

UNIVERSAL REGISTRATION DOCUMENT 2019

Including the annual financial report

AIRFRANCEKLM
GROUP

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The components of the Annual Financial Report are identified in the index by the following pictogram 

UNIVERSAL REGISTRATION DOCUMENT 2019 AIR FRANCE - KLM

INCLUDING THE ANNUAL FINANCIAL REPORT

Group profile

In its principal businesses of passenger and cargo transportation, low-cost operations and aircraft maintenance, Air France-KLM is a leading global player.



This Universal Registration Document is an unofficial translation of the French *Document d'enregistrement universel*, which was filed with the *Autorité des Marchés Financiers* on April 17, 2020, as competent authority under Regulation (EU) 2017/1129, without prior approval pursuant to Article 9 of the said regulation.

The Universal Registration Document may be used for the purposes of a public offer of securities or the admission of securities to trading on a regulated market if it is approved by the AMF, together with any amendments if applicable, a transaction memorandum and a summary approved in accordance with Regulation (EU) 2017/1129. In the event of any ambiguity or discrepancy between this unofficial translation and the French *Document d'Enregistrement Universel*, the French version shall prevail.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Paris, April 17, 2020

Dear Shareholders,

As I write this, the world is experiencing an unprecedented health crisis. The global fight against Covid-19 is underway, and our economies and societies are reeling. This is an unprecedented chapter in the history of the Air France-KLM Group, as well as for the airline industry as a whole.

Our Group is committed to tackling this crisis and demonstrating that we have all the assets to overcome it, as we have done time and time again throughout our history.

Our primary asset is the 83,000 employees at the Air France-KLM Group. Whether at Air France, KLM, Transavia, Hop! or KLM Cityhopper, on board our aircraft, at the airports, in our maintenance hangars, on the runways or in our sales departments around the world, our employees have shown exceptional commitment and dedication since the beginning of this crisis. They have worked tirelessly

to transport medical equipment and to repatriate more than 300,000 of our fellow French, Dutch and European compatriots. It is also in these moments that we can see the true strength of the Air France-KLM Group.

Our Group's assets are plentiful. Throughout 2019, we have been building the foundations of our Group's go forward plan: renewed managerial governance, simplification of our brands, clarification of our products, harmonization of our fleet, and greater trust and stability in our relationships with our labor partners.

In 2019, we accelerated our fleet renewal plans. With the order for 38 Airbus A350s and 60 Airbus A220s, and the phasing out of our Airbus A380s and Airbus A340s, Air France is continuing to simplify while adding greater operational flexibility. With a future fleet of long-haul aircraft comprising Boeing 777s and Boeing 787s, and the Boeing 737 for its medium-haul network, KLM will gain a major competitive advantage thanks to this simplicity.

“Our Group is committed to tackling this crisis and demonstrating that we have all the assets to overcome it, as we have done time and time again throughout our history.”

AIR FRANCE - KLM IN 2019

The introduction of new aircraft into our fleet is also a lever for accelerating our sustainable growth. Having been committed to sustainable transformation for many years, we again ranked first on the Dow Jones Sustainability Index in 2019, positioning us as the industry leader in terms of sustainability and overall Corporate Social Responsibility.

This work on our fundamentals has been a necessary step to solidify the basis of our future. In November 2019, we presented our strategic trajectory from 2020 to 2025, along with four key priorities. Firstly, the optimization of our operating model, to improve the efficiency of our processes. Secondly, to increase our revenues by leveraging the power of our hubs and our development in the most profitable segments of our three brands Air France, KLM and Transavia. Thirdly, the development of the Group's other businesses such as maintenance, cargo, our Flying Blue frequent flyer program, and how best to leverage our customer data. Our last strategic focus is pragmatic consolidation opportunities in our sector.

The world post crisis will no longer be the same. The fundamentals of our strategy remain, but in a sector that is likely to undergo profound changes, we must adapt and accelerate our transformation.

We are determined to see Air France-KLM overcome this crisis and become a European champion. With what we have achieved in 2019 and with the extraordinary commitment of all our employees, I know that we will succeed, to the benefit of our employees, our customers, our shareholders, all our partners, and indeed for future generations.



Benjamin Smith

Chief Executive Officer of Air France-KLM

104

MILLION
PASSENGERS

1.1

MILLION TONS
OF CARGO

554

AIRCRAFT

312

DESTINATIONS

116

COUNTRIES SERVED

3,000

AIRCRAFT MAINTAINED
FOR 200 AIRLINE
CUSTOMERS

SELECTED FINANCIAL INFORMATION

Pursuant to Article 28 of Regulation (EC) No.809/2004 of April 29, 2004, the following information is incorporated by reference in this Universal Registration Document (See also Section 5.3 – Financial indicators, page 228):

- the consolidated financial statements of the Air France-KLM Group relating to the financial year ended December 31, 2018 and the relevant Statutory Auditors' Report, as published in Sections 5.5 to 5.7 in chapter 5 of the Air France-KLM Group's 2018 Registration Document;
- the consolidated financial statements of the Air France-KLM Group relating to the financial year ended December 31, 2017 and the relevant Statutory Auditors' Report, as published in Sections 5.5 to 5.7 in chapter 5 of the Air France-KLM Group's 2017 Registration Document;
- the review of the financial situation and results for the financial year ended December 31, 2018, as published on pages 4 and 5 of the 2018 Registration Document;

- the review of the financial situation and the results for the financial year ended December 31, 2017, as published on pages 4 and 5 of the 2017 Registration Document.

Since January 1, 2019, the Air France-KLM Group has applied the following accounting changes:

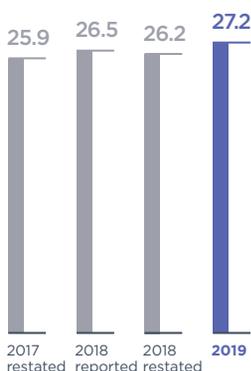
Customer compensation: Compensation payments for cancelled or delayed flights are recognized as variable compensation components within the meaning of IFRS 15 and must be booked as a reduction of revenue.

Component approach for Life Limited Parts (LLPs): Internal IT development and historical data analytics have improved the Group's ability to track LLP accounting management more precisely. As a result, since January 1, 2019, the Group has applied the component approach for these spare parts. This means that their maintenance costs must be capitalized and amortized over the useful lives of the LLPs which are expressed in cycles.

As a result, the elements of selected financial information for 2018 are presented, firstly, as initially reported and, secondly, on a restated basis.

Revenues

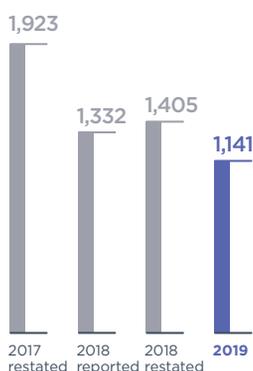
(in € billion)



Revenues stood at €27.2 billion, up by 3.7% versus 2018 restated, notably thanks to the strong revenue growth in the low-cost and maintenance businesses.

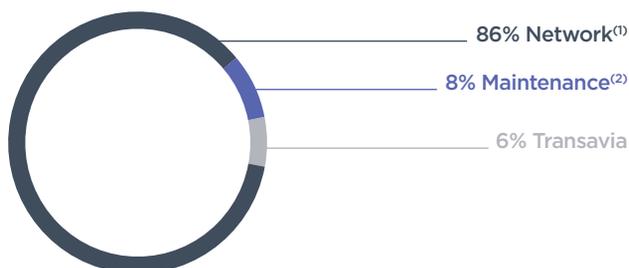
Income from current operations

(in € million)



Income from current operations stood at €1,141 million, down by €264 million versus 2018 restated. This decline was due to pressure on the cargo unit revenue and the higher fuel bill in 2019.

Revenue breakdown



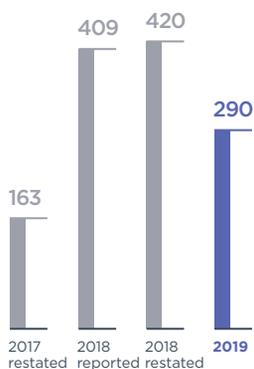
Breakdown of income from current operations



(1) Since 2017, the Passenger and Cargo activities have been regrouped under Network.
(2) Third-party revenues.

Net result, Group part

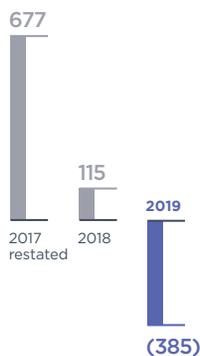
(in € million)



The net result, Group part stood at €290 million, down by €130 million versus 2018 restated.

Adjusted operating free cash-flow

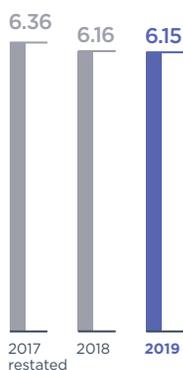
(in € million)



In 2019, the Group generated €(385) million of operating free cash-flow, down by €500 million relative to the previous year. This decline is mainly explained by higher investment in 2019.

Net debt

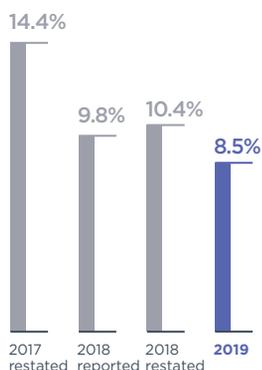
(in € billion)



Net debt stood at €6.15 billion at December 31, 2019, broadly unchanged on the previous year.

Return on Capital Employed (ROCE)

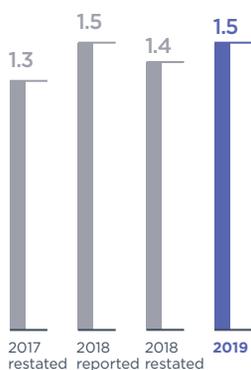
(at December 31)



The return on capital employed (ROCE) was 1.9 points lower at 8.5% at the end of 2019, down relative to 2018 restated, due to the decline in income from current operations for the financial year.

Debt ratio

(at December 31)



The net debt/EBITDA ratio stood at 1.5x at December 31, 2019, a stable situation explained by the decline in EBITDA.

HIGHLIGHTS OF THE 2019 FINANCIAL YEAR

Signature of employee agreements and simplification of the brand portfolio at Air France

In January 2019, three employee agreements were signed at Air France.

- on January 10, an agreement between Air France and its Cabin Crew staff, improving their working conditions while enabling better service delivery to customers;
- on January 11, the wage agreement signed with the unions representing Air France Ground Staff, providing for individual increases and enabling the financing of exceptional individual bonuses, thereby offering additional ways to recognize performance;
- on February 19, the signature of a Pilot staff category agreement with the SNPL providing the flexibility required to support Air France's new ambition, while foreseeing measures to improve flight safety, the commercial strategy, operational robustness, day-to-day life and pilot compensation.

The Cabin Crew agreement also enabled the integration of the Joon employees and aircraft. The simplification of the brand portfolio is an undeniable asset for our employees, our customers and all our partners.

In the same spirit of simplification, from now on the flights operated by the regional fleet under the Hop! brand are marketed under the Air France HOP banner.

The Air France-KLM Group can thus rely on two powerful brands, Air France and KLM, supplemented by regional brands Air France HOP and KLM Cityhopper, together with a low-cost proposition *via* the Transavia brand.

Reinforced agreements between Air France, KLM and Virgin Atlantic

On March 4, Air France, KLM and Virgin Atlantic announced their first code share agreement, offering their respective customers new travel options to/from North America, and more opportunities to earn Miles *via* their loyalty programs. Thanks to this partnership, customers of the three airlines can build their ideal journeys across the Atlantic by choosing from the numerous flight options operated by Air France, KLM, Virgin Atlantic and Delta.

For customers, these agreements are reflected in a wide choice of additional flights with 24 new routes between the United Kingdom and North America on flights *via*, notably, London-Heathrow and Manchester, and more options between Paris and New York *via* Manchester.

Convertible bond issue

On March 20, 2019, Air France-KLM successfully placed bonds convertible into new shares and/or exchangeable for existing shares (OCEANEs) due in 2026 for a total of around €500 million, representing 27,901,785 underlying shares.

Air France, KLM and Delta celebrate a decade of their transatlantic joint-venture

On June 4, 2019, Air France, KLM and Delta Air Lines celebrated ten years of their successful transatlantic cooperation. Over the past decade, the three airlines have soared to new heights by opening up new routes between Europe and North America, and improving the service offered to their customers. Built around a network of seven hubs – five in the United States and two in Europe – the partnership currently covers Canada, the United States, Mexico and Europe.

Air France - KLM and Accor strengthen their partnership around their loyalty programs with more rewards for their members

Since June 20, 2019, the members of the Flying Blue and Accor Live Limitless loyalty programs have been able to benefit from Miles+Points, an innovative opportunity enabling them to earn points and Miles on both their flights and stays: Miles are earned on hotel stays while Points are earned for each flight and can be converted for even more ways to redeem.

2019-20 Winter season: Air France - KLM increases capacity by 2.5% compared with the Summer 2019 season and proposes 32 new routes

This capacity increase for the Winter season relative to the Summer season is distributed as follows:

- +4% for the long-haul passenger network operations;
- -2% for the short and medium-haul passenger network operations;
- -1.9% for Transavia's low-cost operations.

KLM celebrates a centenary of aviation

The longest-standing commercial airline in the world still to be flying under its original name, on October 7, 2019 KLM celebrated its centenary. A true pioneer in aviation, KLM celebrated this milestone with its customers and partners underlining not just its remarkable history of the past ten decades but also the evolution of aviation and that of society as a whole, of innovation and the alliances.

Investor Day: becoming a European champion

At the Investor Day on November 5, 2019, Air France-KLM presented its go forward plan around four pillars that are key to the Group's transformation to become a veritable European champion.

- optimizing the operational model;
- refocusing revenue growth around the most profitable segments;
- developing initiatives on customer data, the Flying Blue loyalty program, maintenance and cargo;
- analyzing all the consolidation opportunities.

All these initiatives support the Group's goal to remain a leader in the sector's ecological transition.

Air France - KLM, Delta Air Lines and Virgin Atlantic reinforce their partnership between Europe and North America

On November 21, 2019, Air France-KLM, Delta Air Lines and Virgin Atlantic welcomed the US Department of Transportation's decision to grant them Antitrust Immunity (ATI) in the framework of the extension of the transatlantic joint-venture. This regulatory step now enables the airlines to move forward with their alliance. In parallel, the partners finalized the expanded joint-venture's governance by agreeing simplified decision-making processes that will enable the joint-venture to deliver its full synergy potential. This partnership is key to strengthening the Group's leadership position between Europe and North America and, from January 2020, will offer its customers the best streamlined travel experience across the Atlantic.

Air France-KLM simplifies and improves its managerial governance

On February 19, 2019, the Air France-KLM Board of Directors unanimously approved the presentation given by Benjamin Smith, Chief Executive Officer of Air France-KLM, outlining his ambitions, the principles of managerial governance and the strategic decision-making processes at Group level, aimed at simplifying and improving the Group's governance to recapture the airline leadership position in Europe.

The elements key to attaining the Group's long-term goals are:

- establish a CEO Committee to determine the strategic direction for all the Group's airlines and business units. This CEO Committee is chaired by Benjamin Smith. The other members of the Committee are Pieter Elbers (President & Chief Executive Officer of KLM, and Deputy Chief Executive Officer of Air France-KLM), Anne Rigail (Chief Executive Officer of Air France and Deputy Chief Executive Officer of Air France-KLM) and Frédéric Gagey (Chief Financial Officer of Air France-KLM);
- increase collaboration across the Group to better capture synergies and efficiencies, aimed at improving overall Group profitability;
- celebrate the longstanding heritage, reputation and brand recognition of Air France, KLM and Transavia within their respective markets, and reinforce the Group's position at its two hubs, Amsterdam Schiphol and Paris-Charles de Gaulle;
- simplify the Group's decision-making processes in the following areas: fleet and network strategy, alliances and commercial strategy, human resources, procurement, digital and customer data management.

In agreement with the Supervisory Board of KLM, the Air France-KLM Board of Directors proposed the renewal of Pieter Elbers' mandate as President & Chief Executive Officer of KLM. This renewal was ratified by the KLM Shareholders' Meeting of April 25, 2019.

Acquisition by the Dutch State of a shareholding in Air France-KLM

On March 1, 2019, the Dutch State announced that, on February 26, 2019, it had crossed the 5% and 10% thresholds in Air France-KLM's share capital and voting rights and held 60,000,000 shares, representing the same quantity of voting rights, i.e. 14.00% of the share capital and 11.91% of the voting rights in Air France-KLM. The Dutch State stipulated that it had no plans to purchase more shares in Air France-KLM or a controlling interest. Following the acquisition of this shareholding, the French and Dutch States announced the creation of a joint working group to, notably, investigate changes in the two States' shareholdings in Air France-KLM and KLM's capital structure, together with the governance rules within the Group.

Next step in the optimization of the Air France-KLM Group's long-haul fleet

On June 28, 2019, Air France and KLM announced that they were pursuing the optimization of their respective long-haul fleets. To realize fleet efficiencies through harmonization and the growth of similar aircraft fleets, the airlines will swap the remaining firm orders for Boeing 787s and A350s between them.

The implementation of this swap means that, in the 2021-23 timeframe, the six Boeing 787s ordered for Air France will be transferred to KLM, and the current seven Airbus A350-900s on order for KLM will be transferred to Air France.

Air France currently operates nine Boeing 787-9s and one additional aircraft is scheduled to arrive in May 2020, resulting in a fleet of ten Boeing 787-9s. In addition, Air France received its first A350-900 in September 2019. It already has an additional 20 on firm order to which will be added the seven A350-900s initially intended for KLM, resulting in a total of 28 aircraft.

