FIRST HALF FINANCIAL REPORT

JANUARY-JUNE 2021

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Information and control

1. FIRST HALF ACTIVITY REPORT

1.1 ACTIVITY

1.1.1 Strategy

MARKET AND ENVIRONMENT

✓ The economic environment

Real GDP growth (%)	2020	2021 forecast
World	-3.3	**6**
United Kingdom	-9.9	**5.3**
European Union	-6.1	**4.3**
Euro zone	-6.6	**4.4**
Of which France	-8.2	**5.8**
Of which Netherlands	-3.8	**3.5**
North America (USMCA countries)	-4.1	**6.1**
Of which United States	-3.5	**6.4**
Asia-Pacific	-1	**7.3**
Of which China	2.3	**8.4**
Of which Japan	-4.8	**3.3**
Middle East	-4.0	**2.5**
Sub-Saharan Africa	-1.9	**3.4**
Latin America (excl, Mexico)	-6.6	**4.6**
Of which Brazil	-4.1	**3.7**
Of which Argentina	-10	**5.8**

Source (1)

2020 was profoundly marked by the Covid-19 pandemic which led to a devastating economic depression considered to be new in nature as it resulted from massive lockdowns on a global scale. The Covid-19 crisis was primarily characterized by a dual shock to offer and demand. The offer shock manifested itself following the total shutdown of Chinese production during the first quarter when China imposed a national lockdown to contain the pandemic, disrupting global logistics (2). As the virus spread, almost every developed economy enforced nationwide lockdowns, which led to a demand shock. Government-imposed lockdowns and border closures paralyzed economic activity, resulting in unemployment for millions of workers around the world and an oil oversupply crisis known as “Black April” during which US oil prices plunged below zero for the first time in their history. Nationwide lockdowns were accompanied by strict travel restrictions, both locally and globally, to contain the spread of the pandemic, with disastrous repercussions for the transportation and tourism industries. In an attempt to revive the sector, as of July a number of European Union governments reopened their internal borders to members of the Union, and their external borders to a handful of countries, with no real substantive reboot for tourism owing to the loss of confidence and the health safety concerns of travelers.

The global economy entered a modest recession during the first quarter of 2020 (-1.65%) [(1)] before hitting a floor at -9% during the second quarter. The first signs of recovery appeared during the third quarter, especially in retail. A renewed wave of infections hit Europe in September and October, followed by a second wave of lockdowns in November and, despite measures to preserve economic activity, the repercussions led to recession in the fourth quarter.

Global economic growth is expected to be 6% in 2021. The vaccine rollout in many of the advanced economies has been driving the improvement, as has the massive fiscal stimulus in the United States. Prospects for the world economy have brightened but remain uneven and dependent on the effectiveness of vaccination programs and public health policies. Some countries are recovering much faster than others. In Europe, a recession at -0.3% in the first quarter highlighted resilient economies during winter lockdowns while vaccination progress and gradual border reopenings helped GDP to increase in the second (+1.4%) and third quarters (+2.2%). Furthermore, improving consumer confidence shows that households are willing to spend a portion of their accumulated savings once the restrictions are lifted. In North America, the regional growth is being driven by the US performance (2021 forecast: Canada: +5%; United States: +6.4%; Mexico: +5%), with widespread vaccination and US stimulus having led to a consumption boost and higher inflation.

Oil price

Brent (US$/bbl)	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2
Average price for the period	50.44	29.34	42.96	44.29	60.82	66.84

Source (1)

In 2021, oil prices have climbed back to pre-crisis levels despite the slow economic recovery still underway. The oil price boom seems decorrelated with the reality of market demand as future contracts on Brent crude have jumped 59% since November. The price surge is driven by optimistic economic recovery forecasts and output limitations by producers (2.1bn barrels have been held back since April 2020). Moreover, working from home has created a shift in oil demand dynamics with higher demand for trucks, vans, cargo ships and freight train fuels, and a spike in plastic packaging due to the e-commerce boom.[(3)]

Currency exchange rates

For one Euro (average)	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2
USD	1.1	1.1	1.17	1.19	1.2	1.21
GBP	0.86	0.88	0.90	0.90	0.88	0.86
CHF	1.10	1.10	1.07	1.06	1.08	1.09
BRL	4.42	4.56	4.93	5.92	6.59	6.54
CNY	7.69	7.8	8.08	7.9	7.81	7.79
JPY	120.04	118.44	124.11	124.58	127.86	132.03

Source (1)

EUR-USD: After some instability due to the inability of the US Congress to vote through a new stimulus plan and the election of Joe Biden as the new President of the United States, the US dollar (USD) has appreciated versus its major rivals in 2021. This is mainly due to Europe's own struggles with rolling out Covid-19 vaccines. A rise in infections and renewed lockdowns in several European countries are weighing on economic growth expectations for the eurozone, translating into weakness for the formerly-robust euro.[(4)]

EUR-GBP: Despite the considerable uncertainty regarding the post-Brexit relationship between the United Kingdom and the European Union, Pound-Sterling (GBP) has held up well versus the Euro (EUR) and remains trading at its 2020 level.

EUR-CNY: The Chinese Yuan (CNY) has been buoyed in recent months by the country's rapid recovery from the coronavirus pandemic, and by a rush of international investment into China's relatively high-yielding markets. While the CNY had been expected to appreciate and compromise its competitiveness, the People's Bank of China has been countering the strength of the currency by setting weaker-than-expected reference rates for onshore yuan trading.[5]

✓ The industry context and competition

2020 was unprecedented in the past 20 years of the worldwide economy, the Covid-19 pandemic having caused the most severe crisis and recession since the Second World War. Uncoordinated protective measures imposed on a global scale by governments and local authorities had a considerable impact on the airline industry [6]. Air transportation has been affected in terms of both passenger and cargo traffic; worldwide capacity measured in Available Seat-Kilometers collapsed to 20% in April 2020, with only 5% for long-haul and c.15% for short and medium-haul (at the low, domestic flights represented twice those of international traffic) and the overall number of flights in the European sky dropped by 90% in April. [7]

Later in 2020 the world was hit by a second wave of the pandemic, resulting in new restrictive measures and lockdowns implemented at local and national levels, calling into question the forecasts of an early-2021 recovery, with a significant impact on worldwide capacity. This phase depressed growth and looked more like stagnation: 43% of capacity during the peak season in August 2020, stability at average levels, to close the year with worldwide capacity at around 44% in December 2020 (with some differences depending on the market).

During the 2021 first half, worldwide industry capacity stands at around 46% (vs. its 2019 level)[8]. Amongst the largest domestic markets, US domestic capacity is picking up and outpacing long haul while domestic Chinese capacity is surpassing its 2019 level as long-haul capacity remains very low. The recovery in medium-haul capacity for European airlines is lagging behind that of the US and Chinese airlines, as the latter benefit from large domestic markets. The intra-European market has been negatively impacted by States imposing travel restrictions, even on entries from fellow-EU or Schengen States.

In 2021, vaccination progress varies widely by country, as does government policy on testing regimes. Each of these will ultimately dictate the travel rules which will pace the demand recovery on both a regional and global basis. Countries that have been quick to vaccinate their populations against Covid-19 and are managing to control infections through effective public health strategies are seeing their economies recover more quickly. However, while vaccination rates are progressing well in many advanced economies, emerging-market countries are being left behind. IATA expects traffic to be back at its pre-Covid level in 2023, with domestic markets leading the recovery.

Government support, financial aid and regulations

The Covid-19 crisis has proven particularly devastating for the airline industry which has been seriously affected by the traffic restrictions imposed worldwide, notably the closure of the Schengen borders and the various lockdown measures mentioned above.

Governments worldwide have kept airlines on life support with US$225 billion of financial aid (relief measures up to March 2021), of which $104 billion non-reimbursable.[9] The regional variation in this aid is huge, with a near-total lack of aid for the African and Latin America carriers, resulting in bankruptcy for the three leading Latin America airlines, LATAM, Aeromexico and Avianca.

After the crisis, the airline industry will be penalized by significant leverage, having taken on at least US$220 billion of additional debt between late 2019 and November 2020, reaching a record figure of US$651 billion.[10]

Government relief measures have often been accompanied by conditions in terms of competitiveness and profitability, mostly to secure loans. Additional climate commitment conditions have been applied, wherein airlines have pledged to promote rail travel for short journeys, increase jet fuel efficiency and reduce their overall CO_2 footprint.

Governments in countries where subsidiaries of airline groups are located have often demanded the maintenance of the relative weight of the subsidiaries versus the other airlines in the Group, as is the case for Swiss, Austrian and Brussels Airways.

European-based companies have been subject to supplementary constraints to obtain European Commission approval. For example, Lufthansa's recapitalization by the German government was approved only under certain conditions: a ban on the acquisition of competitors until 75% of the State recapitalization has been repaid and the sale to competitors of up to 24 slots per day to enable them to base up to four aircraft at both Frankfurt and Munich airports [11].

The South Korean government has announced that it will participate in the acquisition of Asiana by Korean Air (increasing the latter from world number 18 to number 10 by size of fleet), through an additional $730 million investment from the State-owned Korean Development Bank.

During the crisis, in addition to financial support, government assistance was also extended to slot regulation with a waiver of the "80-20 use-it-or-lose-it" rule. This waiver, which had been expected to end in Summer 2020, was subsequently prolonged to Winter 2020, then Summer 2021, and the Worldwide Airport Slot Board (WASB) is recommending its extension, subject to some conditions, to the Winter 2021 Season.

Sustainable development

The aviation sector wants to contribute towards the global climate ambition and the International Civil Aviation Organisation (ICAO) has set an aspirational goal in line with the Paris Agreement. For aviation, this could translate into at least a 45%[12] reduction in emissions by 2030 (versus 2010) and Net Zero by 2050 according to the IPCC (Intergovernmental Panel on Climate Change) estimates. More than 40 airlines have announced individual ambitions to become Net Zero by 2050. The International Air Transport Association (IATA) is targeting a 50% reduction in CO_2 by 2050.

IAG was the first airline group in the world to commit to achieving net zero carbon emissions by 2050. The Group has committed $400m to the development of alternative sustainable fuel over the next 20 years [13] and, in April 2021, became the first European airline group to commit to powering ten per cent of its flights with sustainable aviation fuel by 2030.[14] Lufthansa Group has committed to a halving in its CO_2 balance by 2030 compared to 2019 and to be neutral in 2050.[15]

Delta's ambitious commitment to carbon neutrality from March 2020 onward is coming to fruition on the back of immediate actions, coupled with long-term investment to combat climate change. The airline compensated 13 million metric tons of its carbon dioxide emissions from March 1 to December 31, 2020 through verified offsets and has retired more than 200 aircraft, replacing them with aircraft that are 25 per cent more fuel-efficient. [16]

The measures widely used to achieve these goals include:

- ✓ a major fleet renewal strategy, by investing in new more-efficient aircraft;
- ✓ operational efficiency;
- ✓ a commitment to Sustainable Aviation Fuels;
- ✓ systematic expansion of intermodal transport;
- ✓ actively involving customers in the transformation;
- ✓ use of carbon offsets and economic instruments.

Trend in European competitive market conditions

Bankruptcies in early 2020 of airlines in difficulty before the Covid-19 pandemic

The first repercussions of the Covid-19 public health crisis in 2020 and their consequences for the travel and airline industries accelerated the stagnation, then the bankruptcy, of airlines that had already been struggling financially and operationally:

- ✓ less than two years after launching its first flight, Air Italy was one of the first to collapse;
- ✓ after a long period of financial difficulty, AtlasGlobal, a Turkish airline, declared bankruptcy and terminated its operations;
- ✓ Flybe, the British carrier which had, historically, been one of Europe's largest regional airlines, filed for bankruptcy;
- ✓ CityJet, the Irish operator, faced the cancellation of its wet lease contracts (Brussels Airlines, Aer Lingus) and the High Court approved a survival scheme allowing the airline to exit examinership.

2020 bankruptcies caused by the Covid-19 public health crisis

In Austria, LEVEL Europe, the IAG Group's low-cost subsidiary, was the first European airline to cease operations during the crisis, having filed for bankruptcy in June 2020. LEVEL France also ceased operations in early 2020. Of the LEVEL brand, there remains only the long-haul low-cost flights, operated out of Barcelona.

SunExpress Deutschland was the second European airline to fold during the crisis. The subsidiary, based in Frankfurt, was closed down as part of a restructuring, and its short-haul fleet of 14 Boeing 737-800s was transferred to the SunExpress AOC.

The airlines take survival measures to weather the Covid-19 crisis

The measures taken by Lufthansa included a fleet downsizing and a further reduction in headcount. Lufthansa also announced the regrouping of its leisure operations at the German hubs of Frankfurt and Munich in a new leisure entity code-named Ocean, which will operate seven A330s in Summer 2021, with the potential addition of eight A320s, sourced from Eurowings Europe.

The restructuring of British Airways and Aer Lingus should enable British Airways to reduce annual payroll costs by at least 30% in 2021 compared to 2019 and Aer Lingus to make significant savings of up to 50% compared to 2019, including government support. Iberia and Vueling benefited from Spain's furlough programme, ERTE saving them over 35% in employee costs, in addition to a number of senior management changes already implemented within IAG. The Group has decided to relocate some Aer Lingus resources to open a new long-haul base in Manchester as of Summer 2021.

Norwegian entered the crisis in a weak financial position with an unsustainable level of debt. Despite restructuring and State aid, the worsening crisis has not allowed the airline to resurface in a stable and healthy financial situation. In November 2020, Norwegian Air International filed for examinership and, in January 2021, Norwegian announced that the long-haul operations will no longer fly even after the pandemic. The airline will retrench around a small, short-haul European and domestic Norwegian network.

Cargo

In 2020, the reduction in passenger flights throughout the year created a shortage of belly capacity in the passenger fleet, putting significant pressure on full-freighter capacity, leading to an advantageous position for full-freighter operators and helping them survive the crisis. Air freight traffic, measured in revenue ton-kilometers (RTK), collapsed as of the beginning of the year, with April 2020 posting the biggest fall (-25%) relative to the same period in 2019, before recovering to -8% in September 2020 ahead of the second wave of the pandemic, then stabilizing at around -6% (versus 2019) through to the end of the year.

Markets reacted differently to the pandemic (2020 versus 2019):

- ✓ Latin America was the most impacted in terms of RTK, seeing -41% in April 2020, before returning to -19% by November 2020.
- ✓ North America and Africa were the least impacted in terms of RTK, starting with declines of -14% and -19% in April 2020 respectively, and building up to highs of +1.5% and +10% respectively in September 2020.
- ✓ Europe saw a substantial decline of -33% in April 2020 to reach -11% in October 2020.
- ✓ Asia Pacific was down by -25% in April 2020 before recovering to a high of -10% in November.
- ✓ The Middle East saw the sharpest decline at -36% in April 2020 before recovering to -1.1% in October 2020.

The current shortage of cargo belly capacity, combined with steady demand, in particular for e-commerce, pharmaceutical products and perishable goods, saw unprecedented growth in air freight unit revenues during 2020 to a high of around $3.6 per kilo (versus $2.1 in 2019) and boosted industry-wide load factors to a peak of 60% (versus 50% in 2019). Air freight posted a high level of revenue in 2020, as both demand and unit revenues rose steadily over the course of the year. In terms of route, the most profitable was Asia-North America, mainly driven by e-commerce.

Note that, in 2020, the extraordinary conditions created by the public health crisis forced companies to make critical decisions, e.g. converting the cabins in their passenger aircraft for cargo transportation to increase capacity, by removing seats or transporting merchandise on seats.

Maintenance

The aeronautics maintenance or MRO (Maintenance, Repair, overhaul) market is mostly driven by the age, cycles and flight hours of the worldwide fleet. According to estimates, the global MRO market, which comprises the maintenance and modification spending by aircraft operators either directly or through sub-contractors, collapsed from an expected US$91 billion in 2020 to US$50 billion.[(17)]

The trends in this business closely follow those of the commercial airline fleets globally and their utilization. The Covid-19 crisis and CSR priorities have accelerated fleet adjustment decisions, to gain efficiency and reduce CO_2 emissions. Airlines are tending to defer maintenance and are focusing on phasing out older generation aircraft and increasing the proportion of next-generation aircraft. The MRO operators are suffering from weaker and more volatile demand on older and current-generation aircraft.

The market is also characterized by increased pricing pressure resulting from fiercer competition between maintenance operators (MROs) and more exacting requirements on the part of customer airlines in the wake of the Covid-19 crisis. Furthermore, a growing number of airlines are looking to transfer the financing of spare parts to maintenance service providers within the framework of increasingly-large-scale contracts (in terms of revenue, duration, complexity, etc.). The competition from Original Equipment and Engine Manufacturers (OEMs) and Original Aircraft Manufacturers (OAMs) will remain strong in the coming years. Lastly, the aftermath of the Covid-19 crisis on airline bankruptcies will also have residual effect on the MRO markets.

Sources

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STRATEGIC OUTLOOK

✓ The Air France-KLM Group's ambition

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 the leading airline group in Europe and one of the most powerful in the world, while acting as an industry pioneer in global environment sustainability. 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 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.

✓ Air France-KLM: core assets and unique competitive advantages

As one of the European leaders 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.

People: 76,000 engaged and professional employees, and a diverse culture

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.

Brands: a portfolio of attractive, strong brands and a common frequent flyer program

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.

Partnership: a solid network of suppliers and partners

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.

An extensive network operated with an optimized fleet

The Air France-KLM Group currently operates 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 (the other two are: London Heathrow and Frankfurt am Main airports). In 2020, it served 300 destinations in 116 countries, without counting the repatriation flights within the exceptional context of the Covid-19 pandemic. The Group diversifies its portfolios by being present in all the large markets. Moreover, the Group has a natural risk hedge in that no one market represents more than a third of network revenues.

In 2020, despite a very substantial impact on market capacity due to the health situation and restrictions, Air France-KLM confirmed its commitment and ambition of keeping a leading position in terms of traffic and capacity with over 34 million passengers carried between Europe and the rest of the world, and on intra-European routes on departure from the Group's natural markets.

