First half financial report

January-June 2020

Société anonyme with share capital of €428,634,035
Registered office: 2, rue Robert Esnault-Pelterie, 75007 Paris
Mailing address: Air France-KLM, AFKL.FI, 95737 Roissy Charles de Gaulle Cedex
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1.1 Activity

Strategy

The Air France-KLM Group's ambitions

The Group's business brings people, economies and cultures together, and drives economic growth and social progress. The overarching ambition of the Air France-KLM Group is to become an aviation champion in Europe and one of the most powerful in the world for its staff, customers and shareholders, while assuming its role as a pioneer in sustainable aviation. As such, flight safety is both an absolute imperative that the Group owes to its customers and staff, and a daily commitment.

The Air France-KLM model: creating value

The Air France-KLM value creation model addresses all of the Group's stakeholders, namely employees, shareholders, customers, suppliers, authorities, institutional and non - governmental organizations, and other local partners. As part of its day-to-day activities, the Group interacts with diverse stakeholders, while its business and operations have multiple impacts (qualitative and quantitative) on society. The value creation model shows the impact areas where the Air France-KLM Group adds value and which, thanks to its fundamental strengths and unique competitive advantages, enables a response to the societal and sustainability challenges.

Core assets and unique competitive advantages

As the European leader for intercontinental traffic on departure from Europe, Air France-KLM is a major global air transport player. Its main businesses are passenger and cargo transportation through its network activities, low-cost transportation and aeronautical maintenance.

The Group takes action to reconcile growth with environmental protection, social value and local development at its hubs and destinations. By developing state - of - the - art technologies, investing in R&D and innovation, and partnering with stakeholders, the Group strives to optimize the use of its different forms of capital and resources. This approach gives Air France-KLM a strong position in the aviation industry's competitive landscape.

Air France-KLM is committed to the value of its workforce worldwide. Through our employees' collective dedication, professionalism and accomplishments, Air France-KLM is able to provide premium services and a caring journey, fostering lasting relationships with customers while operating in an efficient and safe manner.

Air France-KLM has a portfolio of strong brands, positioned in complementary markets with their own specific operating models, aligned with customer expectations. The common frequent flyer program, "Flying Blue", contributes to reinforcing the attractiveness of the brands.

Air France-KLM is pursuing its commercial integration strategy with its principal partners worldwide, like Delta Air Lines, Inc. and China Eastern Airlines, and through the SkyTeam alliance, to offer value-added services and innovations, whilst reinforcing its network and building mutual trust. Engaging with stakeholders through sound and regular dialogue is also key for Air France-KLM in terms of identifying emerging issues, tackling upcoming challenges and better understanding their expectations. Air France-KLM sees this as an opportunity to continue strengthening its sustainable and local footprint, creating the basis for trust and long-term acceptance, and developing its activities.

In 2019, the Air France-KLM Group operated one of the largest networks between Europe and the rest of the world, organized around the dual intercontinental hubs of Paris-CDG and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe, and took advantage of numerous partnerships to offer its customers a global network. Given its presence in all the major air transport markets, the Group also has a natural risk hedge since no one market represents more than a third of network revenues. In 2019, Air France-KLM confirmed its leadership position in terms of traffic with just over 104 million passengers carried between Europe and the rest of the world, and on intra-European routes on departure from the Group's natural markets.

The value creation model

The Air France-KLM Group’s ambition is to become a European aviation champion and one of the most powerful in the world for its staff, customers and shareholders, while assuming its role as a pioneer in sustainable aviation. The Group’s value creation model is detailed on pages 18 to 23 of the 2019 Universal Registration Document.

Strategic orientations

1. Response to the Covid-19 crisis

The sanitary crisis caused by the Covid-19 pandemic considerably challenged the airline industry during the 2020 first semester. Sanitary measures of quarantines, social distance and border closures have led to the worst economic crisis since the Second World War. These travel bans and lockdowns in every continent have had dramatic effects on air travel demand as well as airlines’ business operations. For weeks, Air France and KLM were operating under 10% of their regular scheduled capacity while Transavia and Hop! were forced to ground all flights. At the end of May, the Group was still operating only 20% of capacity compared to last year and by summer 2020, depending on border re-openings, Air France-KLM will operate close to 80% of its network with a reduced capacity, covering approximately 35% to 40% of Available Seat Kilometers. The Go-Forward plan for the next five years was presented in November 2019 and it included an ambitious transformation plan. The Air France-KLM response to the crisis has been centered around key principles: safety and social responsibility. Capacity has been reduced in line with the drop in demand and travel bans while cooperating with the French and Dutch States, and ensuring the safety of employees and customers through immediate actions:

- Employees have been equipped with necessary supplies such as facemasks and gloves to ensure a sanitary working environment.
- Compulsory face masks for customers on all flights along with temperature checks before boarding from the Roissy-Charles de Gaulle hub.
- Repatriation of customers from all over the world. Since the beginning of the outbreak, the Air France-KLM Group has repatriated more than 500,000 European citizens from across the world with the exceptional engagement of the employees, responding to the needs and requirements of the French and Dutch nations.

The Air France-KLM Group also deployed cargo capacity to respond to the increasing demand for essential medical supplies. Cargo flights were essential elements in the fight against Covid-19. Over one hundred million pieces of protective medical equipment have been shipped through air bridges using cargo and converted passenger aircraft.

The Air France-KLM Group also took decisive financial actions over the last few months, which have resulted in immediate cash savings

- Revision of Capex investment plan downwards: €1.5billion in 2020
- Cut of operating costs
- Halt of all non-safety and non-operational critical projects,
- Significant reduction of all consultants and external staff.

The Air France-KLM Group’s ability to rapidly adapt to this major crisis and to support governments and fellow citizens shows how capable and quickly the Group is in engaging and mobilizing when necessary.

2. Due to the new reality, the Air France-KLM Group is adapting and accelerating its transformation plans

The Group’s strategic orientations started to deliver results in 2019 and in early 2020. The Covid-19 crisis which commenced in Europe at the end of February 2020 had an unprecedented impact on the industry. The Group does not anticipate a return to the pre-crisis levels of global demand before several years.

In this context, the Group will look to continuously flex its activity to the development of demand for travel and will be adapting its capacity and commercial approach to adjust to the new reality. The Group expects to operate a capacity of Available Seat Kilometers for 2021 minimum -20% compared to 2019 and anticipates that a recovery to the pre-crisis capacity level will be reached by 2024.

Notwithstanding the current crisis situation, the principles of Air France-KLM’s Go Forward plan remain unchanged, aiming to reinforce the Group’s competitive positioning by leveraging its strengths. The Group’s sustainability commitments are also reasserted; Air France-KLM has set specifically for Environment a 2030 commitment to reducing its CO_2 emissions per passenger by 50% versus 2005. This is achieved by a multi-facet strategic solution with real reductions of CO_2 due to a modern fleet, optimization of fuel use, scale up of sustainable aviation fuel and compensation via market-based measures including CO_2 schemes and voluntary offsetting by the Air France and KLM customer programs.

In the post-Covid-19 world, the Air France-KLM Group needs to balance its medium-term focus on managing liquidity risk and optimizing Capex investments with the long-term focus on achieving increased competitiveness and sustainability targets. The Group plans to do this through the five key levers of labor, productivity, network, fleet and cost management.

In response to the Covid-19 crisis and in order to carry out its reconstruction plan, the Group and its airlines must significantly reduce the number of employees.

Air France's restructuring plan calls for a reduction of 6,560 FTEs, or minus 16% of the total number of FTEs by the end of 2022 and Hop!'s restructuring plan calls for a reduction of minus 1,020 FTEs, or minus 42% of the total number of FTEs by the end of 2022. These plans will be carried out with a focus on volunteering and solidarity between the different companies in the group.

In addition, the implementation of the partial activity (without compensation for lost wages) and the application of the variable remuneration system for pilots and flight attendants (MGA) have made it possible to reduce the wage bill. Air France has also announced a policy of salary moderation through the suspension of negotiations on the profit-sharing scheme for the years

2020/21/22 and the freezing of general and individual increases (excluding promotion and seniority). Discussions may also be launched to identify and define, beyond the announced staff reductions, the savings required to meet the economic trajectory.

In the Netherlands, KLM's restructuring plan contains a significant reduction of FTEs compared to pre-Covid-19. KLM has already launched a voluntary departure plan to which 2,000 staff (in FTE) have subscribed at the closing deadline. The departures due to stoppage of external and temporary contracts will also contribute to this plan. The next steps in the social plan to achieve these reductions will be discussed by KLM with the unions.

KLM will announce their full restructuring plan by October 2020. In addition, as imposed by the Dutch State, adjustment of labour conditions for employees who earn above a certain threshold is conditional to the full drawing of State financing. These adjustments are under discussion with labor representatives.

Future competitiveness and sustainability ambitions are largely linked to network and fleet decisions. Mid- and long-term fleet investments drive the exit from the current crisis and are essential to achieve increased competitiveness and sustainability targets.

The Group therefore intends to keep the schedule as much as possible intact of committed fleet deliveries between 2021-2025, for which the Group is carefully considering financing options and is maintaining highest level of flexibility in fleet development to adapt in view of current uncertainty on the recovery trajectory.

In the context of the Covid-19 crisis the Group vows to accelerate its key transformation initiatives and all non-essential investments and expense are to be minimized.

Key measures, to improve structurally the future unit costs, are being implemented including a stringent policy to cancel or delay non-essential non-fleet capex investments, including IT, Ground and real-estate investment projects, the implementation of a control tower procedure on controllable external expenses and a freeze on contracting of external staff. In addition, new transformational initiatives to further simplify the organization and processes have been identified and added to the objectives.

With the reduction in capacity, consequential organizational restructuring and acceleration of transformations the Group is realigning to the new reality. The Group's medium-term financial ambition is maintained with a delay of one year, confirming the objective for 2025 to reach an operating margin of 7% to 8% and positive operating free cash flow in 2023. The capex investment level for 2021 to 2024 will be around €3 billion per year on average; it remains largely flexible.

Furthermore, the Board of Directors of the Air France-KLM Group is continuing its reflections initiated last April on the plan to strengthen the Group's equity and quasi-equity by May 2021, subject to market conditions.

Business review

Network business: sharp decline in operating income in the first half 2020, due to the impact of the Covid-19 crisis

Network	Second Quarter			First Half		
	2020	Change	*Change at constant currency*	2020	Change	*Change at constant currency*
Total revenues *(€m)*	938	*-84.3%*	*-84.4%*	5,216	*-53.1%*	*-53.5%*
Scheduled revenues *(€m)*	827	*-85.5%*	*-85.6%*	4,896	*-53.8%*	*-54.1%*
Operating result *(€m)*	-1,123	*-1,438*	*-1,436*	-1,852	*-1,906*	*-1,933*

2019 results restated for LLP componentization accounting change and EU passenger compensation reclassification between revenues and external expenses

During the first half, due to the impact of Covid-19, the revenues generated by the passenger and cargo businesses fell by 53.5%.

The operating result for the Network business stood at €(1,852) million in the first half 2020, i.e. a €1,906 million decline relative to 2019.

Measures were taken to preserve cash, notably the reduction in capex, cost-savings, the deferral of supplier payments and part-time working for employees.

Passenger business: good start in January and February 2020, a first half 2020 sharply down due to the impact of Covid-19 from March

Passenger network	Second Quarter			First Half		
	2020	Change	*Change at constant currency*	2020	Change	*Change at constant currency*
Passengers *(thousands)*	1,128	*-95.1%*		16,889	*-60.4%*	
Capacity *(ASK m)*	8,765	*-88.4%*		71,168	*-51.1%*	
Traffic *(RPK m)*	3,261	*-95.1%*		53,109	*-58.3%*	
Load factor	37.2%	*-51.4 pt*		74.6%	*-12.9 pt*	
Total passenger revenues *(€m)*	372	*-93.2%*	*-93.2%*	4,183	*-58.4%*	*-58.6%*
Scheduled passenger revenues *(€m)*	335	*-93.6%*	*-93.6%*	4,006	*-58.6%*	*-58.9%*
Unit revenue per ASK *(€ cts)*	3.83	*-44.9%*	*-45.1%*	5.63	*-15.4%*	*-15.9%*

2019 results restated for LLP componentization accounting change and EU passenger compensation reclassification between revenues and external expenses

First half 2020 capacity was down by 51.1%.

Capacity was up by 2.4% for the months of January and February, the passenger network delivering a good performance with stable unit revenue at constant currency relative to the previous year.

The remainder of the first half was significantly impacted by the Covid-19 public health crisis.

The impact of the Covid-19 crisis accelerated during March 2020, materially impacting global airline traffic. Repatriation operations took place across the world and a skeleton service was operated linking the Group's domestic markets to key cities. Following the easing of border lockdowns across Europe, there was a slow resumption of traffic on the short- and medium-haul networks during June 2020.

The unit revenue per available seat-kilometer saw a material decline (-15.9%) at constant currency during the first half 2020, owing to the fall in load factors linked to the Covid-19 crisis.

Cargo business: strong yields due to the gap between industry capacity and demand

Cargo	Second Quarter			First Half		
	2020	Change	*Change at constant currency*	2020	Change	*Change at constant currency*
Tons *(thousands)*	149	*-46.4%*		392	*-28.5%*	
Capacity *(ATK m)*	1,581	*-56.3%*		4,772	*-32.6%*	
Traffic *(RTK m)*	1,180	*-44.4%*		3,013	*-27.7%*	
Load factor	74.7%	*+16.0 pt*		63.1%	*+4.3 pt*	
Total cargo revenues *(€m)*	566	*+6.0%*	*+5.2%*	1,032	*-4.5%*	*-5.6%*
Scheduled cargo revenues *(€m)*	491	*+8.2%*	*+7.4%*	890	*-4.0%*	*-5.1%*
Unit revenue per ATK *(€ cts)*	31.06	*+147.6%*	*+145.7%*	18.65	*+42.4%*	*+40.8%*

At the end of the second quarter 2020, global air cargo capacity w as approximately 27% low er than in 2019, w ith industry air cargo load factors at their highest levels in the past tw o years.

Over the first half as a w hole, cargo capacity and traffic were significantly down due to the reduction in belly capacity in passenger aircraft. The increase in full freighter capacity partially offset the low number of passenger flights.

The load factor was up by 4.3 points and the unit revenue saw a strong 40.8% increase due to the gap betw een industry capacity and demand during the first half 2020.

On the demand side, w orldwide air freight volumes w ere down due to the Covid-19 crisis but are expected to rebound to 90% to 95% of their pre-Covid levels in 2021. The gap betw een capacity and demand in recent months should narrow as the industry increases its capacity.

Transavia: good start to the year for Transavia although the rest of the first half was materially impacted by the Covid-19 crisis

Transavia	Second Quarter		First Half	
	2020	Change	2020	Change
Passengers *(thousands)*	90	*-98.2%*	2,439	*-68.8%*
Capacity *(ASK m)*	277	*-97.1%*	5,169	*-66.3%*
Traffic *(RPK m)*	181	*-97.9%*	4,636	*-67.2%*
Load factor	65.3%	*-26.7 pt*	89.7%	*-2.3 pt*
Total passenger revenues *(€m)*	17	*-96.6%*	259	*-65.0%*
Unit revenue per ASK *(€ cts)*	5.47	*+4.4%*	4.74	*-1.9%*
Unit cost per ASK *(€ cts)*	45.46	*+871.8%*	8.46	*+71.4%*
Operating result *(€m)*	-111	*-164*	-193	*-176*

After a good start to the year for Transavia's low -cost business with unit revenues up by 10% at the end of February, the second half of March w as severely hit by the Covid-19 outbreak, w ith a consequential reduction in activity due to flight cancellations. Transavia France and Transavia Netherlands temporarily grounded the totality of their fleets. Activity levels were close to zero in April and May 2020 w ith a progressive restart from early June, resulting in an activity level for the month of June of 8% compared to last year.

Strict cash preservation measures are in place including a reduction in investment, cost savings, supplier payment deferrals and part-time w orking.