KLM currently operates 13 Boeing 787-9s and received its first Boeing 787-10 in June 2019. This fleet will grow to a total of 21 Boeing 787s by the end of 2020 to which will be added the six Boeing 787s initially intended for Air France, resulting in a total of 27 aircraft.

In parallel, all the options for further fleet development at Air France within the Air France-KLM Group are currently under review, in consultancy with all stakeholders.

Air France-KLM accelerates its fleet renewal and orders an additional 10 A350-900s for Air France

On December 11, 2019, the Air France and Air France-KLM Boards of Directors reached a decision concerning the replacement of Air France's A380s and approved an order for ten A350-900s.

With this decision, Air France-KLM is pursuing its fleet rationalization and simplification strategy.

KLM is already well on its way to simplifying its long-haul fleet which will ultimately consist of only Boeing 777 and 787 aircraft, sharing a common pilot type rating.

At Air France, this upcoming order will bring the total number of A350 aircraft to 38, including three that have already been delivered.

This is the next step for Air France as it pursues its fleet simplification strategy. As a result, in 2023, the Air France long-haul fleet will consist of 116 aircraft split amongst only four families: A330s and A350s, Boeing 777s and 787s. As at KLM, this will bring Air France greater operational flexibility, as well as the opportunity to make significant economies of scale, thanks in particular to a reduction in the number of pilot qualifications required.

These next-generation aircraft will replace the A380s currently in operation at Air France and which will be retired between now and the end of 2022. Their arrival will also allow the company to accelerate the phase-out of the A340s during the first quarter of 2021.

The A350-900 combines economic efficiency and environmental performance, with 25% less fuel consumed compared to previous-generation aircraft, i.e., 2.5 liters per passenger/100km. It also boasts a 40% reduction in noise footprint. The Air France A350-900 is equipped with a spacious and silent cabin, a latest-generation in-flight entertainment system and WiFi connectivity for customer comfort.

HIGHLIGHTS OF THE BEGINNING OF THE 2020 FINANCIAL YEAR

COVID-19 crisis – impact post February 2020

As of April 17, 2020, as we finalize this 2019 Universal Registration Document, the COVID-19 crisis has continued to spread, leading many countries to take increasingly strict measures, including restrictions on travel opportunities and border closures.

Faced with these restrictions, the Air France–KLM Group has taken strong measures and drastically reduced its flight activity which, over the next few months, should be less than 10% of last year's level. As the crisis continues, the conditions for a recovery remain uncertain and the Group will continue to monitor the unfolding situation on a daily basis to make adjustments as necessary. The Air France–KLM Group, Air France and KLM have entered into in-depth discussions with their respective governments and financial institutions to dispose of the resources that will enable them to secure and sustain adequate levels of liquidity by all means, notably within the framework of the European Commission's Temporary Framework on State Aid published on March 19, 2020.

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

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

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

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

Existing Notes for a total principal amount of €677.7 million (representing 48.3% of the outstanding Existing Notes) were tendered to the Tender Offer, of which €350 million were accepted, composed of €311.2 million in 2021 Notes and €38.8 million in 2022 Notes; no subordinated perpetual notes were repurchased by the Company.

As a result, the principal amount of outstanding Existing Notes after completion of the Tender Offer is €1,053.3 million, of which €288.8 million in 2021 Notes, €361.2 million in 2022 Notes and €403.3 million in subordinated perpetual notes. The settlement and delivery combined with the net proceeds on the new bonds issued took place on January 16, 2020.

This transaction is part of the Company's ongoing dynamic management of its balance sheet structure, contributing to reducing the overall cost of the Group's debt and extending its maturity profile.

Launch of a major international partnership between Air France, KLM, Delta Air Lines and Virgin Atlantic: the expanded joint-venture enables customers to benefit from more destinations and ways to earn and spend frequent flyer points.

On February 3, 2020, Air France, KLM, Delta Air Lines and Virgin Atlantic launched their expanded joint-venture offering a wider choice of routes and loyalty options on travel between Europe, the United Kingdom and North America.

This new partnership enables customers to benefit from more convenient flight schedules and a shared goal of ensuring a smooth and consistent travel experience, whichever airline people fly. The new benefits have been accessible from February 13. Loyalty program customers can earn and use miles or enjoy elite benefits for flights on any of the four airlines' worldwide operations, including a transatlantic trip, intra-European hops or domestic US journey, offering more opportunities to quickly move up through the loyalty tiers and reach a higher status. Eligible elite loyalty program members can enjoy priority boarding and access to more than 100 airport lounges when traveling internationally.

1

PRESENTATION OF THE AIR FRANCE-KLM GROUP

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Impact of COVID-19 post February 2020

Recent events

As of April 17, 2020, as we finalize this 2019 Universal Registration Document, the COVID-19 crisis has continued to spread.

Since the beginning of the COVID-19 public health crisis, the Air France-KLM Group has implemented measures to ensure the protection of its passengers and staff, and to preserve the conditions of its financial viability.

Faced with the increasingly strict measures taken by many countries, including restrictions on travel opportunities and border closures, the Air France-KLM Group has drastically reduced its flight activity which, over the coming months, should be less than 10% of last year's level.

The Group has implemented strong measures since the beginning of the crisis which include, amongst others:

- negotiation with governments of payment deferral for taxes (civil aviation, solidarity, etc.), social contributions and various charges;
- negotiation with lessors and airports of payment deferral;
- cost reduction measures, estimated at this stage at €500 million in 2020, an increase of €300 million compared to previous announcements;
- the possibility of early retirement of certain sub-fleets of aircraft;
- implementation by Air France of partial activity measures and application by KLM of the Temporary Emergency Bridging Measure for Sustained Employment (NOW), with an impact estimated at this stage at around €1.1 billion for 2020;
- review of the investment plan which will be reduced by at least €700 million in 2020, i.e. €350 million more than in previous announcements, to which will be added the impact of the decline in own and third-party activity on the amount of maintenance investments.

In solidarity with all the employees, the members of the Air France-KLM Board Directors, its Chair and the Chief Executive Officer will also participate in the effort in line with the measures applicable to the employees of the Group, with a similar reduction in their remuneration.

Outlook for 2020

As the crisis continues, the conditions for a recovery remain uncertain, both in terms of our air operations, but more generally in terms of the timetable for an economic and demand recovery.

Currently, our best estimates incorporating all the aforementioned measures show that, in the absence of additional financing, a liquidity requirement is expected in the third quarter of 2020.

As a result, the Air France-KLM Group, Air France and KLM are engaged in in-depth discussions with their respective governments and financial institutions to dispose of the resources that will enable them to secure and sustain adequate levels of liquidity by all means, notably within the framework of the European Commission's Temporary Framework on State Aid published on March 19, 2020.

At this stage, given the various options currently being envisaged and the quality of the discussions with the two States and financial institutions, the Air France-KLM Group is confident that it will be able to obtain additional financing to meet all its future financial obligations and enable it to ensure the recovery of its activity beyond the current crisis.

1.1 MARKET AND ENVIRONMENT

1.1.1 The economic environment

Real GDP growth (%)	2018	2019
World	3.1	2.5
European Union	2.0	1.4
of which United Kingdom	1.4	1.3
Euro zone	1.8	1.1
of which France	1.7	1.3
of which Netherlands	2.5	1.7
North America (USMCA countries)	2.8	2.1
of which United States	2.9	2.3
Asia-Pacific	4.9	4.3
of which China	6.6	6.1
of which Japan	0.8	0.8
Middle East	0.7	-0.5
of which Iran	-4.7	-9.3
Sub-Saharan Africa	2.6	2.5
Latin America (excl. Mexico and Venezuela)	1.4	0.8
of which Brazil	1.3	1.1
of which Argentina	-2.5	-3.0

(source 1)

World GDP growth slowed by 0.6% in 2019 compared to 2018, while growth in world trade growth witnessed a much sharper 2.8% downturn from 3.7% to 0.9%, mostly due to the trade war between the US and China (source 2).

European (EU) GDP growth was 0.6% down on its 2018 level, within a context of slowing global growth and threats of tariffs on EU exports to the United States (e.g. cars, aircraft) which affected business confidence, especially in Germany (source 3). Brexit also added to the uncertainty in Europe (source 4).

GDP growth in North America slowed by 0.7%, with the United States having been impacted by the trade war with China, though to a lesser extent than the latter (source 5).

GDP growth in the Asia-Pacific saw a 0.6% deceleration with China and its manufacturing partners in the region being significantly affected by the decline in exports to the United States owing to the new tariffs (source 6).

Middle Eastern GDP contracted by 0.5% in 2019, affected by lower oil prices and the prevailing US sanctions on Iranian exports (source 7).

In the Sub-Saharan Africa region, GDP growth was broadly unchanged (-0.1pt).

Latin American GDP growth slowed by 0.6% as the recession in Argentina deepened within a context of a sharp currency devaluation (source 8). Chile's social tensions and the political instability in Bolivia also contributed to this weaker growth (sources 9 and 10).

Currency exchange rates

Brent (US\$/bbl)	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Average price for the period	66.8	74.5	75.2	67.7	63.2	68.9	61.9	59.0

(Source 1)

Oil prices began to fall as of the second quarter 2019 against a backdrop of slowing global demand for oil (GDP and trade

slowdown) and a steady increase in the supply of US shale oil, offsetting production cuts in the OPEC+ agreement (*source 11*).

Currency exchange rates

For one Euro (average)	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
USD	1.23	1.19	1.16	1.14	1.14	1.12	1.11	1.09
GBP	0.88	0.88	0.89	0.89	0.87	0.87	0.90	0.86
CHF	1.17	1.17	1.14	1.14	1.13	1.13	1.10	1.10
BRL	3.99	4.30	4.59	4.35	4.28	4.41	4.42	4.52
ARS	24.2	27.7	36.3	42.3	44.2	49.4	55.2	64.7
CNY	7.81	7.60	7.91	7.89	7.66	7.66	7.80	7.74
JPY	133	130	130	129	125	124	119	118

(*source 1*)

The strengthening in the US dollar (USD) impacted countries with a high level of foreign debt like Argentina (*source 8*), leading to a weakening in the Argentinian Peso (ARS).

The uncertainty about Brexit and its political ramifications led to increased volatility in UK Sterling (GBP), which is now appreciating against the Euro (*source 4*).

The Chinese Yuan (CNY) depreciated in the third quarter before again strengthening in the Q4, in line with the unfolding trade war negotiations (*source 6*).

1.1.2 The industry context and competition

2019 saw a progressive deceleration in worldwide passenger traffic growth (+4.2% in Revenue Passenger-Kilometers forecast for 2019 versus 7.4% in 2018) and a contraction in cargo (4.1% decline in Freight Ton-Kilometers during 2019) although the EBIT margin is forecast to be only slightly below its 2018 level (5.1% versus 5.7%). Only in North America and Europe were airlines able to create value for their investors, something which has been a steady feature since 2015 (*sources 12, 13*).

European consolidation

In Europe, break-even load factors are amongst the highest in the industry, owing to low *yields* in an intensely-competitive open aviation area and high regulatory costs (*source 12*); this may explain the significant number of bankruptcies and the current European consolidation.

Following the collapse of Primera Air, Small Planet Group and Cobalt Air amongst others last winter, more carriers have since filed for bankruptcy in Europe: Wow, Germania, Aigle Azur, XL Airways, Adria Airways and Thomas Cook Group, with the exception of its German and Danish subsidiaries (Condor & Sunclass Airlines) which are still flying.

- big European airlines like Alitalia and Condor are under administration as they await new shareholders, while Norwegian Airlines has changed its strategy from growth to profitability;
- bankrupt Flybe has been taken over by a consortium led by Virgin Atlantic and will be rebranded as Virgin Connect;
- outside Europe, the disappearance of Jet Airways in India has notably had a significant impact on their partners;
- the global alliances have been significantly challenged with a tie-up between Delta, a SkyTeam alliance member, and LATAM (Oneworld alliance). This move was followed by the IAG purchase offer for Spanish carrier, Air Europa, a member of the SkyTeam Alliance.

Regarding the European consolidation, Air France-KLM will pragmatically evaluate the potential opportunities. Looking ahead, Air France-KLM will take advantage of consolidation opportunities when and where they make sense for the Air France and KLM networks, while applying strict financial discipline.

Competitiveness and constraints of the French and Dutch markets

The French and Dutch airline markets are facing growing constraints; making it more challenging to attain a European leadership position.

For the past three years, airport capacity at Amsterdam-Schiphol has been limited by a ceiling of 500,000 aircraft movements. In 2020, the approval of the conditions for further growth at Schiphol is expected, together with a decision on the opening of regional airport Lelystad.

Over the next two years (2020-21), an increase of some 15% in airport charges will be implemented for additional infrastructure. In addition, as of 2021, a new Aviation Tax yielding an annual €200 million will be levied on all local passengers departing from Dutch airports.

In France, airport taxes and fees make Roissy-CDG one of the most expensive airports. Successive French governments have introduced specific taxes raising a total of €250 million, with a subsequent negative impact on the competitiveness of the French flag: e.g. Civil Aviation Tax, Solidarity Tax, Eco-tax to be implemented in 2020, CDG Express tax to be introduced in 2024 to finance the future rail shuttle between Roissy-CDG and the Paris city center. Air France is also significantly exposed to French social charges which are the highest in the industry, something which is not the case for its pan-European low-cost competitors operating in France who can base all or a portion of their crews in the outstation countries.

European medium-haul

2019 witnessed a slowdown in industry growth:

- +2.8% in seats during the Summer 2019 season compared to +5.2% in seats during Summer 2018;
- +1% in seats during the Winter 2019 season compared to +5.5% in seats in Winter 2018.

This trend was partly explained by the aforementioned bankruptcies since Winter 2017, as well as by the significant reduction in capacity at Norwegian Airlines and Eurowings.

In Summer 2019, Ryanair, easyJet, Wizz Air and Vueling remained the growth drivers while Eurowings witnessed a deceleration after its 2018 restructuring. Norwegian posted a significant decrease in both international and domestic flows. The grounding of the Boeing 737 Max aircraft slightly amplified the reduction in capacity (an estimated -1.3% impact on growth) that had already been planned. The Winter 2019 season is seeing contrasting trends for the six main low-cost carriers. Wizz Air and, to a lesser extent, Ryanair and Vueling capacity is up, while easyJet's growth is flat (and sharply lower in Germany). Norwegian and Eurowings capacity is down. For the first time ever, the top six low-cost airlines are growing at a similar pace to the legacy airlines.

During the Summer 2019 season, the industry's medium-haul capacity growth was driven by international routes, particularly towards the southern European countries. As in previous years, growth for most domestic flows lagged that of international flows, except for Spain. In the Winter 2019 season, the overall decline in domestic flows is mainly due to the German and Turkish domestic markets,

Competition remained intense in France over the summer of 2019 (+4.9% growth in seats), continuing to be driven by easyJet, Ryanair and, to a lesser extent, Vueling. However, industry capacity in France is lower in the Winter 2019 season due to the reduction at Air France-KLM while Ryanair is still the growth driver. Growth to/from Netherlands remains limited, owing to slot constraints.

(Air France-KLM analysis based on source 14).

European long-haul

Industry growth slowed in 2019:

- +5.2% in seats during the Summer 2019 season compared to +8.6% in seats during Summer 2018;
- +3.2% in seats during the Winter 2019 season compared to +8.7% in seats during Winter 2018.

The collapse of airlines like Jet Airways, WOW Air, Thomas Cook, Aigle Azur and XL Airways contributed to a slowdown in capacity growth across all regions as of the Summer 2019 season.

In Summer 2019, Norwegian significantly reined in its pace of growth which, together with the bankruptcy of Primera Air, led to the lowest capacity growth on routes (+3.6% in seats) to North America since Winter 2014. Over the same period, total capacity to Latin America saw double-digit growth (+12.6%), capacity to Asia and Sub-Saharan Africa was up by around 7%, capacity to the Middle East was some 5% higher and capacity to the Caribbean and Indian Ocean region remained unchanged. Air France-KLM increased its long-haul capacity (+1.3%) at a slower pace than Lufthansa Group and IAG, but remained the largest airline group on long-haul routes from Europe.

In Winter 2019, seat capacity growth is down to only 3.2%, i.e. the lowest growth in long-haul capacity since Winter 2012. The low-cost and leisure airlines have reduced their capacity by 11.0% for Winter 2019, compared to growth of 19.1% in the previous year. Air France-KLM has upped its long-haul capacity by 3.9% for Winter 2019, outpacing Lufthansa Group's +1.5% and slightly short of the growth in IAG's long-haul capacity (+4.3%).

(Air France-KLM analysis based on source 14)

New passenger offers: Virtual Interlining and platforms

The Virtual Interlining (also known as self-connect) concept is no longer the preserve of the low-cost airlines but has migrated to full-service carriers like Emirates and Singapore Airlines notably through easyJet's "Worldwide by easyJet" platform (*sources 15 and 16*).

Latterly, Eurowings, Transavia and Jetstar Group/Tigerair Taiwan have all announced Virtual Interlining options (*sources 17, 18 and 19*). The recently-announced partnership between Jetstar Group and Tigerair Taiwan resolves one of the major pitfalls with traditional Interlining: passengers no longer have to retrieve their baggage at the transfer airport but can benefit from seamless transfer to the final destination (*source 20*). In Europe, Stansted Airport and Kiwi.com are working on a similar solution (*source 21*).

Air Asia has started selling tickets for other airlines (even when Air Asia is not part of the itinerary) on its website with the help of Kiwi.com's technology (*source 22*). The Asian carrier is looking to become a one-stop travel shop and has realized that it can be relevant to customers only if it avoids limiting itself to offering itineraries on partner airlines.