Finance: a stable shareholding structure with the French and Dutch States, Delta Air Lines and China Eastern

Financial capital not only ensures Air France-KLM's financial sustainability but also its ability to accelerate its transformation while enabling value creation with all other forms of capital. Through the combined use of share capital, cash reserves and debt, the Group is able to fund its infrastructures, optimize its fleet, develop its staff, innovate through digital investments and benefit its supply chain and community relationships.

Environment: an experienced and knowledgeable industry player committed to contributing to positive change

The Group is endlessly innovating so as to be a reference in sustainability. Its ground and flight operations have an impact on the environment, including climate change, noise, air pollution and waste. The Group strives to continuously improve all aspects of its activities to reduce its environmental footprint. In particular, it is contributing to the establishment of a sustainable biofuels industry for aviation.

✓ 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.

People: be the best place to work

Air France-KLM wants to position itself as an employer of choice and is targeting a leading Employee Promoter Score. Our 76,000 people are our primary asset as they are the face of our company to our customers and represent our brands across the world. The Group thus invests in training to ensure their skills are top notch, and further empower them through the use of digital tools, enabling them to surpass our customers' expectations.

In the context of public health crisis, the Group is committed to maintaining the strong engagement of employees and the links between teams. The Group encourages personal development and mobility.

The relationship linking the Group to its employees is based on the underlying values of trust, respect, transparency and confidentiality.

Customers: exceed customer expectations

Air France-KLM wants to ensure an unrivaled end-to-end customer experience which exceeds customer expectations at all touchpoints, and on products, services and health safety. The Group is targeting a leading Net Promoter Score by improving the customer experience through personalized and digitalized offers and best-in-class operational performance. Thanks to the professionalism of the Group's frontline staff, the quality of its products and services, and an improved operational performance, Air France, KLM and Transavia maintain a daily focus on customers.

Beyond the satisfaction of our customers on the quality of the service Air France-KLM airlines promise to them, the financial impact of customer satisfaction is huge: it is a key driver of Air France-KLM market share gains and revenue growth, increasing customer loyalty and propelling customer growth.

Planet and society: be a pioneer in sustainable aviation

Through the initiatives of its airlines, Air France-KLM is committed to leading the way in terms of sustainable aviation at both flight and ground operations level. The Group aims to continue its efforts to reduce its environmental footprint by improving its operations and processes, partnering and innovating in the supply chain and mobilizing our staff and the industry.

✓ Strategic orientations

Response to the Covid-19 crisis

The public health crisis caused by the Covid-19 pandemic considerably challenged the airline industry throughout 2020. Sanitary measures of quarantines, social distancing and border closures have led to the worst economic crisis since the Second World War for the aviation industry.

These travel bans and lockdowns in every continent have had dramatic effects on air travel demand as well as the 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 September, the Group was operating only 46% of its capacity compared to the previous year. The situation hadn't improved by the end of the year with additional worldwide governmental restrictions, in response to a second wave of the pandemic; at the end of December 2020, the Group was operating under 40% of its capacity.

Air France-KLM's immediate response to the crisis has been centered around two 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. The safety of employees and customers has been ensured through immediate actions:

- ✓ equipping employees 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 has 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 has also taken decisive financial actions over the last few months, which have resulted in immediate cash savings.

- ✓ downwards revision of the Capex investment plan;
- ✓ cut in operating costs;
- ✓ labor cost reductions thanks to the partial activity in France and the Dutch government employment support program (NOW);
- ✓ halt of all non-safety and non-operational critical projects;
- ✓ significant reduction in 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 quick the Group is in engaging and mobilizing when necessary.

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

The Go-Forward plan for the next five years was presented in November 2019, including an ambitious transformation plan.

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, has had an unprecedented impact on the industry. In this context, the Group will look continuously to adapt 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 a return to the pre-crisis levels of global demand to take several years and the previously-expected short-term recovery was delayed by the resurgence of a second wave of Covid-19 at the end of August 2020.

Notwithstanding the current situation of crisis, the principles of the Air France-KLM's Go-Forward plan remain unchanged, aiming to reinforce the Group's competitive positioning by leveraging its strengths. The Group's long-standing concrete commitment to the environmental transition, revisited in the light of its aim to be a leading airline group in sustainable development, reflects its conviction that the industry transformation needs to be accelerated. As an active member of the United Nations Global Compact since 2003, the Group aims to make a signficant contribution to the United Nations Sustainable Development Goals to drive change in the industry. Air France-KLM has thus committed to a 50% reduction in CO_2 emissions per pax/km by 2030 relative to the 2005 baseline, attaining carbon neutrality for its ground operations by 2030 and, lastly, reaching net zero CO_2 emissions by 2050. This last target will be achieved by a multi-facet strategic solution with real reductions in CO_2 emissions thanks to fleet modernization, the scale-up of economically-viable sustainable aviation fuel production, optimized fuel consumption and CO_2 offsettting on both a regulatory and voluntary basis through offers exclusively for the customers of the Group's airlines.

Transformation

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 organization, productivity, network, fleet and cost management.

Organization

It is crucial for the Group and its airlines to restructure their organizations to adapt to the new reality of reduced capacity and a prolonged period of uncertainty. The airlines of the Group will accelerate their ongoing transformation plans and re-adjust the size of their organization to match these new activity levels. Air France's restructuring plan calls for a reduction of 6,560 FTEs by the end of 2022. The many natural departures expected over the period (more than 3,500) will represent more than half of this job reduction thanks to a favorable age pyramid. For HOP! the resizing of the 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 a current workforce of 2,420.

Besides the resizing of their respective organizations, both Air France and KLM will focus on further reducing labor costs. Since March 2020, the staff in France have been on "partial activity" and a variable remuneration system for pilots and flight attendants (otherwise known as the minimum monthly guarantee or MMG), reflecting lower levels of flight activity. In both France and the Netherlands, a percentage of employee wages is paid *via* the unique furlough schemes offered by the respective governments as part of their Covid-19 support measures.

In France, Air France is prioritizing mobility options and voluntary departure programs in order to avoid involuntary layoffs, while also utilising notably the *Rupture Convention Collective* (RCC) to permit voluntary departures beyond those that would normally be entitled under French labor laws.

In addition, the implementation of partial activity (without compensation for lost wages) and the application of the variable remuneration system for pilots (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).

As a condition of the loan package, the French government has required Air France to achieve cost reductions on a par with European peers (Lufthansa, IAG) and to commit to ambitious environmental objectives:

- ✓ discontinuing the sale of routes with a train journey alternative in under 2.5 hours, except for the flights serving Roissy-CDG;
- ✓ reducing CO_2 consumption per ASK by 50% in 2030 relative to the 2005 baseline;
- ✓ increasing the share of Sustainable Aviation Fuel used for the flights.

In the Netherlands, KLM's restructuring plan submitted to the Dutch Ministry of Finance contains a significant reduction of FTEs compared to pre-Covid-19. Substantively, the plan includes elements such as the reassessment of strategy, cost-cutting initiatives and financial considerations including reduced employment conditions.

The basic principle of the restructuring plan is that KLM's existing business model is still valid, but far-reaching, structural initiatives are required to ensure KLM's future success. Owing to the effects of the current pandemic, KLM is preparing itself for an extended period during which fewer flights will be operated. The organization will become smaller, as well as more cost-efficient and sustainable.

As KLM plays an important economic and societal role in the Netherlands, the government has offered the airline a loan package, to which it has attached certain conditions. One condition is that KLM staff should contribute to KLM's restructuring by accepting reduced employment conditions, amounting to income-dependent graduated cutbacks of up to 20%. These reduced conditions will apply for the duration of the loan period.

Increase productivity

Both the numerous agreements signed with Air France staff over the course of last year, and a dedicated focus on network optimization and improvement of aircraft utilization, are helping to reduce costs and increase productivity. For instance, an agreement reached with the SNPL (*Syndicat National des Pilotes de Ligne*) and approved by an overwhelming majority, allows for restructuring of the French domestic network, including shifting some domestic operations to the lower cost Transavia platform.

Fleet

Air France-KLM's future competitive position, focus on sustainability and Capex investments are largely linked to decisions made with regards to network and fleet.

The principles of the Group's fleet strategy remain as follows:

- ✓ exit aircraft as planned in order to avoid Capex due to life extension;
- ✓ optimize our current fleet (for example through densification or other improvements to the LOPA – interior seating configuration);
- ✓ introduce committed new aircraft, in line with our existing fleet plan.

Continuing to invest in new aircraft will support the Group's sustainability commitments and cement its future competitive position.

In the short term, linked to delays in production at Airbus and Boeing in response to the crisis situation at hand, a few A350-900 deliveries at Air France, and some committed and uncommitted B787-10 deliveries at KLM, have been postponed.

In addition, Air France and KLM plan to continue to retire aircraft with the highest costs, fuel consumption and CO_2 emissions, and to introduce new generation aircraft in order to:

- ✓ firstly, improve economics through lower costs pertaining to fuel. The introduction of new-generation aircraft is making a major contribution to this reduction in fuel costs. The Boeing 787s and A350-900s combine economic efficiency and environmental performance, with fuel consumption reduced by 20 to 25% compared to previous generation aircraft.
- ✓ secondly, obtain economies of scale via, for example, maintenance facilities and employee training;
- ✓ and thirdly, reduce our environmental footprint. A new generation aircraft will typically produce 20% to 25% lower CO_2 emissions versus the previous generation aircraft it replaces.

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 committed fleet delivery schedule for 2021-25 intact as much as possible and is carefully considering financing options. At the same time, it is maintaining the highest level of flexibility in fleet development in view of current uncertainty on the recovery trajectory.

Network

The agreement with the SNPL is an important first step in the Group's strategy to accelerate the transformation into profitability and restructure Air France's unprofitable domestic network.

Air France will maintain operations on the historic "Navette" routes of Marseille, Nice and Toulouse from Paris Orly airport, while Hop! will refocus on Lyon. Transavia will begin operating domestic routes, in addition to its continued development towards other European destinations.

Manage costs

The fifth lever of transformation is reducing Group costs and non-essential Capex investment spend.

Key measures to structurally improve future unit costs are being implemented throughout each of the Group's business units, such as a stringent policy to cancel or delay non-essential and non-fleet Capex investments, including IT, Ground and real estate investment projects.

In addition, Air France-KLM has implemented a so-called "control tower" procedure to scrutinise all controllable external expenses, and has frozen contracting of external staff.

Finally, new initiatives linked to transformation to further simplify the support functions have been identified and added to the list of objectives.

1.1.2 Business review

Network business: Recovery visible only in June while Cargo continued to perform strongly

Network	Second Quarter			First Half		
	2021	Change	*Change at constant currency*	2021	Change	*Change at constant currency*
Total revenues *(€m)*	2,363	*+151.8%*	*+158.3%*	4,221	*-19.1%*	*-17.1%*
Scheduled revenues *(€m)*	2,187	*+164.5%*	*+171.6%*	3,899	*-20.4%*	*-18.2%*
Operating result *(€m)*	(654)	*+469*	*+477*	(1,715)	*+137*	*+127*

Second quarter 2021 revenues increased by 158.3% at constant currency to €2,363 million. The operating result amounted to €(654) million, a €477 million increase at constant currency compared to last year.

Passenger network: Caribbean & Indian Ocean, Africa & Middle East, Europe and French Domestic were the most resilient areas

Passenger network	Second Quarter			First Half		
	2021	Change	*Change at constant currency*	2021	Change	*Change at constant currency*
Passengers *(thousands)*	5,853	*+418.9%*		10,321	*-38.9%*	
Capacity *(ASK m)*	36,417	*+315.5%*		70,003	*-1.6%*	
Traffic *(RPK m)*	15,930	*+388.5%*		29,363	*-44.7%*	
Load factor	43.7%	*+6.5 pt*		41.9%	*-32.7 pt*	
Total passenger revenues *(€m)*	1,468	*+294.5%*	*+301.7%*	2,487	*-40.5%*	*-39.3%*
Scheduled passenger revenues *(€m)*	1,392	*+315.2%*	*+324.3%*	2,356	*-41.2%*	*-39.7%*
Unit revenue per ASK *(€ cts)*	3.82	*-0.1%*	*+2.1%*	3.37	*-40.2%*	*-38.7%*

During last year's Second quarter, the passenger network activity was heavily impacted by the Covid-19 crisis and almost came to a standstill. This year, capacity in Available Seat Kilometers in the Second quarter was 315.5% higher than last year, but remained however at 48% of its 2019 Second quarter level. Thanks to the Group's balanced network and the strong Cargo performance, the passenger network was in line with the Group's guidance provided during the First quarter 2021 results presentation.

The Antilles, Greece and French domestic were amongst the best performing routes. Again this quarter, the Group operated more capacity than its main European competitors.

During the Second quarter, Air France added three Airbus 350-900s to the fleet and KLM Cityhopper welcomed two Embraer 195 E2s. With these investments, the Group continues to build an efficient fleet and shows its sustainable commitment.

Cargo business: Continued strong performance from Cargo

Cargo	Second Quarter			First Half		
	2021	**Change**	***Change at constant currency***	**2021**	**Change**	***Change at constant currency***
Tons *(thousands)*	273	*+83.4%*		541	*+38.2%*	
Capacity *(ATK m)*	2,623	*+66.0%*		5 311	*+11.3%*	
Traffic *(RTK m)*	2,092	*+77.5%*		4 166	*+38.4%*	
Load factor	79.8%	*+5.2 pt*		78.4%	*+15.3 pt*	
Total cargo revenues *(€m)*	894	*+58.1%*	*+63.0%*	1,733	*+67.9%*	*+74.0%*
Scheduled cargo revenues *(€m)*	795	*+62.0%*	*+66.9%*	1,543	*+73.4%*	*+79.5%*
Unit revenue per ATK *(€ cts)*	30.31	*-2.4%*	*+0.5%*	29.06	*+55.8%*	*+61.3%*

Compared to the Second quarter of 2020, capacity increased by 66% in Available Ton Kilometers. Despite this increase in capacity, the load factor gained 5.2 points and the unit revenue per ATK at constant currency improved by 0.5%. Compared to 2019, cargo capacity remains limited while demand remains high resulting in high Revenue Ton Kilometers and Revenues.

At the moment, the Group is transporting more than 100 shipments of Covid-19 vaccines per month. The distribution of vaccines continues to gradually increase and the Group expects further growth in the Third quarter, notably to Africa and South America.

During the First half year of 2021, the Sustainable Aviation Fuel (SAF) Cargo program welcomed 22 partners, showing the sustainable commitment of Air France-KLM Cargo and its partners.

Transavia: Operating loss of €(98) million in the Second quarter

Transavia	Second Quarter		First Half	
	2021	**Change**	**2021**	**Change**
Passengers *(thousands)*	1,175	*+1,208.9%*	1,527	*-37.4%*
Capacity *(ASK m)*	3,240	*+1,069.2%*	4,251	*-17.8%*
Traffic *(RPK m)*	1,939	*+972.0%*	2,522	*-45.6%*
Load factor	59.9%	*-5.4 pt*	59.3%	*-30.4 pt*
Total passenger revenues *(€m)*	126	*+655.4%*	163	*-37.1%*
Unit revenue per ASK *(€ cts)*	3.88	*-29.0%*	3.83	*-19.1%*
Unit cost per ASK *(€ cts)*	6.90	*-84.8%*	8.96	*+5.9%*
Operating result *(€m)*	(98)	*+13*	(218)	*-25*

The Second quarter operating result was a loss of €(98) million owing to the ongoing travel restrictions in Europe and North Africa. As the production levels in the Second quarter of last year were close to zero due to an almost-total production freeze, the activity level in the Second quarter 2021 was around ten times higher than last year. On this increased capacity, the load factor lost 5.4 points compared to last year at a level of 59.9%.

In the first half of 2021, the number of Transavia aircraft increased by nine as part of the growth strategy for Transavia France. Transavia is well positioned to capture the leisure traffic recovery seen since June, being a major opportunity for the Group to gain competitiveness.

Maintenance business: Second quarter 2021 operating result around breakeven

Maintenance	Second Quarter			First Half		
	2021	**Change**	***Change at constant currency***	**2021**	**Change**	***Change at constant currency***
Total revenues *(€m)*	679	*+35.5%*		1 302	*-20.6%*	
Third-party revenues *(€m)*	255	*+14.9%*	*+31.0%*	514	*-28.3%*	*-18.5%*
Operating result *(€m)*	(3)	315	319	(10)	311	329
Operating margin *(%)*	(0.4)%	*+63.0 pt*	*+68.0 pt*	(0.8)%	*+18.8 pt*	*+21.1 pt*

The Second quarter operating result stood at €(3) million, an increase of €319 million at constant currency versus the Second quarter 2020.

In the Second quarter of 2020, the maintenance business had recorded one offs linked to the Covid-19 crisis amounting to €203 million; excluding the one-off effect, the increase in the operating result in the Second quarter this year is mainly explained by the operational improvement and cost savings.

Total revenues increased by 35.5% in the Second quarter while third party revenues rose by 14.9% and internal revenues increased by 51.9%. This increase in internal revenues is mainly related to an increase in flight hours compared to the very low flight hours during the Second quarter 2020. The rise in external revenues was mainly driven by the components business.

