquidity funds (SICAV) (assets - debt instruments)	4,267	1,268
Bank deposits and term accounts (assets - debt instruments)	654	1,599
Cash in hand	1,502	848
Total cash and cash equivalents	**6,423**	**3,715**
Bank overdrafts	(1)	(4)
Cash, cash equivalents and bank overdrafts	**6,422**	**3,711**

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

27.1 Issued capital

As of December 31, 2020, 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	**2020**	**2019**
As of December 31		
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	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	16,037,988	16,103,590
Treasury shares	1,208,005	1,201,571
Others	215,091,897	215,032,729
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 26, 2020 authorized the Board of Directors, for a period of 26 months from the date of the Meeting of May 26, 2020 (i.e. until July 26, 2022), 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.

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	**2020**	**2019**	**2020**	**2019**
French State	14.3	14.3	20.9	20.9
Dutch State	14.0	14.0	10.2	10.2
Delta Air Lines	8.8	8.8	12.8	12.8
China Eastern Airlines	8.8	8.8	12.8	12.8
Employees and former employees	3.7	3.8	5.4	5.5
Treasury shares	0.3	0.3	0.4	0.4
Other	50.1	50.0	37.5	37.4
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 30.2.2 OCEANE

27.2 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.

27.3 Treasury shares

As of December 31, 2020, Air France-KLM Group owns 1 208 005 treasury shares for €25 million. All of these treasury shares are classified as a reduction of equity.

27.4 Perpetual subordinated bond

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

Air France-KLM has decided to redeem of all the outstanding perpetual subordinated notes issued in 2015 representing a total nominal amount of €403 million.

This amount and the related coupon (€ (25) million before tax) were reclassified from equity to short-term bonds before making the early redemption on 1st October 2020 at par, i.e. €100,000 per note, plus interest accrued since the last date on which interest were paid under the notes (i.e. 1st October 2019) until the early redemption date (included).

27.5 Reserves and retained earnings

In € millions	**December 31, 2020**	**December 31, 2019**
Legal reserve	70	70
Pension defined benefit reserves(1)	(1,701)	(1,590)
Derivatives reserves(1)	2	(15)
Equity instruments reserves(1)	(52)	(37)
Other reserves	(1,211)	(1,338)
Net income (loss) – Group share	(7,078)	290
Total	**(9,970)**	**(2,620)**

(1) Net of tax

As of December 31, 2020, 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, 2019	Variation of fair value	Recycling in income statement	December 31, 2020	Recycling allocated by rubric
Fuel	(33)	(1,133)	429 589	(148)	External expenses Other financial expenses
Interest rate	(33)	(9)	7	(35)	Cost of financial debt
Currency exchange	155	5	(79)	81	Other income and expenses
Change on revenues	(134)	172	7 16	61	Sales Other financial expenses
European carbon emission allowances (ETS)	12	19		31	
Total	**(33)**	**(946)**	**969**	**(10)**	

28. RETIREMENT BENEFITS

In € millions	Retirement benefits
Amount as of December 31, 2018	**2,098**
Of which: Non-current	*2,098*
New provision	143
Reversal 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*
New provision	115
Reversal of provision	(373)
Fair value revaluation	158
Currency translation adjustment	(8)
Reclassification	2
Amount as of December 31, 2020	**2,147**
Of which: Non-current	*2,147*

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 2020 and 2019 are presented in note 28.3.

28.1 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

In December 2020, KLM Group and KLM ground unions agreed on a protocol to arrive at a future proof pension agreement. This pension agreement is expected to have the characteristics of a collective defined contribution scheme. It will require before implementation, amongst others, the approval of the Board of the KLM Ground pension fund and should qualify as a defined contribution scheme under IFRS. It is expected that in the course of 2021 these conditions will be met and subsequent derecognition of the related pension asset.

As per December 31, 2020, 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 97.9 per cent as of December 31, 2020 versus 108.2 per cent as of December 31, 2019.

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, 2020. 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 € 110,111 as of January 1, 2020, 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.

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, 2020, the KLM Ground Staff pension plan and the two French plans presented above represented a respective 74 per cent and 16 per cent of the Group's defined benefit obligation and 89 per cent and 5 per cent of the Group's pension plan assets.

28.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation were made as of December 31, 2020 and 2019.
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 50 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	2020	2019
Euro zone – Duration 10 to 15 years	1.25%	1.30%
Euro zone – Duration 15 years and beyond	1.35%	1.40%

- 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	2020	2019
Euro zone - Duration 10 to 15 years	0.45%	0.70 to 0.75%
Euro zone - Duration 15 years and beyond	0.75%	1.15%

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 10 to 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 1.57 per cent for the Group as of December 31, 2020 against 1.63 per cent as of December 31, 2019.

The rate of pension increase (excluding inflation) is 0.88 per cent for the Group as of December 31, 2020 against 0.85 per cent of December 31, 2019.

- 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, 2020	Sensitivity of the assumptions for the year ended December 31, 2019
25 bp increase in the inflation rate	284	277
25 bp decrease in the inflation rate	(271)	(266)

Sensitivity to changes in the discount rate

In € millions	Sensitivity of the assumptions for the year ended December 31, 2020	Sensitivity of the assumptions for the year ended December 31, 2019
100 bp increase in the discount rate	(2,253)	(2,120)
100 bp decrease in the discount rate	2,987	2,803

Sensitivity to changes in salary increase (excluding inflation)

In € millions	Sensitivity of the assumptions for the year ended December 31, 2020	Sensitivity of the assumptions for the year ended December 31, 2019
25 bp increase in the salary increase rate	84	80
25 bp decrease in the salary increase rate	(76)	(74)

Sensitivity to changes in pension increase

In € millions	Sensitivity of the assumptions for the year ended December 31, 2020	Sensitivity of the assumptions for the year ended December 31, 2019
25 bp increase in the pension increase rate	571	536
25 bp decrease in the pension increase rate	(532)	(534)

28.3 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, 2020 and December 31, 2019.