The first half 2020 operating result stood at €(193) million, a fall of €176 million relative to 2019 due entirely to the Covid-19 crisis.

Maintenance business: operating result strongly impacted by Covid-19

Maintenance	Second Quarter			First Half		
	2020	Change	*Change at constant currency*	2020	Change	*Change at constant currency*
Total revenues *(€m)*	501	*-55.2%*		1,640	*-28.4%*	
Third-party revenues *(€m)*	222	*-57.8%*	*-59.3%*	716	*-33.8%*	*-36.0%*
Operating result *(€m)*	-318	-370	-376	-321	-419	-430
Operating margin *(%)*	-63.4%	*-68.1 pt*	*-68.5 pt*	-19.6%	*-23.9 pt*	*-24.3 pt*

2019 results restated for LLP componentization accounting change and EU passenger compensation reclassification between revenues and external expenses

Maintenance business revenues were sharply lower in the first half 2020 relative to the previous year: third-party revenues declined by 36% at constant currency, owing to the Covid-19 crisis. Revenues were significantly down in the three main businesses.

In the second quarter, all E&M business clients were affected by the Covid-19 crisis, resulting in a sharp decline in revenues. Operating costs were reduced in the second quarter 2020 thanks to a decline in the level of maintenance activity, partial payment schemes for employees and the initiation of other cost-saving measures.

An incidental loss of approximately €210 million was taken in the second quarter operating result to take into account client situations including cash difficulties, fleet reductions and bankruptcies, and a spare part surplus due to the worldwide fleet reductions expected as a result of the current crisis.

The E&M activity was also materially impacted by the decline in airline activity within the Air France-KLM Group. The operating margin, expressed as a percentage of total revenues, thus collapsed by 23.9 points.

Air France-KLM Group: Covid-19 severely impacts the financial results of the airline industry in the first half 2020

Air France-KLM	Second Quarter			First Half		
	2020	Change	*Change at constant currency*	2020	Change	*Change at constant currency*
Capacity *(ASK m)*	9,042	*-89.4%*		76,337	*-52.5%*	
Traffic *(RPK m)*	3,442	*-95.5%*		57,746	*-59.2%*	
Passenger unit revenue per ASK* *(€ cts)*	3.88	*-42.6%*	*-42.8%*	5.57	*-14.0%*	*-14.6%*
Group unit revenue per ASK *(€ cts)*	9.31	*+27.8%*	*+27.3%*	6.73	*-4.5%*	*-5.2%*
Group unit cost per ASK *(€ cts)* at constant currency	26.48	*+290.1%*	*+351.2%*	9.84	*+41.1*	*+40.9%*
Revenues *(€m)*	1,182	*-83.2%*	*-83.3%*	6,201	*-52.2%*	*-52.6%*
EBITDA *(€m)*	-780	-1,947	*-1942*	-840	-2,451	-2,481
Operating result *(€m)*	-1,553	-1,976	*-1972*	-2,368	-2,505	-2,537
Operating margin *(%)*	-131.4%	*-137.4 pt*	*-137.3 pt*	-38.2%	*-39.2 pt*	*-39.5 pt*
Net income - Group part *(€m)*	-2,612	*-2,709*		-4,413	*-4,186*	

**Aggregate of Passenger network and Transavia unit revenues*

2019 results restated for LLP componentization accounting change and EU passenger compensation reclassification between revenues and external expenses

The Air France-KLM fleet

At June 30, 2020, the Air France-KLM Group's fleet totalled 555 aircraft, versus 554 at December 31, 2019.

The main operational fleet was composed of 414 aircraft (428 aircraft at December 31, 2019). The breakdown of this fleet was 160 long-haul aircraft (176 at December 31, 2019), 6 freighters (6 freighters at December 31, 2019) and 248 medium-haul aircraft (246 at December 31, 2019), including 82 aircraft in the Transavia Group fleet (80 aircraft at December 31, 2019).

The regional fleet in operation was composed of 104 aircraft (118 at December 31, 2019).

At June 30, 2020, the average age of the aircraft in the operational fleet was 11.7 years, of which 11.8 years for the long-haul fleet, 12.7 years for the medium-haul fleet, 17.3 years for the cargo fleet and 8.9 years for the regional fleet, compared with 11.6 years at December 31, 2019, of which 11.9 years for the long-haul fleet, 12.3 years for the medium-haul fleet, 16.8 years for the cargo fleet and 9.6 years for the regional fleet.

At June 30, 2020, 38.9% of the total Group fleet was fully owned (40.4% at December 31, 2019), 13.7% was under finance lease (15.2% at December 31, 2019) and 47.4% under operating lease (44.4% at December 31, 2019).

At June 30, 2020, excluding operating leases and after the delivery of four aircraft under Group ownership, there were firm orders outstanding for 104 aircraft. Options stood at 58 aircraft (as on December 31, 2019).

Change in the Air France-KLM Group order book(1)	December 31, 2019	Deliveries during the period(2)	New orders	Option conversion	June 30, 2020
Main fleet	108	4	-	-	104
Regional fleet	-	-	-	-	-
Total	108	4	-	-	104

(1) Excluding operating leases.

(2) Excluding transfers between the Group's airlines.

Change in the Air France-KLM Group option portfolio(1)	December 31, 2019	Exercized during the period	Options cancelled or expired	New options	June 30, 2020
Main fleet	58	-	-	-	58
Regional fleet	-	-	-	-	-
Total	58	-	-	-	**58**

(1) *Excluding operating leases.*

Fleet management

Air France-KLM is pursuing a pro-active strategy of fleet renewal and modernization, thereby improving the fleet's energy efficiency and reducing its environmental footprint.

During the first half of 2020, the Air France Group thus:

- In long-haul, retired its ten A380s from operational service along with four A340s, and took delivery of three new A350-900s,
- In HOP!, retired its ATR42s, ATR72s and EMB145s from operational service and took delivery of one new EMB190,
- In Transavia France, took delivery of two B737-800s.

For its part, KLM welcomed an additional B787-10 to its fleet and retired its B747-400s from operational service.

Longer term, fleet modernization will be reflected in the ongoing growth of the A350-900 fleet within Air France and that of the B787-10 at KLM. For its part, Transavia (France and the Netherlands) will see its fleet adapt to the growth market in the leisure sector.

The Group will continue to invest significant sums in cabin refurbishment, as is currently the case for its A330-200s and 777-300ERs, and in the on-board satellite connectivity proposition, enabling an in-flight Wi-Fi offer for customers.

The Air France-KLM fleet at June 30, 2020

	AF (incl. HOP!)	KL (incl. KLC & Martinair)	Transavia France	Transavia Neths.	Owned	Finance lease	Operating lease	Total
Long-haul	**112**	**66**	**0**	**0**	**78**	**30**	**70**	**178**
B747-400	-	6	-	-	6	-	-	6
B777-300	43	14	-	-	17	18	22	57
B777-200	25	15	-	-	26	-	14	40
A350	6	-	-	-	2	4	-	6
B787-10	-	5	-	-	3	2	-	5
B787-9	9	13	-	-	7	3	12	22
A380-800	10	-	-	-	2	3	5	10
A340-300	4	-	-	-	4	-	-	4
A330-300	-	5	-	-	-	-	5	5
A330-200	15	8	-	-	11	-	12	23
Medium-haul	**115**	**52**	**40**	**42**	**70**	**20**	**159**	**249**
B737-900	-	5	-	-	2	-	3	5
B737-800	-	31	40	35	29	10	67	106
B737-700	-	16	-	7	3	5	15	23
A321	20	-	-	-	11	-	9	20
A320	44	-	-	-	3	5	36	44
A319	33	-	-	-	14	-	19	33
A318	18	-	-	-	8	-	10	18
Regional	**73**	**49**	**0**	**0**	**62**	**26**	**34**	**122**
ATR72-600	2	-	-	-	-	-	2	2
ATR42-500	-	-	-	-	-	-	-	-
Canadair Jet 1000	14	-	-	-	14	-	-	14
Canadair Jet 700	11	-	-	-	11	-	-	11
Embraer 190	16	32	-	-	9	12	27	48
Embraer 175	-	17	-	-	3	14	-	17
Embraer 170	15	-	-	-	10	-	5	15
Embraer 145	15	-	-	-	15	-	-	15
Cargo	**2**	**4**	**0**	**0**	**6**	**0**	**0**	**6**
B747-400BCF	-	1	-	-	1	-	-	1
B747-400ERF	-	3	-	-	3	-	-	3
B777-F	2	-	-	-	2	-	-	2
Total AF-KLM	**302**	**171**	**40**	**42**	**216**	**76**	**263**	**555**

Highlights

Final results of Air France-KLM's tender offer on three series of existing notes

On January 6, 2020, the Air France-KLM Group launched a Tender Offer to repurchase three series of existing notes subject to the success of a new issue of benchmark notes with a five-year maturity.

The three series of notes comprised, firstly, a €600 million principal amount of senior notes maturing on June 18, 2021 and bearing a fixed coupon of 3.875% (ISIN: FR0011965177), secondly €400 million in senior notes maturing on October 12, 2022 and bearing a fixed coupon of 3.750% (ISIN: FR0013212958) and, lastly, a €600 million initial principal amount of Undated Deeply Subordinated Fixed Rate Resettable Notes bearing a fixed coupon of 6.25%, of which €403.3 million is outstanding (ISIN: FR0012650281).

On January 10, 2020, after two days of investor road shows, Air France-KLM successfully placed a new issue of senior notes (ISIN: FR0013477254) in the amount of €750 million, with a five-year maturity and bearing an annual coupon of 1.875%.

The net proceeds from this new issue were partly used for Air France-KLM's general corporate purposes and served to fund the repurchase of the notes subscribed to the cash Tender Offer, which closed on January 13, 2020 and whose results were announced on January 14, 2020, as follows:

Existing Notes for a total principal amount of €677.7 million (representing 48.3% of the outstanding Existing Notes) were tendered to the Tender Offer, of which €350 million were accepted, composed of €311.2 million in 2021 Notes and €38.8 million in 2022 Notes.

As a result, the principal amount of outstanding Existing Notes after completion of the Tender Offer is €1,053.3 million, of which €288.8 million in 2021 Notes, €361.2 million in 2022 Notes and €403.3 million in subordinated perpetual notes.

The settlement and delivery of the Tender Offer combined with the net proceeds on the new bonds issued took place on January 16, 2020. This transaction is part of the Company's ongoing dynamic management of the Group's balance sheet structure, contributing to reducing the overall cost of the Group's debt and extending its maturity profile.

International partnership between Air France, KLM, Delta and Virgin Atlantic

On February 3, Air France, KLM, Delta and Virgin Atlantic launched their expanded joint-venture at the service of their customers, enabling the latter to access new routes and benefit from new opportunities to earn and burn Miles.

Air France-KLM takes exceptional measures

On April 17, 2020, as Air France-KLM was finalizing its 2019 Universal Registration Document, the Covid-19 crisis was continuing to spread.

Firstly, on December 31, 2019, the Group disposed of credit lines in the total amount of €1.765 billion. The two main credit lines amounted to €1.1 billion for the Air France-KLM holding company and Air France, and €665 million for KLM. As of the onset of the Covid-19 public health crisis, the Air France-KLM Group implemented measures, notably cost savings, to limit the impact of the virus on its profitability and preserve its financial viability. Within this framework, the Air France-KLM Group drew down the totality of its revolving credit facility in the amount of €1.1 billion and KLM drew down the totality of its revolving credit facility in the amount of €665 million. At March 12, the Group and its subsidiaries thus disposed of more than €6 billion of cash and cash equivalents.

Secondly, in the URD, the Group listed the measures that it had put in place since the onset of the Covid-19 crisis to ensure the protection of its passengers and staff, and to preserve the conditions of its financial viability. Faced with the increasingly strict measures taken by many countries, including restrictions on travel opportunities and border closures, the Air France-KLM Group drastically reduced its flight activity which, over the coming months was to stand at less than 10% of the previous year's level.

The Group took strong measures as of the onset of the crisis which, at April 17, included:

— negotiation with governments for payment deferral of taxes (civil aviation, solidarity, etc.), social contributions and various charges;

— negotiation with lessors and airports of payment deferral;

— cost reduction measures, estimated at this stage at €500 million in 2020, an increase of €300 million compared to previous announcements;

— the possibility of early retirement of certain sub-fleets of aircraft;

— implementation by Air France of part-time working measures and application by KLM of the Temporary Emergency Bridging Measure for Sustained Employment (NOW), with an impact estimated at this stage at around €1.1 billion for 2020;

— review of the investment plan which will be reduced by at least €700 million in 2020, i.e. €350 million more than in previous announcements, to which will be added the impact of the decline in own and third-party activity on the amount of maintenance investment.

In solidarity with all the employees, the members of the Air France-KLM Board Directors, its Chair and its Chief Executive Officer also participated in the effort within the framework of the measures applicable to the employees of the Group, with a similar reduction in their remuneration. On April 23, following the deliberation on the compensation of the Air France-KLM CEO, Benjamin Smith specified: "I would like to highlight and repeat the commitment I made on March 16, 2020 to reduce my remuneration by 25% during the Covid-19 crisis. In the context of the very difficult period that the Air France-KLM Group is currently going through, this reduction clearly includes forfeiting my annual short-term variable compensation ("bonus") for the financial year 2020, as well. Once again, I would like to thank all the Air France-KLM Group's employees for their exceptional commitment at a time when our industry is going through the worst crisis in its history."

Signature of €7 billion of financing enabling the Air France-KLM Group and Air France to weather the crisis and prepare for the future

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

- ✓ A Loan Guaranteed by the French State ("PGE") granted by a syndicate of nine banks - Mandated Lead Arrangers and Book runners: Crédit Agricole CIB, HSBC France, Natixis (Documentation and Facility Agent); Senior Mandated Lead Arrangers: Deutsche Bank Luxembourg SA, Société Générale, Banco Santander Paris Branch; Mandated Lead Arrangers: BNP Paribas, Crédit Industriel et Commercial, Crédit Lyonnais (LCL) – whose main characteristics are:
  - an amount of €4 billion;
  - a 90% guarantee granted by the French State;
  - an initial 12-month maturity, with a one-year or two-year extension option exercisable by Air France-KLM;
  - a coupon excluding the French State guarantee cost 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;
  - a cost of the guarantee granted by the French State initially equal 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;
  - 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;
  - a mandatory total early repayment notably in case of change of control of Air France-KLM or Air France.

- ✓ A subordinated shareholder loan granted by the French State to Air France-KLM whose main characteristics are:
  - a bullet amount of €3 billion;
  - a maturity of four years, with two consecutive one-year extension options exercisable by Air France-KLM;
  - 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;
  - subordination 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 the outstanding shareholder loan in the company's shareholder equity; and
  - early repayment in the occurrence of certain events, such as the takeover of Air France-KLM and cases of default such as if the Annual General Meeting of shareholders does not ratify this shareholder loan according to article L.225-40 of the French Code de commerce or in case of acceleration of the French State guaranteed bank loan. The company has undertaken not to pay dividends until these two loans have been repaid in full. Consecutive to this financing, Air France-KLM will reimburse €1.1 billion on May 7, 2020 for the revolving credit facility drawn in March 2020 and will terminate it. Discussions with the Dutch State are pursuing to finalize additional support to the KLM Group.

KLM secures loans of €3.4 billion to help it weather the crisis and prepare for the future

On June 25, 2020, the Air France-KLM Group's Board of Directors approved a financial support package backed by the Dutch State for KLM in the amount of €3.4 billion. These loans will enable KLM to weather the current Covid-19 crisis and prepare for the future.

The Dutch State aid to KLM came in addition to the €7 billion in funding granted by the French State to Air France announced on May 7, 2020. Following discussions with the Dutch State and several Dutch and international banking institutions, the Air France-KLM Group and KLM were able to finalize the various components of a financial support package. This financing includes two loans for KLM and its subsidiaries:

- ✓ A revolving credit facility of €2.4 billion, granted by 11 banks, of which three are Dutch banks and eight are international banks. The main characteristics are:

  - A 90% guarantee granted by the Dutch State with a maturity of 5 years and a coupon at an annual rate equal to EURIBOR (floored at zero) plus a margin of 1.35%

  - A cost of the guarantee granted by the Dutch State equal to 0.50% in year one, 1.00% in year two and three, and 2.00% after year three.