Air France-KLM Group: EBITDA loss reduced to €(0.2) billion

Air France-KLM	Second Quarter			First Half		
	2021	**Change**	***Change at constant currency***	**2021**	**Change**	***Change at constant currency***
Capacity *(ASK m)*	39,657	*+338.6%*		74,254	*-2.7%*	
Traffic *(RPK m)*	17,869	*+419.2%*		31,884	*-44.8%*	
Passenger unit revenue per ASK* *(€ cts)*	3.83	*-1.2%*	*+0.8%*	3.39	*-39.1%*	*-37.6%*
Group unit revenue per ASK *(€ cts)*	5.83	*-37.4%*	*-35.7%*	5.47	*-18.8%*	*-16.7%*
Group unit cost per ASK *(€ cts)* at constant currency	7.73	*-70.8%*	*-70.8%*	8.07	*-17.9%*	*-14.2%*
Revenues *(€m)*	2,750	*+132.7%*	*+143.1%*	4,910	*-20.8%*	*-18.0%*
EBITDA *(€m)*	(248)	+532	+539	(874)	-34	-26
Operating result *(€m)*	(752)	+801	+808	(1,931)	+437	+442
Operating margin *(%)*	(27.3)%	*+104.0 pt*	*+109.4 pt*	(39.3)%	*-1.1 pt*	*+0.1 pt*
Net income - Group part *(€m)*	(1,489)	*+1 123*		(2,970)	*+1,443*	

**Aggregate of Passenger network and Transavia unit revenues*

In the Second quarter 2021, the Air France-KLM Group posted an operating result of €(752) million, up by €801 million compared to last year.

The net result amounted to €(1,489) million in the Second quarter 2021, an increase of €1,123 million compared to last year. Last year's Second quarter was heavily impacted by the recording of exceptional accounting items due to Covid-19 (impairment for the accelerated phase-out of Airbus 380s and Airbus 340s, fuel "over hedge" and a restructuring cost provision for the Air France and KLM voluntary departure plans).

Following the conversion of KLM's defined benefit pension schemes into collective defined contribution schemes for Cockpit and Cabin staff in 2017, the KLM ground staff pension fund has also now moved to a defined contribution scheme. This leads to more predictable annual contributions and less volatility on the Group's Balance Sheet. Mainly due to the derecognition of the KLM ground staff pension fund the other non-current income and expenses showed in Q2 a negative amount of €(849) million.

The Second quarter 2021 unit cost decreased by 71%, primarily caused by an increase of capacity

On a constant currency and fuel price basis, unit costs were down 71% in the Second quarter 2021.

All cost items, except other external expenses, increased in the Second quarter 2021 compared to last year due to an increase in capacity of 338.6%.

Group net employee cost were up 21.8% mainly due to less government support. The FTE reduction did not compensate fully this gap as indicated during the Fourth quarter 2020 results presentation.

Second quarter: Adjusted operating free cash flow positive. Change in Working Capital Requirement driven by improved advanced ticket sales

	Second quarter		Half year	
In € million	**2021**	**Change**	**2021**	**Change**
Cash flow before change in WCR and Voluntary Departure Plans, continuing operations (€m)	-417	*+744*	-1,162	*+169*
Cash out related to Voluntary Departure Plans (€m)	-80	*-74*	-125	*-110*
Change in Working Capital Requirement (WCR) (€m)	1,211	*+1,129*	1,120	*+577*
Net cash flow from operating activities (€m)	**714**	**+1,799**	**-167**	**+636**
Net investments* (€m)	-287	*-33*	-534	*+578*
Operating free cash flow (€m)	**427**	***+1,766***	**-701**	**+1,214**
Repayment of lease debt	-217	*-55*	-433	*-21*
Adjusted operating free cash flow**	**210**	***+1,711***	**-1,134**	***+1,193***

** Sum of "Purchase of property, plant and equipment and intangible assets" and "Proceeds on disposal of property, plant and equipment and intangible assets" as presented in the consolidated cash flow statement.*

*** The "Adjusted operating free cash flow" is operating free cash flow after deducting the repayment of lease debt.*

The Group generated adjusted operating free cash flow in the Second quarter 2021 of €210 million, an increase of €1,711 million compared to last year, mainly driven by improved advanced tickets sales.

In € million	**30 Jun 2021**	**31 Dec 2020**
Net debt	8,344	11,049
EBITDA *trailing 12 months*	(1,723)	(1,689)
Net debt/EBITDA *trailing 12 months*	**na**	**na**

Q2: Performance improved versus last year although still negatively impacted by travel restrictions

	Second quarter		Half year	
	2021	**Change**	**2021**	**Change**
Air France Group Operating result (€m)	(566)	*+492*	(1,406)	*+188*
Operating margin (%)	(34.4)%	*+155.1 pt*	(47.1)%	*-2.5 pt*
KLM Group Operating result (€m)	(185)	*+308*	(522)	*+246*
Operating margin (%)	(15.3)%	*+55.0 pt*	(24.4)%	*+2.6 pt*

1.1.3 The Air France-KLM fleet

At June 30, 2021, the Air France-KLM Group's fleet totalled 542 aircraft of which 517 in operation, versus respectively 546 and 513 aircraft at December 31, 2020.

The main operational fleet was composed of 414 aircraft (409 aircraft at December 31, 2020). The breakdown of this fleet was 159 long-haul aircraft (157 at December 31, 2020), six freighters (six freighters at December 31, 2020) and 249 medium-haul aircraft (246 at December 31, 2020), including 89 aircraft in the Transavia Group fleet (79 aircraft at December 31, 2020).

The regional fleet in operation was composed of 103 aircraft (104 at December 31, 2020).

At June 30, 2021, the average age of the aircraft in the operational fleet was 12.1 years, of which 11.8 years for the long-haul fleet, 13.4 years for the medium-haul fleet, 18.3 years for the cargo fleet and 9.1 years for the regional fleet, compared with 12.1 years at December 31, 2020, of which 12.0 years for the long-haul fleet, 13.2 years for the medium-haul fleet, 17.8 years for the cargo fleet and 9.2 years for the regional fleet.

At June 30, 2021, 37.8% of the total Group fleet was fully owned (39.2% at December 31, 2020), 12.9% was under finance lease (13.7% at December 31, 2020) and 49.3% was under operating lease (47.1% at December 31, 2020).

At June 30, 2021, excluding operating leases and after the delivery of six aircraft under Group ownership, there were firm orders outstanding for 96 aircraft. Options stood at 58 aircraft (58 as of December 31, 2020).

Change in the Air France-KLM Group order book (1)	December 31, 2020	Deliveries during the period	New orders	Option conversions	June 30, 2021
Main fleet	102	6	-	-	96
Regional fleet	0	0	-	-	-
Total	102	6	-	-	96

(1) Excluding operating leases

Change in the Air France-KLM Group option portfolio (1)	December 31, 2020	Exercized during the period	Options cancelled or expired	New options	June 30, 2021
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 2021, the Air France Group thus:

- ✓ In long-haul, took delivery of four new A350-900s,
- ✓ In HOP!, sold five CRJ700s and four Embraer 145s,
- ✓ In Transavia France, took delivery of ten B737-800s under operating lease.

For its part, KLM welcomed a further two new 777-300ERs to its fleet and retired two B747-400 Combis and three B737-700s from operational service. KLM Citihopper welcomed its first four Embraer 195 E2s while Transavia Netherlands retired one B737-700 from its fleet.

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 Air France, the introduction of the A220-300 as of the 2021 second half will also participate in this major drive on fleet modernization and emission reduction. 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 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, 2021

	AF (incl. HOP!)	KL (incl. KLC &Martinair)	Transavia France	Transavia NL	Owned	Finance lease	Operating lease	Total
Long-haul	**107**	**63**	0	0	**71**	**30**	**69**	**170**
B747-400								
B777-300	43	16			20	15	24	59
B777-200	21	15			26		10	36
A350	10				2	5	3	10
B787-10		6			3	3		6
B787-9	10	13			5	6	12	23
A380-800	8				4	1	3	8
A340-300								
A330-300		5					5	5
A330-200	15	8			11		12	23
Medium-haul	**112**	**49**	**50**	**39**	**75**	**16**	**159**	**250**
B737-900		5			5			5
B737-800		31	50	35	31	8	77	116
B737-700		13		4	3	4	10	17
A321	19				11		8	19
A320	44				4	4	36	44
A319	31				13		18	31
A318	18				8		10	18
Regional	**63**	**53**	0	0	**55**	**24**	**37**	**116**
Canadair Jet 1000	14				14			14
Canadair Jet 700	6				6			6
Embraer 190	17	32			11	10	28	49
Embraer 175		17			3	14		17
Embraer 170	15				10		5	15
Embraer 145	11				11			11
Embraer 195 E2		4					4	4
Cargo	**2**	**4**	0	0	**4**	0	**2**	**6**
B747-400BCF		1			1			1
B747-400ERF		3			3			3
B777-F	2						2	2
Total AF-KLM	**284**	**169**	**50**	**39**	**205**	**70**	**267**	**542**

1.1.4 Highlights

Covid-19 public health crisis – First half 2021

In early 2021, the public health crisis continues to significantly impact the Group's activity.

In view of the pandemic's progressive spread and the unfolding developments, the current and future measures implemented by governments in numerous countries could continue to disrupt the Group's activity for an indeterminate period. Within this context, several countries in which the Group operates again implemented lockdowns and other health measures in the 2021 First half in response to the growing spread of the pandemic.

Since June, the first signs of recovery have been visible in the booking trend thanks to waived or eased travel restrictions in Europe due to the rise of vaccination rate across all countries. The reopening of the North Atlantic for American citizens to visit Europe has also resulted in an improved booking trend. The outlook for the Group can be found on page 30 of this First Half Financial Report.

REFINANCING AND RECAPITALIZATION

Refinancing and recapitalization

Extension to the loan guaranteed by the French State (*Prêt Garanti par l'État Français* – PGE)

On February 16, 2021, Air France-KLM exercized the extension option provided in the contract. The loan guaranteed by the French State (PGE) was thus extended for an additional two-year period, i.e. until May 6, 2023 (see Note 30.3 "Financial support by the French and Dutch States" in section 5.6 of the 2020 Universal Registration Document).

Plan for capital-strengthening measures

On April 6, 2021, Air France-KLM announced a plan of capital-strengthening measures to reinforce its balance sheet, prepare for the recovery and reposition the Group on a sustainable financial trajectory.

- ✓ The Air France-KLM Group announced the following measures concerning Air France, which were approved by the European Commission in its decision to authorize €4 billion of French State measures to recapitalize Air France and its holding company:

  ● A capital increase of up to €1 billion, with a priority subscription period for shareholders, subject to market conditions and prior approval of the prospectus by the *Autorité des Marchés Financiers* (the "AMF") and,

  ● Simultaneously, the conversion of the €3 billion French State direct loan drawn down into perpetual hybrid bond instruments.

- ✓ The Dutch State is continuing discussions with the European Commission regarding potential capital-strengthening measures for KLM.

- ✓ Further measures to strengthen the balance sheet are currently under consideration with several steps to be taken before the 2022 Annual General Shareholders' Meeting.

Success of the Air France-KLM Group's capital increase raising approximately €1.036 billion

Within the framework of the recapitalization plan, on April 12, 2021, the Air France-KLM Group launched a capital increase without shareholders' preferential subscription rights by way of a public offering and with a priority subscription period on an irreducible and reducible basis granted to existing shareholders (the **"Capital Increase"**), for an amount of approximately €988 million, likely to be increased to a maximum of €1,136 million in the event of the exercise in full of the increase option (**"Increase Option").**

On April 19, 2021, the Air France-KLM Group announced the success of its capital increase for an amount of approximately €1,036 million (after exercize in full of the Increase Option).

The proceeds of the Capital Increase were allocated to strengthening the equity of Air France. Air France is using the allocated amount to consolidate its liquidity and finance general corporate purposes in the context of the Covid-19 crisis. The Group also reiterated its economic, financial and environmental commitments made within the framework of the loan from the French State and reflected in its transformation plan.

The Capital Increase, including the private placement, the priority offer and the public offer, attracted strong investor demand, which enabled the exercise in full of the Increase Option. It resulted in the issuance of 213,999,999 new shares (the **"New Shares"**) at a price per share of €4.84, representing c.50% of the Company's existing share capital.

Orders placed in the public offering were allocated in full, for an amount of approximately €2 million. Given the demand and the number of new shares subscribed for by the shareholders during the priority subscription period on both an irreducible and reducible basis (*à titre irréductible et réductible*), the orders placed in the private placement were partially reduced to an amount of approximately €252 million.

In the context of the priority subscription period, the Company's existing shareholders subscribed to 161,498,962 New Shares, representing approximately €782 million, i.e. 75% of the total amount of the Capital Increase, of which €266 million on an irreducible basis.

As per their subscription commitments, and given the allotment scale of reducible orders, the French State and China Eastern Airlines subscribed within the context of the priority period for respectively 122,560,251 New Shares (i.e. 57% of the total amount of the Capital Increase) and 23,944,689 New Shares (i.e. 11% of the total amount of the Capital Increase).

Following the completion of the Capital Increase, the Company's share capital increased to €642,634,034, divided into 642,634,034 shares, each with a nominal value of one euro.

The settlement and delivery and the admission to trading on the regulated markets of Euronext Paris and Euronext Amsterdam of the New Shares took place on April 22, 2021.

Successful issue of undated deeply subordinated notes in three €1 billion tranches, for the amount of €3 billion

On **April 20, 2021, a**s part of its recapitalization plan announced **on April 12, 2021**, the Company issued undated deeply subordinated notes (recorded as IFRS equity in the Company's consolidated financial statements) for a total amount of €3 billion, subscribed in full by the French State by way of setoff on claims it holds on the Company pursuant to the shareholder loan (the "ACC") granted in May 2020 and fully drawn for the amount of €3 billion (the "Deeply Subordinated Notes").

This issue is composed of three tranches with a perpetual maturity and a nominal amount of €1 billion each, with respective first redemption options (Call) at 4, 5 and 6 years and then redeemable on each interest payment date, and bearing interest at 7.00%, 7.25% and 7.50% respectively until these dates.

These initial interest rates for each tranche will increase to 8.50%, 8.00% and 8.00%, respectively, on the first respective early redemption date at the option of the Company, of the relevant tranche. These interest rates will then be reset every year from April 20, 2028, on the basis of the 12-month Euribor rate plus a margin of 10.40%, it being specified that the applicable 12-month Euribor rate will not be lower than -0.45%. The Company will have the option to defer the payment of interest at its discretion, in whole or in part. Deferred interest on the Deeply Subordinated Notes will be accrued and capitalized.

Payment of interest will nevertheless be mandatory notably in the event of the payment of dividends or repurchase of equity securities, subject to certain customary exceptions.

These Deeply Subordinated Notes may be converted by way of set-off (compensation de créances) in the context of future issuances of quasi-capital securities or capital increases. In the event of (i) a third party, acting alone or in concert, holding more than 30% of the Company's share capital or voting rights, (ii) non-approval by the shareholders' general meeting of a project of issuance of shares or any other securities giving right to shares of the Company, submitted by the Board of Directors, enabling the French State to convert into ordinary shares of the Company or any other securities giving right to shares of the Company all or part of the Deeply Subordinated Notes or (iii) implementation of an issuance of shares or other securities giving right to shares of the Company (with the exception of transactions implemented with preferential subscription rights or with a priority subscription period and which may be subscribed by way of set-off (*compensation de créances*), transactions reserved for the French State or transactions without preferential subscription rights by way of "private placement" previously authorized by the French State), without the prior consent of the French State, the Company may redeem (a) in the event referred in (i) and (ii) above, in whole, and (b) in the event referred to in (iii) above, in whole or in part, the Deeply Subordinated Notes outstanding. Failing which the applicable interest rate shall be increased by an additional margin of 5.50% per annum from the date of occurrence of any of the events referred to in (i), (ii) or (iii). Such interest rate adjustments shall be cumulative, without exceeding 11.00% per annum.

This transaction reinforces Air France's equity by €3 billion in accordance with IFRS accounting standards, without impact on cash-flow, while increasing the flexibility of its debt repayment profile.

Air France-KLM and China Eastern Airlines reinforce their partnership

On April 12, in the context of the participation of China Eastern Airlines in Air France-KLM's capital increase, both airline groups decided to extend the scope of their partnership through:

- ✓ An intensified commercial cooperation and a collaboration extended to non-commercial-related activities (e.g. gound services, catering or maintenance),
- ✓ An increased footprint on the Beijing market, with the Paris-Beijing and Amsterdam-Beijing routes joining the current joint-venture between Air France-KLM and China Eastern Airlines, when conditions are satisfied.

Air France-KLM and China Eastern Airlines are historical partners, with a codeshare cooperation that started in 2000 on the Paris-Shanghai route, a first Joint-Venture agreement signed between Air France and China Eastern Airlines in 2012, and an extension of this agreement to KLM in 2016. China Eastern Airlines took an equity stake in Air France-KLM in 2017, shaping the ambition for a long-term strategic partnership.

With this reinforced cooperation between Air France-KLM and China Eastern Airlines, the two airline groups are clearly paving the way for the creation of the most efficient and powerful Joint-Venture between Europe and China.

SUSTAINABLE DEVELOPMENT

Air France-KLM launches its “Sustainable Aviation Fuel” program dedicated to corporate customers

On January 26, 2021, Air France-KLM launched an innovative program enabling companies to play an active role in the future of sustainable travel.

After an estimate of the CO_2 emissions associated with their travel, Air France and KLM corporate customers will be able to determine an annual contribution they wish to devote to the Corporate SAF (Sustainable Aviation Fuel) program. The Air France-KLM Group will invest all of these funds in the sourcing and consumption of SAF. This will support the creation of a sustainable aviation fuel industry that guarantees increasingly eco-responsible air transportation.

By investing in this Corporate program, companies are taking concrete action to reduce CO_2 emissions and are contributing to the ecological transition of air transportation by accompanying and supporting innovative solutions.

For many years, Air France and KLM have been involved in research and development programs in the field of alternative fuels. In 2011, the two airlines were among the first to operate commercial flights, demonstrating a possible alternative to fossil fuels.

Sustainable aviation fuels can currently be made from waste oils, waste products and forest residues. They can be incorporated into jet fuel without requiring any engine modifications. Their use can reduce CO_2 emissions by more than 85% compared to conventional fuel. Today’s main challenge is the development of a sustainable industry to which Air France and KLM’s corporate customers will be able to make a very concrete contribution.

At a time when awareness of climate issues is at the heart of the strategy of many companies, the Air France-KLM Corporate SAF program gives customers the opportunity to become players in the reduction of CO_2 emissions within the context of their business trips.