In € millions	As of December 31, 2020			As of December 31, 2019		
	Netherlands	France	Others	Netherlands	France	Others
Benefit obligation at beginning of year	**9,570**	**2,404**	**956**	**8,364**	**2,234**	**833**
Service cost	207	80	9	154	71	14
Interest cost	107	16	18	152	31	24
Employees' contribution	21	-	-	32	-	1
Plan amendments, curtailments and settlements	(16)	(245)	-	2	4	(3)
Benefits paid	(201)	(105)	(33)	(192)	(115)	(39)
Transfers of assets/liability through balance sheet	-	-	-	-	-	18
Actuarial loss / (gain) demographic assumptions	(174)	60	29	(1)	(47)	(12)
Actuarial loss / (gain) financial assumptions	672	54	63	1,013	187	98
Actuarial loss / (gain) experience gap	70	1	11	46	39	(19)
Change in currency exchange rates	-	-	(58)	-	-	41
Benefit obligation at end of year	**10,256**	**2,265**	**995**	**9,570**	**2,404**	**956**
Including benefit obligation resulting from schemes totally or partly funded	*10,037*	*2,187*	*940*	*9,339*	*2,301*	*896*
Including unfunded benefit obligation	*219*	*78*	*55*	*231*	*103*	*60*
Fair value of plan assets at beginning of year	**9,755**	**621**	**721**	**8,483**	**589**	**592**
Actual return on plan assets	565	4	66	1,319	58	95
Employers' contributions	118	33	17	76	33	16
Employees' contributions	21	-	-	32	-	1
Benefits paid	(190)	(54)	(29)	(157)	(57)	(32)
Transfers of assets/liability through balance sheet	-	-	-	-	-	18
Change in currency exchange rates and others	(24)	-	(44)	2	(2)	31
Fair value of plan assets at end of year	**10,245**	**604**	**731**	**9,755**	**621**	**721**
Amounts recorded in the balance sheet(1)						
Pension asset	211	-	-	418	-	2
Provision for retirement benefits	(222)	(1,661)	(264)	(233)	(1,783)	(237)
Net amount recognized	**(11)**	**(1,661)**	**(264)**	**185**	**(1,783)**	**(235)**
Net periodic cost:						
Service cost	207	80	9	154	71	14
Net interest cost/(income)	(5)	12	4	(5)	23	6
Plan amendments, curtailment and settlement	(16)	(245)	-	2	4	(3)
Actuarial losses/ (gain) recognized in income statement	(6)	-	-	14	2	(1)
Net periodic cost	**180**	**(153)**	**13**	**165**	**100**	**16**

(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, 2020**

A curtailment of the pension plan at Air France and its regional subsidiaries has been accounted for, amounting to a € 250 million gain as of December 31, 2020 within the framework of the voluntary departure plan and collective mutual agreement on termination of contract (“Rupture Conventionnelle Collective”) for pilots and flight attendants.

A curtailment of the KLM Ground Staff – The Netherlands has been made, amounting to a profit of €16 million, within the framework of the 2020 voluntary leave plan for ground staff.

- **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 €11 million has been recorded.

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

28.4 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, 2020**		**Funds invested as of December 31, 2019**	
	France	**The Netherlands**	**France**	**The Netherlands**
Equities	25	40	26	40
Bonds	51	47	51	50
Real estate	-	9	-	10
Others	24	4	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.

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

The employer contributions relating to the defined benefit pension plans amount to € 188 million for the year ended December 31, 2021. The weighted average duration of the obligation is 18.9 years.

The funding, capitalization and matching strategies implemented by the Group are presented in note 28.1.

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 28.1).

For 2021, 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, 2020.

29. 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 January 1, 2019	**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	-	-	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***
New provision	(4)	16	1,084	20	57	**1,173**
Use of provision	(42)	(2)	(404)	(2)	(60)	**(510)**
Reversal of unnecessary provisions	-	(6)	(2)	(7)	(1)	**(16)**
New lease contract/Change in lease contract	103	(12)	-	-	-	**91**
Currency translation adjustment	(248)	(26)	-	-	(1)	**(275)**
Accretion impact	144	20	-	-	2	**166**
Reclassification	(63)	(55)	-	-	32	**(86)**
Amount as of December 31, 2020	**3,266**	**421**	**741**	**423**	**156**	**5,007**
Of which: Non-current	*2,860*	*300*	*-*	*402*	*108*	***3,670***
Current	*406*	*121*	*741*	*21*	*48*	***1,337***

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.

29.1 Provisions

29.1.1 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 11).

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 3.4 per cent as of December 31, 2020 versus 4.5 per cent as of December 31, 2019.

29.1.2 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 10).

As of December 31 2020, and 2019, the restructuring provisions mainly concern the voluntary departure plans at Air France and its regional subsidiaries, and at KLM and subsidiaries. KLM also recorded a provision for an involuntary departure plan for € 16 million.

29.1.3 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.

29.1.4 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, 2020, 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, 2020, the total amount of provisions in connection with proceedings which have yet to give rise to definitive decisions amounts to €346 million.

29.1.5 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.

29.2 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.

29.2.1 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.

29.2.2 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.

29.2.3 Other litigations

Rio-Paris AF447 flight

On March 28, 2011, Air France and Airbus were indicted for manslaughter of the 228 victims who died in the crash of the AF 447 Rio-Paris flight on June 1, 2009.

The investigating judges of the Court of First Instance ruled in favour of Air France and Airbus by issuing an order dismissing the case on September 4, 2019.

The Public Prosecutor's Office and most of the civil parties (including the Pilots' associations and unions) appealed this decision. The case has been referred to the investigating chamber of the Paris Court of Appeals and a hearing will be held on March 4, 2021. Air France has taken note of the position of the Public Prosecutor's Office, which is requesting the referral of Air France and Airbus to the criminal court. Air France, which contests having committed a fault that caused the accident, intends to seek confirmation of the dismissal order issued by the investigating judges. It will now be up to the Investigating Chamber to rule on the matter.

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. Proceedings at this court, that will have to reconsider certain arguments that were brought forward by the airline pilots, are pending.

Except for the matters specified under the paragraphs 29.1 and 29.2, 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.