Kiwi.com is moving from an Online Travel Agency offering Virtual Interline itineraries to a much broader platform including door-to-door itineraries (bus, train, plane). Moreover, it offers Virtual Fare Types in which it adds flexibility (cancellation, rebooking etc.) to tickets that usually do not include such flexibility (*source 23*).

Cargo

During 2019, international freight demand measured in Freight-Ton-Kilometers (FTK) decreased by 4.1% relative to 2018 (versus +4.0% in 2018 versus 2017), while capacity measured in Available-Freight-Ton-Kilometers (AFTK) increased by 1.7% (5.4% in 2018) (*sources 13 and 25*).

Cargo traffic growth turned negative in 2019 for the first time since 2012. The 3.3% annual decline in demand was the steepest drop since 2009 at the time of the global financial crisis. The amount of air freight carried fell to 61.2 million tons from 63.3 million tons in 2018. Cargo traffic is expected to experience a modest rebound with 2.0% growth in 2020, with the number of tons forecast to reach 62.4 million, still short of its 2018 level. *Yields* should continue to slide with a 3.0% decline forecast for 2020, an improvement on the 5.0% decline in 2019. Cargo revenues are expected to fall for a third successive year in 2020, to a total of US\$101.2 billion, down by 1.1% on their 2019 level (*source 24*).

All regions posted a decline in traffic during 2019, except for Africa (+13%). One of the positive developments in recent months has been an apparent thawing in the tone of the US-Chinese trade negotiations. Scheduled US tariff increases have been delayed, and additional tariff exclusions implemented on October 31 for US\$300 billion of goods. Although this position could change rapidly, for now this amounts to good news for world trade and the air cargo outlook (*source 24*).

Maintenance

According to estimates, the global MRO market, which comprises the maintenance and modification spending by aircraft operators either directly or through sub-contractors, will be worth US\$90 billion in 2020 (source: ICF International).

The trends in this business closely follow those of the commercial airline fleets globally and their utilization. In the short term, airlines tend to focus on adjusting their use of older-generation aircraft in that their costs, and particularly maintenance costs, are the highest. The MRO operators thus suffer from more volatile demand on older-generation aircraft than on the next-generation models.

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. 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.). Lastly, the competition from Original Equipment and Engine Manufacturers (OEMs) and Original Aircraft Manufacturers (OAMs) has considerably increased in recent years (see 1.3.3.1 Business environment).

Sustainable aviation

Customers are increasingly concerned about their environmental footprint when they travel, in Europe but also in many other parts of the world, as seen in the “flight-shaming” or *Flygskam* phenomenon.

Beyond what is sometimes perceived as a long-term “aspirational” goal set by the industry, (50% reduction in 2050 emissions relative to their 2005 level), governments and the general public expect concrete guarantees on the emission trajectory of aviation, and on the key initiatives to support this trajectory (technology, biofuel, etc.).

In the absence of these guarantees, there is a significant risk of further taxation initiatives (eco-tax in France, tax increase in Germany, etc.) aimed at driving down demand and traffic. To counter this risk and reduce their environmental footprints, airlines are investing massive amounts in measures like fleet renewal and participating in projects to promote biofuel development, offtake agreements and voluntary carbon offsetting financed by the airlines and/or proposed to customers.

Sources

1) Oxford Economics databank 03/01/2019; 2) IATA - Airline Industry semiannual report - December 2019 update; 3) Oxford Economics - Germany report - December 2019 update; 4) Oxford Economics - UK report - December 2019 update; 5) Oxford Economics - US report - December 2019 update; 6) Oxford Economics - China report - December 2019 update; 7) Oxford Economics - Iran report - December 2019 update; 8) Oxford Economics - Argentina report - December 2019 update; 9) Oxford Economics - Chile report - December 2019 update; 10) Oxford Economics - Bolivia report - December 2019 update; 11) Bloomberg: <https://www.bloomberg.com/news/articles/2019-12-02/opec-gambles-that-u-s-shale-s-golden-age-is-over>; 12) <https://www.iata.org/publications/economics/Reports/Industry-Econ-Performance/Airline-Industry-Economic-Performance-Dec19-Report.pdf>; 13) <https://www.iata.org/publications/economics/Reports/freight-monthly-analysis/freight-analysis-oct-2019.pdf>; 14) OAG analyzer extracts (snapshot Apr 14th, 2019 for IATA Summer 18&19 Medium Haul; snapshot Nov 4th, 2019 for IATA Winter 18&19 Medium Haul; snapshot Mar 17th, 2019 for IATA Summer 18&19 Long Haul; snapshot Oct 7th, 2019 for IATA Winter 18&19 Long Haul); 15) <https://www.businesstraveller.com/business-travel/2018/11/20/emirates-joins-easyjet-connections-service/>; 16) <https://www.businesstraveller.com/business-travel/2018/09/10/singapore-airlines-joins-worldwide-by-easyjet-connections-service/>; 17) <https://newscloud.eurowings.com/en/press-releases/2019/q2/virtual-interlining-eurowings-distributes-tickets-of-other-airlines-for-the-first-time.html>; 18) <https://corporate.transavia.com/fr-FR/actualites/transavia-lance-transavia-smart-connect/>; 19) <https://atwonline.com/airports-routes/jetstar-group-tigerair-taiwan-sign-interline-agreement>; 20) <https://atwonline.com/airports-routes/jetstar-group-tigerair-taiwan-sign-interline-agreement>; 21) <https://partners.kiwi.com/london-stansted-airport-teams-kiwi-com-revolutionise-transfer-traffic/>; 22) <https://skift.com/2019/11/15/airasia-com-starts-selling-competitors-flights-via-kiwi-com-partnership/>; 23) <https://partners.kiwi.com/kiwi-com-introduces-virtual-fare-types-on-its-booking-page/>; 24) <https://www.iata.org/pressroom/pr/Pages/2019-12-11-01.aspx>; 25) <https://www.iata.org/publications/economics/Reports/freight-monthly-analysis/freight-analysis-oct-2018.pdf>

1.2 STRATEGIC OUTLOOK

1.2.1 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 an aviation champion in Europe and one of the most powerful in the world for its staff, customers and shareholders, while assuming its role as a pioneer in sustainable aviation. As such, flight safety is both an absolute imperative that the Group owes to its customers and staff, and a daily commitment.

The Air France–KLM 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.

1.2.2 Air France – KLM: core assets and unique competitive advantages

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

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

People: 83,000 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 partnerships

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, and takes advantage of numerous partnerships to offer its customers a global network. In Summer 2020, it will serve 308 destinations in 116 countries. Given its presence in all the major air transport markets, the Group also has a natural risk hedge since no one market represents more than a third of network revenues.

In 2019, Air France–KLM confirmed its leadership position in terms of traffic with just over 104 million passengers carried between Europe and the rest of the world, and on intra-European routes on departure from the Group’s natural markets.

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.

1.2.3 The value creation model

The Air France-KLM Group's ambition is to become a European aviation champion and one of the most powerful in the world for its staff, customers and shareholders, while assuming its role as a pioneer in sustainable aviation.

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 83,000 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 will continue to invest 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.

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. The Group is targeting a leading Net Promoter Score by improving the customer experience through personalized and digitized 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.

Shareholders

Impact of COVID-19 post February 2020

Despite the measures initially implemented by the Group in response to the COVID-19 crisis, the deterioration in the environment linked to the epidemic and the resulting sharp reduction in its activity today lead the Group to forecast a sharply deteriorated financial trajectory compared to the outlook presented on publication of its annual results.

As the crisis continues, the conditions for a recovery remain uncertain, both in terms of our air operations, but more generally in terms of the timetable for an economic and demand recovery.

Our current best estimates, incorporating all the measures taken by the Group since the beginning of the crisis, show that, in the absence of additional financing, a liquidity requirement is expected in the third quarter of 2020.

As a result, the Air France-KLM Group, Air France and KLM are engaged in in-depth discussions with their respective governments and financial institutions to dispose of the resources that will enable them to secure and sustain adequate levels of liquidity by all means, notably within the framework of the European Commission's Temporary Framework on State Aid in force published on March 19, 2020.

At this stage, given the various options currently being envisaged and the quality of the discussions with the two States and the financial institutions, the Air France-KLM Group is confident that it will be able to obtain additional financing to meet all its future financial obligations and enable it to ensure the recovery of its activity beyond the current crisis.

Planet and society: contribute to the United Nations Sustainable Development Goals

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.

OUR STRATEGY: BECOMING A EUROPEAN CHAMPION

OUR RESOURCES

OUR BUSINESS MODEL



PEOPLE

83,000 engaged and professional employees and a diverse culture



BRANDS

Portfolio of attractive, strong brands and a common frequent flyer program "Flying Blue"



PARTNERSHIP

A powerful network of suppliers and partnerships



FLEET & NETWORK

An extensive network operated with an optimized fleet



FINANCIAL

A stable shareholding structure with the French and Dutch States, Delta Air Lines and China Eastern



ENVIRONMENTAL

An experienced and knowledgeable player in the industry committed to contributing to a positive change

With a European base and a global network of more than 300 destinations, the Air France-KLM Group is a global aviation player in the **passenger, cargo and maintenance** businesses, represented by 3 strong brands, and leading the way in **sustainable aviation**

AIRFRANCE KLM GROUP

AIRFRANCE

KLM

transavia

SHOWCASING
THE BEST OF
FRANCE AROUND
THE WORLD

STRONG
INNOVATIVE
GLOBAL
BRAND

MAKING
LOW COST
FEEL
GOOD



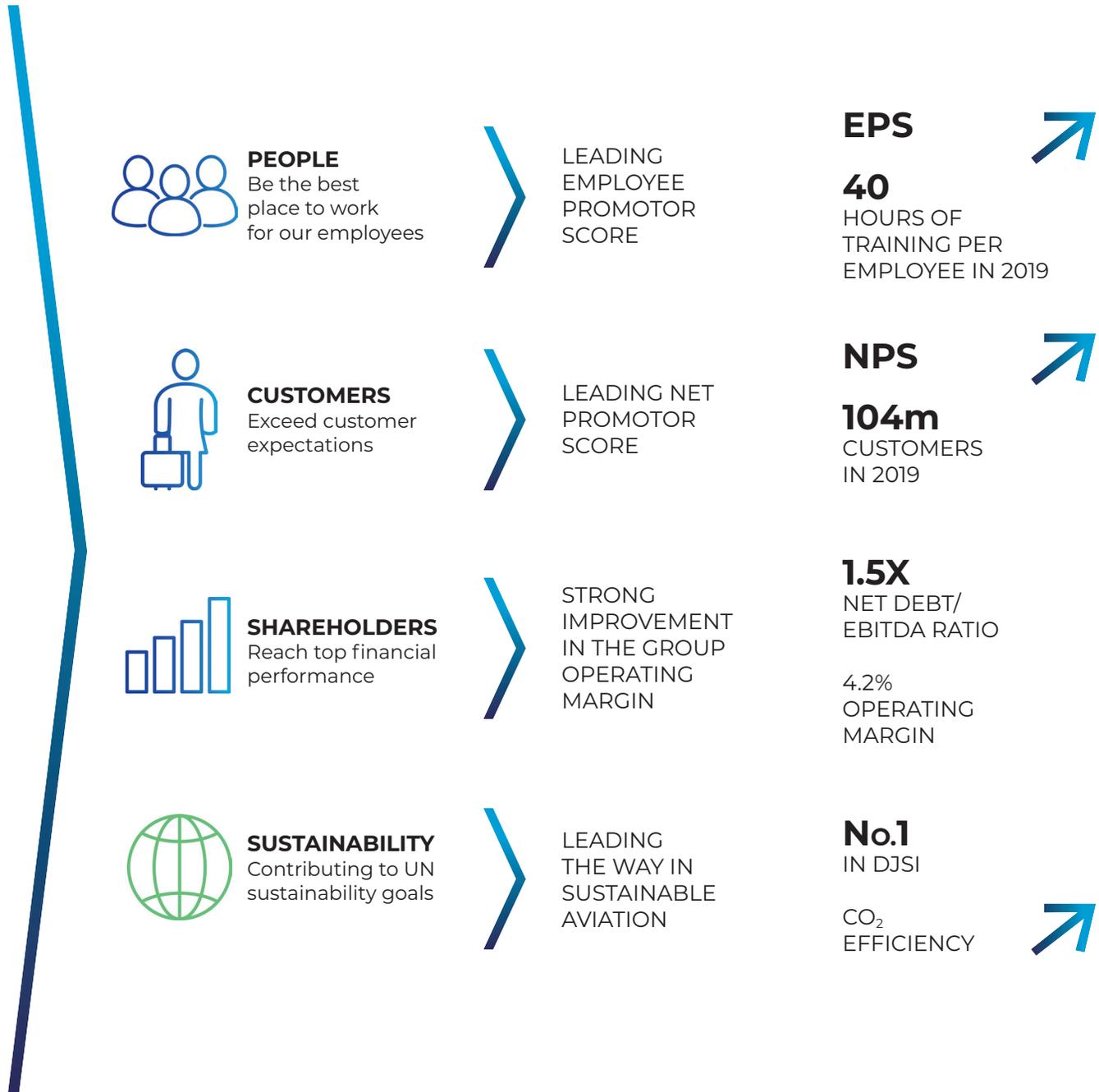
- Optimize our Operating Model
- Grow Profitable Passenger Revenue
- Leverage European Consolidation
- Develop Customer Data, Flying Blue, Cargo and E&M
- Commit to Global Sustainability

CONTRIBUTING TO THE UN SDGs



OUR VALUE CREATION

2019 PERFORMANCE



1.2.4 Strategic orientations

Five orientations have been identified to achieve the Air France-KLM Group's goals and build on the important 2019 achievements in terms of brand, fleet and product simplification.

Safety is paramount, a prerequisite that comes before all else. At the heart of the trust of customers and staff, safety is key to the Group's activity and the sustainability of air transportation.

1.2.4.1 Optimize the Air France-KLM operating model

The optimization of the Air France-KLM model will enable a reduction in operating costs and increased efficiency, taking full advantage of the Group's assets. Increasing commercial and fleet flexibility is a Group priority allowed by continuous and trustful social discussions. A number of changes have already been approved and launched, enabling fleet, product and cabin optimization, and offering growth opportunities for Transavia France.

a. To reach operational excellence, the Air France-KLM Group is focused on **optimizing and simplifying internal processes**.

- since 2014, KLM has executed a successful transformation of its organization and processes, through a series of structural programs like the High Performance Organization (HPO), the digitalization of operations, increased agility at network planning and improved fleet utilization. The results are visible at the level of KLM's unit cost and operational efficiency. KLM will continue its simplification efforts around five pillars: Customer & Product, network & Fleet, Operational Excellence, People & Organization, Innovation & Sustainability,
- Air France has also begun its transformation through an ambitious program to simplify its processes and organization, and redesign the support functions and managerial structure, to reduce overheads, break silos, empower staff and streamline processes;

b. **Simplifying and renewing** the fleet is an important part of these changes implemented by the Group. By reducing the number of aircraft types and adjusting cabin layouts the Group will gain greater operational flexibility (operations, marketing, catering, maintenance) and economies of scale.

- Air France is targeting a reduction from nine to five/seven cockpits in the mid term. The Air France HOP regional fleet will focus on two aircraft types, the Bombardier CRJ1000 and the EMB170/190, compared with four aircraft types currently, with around 50-60 aircraft in the mid term. The medium-haul fleet will be modernized around the Airbus

A220 and the future replacement of the current A320-321 fleet, targeting c.110-115 aircraft in the mid term. On long-haul, the Air France fleet will be simplified around the A330, A350, Boeing 787-9 and Boeing 777, targeting around 118-123 aircraft in the mid term and two/three cockpits versus the four currently. The current Air France A380s will be replaced by new generation A350s,

- KLM is targeting a unique cockpit per haul (short, medium and long-haul) over the mid term compared with the current five. KLM Cityhopper's regional fleet will see the phase-in of the Embraer 195, targeting 52-54 aircraft over the mid term. The medium-haul fleet will still include the Boeing 737 with a target of 52-54 aircraft. The long-haul fleet will focus on the Boeing 787 and 777, phasing out the Boeing 747 and A330,
- the Transavia France and Transavia Netherlands fleet will remain composed of Boeing 737s. The fleet will reach 80 to 115 aircraft in the mid term;

The current deliveries of A350 and Boeing 787 aircraft will contribute to a modernized Air France-KLM fleet with a stronger economic and operational performance, in addition to an accelerated aircraft retrofit program with the goal of offering in-flight connectivity and a full-flat Business Class seats across the fleet as soon as possible.

c. **Growth forecasts for Transavia Netherlands and Transavia France**

- **Transavia Netherlands** will grow its capacity through fleet renewal, to remain the number one low-cost carrier in the Netherlands. With demand still growing and slots constrained, Transavia will consider flying from secondary and tertiary airports,
- **Transavia France** aims to become the number one low-cost carrier in France in terms of based aircraft;

Transavia will thus strengthen its position in the core leisure and VFR market segments, and diversify its network by adding destinations in Northern and Eastern Europe.

d. The formation of the Air France-KLM Group offers the opportunity to capitalize on the international reach of each airline while continuing to **build synergies**. Leveraging this potential will be key in the coming years. Much has already been accomplished and has proven to be to the benefit of all our airlines. The synergies have concerned sales, revenue management, strategic alliances, IT, cargo and maintenance. **Some areas can be further built on and will constitute the next focus such as Fleet & network, Human Resources, Commercial & Alliances, Purchasing & Procurement, Digital & Data Management.**

1.2.4.2 Grow profitable passenger revenue

In recent years, the Air France–KLM Group has built a powerful asset through its complementary dual hubs in Amsterdam and Roissy-Charles de Gaulle, increasing the range of destinations, frequencies and schedules proposed to customers. In the coming years, the Group's airlines will focus their growth on the most profitable segments.