Air France-KLM, Total, the ADP Group and Airbus join forces to decarbonize air transportation and operate the first long-haul flight powered by Sustainable Aviation Fuel (SAF) produced in France.

On May 18, 2021, Air France-KLM, Total, the ADP Group and Airbus joined forces to operate the first long-haul flight with sustainable aviation fuel or SAF ("Sustainable Aviation Fuel"), produced in France. Air France Flight 342 took off at 15h40 from Paris-Charles de Gaulle airport’s Terminal 2E bound for Montreal (Canada) with its tanks filled for the first time with sustainable aviation fuel produced in Total’s French plants.

This flight is a tangible result of the four groups’ shared ambition to decarbonize air transportation and to develop a SAF supply chain in France, a prerequisite to the generalization of their use in French airports.

No modifications to storage and distribution infrastructure, aircraft or engines are required to incorporate biofuels. Their gradual introduction worldwide should significantly reduce CO_2 emissions from air transportation, in line with the United Nations’ Sustainable Development Goals.

The biofuel used for this flight was made from waste and residue sourced from the circular economy. Total produced the SAF from used cooking oil at its La Mède biorefinery in southern France and at its Oudalle factory near Le Havre, without using any virgin plant-based oil.

This first 100% French SAF received ISCC-EU certification from the International Sustainability & Carbon Certification System, an independent organization that guarantees sustainability. The 16% blend on this flight avoided the emission of 20 tons of CO_2.

By developing and supporting France’s first industrial SAF production, Air France-KLM, Total, ADP Group and Airbus are paving the way for France to drive innovation in the energy and environmental transition. French legislation calls for aircraft to use at least 1% SAF by 2022 for all flights originating in France, ahead of the European ambition scheduled to gradually ramp up to 2% by 2025 and 5% by 2030, as part of the European Green Deal.

To meet these legal requirements, Total will also produce SAF at its Grandpuits zero-crude platform near Paris as from 2024.

This flight also illustrates the synergy of the different drivers for reducing aviation's environmental footprint, i.e., sustainable aviation fuel, latest-generation aircraft and electrification of ground operations. The Airbus A350 used for the flight consumes 25% less fuel than its predecessor.

The aircraft was serviced by the first 100% all-electric refuelling truck, developed in France with Total's expertise, and all of the ground support equipment used by Air France was fully electric powered.

Air France-KLM is a pioneer in testing sustainable aviation fuels. KLM made its first SAF-powered flight in 2009. Since then, the Group has multiplied the number of innovative programs. Between 2014 and 2016, for example, it carried out 78 Air France flights powered by a 10% SAF blend in collaboration with a Total affiliate. These tests showed that the use of SAF has no impact on the reliability of airline operations. Air France-KLM intends to strengthen its leadership in SAF in the years ahead, while contributing to research on future generations of aircraft.

In addition to this flight, Airbus is conducting several series of tests to certify airliners to fly with 100% SAF in the coming decades. Airbus has also installed SAF refueling stations at its industrial facilities so it can be used in production operations, as well as for aircraft deliveries. These installations contribute to Airbus's ambition to decarbonize all of its industrial operations.

Winners of the worldwide call for expressions of interest regarding the setup of a hydrogen branch in airports

On May 27, 2021, the Paris Region, Choose Paris Region, the ADP Group, Air France-KLM and Airbus announced the winners of the worldwide call for expressions of interest to build a hydrogen branch in airports.

On February 11, ADP Group, Air France-KLM, Airbus and the Île-de-France region, with the support of Choose Paris Region, had launched a call for expressions of interest named H2 HUB AIRPORT to explore the opportunities offered by hydrogen and to boost air transport decarbonization,

This international call for expressions of interest is part of the energy transition strategy under way in France and supported by the European Commission which is set to continue with the arrival of the zero-emission aircraft planned for 2035.

Aware that the advent of hydrogen will revolutionize the way airport infrastructures are designed and operated, the partners want to anticipate and support developments that should help transform the Paris airports into veritable 'hydrogen hubs'. The international call for expressions of interest – launched with the support of the Choose Paris Region agency, which is responsible for the attractiveness and international promotion of the Île-de-France region – aims to build a powerful airport ecosystem federated around hydrogen, major industrial corporations, SMEs, startups, laboratories and universities. This open innovation initiative is a key step to initiate this technological breakthrough across the entire hydrogen value chain within the airport city.

The five partners share a common ambition: to identify and qualify research advances in research and technologies, and then to test the economically viable solutions that will meet the needs of hydrogen at an airport, to prepare in the medium term the challenges of its supplies and uses in a larger scale, particularly with a view to operate a future hydrogen-powered aircraft.

This unprecedented call for expressions of interest focuses on three main themes:

- ✓ Storage, transport and distribution of hydrogen (gaseous and liquid) in an airport environment (storage systems, micro-liquefaction, aircraft fueling, etc.);
- ✓ Diversification of hydrogen use cases in airports and in aeronautics (ground handling vehicles and equipment, rail transport at airports, energy supply for buildings or aircraft during ground operations, etc.);
- ✓ Circular economy around hydrogen (recovery of hydrogen dissipated during liquid hydrogen fueling, recovery of a by-product from a reaction to produce decarbonated hydrogen, etc.).

This initiative, with an international dimension and unprecedented in the air transport industry, proved to be a big success with 124 applications received. Eleven winners have been selected to contribute to the surge of the hydrogen airport ecosystem of tomorrow. The energy transition in air transport is underway and the hydrogen airport ecosystem is one of the essential operational building blocks to shape the arrival of the Airbus hydrogen aircraft planned for 2035, while promoting the short-term development of hydrogen uses on the ground.

- ✓ Upstream of the value chain: production, storage, transport and distribution of hydrogen (gaseous and liquid) in the airport environment (storage systems, micro-liquefaction, aircraft fueling, etc.);
- ✓ Downstream of the value chain: diversification of hydrogen uses and services in airport and aeronautical (ground handling vehicles and equipment, rail transport at airports, energy supply for buildings or aircraft during ground handling operations, etc.);
- ✓ Circular economy around hydrogen (recovery of hydrogen dissipated during liquid hydrogen fueling, recovery of a by-product from a reaction to produce decarbonized hydrogen, etc.).

The H2 HUB AIRPORT call for expressions of interest allowed for the auditioning of major industrial players, SMEs, startups and entities from the academic and research world, sometimes gathered in consortium. To select the winners, the jury relied on the expertise of Philippe Boucly, Chairman of France Hydrogène, and Emmanuel Julien, Senior Advisor at Enea Consulting, a firm specialising in energy transition.

The 11 winning projects are key building blocks for the building and the expansion of the hydrogen value chain in an airport environment and, through their complementarity, cover all the specific issues for an airport ecosystem, with different timeframes: some projects are in the R&D phase, while others, more advanced, could be the subject of displays or commissioning in the medium term. Over the next few weeks, working meetings between partners and winners will be held to discuss the issues at stake, to share roadmaps of the various projects. The purpose is to contribute to surging long-term solutions that are economically feasible, and to be able to carry out the first on-site experiments from 2023.

The Air France-KLM Group's 2020 Sustainable Development Report

On June 2, 2021, Air France-KLM published its 2020 Sustainable Development Report. This 100% digital report, available at www.airfranceklm.com in the sustainable development section, presents the strategy, commitments and actions undertaken by the Group in 2020 to accelerate its transition and make Air France-KLM a European leader in more sustainable air travel.

In 2020, air transport was hit by the biggest crisis in its history. Despite the economic difficulties, the Group has remained mobilized to achieve its ambitious objectives of reducing its environmental footprint. By 2030, the Group will have halved its CO2 emissions per passenger/km compared to 2005 and will have achieved carbon neutrality for its ground operations. To achieve this, short, medium and long-term levers are being activated, including fleet renewal and modernization, the incorporation of sustainable aviation fuels and eco-piloting. The Group is also strengthening its commitment to corporate social responsibility: all of the Group's airlines are taking action to promote inclusion and diversity in all business lines through concrete actions aimed at fostering equal opportunities and well-being for all.

New pension scheme agreement for KLM Ground Staff. The KLM Ground Staff pension fund now also a Defined Contribution Scheme.

On June 11, 2021, following the conversion of the KLM pension schemes into collective defined contribution schemes for Flight Deck and Cabin Crews in 2017, an agreement was also reached on the KLM Ground staff fund. This implies that all major KLM pension funds now (finally) have a collective defined contribution scheme. This will lead to more predictable annual contributions and less volatility on the balance sheet.

A shift fully in line with the general trend in The Netherlands. KLM and the five Dutch ground unions in KLM reached an agreement allowing the modification of the Ground Staff pension scheme as per January 2021. This formal agreement was reached between KLM and the Board of the KLM Ground pension fund.

In summary:

- ✓ This agreement will eliminate the risk for deficit payments and thus will avoid significant variances in the equity position.
- ✓ The amended pension scheme will qualify as a collective defined contribution scheme under IFRS.
- ✓ KLM agreed to a modest increase of the yearly pension premiums as from January 2021.
- ✓ Following changes in Dutch pension regulation since 2014, lower pension premiums have been paid by KLM to the KLM Ground pension fund.

As agreed with the unions, the savings since 2014 have been ring fenced by KLM and amount to €49 million. This amount was paid as a one-off contribution to the Ground pension fund in June 2021. According to IAS 19, this de-risking of the Ground pension fund will lead to the derecognition of the so-called “Pension Asset” on Air France KLM’s balance sheet. The pension asset amounted to €211 million on the balance sheet as of December 31, 2020. It increased by €340 million during Q1 2021 as a result of the higher discount rate and the positive return on assets under management. As per March 31, 2021, the pension asset amounted to €551 million (€414 million net of tax). The impact of the derecognition of this pension asset (non cash), the one-off contribution paid in June 2021 and the additional pension premiums from January through May 2021 has been booked in the income statement as a non-current expense amounting to €938 million (€704 million net of tax). The actual amounts will be calculated and recorded in Q2 2021. With this agreement, KLM has finalized the de-risking of the three main Dutch KLM pension schemes, thus contributing to significantly reducing the volatility of the annual pension contributions and the Group’s balance sheet. In addition, the Group balance sheet will no longer show a “Pension asset” as from June 2021.

Commitments vis-à-vis the European Commission – State aid

In 2020, the implementation of the measures to reinforce the Group’s liquidity (a loan guaranteed by the French State (PGE) in the amount of €4 billion and a €3 billion loan from the French State, together with a revolving credit facility of €2.4 billion guaranteed by the Dutch State and a €1 billion loan from the Dutch State), were submitted for the prior approval of the European Commission in accordance with State aid regulations (decisions of May 4, 2020 and July 13, 2020 respectively).

The aforementioned decision of July 13, 2020 relating to KLM was annulled by the General Court of the European Union (*Tribunal de l’Union Européenne*) on May 19, 2021 (following an appeal filed by Ryanair) on the grounds of inadequate reasoning. However, in view of this limited and formal ground for annulment and the Covid-19 crisis making it necessary to provide legal certainty to the Member States' support measures, the General Court suspended the effects of this annulment (the State aid is therefore still approved and not deemed to be annulled), pending the adoption of a new decision with further information from the Commission, at the latest by July 19, 2021. **On July 19, 2021**, the European Commission re-approved the €3.4 billion of liquidity support granted to KLM by the Dutch State. The Commission re-adopted its approval decision taking into account the ruling of the General Court, thus reinforcing the part of its decision aimed at showing that the Dutch State aid had benefited only KLM and that the French State aid had benefited only Air France.

Furthermore, the aforementioned decision of May 4, 2020 concerning Air France was challenged by Ryanair and Malta Air on April 20, 2021 before the General Court of the European Union and is still presumed valid. The written procedure before the General Court of the European Union is ongoing between the petitioners and the Commission. The summary of the pleas of annulment was published on June 7, 2021 and third parties, like the French State, Air France-KLM and Compagnie Air France, can ask to intervene in support of the Commission. In addition, on July 27, 2021, the European Commission adopted a corrective amendment modifying certain aspects of its decision approving the guarantee and the loan from the French State granted to Air France in May 2020. These modifications aim to include additional elements in the initial decision leading to the conclusion that Air France is indeed the only beneficiary of the French State aid, and mitigating the inadequacies of the Air France decision identified by the General Court of the European Union in its ruling relating to the KLM decision of May 19, 2021.

1.1.5 Outlook and subsequent events

Outlook

Since June, first signs of recovery are visible in the booking trend thanks to waived or eased travel restrictions in Europe due to the rise of vaccination rate across all countries. The reopening of the North Atlantic for American citizens to visit Europe also resulted in an improved booking trend.

In this context, the Group expects capacity in Available Seat Kilometers for Air France-KLM Network passenger activity at index in the range of 60% to 70% in the Third quarter 2021 compared to 2019.

Due to the uncertainty on the reopening of the North Atlantic for European citizens and uncertainty concerning travel restrictions waiving, no capacity guidance will be provided for the Fourth quarter 2021.

As of June 30, 2021, the Group has €9.4 billion of liquidity and credit lines at disposal, the Senior bond of €800 million issued by the end of June is not included in this amount yet. This level can be considered comfortable, given the first signs of recovery and the cash requirements for 2021, which include:

- Third quarter 2021 EBITDA expected to be positive
- Net Capex spending expected below €2.0 billion in 2021, and largely funded for fleet investments
- Restructuring cash out below €500 million in 2021, part of which is compensated by the associated reduction in the salary cost.

The Air France-KLM Group continues to focus on its transformation projects in order to reduce its costs and on cash and equity. During the Annual General Meeting in May 2021, extraordinary resolutions were approved by the shareholders, providing the Board of Directors with large flexibility to restore equity. These resolutions could include instruments such as rights issuance, vanilla quasi-equity and equity-linked instruments in order to restore balance sheet and re-profile debt redemptions.

Guidance: Air France-KLM Group medium-term operating margin objective unchanged

The Group accelerates its transformation initiatives and confirms its medium-term financial ambition. Air France-KLM continues to balance its medium-term focus on managing liquidity with the long-term focus on achieving increased competitiveness. To do this, the Group continues to optimize fleet, workforce, network, costs and reinforce his sustainability efforts.

Air France-KLM estimates the number of aircraft in 2022 to be 7% below the number of aircraft in 2019. The Group expects capacity in Available Seat Kilometers back to the 2019 levels in 2024.

At the end of June 2021, KLM managed to decrease the number of FTE by 5,700 compared to December 2019. In Air France (excluding Transavia France subsidiary), the number of FTE decreased by 5,300 end of June 2021 compared to December 2019. The voluntary departure plan continues at Air France (excluding Transavia France), and an additional 3,200 FTE will leave the company by end 2022.

Operating costs will being reduced in 2021 and beyond, with €800 million structural benefits for KLM end 2021 and 1.3 billion euros end 2022 for Air France versus 2019.

The reduction in FTE, amongst other key transformation initiatives, will drive the unit cost down by 8% to 10% (Unit cost including fuel and currency change assumptions) once capacity is back to 2019 level.

The Group's medium-term financial ambition is maintained with Adjusted Operating Free Cash Flow expected to be positive in 2023. The Operating Margin mid-cycle objective is still estimated at 7% to 8%.

The Net debt/EBITDA target ratio of circa 3x in 2023 will be lowered to circa 2x after the expected second step of recapitalization.

Early July, Air France-KLM signed and executed an EMTN Program for a total issuance size of €4.5 billion, to fully support and optimize its overall financing strategy, and opportunistically make use of debt capital market windows through private and public bond issuances. Société Générale is acting as Arranger to the Programme alongside five dealers: CACIB, Deutsche Bank, HSBC, Natixis and Santander. Gide Loyrette Nouel acted as Legal Advisor to Air France-KLM and Allen & Overy as Legal Advisor to the group of dealers.

Subsequent events

Issuance of €800 million of notes in two tranches

On June 24, 2021**,** the Company announced the successful placement of an issue of €800 million of senior notes (**the "Notes"**) via two tranches:

- ✓ A first tranche of senior notes amounting to €300 million with a 3-year maturity and bearing a coupon at an annual rate of 3%.
- ✓ A second tranche of senior notes amounting to €500 million with a 5-year maturity and bearing a coupon at an annual rate of 3.875%.

The net proceeds of this issue will be used to refinance (i) the redemption of the outstanding market debt of the Issuer, and gradually (ii) part of the State aid debt package granted in May 2020.
The settlement and delivery for the issue of Notes took place on July 1, 2021. This transaction is part of the Company's ongoing plan to reinforce the balance sheet, prepare for the recovery and reposition the Group on a sustainable financial trajectory.

EMTN Program

On July 8, 2021, Air France-KLM gained a new financing tool by setting up the Euro Medium Term Note Program (EMTN Program) for the issuance of notes in a total amount of up to €4,500,000,000. The base prospectus for this Program has been approved by the *Autorité des Marchés Financiers (*AMF) and is available on the Air France-KLM website (www.airfranceklm.com/Finance/Financial information/Debt. This EMTN Program will reinforce, support and diversify Air France-KLM's financing and debt financing strategy in the bond markets.

1.1.6 Risk factors

The risk factors to which the Air France-KLM Group is exposed are those outlined in the 2020 Universal Registration Document filed with the AMF on April 7, 2021 under the number D.21-0270. The nature of these risks did not change significantly during the first half of 2021.

1.1.7 Related parties

The information concerning related parties can be found in Note 26 to the consolidated financial statements.

1.2. Corporate governance

The Board of Directors

At June 30, 2021, 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 2021, the composition of the Board of Directors saw a number of changes, as shown in the following table.

Departure	Appointment	Re-appointment
Maryse Aulagnon AGM of May 26, 2021	**Gwenaëlle Avice-Huet** (1) AGM of May 26, 2021	**Leni Boeren** (2) **Independent Board director** AGM of May 26, 2021
		Isabelle Bouillot (3) **Independent Board director** AGM of May 26, 2021
		Anne-Marie Idrac (4) **Independent Board director** AGM of May 26, 2021
		Delta Air Lines Inc. (5) AGM of May 26, 2021
		Jian Wang (6) AGM of May 26, 2021

(1) Ms. Gwenaëlle Avice-Huet was appointed as an independent Board director by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2021, for a four-year term of office, i.e. until the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2024.