30. FINANCIAL DEBT

In € millions	**Note**		**2020**			**2019**	
As of December 31		**Non current**	**Current**	**Total**	**Non current**	**Current**	**Total**
Perpetual subordinated loan in Yen	*30.1.1*	158	-	**158**	164	-	**164**
Perpetual subordinated loan in Swiss francs	*30.1.2*	347	-	**347**	345	-	**345**
OCEANE (convertible bonds)	*30.2.2*	465	-	**465**	454	-	**454**
Bonds	*30.2*	1,229	289	**1,518**	1,128	-	**1,128**
Debt on financial leases with bargain option		2,908	604	**3,512**	2,938	547	**3,485**
Loans guaranteed by the French and the Dutch states	*30.3*	4,685	-	**4,685**	-	-	**-**
State loans	*30.3*	3,278	-	**3,278**	-	-	**-**
Other debt		1,101	335	**1,436**	1,242	252	**1,494**
Accrued interest		-	90	**90**	-	43	**43**
Total - Financial debt		**14,171**	**1,318**	**15,489**	**6,271**	**842**	**7,113**

Change in financial debt

In € millions	December 31, 2019	New financial debt (1)	Non-monetary change	Reimbursement of financial debt	Currency translation adjustment	Other	December 31, 2020
Perpetual loan in japonese yen and swiss franc	509	-	-	-	(4)	-	**505**
OCEANE	454	-	11	-	-	-	**465**
Bonds	1,128	744	1	(753)	(11)	409	**1,518**
Debt on financial lease with bargain option	3,485	776	23	(584)	(47)	(141)	**3,512**
Loans guaranteed by the French and the Dutch states	-	4,685	-	-	-	-	**4,685**
State loans	-	3,278	-	-	-	-	**3,278**
Other long-term debt	1,494	1,969	36	(2,052)	(11)	-	**1,436**
Accrued interest	43	-	24	-	-	23	**90**
Total	**7,113**	**11,452**	**95**	**(3,389)**	**(73)**	**291**	**15,489**

(1) The difference between the issuance of debt in the cash flow statement and the presentation in this table is explained by accrued interests being payable at the maturity date

In € millions	December 31, 2018	New financial debt	Non-monetary change	Reimbursement of financial debt	Currency translation adjustment	Other	December 31, 2019
Perpetual loan in japonese yen and swiss franc	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	51	**1,494**
Accrued interest	46	-	13	-	-	(16)	**43**
Total	**6,559**	**1,641**	**29**	**(1,156)**	**45**	**(5)**	**7,113**

30.1 Perpetual subordinated debt

30.1.1 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.

As per August 28, 2019 KLM has partially redeemed JPY 10 billion, leaving the residual outstanding principal amount to JPY 20 billion, i.e. €158 million as of December 31, 2020. 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.

30.1.2 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. €347 million as of December 31, 2020.

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.

30.2 Bonds

30.2.1 Perpetual subordinated notes

Air France-KLM has decided to proceed with the redemption of all the outstanding perpetual subordinated notes issued in 2015 representing a total nominal amount of €403.3 million (see note 27.4 Perpetual subordinated bond).

30.2.2 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 31 December 2020, the debt value amount to €465 million.

30.2.3 Other bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Reimbursement date	Coupon
Bond issued in 2014	4 June 2014	€ 289	18 June 2021	-	3.875%
€ Bond issued in 2016	5 Oct. 2016	€ 361	12 Oct. 2022	-	3.75%
$ Bond issued in 2016[1]	9 Dec. 2016	$ 145	15 Dec. 2026	-	4.35%
€ Bond issued in 2020	10 Jan. 2020	€ 750	16 Jan. 2025	-	1,875%

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

30.3 Financial support by the French and the Dutch states

Financial support package of €7.0 billion backed by the French State

On May 6, 2020, Air France-KLM Group signed the legal documentation relating to the financing for a total amount of 7 billion euros. This financing includes two loans:

– A loan of € 4 billion, provided by nine French and foreign financial institutions, 90% guaranteed by the French State, with an initial 12-month maturity and a one-year or two-year extension option exercisable at its sole option by Air France-KLM. The loan has a coupon at an annual rate equal to EURIBOR (floored at zero) plus a margin of 0.75% in the first year, 1.50% in the second year and 2.75% in the third year. The cost of the French State guarantee initially equals to 0.5% of the total amount of the loan and which will step up to 1% for each of the second and third years.
  The loan includes a mandatory partial early repayment of 75% of any net new money raised by Air France-KLM or Air France from financial institutions or through debt capital markets, subject to some exceptions and a mandatory total early repayment notably in case of change of control of Air France-KLM or Air France.
– A subordinated shareholder loan of €3 billion, granted by the French State to Air France-KLM, with a maturity of four years, with two consecutive one-year extension options exercisable by Air France-KLM. This loan has a coupon payable annually or capitalizable at the discretion of Air France-KLM at a rate equal to EURIBOR 12 months (floored at zero) plus a margin of 7% for the first four years, 7.5% for the fifth and 7.75% for the sixth.
  This rate will be increased by 5.5% step up in case (i) the general assembly would not approve a capital increase proposed by the Board of Directors that would enable incorporation in the company’s shareholder equity of all or part of the outstanding shareholder loan, (ii) the general assembly would approve, without the approval from the French State, a capital increase which would not enable the incorporation of all or part the outstanding shareholder loan in the company’s shareholder equity or (iii) a third party, not acting in concert with the French State, would exceed, alone or in concert, the threshold of 20% of the capital of Air France-KLM.
  This loan is subordinated to the French State guaranteed bank loan and, in the event of receivership or liquidation, to all the Air France-KLM senior bond and bank debt, without prejudice of an incorporation of all or part of the outstanding shareholder loan in the company’s shareholder equity.

The company has undertaken not to pay dividends until these two loans have been repaid in full.

The European Commission has approved the French state aid on May 4, 2020.

As of December 31, 2020, Air France KLM has drawn down the whole €4 billion of the bank loan guaranteed by the French State and the whole subordinated shareholder loan of €3 billion.
They have been recorded at amortized cost based on a 3 year drawn down assumption and an Effective Interest Rate of 2.66 per cent for the loan guaranteed and based on a 4 year drawn down assumption and Effective Interest Rate of 7.00 per cent for the shareholder loan.