Given its positive profitability, KLM can grow on all segments, leveraging powerful positions on connecting traffic. The brand is looking to become the best connection carrier to/from Europe, and will strengthen its leadership at Schiphol.

Air France will optimize its revenue mix towards the more profitable premium segments:

- in the past, to comply with internal available seat-kilometer (ASK) production rules, Air France had to reduce the size of its Premium cabin (Premium Economy and Business) to increase the offer of Economy seats. Thirteen Premium seats were thus removed from the Air France 777-200ERs between 2014 and 2019.

This constraint prevented Air France from growing on the higher-margin Premium segment, despite the market demand growth: the number of industry long-haul Premium seats increased by 8% between 2014 and 2019 while Air France's Premium long-haul capacity grew by only 4% over the same period;

- a new internal production balance agreement was negotiated and signed with the unions in 2019. Thanks to this new agreement, which is no longer ASK-based, Air France can now optimize cabin configurations and the fleet, and thus respond to the market demand by increasing its proportion of Premium seats;
- Air France will focus more on its main strengths: Paris local and high-yield connecting traffic to extract maximum value from local and Premium markets, and a redesign of the Orly strategy together with Transavia to strengthen the Group position at this airport.

1.2.4.3 Leverage European consolidation

Within a context of a major European consolidation, the Air France–KLM Group will pragmatically evaluate acquisition opportunities, positioning itself solely on transactions that are aligned with the Group's strategy and DNA.

1.2.4.4 Grow non-passenger businesses (Customer Data, Flying Blue, E&M) and Cargo

Air France–KLM's strategy is to reinforce and diversify its portfolio of activities by growing non-passenger businesses on four pillars: leveraging customer data, the "Flying Blue" loyalty program, Cargo and Engineering & Maintenance.

- the Air France–KLM Group has a significant opportunity to further leverage its commercial footprint, by utilizing its well-established loyalty program, Flying Blue, and customer data to personalize the offer to provide a more attractive customer value proposition at a reduced cost of sale. Air France–KLM will accelerate harnessing the benefit of our customer database including Flying Blue information, and data from airport and inflight touchpoints, to push the right offer to the right client on the right channel at the right time;
- Flying Blue is aiming to increase its contribution to Group sales and margin *via* the sale of Miles, providing a new digital experience and enabling payment in Miles;
- Air France–KLM has built a very strong position over the past few years in the Engineering & Maintenance field, contributing positively to the Group's operating results. The order book has grown by 36% in less than four years and the Group has leveraged Air France and KLM fleet renewal to build a strong presence with Next Gen products and prepare for future long-term growth.

This will continue in the A220 market. Air France–KLM Engineering & Maintenance has a strong worldwide presence with an admirable position in the fastest-growing E&M market, Asia, which represents 41% of sales. Air France–KLM will invest in developing its E&M business by digitalizing its operations to achieve profitable growth, building on the current solid order book and major strategic partnerships.

Cargo is by nature a volatile but growing market. After restructuring, as the number five global player, Air France–KLM Cargo constitutes a strong foundation that can be further developed. For 2020 and beyond, the aim is to further increase the Cargo contribution through innovation and transformation, focus on high growth segments (for example SMEs, Pharma, fresh products, e-commerce) and secure effective partnerships.

1.2.4.5 Commit to global sustainability

As a global aviation player, the Group acknowledges the importance of Corporate Social Responsibility, having headed the Dow Jones Sustainability World Index for the fifteenth year running.

The Air France–KLM strategy is centered around four pillars:

- environment: Reduce our environmental footprint by improving our operations, by innovating in the supply chain and by mobilizing our staff and the industry;
- human resources: Maintain a responsible social policy and encourage personal development to ensure the motivation and drive of our employees;
- customer trust: Integrate sustainability within the entire value chain to offer our customers sustainable and innovative products and services;
- societal value: Create economic and social value, through our network, at hubs and destinations.

1.3 ACTIVITIES IN 2019

1.3.1 Network business (passenger and cargo): maintained commercial offensive and growth

The network business corresponds to passenger and cargo transportation services on the scheduled flights of the network airlines, Air France and KLM. The network business is Air France-KLM's principal activity, contributing approaching 87% of the Group's revenues.

The Group amplified its growth trajectory by initiating numerous improvements to its network. Projects around the optimization of fleet utilization, improved operational performance, simplified and harmonized crew rotations, the product, on-board connectivity and the fleet were thus launched and were subsequently reflected in the customer proposition.

In 2019, network capacity was built based on a combination of these different factors within a changing economic context (higher oil price, exchange rate fluctuations), and to satisfy the expectations of the different customers (Leisure, Business) for new destinations, with increasingly exacting requirements in terms of the quality of operations.

The operational constraints were re-evaluated to optimize operational efficiency and increase levels of customer satisfaction. Activity grew by taking advantage of new route opportunities while, when necessary, adjusting the network. 2019 proved to be a year of significant growth, with Air France and KLM serving 116 countries and 312 destinations.

1.3.1.1 Short and medium-haul operations at the heart of the Group's strategy

An expanded network with new routes, oriented towards the fastest-growing areas in Europe

The short and medium-haul network remains central to the Group's strategy:

- on the French short-haul network, Air France interlinks the French regions with daily flights from 31 airports. Additionally, the *La Navette* product responds to the specific needs of Business travelers by serving five cities to/from Paris-Orly (Marseilles, Toulouse, Nice, Bordeaux and Montpellier).

To contend with the increased competition from the TGV, the OuiGo offering and low-cost carriers, Air France adjusted and restructured its schedule and production capacity to improve its operational robustness and the service offered to customers. Capacity was thus limited by the size of aircraft module (reduction in the Airbus fleet, gradual phase-out of the HOP ATRs), the network was restructured, new routes were opened and the number of seasonal flights increased. The *La Navette* product is continuously being improved with optimized frequencies and a more qualitative fleet.

To complete its proposition, Air France maintains its partnership with Blablabus: this partnership is an opportunity to become a player in interoperability, offer passengers more connecting opportunities and expand the catchment areas. From the same perspective, the TGV Air product (combined train + aircraft proposition) is offered to our customers;

- the medium-haul network is constructed around the Paris-CDG and Amsterdam-Schiphol hubs, offering multiple connecting opportunities in Europe. It proposes an attractive schedule of flights accompanied by a fare offer adapted to the needs of all passengers, thanks to three price ranges irrespective of when tickets are purchased (Light, the simplest travel proposition, Standard the best value and Flex the most flexible). In Summer 2019, the attractiveness of the CDG hub was reinforced with a more-than-5% increase in connecting opportunities.
- In 2019, Air France introduced new routes on the short and medium-haul network;
- seven destinations on departure from Paris-Charles de Gaulle operated by Air France: e.g. Belgrade (Serbia), Tbilissi (Georgia);
- in the seasonal Summer period, the opening of attractive leisure destinations: Olbia (Italy), Palermo (Italy), Split (Croatia), Heraklion (Greece);
- new routes on departure from the French regions: Lorient-Lyon, an offer between the French provinces and Corsica, and a reinforced offer between the French provinces and Europe;
- in parallel, an increase in capacity on fast-growing markets like North Africa (Marrakesh), Germany (Munich, Hamburg), Iberia (Oporto) and Italy (Milan).

Within a context of more intense competition, the Group is thus demonstrating its ability to adapt to changing trends and seize opportunities. Agility and pragmatism have become the principles behind the construction of the offer, in terms of opening new routes, capacity adaptation and the offer of seasonal destinations. These principles enable the generation of new opportunities for growth and profitability.

1.3.1.2 Long-haul operations: capacity growth, preservation of market share and fleet renewal

Key principles: capacity growth, preservation of market share and fleet renewal

In long-haul, the Group increased its activity in 2019. Within an increasingly complex environment in which industry growth exceeded traffic demand, the Group leveraged its balanced network by redeploying capacity to growth areas and opening new destinations in the business and leisure markets.

On the long-haul network, Air France opened two new destinations: Dallas (United States) and Quito (Ecuador).

Change in capacity by geographical region

Air France-KLM's growth was mainly driven by the Americas and Asia.

North America: capacity reinforced within the framework of the transatlantic joint-venture

In the United States, Air France opened Dallas with five flights a week while reinforcing the Seattle service (addition of two frequencies a week) over the Summer and Washington (addition of a new flight four times a week) in the Winter.

In Canada, Air France added a new flight to Toronto three times a week over the Summer and a weekly frequency to Montreal in the Winter. It was also on the Toronto route that Air France decided to launch its new A350 aircraft.

In Mexico, two weekly frequencies were added on Cancun in Winter to reach a daily flight.

Central and South America, Caribbean-Indian Ocean: significant growth

In South America, Air France opened a Quito service with three weekly flights.

The service to South America was also reinforced with the addition of weekly frequencies to Lima (one additional frequency in Summer and two in Winter), Santiago (three additional frequencies in the Winter), San José, Panama and Fortaleza, each with one additional frequency over the Summer.

In the Caribbean-Indian Ocean, the Winter season saw a strong increase in frequencies to avoid a fall in capacity following maintenance operations on our 777-14J aircraft. Six weekly flights were thus added to Fort-de-France, four to Pointe-à-Pitre and two to Réunion Island in the Winter season.

Frequencies were also increased on Saint Martin (one weekly frequency) and on Mauritius during the school holidays.

Asia and the Middle East: a more mixed picture

At the same time, the Asia-Middle East network saw capacity growth *via* increased frequencies to Tokyo-Haneda (+2/7 in the Summer season and in Winter for a 14/7 offer), Osaka in Winter (+1/7) and Dubai in Winter (+2/7 for a 12/7 offer). Bangkok became a slightly more seasonal destination with the loss of two frequencies over the Summer for a total of 3/7.

Africa: adapting to the market dynamics

Air France adapted its schedule to take advantage of market opportunities: a third flight was added on Abidjan (to 19/7 per week) and two frequencies were added to Nairobi (5/7).

The Nouakchott-Conakry route became a circular flight, thereby offering a direct service to Conakry outbound from CDG.

Fleet and product: towards a modern long-haul fleet, offering ever-more comfort

Air France-KLM's long-haul fleet is composed of 176 aircraft. The Group is pursuing its strategy of fleet renewal and modernization involving, notably, cabin upgrades and access to on-board satellite connectivity enabling an in-flight WiFi offer for customers.

The Air France Group fleet numbers 109 long-haul aircraft while the KLM fleet is composed of 67 aircraft.

Fifty-three Boeing aircraft are now equipped with the *BEST* Business and Leisure cabins (25 777-200s, 19 777-300s and nine 787-9s) with, in the Business cabin, the Cirrus full-flat seat from Zodiac installed in a "four-front-facing" configuration, offering aisle access for every customer. In Economy, the Zodiac Z300 seat is fitted with an 11-inch Panasonic screen enabling customers to benefit to the full from the video offer. In *La Première*, on the 777-300s, the four suites are now much sought-after by customers.

The 787s joining the Air France fleet since 2017 came ready-equipped with these BEST cabins with, notably, a significantly improved seat in Premium Economy, offering more space and enhanced comfort.

In parallel, during 2019, Air France began the BEST retrofitting work on its 15-strong fleet of A330s, with the installation of a new Stelia seat in Business. The new configuration includes sixteen additional seats (36J/ 21W/167Y). The fifteen aircraft will be completely refurbished over the summer of 2020.

In January 2020, Air France continued its fleet renewal and unveiled the new travel cabins available on board its Boeing 777-300s principally serving destinations in the Caribbean and Indian Ocean region. On board, the aircraft's 472 seats (14 in Business, 28 in Premium Economy and 430 in Economy) have been comprehensively redesigned to offer the highest standards of comfort, with a soft, warm ambiance in the airline's colors. At the end of 2020, the ten Boeing 777-300s (so-called Caribbean-Indian Ocean) will be comprehensively refurbished. In January 2020, the offer on board the Economy cabin as harmonized across the whole long-haul network.

On September 27, 2019, Air France took delivery of its first A350.

This latest-generation more environmentally-friendly aircraft offers 324 seats, with 34 in the Business cabin, 24 in Premium Economy and 266 in Economy.

The new configuration in the Business cabin (1-2 -1) has 34 seats with direct aisle access which convert into a near-two-meter-long full-flat seat.

In Premium Economy, the brand new Recliner seat is 48cm wide, reclines to 124° and has a 96 cm seat pitch between each row.

In Economy, the seat has been redesigned for even more comfort, with a reinforced ergonomic seat cushion, a 118° seat recline and a 79-cm seat pitch for more leg room.

The long-haul Business proposition is gaining consistency, enabling the offer of a full-flat seat on ever-more of the airline's aircraft. At the end of 2020, 80% of Air France's long-haul fleet will be equipped with full-flat seats.

In 2019, KLM continued its fleet renewal program which is key to its growth ambitions and its plans to make the aeronautics industry more sustainable. Between 2015 and 2019 a total of 64 new aircraft entered the fleet, including those for KLM Cityhopper and Transavia. The cabin upgrade program on in-service aircraft was pursued. All thirteen Airbus A330s are now retrofitted and boast new seats, new in-flight entertainment and new cabin interiors.

Three Boeing 747 were retired from the fleet in 2019. They were replaced by the Boeing 787-10, which is the stretched version of the Boeing 787-9 with an additional 50 seats. KLM will receive an additional four 787-10s in 2020.

The aircraft in the European fleet are being replaced with larger versions. KLM took delivery of four Boeing 737-800 aircraft while two Boeing 737-700s were sold. Transavia took delivery of two Boeing 737-800s. KLM also decided to replace part of its EMB190 fleet with the newer and larger Embraer E195-E2, placing an order for 21 leases and purchase rights for a further fourteen aircraft. Once delivery starts in the first quarter of 2021, these aircraft will be used by KLM Cityhopper on its European destinations.

Furthermore, in 2019, the decision was taken to swap KLM's A350 orders with Air France's Boeing 787 orders. This will bring significant efficiencies, notably in terms of flight deck crew, cabin crew, maintenance and day-to-day operations, contributing to further cost reductions for KLM. Such synergies underscore the strength of the Air France-KLM Group. The Cargo fleet remained unchanged at four aircraft. The total consolidated fleet, excluding training aircraft, grew from 209 to 214 aircraft, of which 67 long-haul aircraft.

On its domestic and European network, Air France is pursuing the upgrade to its customers' travel experience

Air France is the first airline in the world to have chosen Safran Cabin's latest ECOS luggage compartments to equip its A320 and A321 single-aisle short and medium-haul aircraft, thereby offering its customers more space to stow their cabin baggage.

The ECOS "Efficient Cabin Open Space" system offers up to 60% more storage capacity than the luggage racks currently available. It consists of new bins, ceiling and cove panels that provide a lower shelf height for ease of loading and visibility. The new luggage compartments are also equipped with easy-to-reach doors which do not encroach on the cabin aisle. Robust, lightweight and easy to maintain, the ECOS system is simple and fast to install, requiring no aircraft modifications. It provides an easier and smoother boarding experience, greatly reducing the time spent searching for luggage space on board or the need to put certain bags in the hold. Aircraft turnaround times will also be reduced to improve efficiency and on-time performance.

In total, Air France plans to gradually equip its 40 A320s and 11 A321s with 1,342 new luggage compartments between September 2020 and September 2022.

On board connectivity: ongoing roll-out of the Air France CONNECT offer across the Air France fleet

In 2019, Air France enabled its customers to remain connected on board by installing the latest satellite connectivity technologies across the whole of its fleet.

Equipment on the A330 and Boeing 777: Gogo

Equipment on the A320 family (Airbus 318, 319, 320, 321): Orange/Global Eagle Entertainment

The aircraft joining the fleet arrive already equipped: 787: Panasonic/A350: Inmarsat

Progressive deployment across the whole fleet by the end of 2020.

At the end of January 2020, 95 aircraft had been equipped, 51 long-haul and 44 short/medium-haul.

From their personal devices (smartphone, tablet, computer), customers can thus:

- use their instant messaging applications free of charge;
- purchase passes to surf the internet;
- benefit from a wide selection of services and entertainment to watch free of charge, notably on short and medium-haul flights.

With Air France CONNECT, customers can access three WiFi passes from their own devices:

- a free "Message" pass for everyone, to send and receive messages for the duration of the flight;
- a "Surf" pass from €3 to €18 to surf the internet, and consult and send emails;
- a "Stream" pass from €10 to €30 to benefit from high-speed internet.

The Air France CONNECT proposition is progressively being expanded to offer customer additional services such as shopping, exclusive access to the *La Cave Air France* cellar, a wide range of activities and a ride-hailing service with Hertz DriveU.

On the short and medium-haul flights, customers without individual screens can enjoy a wide range of entertainment free of charge: films, TV programs, two live television channels, music, audio books, newspapers and magazines, and games. Customers can also find all the flight and connecting information they need thanks to the LEA travel assistant. To respond to the expectations of passenger and improve connectivity, KLM is equipping more aircraft with WiFi. In 2019, KLM took delivery of four Boeing 787-10 equipped with WiFi and installed WiFi on five of its Boeing 777-200s and five of its Boeing 777-300s. At the end of 2019, 53% of the intercontinental fleet had been connected and this percentage is set to increase to 100% in the spring of 2021. KLM Cityhopper's new Embraer 195-E2 will also be equipped with the WiFi technology.