- ✓ A direct loan of €1 billion, granted by the Dutch State to KLM, with the following main characteristics:
  - Term loan of €1 billion
  - A maturity of 5.5 years
  - A coupon payable annually at a rate equal to EURIBOR 12 months (floored at zero) plus a margin of 6.25% for year one, 6.75% for year two and three, and 7.75% for year four and five.
  - Subordination to the new revolving credit facility. Both the revolving credit facility and the direct loan will be drawn on a pro rata basis. Further drawings subsequent to the first drawing are subject to certain conditions being fulfilled by KLM.

KLM's first draw down under the new revolving credit facility will be used to repay and terminate the existing revolving credit facility drawn on March 19, 2020 for an amount of €665 million.

The conditions associated with the direct State loan are linked to the airline becoming more sustainable as well as 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. These support mechanisms have been approved by the Dutch Parliament and the European Commission.

KLM 2020 Voluntary Resignation Scheme

Although numerous measures have been taken to help KLM traverse this period of unprecedented difficulty, within this context where it is clear that more is needed, on May 20, 2020 KLM announced that, given the impact of the Covid-19 crisis, it was expanding the possibility for employees to leave the company on a voluntary basis with financial compensation.

The 2020 Voluntary Resignation Scheme (VRS 2020) has been open to all KLM employees since June 1 and anticipates the necessary next steps. The new scheme could create more room for KLM employees who remain in service, thereby limiting forced redundancies as far as possible in the future.

The Air France Group plans measures to adapt its workforce to the Covid-19 crisis

On July 3, Air France and HOP! presented to their staff representatives their strategic orientations and the prospects for adapting the workforce following the Covid-19 crisis which has hit the Group hard. For three months, Air France's activity and revenue was down by 95%, and at the height of the crisis, the airline was losing €15 million per day. The recovery looks set to be very slow due to the many uncertainties regarding the health situation, the lifting of travel restrictions and the trend in commercial demand. In this way, even on the basis of ambitious recovery assumptions, Air France predicts that it will not see the same level of activity as in 2019 before 2024.

The support of the French State, in the form of guaranteed loans amounting to €7 billion euros, will enable the Group to withstand the crisis in the short term and is accompanied by strong commitments to ensure its sustainability. Air France must accelerate its transformation to regain its competitiveness and strengthen its leadership in terms of sustainable transition. In the context of such a lasting decline in activity, the Air France Group must act with lucidity and responsibility. Its transformation is mainly based on changing its domestic business model, reorganizing its support functions and continuing to reduce its external and internal costs.

For Air France, the projections on staff requirements show a reduction of 6,560 jobs by the end of 2022 out of a current total of 41,000. The many natural departures expected over this period (more than 3,500) will make it possible to compensate more than half of these job reductions thanks to a favorable age pyramid.

For HOP! the resizing of activity and the restructuring of the company linked in particular to the simplification of the fleet will lead to a reduction of 1,020 jobs over the next three years out of the current 2,420. Taking into account the estimated number of natural departures, the overstaffing figure remains at around 820 at the end of 2022.

Air France and HOP! are working together with the unions to implement plans that give priority to voluntary departures, early retirement arrangements and professional and geographical mobility. Solidarity within the Air France Group will also be implemented with proposals for internal job offers to all employees whose position will no longer exist and who do not wish to be included in the departure plan.

Air France and HOP! will conduct these processes in a spirit of dialogue, and with responsibility and transparency around the challenges of rebuilding the Air France Group.

Phase-out of Air France's entire Airbus A380 fleet

In the context of the Covid-19 crisis and its impact on anticipated activity levels, on May 20, 2020 the Air France-KLM Group announced the termination of Air France's Airbus A380 operations.

Initially scheduled by the end of 2022, the phase-out of the Airbus A380 fleet is an integral part the Air France-KLM Group's fleet simplification strategy aimed at making the fleet more competitive and continuing its transformation with more modern, high-performance aircraft with a significantly-reduced environmental footprint.

Five of the Airbus A380s in the current fleet are owned by Air France or on finance lease, while the four others are on operating lease. The overall impact of the Airbus A380 phase-out write-down amounting to €545 million was booked in the first half 2020 as a non-current expense.

The Airbus A380s will be replaced by new-generation aircraft, like the Airbus A350 and the Boeing 787, whose deliveries are ongoing.

Air France-KLM's Corporate Social Responsibility Report 2019

The Group's 100%-digital Corporate Social Responsibility Report, available on the www.airfranceklm.com website since June 2, presents the Group's strategy and commitments, and all the actions undertaken by the Group in 2019 as part of its transition to a sustainable future. For 15 years, the Air France-KLM Group has been recognized as a leader in the sustainable transition of the air transport industry. In 2019, its commitments were once again recognized by the Dow Jones Sustainability Index, which ranked the Air France-KLM Group in first place.

After achieving its 2020 targets ahead of schedule, in 2019 Air France-KLM set ambitious new targets to reduce its carbon footprint by 2030, with a 50% reduction in CO_2 emissions per passenger/km compared with 2005 levels. Within the context of the Covid-19 global health crisis, the transformation of the Air France-KLM Group involves accelerating its environmental goals for its own future and for that of the entire industry.

Outlook and subsequent events

Outlook

The Group has introduced stringent sanitary measures on board and, supported by the ongoing "Travel with Confidence" campaign, has seen a slow recovery of leisure demand in June 2020.

The airlines of the Group are carefully increasing capacity for the summer months, whereby overall capacity levels are managed based on continuously scrutinizing developments in market demand and government policies, including the opening of borders and slot moratoriums. The Group aims to rebuild its worldwide network step by step with a wide variety of destinations in the portfolio.

Nevertheless, there is limited visibility on the demand recovery curve as customer booking behavior is much more short-term oriented than before the Covid-19 crisis, especially on the Long-haul network.

On this basis the Group expects:

- Capacity in Available Seat kilometers at index 45 for the third quarter 2020 and at index 65 for the fourth quarter 2020 compared to last year.
- Negative load factor developments for the third quarter 2020, particularly on the Long-haul network, and anticipates negative yield mix effects due to a delayed recovery of business compared to leisure motive traffic.

The Group foresees significantly negative EBITDA in the second half year 2020.

The French and the Dutch governments have provided financial packages with conditions attached to increase competitiveness and achieve sustainability objectives. Thus, at June 30, 2020, the Air France-KLM Group has €14.2 billion of liquidity or credit lines at its disposal to weather the crisis and restructure its business.

Foreseen incidental elements with cash-impact in second half 2020:

- Working Capital risk due to cash refunds of pre-paid ticket revenues estimated at €1.6 billion
- Repayment of the currently drawn KLM revolving credit facilities; €0.7 billion
- The Hybrid bond with an outstanding principal; amount of €0.4 billion is intended to be repaid in full, the Group is considering refinancing options.

The Group has further reduced its capital expenditure plan for 2020 by an additional -€0.3 billion to €2.1 billion. This is a reduction of -€1.5 billion compared to the initial 2020 guidance of €3.6 billion.

Subsequent events

Air France restructuring plan for cabin crew and ground staff

On July 6, 2020, during the meeting of the Social Economic Establishment Committee ("CSEE") Flight Operations, the management of Air France presented the proposed mutual agreement on termination of contract ("RCC") for cabin crew.

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

At this stage, the impact of these decisions is estimated at €(430) million and will be accounted for in "other non-current income and expenses" during the third quarter of 2020.

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

As of July 16, 2020, Air France-KLM drew down €1 billion from the bank loan guaranteed by the French State followed by €1 billion on July 30, 2020. Thus, as of July 30, 2020, the planned €4 billion had been drawn down.

Risk factors

The risk factors to which the Air France-KLM Group is exposed are those outlined in the 2019 Universal Registration Document filed with the AMF on April 17, 2020. Next to the structural risks the Group is facing, the Universal Registration Document presents the emerging risk of Covid-19 and other epidemics or threats of epidemics. Emerging Risks are unanticipated risks which potential impact is not fully known or quantifiable but can transform the very nature of a company's business model.

Covid-19 appeared to be an emerging risk, forcing the Group to drastically and rapidly reduce its passenger activities in the second quarter 2020 and resulting in a severe drop in its revenues and results (see the Business Review section of this report). As of June 2020, the Group has benefited from a financial support package backed by the French and Dutch State of €10.4 billion to weather the crisis and prepare for the future.

As of the date of this document, the Group has identified the following risks as Covid-19-related risks with the highest potential impact:

- ❑ **Corporate Demand: risk of a slow return of intercontinental business traveller. Uncertainty of short-, medium- and long-term recovery of business and leisure travel. Risk of impact of second or enduring Covid-19 wave.**
- ❑ **Travel Restrictions between countries and states**: risk of ad hoc and more structural health measures and travel and/or entrance restrictions enforced by a large number of countries.
- ❑ **Airport Charges and Cost Levels**: risk of increasing levels of airport charges, air traffic control charges and external costs.
- ❑ **Overcapacity in the MRO (Maintenance, Repair and Overhaul) industry**: risk of additional pressure on competitiveness, drop in prices and loss of profitability on sales.
- ❑ **Fuel hedging**: risk of fuel hedge not compensated by fuel costs.
- ❑ **Weak Balance Sheet**: caused by significant decrease in revenues and high fixed costs. Risk of more difficult and expensive financing for future plans, risk of cash shortage and negative equity, significant increase in indebtedness (The net cost of financial debt amounted to €(203) million as of June 30, 2020).
- ❑ **Overcapacity of staff**: due to the decrease in travel an imbalance between demand and capacity has emerged. Staff levels (flight deck, cabin crew and ground) need to be adjusted accordingly.
- ❑ **Slot losses**: risk of obligation to fly the slots again after current waiver, while demand has not yet recovered. Risk of extra costs versus risk of losing slots. In order to keep the slots, risk of extra costs due to the obligation to fly, but with significant lower level of passengers, versus the risk of losing the slots if we do not fly.
- ❑ **Long delays and turnaround times**: due to compliance with new governmental requirements risk of long turnarounds and inefficient use of aircraft and staff capacity.
- ❑ **Environmental Footprint requirements related to State loans**: risk of not being able to fulfil the conditions for the loans from the French and Dutch States on sustainability and liveability. Risk of higher costs or competitive disadvantage compared to competition without those conditions.

The occurrence of some or all of these risks could have a significant and adverse effect on the Group's activity, financial situation, reputation, results and outlook.

In accordance with its risk management policy, the Group implements dedicated initiatives to manage these risks in a fast-moving and unprecedented environment. These initiatives include, among others, the financial loans and guarantees granted by the French and Dutch States, cost-saving actions, partial unemployment (e.g. *Activité Partielle* in France and NOW program in the Netherlands, the temporary emergency bridging measure for sustained employment), a hiring freeze, not extending temporary contracts, voluntary departure plans, deferral of expenses, ongoing discussions with suppliers (including airports and air traffic controls), flexibility measures in the network, schedules and operational processes, active involvement in and alignment with governments and industry platforms, ongoing fleet renewal (e.g. withdrawal of the A380s from the fleet).

Related parties

The information concerning related parties can be found in Note 30 to the consolidated financial statements.

1.2 Corporate governance

The Board of Directors

At June 30, 2020, the Board of Directors was composed of nineteen members, of whom:

- Sixteen Board directors appointed by the General Shareholders' Meeting[1];
- One representative of the French State appointed by ministerial order[2]; and
- Two representatives of the employees, one of whom appointed by the *Comité de Groupe Français*[3] and the other appointed by the European Works Council.

During the first half 2020, the composition of the Board of Directors saw a number of changes, as shown in the following table.

Departure	Appointment	Re-appointment	Ratification of the co-optation
Jaap de Hoop Scheffer AGM of May 26, 2020	**Dirk van den Berg**[(1)] AGM of May 26, 2020	**Anne-Marie Couderc**[(2)] **Independent director** AGM of May 26, 2020	**Jian Wang** [(4)] AGM of May 26, 2020
		Alexander Wynaendts[(3)] **Independent director** AGM of May 26, 2020	

(1) Mr. Dirk van den Berg was appointed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2020 for a four-year term of office as proposed by the Dutch State, pursuant to the 2003 governance agreements.

(2) The mandate of Ms. Anne-Marie Couderc, Chair of the Board of Directors and an independent director, was renewed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2020 for a four-year term of office, i.e. until the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2023.

(3) The mandate of Mr. Alexander Wynaendts, an independent director, was renewed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2020 for a four-year term of office, i.e. until the Annual General Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2023.

(4) Following the resignation of Mr. Bing Tang, as of that same day, Mr. Jian Wang, whose appointment had been proposed by China Eastern Airlines, was co-opted as a Board director by the Air France-KLM Board of Directors on July 30, 2019, for his predecessor's remaining term of office, i.e. until the end of the Air France-KLM Annual General Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2020. On May 26, 2020, the Air France-KLM Shareholders' Meeting ratified this co-optation.

[1] Including two Board directors appointed as proposed by the French State and two Board directors representing the employee shareholders.

[2] Pursuant to Article 4 of Ordinance No. 2014-948 of August 20, 2014 relating to governance and transactions involving the share capital of State-owned companies.

[3] In application of the provisions of Article L. 225-27-1 of the *Code de Commerce* and Article 17-3 of the Articles of Incorporation.

Composition of the Board of Directors at June 30, 2020

Board directors (age at June 30, 2020 and nationality)	Functions within the Board of Directors	Date appointed to the Board of Directors	Mandate expiry date	Independence
Board directors elected by the Shareholders' Meeting				
Anne-Marie Couderc (70 years) French	Chair of the Air France-KLM Board of Directors Board director Chair of the Appointments and Governance Committee	May 19, 2016	2024 AGM	✓
Benjamin Smith (48 years) British and Canadian	Board director	December 5, 2018	2023 AGM	
Maryse Aulagnon (71 years) French	Board director Chair of the Audit Committee and member of the Remuneration Committee	July 8, 2010	2021 AGM	✓
Leni M.T. Boeren (56 years) Dutch	Board director Member of the Audit Committee and of the Sustainable Development and Compliance Committee	May 16, 2017	2021 AGM	✓
Isabelle Bouillot (71 years) French	Board director Interim Chair of the Remuneration Committee and member of the Audit Committee	May 16, 2013	2021 AGM	✓
Delta Air Lines, Inc. (Represented by Mr. George Mattson) U.S.	Board director Member of the Audit Committee and of the Remuneration Committee	October 3, 2017	2021 AGM	
Cees 't Hart (62 years) Dutch	Board director	May 28, 2019	2023 AGM	
Anne-Marie Idrac (68 years) French	Board director Chair of the Sustainable Development and Compliance Committee	November 2, 2017	2021 AGM	✓
Isabelle Parize (63 years) French	Board director Member of the Remuneration Committee and of the Audit Committee	March 27, 2014	2022 AGM	✓
Jian Wang (52 years) Chinese	Board director Member of the Sustainable Development and Compliance Committee	July 30, 2019	2021 AGM	
Alexander R. Wynaendts (59 years) Dutch	Board director Member of the Appointments and Governance Committee	May 19, 2016	2024 AGM	✓
Dirk van den Berg (66 years) Dutch	Board director	May 26, 2020	2024 AGM	
Board directors elected by the Shareholders' Meeting as proposed by the French State				

Jean-Dominique Comolli (72 years) French	Board director Member of the Remuneration Committee and of the Appointments and Governance Committee	December 14, 2010	2023 AGM
Astrid Panosyan (48 years) French	Board director	May 28, 2019	2023 AGM
Board directors representing the employee shareholders elected by the Shareholders' Meeting			
Paul Farges (49 years) French	Board director representing the employee shareholders (flight deck crew category) Member of the Audit Committee	May 15, 2018	2022 AGM
François Robardet (62 years) French	Board director representing the employee shareholders (ground staff and cabin crew category) Member of the Audit Committee and of the Remuneration Committee	December 6, 2016	2022 AGM
Board director representing the French State appointed by ministerial order			
Martin Vial (66 years) French	Board director representing the French State Member of the Audit Committee	May 31, 2019	May 2023
Board director representing the employees appointed by the *Comité de Groupe Français*			
Karim Belabbas (46 years) French	Board director representing the employees Member of the Sustainable Development and Compliance Committee	June 1, 2017	2021 AGM
Board director representing the employees appointed by the European Works Council			
Mathi Bouts (61 years) Dutch	Board director representing the employees Member of the Sustainable Development and Compliance Committee	October 10, 2017	2021 AGM

The CEO Committee

The CEO Committee is chaired by Mr. Benjamin Smith, Chief Executive Officer of Air France-KLM, and has three other members reporting directly to Mr. Smith:

- Ms. Anne Rigail, Chief Executive Officer of Air France;
- Mr. Pieter Elbers, President & Chief Executive Officer of KLM; and
- Mr. Frédéric Gagey, Chief Financial Officer of Air France-KLM.