Financial support package of €3.4 billion backed by the Dutch State

On June 25, 2020, the Dutch State, the Air France-KLM Group and KLM have finalized an agreement on a financial support mechanism supported by the Dutch State for the amount of €3.4 billion. This financial support package includes two loans for KLM and its subsidiaries:

- A revolving credit facility of €2.4 billion, for 90% guaranteed by the Dutch State and with a maturity of 5 years. This revolving credit facility has an interest of EURIBOR (floored at zero) plus a margin of 1.35%. The cost of the associated Dutch State guarantee equals to 0.50% in year 1, 1.00% in year 2 and 3 and 2.00% after year 3.
- A direct loan of €1 billion, granted by the Dutch State to KLM, with a maturity of 5.5 years and an interest of EURIBOR 12 months (floored at zero) plus a margin of 6.25% for year 1, 6.75% for year 2 and 3, and 7.75% for year 4 and 5. This loan is subordinated to the new revolving credit facility.

Both the revolving credit facility and the direct loan are drawn simultaneously on a pro rata basis.
KLM's first drawing under the new revolving credit facility amounts to €665 million, which was drawn on 26 August 2020. It has replaced the existing revolving credit facility drawn on 19 March 2020 (see note 21.5 Credit facilities). KLM first drawing under the Dutch State loan is €277 million, which was drawn also on 26 August 2020.

Main conditions associated with the direct state loan are linked to manageable cost improvements, the airline becoming more sustainable and the restored performance and competitiveness of KLM, including a comprehensive restructuring plan and contributions made by employees. KLM has undertaken to suspend dividend payments to its shareholders until these two loans have been repaid in full.

The European Commission has approved both the Dutch state aid on July 13, 2020. On November 3, 2020, approval has been obtained from the Netherlands Ministry of Finance for the restructuring plan. Following this, KLM has the possibility to draw additional amounts under the financial support package.

As of December 31, 2020, KLM has drawn down €942 million of the financial support package (€665 million of the revolving credit facility and €277 million of the direct state loan). The loans have been recorded at amortized cost based on a 5 and 5.5 year drawn down assumptions with the Effective Interest Rate method (3.95 per cent for the revolving credit facility and 7.05 per cent for the direct state loan).

Both the revolving credit facility and the State loan are presented as non-current liabilities based on IAS 1 (presentation of financial statements). The revolving credit facility has a contractual maturity of 5 years and the State loan has a contractual maturity of 5.5 years. With that, the loans are not due for settlement in the coming 12 months after balance sheet date. Furthermore, covenant testing is not required per balance sheet date, and therefore it is not relevant to the assessment.

The classification of loans as current or non-current as described in IAS 1 is amended, with an effective date in 2022. Future conditions need to be incorporated in a hypothetical test at reporting date. For the revolving credit facility and the State loan this would entail a covenant test per balance sheet date, while the covenant test is contractually only required as of September 2021. In the hypothetical test per balance sheet date, KLM is meeting the covenant requirements in September 2021 for both the revolving credit facility and the State loan. Following that, there is a right to defer the settlement for at least 12 months after balance sheet date, and both the revolving credit facility and the State loan would also required to be classified as non-current if the amended version of IAS 1 would have been applied.

30.4 Other debt

Other debt breaks down as follows:

In € millions	2020	2019
As of December 31		
Reservation of ownership clause and mortgage debt	1,057	1,072
Other debt	379	422
Total	**1,436**	**1,494**

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 €(32) million related to issuance expenses on financial debt.

30.5 Maturity analysis

The financial debt maturities break down as follows:

In € millions	2020	2019
As of December 31		
Maturities in		
Y+1	2,099	970
Y+2	1,439	1,456
Y+3	4,928	1,071
Y+4	4,307	570
Y+5	2,094	964
Over 5 years	2,993	2,870
Total	**17,860**	**7,901**
Including: - Principal	15,489	7,113
- Interest	2,371	788

As of December 31, 2020, the expected financial costs amount to €781 million for the 2021 financial year, €1,307 million for the 2022 to 2025 financial years, and €283 million thereafter.

As of December 31, 2020, the KLM perpetual subordinated loan are included over 5 years.

The bonds issued in 2014, 2016 and 2020 will be reimbursed on their contractual maturity date (see note 30.2).

30.6 Currency analysis

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

In € millions **As of December 31**	**2020**	**2019**
Euro	13,639	5,247
US Dollar	680	691
Swiss franc	357	355
Yen	813	820
Total	**15,489**	**7,113**

30.7 Credit lines

As of December 31, 2019, the Group held undrawn credit lines amounting to €1,765 million. The two undrawn revolving credit lines facilities amount for respectively €1,1 billion for Air France-KLM holding company and Air France, and €665 million for KLM standalone.
On March 13, 2020, Air France-KLM drew down its revolving credit facility concluded for a total amount of €1.1 billion divided into two tranches of €550 million each. The total amount was repaid on May 7, 2020 and the Group terminated the credit facility.

On March 19, 2020, KLM has drawn down for an initial period of 6 months its revolving credit facility concluded on May 23, 2018 for the full amount of €665 million. KLM's new €2.4 billion revolving credit facility, 90% guarantee supported by the Dutch State (see note 30.3 Financial support by the French and the Dutch state), has replaced this credit line on August 26, 2020. As of December 31, 2020, KLM draw €665 million of its credit facility and holds an undrawn amount of €1.735 million.