Gastronomy on board: new signature dishes in 2019

As an ambassador for fine French cuisine, Air France entrusts its *La Première* and Business class menus to renowned chefs. In 2019, in collaboration with the Servair Culinary Studio, the company welcomed two new French Michelin-starred chefs,

Andrée Rosier and Emmanuel Renaut. All the talented chefs working with Air France thus take part in the design of menus, the choice of products and the creation of gourmet dishes to be enjoyed in the sky, on flights departing from Paris and numerous airports worldwide.

Since July 2019, Air France has taken its collaboration with chefs in the Business cabin to another level. Their signature dishes now account for all of the *à la carte* options for hot dishes⁽¹⁾.

The signature dishes are also available in Business on board the medium-haul flights from/to Algiers, Amman, Athens, Bucharest, Casablanca, Erevan, Istanbul, Kiev, Marrakech, Moscow, Oran, Rabat, Stockholm, Sofia, St Petersburg, Tel Aviv, Tunis and Warsaw.

On departure from Paris in the *La Première* cabin:

- from January to March 2019: Michel Roth;
- from April to June 2019: dishes signed by Joël Robuchon, in homage to the prestigious Michelin-starred chef who presided over the Servair Culinary Studio;
- from July to October 2019, Régis Marcon, the legendary French chef, recognized by his peers - Bocuse d'Or in 1995 - and acclaimed by critics with three Michelin stars;
- from November 2019 to February 2020, for the first time, Emmanuel Renaut will be creating dishes for Air France's *La Première* menu. Awarded the title of *Meilleur Ouvrier de France*, triple-starred Emmanuel Renaut belongs to a new generation of chefs who are reinventing Savoyard cuisine.

On departure from Paris in the Business cabin:

- from January to March 2019: Anne Sophie Pic. For her restaurants in Valence, Paris, London and Lausanne she totals seven Michelin stars, making her the female chef with the most Michelin stars in the world;
- from April to June 2019: Arnaud Lallement, three stars in the Michelin Guide;
- from July to October 2019, there is Savoyard chef, Guy Martin, a ground-breaking chef of his generation;
- from November to February 2020, for the first time, Air France has entrusted its Business class menu to Andrée Rosier, the first female chef to be awarded the title of *Meilleure Ouvrier de France* in 2007 and a Michelin-starred chef.

KLM Inflight Services continued to reduce the weight of its product, for example through lighter meal trays. In December 2019, KLM Inflight Services piloted its Closed Loop initiative, aimed at working with recycled catering supplies, on the Vancouver flights. KLM is the first airline in the world to trial the recycling of different catering items within a closed-loop system.

In 2019, Air France rolled out a number of initiatives on board all its flights, mainly in the Economy and Premium Economy cabins: plastic cutlery and stirrers were replaced with wooden items

(FSC-certified birch from sustainably-managed forests), all the cups used are in paper and the coffee and cutlery kits are now packaged in eco-responsible materials. To avoid waste, creamer is provided on request by customers.

1.3.1.3 Acceleration in customer-focused initiatives to become the number one for Customer Intimacy

Air France - KLM Digital aims to be the travel industry's leading sales powerhouse by providing the most relevant offers and services to our customers and a seamless experience over the customer journey

Digital and the Group's customers are one and the same. Digital channels now enable Air France-KLM to sell tickets and satisfy customers, in their location and at the time of their choice.

In future, technology will give the Group an unprecedented level of control. With the end of the Full Content Deal, the Group is now free to remodel its communication and support policy as it would wish.

The pillars of digital

Digital is one of the Group's largest sales channels with the direct online channels accounting for 36% of the total tickets sold. Digital services also contribute to offering an enhanced customer experience, with personalized products and services. Every week, the Group handles 52,000 social media messages, with 50% of the responses supported by Artificial Intelligence tools.

A powerful digital sales engine

The Group has learned a great deal since the deployment of digital. Firstly, that digital channels need to be fast, easy to use and recognizable. Secondly, that direct online channels contribute to an improved level of customer service, enabling contact to be personalized and forging long-term relations. Lastly, that the online journey must also be as convenient and relevant as possible, whether the customer is comparing flights, searching destinations or looking for trip ideas. These aspects have become the three key drivers for our digital sales engine.

Milestones

One important milestone was the roll out of the new digital platform, merging expertise and back-end platforms to create a powerful sales and service engine. This enables the Group to accelerate its product development, thanks to a single development flow and team for the two brands, leading to one of the biggest digital platforms in the industry.

As an international Group selling its digital offer in 139 markets, Air France-KLM deploys substantial efforts towards an approach that is both global and local. Within this context, the Group developed the AFKL Digital platform for the local teams, aligned performance management and launched a toolkit for upper-tunnel activities.

(1) Stockholm, Sofia, Bucharest, Algiers, Oran, Tunis, Warsaw, Rabat, Marrakech, Casablanca, Kiev, St Petersburg, Athens, Istanbul, Moscow, Tel Aviv, Erevan, Amman.

Key projects for markets in 2020

This year, the Group is planning some major improvements to underpin growth in direct online sales, targeting a 40% share of coupons sold in 2022: a new live worldwide digital platform, a digital marketing dashboard, Business Travel Services and the first personalized bundles under New Offer Management. Air France-KLM's goal is to keep on increasing yield and incrementality, and its planning a move from an e-acquisition channel to a customer-centric perspective *via* an omni-channel approach.

Key successes for Air France-KLM Digital

Customer service organization of the future

The Group has never ceased developing and expanding its dedicated social media team. By digitalizing its services, Air France-KLM is now able to respond to its customers 24/7 across all its channels in ten languages. It is now leveraging this to build the service organization of the future: a fast and high-quality service, combining a technological and human response. Thanks to chatbots and artificial intelligence, combined with the expertise of 500 agents worldwide, Air France-KLM has increased its Net Promoter Score by 15 points, in a context of 30% growth in the messages received.

This performance has been recognized by the whole industry and by Facebook which, during the annual worldwide F8 event at San José in the US, welcomed the Group's strategy as one of the best in class for building excellent customer service experiences on Messenger. The Group plans to pursue the development of its services on the social media, aimed at assisting and advising customers, and driving sales.

Personalizing the offers and advertising

As an airline Group, Air France-KLM aims to sell tickets and additional services but it wants to do this by tapping into the existing behavior of its passengers in a smart way: personalized, relevant and efficient. To this end, it uses all the actionable insights at its disposal, together with its performance mindset and way of working, to create personalized advertising for its products and services.

Its in-house Data platform, aggregating the data of 100 million customers, enables the building of a smart personalization strategy: no dependency on any one data provider, access to real-time information for frontline staff and a means of personalizing the messages. Above all it enables the highest-possible level of GDPR compliance to guarantee the confidentiality of customer data. The Group's priority is to be an open, transparent and trusted party for customers and other stakeholders.

The in-house digital Media Buying platform also enables the Group to limit marketing pressure, personalize its advertising and ensure cost control over its media spends.

Since the Group's approach is pragmatic and "personalization" extremely important, irrelevant elements are starting to be removed from its advertising. Air France-KLM is looking to move from an acquisition-channel to a customer-centric perspective. Using an omni-channel approach means responding to customer needs on the right channel at the right moment in their journeys.

Memorable experiences

The Group wants to exceed customer expectations by offering them memorable experiences. It also believes that time spent on its apps, websites and channels could be reduced if everyone does their jobs well. It also believes that the moments spent with Air France-KLM can be turned into memorable experiences.

To enhance the customer experience at key moments in their journeys, the Group has launched functionalities that add value to its offer: new payment methods (Apple Pay, Money pool, etc.), Follow My Bag (customers can track their bags through the three main stages in their travel, check-in, embarkation and retrieval) and Walking Timeline (a personalized guide to steer connecting passengers through the airport). Similarly, in the event of service disruption (flight delay or cancellation), Air France has developed massive rerouting solutions (*via* OPR), enabling customers to be offered an alternative within record time, together with the related services (ICoupon, digital format service voucher).

Air France is also the first airline to propose a 100% digital experience for Unaccompanied Minors.

The mobile app is still greatly appreciated by customers with high satisfaction rates on shopping and nearly 400,000 downloads per month for the Air France and KLM apps.

Better together

The way companies collaborate has changed and the Group sees new partnerships with digital platforms as key to realizing its digital transformation as an organization and to offering its customers more added value.

A technological pioneer

Since its inception, the Group has consistently sought ever-better solutions to existing problems. That is why it uses new, emerging technologies like voice assistants, Artificial Intelligence (AI) and Augmented Reality (AR), to assist its customers more effectively. For example, at Roissy-CDG airport, all the connecting routes are now available in the Air France app. Similarly, Air France is the first European airline to have embedded RFID technology to facilitate the traceability of baggage at Roissy-CDG, in collaboration with Paris Aéroport.

Artificial Intelligence

The Air France-KLM strategy is to find the best balance between human interventions and technology, the latter's continuous development leading to greater efficiency. Thanks to Artificial intelligence, the Group is able to assist more customers, more

effectively and more rapidly. Artificial intelligence now handles 50% of messages on the social media. In the event of service disruption (flight delay or cancellation), customers can communicate with a chatbot for a rapid, interactive response to their requests.

Voice assistance

Voice platforms are the interfaces of tomorrow. Irrespective of their location, the Group wants to offer its customers the best possible travel companion. Voice assistants constitute the new, fourth entry point to date, after apps, websites and the social media. Air France-KLM was one of the first airline groups to propose services on Google Home and Amazon Alexa, on which it currently has thousands of users.

Contributing to the sustainable development strategy

Digital has made a material contribution to the action plan on the two major strategic pillars: reducing CO₂ emissions and carbon offsetting. By offering their customers a 100% digital experience, Air France and KLM can limit their use of paper and prioritize digital boarding cards.

In terms of carbon offsetting, during the ticket booking process, Air France-KLM offers customers the opportunity to voluntarily offset their CO₂ emissions *via* offsetting programs or by making a donation in favor of the planet to finance forestry plantation projects selected by the Group.

For its ground operations, Air France is committed to an ambitious plan to replace 90% of its fossil-fired ramp equipment (baggage trailers, boarding walkways, etc.) with electric equipment by 2025. Innovative solutions are being implemented with startups like Carwatt, implanting batteries recycled from the automotive industry in baggage conveyor belts.

Key figures: digital for the Group in 2019

564 million visits on the digital touchpoints
 - 1.5m per day
 70% online check-ins
 €4,6bn generated online (NTR)
 39 million fans and followers on social media
 550+ agents dedicated to social media: the largest team in the airline industry
 40,000 iPads issued to employees and crews

Major industry accolades in 2019

In 2019, both Air France and KLM won some major accolades. During the Facebook F8 event, Air France won exemplary brand for the customer experience on Messenger and the award for Digital empowering staff during the hub Forum in Paris. KLM also received several awards: Gold for Travel Assistant (Spin), number one for volume answers *via* the Social Media (Emerce), and Bronze for Family Updates and Gold for Travel Assistant (Lovies).

Customer intimacy increasingly anchored in Air France's customer relations

In 2019, Customer Intimacy remained at the heart of Air France's Customer strategy.

The company continued to offer all customer-facing staff the option to share their experience around "cross-functional cafés"; since 2014, this program has reached more than 1,500 people. Remaining within the framework of Customer Intimacy, cross-cutting targeted training programs were rolled out for *La Première* staff, bringing together 60 call-center agents, 1,200 flight crew personnel and 150 lounge agents. Hub managers also benefit from the *Nouvel Elan de la Relation Attentionnée* training. For the joint Air France and KLM international teams, the We Care for Our Customers program (international version of Customer Intimacy) was deployed in 2019. Fifteen call centers, i.e. 2,400 agents and 180 international outstations, benefited from this.

The customer continuity function was extended to all our customers (beyond the holders of Flying Blue or Air France cards). This tool which is accessible to the sales teams, offers an ever-more-comprehensive vision of our customers in the strict respect of the data protection regulations. More than 33,000 cases were initiated in 2019, giving contextual information on the journeys under way for customers, offering at each touch point the opportunity to use this information effectively for greater personalization of the journey.

2019 saw the expansion of the Empowerment initiatives that had been successfully trialed with cabin crews. Within the framework of the Gift For Care project, 30,000 gifts were offered to our customers across the network. Furthermore, following the very positive Lab Empowerment experience realized in 2018 with a sample of hostesses and stewards, this initiative was extended to all 14,000 cabin crew staff in 2019, giving them the possibility of sending a post-flight personalized gift *via* the Air France Shopping platform.

In 2019, the Customer Action Loop initiative rolled out across Air France's long-haul flights was extended to all short and medium-haul flights. All Air France teams can now poll customer opinions on the experience they have just had in real time. This customer feedback is now an integral part of crew briefings and enables the implementation of management actions to further enhance the customer experience. Air France crews were thus able to access some 1,200,000 customer feedback data points in 2019.

Air France also continued to leverage its Club composed of some 100 frequent flyer customer members who are regularly asked to volunteer their input on different travel-related issues. Some twenty co-creation workshops took place in 2019, bringing together the members of this Club and Air France staff (flight crews, ground staff, product heads, etc.) to work on numerous subjects including *La Cave Air France*, the content of the amenity kits distributed on board, sustainable development, etc.

In 2019, KLM strengthened the fundamentals of its product via more digital and personalised services, by working more closely with operational departments and partners and changing the way in which it handles disruptions. Throughout the customer journey, services are aligned with customer expectations, thereby making the company as a whole more customer-centric.

Digital services make it easier for passengers to take control of their own journeys and manage their time effectively. Frontline staff are supported by the available digital tools in the provision of real-time, accurate information to customers and thus deliver better care. On flights to/from the United States and as part of a complex proof of concept, KLM began testing biometric boarding. These digital features, in combination with offline solutions, are key to making the passenger journey faster, more comfortable and more efficient.

KLM also opened its flagship Crown Lounge at Schiphol. This 6,800 square meter architectonic beauty offers Business class passengers with KLM and its partners an unforgettable experience across five themed zones.

1.3.1.4 Cargo business: Air France – KLM, a major player in air freight

During the 2019 financial year, the Group carried 1.1 million tons, i.e. a 2.3% decline, of which 81% in the bellies of passenger aircraft and 19% in the full-freighter fleet over a network of 391 destinations in 158 countries.

In 2019, cargo industry capacity additions led to the worst traffic versus capacity trend for the past ten years. Opportunistic growth strategies were one of the main drivers after two strong years for the air freight market, leading to substantial (belly) overcapacity, particularly on the North Atlantic routes. On the demand side, by the year end global air freight demand had been in decline for fourteen consecutive months on the back of:

- geo-political uncertainties resulting in weak global air freight demand;
- trade tensions impacting especially ex-Asia volumes, and a;
- sharp decline in demand from the auto-motive industry.

In this context, the market share of Air France – KLM Cargo proved resilient, with the growth realized in alternative flows partly mitigating the ex-Asia losses.

The Group's Cargo strategy is focused on maintaining and increasing load factors where possible and taking a proactive approach to new revenue opportunities. A new revenue action plan has been established for 2020 to deliver incremental revenues.

1.3.1.5 Airline partners and alliances: expanding the Group's commercial presence to respond to global air transport demand

Air transport demand is global and, to respond to this demand, Air France – KLM is pursuing an ambitious strategy aimed at expanding its commercial presence in every region of the world.

Airline alliances and partnerships are an integral part of this strategy. They contribute to meeting customer expectations and thus creating value for the Group. They reinforce the Group's market positioning thanks to an expanded and more diversified network, which supplements the Group's own offer. They may also enable the generation of operational synergies.

Strategic partnerships

In July 2017, Air France – KLM announced a further major step in the reinforcement of its strategic partnerships with, on one hand, the creation of a single global joint-venture between Air France – KLM, Delta Air Lines, Inc. and Virgin Atlantic and, on the other hand, the intensification of its partnership with China Eastern Airlines. These two commercial alliances have been consolidated by equity links. Delta Air Lines, Inc. and China Eastern Airlines each acquired an 8.8% stake in Air France – KLM within the framework of reserved capital increases carried out during 2017, for a total of €751 million.

The strategic, commercial and capitalistic reinforcement of these partnerships positions Air France – KLM as the European pillar of the leading global airline network.

Transatlantic joint-venture with Delta Air Lines and Virgin Atlantic

On January 1, 2020, following approval by the US authorities on November 21, 2019, the Group launched a new transatlantic joint-venture between Air France – KLM, Delta Air Lines and Virgin Atlantic. As a result, as of December 31, 2019 and a decade after its creation, the Group ended the previously-existing joint-venture between Air France – KLM, Delta and Alitalia. As with most joint-ventures in the industry, it did not lead to the creation of a common company but rather the signature of a contract defining both the mechanism of a common income statement, governance and organizations to manage all aspects of the partnership. The existence of an internal common income statement ensures that the partners implement all the actions contributing to an improved operating result for the activity, to their mutual benefit. Each company member of the joint-venture recognizes the revenues and costs relating to the joint-venture scope in their respective income statements. If necessary, a settlement mechanism between joint-venture members will compensate the imbalances in value creation based on a mechanism agreed between the parties. This mechanism contributes to "metal neutrality", enabling the different members to jointly manage capacity and look for overall optimization rather than the individual interests of each airline, ultimately increasing value for both partners and customers.

The governance bodies comprise a CEO Committee, a Steering Committee and Working Groups.

The scope of this joint-venture is very wide, covering all the flights between North America, Mexico and Europe through integrated cooperation and all the flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with the flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination.

With revenues exceeding US\$13 billion and a market share of 23%, this new joint-venture is a major player on the transatlantic, the leading market for international air transportation. More than 340 daily flights link the nine principal hubs: Paris, Amsterdam, London, Atlanta, New York, Detroit, Minneapolis, Cincinnati and Salt Lake City. Pricing and revenue management are centralized within a 60-strong team based in Amsterdam.