During its meeting of February 19, 2019, the Air France-KLM Board of Directors appointed Ms. Anne Rigail and Mr. Pieter Elbers Deputy Chief Executive Officers.

Ths CEO Committee is responsible for determining the strategic direction of all the Group's airlines and operational entities.

The Group Executive Committee

Composition of the Group Executive Committee at June 30, 2020

Chaired by the Chief Executive Officer of Air France-KLM, the Group Executive Committee is composed of twelve members and a secretary:

- The Chief Executive Officer of Air France-KLM, the Chief Executive Officer of Air France and the President & Chief Executive Officer of KLM; and
- The nine heads of the Group's functions.

Members at June 30, 2020	Age at June 30, 2020	Sector	Relevant professional experience
Benjamin Smith Chief Executive Officer, Air France-KLM	48 years	Air Transport	29 years
Pieter Elbers President & Chief Executive Officer, KLM	50 years	Air Transport	27 years
Anne Rigail Chief Executive Officer, Air France	50 years	Air Transport	28 years
Frédéric Gagey Chief Financial Officer, Air France-KLM	64 years	Public service Air Transport	7 years 26 years
Patrick Alexandre (1) Executive Vice-President Commercial Sales, Air France-KLM	65 years	Air Transport	38 years
Pieter Boostma Chief Revenue Officer, Air France-KLM	50 years	Air Transport	24 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	56 years	Air Transport	24 years
Angus Clarke Executive Vice-President, Strategy, Air France-KLM	45 years	Air Transport	19 years
Janet Dekker Executive Vice-President, Human Resources, Air France-KLM	60 years	Human Resources	31 years
Adriaan den Heijer Executive Vice-President, Cargo, Air France-KLM	50 years	Air Transport	25 years
Jean-Christophe Lalanne Executive Vice-President, Information Technology, Air France-KLM	58 years	Industry, IT Air Transport	22 years 15 years
Anne-Sophie Le Lay Corporate Secretary, Air France-KLM and Air France	49 years	Lawyer Legal/Governance Automotive industry Air Transport	7 years 18 years 2 years and 4 months

Secretarial services to the Group Executive Committee are provided by the Air France-KLM Chief Executive Officer's Chief of Staff.

(1) Until June 30, 2020. Mr. Henri de Peyrelongue was appointed Executive Vice-President Commercial Sales, Air France-KLM, as of July 1, 2020.

Stock market and shareholder structure

Air France-KLM shares are listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. The stock is a component of the SBF 120.

Since February 2008, Air France-KLM's ADR program (American Depositary Receipt) has been traded on the OTC Pink Marketplace under the ticker AFLYY. The Reuters code for the stock is AIRF.PA or AIRF.AS and the Bloomberg code AF FP.

Pursuant to Article 222-1 of the *Autorité des Marchés Financiers* (AMF) General Regulation, since the registered office for Air France-KLM is located in France, its Home Member State, within the meaning of Directive 2004/109/EC of December 15, 2004, as amended (the Transparency Directive), is France. The AMF is consequently its competent market authority as regards ensuring compliance with its regulated information obligations.

Stock market performance

Over the first half 2020, the Air France-KLM stock price decreased by 61%.

	January-June 2020	**January-June 2019**
Share price high *(In €)*	10.25	12.73
Share price low *(In €)*	3.60	7.46
Number of shares in circulation	428,634,035	428,634,035
Market capitalization at the end of the period *(In € billion)*	1.73	3.62

Information relating to the share capital

At June 30, 2020, the Air France-KLM share capital was composed of 428,634,035 shares with a nominal value of one euro.

Period ended	**June 30, 2020**	**June 30, 2019**
Number of shares in circulation	428,634,035	428,634,035
Number of theoretical voting rights	586,779,109	503,812,330
Number of exercizable voting rights	550,084,221	501,549,531
Share capital (in €)	428,634,035	428,634,035

The shares are fully paid up and shareholders can opt to hold them in either registered or bearer form. Until April 2, 2016, each share had one voting right attached. As from April 3, 2016, in application of the "Florange" Act and in view of no provision to the contrary in the Air France-KLM Articles of Incorporation, all fully paid-up shares held in registered form in the name of the same shareholder for at least two years automatically benefit from a double voting right. There are no other specific rights attached to the shares.

Furthermore, there are no securities not representing the share capital.

Shareholder structure

	% of the share capital		**% of theoretical voting rights**		**% of exercisable voting rights**	
Period ended	**June 30 2020**	**December 31 2019**	**June 30 2020**	**December 31 2019**	**June 30 2020**	**December 31 2019**
Number of shares in circulation/voting rights	428,634,035	428,634,035	550,084,221	550,280,634	586,779,109	586,975,522
French State	14.3%	14.3%	22.3%	22.3%	20.9%	20.9%
Dutch State	14.0%	14.0%	10.9%	10.9%	10.2%	10.2%
Delta Air Lines, Inc.	8.8%	8.8%	10.5%	10.5%	12.8%	12.8%
China Eastern Airlines	8.8%	8.8%	10.5%	10.5%	12.8%	12.8%
Donald Smith & Co, Inc.	3.9%	5.2%	3.0%	4.1%	2.8%	3.8%
Employees (FCPE)	3.7%	3.8%	5.8%	5.9%	5.4%	5.5%
Treasury stock	0.3%	0.3%	-	-	0.4%	0.4%
Others	46.2%	44.8%	37.0%	35.9%	34.7%	33.6%

At June 30, 2020, more than 50% of Air France-KLM's share capital was owned by European interests – European Union Member States and States party to the European Economic Area Agreement.

Since March 26, 2020, the date on which the shareholder structure of Air France-KLM was presented in the Universal Registration Document, Causeway Capital Management LLC has reduced its equity interest and fallen below the 5% threshold. It is thus no longer represented in the Air France-KLM shareholder structure table.

Comments on the financial statements

Consolidated results for the first half ended June 30, 2020

Compared with December 31, 2019, the Air France-KLM Group's consolidation scope at June 30, 2020 showed no significant change (see Note 5 in the Notes to the financial statements).

In € million	June 30, 2020	June 30, 2019[1]	Change *(In %)*
Revenues	6,201	12,963	-52
EBITDA	(840)	1,610	na
Income/(loss) from current operations	(2,368)	137	na
Income/(loss) from operating activities	(3,198)	130	na
Net income/(loss) - Equity holders of Air France-KLM	(4,413)	(227)	na
Basic earnings/(loss) per share - Equity holders of Air France-KLM *(In €)*	(10.35)	(0.55)	na

[1] The 2019 financial statements have been restated for the component approach on Limited Life Parts and customer compensation. See Note 2 in the notes to the half-year consolidated financial statements.

Revenues

In the first half 2020, in view of Covid-19, revenues stood at €6.2 billion versus €12.96 billion in 2019, down by 52% in nominal and 53% at constant currency.

Operating expenses

Operating expenses stood at €8.6 billion, i.e. down by 33% given the reduction in activity. For capacity measured in ASK down by 52.5%, the unit cost per ASK (available seat-kilometer) increased by 40.9% on a constant currency and fuel price basis (see page 33 for the detailed unit cost calculation).

At €4.4 billion, **external expenses** declined by 43% (€7.3 billion one year earlier).

The breakdown in operating expenses was as follows:

In € million	**June 30, 2020**	**June 30, 2019 restated**	**Change *(in %)***	**Change at constant currency (in %)**
Aircraft fuel	1,397	2,605	-46	-48
Chartering costs	114	269	-58	-58
Landing fees and air route charges	478	941	-49	-50
Catering	178	395	-55	-55
Handling charges and other operating costs	441	840	-48	-48
Aircraft maintenance costs	912	1,296	-30	-31
Commercial and distribution costs	230	517	-56	-56
Other external expenses	673	872	-23	-24
Total	**4,423**	**7,735**	**-43**	**-44**

The main changes were as follows:

- **Aircraft fuel:** The fuel bill decreased by 48% (at constant currency). This is explained by a €1,003 million decrease caused by the volume effect, a €169 million decrease in the price after hedging, a fuel efficiency effect (+€49 million) and a fuel hedge impact of +€233 million, all impacted by the Covid-19 crisis.
- **Chartering costs**: chartering costs represent the costs incurred through leasing aircraft capacity from other airlines. Their reduction is mainly explained by the Covid-19 crisis.
- **Landing fees and air route charges**: landing fees and air route charges for the use of airspace and airports decreased at current currency in line with the reduction in capacity;
- **Catering costs** relating to services supplied on board the Air France-KLM Group's aircraft for its own account. The decrease at constant currency was in line with the fall in the number of passengers carried.
- **Handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, for a small portion, third-party customers.
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for the third-party activity. Their decrease is linked to the Covid-19 crisis.
- **Other external expenses** principally comprise telecommunication costs, insurance, fees and general and IT sub-contracting costs.

Salaries and related costs stood at €2.93 billion versus €4.02 billion at June 30, 2019, i.e. down by 27% in nominal. Their decrease is due to the collapse in activity and the government support policies in both France and the Netherlands.

Taxes other than income taxes amounted to €80 million versus €93 million at June 30, 2019.

Other income and expenses (+€393 million at June 30, 2020 versus +€495 million at June 30, 2019) were composed of:

- Capitalized maintenance and IT development costs amounting to €349 million as of June 30, 2020 against €523 million as of June 30, 2019.
- Currency hedges for €65 million at June 30, 2020 versus €12 million at June 30, 2019,
- A €20 million expense booked concerning CO_2 emission quotas (€28 million in the previous year).

EBITDA

EBITDA amounted to €(840) million (€1,610 million at June 30, 2019).

The contributions to EBITDA by business segment were as follows:

In € million	First half 2020	First half 2019	% change
Network	(790)	1,225	-164
Maintenance	9	268	-97
Transavia	(67)	99	-168
Others	8	18	-56
Total	**(840)**	**1,610**	**-152**

Amortization, depreciation and provisions

Amortization, depreciation and provisions totaled €1,528 million versus €1,473 million at June 30, 2019.

Income/(loss) from current operations

The **result from current operations** amounted to €(2,368) million (€137 million at June 30, 2019).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

	June 30, 2020		June 30, 2019	
In € million	**Revenues**	**Income/(loss) from current operations**	**Revenues**	**Income/(loss) from current operations**
Network	5,216	(1,852)	11,126	54
Maintenance	716	(321)	1,081	98
Transavia	259	(193)	741	(17)
Others	10	(2)	15	2
Total	**6,201**	**(2,368)**	**12,963**	**(137)**

Income/(loss) from operating activities

The **result from operating activities** stood at €(3,198) million versus €130 million at June 30, 2019. Non-current items which amounted to €(830) million at June 30, 2020 were composed of:

- A €24 million gain on the sale of aircraft equipment,
- Other non-current income and expenses amounting to €(854) million (see Note 11 in the notes to the consolidated financial statements), including mainly restructuring provisions and costs amounting to €(226) million and fleet impairments amounting to €(639) million.

Net cost of financial debt

The net cost of financial debt amounted to €(203) million versus €(194) million at June 30, 2019.

Other financial income and expenses

Other net financial income and expenses amounted to €(733) million versus €(133) million at June 30, 2019, with the breakdown as follows:

- A €(72) million foreign exchange result (against €(40) million at June 30, 2019),
- A loss of €(546) million relating to the fair value of derivative instruments, given the over-hedging of fuel for the April to December 2020 period.

- The impact of accretion on provisions and liabilities for leased aircraft restitution amounting to €(84) million (€(104) million as of June 30, 2019).

Net income/(loss) - Equity holders of Air France-KLM

Income tax amounted to €(254) million versus €(37) million at June 30, 2019. A €364 million write down on deferred tax assets over the French tax scope was recognised during the first half 2020 to take into account a lower level of recoverability for future tax loss carry-forwards.

The **share of profits/(losses) of associates** amounted to €(29) million at June 30, 2020 (€8 million at June 30, 2019).

Net income/(loss) - Equity holders of Air France-KLM stood at €(4,413) million as of June 30, 2020 (€(227) million at June 30, 2019).

The contributions to the net result by quarter were, respectively, €(1,801) million for the first quarter 2020 and €(2,612) million for the second quarter 2020.

Basic earnings/(loss) per share – equity holders of Air France-KLM - stood at €(10.35) at June 30, 2020 versus €(0.55) at June 30, 2019.

Investments and financing of the Group

The Air France-KLM Group's net capital expenditure on tangible and intangible assets amounted to €1,112 million during the first half 2020 versus €1,302 million at June 30, 2019. Net investment in the fleet amounted to €458 million, ground investment to €95 million, spare parts and aeronautical modifications to €219 million, capitalized maintenance costs to €225 million and investment in intangible assets to €115 million.

Net cash flow from operating activities stood at €(803) million versus €2,283 million at June 30, 2019, the change being explained by:

- A fall in operating cash flow to €(1,346) million at June 30, 2020 versus €1,492 million at June 30, 2019.
- The change in working capital which moved from €791 million at June 30, 2019 to €543 million at June 30, 2020.

In January 2020, the Group received proceeds of €356 million on the sale of the remaining shares in Amadeus.

At June 30, 2020, net debt stood at €7.97 billion versus €6.15 billion at December 31, 2019.

With the draw down of the KLM credit facility for €665 million and the €2 billion drawn down by Air France-KLM within the framework of the loan guaranteed by the French State, the Group has a satisfactory level of liquidity, with net cash of €5.77 billion at June 30, 2020.

At June 30, 2020, stockholders' equity, Group part, was negative at €(2.56) billion, down by €4.84 billion during the first half.

Air France-KLM parent company results

As a holding company, Air France-KLM has no operating activity. Its revenues are composed of royalties paid by the two operating subsidiaries for use of the Air France-KLM logo and services invoiced to Air France and KLM. Its expenses mostly comprise financial communication costs, Statutory Auditors' fees, the expenses linked to the compensation of company officers and the staff made available by Air France and KLM. The operating result stood at a loss of €(2) million.

The net result amounted to a €(23) million loss, mainly due to financial expenses on the bonds. No dividend was paid in respect of 2019.

Key financial indicators

Operating margin

In € million	June 30, 2020	June 30, 2019
Income/(loss) from current operations	(2,368)	137
Revenues	6,201	12,963
Operating margin	**na**	**1.06%**

Restated net result

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items. The income tax impact is calculated on a normative basis using a rate of 29.72%, corresponding to the average of the French and Dutch rates.