31. LEASE DEBT

In € millions	**2020**			**2019**		
As of December 31	**Non current**	**Current**	**Total**	**Non current**	**Current**	**Total**
Lease debt - aircraft	1,687	675	**2,362**	2,338	789	**3,127**
Lease debt - real estate	595	105	**700**	618	107	**725**
Lease debt - other	143	42	**185**	193	56	**249**
Accrued interest	-	17	**17**	-	19	**19**
Total - Lease debt	**2,425**	**839**	**3,264**	**3,149**	**971**	**4,120**

Change in lease debt

In € millions	**December 31 2019**	**New contracts and renewals of contracts**	**Reimbursment**	**Currency translation adjustment**	**Others**	**December 31 2020**
Lease debt - Aircraft	3,127	227	(755)	(241)	4	**2,362**
Lease debt - Real estate	725	92	(118)	(1)	2	**700**
Lease debt - Others	249	17	(67)	(14)	-	**185**
Interests	19	-	-	-	(2)	**17**
Total	**4,120**	**336**	**(940)**	**(256)**	**4**	**3,264**

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**

The lease debt maturity breaks down as follows:

In € millions	**As of December 31, 2020**	**As of December 31, 2019**
Y+1	1,034	1,231
Y+2	856	1,058
Y+3	662	868
Y+4	451	631
Y+5	301	391
Over 5 years	860	1,025
Total	**4,164**	**5,204**
Including: - Principal	*3,264*	*4,120*
- Interest	*900*	*1,084*

32. NET DEBT

In € millions **As of December 31**	***Note***	**2020**	**2019**
Current and non-current financial debt	*30*	15,489	7,113
Repo triple A bond		(84)	-
Current and non-current lease debt	*31*	3,264	4,120
Accrued interest	*30 and 31*	(107)	(62)
Deposits related to financial debt	*22*	(101)	(227)
Deposits related to lease debt	*22*	(80)	(91)
Derivatives impact on debt		27	4
Gross financial debt (I)		**18,408**	**10,857**
Cash and cash equivalents	*26*	6,423	3,715
Marketable securities	*22*	193	111
Cash secured	*22*	309	300
Triple A bonds	*22*	518	585
Repo triple A bond		(84)	-
Other		1	3
Bank overdrafts	*26*	(1)	(4)
Net cash (II)		**7,359**	**4,710**
Net debt (I-II)		**11,049**	**6,147**

In € millions **As of December 31**	***Note***	**2020**	**2019**
Opening net debt		**6,147**	**6,164**
Operating free cash, cash flow excluding discontinued activities		4,721	(623)
Perpetual reclassified from Equity	*30.2.1*	403	-
Coupons on perpetual reclassified from Equity	*30.2.1*	26	26
Disposal of subsidiaries, of shares in non-controlled entities		(357)	(13)
Acquisition of subsidiaries, of shares in non-controlled entities		1	1
New lease debts (new and renewed contracts)	*31*	336	589
Unrealized exchange gains and losses on lease financial debts through OCI		(215)	13
Non monetary variation of the debt		27	4
Currency translation adjustment		(15)	48
Capital increase	*30.2.2*	-	(54)
Amortization of OCEANE optional part		11	8
Reclassification		-	(5)
Change in scope		(50)	-
Other		14	(11)
Closing net debt		**11,049**	**6,147**

33. DEFERRED REVENUE ON TICKET SALES

This line corresponds to the unused air tickets which will be recognized in revenues at the date of transportation. The COVID-19 crisis and the lockdown of borders cause the Group to reduce the capacity and cancel an important number of flights. In that case, customers can either ask for the refund of the ticket or the issuance of a voucher.
As of December 31, 2020, this line includes €699 million of air tickets (fare and carrier imposed charges) for which the date of transportation has passed and which are eligible to refund and €739 million of vouchers that can be used for future flights (or which can be refunded).

34. LOYALTY PROGRAM

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

As of December 31, 2020, the deferred revenues relating to the outstanding miles of the Flying Blue customer loyalty program amounts €832 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 Bue - Deferred revenues *In € millions*	**2020**	**2019**
As of January 1	**774**	**763**
Accumulation	130	319
Redemption	(72)	(308)
As of December 31	**832**	**774**

35. OTHER LIABILITIES

In € millions	2020		2019 [1]	
As of December 31	**Current**	**Non-current**	**Current**	**Non-current**
Tax liabilities	565	625	892	-
Employee-related liabilities	1,134	545	1,033	-
Non-current asset payables	96	-	96	-
Deferred income	836	36	739	17
Prepayments received	342	-	469	1
Other	203	88	220	98
Total	**3,175**	**1,294**	**3,448**	**115**

(1) Derivatives instruments are reported on a specific line in the balance sheet

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 the Group reporting of the risks relating to fuel price, main currencies and interest rates and counterparties. RMC decides on the hedging policies to be implemented, targets for hedging ratios and periods and instrument types. Formalized RMC decisions are then implemented by the respective 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.
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 unless explicitly approved by the Risk Management Committee. As a 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 of 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, 2020, 89% 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 5%, the US dollar 4% and the Swiss franc 2%.

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 44 per cent of the overall total. The interest rate on the Group's gross debt after swaps stood at 2.55 per cent at December 31, 2020 versus 2.54 per cent at December 31, 2019.

- **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 2021 requirement and a portion of the 2022 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.

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.

o 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.

o The counterparty risk linked to derivative instruments is taken into account in the valuation of their market value as described in note 3.11. 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.

o 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, 2020	**As of December 31, 2019**
AAA	257	242
AA	66	393
A	898	2,280
BBB	-	16
Total	**1,221**	**2,931**

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 30.7.

36.2 Derivative instruments

As of December 31, 2020, 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	3	3	-	-	-	-	-
	Liability	(229)	(225)	(4)	-	-	-	-
Interest rate derivative instruments	Asset	3	1		2	-	-	-
	Liability	(60)	(18)	(3)	(6)	(8)	(10)	(15)
Currency exchange derivative instruments	Asset	142	88	43	9	2	-	-
	Liability	(195)	(120)	(44)	(4)	(9)	-	(18)
Carbon credit derivative instruments	Asset	33	25	8	-	-	-	-
	Liability	-	-	-	-	-	-	-
Other derivative instruments	Asset	71	43	-	-	-	28	-
	Liability	(1)	-	-	-	-	(1)	-
Total	**Asset**	**252**	**160**	**51**	**11**	**2**	**28**	**-**
	Liability	**(485)**	**(363)**	**(51)**	**(10)**	**(17)**	**(11)**	**(33)**