The coordination of the network has been reflected in the strengthening of the hub to hub services, the optimization of aircraft types assigned on each route and an increase in the number of destinations served by non-stop flights on both sides of the Atlantic. The sales forces have been regrouped in each region.

This extended scope marks the expansion and strengthening of one of the most advanced partnership models in the airline industry.

Partnerships in China - a consolidated presence in the Chinese market

Air France and KLM benefit from a historic presence in China, bolstered by strong partnerships with two of the three largest Chinese carriers, through joint-venture agreements concluded during the past two decades. In 2006, KLM was the first to sign a joint-venture agreement with China Southern, thereby benefiting from its partner's vast domestic network operated on departure from the Guangzhou and Beijing hubs. This agreement was expanded to Xiamen Airlines, a subsidiary of China Southern, in 2015. For its part, in 2010, Air France signed a joint-venture agreement with China Southern, regrouping the Paris-Guangzhou operations of the two partners and developing their respective cooperation beyond their main hubs. In July 2018, Air France-KLM on one side, and China Southern and Xiamen Airlines on the other, committed to a new period of joint-venture cooperation by forming a single joint-venture which remains in force despite China Southern's announcement that it was leaving the SkyTeam alliance, effective January 1, 2019.

In 2012, Air France signed a joint-venture agreement involving the Paris and Shanghai routes with China Eastern Airlines, a major player in Chinese air transportation, operating a vast domestic network and internationally mainly out of its base in Shanghai, China's economic lung. This agreement was extended to KLM in 2016, when China Eastern Airlines inaugurated the Shanghai-Amsterdam service. The partnership was further reinforced in 2017 when China Eastern Airlines acquired an 8.8% stake in Air France-KLM via a reserved capital increase. In November 2018, Air France-KLM and China Eastern signed an agreement to extend their

joint-venture as of January 1, 2019 to two additional routes, Paris-Wuhan and Paris-Kunming, thereby offering their respective customers new routes under code share and new connecting opportunities between Europe and China.

Thanks to these partnerships, Air France-KLM can offer its customers access to a total of some fifty destinations in China, completing its own network with eight destinations in Greater China.

In total, the revenues from routes operated between Europe and China by airlines participating in joint-venture agreements represent more than €1 billion.

Strategic partnership with GOL

In 2014, Air France-KLM and GOL Linhas Aéreas Inteligentes signed an exclusive five-year strategic partnership reinforcing their commercial cooperation between Brazil and Europe. The partnership notably foresees the optimization of synergies between the two groups and, in particular, connecting opportunities in the major Brazilian cities served by the Group. The partnership led to a significant increase (approaching 25%) in the percentage of Air France and KLM passengers transferring to GOL flights. Since April 2015, GOL has used its code on Air France-KLM flights between Europe and Brazil, and on European destinations beyond Paris and Amsterdam. The two partners cooperate on promoting sales in their home markets and, since November 2017, Air France has been GOL's GSA for the French market. This GSA agreement is currently being deployed across the European market.

In May 2018, Air France and KLM took a new step in their strategic development in Brazil with the opening of new routes to Fortaleza on departure from Paris and Amsterdam. These flights connect with GOL's new strategic hub in Fortaleza, offering increased connectivity for customers to the main cities in northern and north-eastern Brazil.

On October 30, 2019, Air France-KLM and GOL renewed this strategic partnership agreement for a five-year period, thereby reinforcing this cooperation. Air France-KLM remains GOL's exclusive European partner, reciprocally with some exceptions granted.

Alitalia

Since January 1, 2020, Alitalia has no longer been a member of the transatlantic joint-venture between Air France-KLM, Delta Air Lines and Virgin Atlantic. However, the US authorities have prolonged the anti-trust Immunity until May 20, 2020, enabling Air France-KLM, Delta and Alitalia to continue their commercial cooperation until that date, leaving time to explore the different avenues for future collaboration with Alitalia.

Other joint-ventures and code shares

Air France-KLM implements various forms of partnership agreements, the choice depending on the balance between value creation for its customers and the Group, and the necessary level of interaction between the offers of the partners, together with the regulatory requirements framing the scope of the agreement.

The first level of interline cooperation is Traffic and Special Prorate Agreements (SPA) between the partner airlines, enabling the combination of their networks while maintaining their respective IATA codes and setting their own fares.

Within the framework of a code-sharing agreement, two partner airlines sell tickets on the same flight, each under their own code and setting their own fares. The operating carrier has operational control over the aircraft while the marketing partner, for sales purposes, uses its own flight number on its partner's flights. Any such agreement must comply with the safety and regulatory requirements set forth by the competent authorities.

There are two types of code sharing. In the first, under a block seat agreement, the marketing partner purchases a fixed amount of capacity from the operating carrier. The marketing partner has inventory control over the seat block. In the second, known as free flow, no division of capacity is set, the two partners potentially selling all the seats on the relevant flights although inventory control remains the prerogative of the operating carrier. Access to capacity on the relevant flights is through negotiated fares for each booking class.

Joint-ventures are the next level of integration in alliances and participate in the trend towards consolidation when the partners are seeking a higher level of joint optimization on a sub-scope of their network without, however, considering a merger.

A joint-venture enables value creation for customers in the markets where it is implemented and, as a result for the partners who organize coordination of the commercial activities:

- for customers, they enable access to an expanded offer of flights and increased connectivity, loyalty program benefits across a wider perimeter, a harmonized travel experience and integrated commercial propositions;
- the partners thus improve their market positioning, serving a higher number of customers and enabling them to capture market growth.

The partners define the governance principles and financial sharing mechanisms, enabling decision-making and execution across the whole value chain, thus responding to the commercial objectives of the joint-venture.

The final stages in cooperation consolidation and integration are mergers or equity interests, anchoring the development of a common strategy over the long term.

Joint-ventures, equity interests and mergers must be approved in the light of the regulations in force in the jurisdictions covering the scopes of the agreements, particularly with respect to the competition rules (e.g. Anti-trust Immunity).

1.3.1.6 SkyTeam alliance

The three large alliances, SkyTeam (to which Air France and KLM belong), Star Alliance and oneworld, represent some 55% of worldwide traffic. Among the top 50 airline carriers in the world, only 15 do not belong to a global alliance, including eight low-cost

carriers whose business models make them unlikely to want to join an alliance.

Since the inception of the global alliances, their capacity in terms of the available seats offered by member airlines has grown by more than the industry average, with SkyTeam now being the second largest alliance, behind Star Alliance and ahead of oneworld.

SkyTeam: a global alliance

SkyTeam, created in 2000, is a global alliance which numbered 19 airline members at December 31, 2019: Aeroflot, Aerolineas Argentinas, Aeromexico, Air Europa, Air France, Alitalia, China Eastern Airlines, China Airlines, Czech Airlines, Delta Air Lines, Inc., Garuda Indonesia, Kenya Airways, KLM, Korean Air, Middle East Airlines, Saudi Arabian Airlines, Tarom, Vietnam Airlines and Xiamen Airlines.

Belonging to SkyTeam enables its members to strengthen their brand awareness and extend their offer around the globe, thereby bolstering their commercial presence. As members of the SkyTeam alliance, Air France and KLM have access to a global network of some 15,500 daily flights to 1,036 destinations in more than 170 countries.

The 676 million annual passengers benefit from a seamless travel experience on the flights of member airlines and have access to 790 airport lounges around the world. The 230 million passengers who are members of frequent flyer programs can earn and burn air miles on all SkyTeam partner flights.

Airlines need to fulfil a series of specific membership requirements before becoming an alliance member, relating to operations, technologies and products. Members must be linked by bilateral agreements covering codesharing, their loyalty programs and access to airport lounges.

While retaining their separate identities and brands, the airlines combine their networks to offer their customers a more extensive range of travel solutions and the related global services, more rapid earning of miles, access to numerous airport lounges but also a more seamless customer service during the different stages of their journeys thanks to the SkyPriority and SkyTransfer programs.

SkyTeam also provides an environment and tools enabling members to generate operational cost synergies (e.g. co-located facilities, better use of airport lounges and notably the seven SkyTeam lounges, a converging IT platform, etc.).

Airlines must also be able to offer the products and services exclusive to the alliance. SkyTeam has notably developed proprietary products such as Passes enabling travel at competitive fares, global contracts reserved for large companies or international events and a product dedicated to Marine and Offshore personnel.

SkyTeam's main governance body is the Alliance Board, composed of the Chairs and Chief Executive Officers of the 19 member airlines. The Alliance Board meets twice a year to

define the strategic orientations of the Alliance such as the introduction of new members, the definition of the customer experience and the positioning of the SkyTeam brand along with its related investment and operational budget.

The Executive Board, consisting of senior executives with direct commercial and operational roles, is appointed by the Alliance Board and translates the approved strategic orientations into action plans in a wide range of disciplines ranging from marketing, airport synergies, interface between information systems, the transfer product between member airlines, cargo and advertising to the brand.

In parallel with their proprietary development projects, the member airlines commit to implementing the SkyTeam action plans by earmarking the required internal resources and respecting the timelines set.

1.3.1.7 Key figures

Network business

	2019	2018 restated	Change	Change at constant currency
Total revenues (in €m)	23,272	22,672	+2.6%	+1.5%
Scheduled revenues (in €m)	22,251	21,731	+2.4%	+1.1%
Income from current operations (in €m)	749	1,042	-293	-256

2018 results restated with a similar impact to 2019, following a change in accounting method for Life Limited Parts and Customer Compensation. For more detail, see Notes to the consolidated financial statements, paragraph 2, pages 12-15.

In the 2019 financial year, total revenue for the combined passenger and cargo businesses stood at €23,272 million, representing an increase of €600 million. This improvement was mainly due to the capacity growth in 2019.

The operating result was down by 28.1% relative to the previous year, mainly explained by the higher fuel bill, with a good cost performance being offset by the decline in cargo unit revenue.

Passenger Network business

	2019	2018 restated	Change	Change at constant currency
Number of passengers (in thousands)	87,624	85,619	+2.3%	
Capacity (in ASK million)	299,606	292,184	+2.5%	
Traffic (in RPK million)	263,499	255,405	+3.2%	
Load factor	87.9%	87.4%	+0.5 pt	
Total passenger revenues (in €m)	21,119	20,383	+3.6%	+2.5%
Scheduled passenger revenues (in €m)	20,408	19,743	+3.4%	+2.1%
Unit revenue per ASK (in € cents)	6.81	6.76	+0.8%	-0.4%

2018 results restated with a similar impact to 2019, following a change in accounting method for Life Limited Parts and Customer Compensation. For more detail, see Notes to the consolidated financial statements, paragraph 2, pages 12-15.

In 2019, the passenger business continued its growth, with total revenue rising by 3.6% and the number of passengers carried up by 2.3%.

A dynamic commercial strategy and revenue management enabled the passenger business to limit the impact of the commercial environment, with the unit revenue remaining broadly stable (-0.4%) at constant currency.

Destination region	Capacity in ASK (in millions)		Traffic in RPK (in millions)		Load factor (in %)		No. of passengers (in thousands)	
	2019	2018	2019	2018	2019	2018	2019	2018
North America	69,677	66,223	62,245	58,858	89.3%	88.9%	8,760	8,257
Latin America	39,153	36,765	34,753	33,004	88.8%	89.8%	3,664	3,452
Asia-Pacific	64,124	62,079	58,008	56,157	90.5%	90.5%	6,659	6,419
Africa-Middle East	36,955	37,816	31,157	31,575	84.3%	83.5%	5,484	5,581
Caribbean - Indian Ocean	30,883	31,075	27,500	27,325	89.0%	87.9%	3,753	3,726
Total long-haul	240,774	233,957	213,664	206,919	88.7%	88.4%	28,320	27,435
Short and medium-haul	58,832	58,226	49,835	48,486	84.7%	83.3%	59,304	58,184
Total	299,606	292,184	263,499	255,405	87.9%	87.4%	87,624	85,619

All the traffic indicators were up across the whole network. The increases in capacity and load factor enabled the Group to improve its revenues. The economic and political difficulties witnessed in the world in 2019 had a negative impact on these Group revenues.

The long-haul network posted a robust performance with a load factor up by 0.3 of a point to 88.7%. Capacity increased by 2.9% to 240,774 million ASK.

North America remains the Group's leading network with 28.9% of capacity and 29.1% of total traffic. Since the signature of the transatlantic joint-venture in 2018, the Group has cooperated with Delta Air Lines, Inc. on these routes. The different airlines maintained strict capacity discipline to contend with the intense competition on these lines. The number of passengers increased strongly by 6.1% for Air France-KLM.

Asia-Pacific is the Group's number two network with 26.6% of capacity and 27.1% of total traffic. The Group carried 6.7 million passengers in its aircraft. Air France-KLM has a joint-venture with China Eastern notably on the Paris/Amsterdam-Shanghai routes. The Group also cooperates with China Southern and Xiamen Airlines *via* a joint-venture on several Chinese routes like Beijing

and Guangzhou. This partnership reinforces Air France-KLM's European leadership on Shanghai, the largest business center in China. In 2019, the load factor stood at 90.5%.

Air France-KLM's capacity on the Latin American network rose by 6.4% in 2019 with a load factor down by one percentage point. The economic difficulties in Brazil and Argentina continued to impact the Group's results in 2019.

Capacity on the Africa-Middle East network was down by 2.3% in 2019. The load factor gained 0.8 of a point to 84.3%. The rationalization of the network has a positive impact on the economic results from these routes.

The load factor on the Caribbean-Indian Ocean network increased by 1.1 points in 2019. Capacity was reduced by 0.6% while traffic was up by 0.6%.

The short and medium-haul network benefited from a 1.4-point increase in load factor. The Domestic France network was significantly rationalized with capacity down by 7.5% while medium-haul maintained its growth with a 2.9% increase in capacity.

Cargo business

	2019	2018	Change	Change at constant currency
Tonnage transported (in thousands)	1,110	1,137	-2.3%	
Capacity (in millions of ATK)	14,609	14,365	+1.7%	
Traffic (in millions of RTK)	8,467	8,657	-2.2%	
Load factor	58.0%	60.3%	+2.3 pt	
Total cargo revenues (in €m)	2,153	2,288	-5.9%	-7.8%
Scheduled cargo revenues (in €m)	1,843	1,988	-7.3%	-9.1%
Unit revenue per ATK (in € cents)	12.62	13.84	-8.9%	-10.7%

1.3.2 Low-cost business (Transavia): “We make low-cost feel good”

Transavia, the Air France-KLM Group's low-cost business, operates point-to-point flights to/from the Netherlands and France. Transavia's costs structure is strictly aligned with the low-cost business model: maximizing the utilization of aircraft, simple products and fares, a strong focus on ancillary revenues, a single aircraft type, a light organizational structure and the outsourcing of a significant portion of the activities. Its unit costs are thus comparable to those of the other low-cost operators at around 4.94 euro cents per ASK for an average flight distance of around 1,749 km.

At December 31, 2019, Transavia had an operational fleet of seven Boeing 737-700s and 73 Boeing 737-800s, of which 42 based in the Netherlands and 38 in France, and more than 3,000 full-time employees. In 2019, the Transavia network comprised 130 destinations in Europe, North Africa and the Middle East. Flights were operated from six different bases: Amsterdam, Rotterdam, Eindhoven, Paris-Orly, Nantes and Lyon, offering a network of more than 225 routes.

In 2019, Transavia pursued its growth with capacity expansion of 6.5%. The company carried 16.6 million passengers, up by 4.8% relative to 2018. The load factor increased by 0.2 of a point to 92.2%. Revenues reached €1.7 billion, growth of 9.3% while the unit revenue per ASK progressed by 3%. The operating margin stood at 7.5%, with operating income of €131 million, €14 million down compared to last year.

In the Netherlands, Transavia continued to focus on the development of scheduled flights with the opening of nine new routes, thereby further strengthening its number one low-cost position. In addition to this core business in point-to-point, Transavia continued to offer connecting flights thanks to the KLM hub in Amsterdam. In France, Transavia was the number one low-cost operator at Paris-Orly and accelerated its growth as planned, with the opening of 21 new routes.

Since April 2019, all Transavia flights have been operated from the new Terminal Orly 3, offering passengers a higher standard of comfort and fluidity: signage is more visible and clearer, there are 50 self-service kiosks and 45 automatic baggage drop-off points, and the boarding lounge is fully equipped with connected furniture offering a haven of tranquillity before the departure of the aircraft. In the arrival area, a new sorting system improves the delivery time for baggage.

In 2020, the growth in Transavia's capacity is set to continue with 53 new routes planned, leading to a total of 280 routes and 4%-6% growth in ASK. To support this growth, Transavia France announced the opening of a new base in Montpellier in the south of France, with 20 routes. In parallel, the network to Algeria will also be extended with twelve new routes from Paris, Lyon and Montpellier. In April 2020, Transavia Netherlands will begin to operate flights to eight destinations out of Brussels, aimed at serving the growing demand from the home market in a slot-constrained environment for all Dutch airports.

In France, Transavia signed an agreement on Quality of life in the Workplace with all the unions. This agreement addresses three themes concerning Quality of Life in the Workplace: gender equality, quality of working relationships and a balance between professional and personal life. At the end of September, a social agreement for the Group was signed covering Transavia's future development, including an agreement for non-restricted growth in the number of aircraft. Recently, negotiations were launched on the new Collective Labor Agreements (for entry into force in April 2020) for Transavia Netherlands.

In both the Netherlands and France, the operational performance was under pressure in the past year due, for example, to longer air traffic control delays and challenges with fleet availability, leading to a slight decline in On-Time Performance.