In € million	June 30, 2020	June 30, 2019
Net income/(loss), Group share	(4,413)	(227)
Change in fair value of financial assets and liabilities (derivatives and shares)	224	(20)
Unrealized foreign exchange gains and losses	74	56
Non-current income and expenses	830	7
Income tax impact on the adjustments	(317)	(13)
Restated net income/(loss), Group share	**(3,602)**	**(197)**
Restated net income/(loss) per share, Group share *(in euros)*	**(8.43)**	**(0.46)**

Financial cover ratios

► **Net debt/EBITDA**

	June 30, 2020	December 31, 2019
Net debt *(in €m)*	7,973	6,147
EBITDA *(in €m)*	1,678	4,128
Net debt/EBITDA	**4.8x**	**1.5x**

► **EBITDA/net cost of financial debt**

	June 30, 2020 Trailing 12 months	December 31, 2019
EBITDA *(in €m)*	1,678	4,128
Net cost of financial debt *(in €m)*	401	393
EBITDA/net cost of financial debt	**4.2x**	**10.5x**

Return on Capital Employed (ROCE)

The return on capital employed is a profitability indicator that measures the return on invested capital by expressing a result after tax as a percentage of capital employed. The calculation methodology, in line with market practices, is the following:

- The calculation of capital employed is based on an additive method by identifying the balance sheet items corresponding to capital employed. The capital employed for the year is obtained by taking the average of the capital employed on the four last quarterly balance sheets;
- The adjusted result after tax corresponds to the sum of the operating result, adjusted for dividends received and the share of profits/(losses) of associates. Income tax is calculated on a normative basis using the tax rate in force in France and the Netherlands, weighted as a function of the contribution of each sub-group to the adjusted result before tax.

(In € million)	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019 restated**
Goodwill and intangible assets	1,500	1,564	1,522	1,481
Flight equipment	10,919	11,465	11,334	10,905
Other property, plant and equipment	1,551	1,579	1,580	1,554
Right-of-use assets	4,938	5,119	5,173	5,212
Investments in equity associates	267	299	307	310
Other financial assets excluding shares available for sale, marketable securities and financial deposits	133	142	140	131
Restitution liabilities and other provisions excluding pension, cargo litigation and restructuring	(4,130)	(4,190)	(4,058)	(4,105)
WCR, excluding market value of derivatives	(6,779)	(6,650)	(6,310)	(6,285)
Capital employed on the balance sheet	8,399	9,328	9,688	9,203
Average capital employed (A)		**9,155**		
Operating result		(1,364)		
Dividends received		(1)		
Share of profits/(losses) of associates		(15)		
Normative income tax		447		
Adjusted result from current operations after tax (B)		**(933)**		
ROCE (B/A)		**(10.2)%**		

(In € million)	June 30, 2019 restated	March 31, 2019 restated	December 31, 2018 restated	September 30, 2018 restated
Goodwill and intangible assets	1,465	1,485	1,411	1,391
Flight equipment	10,747	10,456	10,308	10,401
Other property, plant and equipment	1,530	1,504	1,503	1,462
Right-of-use assets	5,470	5,453	5,664	5,596
Investments in equity associates	305	306	311	299
Other financial assets excluding shares available for sale, marketable securities and financial deposits	125	127	125	116
Restitution liabilities and other provisions excluding pension, cargo litigation and restructuring	(3,888)	(3,907)	(3,760)	(3,676)
WCR, excluding market value of derivatives	(6,957)	(6,938)	(6,133)	(5,851)
Capital employed on the balance sheet	8,797	8,486	9,429	9,738
Average capital employed (A)	**9,113**			
Operating result	1,278			
Dividends received	(2)			
Share of profits/(losses) of associates	23			
Normative income tax	(360)			
Adjusted result from current operations after tax (B)	**939**			
ROCE (B/A)	**10.3%**			

Net cost per ASK

To analyze the cost performance of each transportation activity, the Group divides the net cost of this activity by the capacity produced, expressed in ASK for the "passenger netw ork" business and Transavia, and in ATK for the cargo activity.

To analyze the company's overall cost performance, the Group uses the net cost per ASK. This net cost is obtained by dividing the total net cost by the capacity produced expressed in available seat-kilometers (ASK).

The net cost is calculated by subtracting from total operating expenses the revenues other than those generated by the three transportation activities (passenger, cargo, Transavia). The capacity produced by the transportation activities is combined by adding the capacity of the Passenger netw ork (in ASK) to that of Transavia (in ASK).

	First half 2020	First half 2019
Revenues *(in €m)*	6,201	12,963
Income/(loss) from current operations *(in €m)*	2,368	(137)
Total operating expense *(in €m)*	8,568	12,826
Passenger netw ork business – other revenues *(in €m)*	(177)	(370)
Cargo netw ork business– other revenues *(in €m)*	(142)	(153)
Third-party revenues in the maintenance business *(in €m)*	(716)	(1,081)
Transavia – other revenues *(in €m)*	(14)	-
Third-party revenues of other businesses *(in €m)*	(11)	(16)
Net cost *(in €m)*	**7,508**	**11,205**
Capacity produced, reported in ASK	76,337	160,793
Net cost per ASK (in € cents per ASK)	**9.84**	**6.97**
Gross change		41.1%
Currency effect on net costs *(in €m)*		44
Change at constant currency		40.6%
Capacity effect on the net cost		(5,937)
Fuel price effect *(in €m)*		17
Net cost per ASK on a constant currency and fuel price (in € cents per ASK)	**9.84**	**6.98**
Change on a constant currency and fuel price basis		***+40.9%***

** The capacity produced by the passenger business is calculated by adding the passenger network capacity (in ASK) to that of Transavia (ASK)*

UNAUDITED INTERIM CONDENSED 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 - June 30, 2020

CONSOLIDATED INCOME STATEMENT (unaudited)

In € millions			
Period from January 1 to June 30	***Notes***	**2020**	**2019 restated** [1]
Sales	***6***	**6,201**	**12,963**
Revenues		**6,201**	**12,963**
External expenses	***7***	(4,423)	(7,735)
Salaries and related costs	***8***	(2,931)	(4,020)
Taxes other than income taxes		(80)	(93)
Other income and expenses	***10***	393	495
EBITDA		**(840)**	**1,610**
Amortization, depreciation and provisions	***9***	(1,528)	(1,473)
Income from current operations		**(2,368)**	**137**
Sales of aircraft equipment		24	23
Other non-current income and expenses	***11***	(854)	(30)
Income from operating activities		**(3,198)**	**130**
Cost of financial debt	***12***	(215)	(221)
Income from cash and cash equivalents	***12***	12	27
Net cost of financial debt		***(203)***	***(194)***
Other financial income and expenses	***12***	(733)	(133)
Income before tax		**(4,134)**	**(197)**
Income taxes	***13***	(254)	(37)
Net income of consolidated companies		**(4,388)**	**(234)**
Share of profits (losses) of associates		(29)	8
Net income for the period		**(4,417)**	**(226)**
Non-controlling interests		*(4)*	*1*
Net income - Group part		*(4,413)*	*(227)*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic	***14***	(10.35)	(0.55)
- diluted		(10.35)	(0.55)

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

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

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (unaudited)

In € millions			
Period from January 1 to June 30	***Notes***	**2020**	**2019 restated [1]**
Net income for the period		**(4,417)**	**(226)**
Effective portion of changes in fair value hedge and cost of hedging recognized directly in other comprehensive income		(1,255)	404
Change in fair value and cost of hedging transferred to profit or loss		707	(79)
Currency translation adjustment		**1**	**-**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss		**153**	**(103)**
Total of other comprehensive income that will be reclassified to profit or loss		***(394)***	***222***
Remeasurements of defined benefit pension plans	***21***	**(77)**	**(331)**
Fair value of equity instruments revalued through OCI		**(28)**	**(12)**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss		**39**	**52**
Total of other comprehensive income that will not be reclassified to profit or loss		***(66)***	***(291)***
Total of other comprehensive income, after tax		**(460)**	**(69)**
Recognized income and expenses		**(4,877)**	**(295)**
- Equity holders of Air France-KLM		(4,872)	(297)
- Non-controlling interests		(5)	2

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

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

CONSOLIDATED BALANCE SHEET (unaudited)

Assets		**June 30,**	**December 31,**
In € millions	***Notes***	**2020**	**2019**
Goodwill		217	217
Intangible assets		1,282	1,305
Flight equipment	***16***	10,919	11,334
Other property, plant and equipment	***16***	1,551	1,580
Right-of-use assets	***16***	4,938	5,173
Investments in equity associates		267	307
Pension assets	***21***	254	420
Other financial assets		1,071	1,096
Deferred tax assets		282	523
Other non-current assets	***19***	231	241
Total non-current assets		**21,012**	**22,196**
Other short-term financial assets		394	800
Inventories		647	737
Trade receivables	***18***	1,354	2,164
Other current assets	***19***	1,107	1,123
Cash and cash equivalents	***20***	4,796	3,715
Total current assets		**8,298**	**8,539**
Total assets		**29,310**	**30,735**

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

CONSOLIDATED BALANCE SHEET (unaudited) (continued)

Liabilities and equity

In € millions	***Notes***	**June 30, 2020**	**December 31, 2019**
Issued capital	***22.1***	429	429
Additional paid-in capital		4,139	4,139
Treasury shares		(67)	(67)
Perpetual		403	403
Reserves and retained earnings	***22.1***	(7,463)	(2,620)
Equity attributable to equity holders of Air France-KLM		**(2,559)**	**2,284**
Non-controlling interests		10	15
Total equity		**(2,549)**	**2,299**
Pension provisions	***21***	2,192	2,253
Return obligation liability and other provisions	***23***	3,798	3,750
Financial debt	***24***	8,364	6,271
Lease debt	***25***	2,891	3,149
Deferred tax liabilities		7	142
Other non-current liabilities	***28***	316	222
Total non-current liabilities		**17,568**	**15,787**
Return obligation liability and other provisions	***23***	1,007	714
Current portion of financial debt	***24***	1,836	842
Lease debt	***25***	1,018	971
Trade payables		1,476	2,379
Deferred revenue on ticket sales	***27***	3,619	3,289
Frequent flyer programs		898	848
Other current liabilities	***28***	4,434	3,602
Bank overdrafts	***20***	3	4
Total current liabilities		**14,291**	**12,649**
Total liabilities		**31,859**	**28,436**
Total equity and liabilities		**29,310**	**30,735**

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

In € millions	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Perpetual	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non-controlling interests	Total equity
December 31, 2018 restated (1)	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(3,118)**	**1,786**	**12**	**1,798**
Gain / (loss) on cash flow hedges	-	-	-	-	-	221	221	1	222
Fair value of equity instruments through OCI	-	-	-	-	-	(9)	(9)	-	(9)
Remeasurements of defined benefit pension plans	-	-	-	-	-	(282)	**(282)**	-	**(282)**
Currency translation adjustment	-	-	-	-	-	-	**-**	-	**-**
Other comprehensive income	***-***	***-***	***-***	***-***	***-***	***(70)***	***(70)***	***1***	***(69)***
Net result for the period	-	-	-	-	-	(227)	**(227)**	1	**(226)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**(297)**	**(297)**	**2**	**(295)**
OCEANE	-	-	-	-	-	**35**	**35**	-	**35**
Dividends paid and coupons on perpetual	-	-	-	-	-	**-**	**-**	(1)	**(1)**
Other	-	-	-	-	-	**-**	**(1)**	-	**(1)**
June 30, 2019 restated (1)	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(3,380)**	**1,523**	**13**	**1,536**
December 31, 2019	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(2,620)**	**2,284**	**15**	**2,299**
Gain / (loss) on cash flow hedges	-	-	-	-	-	(394)	(394)	(1)	(395)
Fair value of equity instruments through OCI	-	-	-	-	-	(21)	(21)	-	(21)
Remeasurements of defined benefit pension plans	-	-	-	-	-	(45)	(45)	-	(45)
Currency translation adjustment	-	-	-	-	-	1	**1**	-	**1**
Other comprehensive income	***-***	***-***	***-***	***-***	***-***	***(459)***	***(459)***	***(1)***	***(460)***
Net result for the period	-	-	-	-	-	(4,413)	**(4,413)**	**(4)**	**(4,417)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**(4,872)**	**(4,872)**	**(5)**	**(4,877)**
Other	-	-	-	-	-	29	**29**	-	**29**
June 30, 2020	**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(7,463)**	**(2,559)**	**10**	**(2,549)**

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Period from January 1 to June 30 *In € millions*	***Notes***	**2020**	**2019** **restated** (1)
Net income from continuing operations		(4,417)	(226)
Amortization, depreciation and operating provisions		1,527	1,473
Financial provisions		88	108
Loss (gain) on disposals of tangible and intangible assets		(36)	(31)
Loss (gain) on disposals of subsidiaries and associates		-	(2)
Derivatives – non monetary result		224	24
Unrealized foreign exchange gains and losses, net		74	56
Share of (profits) losses of associates		29	(8)
Deferred taxes		244	34
Impairment		639	-
Other non-monetary items		282	64
Financial capacity		**(1,346)**	**1,492**
(Increase) / decrease in inventories		59	(73)
(Increase) / decrease in trade receivables		703	(371)
Increase / (decrease) in trade payables		(875)	24
Increase / (decrease) in advanced ticket sales		378	1,266
Change in other receivables and payables		278	(55)
Change in working capital requirement		**543**	**791**
Net cash flow from operating activities (A)		**(803)**	**2,283**
Acquisition of subsidiaries, of shares in non-controlled entities		(1)	-
Purchase of property plant and equipment and intangible assets (B)	***17***	(1,284)	(1,507)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	***3.2***	357	8
Proceeds on disposal of property plant and equipment and intangible assets (C)		172	76
Dividends received		-	7
Decrease (increase) in net investments, more than 3 months		(3)	20
Net cash flow used in investing activities		**(759)**	**(1,396)**
Increase of equity due to new convertible bonds		-	54
Issuance of debt	***24***	5,014	762
Repayment on debt	***24***	(1,993)	(338)
Payments on lease debts (D)		(412)	(502)
New loans		(20)	(34)
Repayment on loans		72	20
Dividends and coupons on perpetual paid		-	(1)
Net cash flow from financing activities		**2,661**	**(39)**

Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(17)	(13)
Change in cash and cash equivalents and bank overdrafts		**1,082**	**835**
Cash and cash equivalents and bank overdrafts at beginning of period	***20***	3,711	3,580
Cash and cash equivalents and bank overdrafts at end of period	***20***	4,793	4,415
Income tax (paid) / reimbursed (flow included in operating activities)		(9)	5
Interest paid (flow included in operating activities)		(180)	(221)
Interest received (flow included in operating activities)		3	14

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

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

OPERATING FREE CASH-FLOW (UNAUDITED)

Period from January 1 to June 30 *in € millions*	***Notes***	**2020**	**2019** **restated (1)**
Net cash flow from operating activities	***A***	(803)	2,283
Purchase of property plant and equipment and intangible assets	***B***	(1,284)	(1,507)
Proceeds on disposal of property plant and equipment and intangible assets	***C***	172	76
Operating free cash flow	***26***	**(1,915)**	**852**
Payments on lease debts	***D***	**(412)**	**(502)**
Operating free cash flow adjusted		**(2,327)**	**350**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS DESCRIPTION

As used herein, the term "Air France–KLM" refers to Air France-KLM SA, a limited liability company organized under French law. The term “Group” is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world.
The Group’s core business is network activities which includes passenger transportation on scheduled flights and cargo activities. The Group’s activities also include aeronautics maintenance, “low cost” passenger transportation (Transavia) and other air-transport-related activities.

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

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

2. RESTATEMENT OF ACCOUNTS 2019

In the fourth quarter of 2019, the Air France-KLM Group implemented for the purpose of comparison the following changes retrospectively:

- Customer compensation

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

- Component approach for Life Limited Parts

A Life Limited Part (LLP) is defined as a major engine part whose failure would jeopardize the engine’s operation. Consequently, as a precaution, engine manufacturers define limited useful lives in cycles beyond which the LLPs must be replaced.

The cost of a complete set of LLPs is significant and their useful lives (depending on the parts) range from 3,000 to 40,000 cycles (a cycle corresponds to one take-off and one landing).

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

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

For comparison purposes, the consolidated financial statements as of June 30, 2019 have been restated.