As of December 31, 2019, 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	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	386	186	96	64	26	13	-
	Liability	(102)	(51)	(35)	(3)	(1)	(1)	(12)
Amadeus shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(4)	(4)	-	-	-	-	-
Carbon credit derivative instruments	Asset	17	17	-	-	-	-	-
	Liability	(4)	(1)	(3)	-	-	-	-
Total	**Asset**	**494**	**258**	**125**	**64**	**31**	**13**	**2**
	Liability	**(259)**	**(154)**	**(60)**	**(8)**	**(5)**	**(6)**	**(27)**

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, 2020

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	356	356	-	-	-	-	-	(43)
Options	1,031	992	39	-	-	-	-	(103)
Sub-total	**1,387**	**1,348**	**39**	**-**	**-**	**-**	**-**	**(146)**
Commodity risk (trading)								
Swap	65	65	-	-	-	-	-	(31)
Sub-total	**65**	**65**	**-**	**-**	**-**	**-**	**-**	**(31)**
Receivables / payables on fuel hedges								**(49)**
Total	**1,452**	**1,413**	**39**	**-**	**-**	**-**	**-**	**(226)**
Price after hedge USD/ Metric Tons		**542**	**532**	**-**	**-**	**-**	**-**	**-**

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, 2020. The hedge results include realized over-effectiveness, option premiums, results of unwound structures and exclude time 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	-	-	-	-	(16)
Total	**4,516**	**3,148**	**1,369**	**-**	**-**	**-**	**-**	**(26)**
Price after hedge USD/ Metric Tons		**697**	667	-	-	-	-	-

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	2020		2019	
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	12	(12)	-	-
Gains / (losses) taken to equity	252	(263)	577	(584)

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, 2020

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	**2,083**		**299**	**86**	**192**	**124**	**255**	**1,127**	**(54)**
Rate swaps	1,933	Financial debt	299	86	192	124	255	977	(30)
Options	150	Financial debt	-	-	-	-	-	150	(24)
Operations qualified as fair value through profit and loss	**98**		**21**	**18**	**12**	**10**	**11**	**26**	**(3)**
Rate swaps	98	N/A	21	18	12	10	11	26	(3)
Total	**2,181**		**319**	**104**	**204**	**134**	**266**	**1,154**	**(57)**

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	Interests flow of financial debt	8	254	52	189	144	945	(41)
Options	150	Interests flow of financial debt	-	-	-	-	-	150	-
Operations qualified as fair value through profit and loss	**325**		**-**	**209**	**-**	**24**	**-**	**92**	**8**
Rate swaps	125	N/A	-	9	-	24	-	92	9
Options	200	N/A	-	200	-	-	-	-	(1)
Total	**2,067**		**8**	**463**	**52**	**213**	**144**	**1,187**	**(33)**

In 2020, 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	2020				2019			
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	1,291	1.3%	1,291	1.3%	2,393	1.2%	2,393	1.2%
Fixed-rate financial liabilities	8,175	4.0%	9,665	3.8%	8,203	4.5%	9,101	3.8%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	4,495	0.2%	4,494	0.2%	1,352	0.4%	1,352	0.4%
Floating-rate financial liabilities	10,696	1.7%	9,206	1.8%	3,078	1.4%	2,195	1.5%
Without-rate financial assets	2,031	-	2,032	-	1,758	-	1,531	-

As of December 31, 2020, without-rate financial assets mainly include cash and as of December 31, 2019 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 €52 million on the financial income for the year ended December 31, 2020 versus €22 million for the year ended December 31, 2019.

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, 2020

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)	**2,505**		**2,222**	**283**	**-**	**-**	**-**	**-**	**(39)**
Exchange rate options	885	N/A	857	28	-	-	-	-	(10)
Forward purchases	1,014	N/A	811	203	-	-	-	-	(65)
Forward sales	606	N/A	554	52	-	-	-	-	36
Exchange risk (fair value hedging of flight equipment acquisition)	**3,253**		**1,666**	**1,093**	**242**	**252**	**-**	**-**	**10**
Exchange rate options	158	Other commitments	14	107	37	-	-	-	**19**
Forward purchases	2,561	Other commitments	1,352	752	205	252	-	-	(18)
Forward sales	534	Other commitments	300	234	-	-	-	-	9
Exchange risk (cash flow hedges on debts)	**180**		**43**	**-**	**-**	**-**	**-**	**137**	**(21)**
Forward purchases	43	N/A	-	-	-	-	-	-	(2)
Others	137	Financial debt	-	-	-	-	-	137	(19)
Exchange risk (Fair value hedges on debt)	**232**		**66**	**66**	**57**	**43**	**-**	**-**	**-**
Forward purchases	232	Lease debt	66	66	57	43	-	-	-
Exchange risk (trading)	**740**		**720**	**20**	**-**	**-**	**-**	**-**	**(3)**
Forward purchases	561	N/A	541	20	-	-	-	-	(4)
Forward sales	179	N/A	179	-	-	-	-	-	1
Total	**6,910**		**4,717**	**1,462**	**299**	**295**	**-**	**137**	**(53)**

• 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	Financial debt	-	-	-	-	-	129	(12)
Exchange risk (fair value hedging of flight equipment acquisition)	**4,435**		**1,626**	**1,326**	**1,020**	**268**	**196**	**-**	**211**
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	-	(51)
Exchange risk (cash flow hedges on debts)	**180**		**43**	**-**	**-**	**-**	**-**	**137**	**(12)**
Forward purchases	43	N/A	43						
Others	137	Financial debt	-	-	-	-	-	137	(12)
Exchange risk (Fair value hedges on debt)	186		61	51	48	26	-	-	12
Forward purchases	186	Lease debt	61	51	48	26	-	-	12
Exchange risk (trading)	**153**		**109**	**44**	**-**	**-**	**-**	**-**	**15**
Forward purchases	153	N/A	109	44	-	-	-	-	15
Total	**8,825**		**4,072**	**2,922**	**1,075**	**294**	**196**	**266**	**285**

Unaligned time value of options with-barrier is booked under other financial income and expenses in the income statement for a loss of €9 million as of December 31, 2020 and a loss of €4 M€ as of December 31, 2019.