(2) The mandate of Ms. Leni Boeren, an independent Board director, was renewed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2021 for a four-year term of office, i.e. until the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2024.

(3) The mandate of Ms. Isabelle Bouillot, an independent Board director, was renewed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2021 for a four-year term of office, i.e. until the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2024.

(4) The mandate of Ms. Anne-Marie Idrac, an independent Board director, was renewed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2021 for a four-year term of office, i.e. until the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2024.

(5) The mandate of Delta Air Lines Inc., whose permanent representative on the Board of Directors has, since February 16, 2021, been Mr. Alain Bellemare, was renewed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2021 for a four-year term of office, i.e. until the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2024.

(6) As proposed by China Eastern Airlines, the mandate of Mr. Jian Wang was renewed by the Air France-KLM Annual General Shareholders' Meeting of May 26, 2021 for a four-year term of office, i.e. until the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2024.

[1] Including two Board directors appointed as proposed by the French State, a Board director appointed as proposed by the Dutch State, a Board director appointed as proposed by Delta Air Lines, Inc., a Board director appointed as proposed by China Eastern Airlines 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. 22-10-7 of the *Code de Commerce* and Article 17-3 of the Articles of Incorporation.

Composition of the Board of Directors at June 30, 2021

Board directors (age at June 30, 2021 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 (71 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 (49 years) British and Canadian	Board director	December 5, 2018	2023 AGM	
Gwenaëlle Avice-Huet (41 years) French	Board director[1]	May 26, 2021	2025 AGM	✓
Leni M.T. Boeren (57 years) Dutch	Board director Member of the Audit Committee and of the Sustainable Development and Compliance Committee	May 16, 2017	2025 AGM	✓
Isabelle Bouillot (72 years) French	Board director Chair of the Remuneration Committee and member of the Audit Committee	May 16, 2013	2025 AGM	✓
Delta Air Lines, Inc. (Represented by Mr. Alain Bellemare) U.S.	Board director[2]	October 3, 2017	2025 AGM	
Cees 't Hart (63 years) Dutch	Board director	May 28, 2019	2023 AGM	
Anne-Marie Idrac (69 years) French	Board director Chair of the Sustainable Development and Compliance Committee	November 2, 2017	2025 AGM	✓
Isabelle Parize (64 years) French	Board director Member of the Remuneration Committee and of the Audit Committee	March 27, 2014	2022 AGM	✓
Jian Wang (47 years) Chinese	Board director Member of the Sustainable Development and Compliance Committee	July 30, 2019	2025 AGM	
Alexander R. Wynaendts (60 years) Dutch	Board director[3] Member of the Appointments and Governance Committee	May 19, 2016	2024 AGM	✓
Dirk van den Berg (67 years) Dutch	Board director[4]	May 26, 2020	2024 AGM	

Board directors elected by the Shareholders' Meeting as proposed by the French State				
Jean-Dominique Comolli (73 years) French	Board director Member of the Remuneration Committee and of the Appointments and Governance Committee	December 14, 2010	2023 AGM	
Astrid Panosyan (49 years) French	Member of the Sustainable Development and Compliance Committee	May 28, 2019	2023 AGM	
Board directors representing the employee shareholders elected by the Shareholders' Meeting				
Paul Farges (50 years) French	Board director representing the employee shareholders (flight deck crew category) Member of the Audit Committee	May 15, 2018	2022 AGM	
François Robardet (63 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 (67 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 (47 years) French	Board director representing the employees Member of the Sustainable Development and Compliance Committee	June 1, 2017	2023 AGM	
Board director representing the employees appointed by the European Works Council				
Mathi Bouts (62 years) Dutch	Board director representing the employees Member of the Sustainable Development and Compliance Committee	October 10, 2017	2023 AGM	

[1] Ms. Avice-Huet was appointed as a member of the Audit Committee by the Board of Directors on July 1, 2021.

[2] Mr. Bellemare was appointed as a member of the Remuneration Committee by the Board of Directors on July 1, 2021.

[3] Mr. Wynaendts was appointed as a member and Chair of the Remuneration Committee by the Board of Directors on July 1, 2021.

[4] Mr. van den Berg was appointed by the Shareholders' Meeting as proposed by the Dutch State. He was also appointed as a member of the Sustainable Development and Compliance Committee by the Board of Directors on July 1, 2021.

Ms. Bouillot was appointed Chair of the Audit Committee by the Board of Directors on July 1, 2021. She remains a member of the Remuneration Committee but has no longer chaired this Committee since July 1, 2021.

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 until June 30, 2021. Mr. Gagey stepped down as Chief Financial Officer on his retirement as of July 1, 2021. Steven Zaat, Chief Financial Officer of Air France, succeeded Mr. Gagey as Chief Financial Officer of Air France-KLM, effective July 1, 2021.

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.

The 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, 2021

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, 2021	Age at June 30, 2021	Sector	Relevant professional experience
Benjamin Smith Chief Executive Officer, Air France-KLM	49 years	Air Transport	30 years
Pieter Elbers President & Chief Executive Officer, KLM	51 years	Air Transport	28 years
Anne Rigail Chief Executive Officer, Air France	51 years	Air Transport	29 years
Frédéric Gagey[4] Chief Financial Officer, Air France-KLM, until June 30, 2021	65 years	Public service Air Transport	7 years 27 years
Pieter Boostma Chief Revenue Officer, Air France-KLM	51 years	Air Transport	25 years
Anne Brachet Executive Vice-President Engineering & Maintenance, Air France-KLM	57 years	Air Transport	25 years
Oltion Carkaxhija Executive Vice-President Transformation, Air France-KLM	45 years	Air Transport	14 years
Angus Clarke Executive Vice-President Strategy, Air France-KLM	46 years	Air Transport	20 years
Adriaan den Heijer Executive Vice-President Cargo, Air France-KLM	51 years	Air Transport	26 years
Jean-Christophe Lalanne Executive Vice-President Information Technology, Air France-KLM	59 years	Industry, IT Air Transport	22 years 16 years
Anne-Sophie Le Lay Corporate Secretary, Air France-KLM and Air France	50 years	Lawyer Legal/Governance Automotive industry Air Transport	6 years 18 years 3 years
Henry de Peyrelongue Executive Vice-President Commercial Sales, Air France-KLM	55 years	Air Transport	30 years
Constance Thio* Executive Vice-President Human Resources, Air France-KLM	51 years	Sustainable Development & Compliance Human Resources Air Transport	6 years 2 years 23 years

* Ms. Constance Thiot is a permanent guest within the Group Executive Committee

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

[4] Mr. Steven Zaat has fulfilled the functions of Chief Financial Officer of Air France-KLM since July 1, 2021.

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 2021, the Air France-KLM stock price decreased by 21%.

	January-June 2021	January-June 2020
Share price high *(In €)*	5.63	10.25
Share price low *(In €)*	4.07	3.60
Number of shares in circulation	642,634,034	428,634,035
Market capitalization at the end of the period *(In € billion)*	2.62	1.73

Information relating to the share capital

At June 30, 2021, the Air France-KLM share capital was composed of 642,634,034 shares with a nominal value of one euro.

Period ended	June 30, 2021	June 30, 2020
Number of shares in circulation	642,634,034	428,634,035
Number of theoretical voting rights	860,613,327	586,779,109
Number of exercizable voting rights	823,911,998	550,084,221
Share capital (in €)	642,634,034	428,634,035

Following the capital increase realized on April 19, 2021, the number of shares increased by 213,999,999 to a total of 642,634,034 shares.

The shares are fully paid up and shareholders can opt to hold them in either registered or bearer form. Since April 3, 2016, pursuant to law, shareholders holding their shares in registered form for at least two years 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 exercizable voting rights		% of theoretical voting rights	
Period ended	**June 30 2021**	**December 31 2020**	**June 30 2021**	**December 31 2020**	**June 30 2021**	**December 31 2020**
Number of shares in circulation/voting rights	642,634,034	428,634,035	823,911,998	550,004,411	860,613,327	586,779,109
French State	28.6%	14.3%	29.7%	22.3%	28.5%	20.9%
China Eastern Airlines	9.6%	8.8%	9.9%	10.5%	11.5%	12.8%
Dutch State	9.3%	14.0%	14.6%	10.9%	13.9%	10.2%
Delta Air Lines, Inc.	5.8%	8.8%	7.0%	10.5%	8.7%	12.8%
Employees (FCPE)	2.5%	3.7%	3.9%	5.8%	3.7%	5.4%
Treasury stock	0.2%	0.3%	0.0%	0.0%	0.3%	0.4%
Others	44.0%	50.1%	34.9%	40.0%	33.4%	37.5%

At June 30, 2021, 75% 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. The shares held by United Kingdom nationals have not been included in the European shareholders.

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Comments on the financial statements

Consolidated results for the first half ended June 30, 2021

Compared with December 31, 2020, the Air France-KLM Group's consolidation scope at June 30, 2021 showed no significant change (see Note 4 in the Notes to the interim consolidated financial statements).

In € million	**June 30, 2021**	**June 30, 2020**	**Change** ***(In %)***
Revenues	4,910	6,201	-21
EBITDA	(874)	(840)	4
Income/(loss) from current operations	(1,931)	(2,368)	-18
Income/(loss) from operating activities	(2,798)	(3,198)	-13
Net income/(loss) - Equity holders of Air France-KLM	(2,970)	(4,413)	-33
Basic earnings/(loss) per share - Equity holders of Air France-KLM *(In €)*	(5.86)	(10.35)	-43

Revenues

In the first half 2021, in view of Covid-19, revenues stood at €4.9 billion versus €6.2 billion in 2020, down by 21% reported and by 18% at constant currency.

Operating expenses

Operating expenses stood at €6.8 billion, i.e. down by 20% compared to last year. For capacity measured in ASK down by 3%, the unit cost per ASK (available seat-kilometer) decreased by 14.2% on a constant currency and fuel price basis (see page 46 for the detailed unit cost calculation).

At €3.6 billion, **external expenses** were down by 19% (€4.4 billion one year earlier).

The breakdown in operating expenses was as follows:

In € million	**June 30, 2021**	**June 30, 2020**	**Change *(in %)***	**Change at constant currency (in %)**
Aircraft fuel	982	1,397	-30	-22
Chartering costs	147	114	+29	+39
Landing fees and air route charges	460	478	-4	-1
Catering	126	178	-29	-27
Handling charges and other operating costs	402	441	-9	-6
Aircraft maintenance costs	792	912	-13	-7
Commercial and distribution costs	131	230	-43	-41
Other external expenses	549	673	-18	-15
Total	**3,589**	**4,423**	**-19**	**-14**

The main changes were as follows:

- **Aircraft fuel:** The fuel bill decreased by 22% (at constant currency). This is explained by a €35 million decrease caused by the volume effect, a fuel efficiency effect (+€49 million) and a fuel hedge impact of +€215 million, all impacted by the Covid-19 crisis and a €16 million increase in the price after hedging.
- **Chartering costs**: chartering costs represent the costs incurred through leasing aircraft capacity from other airlines.
- **Landing fees and air route charges**: landing fees and air route charges for the use of airspace and airports decreased slightly 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 accompanied 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.
- **Other external expenses** principally comprise telecommunication costs, insurance, fees and general and IT sub-contracting costs.

Salaries and related costs stood at €2.40 billion versus €2.93 billion at June 30, 2020, i.e. down by 18% in nominal. Their decrease is due to the decrease in activity and the government support policies in both France and the Netherlands.

Taxes other than income taxes amounted to €69 million versus €80 million at June 30, 2020.

Other income and expenses (+€280 million at June 30, 2021 versus +€393 million at June 30, 2020) were composed of:

- Capitalized maintenance and IT development costs amounting to €290 million as of June 30, 2021 against €349 million as of June 30, 2020.
- Currency hedges for €3 million at June 30, 2021 versus €65 million at June 30, 2020,
- A €15 million expense booked concerning CO_2 emission quotas (€20 million in the previous year).

See Note 9 in the Notes to the interim consolidated financial statements

EBITDA

EBITDA amounted to €(874) million (€(840) million at June 30, 2020).

The contributions to EBITDA by business segment were as follows:

In € million	First half 2021	First half 2020	% change
Network	(896)	(790)	-13
Maintenance	121	9	n.c.
Transavia	(122)	(67)	-83
Others	23	8	+165
Total	**(874)**	**(840)**	**-4**

Amortization, depreciation and provisions

Amortization, depreciation and provisions totaled €1,057 million versus €1,528 million at June 30, 2020.

Income/(loss) from current operations

The **result from current operations** amounted to €(1,931) million (€(2,368) million at June 30, 2020).

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

	June 30, 2021		June 30, 2020	
In € million	**Revenues**	**Income/(loss) from current operations**	**Revenues**	**Income/(loss) from current operations**
Network	4,221	(1,715)	5,216	(1,852)
Maintenance	514	(10)	716	(321)
Transavia	163	(218)	259	(193)
Others	12	12	10	(2)
Total	**4,910**	**(1,931)**	**6,201**	**(2,368)**

Income/(loss) from operating activities

The **result from operating activities** stood at €(2,798) million versus €(3,198) million at June 30, 2020. Non-current items which amounted to €(867) million at June 30, 2021 were mainly composed of:

- A €14 million loss on the sale of aircraft equipment,
- A €938 loss for the transformation of the KLM Ground Staff pension plan
- A €86 million release of unused provisions for the Air France Voluntary Departure Plan.

See Note 10 in the Notes to the interim consolidated financial statements

Net cost of financial debt

The net cost of financial debt amounted to €(336) million versus €(203) million at June 30, 2020.

Other financial income and expenses

Other net financial income and expenses amounted to €(85) million versus €(733) million at June 30, 2020, with the breakdown as follows:

- A €(41) million foreign exchange result (against €(72) million at June 30, 2020),
- A €22 million gain relating to the fair value of derivative instruments, against €(546) million at June 30, 2020 given the over-hedging of fuel.

- The impact of accretion on provisions and liabilities for leased aircraft restitution amounting to €(56) million versus (€(84) million as of June 30, 2020).

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

Income tax amounted to €262 million versus €(254) million at June 30, 2020. A €364 million write down on deferred tax assets over the French tax scope had been recognized during the first half 2020 to take into account a lower level of recoverability for future tax loss carry-forwards. In 2021, the tax profit relates to the deferred tax on the change in the KLM Ground Staff pension plan.

The **share of profits/(losses) of associates** amounted to €(16) million at June 30, 2021 (€(29)million at June 30, 2020).

Net income/(loss) - Equity holders of Air France-KLM stood at €(2,970) million at June 30, 2021 (€(4,413) million at June 30, 2020).

The contributions to the net result by quarter were, respectively, €(1,481) million for the first quarter 2021 and €(1,489) million for the second quarter 2021.

Basic earnings/(loss) per share – equity holders of Air France-KLM - stood at €(5.86) at June 30, 2021 versus €(10.35) at June 30, 2020.

Investments and financing of the Group

The Air France-KLM Group's net capital expenditure on tangible and intangible assets amounted to €534 million during the first half 2021 versus €1,112 million at June 30, 2020. Investments in aeronautical assets amounted to €871 million, ground investment to €50 million and investment in intangible assets to €133 million. See Note 15 in the Notes to the interim consolidated financial statements. Proceeds on disposals of property plant and equipment and intangible assets stood at €565 million as at June 30, 2021.

Net cash flow from operating activities stood at €(167) million versus €(803) million at June 30, 2020, the change being explained by:

- An improvement in the financial capacity which stood at €(1,287) million at June 30, 2021 versus €(1,346) million at June 30, 2020.
- The change in working capital which moved from €543 million at June 30, 2020 to €1,120 million at June 30, 2021.

In January 2021, the Group received proceeds of €71 million on the sale of a 15% shareholding in Servair.

At June 30, 2021, net debt stood at €8.34 billion versus €11.05 billion at December 31, 2020.

As of June 30, 2021, the Group's liquidity position consisted of total cash of €9.4 billion, of which €6.94 billion in liquidity, net of undrawn credit lines (see Note 22 Net debt) and €2.46 billion in undrawn credit lines (Note 20.2 State loans and Note 20.5 Credit lines).

At June 30, 2021, stockholders' equity, Group part, was negative at €(3.6) billion, up by €1.8 billion during the first half year thanks to the capital increase and the issuance of €3 billion of undated deeply subordinated notes subscribed in full by the French State by way of set-off on claims it holds on the Company pursuant to the shareholder loan.

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 €(1) million.

The net result amounted to a €40 million profit, mainly due to a tax group profit coming from two special purpose entities. No dividends were paid in respect of 2021 or 2020.

Key financial indicators

Operating margin

In € million	June 30, 2021	June 30, 2020
Income/(loss) from current operations	(1,931)	(2,368)
Revenues	4,910	6,201
Operating margin	**NA**	**NA**

Financial cover ratios

► **Net debt/EBITDA**

	June 30, 2021	December 31, 2020
Net debt *(in €m)*	8,344	11,049
EBITDA Trailing 12 months *(in €m)*	(1,723)	(1,689)
Net debt/EBITDA	**NA**	**NA**

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

	June 30, 2021 Trailing 12 months	December 31, 2020
EBITDA *(in €m)*	(1,723)	(1,689)
Net cost of financial debt *(in €m)*	611	477
EBITDA/net cost of financial debt	**NA**	**NA**

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, 2021**	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**
Goodwill and intangible assets	1,464	1,479	1,445	1,470
Flight equipment	10,645	10,800	11,031	11,009
Other property, plant and equipment	1,453	1,476	1,548	1,535
Right-of-use assets	5,033	4,795	4,678	4,789
Investments in equity associates	166	223	230	224
Other financial assets excluding shares available for sale, marketable securities and financial deposits	147	146	146	135
Restitution liabilities and other provisions excluding pension, cargo litigation and restructuring	(4,033)	(4,083)	(3,922)	(4,001)
WCR, excluding market value of derivatives	(7,745)	(6,410)	(6,505)	(6,894)
Capital employed on the balance sheet	7,130	8,426	8,651	8,267
Average capital employed (A)		**8,119**		
Operating result		(4,112)		
Dividends received		-		
Share of profits/(losses) of associates		(45)		
Normative income tax		1,209		
Adjusted result from current operations after tax (B)		**(2,948)**		
ROCE (B/A)		**NA**		

(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)%**			

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 network” 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 network (in ASK) to that of Transavia (in ASK).