Impact on the consolidated income statement

In € million **Period from January 1 to June 30, 2019**	Published accounts	LLP componentization	Customer compensation	Restated accounts
Sales	**13,036**		**(73)**	**12,963**
External expenses	(7,806)	2	69	(7,735)
Salaries and related costs	(4,020)			(4,020)
Taxes other than income taxes	(93)			(93)
Other income and expenses	454	41		495
EBITDA	**1,571**	**43**	**(4)**	**1,610**
Amortization, depreciation and provisions	(1,474)	(3)	4	(1,473)
Income from current operations	**97**	**40**		**137**
Income from operating activities	**90**	**40**		**130**
Net cost of financial debt	(194)			(194)
Other financial income and expenses	(110)	(23)		(133)
Income before tax	**(214)**	**17**		**(197)**
Income taxes	(33)	(4)		(37)
Net income of consolidated companies	**(247)**	**13**		**(234)**
Net income in equity affiliates	8			8
Net income	**(239)**	**13**		**(226)**
Earnings per share (basic)	(0.58)	0.03		(0.55)
Earnings per share (diluted)	(0.58)	0.03		(0.55)

Impact on the consolidated statement of cash flows

In € million **Period from January 1 to June 30, 2019**	Published accounts	LLP componentization	Customer compensation	Restated accounts
Net income	(239)	13		(226)
Other items of the financial capacity	(1,693)	29	(4)	1,718
Financial capacity	**(1,454)**	**42**	**(4)**	**1,492**
Change in working capital requirement	787		4	791
Net cash flow from operating activities	**2,241**	**42**		**2,283**
Net cash flow used in investing activities	**(1,354)**	**(42)**		**(1,396)**
Net cash flow from financing activities	**(39)**			**(39)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts	(13)			(13)
Change in cash and cash equivalents and bank overdrafts	**835**			**835**
Cash and cash equivalents and bank overdrafts at beginning of period	3,580			3,580
Cash and cash equivalents and bank overdrafts at end of period	4,415			4,415

3. SIGNIFICANT EVENTS

3.1. COVID-19

The worldwide spread of Covid-19 in the first half of 2020 has had and continues to have a major impact on air traffic around the world. Many countries have taken increasingly stringent measures in an attempt to slow the expansion of the epidemic and have imposed constraints on the movement of travelers from Europe. Consequently, air traffic to most of Air France-KLM's destinations has been and will be significantly reduced and was down by 91 per cent relative to normal traffic levels in May 2020. In June 2020 activity stood around 15% of normal level of traffic, the recovery taking place first on the short haul network.

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

Capacity reduction

Available seat kilometers for the passenger network and Transavia business were down 89.4% in the second quarter 2020 compared to last year, resulting in a drop of 52.5% in the first half year 2020 compared to last year. As a consequence, the Group revenues amounted to €6,201 million, a decrease of 52.2% compared to last year, with Network revenues decreasing by 53.1%, Maintenance by 28.4% and Transavia by 65.2%.

In parallel, the decrease of capacity related to Covid-19 consequences and some specific cost initiatives resulted in a reduction in the Group's external expenses to €3,312 million, down 42.8% versus last year. External expenses excluding fuel price are down 59% compared to last year. Fuel costs were down by only 46.4% due to negative hedge results following the decline of the fuel price.

In addition, following the drastic reduction of fuel consumption, the Group had to terminate a large portion of the fuel hedge relationships leading to a loss of €590 million accounted for in "Other financial income and expenses" as of June 30, 2020.

Fleet

To better align the fleet with the lower passenger demand, the Group has accelerated the retirement of the A380, A340, B747 and ERJ145 fleets (see note 11 Other non-current income and expenses). These decisions will bring forward cost savings and efficiencies due to operating fewer aircraft types.

Staff costs reductions

Air France and its subsidiaries implemented part-time activity and KLM, starting as from April 1, 2020, receives support from the Dutch State with the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW).

The Group's cost savings amounts around €850 million in the second quarter of 2020 and has been accounted for on the "salaries and other related costs".

Liquidity position

To preserve cash and improve the liquidity position, on May 6, 2020, the Air France-KLM Group signed the legal documentation relating to the financing for a total amount of 7 billion euros and approved by the European Commission on 4 May 2020 (see note 24.5 Loans guaranteed by the French and the Dutch State).

Back mid-March 2020, Air France-KLM drew down its revolving credit facilities for a total amount of €1.8 billion of which €1.1 billion was reimbursed on May 7, 2020 before the first drawdown of the funding package backed by the French State for Air France (see note 24.7 Credit line).

On 25 June 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 to KLM group for an amount of €3.4 billion (See note 24.5 Loans guaranteed by the French and the Dutch State).

Besides, the Group reassessed capital expenditures and internal projects, deferred payment of the employee's profit sharing scheme, variable wages and deferred payment of wage tax and social security contributions.

Despite these measures and in spite of a gradual resumption of activity, Air France-KLM's financial performance for the coming period will continue to be severely affected by a loss of revenue, sales of tickets and significant negative cash flows to an extent and for a duration that are currently uncertain.

Based on the liquidity analysis for the next 12 months, recovery plan and measures taken since the inception of the Covid-19 crisis, Air France-KLM Board approved the interim financial statements as of June 30, 2020 according to going concern assumption. Air France KLM is considering scenarios for supporting the repayment of the State supports and manage its forthcoming equity situation.

Assets valuation

In the actual context, the Group paid also specific attention to the recoverability of its deferred tax assets (see note 13 Income tax) and its business segment assets (see note 15 Impairment).

3.2. Events that occurred in 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 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 in 2022.

Drawn down of revolving credit facility during the first quarter 2020

On March 13, 2020, Air France-KLM drew 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 drew down its revolving credit facility concluded on May 23, 2018 for the full amount of €665 million. This amount has been included into the short-term financial debt as of June 30, 2020.

KLM's first drawing under the new revolving credit facility, as part of the financial package guaranteed by the Dutch State is used to repay and terminate the existing revolving credit facility of €665 million.

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

On 6 May 2020, the 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 May 4, 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 24.5 Loans guaranteed by the French and the Dutch State).

- 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 24.5 Loans guaranteed by the French and the Dutch State).

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 loans for KLM and its subsidiaries:

- A revolving credit facility of €2.4 billion, 90% guarantee supported by the Dutch State and a maturity of 5 years. KLM's first drawing under the new revolving credit facility is used to repay and terminate the existing revolving credit facility drawn on March 19, 2020 for an amount of €665 million.

- A direct loan of €1 billion, granted by the Dutch State to KLM, with a maturity of 5.5 years.
  Main conditions associated with the direct state loan are linked to the airline becoming more sustainable as well as the restored performance and competitiveness of KLM, including a comprehensive restructuring plan and contributions made by employees.

As of June 30, 2020, none of these two financing have been withdrawn.

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 transition. 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. Based on the 2,436 employees who have registered for the voluntary leave plan, KLM recorded a restructuring provision of €178 million as of June 30, 2020.

– Air France Group

On 3 July 2020, Air France and HOP! announced their strategic orientations and the prospects for adapting the workforce:

- Air France predicts a reduction of 6,560 jobs by the end of 2022 out of a current total of 41,000. Natural departures expected over this period (more than 3,500) makes it possible to compensate more than half of these job reductions.

- For HOP! the resizing of activity and the restructuring of the company linked in particular to the simplification of the fleet leads to a reduction of 1,020 jobs over the next three years out of the current 2,420. Taking into account the estimated number of natural departures, the overstaffing figure remains at around 820 at the end of 2022.

Within the framework of these strategic orientations, the negotiations conducted by Air France with representatives of pilots, cabin crew, ground staff and HOP employees are at different stages of progress as of June 30, 2020.

➢ Mutual agreement on termination of contract (“Rupture Conventionnelle Collective”) for Air France pilots

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 pilots. A cost of € (37) million has been accounted for as of June 30, 2020 in “Other non-current income and expenses”.

For Air France Group cabin crew and ground staff, see note 3.3. Subsequent events

3.3. Subsequent events

Air France restructuring plan for cabin crew and ground staff

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 cabin crew.

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.

The impact of these decisions is estimated, at this stage, at € (430) million and will be accounted for in "other non-current income and expenses" during the third quarter of 2020.

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

As of 30 June 2020, Air France-KLM drew down €2 billion from the bank loan guaranteed by the French State. The loan has been drawn for another €2 billion in July 2020. Therefore, as of July 30, 2020, the €4 billion have been drawn down.

4. ACCOUNTING POLICIES

4.1. Accounting principles

Accounting principles used for the consolidated financial statements

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

The condensed interim consolidated financial statements as of June 30, 2020 have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Statements". They do not include all the information required for annual financial statements under IFRS and must be read in connection with the annual consolidated financial statements for the year ended on December 31, 2019.

The condensed interim consolidated financial statements for the period from January 1, 2020 to June 30, 2020 were prepared using the same accounting principles and methods used in the consolidated financial statements for the fiscal year ended December 31, 2019, except for standards and interpretations adopted by the European Union applicable as from January 1, 2020.

The condensed interim consolidated financial statements as of June 30, 2020 were approved by the Board of Directors on July 30, 2020.

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" 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 as of January 1, 2020 and allows to continue with the hedge accounting of instruments indexed notably to Euribor and Libor US.
Foreign exchange rate and interest rate derivatives affected by this amendment are derivatives qualified as cash flow for the risk of interest and foreign exchange rate and are presented in the disclosures of the Group's financial statements as of December 31, 2019.

Amendment 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.

The application of these amendments has no significant impact on the Group's condensed interim consolidated financial statements.

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.

These amendments and this interpretation has no significant impact on the Group's condensed interim consolidated financial statements as of June 30, 2020.

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

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 to include to assess 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.

Amendments to IFRS 16 « Leases »

(Effective for accounting periods as of June 1, 2020)

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.

4.2. Preparation of condensed interim consolidated financial statements

Seasonality of the activity

Under normal circumstances, revenues and income from current operations are characterized by their seasonal nature related to a high level of activity from April 1 to September 30. This phenomenon varies in magnitude depending on the year. In accordance with IFRS, revenues and the related expenses are recognized over the period in which they are realized and incurred respectively.

Income taxes

For the interim financial statements, the tax charge (current and deferred) is calculated by applying to the income before tax of the period the estimated annual average tax rate for the current year for each entity or fiscal group.

Retirement benefits

The net obligations concerning the defined-benefits schemes are revalued based on the discount rates and the fair-value of assets at interim closing dates. The net impact of these revaluations is recorded in other comprehensive income. Significant variation in discount rates can lead the Group to review other actuarial assumptions in order to maintain the overall consistency of the assumptions set.

Fuel hedging

The Group has implemented a policy to hedge fuel price risks and foreign exchange risks. The Group uses derivatives to hedge the price of fuel future purchases (by monthly time step), over a two-year rolling horizon, approximately.

Hedges are implemented based upon the forecasts of the first monthly future purchases, with a hedge ratio policy which corresponds to maximum 60% of the estimated consumption.

The Group applies the hedge accounting of future cash flows: the fair value of the derivative instruments qualifying as hedges is recognized in the balance sheet against the “other comprehensive income”. The amount recognized in the “other comprehensive income” is transferred to the income from current operations when the hedged item affects the net income.

The Covid-19 public health crisis has led to the decline in air traffic and in the fuel purchases.
The Group has adjusted its forecasts related to fuel purchases and has undesignated part of its hedging instruments.
If the fuel purchase previously planned is still “highly probable”, the hedge accounting is continued.
Otherwise, the hedge accounting cannot be continued and the hedging instruments are undesignated:
- If the transaction is still probable, the change in fair value accumulated remains in the “other comprehensive income” (and will be transferred to the income from current operations at the time of the fuel purchase) and the future changes in fair value are recognized in the financial result.
- If the transaction is not probable anymore, the change in fair value accumulated is reclassified from the “other comprehensive income” to the financial result and the future changes in fair value are recognized in the financial result.

The hedging instruments are undesignated based upon the new forecasts of future fuel purchases in accordance with the hedge documentation. This documentation indicates that the first derivative implemented hedge the first fuel purchases of the month concerned.

4.3. Use of estimates

The preparation of the condensed interim consolidated financial statements in conformity with International Financial Reporting Standard IAS 34 "Interim Financial Statements" requires management to make estimates and use assumptions that affect the reported amounts in the financial statements at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses. The significant areas of estimates described in the note 4 of the December 31, 2019 consolidated financial statements, concerned:

- Revenue recognition related to deferred revenue on ticket sales (see note 6)
- Flying Blue frequent flyer program
- Financial instruments (see note 12)
- Intangible assets (see notes 15)
- Tangible assets (see notes 15 and 16)
- Lease contracts (see notes 16 and 25)
- Pension assets and provisions (see note 21)
- Return obligation liability and provision for leased aircraft (see note 23)
- Other provisions (see note 23)
- Current and deferred tax (see note 13)

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 that provide the basis for these assumptions.
The condensed interim consolidated financial statements for the period have thus been established taking into consideration the current context of the sanitary crisis linked to Covid-19 and on the basis of financial parameters available at the closing date.

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

5. CHANGE IN THE CONSOLIDATION SCOPE

• **First semester ended June 30, 2020**

No significant acquisitions or disposals took place during the first semester ended June 30, 2020.

• **First semester ended June 30, 2019**

No significant acquisitions or disposals took place during the first semester ended June 30, 2019.

6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

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

The Group is organized around the following segments:

Network: The 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.

Network revenues also include freight carried on flights operated under the codes of the airlines within the Group and flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from the sales of cargo capacity to third parties and the transportation of shipments on behalf of the Group by other airlines.

Maintenance: Maintenance operating 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 EBITDA, current operating income and 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 dow n 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 dow n into seven geographic areas:

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

6.1. Information by business segment

• First semester ended June 30, 2020

In € millions	Network	Maintenance	Transavia	Other	Non-allocated	Total
Total sales	5,227	1,640	259	78	-	7,204
Intersegment sales	(11)	(924)	-	(68)	-	(1,003)
External sales	**5,216**	**716**	**259**	**10**	**-**	**6,201**
EBITDA	(790)	9	(67)	8	-	(840)
Income from current operations	(1,852)	(321)	(193)	(2)	-	(2,368)
Income from operating activities	(2,558)	(442)	(196)	(2)	-	(3,198)
Share of profits (losses) of associates	-	-	-	(29)	-	(29)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(936)	(936)
Income taxes	-	-	-	-	(254)	(254)
Net income	**(2,558)**	**(442)**	**(196)**	**(31)**	**(1,190)**	**(4,417)**

Income from current operations at Maintenance is impacted around €(200) million by additional provisions (receivables, inventories, margin on long term contracts, onerous contracts).