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	**2020**	**2019**	**2020**	**2019**
US dollar	997	1,231	3,396	4,035
Pound sterling	14	67	14	34
Yen	45	17	832	805
Swiss francs	19	13	353	354
Others	13	239	14	104

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	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Income before tax	(121)	(134)	(9)	(37)	(79)	(91)
Gains / (losses) taken to equity	131	240	(11)	(49)	(3)	(3)

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	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Income before tax	63	91	-	1	77	78
Gains / (losses) taken to equity	(63)	(100)	14	50	7	11

36.2.4 Carbon credit risk

As of December 31, 2020, the Group has hedged its future purchases of CO_2 quotas as follow:

As of December 31, 2020

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	
Operating flows as cash flow hedging	**133**	**99**	**34**	**-**	**-**	**-**	**-**	**33**
Forwards	133	99	34	-	-	-	-	33
Total	**133**	**99**	**34**	**-**	**-**	**-**	**-**	**33**

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	
Operating flows as cash flow hedging	**151**	**88**	**63**	**-**	**-**	**-**	**-**	**13**
Forwards	151	88	63	-	-	-	-	13
Total	**151**	**88**	**63**	**-**	**-**	**-**	**-**	**13**

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, 2020 and December 31, 2019.
* The estimated amounts as of December 31, 2020 and December 31, 2019 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, 2020 and December 31, 2019, 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	2020		2019	
As of December 31	**Net book value**	**Estimated market value**	**Net book value**	**Estimated market value**
Financial assets				
Loans	636	518	694	694
Financial liabilities				
Bonds	1,983	1,831	1,586	1,659
OCEANE 2019	*465*	*370*	*454*	*464*
Bond 2014	*289*	*289*	*604*	*631*
Bond € 2016	*361*	*361*	*400*	*430*
Bond $ 2016	*118*	*138*	*128*	*134*
Bond € 2020	*750*	*673*	-	-
Perpetual subordinated loans	537	489	541	489
Other borrowings and financial debt	2,278	2,530	1,955	2,002

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 3.11):

In € millions	Level 1		Level 2		Level 3		Total	
As of December 31	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Financial asset equity instruments	51	432		1	-	-	**51**	**433**
Asset debt instruments								
Marketable securities and cash secured	46	19	456	392	-	-	**502**	**411**
Cash equivalents liquidity funds (JV/P&L)	4,269	1,260	652	1,607	-	-	**4,921**	**2,867**
Derivative instruments assets								
Interest rate derivatives	-	-	3	16	-	-	**3**	**16**
Currency exchange derivatives	-	-	142	386	-	-	**142**	**386**
Commodity derivatives	-	-	3	74	-	-	**3**	**74**
ETS derivatives	-	-	33	17	-	-	**33**	**17**
Others	-	-	71	3	-	-	**71**	**3**
Derivative instruments liabilities								
Interest rate derivatives	-	-	(60)	(49)	-	-	**(60)**	**(49)**
Currency exchange derivatives	-	-	(195)	(103)	-	-	**(195)**	**(103)**
Commodity derivatives	-	-	(229)	(100)	-	-	**(229)**	**(100)**
ETS derivatives	-	-	-	(4)	-	-	**-**	**(4)**
Others	-	-	(1)	(3)	-	-	**(1)**	**(3)**

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 **As of December 31**	**2020**	**2019**
Y+1	1,444	1,469
Y+2	1,386	1,203
Y+3	1,347	1,266
Y+4	923	1,153
Y+5	678	768
> Year Y+5	196	1,210
Total	**5,974**	**7,069**

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, 2020 decreased by 6 units compared with December 31, 2019 and stood at 102 aircraft.
This change is explained by the delivery of 6 aircraft.

Long-haul fleet (passenger)

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

Medium-haul fleet

The Group did not take delivery of an aircraft.

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
<u>Long-haul fleet – passenger</u>								
A350	As of December 31, 2020	7	7	8	4	4	2	**32**
	As of December 31, 2019	6	7	5	7	4	6	**35**
B787	As of December 31, 2020	5	1	-	2	-	-	**8**
	As of December 31, 2019	5	3	3	-	-	-	**11**
B777	As of December 31, 2020	2	-	-	-	-	-	**2**
	As of December 31, 2019	2	-	-	-	-	-	**2**
<u>Medium-haul fleet</u>								
A220	As of December 31, 2020	6	15	15	12	12		**60**
	As of December 31, 2019	-	6	15	15	12	12	**60**
<u>Regional fleet</u>								
Total	**As of December 31, 2020**	**20**	**23**	**23**	**18**	**16**	**2**	**102**
	As of December 31, 2019	**13**	**16**	**23**	**22**	**16**	**18**	**108**

38. OTHER COMMITMENTS

38.1 Commitments made

In € millions **As of December 31**	**2020**	**2019**
Order on leased aircraft, not yet in operation	525	490
Call on investment securities	146	142
Warranties, sureties and guarantees	339	364
Secured debts	4,586	4,431
Other purchase commitments	124	140

The restrictions and pledges as of December 31, 2020 are as follows:

In € millions	**Amount pledged**	**NBV of balance sheet entry concerned**	**Corresponding %**
Intangible assets	-	1,230	-
Tangible assets	4,659	12,579	36.5 %
Other financial assets	573	1,402	33 %
Total	**5,232**	**15,211**	

38.2 Commitments received

In € millions **As of December 31**	**2020**	**2019**
Warranties, sureties and guarantees	97	274
Put option on shares (1)	243	240

(1) estimation based on the price for the disposal of 30% of Servair forecasted during the first semester of 2021

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

The Group has the following put options on Servair shares:

- On March 15 and June 21, 2021, the group must sell in two even parts 30% of Servair in order to reduce its stake to 20%, for a total amount of €146 million.
- As of each first quarter between 2023 and 2025 included: put options on 20% of Servair's remaining share capital in full or in part for a total of €97 million (based on an expected disposal in 2021; minimum before indexation).

If the group does not exercise all its put options in the first quarter of 2025, Gategroup will be entitled to exercise its call option on the remaining balance of the 20%.

38.3 Order book

Long term contracts of maintenance business

On December 31, 2020, the future revenues from long-term contracts in the maintenance business amount to €7,723 million. The Group expects 60% of the order book will be recognized as revenue over the next five years.