	First half 2021	**First half 2020**
Revenues *(in €m)*	4,910	6,201
Income/(loss) from current operations *(in €m)*	1,931	2,368
Total operating expense *(in €m)*	6,841	8,569
Passenger network business – other revenues *(in €m)*	(131)	(177)
Cargo network business– other revenues *(in €m)*	(190)	(142)
Third-party revenues in the maintenance business *(in €m)*	(514)	(716)
Transavia – other revenues *(in €m)*	0	(14)
Third-party revenues of other businesses *(in €m)*	(12)	(11)
Net cost ***(in €m)***	**5,994**	**7,509**
Capacity produced, reported in ASK	74,254	76,337
Net cost per ASK (in € cents per ASK)	**8.07**	**9.84**
Gross change		-17.9%
Currency effect on net costs *(in €m)*		-124
Change at constant currency		-16.6%
Fuel price effect adjusted for 2020 capacity *(in €m)*		-206
Net cost per ASK on a constant currency and fuel price (in € cents per ASK)	**8.07**	**9.40**
Change on a constant currency and fuel price basis		***-14.2%***

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

UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

Prepared under International Financial Reporting Standards (“IFRS”) as adopted by the European Commission for use in the European Union

January 1, 2021 - June 30, 2021

CONSOLIDATED INCOME STATEMENT (unaudited)

In € millions			
Period from January 1 to June 30	***Notes***	**2021**	**2020**
Sales	***5***	**4,910**	**6,201**
Revenues		**4,910**	**6,201**
External expenses	***6***	(3,592)	(4,423)
Salaries and related costs	***7***	(2,403)	(2,931)
Taxes other than income taxes		(69)	(80)
Other income and expenses	***9***	280	393
EBITDA		**(874)**	**(840)**
Amortization, depreciation and provisions	***8***	(1,057)	(1,528)
Income from current operations		**(1,931)**	**(2,368)**
Sales of aircraft equipment		(14)	24
Other non-current income and expenses	***10***	(853)	(854)
Income from operating activities		**(2,798)**	**(3,198)**
Cost of financial debt	***11***	(339)	(215)
Income from cash and cash equivalents	***11***	3	12
Net cost of financial debt		***(336)***	***(203)***
Other financial income and expenses	***11***	(85)	(733)
Income before tax		**(3,219)**	**(4,134)**
Income taxes	***12***	262	(254)
Net income of consolidated companies		**(2,957)**	**(4,388)**
Share of profits (losses) of associates		(16)	(29)
Net income from continuing operations		**(2,973)**	**(4,417)**
Net income for the period		**(2,973)**	**(4,417)**
Non-controlling interests		*(3)*	*(4)*
Net income - Group part		*(2,970)*	*(4,413)*
Earnings per share – Equity holders of Air France-KLM (in euros)			
- basic	***13***	(5.86)	(10.35)
- diluted		(5.86)	(10.35)

The accompanying notes are an integral part of this interim consolidated financial information.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (unaudited)

In € millions **Period from January 1 to June 30**	***Notes***	**2021**	**2020**
Net income for the period		**(2,973)**	**(4,417)**
Cash flow hedges and cost of hedging			
Effective portion of changes in fair value hedge and cost of hedging recognized directly in other comprehensive income		389	(1,255)
Change in fair value and cost of hedging transferred to profit or loss		(53)	707
Currency translation adjustment		-	1
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	***12***	(91)	153
Total of other comprehensive income that will be reclassified to profit or loss		***245***	***(394)***
Remeasurements of defined benefit pension plans	***17***	693	(77)
Fair value of equity instruments revalued through OCI		1	(28)
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	***12***	(170)	39
Total of other comprehensive income that will not be reclassified to profit or loss		***524***	***(66)***
Total of other comprehensive income, after tax		**769**	**(460)**
Recognized income and expenses		**(2,204)**	**(4,877)**
- Equity holders of Air France-KLM		(2,203)	(4,872)
- Non-controlling interests		(1)	(5)

The accompanying notes are an integral part of this interim consolidated financial information.

CONSOLIDATED BALANCE SHEET (unaudited)

Assets *In € millions*	*Notes*	**June 30, 2021**	**December 31, 2020**
Goodwill		221	215
Intangible assets		1,243	1,230
Flight equipment	***14***	10,645	11,031
Other property, plant and equipment	***14***	1,453	1,548
Right-of-use assets	***14***	5,033	4,678
Investments in equity associates		166	230
Pension assets	***17***	-	211
Other financial assets		795	795
Derivatives		105	92
Deferred tax assets	***12***	269	282
Other non-current assets		1	4
Total non-current assets		**19,931**	**20,316**
Other short-term financial assets		540	607
Derivatives		408	160
Inventories		519	543
Trade receivables		1,530	1,248
Other current assets		1,047	914
Cash and cash equivalents	***16***	6,035	6,423
Total current assets		**10,079**	**9,895**
Total assets		**30,010**	**30,211**

The accompanying notes are an integral part of this interim consolidated financial information.

CONSOLIDATED BALANCE SHEET (unaudited) (continued)

Liabilities and equity *In € millions*	***Notes***	**June 30, 2021**	**December 31, 2020**
Issued capital	***18.1***	643	429
Additional paid-in capital	***18.1***	4,949	4,139
Treasury shares		(25)	(25)
Perpetual bonds	***18.3***	3,042	-
Reserves and retained earnings	***18.4***	(12,221)	(9,970)
Equity attributable to equity holders of Air France-KLM		**(3,612)**	**(5,427)**
Non-controlling interests		8	9
Total equity		**(3,604)**	**(5,418)**
Pension provisions	***17***	2,119	2,147
Return obligation liability and other provisions	***19***	3,977	3,670
Financial debt	***20***	11,240	14,171
Lease debt	***21***	2,697	2,425
Derivatives		58	122
Deferred tax liabilities	***12***	4	22
Other non-current liabilities	***24***	2,501	1,294
Total non-current liabilities		**22,596**	**23,851**
Return obligation liability and other provisions	***19***	956	1,337
Current portion of financial debt	***20***	842	1,318
Lease debt	***21***	809	839
Derivatives		67	363
Trade payables		1,604	1,435
Deferred revenue on ticket sales	***23***	2,889	2,394
Frequent flyer programs		904	916
Other current liabilities	***24***	2,945	3,175
Bank overdrafts	***16***	2	1
Total current liabilities		**11,018**	**11,778**
Total liabilities		**33,614**	**35,629**

Total equity and liabilities	**30,010**	**30,211**

The accompanying notes are an integral part of this interim consolidated financial information

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

In € millions	***Notes***	**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, 2019		**428,634,035**	**429**	**4,139**	**(67)**	**403**	**(2,620)**	**2,284**	**15**	**2,299**
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)**
December 31, 2020		**428,634,035**	**429**	**4,139**	**(25)**	**-**	**(9,970)**	**(5,427)**	**9**	**(5,418)**
Other comprehensive income			***-***	***-***	***-***	***-***	***767***	***767***	***2***	***769***
Net result for the period			-	-	-	-	(2,970)	(2,970)	(3)	(2,973)
Total of income and expenses recognized			**-**	**-**	**-**	**-**	**(2,203)**	**(2,203)**	**(1)**	**(2,204)**
Capital increase	**2.2**	213,999,999	214	810	-	-	-	1,024	-	1,024
Perpetual bonds			-	-	-	3,000	(4)	2,996	-	2,996
Coupons on perpetual			-	-	-	42	(42)	-	-	-
Other			-	-	-	-	(2)	(2)	-	(2)
June 30, 2021		**642,634,034**	**643**	**4,949**	**(25)**	**3,042**	**(12,221)**	**(3,612)**	**8**	**(3,604)**

The accompanying notes are an integral part of this interim consolidated financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Period from January 1 to June 30 *In € millions*	*Notes*	2021	2020
Net income from continuing operations		(2,973)	(4,417)
Amortization, depreciation and operating provisions		1,057	1,527
Financial provisions		58	88
Loss (gain) on disposals of tangible and intangible assets		14	(36)
Loss (gain) on disposals of subsidiaries and associates		(26)	-
Derivatives – non monetary result		(29)	224
Unrealized foreign exchange gains and losses, net		86	74
Impairment		15	639
Other non-monetary items		759	282
Share of (profits) losses of associates		16	29
Deferred taxes		(264)	244
Financial capacity		**(1,287)**	**(1,346)**
(Increase) / decrease in inventories		12	59
(Increase) / decrease in trade receivables		(268)	703
Increase / (decrease) in trade payables		138	(875)
Increase / (decrease) in advanced ticket sales		489	378
Change in other receivables and payables		749	278
Change in working capital requirement		**1,120**	**543**
Net cash flow from operating activities (A)		**(167)**	**(803)**
Acquisition of subsidiaries, of shares in non-controlled entities		2	(1)
Purchase of property plant and equipment and intangible assets (B)	***15***	(1,099)	(1,284)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	***2.2***	71	357
Proceeds on disposal of property plant and equipment and intangible assets (C)		565	172
Decrease (increase) in net investments, more than 3 months		85	(3)
Net cash flow used in investing activities		**(376)**	**(759)**
Capital increase		1,024	-
Issuance of debt	***20***	690	5,014
Repayment on debt	***20***	(1,135)	(1,993)
Payments on lease debts (D)		(433)	(412)
New loans		(37)	(20)
Repayment on loans		44	72
Dividends and coupons on perpetual paid		-	-
Net cash flow from financing activities		**153**	**2,661**

Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		1	(17)
Change in cash and cash equivalents and bank overdrafts		**(389)**	**1,082**
Cash and cash equivalents and bank overdrafts at beginning of period	***16***	6,422	3,711
Cash and cash equivalents and bank overdrafts at end of period	***16***	6,033	4,793
Income tax (paid) / reimbursed (flow included in operating activities)		57	(9)
Interest paid (flow included in operating activities)		(320)	(180)
Interest received (flow included in operating activities)		(5)	3

The accompanying notes are an integral part of this interim consolidated financial information.

OPERATING FREE CASH-FLOW (UNAUDITED)

Period from January 1 to June 30 *in € millions*	*Notes*	2021	2020
Net cash flow from operating activities	***A***	(167)	(803)
Purchase of property plant and equipment and intangible assets	***B***	(1,099)	(1,284)
Proceeds on disposal of property plant and equipment and intangible assets	***C***	565	172
Operating free cash flow	***22***	**(701)**	**(1,915)**
Payments on lease debts	***D***	**(433)**	**(412)**
Operating free cash flow adjusted		**(1,134)**	**(2,327)**

The accompanying notes are an integral part of this interim consolidated financial information.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL INFORMATION

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, leisure passenger transportation (Transavia) and other air-transport-related activities.

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

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

2. SIGNIFICANT EVENTS

2.1. Covid-19 and going concern

The worldwide spread of Covid-19 since the beginning of 2020 has had and continues to have a major impact on air traffic around the world. The very strict conditions on worldwide travel adopted by many countries from March 2020 resulted in a drastic air traffic reduction in 2020. In the first half 2021, further measures were implemented by the French and Dutch governments to slow the spread of the virus and restrictions on travel have been reinforced at global level following the emergence of new variants of the virus, again limiting the airline traffic.

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

Reduction in capacity and costs

Available seat-kilometers for Passenger network and Transavia were down by 2.7% compared to the first half of 2020, with a two-step evolution: a sharp fall in capacity (-48.6%) in the first quarter of 2021 compared to the first quarter of 2020, which was little affected by the Covid-19 crisis, and then a very strong rebound (+338.6%) in the second quarter compared to the second half of 2020, which was marked by the lockdowns in France and the Netherlands. However, due to weak demand, traffic in passenger revenue per kilometer declined by 44.8% compared to 2020.

As a result, even though available cargo ton-kilometers increased by 11.3% compared to the first half of 2020, revenues declined by 20.8% compared to the previous year and amount to €4,910 million.

At the same time, specific cost initiatives and the decline in traffic led to a decrease of the Group's external expenses to €3,592 million, down 18.8% compared to the first half of 2020.

Within external expenses, fuel costs amounted to €982 million, down 29.7% compared to 2020, following a lower jet fuel price and lower capacity.

In addition, the ongoing partial activity measures (“Activité Partielle”) in France, implemented as of March, 23 2020 and the “Temporary Emergency Bridging Measures for Sustained Employment” (NOW), in the Netherlands, applicable from March 1, 2020 together with restructuring and staff reduction plans, structural changes to the fleet (see Note 2.2. Events occurring during the period in the Note to the consolidated financial statements for the financial year ended December 31, 2020), continued to contribute to a decline in salaries and related costs. The latter amounted to €2,403 million in the first half of 2021, a decrease of 18% compared to last year.

The Dutch government has also announced the implementation of an extension of the “Temporary Emergency Bridging Measures for Sustained Employment” (NOW) program until September 30, 2021.

Liquidity position

As of June 30, 2021, the Group’s liquidity position consisted of total cash of €9.4 billion, of which €6.94 billion in liquidity, net of undrawn credit lines (see Note 22. Net debt) and €2.46 billion in undrawn credit lines (Note 20.2 State loans and 20.5 Credit lines).

In April 2021 and July 2021 respectively, the Group’s liquidity position was reinforced by €1 billion thanks to the Air France-KLM Group’s capital increase (see note 2.2. Events that occurred in the period) and by €800 million thanks to the bond issue (see note

In addition, the Group is pursuing the measures initiated in 2020 to defer non-essential capital expenditures and internal projects, and defer payment of employee profit sharing and variable compensation, of the wage tax and social contributions.

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

Going concern

In determining the appropriate basis for preparing the interim consolidated financial statements for the first half ended June 30, 2021, the Board of Directors considered the Group as a going concern by evaluating the financial forecasts over a time horizon of at least one year and by analyzing, in particular, the trading position of the Group in the context of the current Covid-19 pandemic and taking into account the following elements.

As indicated above, the Group had total liquidity of €9.4 billion at June 30, 2021.

The vaccination rollout is enabling the gradual lifting of traffic restrictions. Activity forecasts are steadily increasing to reach 65% of 2019 capacity in the third quarter of 2021 (versus the third quarter of 2019) thanks to the dynamism of leisure traffic on the Overseas Territories domestic networks, Europe and Africa.

Combined with the capital increase (see note 2.2. Events that occurred in the period), the €800 million bond issue and the launch of the EMTN program (see note 2.3. 2.3. Subsequent events), the cash-flow projections over a horizon of more than 12 months ensure a sufficient level of liquidity.

They notably include:

- The adjustment of the flight schedule and capacity to the expected demand in order to operate only flights having a positive incremental impact in terms of operating cash flow;
- The maintenance of the specific mechanisms from the French and Dutch governments to partially cover staff costs through the "NOW" program in the Netherlands which has been extended until the end of September 2021 and the Long-Term Partial Activity ("APLD") scheme in France until the end of 2022;
- Deferral of part of the social charges and payroll taxes;
- A high level of variable costs linked to a reduction in capacity;
- The reduction in the capital expenditure plans;
- The systematic refinancing of new aircraft delivered during the period.

Based on these financial forecasts, the banking covenants applicable in 2021, including the €2.46 billion Revolving Credit Facility at the level of KLM (see note 20.2 State loans and 20.5 Credit lines) will be respected.

The Group is pursuing its plans for additional financing which will reinforce equity or quasi-equity and provide new liquidity, within the framework of the extraordinary resolutions adopted by the Annual General Shareholders' Meeting of May 26, 2021.

The group is actively monitoring its debt structure and has entered into negotiations with its banks to extend the maturity of the loan guaranteed by the French State beyond 2023.

In the context linked to the Covid-19 crisis, the Board of Directors considers that there are risks that could delay the recovery of the Group's activities and jeopardize the ability to continue its activities. In particular, the uncontrolled development of new variants, resistant to vaccines, might lead to a further decline in air traffic, a slow reopening of American and Asian borders, and a later resumption of business traffic.

In the event that these factors of uncertainty were to materialize, management has considered additional mitigation measures, including the:

- Optimization and reduction of capacity and network
- Asset disposals
- Additional workforce restructuring
- Others cost saving measures
- Deferral of capital expenditures and expenses

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

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

2.2. Events that occurred in the period

Long-term Partial Activity agreement

During the first half of 2021, Air France and some of its affiliates finalized the agreements with the representative trade unions allowing the use of the Long-term Partial Activity (*Activité partielle de Longue Durée* - APLD) scheme for a maximum period of 24 months.

Approval of Hop! departure plan

As part of its restructuring, HOP! has launched a departure plan (see note 2.2 Events that occurred during the period in the notes to the consolidated financial statements for the financial year ended December 31, 2020). On February 16, 2021, HOP! received a request from the French Labor Ministry (DREETS and formerly DIRECCTE) to amend some measures of the plan concerning flight crew. The amended voluntary departure plan was finally approved on June 16, 2021. The amount of the provision remained unchanged compared to December 31, 2020.

Air France-KLM Group capital-strengthening measures

On April 5, 2021, the Air France-KLM Group announced a plan of measures concerning Air France, which was approved by the European Commission in its decision to authorize the €4 billion transaction by the French State to recapitalize Air France and Air France-KLM. Following this authorization, the following transactions were carried out:

- ***€1,036 million capital increase:***
  On April 19, 2021, the Group has completed its capital increase without shareholders' preferential subscription rights, by way of a public offering and with a priority subscription period on an irreducible and reducible basis granted to existing shareholders, for an amount of €1,036 million (after exercise in full of the increase option), i.e €1,024 million net of issuance fees.

  This operation improves the Group's shareholders' equity, and brings the same amount of new money to the Group for the benefit of Air France.