In recent years, Transavia has developed multiple innovations to the benefit of the user experience. Every month, the Transavia website welcomes over three million users, of whom 54% from a mobile device. Transavia has a significant presence on the social media and the company numbers more than 1.2 million Facebook fans (NL) and 1,039,000 Instagram followers (NL/FR). The most popular platform is WhatsApp, which is used for more than 60% of the contact with the company on the social media. The company offers an effective and personalized customer service, handling around 500 conversations a day, and is committed to responding to customer messages within 60 minutes. In 2019, the next steps were taken to give passengers more control during their journeys with the introduction of self-service options to cancel bookings or change passenger details. With the introduction of Tours & Tickets, the separate sales offer was further extended whilst various trials are ongoing to meet passenger needs more effectively throughout their journeys.

In October 2019, in partnership with Dohop, Transavia launched a new platform: Transavia Smart-Connect. This platform offers connections between several flights in its network at attractive prices and offers full support (provided by Dohop) in the event of missed connections. Transavia Smart-Connect extends the range of available travel offers within the entire Transavia network.

All these services are contributing to an improvement in customer satisfaction. In the Netherlands, 2019 saw Transavia realize a Net Promoter Score of 37 while the Transavia France cabin crew reached a customer satisfaction level of 8.5/10. In 2019, Transavia France received two major awards from Capital magazine: Best Employer 2020 (2nd in the Transport category) and Best low-cost Airline 2020 (1st in the Low Cost Airline category) while Transavia Netherlands received the Dutch Marketing Award for Internal Branding.

In 2019, the Transavia Ventures investment fund was founded in the Netherlands, aimed at generating new revenue streams. The fund focuses on scalable innovations in the areas of travel, technology, mobility, logistics, digital retail, hospitality and sustainability. The first investments have been made and more will follow in 2020.

Lastly, Transavia is committed to a Corporate Social Responsibility (CSR) approach and increasingly focuses on sustainability and inclusivity via a number of different initiatives. In the Netherlands, Transavia is part of the industry's Smart & Sustainable initiative which is committed to reducing the sector's CO₂ emissions to their 2005 level by 2030. To reach these goals, Transavia has deployed a series of measures, such as the installation of split scimitar winglets, improved engine technology, lighter and more durable brakes, lighter galleys combined with lightweight trolleys, and E-Leather[®] seat covers. Currently, Transavia is further researching the options to participate in a synthetic kerosene initiative in the Netherlands. Since December 2019, Transavia has collaborated with KLM in their CO₂Zero program to offer passengers offsetting options for the CO₂ emissions from their flights. Transavia France

is fully committed to eliminating single-use plastics on all scheduled flights. At the end of 2019, plastic cutlery, tumblers and stirrers had been replaced on board with sustainable, certified alternatives, Transavia thus becoming the first world airline to become plastic free and use FSC-certified tumblers. Thanks to the different flight operation optimization initiatives, Transavia France has achieved a 14% reduction in its CO₂ emissions per passenger per kilometer, relative to their 2010 level. Transavia is strengthening its partnership with the start-ups Open Airlines and Safety Line, launching new tools which will help to further reduce CO₂ emissions through the use of big data and optimized flight operations. Furthermore, in both the Netherlands and France, the company supports organizations that help sick children (respectively the Peter Pan and Carlesimo foundations).

Key figures

Transavia	2019	2018 restated	Change
Number of passengers (in thousands)	16,581	15,828	+4.8%
Capacity (in ASK million)	32,867	30,850	+6.5%
Traffic (in RPK million)	30,303	28,392	+6.7%
Load factor	92.2%	92.0%	+ 0.2pt
Total passenger revenues (in €m)	1,744	1,595	+9.3%
Unit revenue per ASK (in € cents)	5.34	5.18	+3.0%
Unit cost per ASK (in € cents)	4.94	4.71	+4.8%
Income from current operations (in €m)	131	145	-14

1.3.3 Maintenance business

Aircraft maintenance is the Air France-KLM Group's third business with third-party revenues of €2.1 billion. These revenues generated with external clients represent a little over 46.3% of the total revenues in this business. In 2019, the AFI KLM E&M order book increased by US\$0.1 billion, to a total of US\$11.5 billion.

In the aircraft maintenance or MRO (Maintenance, Repair and Overhaul) market, Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) ranks number two globally amongst the multi-product players. The role of AFI KLM E&M is to supply competitive support for the Group's fleet, while consolidating its position as a leading MRO in its own market.

The Group operates in three major maintenance segments: airframe maintenance, engine maintenance and component support (electronic, mechanical, pneumatic, hydraulic, etc.). Airframe maintenance covers three sub-segments: line operations support which aims to verify the proper day-to-day functioning of systems and the integrity of the aircraft structure, heavy maintenance for

in-depth checks involving the disassembly of cabins, equipment and some structural elements, and the realization of modification programs, particularly the retrofitting of cabins.

1.3.3.1 Business environment

An attractive market despite the growing constraints

According to estimates, the global MRO market, which comprises the maintenance and modification spending by aircraft operators either directly or through sub-contractors, will be worth US\$90 billion in 2020 (source: ICF International).

The trends in this business closely follow those of the commercial airline fleets globally and their utilization. In the short term, airlines tend to focus on adjusting their use of older-generation aircraft in that their costs, and particularly maintenance costs, are the highest. The MRO operators thus suffer from more volatile demand on older-generation aircraft than on the next-generation models.

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. 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.). Lastly, the competition from Original Equipment and Engine Manufacturers (OEMs) and Original Aircraft Manufacturers (OAMs) has considerably increased in recent years.

Ever-fiercer competition

As with all the players in the aeronautics and air transport industry, the MRO operators are participating in a vast consolidation movement to reinforce economies of scale and contend with pricing pressure.

Against this backdrop, air framers, engine manufacturers and aircraft component manufacturers are continuing to develop their after-sales services to offer their customer increasingly-integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to a limited number of maintenance service providers seeking to expand their business activity on certain products. This trend is escalating, especially with the arrival of new aircraft like the E2, A220, A350, 787, etc. Ultimately, this trend could result in reduced competition on the MRO market, with a seriously adverse effect on airline maintenance costs.

Lastly, 2019 was marked by the grounding of the Boeing 737 Max, although the impact on the MRO market has not been perceptible in the short term. Nevertheless, the prolonged cessation of the program risks putting pressure on the OEMs and Boeing who may look to pass on their losses in the MRO market.

The ability to sustain balanced competitive conditions is a priority objective, both for AFI KLM E&M's commercial activity but also to contain Air France and KLM maintenance costs.

This business is also experiencing a technological change which is influencing the products, processes, methods and competencies within the maintenance activities. This is notably the case with next-generation aircraft whose avionics dimension is playing an increasingly important role relative to the mechanical systems: digital tools, composite structures, connectivity, etc. Innovation is an integral part of all the business processes.

1.3.3.2 AFI KLM E&M's position as a world leader

On the strength of its solid position as the number two global multi-product MRO by total revenue, AFI KLM E&M is pursuing its targeted development strategy based on its own specific features and the Group's objectives.

This strategy has two pillars: firstly, cutting costs and maintaining high standards of quality and performance and, secondly, growing the customer portfolio in high value-added products and services.

In the past decade, this ambition has been reflected in substantial investment in modernizing AFI KLM E&M's IT system and industrial infrastructure at its principal maintenance sites: Toulouse, Amsterdam, Villeneuve-Le-Roi, Roissy and Orly.

A maintained ambition

As part of its continuous improvement efforts, AFI KLM E&M affirms its ambition of making AFI KLM E&M a benchmark brand in its market as an airline MRO player supported by a powerful global network.

In 2019, AFI KLM E&M strengthened its global position on new-generation aircraft, with strong growth for the A350, 787, A320neo and 737MAX products. 2019 was also marked by the first so-called Quick Turn services on the LEAP engine equipping the 737MAX and A320neo. The current order book status indicates that AFI KLM E&M is able to maintain and even reinforce its market position with the new aircraft generations, notably by supporting the development of the Group's fleet with the A220 and the E2.

This market success is supported by The MRO Lab[®] innovation program which focuses on strategic areas of the MRO sector, ranging from technician mobility and the customer experience through to the Internet of Things, Big Data applications, predictive maintenance, digitalization, additive manufacturing and Artificial Intelligence.

In the digital field, PROGNOS[®] constitutes a major building block. Launched in 2016, it regroups a range of predictive maintenance solutions based on exploiting the data from aircraft systems with a view to improving maintenance models and processes. The PROGNOS[®] range of solutions now includes PROGNOS[®] for Aircraft, PROGNOS[®] for APU, PROGNOS[®] for Inventory and PROGNOS[®] for Engines. AFI KLM E&M capitalizes on the vast amount of data generated by the Air France and KLM fleets to develop its PROGNOS[®] solutions, and verify their operational relevance and performance before sharing such innovations with its customers.

In aircraft maintenance, adaptation projects also continued to reinforce AFI KLM E&M's competitiveness. Cost-saving initiatives were implemented to optimize activity on a site-by-site basis, strengthen external partnerships and deploy more efficient work organizations. All this was accompanied by efforts to match resources to the level of business activity and build new career paths.

Two strategies support the growth in the Engines and Components segments: positioning on products and services aligned with market expectations, and the development of a global MRO network.

In 2018, to support our fast-growing customer base in South-East Asia, AFI KLM E&M announced the creation of Singapore Component Solutions, a joint-venture with Sabena, for aircraft component repair in Singapore.

In 2019, AFI KLM E&M consolidated its global network by reinforcing its engineering presence in Asia, notably *via* its joint-venture with Sabena and its components shop in Shanghai. The positioning in Asia was also strengthened *via* the strategic partnership with GMF, the Garuda maintenance subsidiary.

Contributing to the Flight Safety and Operational Efficiency programs

AFI KLM E&M's primary task is to guarantee the airworthiness of the Group's fleet and ensure regulatory compliance. To this end, AFI KLM E&M manages technical data, implements the maintenance policies, and ensures the permanent availability of the required skilled staff and technical resources.

AFI KLM E&M pursued the deployment of its Safety Management System (SMS), enabling the implementation of processes relating to Flight Safety in a systematic, cross-functional manner. This is done through regular meetings devoted to event analysis and the establishment and monitoring of action plans. The SMS is also based on a system of feedback encouraged by the deployment of a "safety mind-set" and supported by a network of local Flight Safety Officers.

AFI KLM E&M also realized a volunteer-driven oversight evaluation known as MLOSA (Maintenance Line Operations Safety Assessment) in its Paris plants. Consisting of a frontline campaign by a network of observers, this procedure enables the identification and reporting of situations which could present a high risk to Flight Safety. Given the success of this operation in the Airframe, Engines and Components division, the approach has been extended to the Engineering Functions.

Airframe maintenance at the service of airlines

Line Operations support

AFI KLM E&M continues to market its services to customers in the line maintenance segment and to develop its business in its main bases as well as internationally.

Light Maintenance operations

Within the framework of AFI KLM E&M's continuous improvement efforts, the Light Maintenance operations, which are mostly executed in Amsterdam, Paris-CDG and Paris-Orly, continued to implement new processes to further reduce Turn Around Times and increase aircraft utilization, to the benefit of Air France and KLM.

At the same time, AFI KLM E&M continues its iGO Solutions joint-venture operations by delivering high-performance support to its customers; Transavia for its 737 fleet and Air Caraïbes/French Blue for their A330 and A350 fleets.

Heavy Aircraft Maintenance

Heavy maintenance continues to undergo structural change in a market where prices remain low. A maintenance master plan has thus been implemented, designed to rationalize the

aircraft maintenance operations by optimizing activity on a site-by-site basis (Paris-CDG, Amsterdam-Schiphol, Paris-Orly, Toulouse-Blagnac). The Group's new fleet plans will enable this optimization to be continued in coming years.

AFI KLM E&M continued its use of external partners to cut maintenance costs for the Group's fleets and obtain, in return, additional work in the high-growth Engine and Components segments. The strategic partnership with GMF is an illustration of this policy.

From engineering to maintenance, AFI KLM E&M provides continuous support for the Group's airlines, as well as for an ever-growing number of customers, by defining and deploying new cabin products in both short and medium-haul and across the long-haul offering.

Military Product

In mid-2015, AFI KLM E&M saw the renewal of the Maintenance Contract for the four AWACS belonging to the French Air Force for a ten-year period. In addition, AFI KLM E&M is also designing and executing the Cockpit Avionic Renovation for the same fleet.

Component Support: managing a global supply chain

Component Support covers the repair of a broad technological spectrum of aircraft parts, the management of technical and reliability standards and the management of component shipments to/from customers' operating bases. The growth opportunities for this product are located in far-flung markets. AFI KLM E&M's customers are evolving towards service integration, requiring access to a spares pool. The Group is also deploying appropriate support services worldwide, with local logistics facilities and asset management programs.

The success of these offerings is reflected in the loyalty of AFI KLM E&M's customers. In 2019, a number of airline customers renewed their trust by prolonging or expanding their contracts with AFI KLM E&M. For example, Cebu Pacific added component support on the A320neo to its contract. This was also the case for AirAsiaX and the expansion to the A330neo. 2019 saw AFI KLM E&M sign a number of contracts, notably with China Southern Airlines, Virgin Atlantic and Fiji Airways for the support of the A350 or Air Tahiti Nui for the 787. Lastly, concerning the maintenance of APUs *via* AFI KLM E&M subsidiary EPCOR, several long-term contracts were signed with Gulf Air, Air Tahiti Nui and EI Al.

Engines: expanded capacity with the LEAP engines equipping the A320neo and 737 MAX

In 2019, AFI KLM E&M pursued the roll-out of its LEAP product range. The LEAP is the engine equipping the A320neo and 737 MAX aircraft, and will be one of the main engines for the fast-growing narrow-body fleets.

2019 also saw an expansion in the Engine Maintenance customer portfolio. The newly-signed contracts included, for example, WestJet for support on the GENx and Philippine Airlines for the CFM56-5b.

The Group offers engine support on the following engines:

- **CFM56:** the Group's workshops support one of the world's largest fleets of CFM56 engines, handling some 400 engines operated by various airlines. AFI KLM E&M is using its Amsterdam engine shop to position itself on the growing need for CFM56-7B support and the Orly engine shop for the CFM56-5 support requirements (5A, 5B and 5C);
 - **CF6-80:** by offering full-service maintenance at its Amsterdam engine shop, AFI KLM E&M is well positioned to support the CF6-80E1 equipping the A330s and the final phase in the life of the CF6-80C2. AFI KLM E&M's long maintenance track record with these engines means that it currently offers the most suitable maintenance solutions. The progressive phase-out from the fleet of the Group's 747-400 aircraft gives AFI KLM E&M access to recycled spare parts and enables the remaining potential of these engines to be used to support its customers' CF6-80C2 fleets;
 - **GE90:** on the strength of its state-of-the-art infrastructure, AFI KLM E&M offers the main alternative to the engine manufacturer for overhauls to this engine. Since 2012, AFI KLM E&M has had a new engine test cell at Paris-CDG. This test facility can test 300 engines per year, reducing processing time and offering a more cost-effective service for customers. This test facility, combined with significant expertise and proven experience, has attracted the interest of a growing number of airlines including LATAM, Philippines Airlines and Vietnam Airlines. AFI KLM E&M has signed major long-term contracts with Aeroflot and Air China.
- In addition to its infrastructure, AFI KLM E&M is building its know-how and can offer customers the benefit of its GE90 operating experience with, for example, On-Site/On-Wing Support enabling remedial as well as preventive actions anywhere in the world. This support can be accompanied by GE90 Engine Monitoring, designed to detect technical problems upstream thereby limiting potential engine damage.
- **GP7200:** as of 2013, AFI KLM E&M implemented an investment program and staff training as part of the GP7200 maintenance program. The Group can also rely on its CRMA subsidiary in this respect since it is very well placed on this engine having been approved as a Primary Repair Source by the manufacturer, Engine Alliance. CRMA has become the world leader in the repair of engine combustion chambers and Turbine Center Frames (TCF);
 - **GENx:** In 2014, the Air France-KLM Group chose the GE engine to equip its 787 fleet. In parallel, AFI KLM E&M became a member of the GENx-1B repair network. The ramp-up of this capacity was realized in less than six months, making AFI KLM E&M the first non-OEM supplier to carry out, as of 2015, Quick

Turn checks on this engine. In 2017, the AFI KLM E&M Zephyr test cell successfully passed the GENx correlation test, enabling AFI KLM E&M to also perform engine test runs for its ten GENx airline customers;

- **LEAP:** In 2019, AFI KLM E&M received authorization from the Civil Aviation Authority of China (CAAC) for maintenance on the LEAP engine. This authorization from the Chinese authority enables AFI KLM E&M to carry out all types of operations (both on-wing and on-site as shop activities) for LEAP-1A/-1B engines, parts and control units, for all customers in China (airlines and MROs). Having obtained the same authorization from the EASA and FAA in 2018, the Group MRO is extending the scope of its LEAP support services, which are now within reach for customers on both sides of the globe. The CAAC authorization came at a time when AFI KLM E&M had already acquired solid experience with these types of engines, which can now be shared with its customers in the Chinese region.

AFI KLM E&M: an international network tailored to local requirements

AFI KLM E&M is pursuing its growth strategy on profitable markets and segments by deploying its network of subsidiaries (EPCOR, CRMA, KLM UK Engineering, Barfield, AFI KLM E&M Components China) and partnerships (ATI, Beijing LMI, Spairliners, Max MRO Services, AAF Spares, iGO Solutions, Airfoils Advanced Solutions, Singapore Component Solutions, AMES and Bonus Tech), and leveraging the power of its global logistics network. The development of this MRO network guarantees AFI KLM E&M customers local access to the Group's full array of services, tailored solutions and local spare parts inventories.