The table below present the reconciliation between the order book according to accounting principles and the order book as described in the universal registration document:

In € millions **As of December 31**	**2020**
Order book according accounting definition	7,723
Contracts with no clients' obligation	533
Collection not recognized in revenues	(818)
Published order of URD [1]	7,438

[1] See section 1.1.3 of the universal registration document

Passenger and freight transportation

As indicated in note 3.6, 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**	**2020**	**2019**
Short-term employee benefits	5.0	8.5
Post-employment benefits	0.3	0.4
Termination benefits	0.7	-
Share-based payment	0.7	1.5
Total	**6.7**	**10.4**

The compensation of the non-executive Chairman of the Board amounts to €0.19 million.

Directors fees booked in expenses amount to €0.7 million as of December 31, 2020, versus €0.8 million as of December 31, 2019.

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**	**2020**	**2019**
Assets		
Net trade accounts receivable	202	181
Other current assets	5	18
Other non-current assets	8	9
Total	**215**	**208**
Liabilities		
Trade accounts payable	114	196
Other current liabilities	263	164
Other long-term liabilities	3 278	1
Total	**3 655**	**361**

In € millions **As of December 31**	**2020**	**2019**
Net sales	167	192
Landing fees and other rents	(216)	(339)
Other selling expenses	(16)	(22)
Passenger service	(161)	(414)
Other	(39)	(87)
Total	**(265)**	**(670)**

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”), Amsterdam Airport Schiphol, the Dutch and French states 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 €233 million and €325 million for the periods ended December 31, 2020 and December 31, 2019.

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 €53 million for the periods ended December 31, 2020.

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 €51 million for the year ended December 31, 2020 versus €37 million as of December 31, 2019.

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 €49 million as of December 31, 2020 versus €92 million for the year ended December 31, 2019.

China Eastern Airlines

The net revenue derived by the Group in connection with the afore-mentioned arrangement amounted to a respective €6 million and €20 million for the periods ended December 31, 2020 and December 31, 2019.

Delta Air Lines

The net revenue derived by the Group in connection with the afore-mentioned arrangement amounted to a respective €26 million and €58 million for the periods ended December 31, 2020 and December 31, 2019.

Dutch and French states

Other long-term liabilities as of December 31, 2020 include shareholders loans granted by the Dutch and the French states (see note 30.3 Financial support by the French and the Dutch states).

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 **As of December 31**	Notes	**2020**	**2019**
Variation of provisions relating to restructuring plan	*29*	432	10
Variation of provisions relating to pension	*21 & 28*	60	85
Impairment on fleet		680	126
European carbon emission allowances (ETS)		22	53
Change in fair value of hedged shares		-	(59)
Other		(3)	23
Total		**1,191**	**238**

41. STATUTORY AUDITORS' FEES

KPMG:

In € millions	2020				2019			
As of December 31	**Statutory auditor**		**Network**		**Statutory auditor**		**Network**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit, certification, review of stand-alone and consolidated accounts	1.8	93%	1.3	84%	2.0	95%	0.9	90%
- Air France-KLM SA	*0.5*		-		*0.5*		-	
- Consolidated subsidiaries	*1.3*		*1.3*		*1.5*		*0.9*	
Other services	0.1	7%	0.2	16%	0.1	5%	0.1	10%
- Air France-KLM SA	-		-		*0.1*		-	
- Consolidated subsidiaries	*0.1*		*0.2*		-		*0.1*	
Total Air France-KLM	**1.9**		**1.6**		**2.1**		**1.0**	

Deloitte & Associés:

In € millions	2020				2019			
As of December 31	**Statutory auditor**		**Network**		**Statutory auditor**		**Network**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit, certification, review of stand-alone and consolidated accounts	1.8	100%	1.3	100%	1.9	100%	0.8	89%
- Air France-KLM SA	*0.5*		-		*0.5*		-	
- Consolidated subsidiaries	*1.3*		*1.3*		*1.4*		*0.8*	
Other services	-	0%	-	0%	-	0%	0.1	11%
- Air France-KLM SA	-		-		-		-	
- Consolidated subsidiaries	-		-		-		*0.1*	
Total Air France-KLM	**1.8**		**1.3**		**1.9**		**0.9**	

42. CONSOLIDATION SCOPE

As of December 31, 2020, the scope includes 77 fully consolidated entities, 18 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.

Air France-KLM Group

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
AIR ANTWERP B.V.	Belgium	Passenger	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 CHILE	Chile	Passenger	100	100
BLUELINK INTERNATIONAL CZ S.R.O.	Czech Rep.	Passenger	100	100
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	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 FLIGHT ACADEMY BV	Netherlands	Passenger	100	49
SNC CAPUCINE BAIL	France	Passenger	100	100
SNC OTTER BAIL	France	Passenger	100	100
STICHTING STUDENTENHUISVESTINGVLIEGVELD 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
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 LINE MAINTENANCE NIGERIA LTD	Nigeria	Maintenance	100	49
KLM UK ENGINEERING LIMITED	United Kingdom	Maintenance	100	49
REGIONAL JET CENTER & B.V. KANTOORGEBOUWEN	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 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
AIRCRAFT CAPITAL LTD	United Kingdom	Other	100	49
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	80	39

AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	80	39
AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	76	49
ASP BEHEER B.V.	Netherlands	Other	60	49
BIGBLANK	France	Other	100	100
BLUE TEAM V SAS	France	Other	100	100
BLUE YONDER XIV B.V.	Netherlands	Other	100	49
BV KANTOORGEBOUW MARTINAIR	Netherlands	Other	100	49
CELL K16 INSURANCE COMPANY	Guernsey	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 VLIEGSCHOOL VLIEGVELD LELYSTAD BV	Netherlands	Other	100	49
ORION-STAETE B.V.	Netherlands	Other	100	49
PELICAN	Luxemburg	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
WEBLOCK 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
AFI KLM E&M-BGAC Line Maintenance Co.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
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
MAINPORT INNOVATION FUND	Netherlands	Other	25	25
SCHIPHOL LOGISTICS PARK CV	Netherlands	Other	53	45
SERVAIR	France	Other	50	50
SKYNRG	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