• **First semester ended June 30, 2019 restated** [1]

In € millions	**Network**	**Maintenance**	**Transavia**	**Other**	**Non-allocated**	**Total**
Total sales	11,145	2,290	743	123	-	14,301
Intersegment sales	(19)	(1,209)	(2)	(108)	-	(1,338)
External sales	**11,126**	**1,081**	**741**	**15**	**-**	**12,963**
EBITDA	1,225	268	99	18	-	1,610
Income from current operations	54	98	(17)	2	-	137
Income from operating activities	71	99	(17)	(23)	-	130
Share of profits (losses) of associates	1	1	-	6	-	8
Net cost of financial debt and other financial income and expenses	-	-	-	-	(327)	(327)
Income taxes	-	-	-	-	(37)	(37)
Net income	**72**	**100**	**(17)**	**(17)**	**(364)**	**(226)**

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

6.2. Information by geographical area

External sales by geographical area

- **First semester ended June 30, 2020**

In € millions	Metropo-litan France	Benelux	Europe (except France and Benelux)	Africa	Middle-Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Transportation	1,370	620	1,073	268	144	417	701	304	4,897
Other sales	101	46	57	23	9	41	24	18	319
Total network	**1,471**	**666**	**1,130**	**291**	**153**	**458**	**725**	**322**	**5,216**
Transportation	59	152	28	2	1	1	1	1	245
Other sales	(1)	-	(2)	-	-	3	3	11	14
Total Transavia	**58**	**152**	**26**	**2**	**1**	**4**	**4**	**12**	**259**
Maintenance	315	356	11	-	-	1	33	-	716
Others	2	8	-	-	-	-	-	-	10
Total	**1,846**	**1,182**	**1,167**	**293**	**154**	**463**	**762**	**334**	**6,201**

- **First semester ended June 30, 2019 restated [1]**

In € millions	Metropo-litan France	Benelux	Europe (except France and Benelux)	Africa	Middle-Eastern gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Transportation	3,149	1,180	2,322	491	264	988	1,586	622	10,602
Other sales	194	75	90	32	10	68	28	27	524
Total network	**3,343**	**1,255**	**2,412**	**523**	**274**	**1,056**	**1,614**	**649**	**11,126**
Transportation	217	426	78	6	6	2	4	2	741
Other sales	2	(5)	-	-	-	-	3	-	-
Total Transavia	**219**	**421**	**78**	**6**	**6**	**2**	**7**	**2**	**741**
Maintenance	636	382	11	-	-	2	50	-	1,081
Others	3	12	-	-	-	-	-	-	15
Total	**4,201**	**2,070**	**2,501**	**529**	**280**	**1,060**	**1,671**	**651**	**12,963**

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

Traffic sales by geographical area of destination

- **First semester ended June 30, 2020**

In € millions	**Metropolitan France**	**Europe (except France) North Africa**	**Caribbean, French Guyana, Indian Ocean**	**Africa (except North Africa) Middle East**	**North America, Mexico**	**South America, except Mexico**	**Asia, New Caledonia**	**Total**
Network	351	881	485	713	1,021	612	834	4,897
Transavia	3	219	-	23	-	-	-	245
Total	**354**	**1,100**	**485**	**736**	**1,021**	**612**	**834**	**5,142**

- **First semester ended June 30, 2019**

In € millions	**Metropolitan France**	**Europe (except France) North Africa**	**Caribbean, French Guyana, Indian Ocean**	**Africa (except North Africa) Middle East**	**North America, Mexico**	**South America, except Mexico**	**Asia, New Caledonia**	**Total**
Network	831	2,360	821	1,357	2,291	1,045	1,897	10,602
Transavia	11	672	-	58	-	-	-	741
Total	**842**	**3,032**	**821**	**1,415**	**2,291**	**1,045**	**1,897**	**11,343**

7. EXTERNAL EXPENSES

In € millions	**2020**	**2019**
Period from January 1 to June 30		**restated [1]**
Aircraft fuel	1,397	2,605
Chartering costs	114	269
Landing fees and air route charges	478	941
Catering	178	395
Handling charges and other operating costs	441	840
Aircraft maintenance costs	912	1,296
Commercial and distribution costs	230	517
Other external expenses	673	872
Total	**4,423**	**7,735**
Excluding aircraft fuel	*3,026*	*5,130*

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

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions	**2020**	**2019**
Period from January 1 to June 30		
Wages and salaries	2,312	2,750
Social contributions	435	535
Pensions costs on defined contribution plans	283	337
Pensions costs of defined benefit plan	154	133
Cost of temporary employees	66	126
Profit sharing and payment linked w ith shares	-	57
Temporary Emergency Bridging Measure for Sustained Employment	(336)	-
Other	17	82
Total	**2,931**	**4,020**

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 w ith a French State plan, it is accounted for as a defined contribution plan in "pension costs on defined contribution plans".

Follow ing the impact of the Covid-19 public health crisis, starting from March 23, 2020 Air France and its main subsidiaries implemented part-time activity for its employees. The impact of this measure amounts around €500 million and has been allocated to the lines "Wages and salaries" and "Social contributions".

The line "Temporary Emergency Bridging Measure for Sustained Employment" includes the compensation received from the Dutch State for the KLM Group's labor expenses during the period from April 1 until June 30, 2020. This compensation amounts to €336 million.

Average number of employees

Period from January 1 to June 30	**2020**	**2019**
Flight deck crew	8,719	8,378
Cabin crew	22,185	22,185
Ground staff	51,628	52,022
Temporary employees	1,364	3,021
Total	**83,896**	**85,606**

9. AMORTIZATION, DEPRECIATION AND PROVISIONS

In € millions	**2020**	**2019**
Period from January 1 to June 30		**restated (1)**
Amortization		
Intangible assets	93	90
Flight equipment	604	607
Other property, plant and equipment	99	99
Right-of-Use assets	618	647
	1,414	**1,443**
Depreciation and provisions		
Inventories	14	13
Trade receivables	89	6
Risks and contingencies	11	11
	114	**30**
Total	**1,528**	**1,473**

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

The variation on trade receivables provision mainly relates to provision for maintenance receivables.

10. OTHER INCOME AND EXPENSES

In € millions	**2020**	**2019**
Period from January 1 to June 30		**restated (1)**
Capitalized production	349	523
Joint operation of routes	(5)	(23)
Operations-related currency hedges	65	12
Emission trade schemes (ETS)	(20)	(28)
Other	4	11
Other income and expenses	**393**	**495**

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

11. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions	**2020**	**2019**
Period from January 1 to June 30		
Restructuring costs	(226)	(30)
Modification on pension plans	-	(11)
Disposals of other assets	12	6
Impairment of fleet	(639)	-
Other	(1)	5
Other non-current income and expenses	**(854)**	**(30)**

- **Six-month period ended June 30, 2020**

Restructuring costs

As of June 30, 2020, this line mainly includes the voluntary departure plan provision for KLM staff, amounting to € (178) million and a cost related to the project of collective mutual agreement on termination of contract ("Rupture Conventionnelle Collective") for Air France pilots, amounting to € (37) million (see note 3.2 Events that occurred in the period).

Impairment of fleet

As of June 30, 2020, this line relates to the impact of the phase-out from the fleet of the A380, A340 and B747 by Air France-KLM Group, following the drastic reduction in air traffic in relation with Covid-19 (see note 3.2 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 of which 5 owned and 4 leased aircraft, announced on May 20, 2020, and initially planned for the end of 2022, has been brought forward to 2020. The related impact amounts to € (545) million as of June 30, 2020.

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

A €21 million impairment has been recorded at the end of March 2020 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.

- **Six-month period ended June 30, 2019**

Restructuring costs

These mainly included the impact relating to the voluntary departure plan for Air France ground staff.

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, providing an advanced notice of at least 12 months is given, increasing the benefit obligation by €11 million.

Other

This line mainly includes the sale of Vilgénis school real estate in the Paris area and ground equipment at Charles de Gaulle airport.

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

In € millions	**2020**	**2019**
Period from January 1 to June 30		**restated (1)**
Income from marketable securities	(2)	2
Other financial income	14	25
Financial income	**12**	**27**
Interest on financial debt	(68)	(70)
Interest on lease debt	(131)	(136)
Capitalized interests	11	11
Other non-monetary items	(25)	(19)
Other financial expenses	(2)	(7)
Gross cost of financial debt	**(215)**	**(221)**
Net cost of financial debt	**(203)**	**(194)**
Foreign exchange gains (losses), net	(72)	(40)
Financial instruments and change in fair value of hedged shares	(546)	20
Net (charge)/release to provisions	(2)	(3)
Undiscounting of provisions	(84)	(106)
Other	(29)	(4)
Other financial income and expenses	**(733)**	**(133)**

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

Financial income

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

Foreign exchange gain (losses)

As of June 30, 2020, the foreign exchange losses mainly include an unrealized currency loss of € (73) million of which an € (8) million loss on return obligation liabilities and provisions on aircraft in US dollars and an unrealized €(49) million currency loss on financial debt in US Dollar (€(32) million), in Swiss francs (€(7) million) and in Japanese Yen (€(14) million).

As of June 30, 2019, the foreign exchange losses mainly included an unrealized currency loss of € (53) million of which € (27) million on return obligation liabilities and provisions on aircraft in US dollars and an unrealized € (24) million currency loss on financial debt in Japanese Yen.

Financial instruments and change in fair value of hedged shares

Due to the expected significant reduction in fuel consumption for the remainder of 2020, this line includes the impact of over-hedging, amounting to € (590) million recycled to the income statement. At the end of June, an amount of € (322) million of these derivatives had been settled and € (268) million relates to the period July-December 2020.

As of June 30, 2019, this line mainly included a gain on the hedged Amadeus shares of €21 million.

Other

As of June 30, 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 3.2. Events that occurred in the period).

13. INCOME TAXES

13.1. Income tax charge

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

In € millions	**2020**	**2019**
Period from January 1 to June 30		**restated (1)**
Current tax (expense) / income	**72**	**(3)**
Change in temporary differences	21	(59)
CVAE impact	-	2
(Use / de-recognition) / recognition of tax loss carry forwards	(347)	23
Deferred tax income / (expense) from continuing operations	**(326)**	**(34)**
Total	**(254)**	**(37)**

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

The current income tax charge relates to the amounts paid or payable in the short term to the tax authorities 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, 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 Group limits its recoverability horizon on the deferred tax losses of the French fiscal group to a period of seven years, consistent with its operating visibility.

Following the current Covid-19 crisis, the prospects of recoverability within the seven-year horizon have been revised downwards leading to a write-off of €365 million of deferred tax assets for tax losses compared to the opening position of the fiscal year. Moreover, €875 million of deferred tax assets have not been recognized for the period relating to the first semester of 2020.

- **Dutch fiscal group**

In The Netherlands, the tax rate is 25 per cent in 2020 and will be lowered to 21.7 per cent in 2021. Tax losses can be carried forward over a period of six years with no limit to the amount of recovery allowed each year.

As of June 30, 2020, the Dutch fiscal group has deferred taxes assets on fiscal losses amounting to €13 million, relating to an interest deduction allowance which can be carried forward indefinitely. The deferred tax assets on fiscal loss excluding interest for the first semester of 2020 amounted to €263 million. KLM has used the carry back facility from 2019, amounting to €82 million. The remaining €181 million of deferred tax assets has not been recognized.

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

In € millions	2020	2019
Period from January 1 to June 30		
OCEANE	**-**	**(19)**
Other comprehensive income that will be reclassified to profit and loss	**153**	**(103)**
Gain and loss on cash flow hedge	153	(103)
Other comprehensive income that will not be reclassified to profit and loss	**39**	**52**
Equity instruments	6	3
Pensions	33	49
Total	**192**	**(70)**

13.3. 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 June 30		**restated [1]**
Income before tax	(4,134)	(197)
Standard tax rate in France	32.02%	34.43%
Theoretical tax calculated based on the standard tax rate in France	1,324	68
Differences in French / foreign tax rates	(101)	20
Non-deductible expenses or non-taxable income	(19)	8
Impact of Effective Tax Rate	(1,045)	(134)
Write-off of deferred tax assets	(365)	-
Impact of change in income-tax rate	(34)	1
CVAE impact	(7)	(5)
Other	(7)	5
Income tax expenses	**(254)**	**(37)**
Effective tax rate	-6.2%	-18.9%

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

13.4. Unrecognized deferred tax assets

In € millions	**June 30, 2020**		**December 31, 2019**	
	Basis	**Tax**	**Basis**	**Tax**
Temporary differences	942	243	1,022	264
Tax losses	10,582	2,697	4,947	1,277
Total	**11,524**	**2,940**	**5,969**	**1,541**

- **French fiscal group**

As of June 30, 2020, the cumulative effect of the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €2,751 million (corresponding to a basis of €10,660 million), of which €2,512 million relating to tax losses and €239 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 results in the non-recognition of a deferred tax asset amounting to €1,532 million (corresponding to a basis of €5,915 million), of which €1,272 million relating to tax losses and €260 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

- **Dutch fiscal group**

As of June 30, 2020, the cumulative limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €181 million, (corresponding to a basis of €830 million), that only relates to tax losses in the first semester of 2020.

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

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

14. EARNINGS PER SHARE

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

<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	**2020**	**2019**
As of June 30		**restated [1]**
Net income for the period – Equity holders of Air France-KLM	(4,413)	(227)
Coupons on perpetual	(9)	(8)
Basic net income for the period – Equity holders of Air France-KLM	(4,422)	(235)

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

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

<u>Reconciliation of the number of shares used to calculate earnings per share</u>

As of June 30	**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	(85,151)	(85,151)
Number of shares used to calculate basic earnings per share	**427,432,464**	**427,432,464**
OCEANE conversion	27,901,785	27,901,785
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**455,334,249**	**455,334,249**

14.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of June 30, 2020.

14.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

15. IMPAIRMENT

- **Year ended June 30, 2020**

The health crisis related to COVID-19 and its economic impact constitutes a trigger event for impairment. Thus, the Group has conducted a test of impairment as of June 30, 2020 using a bottom-up five-year strategic plan subject to the approval by the Board on July 30, 2020. This plan forecasts a return to the level of 2019 activity in 2024 and is subject to the uncertainties related to the current situation

The recoverable value of the CGU assets (Network, Maintenance and Transavia) has been determined by reference to their value in use as of May 31, 2020.

The discount rate used for the test corresponds to the Group's weighted average cost of capital (WACC). It has been reassessed at the end of May 2020 and stands at 6.6 per cent versus 5.9 per cent as at December 31, 2019.

After the aforementioned test, no impairment was recognized on the Group's CGUs, including with a WACC 50-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.

16. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

In € millions	As of June 30, 2020			As of December 31, 2019		
	Gross value	**Depreciation**	**Net Value**	**Gross value**	**Depreciation**	**Net Value**
Owned aircraft	17,097	(8,960)	8,137	17,192	(8,684)	8,508
Assets in progress	1,284	-	1,284	1,263	-	1,263
Other	2,485	(987)	1,498	2,425	(862)	1,563
Flight equipment	**20,866**	**(9,947)**	**10,919**	**20,880**	**(9,546)**	**11,334**
Land and buildings	2,687	(1,856)	831	2,708	(1,851)	857
Equipment and machinery	1,060	(802)	258	1,169	(862)	307
Assets in progress	236	-	236	205	-	205
Other	1,099	(873)	226	993	(782)	211
Other tangible assets	**5,082**	**(3,531)**	**1,551**	**5,075**	**(3,495)**	**1,580**
Total	**25,948**	**(13,478)**	**12,470**	**25,955**	**(13,041)**	**12,914**
Aircraft			2,476			2,798
Maintenance			1,688			1,575
Land and real estate			550			558
Other			224			242
Total right-of-use assets			**4,938**			**5,173**

17. 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 June 30		
Acquisition of flight equipment	1,022	1,192
Acquisition of other tangible assets	89	110
Acquisition of intangible assets	146	197
Accounts payable on acquisitions	27	8
Subtotal	**1,284**	**1,507**

18. TRADE ACCOUNTS RECEIVABLES

The details of trade accounts receivables are as follows:

In € millions	**As of June 30, 2020**	**As of December 31, 2019**
Airlines	461	553
Other clients:		
* Network	574	862
* Maintenance	558	804
* Other	36	118
Gross value	**1,629**	**2,337**
Opening valuation allowance	**(173)**	**(155)**
Charge to allowance	(106)	(39)
Use of allowance	3	18
Reclassification	1	3
Closing valuation allowance	**(275)**	**(173)**
Net value	**1,354**	**2,164**

The charge to allowance mainly relates to maintenance receivables.

19. OTHER ASSETS

The details of other assets are as follows:

In € millions	As of June 30, 2020		As of December 31, 2019	
	Current	**Non-current**	**Current**	**Non-current**
Suppliers with debit balances	88	-	99	-
State receivables (including income tax)	198	-	224	-
Derivative instruments	158	228	258	238
Prepaid expenses	173	-	221	-
Other debtors	491	3	322	3
Gross value	**1,108**	**231**	**1,124**	**241**
Opening valuation allowance	**(1)**	**-**	**(1)**	**-**
Closing valuation allowance	**(1)**	**-**	**(1)**	**-**
Other	**1,107**	**231**	**1,123**	**241**

20. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

In € millions	As of June 30, 2020	As of December 31, 2019
Liquidity funds (SICAV) (assets at fair value through profit and loss)	2,264	1,268
Bank deposits and term accounts (assets at fair value through profit and loss)	963	1,599
Cash in hand	1,569	848
Total cash and cash equivalents	**4,796**	**3,715**
Bank overdrafts	(3)	(4)
Cash, cash equivalents and bank overdrafts	**4,793**	**3,711**

21. PENSION ASSETS AND PROVISIONS

As of June 30, 2020, the discount rates used by the companies to calculate the defined benefit obligations are the following:

	June 30, 2020	December 31, 2019
Euro zone – duration 10 to 15 years	0.70%	0.70 to 0.75%
Euro zone – duration 15 years and beyond	1.05%	1.15%

The inflation rates used are the following:

	June 30, 2020	December 31, 2019
Euro zone – duration 10 to 15 years	0.80%	1.30%
Euro zone – duration 15 years and beyond	0.95%	1.40%

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.