  The capital increase resulted in the issuance of 213,999,999 new shares (the "New Shares") at a price per share of €4.84, representing approximately 50% of the Company's existing share capital. Following the completion of the capital increase, the Company's share capital has increased to €642,634,034 divided into 642,634,034 shares, each with a nominal value of €1.

  As per their subscription commitments, and given the allotment scale of the reducible orders, the French State and China Eastern Airlines subscribed within the context of the priority period to respectively 122,560,251 New Shares (i.e. 57% of the total amount of the Capital Increase) and 23,944,689 New Shares (i.e. 11% of the total amount of the Capital Increase). The Dutch State did not subscribe to this capital increase. Neither did Delta Airlines due to the current framework of the CARES Act in force in the United States.
- ***Conversion of the fully drawn €3 billion French State loan into perpetual hybrid bonds instrument ("Super Subordinated Notes"):***
  On April 20, 2021, the €3 billion direct loan granted by the French State to Air France via Air France-KLM late in May 2020 was converted into Super-Subordinated Notes in the same nominal amount, improving the Group's equity by €3 billion with no cash impact, while increasing the flexibility of the Group's debt redemption profile. This issue is composed of three tranches with a perpetual maturity and each with a nominal amount of €1 billion, with respective first redemption options (Call) at 4, 5 and 6 years.
- ***Extension of the maturity date of the €4 billion loan guaranteed by the French State to 2023:***
  Additionally, the French State-backed loan of €4 billion has been extended with a final maturity date in 2023.

These elements enable the smoothing of the debt redemption profile of the Group and its airlines, with a progressive extension of the debt maturity profile.

The Dutch State also approved this series of actions and indicated that it was continuing discussions with the European Commission on potential capital- strengthening measures for KLM.

Sale of Servair shares

In early 2021, the terms under which Air France KLM could sell a 30% shareholding in Servair to Gategroup (see note 38.2 "Commitments received", in the notes to the consolidated financial statements for the year ended December 31, 2020) were re-negotiated. This resulted in the sale by Air France Finance, on May 31, 2021, of 15% of Servair for €71 million. A second instalment for a further 15% shareholding should be paid in December 2022.

This sale led to the recognition of a disposal gain of €26 million, net of the value of the put option, in "Other non-current income and expenses" in the consolidated income statement. The proceeds from the sale are included in the line item "Income from loss of control of subsidiaries or disposal of shares in non-controlled companies" in the consolidated statement of cash flows.

Agreement on the KLM Ground Staff pension plan

On June 14, 2021, KLM and the five Dutch Ground Staff unions signed an agreement enabling a change in the Ground Staff pension plan effective from January 2021. As provided for by this agreement, the KLM Ground Staff pension fund now qualifies as a defined contribution plan under IFRS rules. The pension assets, based on the actuarial assumptions as of May 31, 2021, amounted to €875 million (before tax). Under this agreement, KLM has paid an additional pension premium covering the period January-May 2021, as well as a one-off contribution representing the savings realized since 2014 following changes in the Dutch law. These contributions amount to €63 million.

The total impact of the de-recognition of the pension assets together with the additional contributions has been booked in “Other non-current income and expenses” in the amount of €938 million (€704 million net of tax).

Additional restructuring plan at KLM

An additional restructuring plan had been announced on January 21, 2021 for between 800 and 1,000 employees.

Following agreements signed with the KLM unions to avoid additional departures and the expected scale-up of activity, KLM decided to withdraw this additional restructuring plan.

2.3. Subsequent events

€800 million bond issue

On June 24, 2021, the Group announced the successful realization of a senior bond issue for a total of €800 million in two tranches:

- A first tranche of bonds for €300 million, with a maturity of 3 years and a coupon of 3% per year.
- A second tranche of bonds for €500 million, with a maturity of 5 years and a coupon of 3.875% per year.

Settlement and delivery of the Bonds took place on July 1, 2021. The debt has been accounted for in the balance sheet as of that date under "Non-current financial debts".

Launch of an EMTN (“European Medium-Term Note”) program

On July 2, 2021, the Group launched an EMTN program with an initial term of 12 months to maximize the use of potential market windows for bond issuance.

3. ACCOUNTING PRINCIPLES

Pursuant to the European Regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2020 were established in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Commission on the date these consolidated financial statements were established.

The interim condensed consolidated financial statements as of June 30, 2021 have been prepared in accordance with IAS 34 "Interim financial reporting".

The accounting policies applied for the interim condensed consolidated financial statements as at June 30, 2021 are consistent with those applied for the financial statements as at December 31, 2020, with the exception the of standards and interpretations adopted by the European Union that are applicable as of January 1, 2021.

From January 1, 2021, the Group has applied the amendments to IFRS 9, IFRS 7 and IFRS 16 in connection with "Phase 2" of the interest rate benchmark. These amendments stipulate in particular the accounting treatment to be applied when an old benchmark interest rate is replaced by a new benchmark in a given contract, as well as the impact of this change on hedging relationships affected by the IBOR reform. The Group has little exposure to the indices affected by the reform. The application of these amendments has no impact on the Group's accounts as of June 30, 2021. The application of these amendments has no impact on the Group's financial statements as of June 30, 20221.

With regard to the IFRIC decision on the attribution of a post-employment benefit to periods of service, local analyses are underway. The impacts of this decision will be determined by the end of the year.

The preparation of the interim condensed consolidated financial statements, in conformity with IFRS, requires Management to make estimates and use assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main areas of estimates relate to the:

- revenue recognition linked to deferred revenue on ticket sales;
- Flying Blue frequent flyer program;
- financial instruments;
- intangible and tangible assets;
- lease contracts;
- employee benefits;
- return obligation liability and provision for leased aircraft;
- other provisions; and
- current and deferred tax.

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable that constitute the basis for these assumptions. The interim financial consolidated data for the period have thus been established taking into consideration the current context of public health linked to Covid-19 and on the basis of financial parameters available at the closing date.

The interim consolidated financial information as of June 30, 2021 were approved by the Board of Directors on July 29, 2021.

4. CHANGE IN THE CONSOLIDATION SCOPE

- **Six-month period ended June 30, 2021**

No significant acquisitions or disposals took place during the six-month period ended June 30, 2021

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

No significant acquisitions or disposals took place during the six-month period ended June 30, 2020

5. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

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

The Group is organized around the following segments:

Network: The revenues for this segment, which includes the Passenger and Cargo network 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 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 "leisure" activity realized by Transavia.

Other: The revenues from this segment come from various services provided by the Group and not covered by the three 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 down into eight geographical areas:

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

Only segment revenue is allocated by geographical sales area.

• Activity by destination

The Group's activities by destination are broken down into seven geographical segments:

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

5.1. Information by business segment

• Six-month period ended June 30, 2021

In € millions	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	4,232	1,302	163	72	-	5,769
Intersegment sales	(11)	(788)	-	(60)	-	(859)
External sales	**4,221**	**514**	**163**	**12**	**-**	**4,910**
EBITDA	(896)	121	(122)	23	-	(874)
Income from current operations	(1,715)	(10)	(218)	12	-	(1,931)
Income from operating activities	(2,338)	(278)	(218)	36	-	(2,798)
Share of profits (losses) of associates	-	3	-	(19)	-	(16)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(421)	(421)
Income taxes	-	-	-	-	262	262
Net income	**(2,338)**	**(275)**	**(218)**	**17**	**(159)**	**(2,973)**

• **Six-month period 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)**

5.2. Information by geographical area

External sales by geographical area

- **Six-month period ended June 30, 2021**

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	938	461	983	269	150	431	416	251	3,899
Other sales	57	77	84	15	10	28	26	25	322
Total network	**995**	**538**	**1,067**	**284**	**160**	**459**	**442**	**276**	**4,221**
Transportation	61	88	13	1	-	-	-	-	163
Other sales	-	-	-	-	-	-	-	-	-
Total Transavia	**61**	**88**	**13**	**1**	**-**	**-**	**-**	**-**	**163**
Maintenance	294	171	14	-	-	2	33	-	514
Others	3	10	(1)	-	-	-	-	-	12
Total	**1,353**	**807**	**1,093**	**285**	**160**	**461**	**475**	**276**	**4,910**

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

In € millions	**Metropolitan 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**

Traffic sales by geographical area of destination

- **Six-month period ended June 30, 2021**

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	300	551	384	772	800	480	612	3,899
Transavia	17	142	-	4	-	-	-	163
Total	**317**	**693**	**384**	**776**	**800**	**480**	**612**	**4,062**

- **Three-month period 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**

6. EXTERNAL EXPENSES

In € millions	**2021**	**2020**
Period from January 1 to June 30		
Aircraft fuel	982	1,397
Chartering costs	147	114
Landing fees and air route charges	460	478
Catering	126	178
Handling charges and other operating costs	402	441
Aircraft maintenance costs	792	912
Commercial and distribution costs	131	230
Other external expenses	552	673
Total	**3,592**	**4,423**
Excluding aircraft fuel	*2,610*	*3,026*

A portion of external expenses (notably aircraft fuel costs, purchases and aircraft maintenance costs) is subject to fluctuation in the US dollar.

7. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions	**2021**	**2020**
Period from January 1 to June 30		
Wages and salaries	2,131	2,312
Social contributions	404	435
Pensions costs on defined contribution plans	264	283
Pensions costs of defined benefit plan	133	154
Cost of temporary employees	27	66
Temporary Emergency Bridging Measure for Sustained Employment	(570)	(336)
Other	39	17
Total	**2,403**	**2,931**

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

Following the impact of the Covid-19 public health crisis, as of March 23, 2020 Air France and its main French subsidiaries implemented part-time activity for their employees.

In the first half of 2021, Air France and some of its affiliates finalized agreements with the representative trade unions allowing the use of the long-term partial activity (“APLD”) scheme for a maximum of 24 months.

As of June 30, 2021, the impact of these measures amounts to €456 million (€500 million as of June 30, 2020).

The line "Temporary Emergency Bridging Measure for Sustained Employment (NOW)" includes the compensation received from the Dutch State for the KLM Group's labor expenses during the period from January 1 until June 30, 2021. This compensation amounts to €570 million (versus €336 million for the period from April 1 until June 30, 2020).

Average number of employees

Period from January 1 to June 30	2021	2020
Flight deck crew	8,223	8,719
Cabin crew	19,980	22,185
Ground staff	46,972	51,628
Temporary employees	625	1,364
Total*	**75,800**	**83,896**

**Excluding partial activity impact*

The decrease in average headcount is mainly due to the implementation of restructuring plans in 2020 and 2021 (see note 10. Other non-current income and expenses).

8. AMORTIZATION, DEPRECIATION AND PROVISIONS

In € millions	2021	2020
Period from January 1 to June 30		
Amortization		
Intangible assets	96	93
Flight equipment	480	604
Other property, plant and equipment	91	99
Right-of-Use assets	524	618
	1,191	**1,414**
Depreciation and provisions		
Inventories	12	14
Trade receivables	13	89
Risks and contingencies	(159)	11
	(134)	**114**
Total	**1,057**	**1,528**

The changes in provisions are mainly due to reversals related to aircraft restitutions.

9. OTHER INCOME AND EXPENSES

In € millions	**2021**	**2020**
Period from January 1 to June 30		
Capitalized production	290	349
Joint operation of routes	(2)	(5)
Operations-related currency hedges	3	65
Emission trade schemes (ETS)	(15)	(20)
Other	4	4
Other income and expenses	**280**	**393**

10. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions	**2021**	**2020**
Period from January 1 to June 30		
Restructuring costs	86	(226)
Accelerated depreciation of fleet	(15)	(639)
Modification on pension plans	(938)	-
Disposal of subsidiaries and affiliates	26	-
Disposals of other assets	-	12
Other	(12)	(1)
Other non-current income and expenses	**(853)**	**(854)**

- **Six-month period ended June 30, 2021**

Restructuring costs

This line mainly includes a reversal of the voluntary departure plan provision for Air France ground staff, amounting to €86 million following an adjustment based on a nominal roll and departure allowances.

Modifications to pension plans

Following the modification of KLM's Ground Staff pension plan (see note 2.2. Events that occurred in the period), the total impact of the de-recognition of the pension assets together with the additional contributions has been booked in "Other non-current income and expenses" and amounts to a charge of €938 million.

Result on the disposal of subsidiaries and affiliates

This line corresponds to the capital gain on the disposal of a 15% shareholding in Servair on May 31, 2021 (see note 2.2. Events that occurred in the period).

- **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.

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.

- **Phase-out of 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 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.

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

In € millions	**2021**	**2020**
Period from January 1 to June 30		
Income from marketable securities	(9)	(2)
Other financial income	12	14
Financial income	**3**	**12**
Interest on financial debt	(177)	(68)
Interest on lease debt	(120)	(131)
Capitalized interests	13	11
Other non-monetary items	(49)	(25)
Other financial expenses	(6)	(2)
Gross cost of financial debt	**(339)**	**(215)**
Net cost of financial debt	**(336)**	**(203)**
Foreign exchange gains (losses), net	(41)	(72)
Financial instruments and change in fair value of hedged shares	22	(546)
Net (charge)/release to provisions	(2)	(2)
Undiscounting of provisions	(56)	(84)
Other	(8)	(29)
Other financial income and expenses	**(85)**	**(733)**
Total	**(421)**	**(936)**

Financial income

Financial income mainly consists in interest income on financial assets accounted at the effective interest rate.

Foreign exchange gain (losses)

As of June 30, 2021, the foreign exchange result mainly includes an unrealized currency loss of €(97) million, composed of a € (96) million loss on return obligation liabilities and provisions for the restitution of leased aircraft in US dollars.

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.

Financial instruments and change in fair value of hedged shares

As of June 30, 2020, following the expected significant drop in fuel consumption this line includes the impact of over-hedging, amounting to €(590) million recycled to the income statement.

The fuel hedging strategy has been reviewed in the first half of 2021 to limit future over-hedging position.

Undiscounting of provision

The rate used to undiscount the long term return obligation liability and provision for leased aircraft and other provisions is 3.4% in 2021 against 4.5% in 2020.

Other

As of June 30, 2020, this line mainly included the premiums paid on early the reimbursement of a portion of the bonds with maturity dates in 2021 and 2022. The total amount of premiums was €22 million.

12. INCOME TAXES

12.1. Income tax charge

In € millions **Period from January 1 to June 30**	**2021**	**2020**
Current tax (expense) / income	**(2)**	**72**
Change in temporary differences	264	21
(Use / de-recognition) / recognition of tax loss carry forwards	-	(347)
Deferred tax income / (expense)	**264**	**(326)**
Total	**262**	**(254)**

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 28.41 per cent for 2021. 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 five years, consistent with its strategic plan.

The deferred tax assets position on tax losses remains stable versus December 31, 2020 at €285 million resulting from the uncertainty induced by the current health context leading the Group to keep its deferred tax asset recognition policy unchanged.

Subsequently, an amount of €392 million of deferred tax assets related to tax losses and temporary differences has not been recognized for the six-month period ended June 30, 2021.

- **Dutch fiscal group**

In the Netherlands, the tax rate is 25 per cent in 2021. It would have been lowered to 21.7 per cent in 2021. Following the current COVID-19 crisis, the Dutch Government announced that the tax rate remains 25 per cent going forward and that tax losses could be carried forward indefinitely. Under income tax law in the Netherlands, the maximum future period for utilising tax losses carried forward is currently six years. As from January 1, 2022, this period is likely to become indefinite for tax losses.

However, the amount of fiscal loss recoverable each year is limited to 50 per cent of the profit for the period beyond the first million euros. The Dutch Parliament has not formalized these changes in the Dutch tax law yet.

As of June 30, 2021, the Dutch fiscal group has deferred taxes assets on fiscal losses amounting to €46 million, relating to an interest deduction allowance which can be carried forward indefinitely (€10 million as of December 31, 2020).

In addition, an amount of €234 million of deferred tax assets has been derecognized following the changes in the ground staff pension plan into a defined contributions plan (see note 12.2. Deferred tax recorded in equity (equity holders of Air France-KLM)).

In view of the uncertainty surrounding the business outlook due to the health situation, the Group has limited the recognition of deferred tax assets for additional tax losses in the first half year. Subsequently, an amount of €135 million of deferred tax assets has not been recognized for the six-month period ended June 30, 2021.

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

In € millions	**2021**	**2020**
Period from January 1 to June 30		
Other comprehensive income that will be reclassified to profit and loss	**(91)**	**153**
Gain and loss on cash flow hedge	(91)	153
Other comprehensive income that will not be reclassified to profit and loss	**(170)**	**39**
Equity instruments	-	6
Pensions	(170)	33
Total	**(261)**	**192**

12.3. Effective tax rate

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

In € millions	**2021**	**2020**
Period from January 1 to June 30		
Income before tax	(3,219)	(4,134)
Standard tax rate in France	28.41%	32.02%
Theoretical tax calculated based on the standard tax rate in France	915	1,324
Differences in French / foreign tax rates	(61)	(101)
Non-deductible expenses or non-taxable income	(47)	(19)
Write-off of deferred tax assets	(527)	(1,410)
Impact of change in income-tax rate	-	(34)
CVAE impact	-	(7)
Other	(18)	(7)
Income tax expenses	**262**	**(254)**
Effective tax rate	8.1%	-6.2%

13. EARNINGS PER SHARE

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

Reconciliation of income used to calculate earnings per share

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

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

In € millions	**2021**	**2020**
Net income for the period – Equity holders of Air France-KLM	(2,970)	(4,413)
Coupons on perpetual	(42)	(9)
Basic net income for the period – Equity holders of Air France-KLM	(3,012)	(4,422)

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

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

As of June 30	**2021**	**2020**
Weighted average number of:		
- Ordinary shares issued	514,712,247	428,634,035
- Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
- Other treasury stock	(91,585)	(85,151)
Number of shares used to calculate basic earnings per share	**513,504,242**	**427,432,464**
OCEANE conversion	-	27,901,785
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**513,504,242**	**455,334,249**

13.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instruments as of June 30, 2021.

13.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

14. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

In € millions	As of June 30, 2021			As of December 31, 2020		
	Gross value	Depreciation	Net Value	Gross value	Depreciation	Net Value
Owned aircraft	16,647	(8,796)	7,851	17,158	(9,105)	8,053
Assets in progress	1,292	-	1,292	1,506	-	1,506
Other	2,531	(1,029)	1,502	2,518	(1,046)	1,472
Flight equipment	**20,470**	**(9,825)**	**10,645**	**21,181**	**(10,151)**	**11,031**
Land and buildings	2,691	(1,882)	809	2,758	(1,893)	865
Equipment and machinery	1,050	(813)	237	1,070	(822)	248
Assets in progress	169	-	169	191	-	191
Other	1,096	(858)	238	1,102	(858)	244
Other tangible assets	**5,006**	**(3,553)**	**1,453**	**5,121**	**(3,573)**	**1,548**
Total	**25,476**	**(13,378)**	**12,098**	**26,302**	**(13,724)**	**12,579**
Aircraft			2,414			2,191
Maintenance			1,900			1,739
Land and real estate			543			541
Other			176			207
Total right-of-use assets			**5,033**			**4,678**

15. CAPITAL EXPENDITURES

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

In € millions	2021	2020
As of June 30,		
Acquisition of flight equipment	871	1,022
Acquisition of other tangible assets	50	89
Acquisition of intangible assets	133	146
Accounts payable on intangible, aeronauticals and tangible assets	45	27
Total	**1,099**	**1,284**

16. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

In € millions	**As of June 30, 2021**	**As of December 31, 2020**
Liquidity funds (SICAV) (assets at fair value through profit and loss)	3,525	4,267
Bank deposits and term accounts (assets at fair value through profit and loss)	821	654
Cash in hand	1,689	1,502
Total cash and cash equivalents	**6,035**	**6,423**
Bank overdrafts	(2)	(1)
Cash, cash equivalents and bank overdrafts	**6,033**	**6,422**

17. PENSION ASSETS AND PROVISIONS

As of June 30, 2021, the discount rates used by the companies to calculate the defined benefit obligations are the following:

	June 30, 2021	**December 31, 2020**
Euro zone – duration 10 to 15 years	0.72%	0.45%
Euro zone – duration 15 years and beyond	N/A	0.75%

The inflation rates used are the following:

	June 30, 2021	**December 31, 2020**
Euro zone – duration 10 to 15 years	1.65%	1.25%
Euro zone – duration 15 years and beyond	N/A	1.35%

The 10 to 15 years duration rate 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.
On June 14, 2021, KLM and the five Dutch ground staff labor councils signed an agreement allowing the change of the ground staff pension plan as from January 2021. As provided for by this agreement, KLM Ground staff pension fund now qualifies as a defined contribution plan under IFRS rules. Pension assets, based on the actuarial assumptions as of May 31, 2021, amounted to €875 million (before tax) including an increase of € 671 million since December 31, 2020, linked to the increase in discount rates and a return on funds exceeding expectations. This asset has been derecognized in "Other non-current income and expenses" in the consolidated income statement.

As of June 30, 2021, the remeasurement of defined benefit pension obligation is composed of:

	June 30, 2021	**June 30, 2020**
Derecognition of the KLM Ground Staff	671	-
Impact of the change in discount rate	119	(267)
Impact of the change in inflation rate	(137)	594
Difference between the expected and actual return on assets	40	(404)
Total	**693**	**(77)**

Increase in the net Defined Benefit Obligation / (Decrease of the net Defined Benefit Obligation).

The impact of variations in discount rates on the defined benefit obligation has been calculated using the sensitivity analysis of the defined benefit pension obligation. The sensitivity analysis is outlined in note 28.2 of the financial statements for the financial year ended December 31, 2020.

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

18.1 Capital increase

Following the realization of the capital increase on April 19, 2021, the Company's share capital has increased to €642,634,034 divided into 642,634,034 shares, each with a nominal value of €1 (see 2.2. Events that occurred in the period).

18.2 Breakdown of stock and voting rights

As of June 30, 2021, the issued capital of Air France-KLM is thus composed of 642,634,034 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 held their shares in registered form for at least two years benefit from double voting rights.

The breakdown of stock and voting rights is as follows:

In percentage(%)	**June 30, 2021**		**December 31, 2020**	
	Capital	Voting rights	Capital	Voting rights
French State	28.6	28.5	14.3	20.9
China Eastern Airlines	9.6	11.5	8.8	12.8
Dutch State	9.3	13.9	14.0	10.2
Delta Airlines	5.8	8.7	8.8	12.8
Employees and former employees	2.5	3.7	3.7	5.4
Treasury shares	0.2	0.3	0.3	0.4
Other	44.0	33.4	50.1	37.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

The item "Employees and former employees" includes the shares held by employees and former employees identified in company mutual funds (FCPE).

18.3 Super-Subordinated Notes

On April 20, 2021, the Group issued €3 billion of Super-subordinated bonds subscribed by the French State, to offset its direct loan of the same nominal amount (see note 2.2. Events that occurred in the period).

This non-monetary transaction is booked in the Group's consolidated balance sheet as a reclassification to equity of €3 billion from the line "financial debt" (see note 20.2 State loans).

As of June 30, 2021, the accrued coupon amounts to €42 million.

18.4 Reserves and retained earnings

In € millions	**June 30, 2021**	**December 31, 2020**
Legal reserve	70	70
Pension defined benefit reserves(1)	(976)	(1,701)
Derivatives reserves(1)	247	18
Equity instruments reserves(1)	(51)	(52)
Other reserves	(8,541)	(1,227)
Net income (loss) – Equity holders of Air France-KLM	(2,970)	(7,078)
Total	**(12,221)**	**(9,970)**

(1) Net of the impact of deferred tax.

Following the transformation of the KLM Ground Staff pension plan, an amount of €204 million has been reclassified from the line Defined benefit pension reserves to the line Other reserves (see note 2.2. Events that occurred in the period).

19. RETURN OBLIGATION LIABILITY AND OTHER PROVISIONS

In € millions	**June 30, 2021**			**December 31, 2020**		
	Non current	**Current**	**Total**	**Non current**	**Current**	**Total**
Return obligation liability on leased aircraft	3,344	304	3,648	2,860	406	3,266
Maintenance on leased aircraft	125	29	154	300	121	421
Restructuring	-	556	556	-	741	741
Litigation	404	39	443	402	21	423
Others	104	28	132	108	48	156
Total	**3,977**	**956**	**4,933**	**3,670**	**1,337**	**5,007**

19.1. Return obligation liability and other provisions

19.1.1. 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 work performed on leased aircraft and recorded in the right-of-use assets. The effects of accretion and foreign exchange translation of return obligation liabilities and provisions recorded in local currencies are recognized in "Other financial income and expenses" (see note 11. Net cost of financial debt and other financial income and expenses).

The discount rate used to calculate these restitution liabilities and provisions relating to leased aircraft, determined on the basis of a short-term risk-free rate increased by a spread on risky debt (used for companies with high financial leverage), is 3.4 per cent as of June 30, 2021 as December 31, 2020.

19.1.2. Restructuring provisions

The movements in restructuring provisions with a significant impact on the income statement are charged to "Other non-current income and expenses" (see note 10. Other non-current income and expenses).

19.1.3. 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.

19.1.4. 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, 2020, most of these investigations had been terminated following the entry into plea agreements between Air France, KLM and Martinair and the appropriate competition authorities providing for the payment of settlement amounts or fines, with the exception of the proceedings initiated by the European Commission, and by the Swiss antitrust authority, which are still pending.

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

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

As of June 30, 2021, the total amount of provisions in connection with proceedings, which have yet to give rise to definitive decisions amounts to €348 million.

19.1.5. Case brought against KLM by (former) Martinair Cargo pilots

In 2015, a case was brought against KLM by 152 (former) Martinair airline pilots. In 2016 and 2018, the District Court and Court of Appeal ruled in favor of KLM and rejected all claims of plaintiffs. In November 2019, however, the Supreme Court ruled against KLM on the basis of lack of sufficient motivation and referred the case to another Court of appeal. On June 8, 2021, this Court of appeal rendered its judgment in favor of the plaintiffs, the former Martinair pilots, ruling that the transfer of the cargo department qualifies as a transfer of undertaking. KLM is investigating the judgment and related impact and decided to record a legal provision of €22 million in June 2021.

19.1.6. Other provisions

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

19.2 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.

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

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

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

19.2.2. 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.

19.2.3. Other litigations

Rio-Paris AF447 flight

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

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

The Public Prosecutor's Office and most of the civil parties (including the Pilots' associations and unions) appealed this decision. The Paris Court of Appeals ruled on May 12, 2021, referring Airbus and Air France to the Criminal Court. Air France, which contests having committed a fault at the origin of the accident, has submitted an appeal to the Court of Cassation. Airbus has also appealed to the Court of Cassation. It is now up to the Court of Cassation to rule.

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.

Except for the matters specified under the paragraphs 19.1 and 19.2, 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.

20. FINANCIAL DEBT

In € millions		As of June 30, 2021			As of December 31, 2020		
	Notes	**Non current**	**Current**	**Total**	**Non current**	**Current**	**Total**
Perpetual subordinated loan in Japanese yens[1]		152	-	**152**	158	-	**158**
Perpetual subordinated loan in Swiss francs[1]		341	-	**341**	347	-	**347**
OCEANE (convertible bonds)[1]		471	-	**471**	465	-	**465**
Bonds	***20.1***	1,233	-	**1,233**	1,229	289	**1,518**
Debt on financial leases with bargain option		2,997	437	**3,434**	2,908	604	**3,512**
Loans guaranteed by the French and the Dutch States[1]		4,705	-	**4,705**	4,685	-	**4,685**
States loan	***20.2***	278	-	**278**	3,278	-	**3,278**
Other debt	***20.3***	1,062	331	**1,393**	1,101	335	**1,436**
Accrued interest		1	74	**75**	-	90	**90**
Total - Financial debt		**11,240**	**842**	**12,082**	**14,171**	**1,318**	**15,489**

Change in financial debt

In € millions	December 31, 2020	New financial debt(1)	Non monetary change	Reimbursement of financial debt	Currency translation adjustment	Other	June 30, 2021
Perpetual subordinated loan in Japanese yens and Swiss francs	505	-	-	-	(12)	-	**493**
OCEANE	465	-	5	-	-	1	**471**
Bonds	1,518	-	-	(289)	4	-	**1,233**
Debt on financial leases with bargain option	3,512	303	20	(385)	(13)	(3)	**3,434**
Loans guaranteed by the French and the Dutch states	4,685	-	20	-	-	-	**4,705**
States loans	3,278	-	(3,000)	-	-	-	**278**
Other long-term debt	1,436	397	7	(461)	10	3	**1,393**
Accrued interest	90	-	-	-	-	(15)	**75**
Total	**15,489**	**700**	**(2,948)**	**(1,135)**	**(11)**	**(14)**	**12,082**

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

20.1 Bonds

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

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

The €289 million bond issued in 2014 was redeemed on June 18, 2021.

20.2 State loans

The €3 billion super-subordinated bond issue (see note 18.3 Super-Subordinated Notes) was completed in April 2021 by offsetting the loan granted by the French State. This transaction is a non-monetary operation (see note 2.2. Events that occurred in the period).

The balance at June 30, 2021 corresponds to the amount already drawn down from the direct loan granted by the Dutch State (total amount of €1.0 billion).

20.3 Other debt

Other debt breaks down as follows:

In € millions	As of June 30, 2021	As of December 31, 2020
Reservation of ownership clause and mortgage debt	851	1,057
Other debt	542	379
Total	**1,393**	**1,436**

20.4 Maturity analysis

The financial debt maturities breaks down as follows:

In € millions	As of June 30, 2021	As of December 31, 2020
Maturities in		
year Y (6 months)	413	-
Y+1	1,057	1,318
Y+2	4,591	917
Y+3	1,025	4,542
Y+4	2,014	3,971
Over 4 years	2,982	4,741
Total	**12,082**	**15,489**

As of June 30, 2021, the KLM perpetual subordinated loan in Swiss francs and Japanese yens are included in the line “Over 4 years”.

20.5 Credit lines

As of December 31, 2020, KLM had drawn down €665 million of its credit facility and has an undrawn amount of €1.735 million. There has been no evolution on the first semester of 2021.

21. LEASE DEBT

The lease debt breaks down as follows:

In € millions	As of June 30, 2021			As of December 31, 2020		
	Non current	**Current**	**Total**	**Non current**	**Current**	**Total**
Lease debt - aircraft	2,002	653	**2,655**	1,687	675	**2,362**
Lease debt - real estate	573	101	**674**	595	105	**700**
Lease debt - other	122	40	**162**	143	42	**185**
Accrued interest	-	15	**15**	-	17	**17**
Total - Lease debt	**2,697**	**809**	**3,506**	**2,425**	**839**	**3,264**

22. NET DEBT

In € millions	**June 30, 2021**	**December 31, 2020**
Current and non-current financial debt	12,082	15,489
Repo triple A bonds	(48)	(84)
Current and non-current lease debt	3,506	3,264
Accrued interest	(90)	(107)
Deposits related to financial debt	(97)	(101)
Deposits related to lease debt	(82)	(80)
Derivatives impact on debt	13	27
Gross financial debt (I)	**15,284**	**18,408**
Cash and cash equivalents	6,035	6,423
Marketable securities (1)	144	193
Cash secured (1)	274	309
Triple A bonds (1)	537	518
Repo triple A bonds	(48)	(84)
Others	-	1
Bank overdrafts	(2)	(1)
Liquidities net of undrawn credit lines (II)	**6,940**	**7,359**
Net debt (I-II)	**8,344**	**11,049**

(1) Included in "Others financial assets".

In € millions	**June 30, 2021**	**December 31, 2020**
Opening net debt	**11,049**	**6,147**
Operating free cash, cash flow excluding discontinued activities	701	4,721
Perpetual reclassified from equity	-	403
Coupons on perpetual reclassified from equity	-	26
Coupons on perpetual reclassified from financial debt	(3,000)	-
Increase of equity	(1,024)	-
Disposal of subsidiaries, of shares in non-controlled entities	(71)	(357)
Acquisition of subsidiaries, of shares in non-controlled entities	4	1
Lease debts (new and renewed contracts)	603	336
Unrealised exchange gains and losses on lease financial debts through OCI	62	(215)
Other non monetary variation of the net debt	30	27
Currency translation adjustment	(7)	(15)
Amortization of OCEANE optional part	5	11
Change in scope	(6)	(50)
Other	(2)	14
Closing net debt	**8,344**	**11,049**

23. DEFERRED REVENUE ON TICKET SALES

This line corresponds to the unused air tickets which will be recognized in revenues at the date of transportation. Due to the Covid-19 crisis and resulting borders closures, the Group has been forced to reduce capacity and cancel a significant number of flights. In such an eventuality, customers can either ask for the refund of their tickets or the issuance of a voucher. As of June 30, 2021, this line includes €480 million of air tickets (fare and carrier imposed charges) for which the date of transportation has passed and which are eligible for refunds versus €699 million as of December 31, 2020, and €517 million of vouchers that can be used for future flights (or which can be refunded) versus €739 million as of December 31, 2020.

24. OTHER LIABILITIES

In € millions	As of June 30, 2021		As of December 31, 2020	
	Current	**Non-current**	**Current**	**Non-current**
Tax liabilities (including corporation tax)	623	1,067	565	625
Employee-related liabilities	849	1,291	1,134	545
Non-current asset payables	44	-	96	-
Deferred income	837	46	836	36
Prepayments received	355	-	342	-
Other	237	97	203	88
Total	**2,945**	**2,501**	**3,175**	**1,294**

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

25. FLIGHT EQUIPMENT ORDERS

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

In € millions	June 30, 2021	December 31, 2020
2nd semester year Y (6 months)	773	-
Year Y+1	1,403	1,444
Year Y+2	1,279	1,386
Year Y+3	1,044	1,347
Year Y+4	782	923
> Year Y+4	199	874
Total	**5,480**	**5,974**

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, 2021 decreased by six units compared with December 31, 2020 and stood at 96 aircraft. This change are explained by the delivery of six aircraft over the period.

Long-haul fleet (passenger)

The Group took delivery of four Airbus A350-900s and two Boeing B777-300ERs.

Medium-haul fleet

The Group did not take delivery of any 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, 2021	2	7	6	6	5	2	**28**
	As of December 31, 2020	-	7	7	8	4	6	**32**
B787	As of June 30, 2021	3	1	3	1	-	-	**8**
	As of December 31, 2020	-	5	1	-	2	-	**8**
B777	As of June 30, 2021	-	-	-	-	-	-	**-**
	As of December 31, 2020	-	2	-	-	-	-	**2**
Medium-haul fleet								
A220	As of June 30, 2021	6	15	15	12	12	-	**60**
	As of December 31, 2020	-	6	15	15	12	12	**60**
Total	**As of June 30, 2021**	**11**	**23**	**24**	**19**	**17**	**2**	**96**
	As of December 31, 2020	**-**	**20**	**23**	**23**	**18**	**18**	**102**

26. RELATED PARTIES

There were no significant movements in related party transactions during the period, in terms of either scope or amount, except the operation mentioned in note 2.2 Significant events that occurred in the period.

Information and control

Attestation by the person responsible for the first half financial report to June 30, 2021

I hereby declare that, to the best of my knowledge, the condensed financial statements for the first half of the 2021 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 condensed half-yearly financial information 2021

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, 2021

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 condensed half-yearly consolidated financial statements of Air France-KLM S.A., for the period from January 1 to June 30, 2021,
- the verification of the information presented in the half-yearly management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed half-yearly consolidated financial statements for the period from January 1 to June 30, 2021 have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our procedures.

These condensed half-yearly consolidated financial statements were established under the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

I - Conclusion on the condensed half-yearly financial statement

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

II – Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

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

Paris La Défense, on July 30, 2021

The Statutory Auditors

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

Document produced by Air France-KLM's Investor Relations Department