Remeasurement of defined benefit pension plans is composed of:

	June 30, 2020	June 30, 2019
Impact of the change in discounting rate	(267)	(1,217)
Impact of the change in inflation rate	594	-
Difference between the expected and actual return on assets	(404)	886
Total	**(77)**	**(331)**

The impact of variations in discount rates on the defined benefit obligation has been calculated using sensitivity analysis of the pension defined benefit obligation. The sensitivity analysis is outlined in note 29.2 of the annual financial statements as of December 31, 2019.

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

22.1 Breakdown of stock and voting rights

As of June 30, 2020, the issued capital of Air France-KLM comprised 428,634,035 fully paid-up shares with a nominal value of €1. Each share is entitled to one vote. However since April 3, 2016, shareholders who have owned their shares for at least two years benefit from double voting rights.

The breakdown of stock and voting rights is as follows:

In percentage (%)	June 30, 2020		December 31, 2019	
	Capital	Voting rights	Capital	Voting rights
French State	14.3	20.9	14.3	20.9
Dutch State	14.0	10.2	14.0	10.2
Delta Airlines	8.8	12.8	8.8	12.8
China Eastern Airlines	8.8	12.8	8.8	12.8
Donald Smith & co., Inc.	3.9	2.8	5.2	3.8
Employees and former employees	3.7	5.4	3.8	5.5
Treasury shares	0.3	0.4	0.3	0.4
Other	46.2	34.7	44.8	33.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

The item “Employees and former employees” includes shares held by employees and former employees identified in funds or by a Sicovam code.

22.2 Reserves and retained earnings

In € millions	June 30, 2020	December 31, 2019
Legal reserve	70	70
Pension defined benefit reserves[(1)]	(1,537)	(1,590)
Derivatives reserves[(1)]	(411)	(15)
Equity instruments reserves[(1)]	(58)	(37)
Other reserves	(1,114)	(1,338)
Net income (loss) – Equity holders of Air France-KLM	(4,413)	290
Total	**(7,463)**	**(2,620)**

(1) Net of deferred tax

23. RETURN OBLIGATION LIABILITY AND OTHER PROVISIONS

In € millions	June 30, 2020			December 31, 2019		
	Non-current	Current	Total	Non-current	Current	Total
Return obligation liability on leased aircraft	3,249	250	3,499	3,209	167	3,376
Maintenance on leased aircraft	411	43	454	410	76	486
Restructuring	-	331	331	-	63	63
Litigation	59	356	415	59	353	412
Others	79	27	106	72	55	127
Total	**3,798**	**1,007**	**4,805**	**3,750**	**714**	**4,464**

23.1. Return obligation liability and other provisions

23.1.1. Return obligation liability 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 w ork performed on leased aircraft and recorded in the right-of-use assets. The effects of accretion and foreign exchange translation of return obligation liabilities and provisions recorded in local currencies are recognized in "Other financial income and expenses" (see note 12).

The discount rate used to calculate these restitution liabilities and provisions relating to leased aircraft, determined on the basis of a short-term risk-free rate increased by a spread on risky debt (used for companies with high financial leverage), is 4.5 per cent as of June 30, 2020 and December 31, 2019.

23.1.2. Restructuring provisions

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

As of June 30, 2020 and December 31, 2019, the restructuring provisions movements impacting the income statement are recorded in "other non-current income and expenses" w hen is it significant.

23.1.3. 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.

23.1.4. Litigation concerning antitrust laws in the airfreight industry

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

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

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

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

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

23.1.5. Other provisions

Other provisions relate principally to provisions for onerous contracts, provisions for the portion of CO_2 emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

23.2 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.

23.2.1. Litigations concerning antitrust laws in the airfreight 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 law suits, 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 law suits 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 to a limited extent in Norway. This case is stayed awaiting the outcome of the appeal before the EU General Court.

23.2.2. Litigations concerning antitrust 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.

23.2.3. Other litigations

Rio-Paris AF447 flight

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

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

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

US Department of Justice investigation related to United States Postal Service

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

Case brought against KLM by (former) Martinair Cargo pilots

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

Except for the matters specified under the paragraphs 23.1 and 23.2, 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.

24. FINANCIAL DEBT

In € millions	As of June 30, 2020			As of December 31, 2019		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**
Perpetual subordinated loan in Yen	166	-	166	164	-	164
Perpetual subordinated loan in Swiss francs	352	-	352	345	-	345
OCEANE (convertible bonds)	460	-	460	454	-	454
Bonds	1,234	288	1,522	1,128	-	1,128
Debt on financial leases with bargain option	3,072	541	3,613	2,938	547	3,485
Loan guaranteed by the French state	1,993	-	1,993	-	-	-
Other debt	1,087	969	2,056	1,242	252	1,494
Accrued interest	-	38	38	-	43	43
Total - Financial debt	**8,364**	**1,836**	**10,200**	**6,271**	**842**	**7,113**

Change in financial debt

In € millions	December 31, 2019	New financial debt	Non-monetary change	Reimbursement of financial debt	Currency translation adjustment	Other	June 30, 2020
Perpetual subordinated loan	509	-	-	-	8	1	**518**
OCEANE	454	-	6	-	-	-	**460**
Bonds	1,128	744	-	(350)	-	-	**1,522**
Debt on financial leases with bargain option	3,485	427	19	(333)	9	6	**3,613**
Loan guaranteed by the French state	-	1,993	-	-	-	-	**1,993**
Other long-term debt	1,494	1,850	7	(1,310)	-	15	**2,056**
Accrued interest	43	-	(20)	-	-	15	**38**
Total	**7,113**	**5,014**	**12**	**(1,993)**	**17**	**37**	**10,200**

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

The new financial debt and repayment of debt flows include the withdrawn followed by the repayment of the credit line of Air France-KLM for 1.1 billion euros on the first semester of 2020 (see note 24.7 Credit lines).

24.1 Perpetual subordinated debt

24.1.1 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 €166 million as of June 30, 2020. As from this date, the fixed JPY interest rate 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.

24.1.2 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. €352 million as of June 30, 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.

24.2 Bonds

Bond	Issuing date	Nominal amount (in millions)	Maturity date	Reimbursement date	Coupon
Bond issued in 2014	4 June 2014	€ 288	18 June 2021	-	3.875%
€ Bond issued in 2016	5 Oct. 2016	€ 360	5 Oct. 2022	-	3.75%
$ Bond issued in 2016[(1)]	12 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

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

A part of the net proceeds of this issuance has been used to fund 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 have been accepted of which €311.2 million of notes with a maturity date in 2021 and €38.8 million of notes with a maturity date in 2022.

24.3 OCEANE

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

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

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

As of June 30 2020, the debt value amount to €460 million.

24.4 Other debt

Other debt breaks down as follows:

In € millions	**As of June 30, 2020**	**As of December 31, 2019**
Reservation of ownership clause and mortgage debt	990	1,072
Credit lines - see note 24.7	665	-
Other debt	401	422
Total	**2,056**	**1,494**

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgagee 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 corresponds mainly to bank borrowings. They also include €19 million related to debt issuing expenses on financial debt.

24.5 Loans guaranteed by the French and Dutch states

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. This financing includes two loans:

- A loan of € 4 billion, 90% guaranteed by the French State, with an initial 12-month maturity and a one-year or two-year extension option exercisable 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 the 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 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.

As of June 30, 2020, Air France KLM has drawn down €2 billion of the bank loan guaranteed by the French State. It has been recorded at amortized cost based on a 3 year drawn down assumption and a Effective Interest Rate of 2.66 per cent.

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

On 25 June 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 to KLM group for an 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 and any other outstanding unsecured debt of KLM.

Both the revolving credit facility and the direct loan will be drawn simultaneously on a pro rata basis.

KLM's first drawing under the new revolving credit facility will be used to repay and terminate the existing revolving credit facility drawn on 19 March 2020 for an amount of €665 million (see note 24.7 Credit facilities).

Further drawings subsequent to the first drawing are subject to certain conditions being fulfilled by KLM.

Main conditions associated with the direct state loan are linked to the airline becoming more sustainable as well as 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.

As of June 30, 2020 KLM has not drawn down any amount of these two loans.

Both the French and Dutch state aid have been approved by the European Commission respectively on May 4 and on July 13, 2020.

24.6 Maturity analysis

The financial debt maturities breaks down as follows:

In € millions	As of June 30 2020	As of December 31, 2019
Maturities in		
semester year Y (6 months)	1,067	-
Y+1	1,075	842
Y+2	939	1,250
Y+3	2,503	1,005
Y+4	944	523
Over 4 years	3,672	3,493
Total	**10,200**	**7,113**

As of June 30, 2020, it has been considered that the perpetual subordinated loan would be reimbursed according to their most probable maturities (probable exercise date of the issuer call).

The bonds issued in 2014 and 2016 will be reimbursed on their contractual maturity date (see note 24.2).

24.7 Credit lines

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 its revolving credit facility concluded on May 23, 2018 for the full amount of €665 million.

KLM's first drawing under the new €2.4 billion revolving credit facility (see note 24.4), 90% guarantee supported by the Dutch State, will be used to repay and terminate the existing revolving credit facility drawn on 19 March 2020 for an amount of €665 million.

These amounts have been included into the short-term financial debt as of June 30, 2020.

25. LEASE DEBT

The lease debt breakdown as follows:

In € millions	As of June 30, 2020			As of December 31 2019		
	Non-current	Current	Total	Non-current	Current	Total
Lease debt - aircraft	2,106	849	2,955	2,338	789	3,127
Lease debt - real estate	609	103	712	618	107	725
Lease debt - other	176	48	224	193	56	249
Accrued interest	-	18	18	-	19	19
Total - Lease debt	**2,891**	**1,018**	**3,909**	**3,149**	**971**	**4,120**

26. NET DEBT

In € millions	June 30, 2020	December 31, 2019
Current and non-current financial debt	10,200	7,113
Current and non-current lease debt	3,909	4,120
Accrued interest	(56)	(62)
Deposits related to financial debt	(222)	(227)
Deposits related to lease debt	(87)	(91)
Derivatives impact on debt	(4)	4
Gross financial debt (I)	**13,740**	**10,857**
Cash and cash equivalents	4,796	3,715
Marketable securities (1)	110	111
Cash secured (1)	309	300
Triple A bonds (1)	552	585
Others	3	3
Bank overdrafts	(3)	(4)
Net cash (II)	**5,767**	**4,710**
Net debt (I-II)	**7,973**	**6,147**

(1) Included in "others financial assets"

In € millions	June 30, 2020	December 31, 2019
Opening net debt	**6,147**	**6,164**
Operating free cash, cash flow excluding discontinued activities	1,915	(623)
Coupons on perpetual	-	26
Disposal of subsidiaries, of shares in non-controlled entities	(357)	(13)
Acquisition of subsidiaries, of shares in non-controlled entities	1	1
Lease debts (new and renewed contracts)	212	589
Unrealised exchange gains and losses on lease financial debts through OCI	(26)	13
Currency translation adjustment	49	48
Capital increase	-	(54)
Amortization of OCEANE optional part	4	8
Other	28	(12)
Closing net debt	**7,973**	**6,147**

27. 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 June 30, 2020, this line includes €670 million of air tickets (fare and carrier imposed charges) for which the date of transportation has passed and which are eligible to refund and € 920 million of vouchers that can be used for future flights.

28. OTHER LIABILITIES

In € millions	As of June 30, 2020		As of December 31, 2019	
	Current	**Non-current**	**Current**	**Non-current**
Tax liabilities	800	-	892	-
Employee-related liabilities	1,258	-	1,033	-
Non-current asset payables	60	-	96	-
Derivative instruments	813	197	154	107
Deferred income	848	18	739	17
Prepayments received	383	-	469	1
Other	272	101	219	97
Total	**4,434**	**316**	**3,602**	**222**

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

29. FLIGHT EQUIPMENT ORDERS

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

In € millions	June 30, 2020	December 31, 2019
2nd semester year Y (6 months)	549	-
Year Y+1	1,305	1,469
Year Y+2	1,606	1,203
Year Y+3	1,327	1,266
Year Y+4	1,019	1,153
> Year Y+4	960	1,978
Total	**6,766**	**7,069**

These commitments 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 June 30, 2020 decreased by four units compared with December 31, 2019 and stood at 104 aircraft. These changes are explained by the delivery of four aircraft over the period.

Long-haul fleet (passenger)

The Group took delivery of three Airbus A350 and one Boeing B787.

Medium-haul fleet

The Group did not take delivery of an aircraft.

The Group's commitments concern the following aircraft:

Aircraft type	To be delivered in	2nd semester Y (6 months)	Y+1	Y+2	Y+3	Y+4	Beyond Y+4	Total
Long-haul fleet – passenger								
A350	As of June 30, 2020	-	7	7	8	4	6	**32**
	As of December 31, 2019	-	6	7	5	7	10	**35**
B787	As of June 30, 2020	4	2	2	-	2	-	**10**
	As of December 31, 2019	-	5	3	3	-	-	**11**
B777	As of June 30, 2020	1	1	-	-	-	-	**2**
	As of December 31, 2019	-	2	-	-	-	-	**2**
Medium-haul fleet								
A220	As of June 30, 2020	-	6	15	15	12	12	**60**
	As of December 31, 2019	-	-	6	15	15	24	**60**
B737	As of June 30, 2020	-	-	-	-	-	-	**-**
	As of December 31, 2019	-	-	-	-	-	-	**-**
Total	**As of June 30, 2020**	**5**	**16**	**24**	**23**	**18**	**18**	**104**
	As of December 31, 2019	**-**	**13**	**16**	**23**	**22**	**34**	**108**

30. RELATED PARTIES

The scope of the related parties did not change significantly during the period. However, given the circumstances in relation with COVID-19, the Group's relationships with its related parties changed in terms of amounts especially with the French and the Dutch states (see note 3.2 Events that occurred in the period), Aéroports de Paris and Schiphol Airport.

Information and control

Attestation by the person responsible for the first half financial report to June 30, 2020

I hereby declare that, to the best of my knowledge, the condensed financial statements for the first half of the 2020 financial year have been established in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and results of the Company, and of all the companies within the consolidation scope, and that the first half activity report presents a true picture of the significant events arising during the first six months of the financial year and of their impact on the first half financial statements, the main related party agreements together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Benjamin Smith
Chief Executive Officer

Statutory Auditors’ review report on the half-year financial information

This is a free translation into English of the statutory auditors’ review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking readers. This report includes information relating to the specific verification of information presented in the Group’s half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

For the six-month period from January 1 to June 30, 2020

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("Code Monétaire et Financier"), we hereby report to you on:

- the review of the accompanying half-yearly consolidated financial statements of Air France-KLM S.A., for the six-month period ended June 30, 2020,
- the verification of the information presented in the half-yearly management report.

These interim condensed consolidated financial statements were prepared under the responsibility of the Board of Directors on July 30, 2020, on the basis of the information available at that date in the evolving context of the Covid-19 crisis and difficulties in assessing its impact and future prospects. Our role is to express a conclusion on these financial statements based on our review.

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the Note 3.1 “COVID-19” of the condensed half-yearly consolidated financial statements, which describes in the context of the sanitary crisis impacting the air transport industry, the measures taken by the Group, as well as the financial support mechanisms set up by the French and Dutch States, in consideration of which the Air France-KLM’s Board of Directors prepared the condensed half-yearly consolidated financial statements using a going concern basis of accounting.

II. Specific verification

We have also verified the information presented in the interim management report established on July 30, 2020 on the interim condensed consolidated financial statements subject to our review.

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

Paris La Défense, July 30, 2020

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

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