AFI KLM E&M subsidiaries and joint-ventures

Engines

Located in the Greater Paris area, CRMA specializes in repairs to engine parts and, in particular; combustion chambers. Its positioning on next-generation products has enabled CRMA to pursue the strong growth in its third-party customer activity.

Following the Apollo project to grow its production capacity, CRMA was able to respond to its expanding activities and growing customer demand *via* the creation of an additional 2,500m² and investment in new, state-of-the-art, engineering equipment. The capacity expansion thus enabled CRMA to optimize its flows by improving its Turn Around Times and the quality of its operations.

In 2019, significant progress was made in the joint-venture between Safran Aircraft Engines and Air France Industries KLM Engineering & Maintenance concerning the development of a joint-venture, Airfoils Advanced Solutions, with the initial successes from the industrial ramp-up, particularly for the GE90 engine. This company specializes in the repair of aircraft engine high-pressure compressor blades and variable pitch stator vanes and is focused on the CFM International CFM56 engines powering the A320 and 737 and GE's GE90 engines powering the 777.

AFI KLM E&M is optimizing and developing its US engine tear-down unit Bonus Tech. Since 2013, this joint-venture has operated as part of the MRO global network. Based in Miami, the partnership combines the know-how and the skills of Bonus Tech as a major player in the global engine tear-down market, with the industrial assets of AFI KLM E&M in the United States: equipment, tooling and support.

Components

Barfield, an AFI KLM E&M subsidiary, is an FAA and EASA Certified Repair Station offering maintenance services to major passenger, cargo and regional airlines, serving mainly North, South and Central America, together with the Caribbean. Barfield has 450 employees based at its US sites: Miami, Atlanta, Phoenix and Louisville.

AAF Spares, a joint-venture with AvTrade, is specialized in the management of spare parts, enabling customer airlines to benefit from the know-how of the two entities in the management and optimization of their spares inventories.

Shanghai-based AFI KLM E&M Components China is a 100%-owned subsidiary initially specializing in A320 and Boeing 737 avionics systems.

EPCOR, based at Amsterdam-Schiphol, provides state-of-the-art services in Auxiliary Power Unit (APU) maintenance.

Located in India (Mumbai), Max MRO Services Pvt. Ltd is a market-leading component MRO, in which Air France has a 26% equity interest.

Singapore Component Solutions, the component repair joint-venture with Sabena Technic in Singapore, is one of the very first multi-product and multi-fleet MROs to set up a component repair shop at the Asian hub.

Hamburg-based Spairliners is a joint-venture set up by Air France and Lufthansa Technik to provide end-to-end component support for airlines operating the A380 and Embraer E-Jets.

Located in Dubai, the AMES maintenance center (a joint-venture with Safran Nacelles) handles engine nacelle repair and overhaul in the Middle East.

Airframe maintenance

In Morocco, Aerotechnic Industries (ATI) is a joint-venture between Royal Air Maroc (RAM) and Air France. Based at Casablanca airport, ATI operates three maintenance bays for heavy maintenance on A320 and Boeing 737 aircraft.

At Norwich International Airport in the United Kingdom, KLM UK Engineering Limited delivers maintenance services for narrow-body and regional aircraft, together with an aircraft disassembly service.

The iGO Solutions joint-venture provides light maintenance services for AFI KLM E&M customers at Paris-Orly airport.

Corporate Social Responsibility as a lever in achieving sustainable levels of performance

As a major contributor to the Group's Sustainable Development goals, AFI KLM E&M has made Corporate Social Responsibility (CSR) an integral part of its management systems. Every process and project is thus enriched by listening to stakeholders, technological and other forms of innovation, an ergonomic work station program and a circular economy approach aimed at reducing the business's environmental footprint and gaining economic efficiency. AFI KLM E&M thus leverages this sustainable performance lever to the benefit of its customers and other stakeholders.

The MRO Lab[®] ensuring the effectiveness of the offer

Within the framework of The MRO Lab[®] program, AFI KLM E&M is developing the tools required to become a key player in industry innovation: relationships with start-up incubators, partnerships with universities, participative innovation, etc. With its Participatory Innovation (DPI) and FAB LAB programs supported by the creativity of its employees, AFI KLM E&M generates significant savings.

In 2019, this momentum enabled the emergence of more than 3,250 "DPI" participatory innovation ideas. At least 1,100 were selected, of which some have already been implemented. Staff events are organized to showcase their achievements on the theme of innovation. Bringing together several hundred members of staff, these events enable them to share their ideas and envisage the benefits of new technologies for their own working environment.

Similarly, relations with suppliers are regularly re-evaluated.

The circular economy contributing to high standards of environmental and financial performance

Since 2013, as a member of the French Aviation Industry's Strategic Committee on the Circular Economy, Air France Industries has contributed to the establishment of the industry roadmap which was submitted to the French government in May 2015.

AFI KLM E&M is constantly seeking to factor the circular economy into its practices, for example within the framework of the REVERSE project devoted to cost optimization *via* the reuse of materials, recovery by tear down and the recycling of waste materials.

A material recycling procedure has been developed and, since 2016, has been permanently applicable in the Engines and Materials & Services businesses. The materials recovered will thus have five possible destinations: reuse, disassembly, sale in the surplus parts market, dismantling and reprocessing for sale within the framework of an Air France product line (non-aeronautic) and the reprocessing of waste from reject materials not recovered by one of the previous measures.

This process has thus been applied for the handling of Economy, Business and *La Première* seats at the end of their useful lives. It enriches the Scrap program on the repair of aircraft and engine parts and has a significant environmental impact by, for example, reducing mineral extraction (titanium, nickel, etc.) for component manufacturing. It also generates savings by up-cycling products and offering them a second life.

Apprenticeship to ensure the perpetuation of know-how

Within the framework of its apprenticeship policy, Air France Industries offers diverse paths to apprentices in accordance with their aspirations and training needs.

By passing on their know-how, the apprentice masters enable young people to acquire valuable experience that can increase their employability.

As part of its Corporate Social Responsibility approach, Air France Industries also welcomes "School of the Second Chance" (*École de la deuxième chance*) interns who have dropped out of formal education with no qualifications and are seeking a professional direction.

Key figures

	2019	2018 restated	Change	Change at constant currency
Total revenues (€m)	4,617	4,349	+6.2%	
Third-party revenues (€m)	2,138	1,920	+11.3%	+5.8%
Income from current operations (€m)	260	214	+46	+27
Operating margin (%)	5.6%	4.9%	+0.7pt	+0.4pt

2018 results restated with a similar impact to 2019, following a change in accounting method for Life Limited Parts. For more detail, see Notes to the consolidated financial statements, paragraph 2, pages 12-15.

The maintenance business is the Air France - KLM Group's third business with third-party revenues of €2.1 billion in 2019, growth of 11.3%.

1.3.4 Fleet

At December 31, 2019, the Air France-KLM Group fleet was composed of 554 aircraft, of which 546 in operation, versus a respective 548 and 537 aircraft at December 31, 2018.

The main operational fleet consisted of 428 aircraft (416 aircraft at December 31, 2018), of which 176 were long-haul aircraft (172 at December 31, 2018), six were cargo aircraft (six aircraft at December 31, 2018) and 246 were medium-haul aircraft (238 at December 31, 2018) including 80 aircraft in the Transavia Group fleet (73 aircraft at December 31, 2018).

The regional fleet in operation was composed of 118 aircraft (121 at December 31, 2018).

At December 31, 2019, the average age of the aircraft in the operational fleet was 11.6 years, of which 11.9 years for the long-haul fleet, 12.3 years for the medium-haul fleet, 16.8 years for the cargo fleet and 9.6 years for the regional fleet. This compared with 11.3 years at December 31, 2018, of which 11.9 years for the long-haul fleet, 11.6 years for the medium-haul fleet, 15.8 years for the cargo fleet and 9.4 years for the regional fleet.

At December 31, 2019, 40.4% of the total Group fleet was fully owned (38.7% at December 31, 2018), 15.2% was under finance lease (17.0% at December 31, 2018), and 44.4% under operating lease (44.3% at December 31, 2018).

Excluding operating leases, there were firm orders outstanding for 108 aircraft at December 31, 2019 after the delivery of 13 aircraft wholly owned by the Group. Options stood at 58 aircraft (47 at December 31, 2018).

Change in the Air France-KLM Group order book ⁽¹⁾	December 31, 2018	Deliveries during the period ⁽²⁾	New orders	Option conversion	December 31, 2019
Main fleet	49	13	72	-	108
Regional fleet	0	0	-	-	-
Total	49	13	72	-	108

(1) Excluding operating leases.

(2) Transfers between the Group's airlines are excluded.

Change in the Air France-KLM Group's option portfolio ⁽¹⁾	December 31, 2018	Exercise during the period	Options cancelled or expired	New options	December 31, 2019
Main fleet	47	-	19	30	58
Regional fleet	-	-	-	-	-
Total	47	-	19	30	58

(1) Excluding operating leases.

Fleet management

Air France-KLM is pursuing a proactive policy of fleet renewal and modernization, thereby contributing to the improvement in the fleet's energy efficiency and a reduction in its environmental footprint. 2019 marked the arrival in the Air France fleet of its three first A350-900s.

Over the course of 2019, the Air France Group:

- in long-haul, withdrew two A340s from its fleet list, replacing them with two new Boeing 787-9s and three new A350-900s;
- in medium-haul, retired one old-generation A319, replacing it with an A320;
- in HOP!, retired nine ATRs and one EMB145, replacing them by the entry into the fleet of four new EMB190s;
- for Transavia France, took delivery of four Boeing 737-800s.

Air France also placed an order for ten more A350-900s and 60 A200-300s, thereby accelerating the renewal of its fleet and anticipating the phasing out of less-energy-efficient aircraft.

For its part, KLM welcomed the first four Boeing 787-10s into its fleet together with four Boeing 737-800 aircraft, replacing three Boeing 747-400s and two Boeing 737-700s.

Transavia Netherlands took delivery of two new Boeing 737-800s.

Over the longer term, the modernization of the fleet will be reflected in the phasing out of KLM's Boeing 747-400s and their replacement with Boeing 787-10s, and in the ongoing growth in the A350-900 fleet within Air France. The introduction of an A220-300 for Air France as of 2021 and the EMB 195 E2 for KLM will also enable the modernization of the Group's short and medium-haul fleet. Transavia (France and the Netherlands) will see its fleet adapt to the growth market in the leisure segment.

The Group will continue to invest substantial sums in cabin refurbishment, as is currently the case for its A330-200s and Boeing 777-300s, as well as in the satellite on board connectivity proposition, enabling customers to be offered an in-flight WiFi connection.

Air France – KLM Group fleet at December 31, 2019

Type of aircraft	AF (incl. HOP!)	KL (incl. KLC & Martinair)	Transavia France	Transavia NL	Fully owned	Finance lease	Operating lease	Total
Long-haul	109	67	0	0	74	32	70	176
Boeing 747-400	0	8	0	0	8	0	0	8
Boeing 777-300	43	14	0	0	14	21	22	57
Boeing 777-200	25	15	0	0	25	1	14	40
A350-900	3	0	0	0	1	2	0	3
Boeing 787-10	0	4	0	0	3	1	0	4
Boeing 787-9	9	13	0	0	7	3	12	22
A380-800	10	0	0	0	1	4	5	10
A340-300	4	0	0	0	4	0	0	4
A330-300	0	5	0	0	0	0	5	5
A330-200	15	8	0	0	11	0	12	23
Medium-haul	115	52	38	42	85	21	141	247
Boeing 737-900	0	5	0	0	2	0	3	5
Boeing 737-800	0	31	38	35	29	10	65	104
Boeing 737-700	0	16	0	7	3	5	15	23
A321	20	0	0	0	11	0	9	20
A320	44	0	0	0	3	5	36	44
A319	33	0	0	0	20	0	13	33
A318	18	0	0	0	17	1	0	18
Regional	76	49	0	0	59	31	35	125
ATR72-600	3	0	0	0	0	0	3	3
ATR72-500	0	0	0	0	0	0	0	0
ATR42-500	1	0	0	0	0	0	1	1
CRJ1000	14	0	0	0	14	0	0	14
CRJ700	11	0	0	0	11	0	0	11
EMB190	15	32	0	0	8	13	26	47
EMB175	0	17	0	0	3	14	0	17
EMB170	15	0	0	0	9	1	5	15
EMB145	17	0	0	0	14	3	0	17
Cargo	2	4	0	0	6	0	0	6
Boeing 747-400BCF	0	1	0	0	1	0	0	1
Boeing 747-400ERF	0	3	0	0	3	0	0	3
Boeing 777-F	2	0	0	0	2	0	0	2
Total AF-KLM	302	172	38	42	224	84	246	554

1.3.4.1 The Air France Group fleet

At December 31, 2019, the Air France Group fleet totaled 340 aircraft, of which 264 aircraft in the main fleet and 76 in the regional fleet. The average age of the aircraft in the operational fleet was 12.7 years (12.2 years at December 31, 2018), Firm orders stood at 100 aircraft.

Air France Group fleet	Fleet at December 31, 2018	Aircraft entering ⁽¹⁾ the fleet over the period	Aircraft withdrawn ⁽¹⁾ over the period	Fleet at December 31, 2019
Long-haul fleet	106	9	6	109
Medium-haul fleet (including Transavia France)	149	18	14	153
Cargo	2	-	-	2
Regional fleet	82	4	10	76
Total	339	31	30	340

(1) Owned, operating lease and financial lease.

The Air France fleet

The Air France fleet was composed of 226 aircraft at December 31, 2019, with 225 in operation (223 and 223 respectively at December 31, 2018). The fleet numbered 109 long-haul aircraft, 115 medium-haul aircraft and two freighters.

At December 31, 2019, the average age of the operational fleet was 13.7 years, with 13.0 years for the long-haul fleet, 14.5 years for the medium-haul fleet and 10.9 years for the cargo fleet. At December 31, 2018, the average age of the fleet had been 13.1 years, with 12.7 years for the long-haul fleet, 13.6 years for the medium-haul fleet and 9.9 years for the cargo fleet.

Within the fleet, 96 aircraft are fully owned (42.5%), 28 are under finance lease (12.4%) and 102 under operating lease (45.1%).

During the 2019 financial year, the company took delivery of three A350-900s, two Boeing 787-9s and one A320-200, while two A340-300s and one A319-100 were reconfigured. All of the aircraft in the Joon fleet were reintegrated within the Air France fleet.

The regional fleet, Air France HOP!

At December 31, 2019, the regional fleet was composed of 76 aircraft, of which 69 in operation, with a maximum seat capacity of 100.

The average age of the fleet in operation is 12 years. The fleet is 68.4% wholly owned, 5.3% under finance lease and 26.3% under operating lease.

In 2019, four EMB190 aircraft joined the fleet while nine ATRs and one EMB145 were retired, thus pursuing the modernization and rationalization strategy for the regional fleet.

The Transavia France fleet

The Transavia France fleet is composed of 38 Boeing 737-800s (34 aircraft at December 31, 2018). The average age of the aircraft in the fleet is 7.8 years. Of this fleet, 23.7% is fully owned, 10.5% is under finance lease and 65.8% under operating lease.

1.3.4.2 The KLM Group fleet

The KLM Group fleet totaled 214 aircraft at December 31, 2019, of which 165 in the main fleet and 49 in the regional fleet.

The average age of the aircraft in the operational fleet was 10 years (9.7 years at December 31, 2018).

Including the operational leases, firm orders stand at 34 aircraft.

KLM Group fleet	Fleet at December 31, 2018	Aircraft entering ⁽¹⁾ the fleet over the period	Aircraft withdrawn ⁽¹⁾ over the period	Fleet at December 31, 2019
Long-haul fleet	66	4	3	67
Medium-haul fleet (including Transavia Netherlands)	90	6	2	94
Cargo (including Martinair)	4	-	-	4
Regional fleet	49	-	-	49
Total	209	10	5	214

(1) Owned, operating lease and financing lease.

The KLM fleet

At December 31, 2019, the KLM fleet comprised 119 aircraft (116 at December 31, 2018), of which 67 long-haul aircraft and 52 medium-haul aircraft. Of this fleet, 44 aircraft were fully owned (37%), 17 aircraft were under finance lease (14.3%) and 58 under operating lease (48.7%). Of this fleet, 119 aircraft are in operation.

At December 31, 2019, the average age of the aircraft in revenue service was 11.1 years, with 10.3 years for the long-haul fleet and 12.3 years for the medium-haul fleet. At December 31, 2018, the average age of the aircraft in the fleet had been 11.3 years, with 10.6 years for the long-haul fleet and 12.2 years for the medium-haul fleet.

During the 2019 financial year, the long-haul fleet was modernized with the arrival of four Boeing 787-10s while three Boeing 747-400s were retired. For medium-haul, four 737-800s joined the KLM fleet while two 737-700s were retired.

The regional fleet, KLM Cityhopper

The KLM Cityhopper fleet was composed of 49 aircraft, all in operation at December 31, 2019. The aircraft in this regional fleet have an average age of 6.2 years. In this fleet, 14.3% of the aircraft are fully owned, 55.1% are under finance lease and 30.6% under operating lease.

The Transavia Netherlands fleet

The Transavia Netherlands fleet consists of 42 aircraft, of which seven are Boeing 737-700s and 35 are Boeing 737-800s.

In this fleet, 9.5% of the aircraft are under finance lease, 61.9% are under operating lease (including one aircraft belonging to Transavia Company) and 28.6% fully owned. The average age of the aircraft in the fleet is 10.3 years.

During the 2019 financial year, two Boeing 737-800s joined the fleet.

The Martinair fleet

Martinair has a fleet of four fully-owned freighters. The average age of the aircraft in this fleet is 19.7 years.

2

CORPORATE GOVERNANCE REPORT

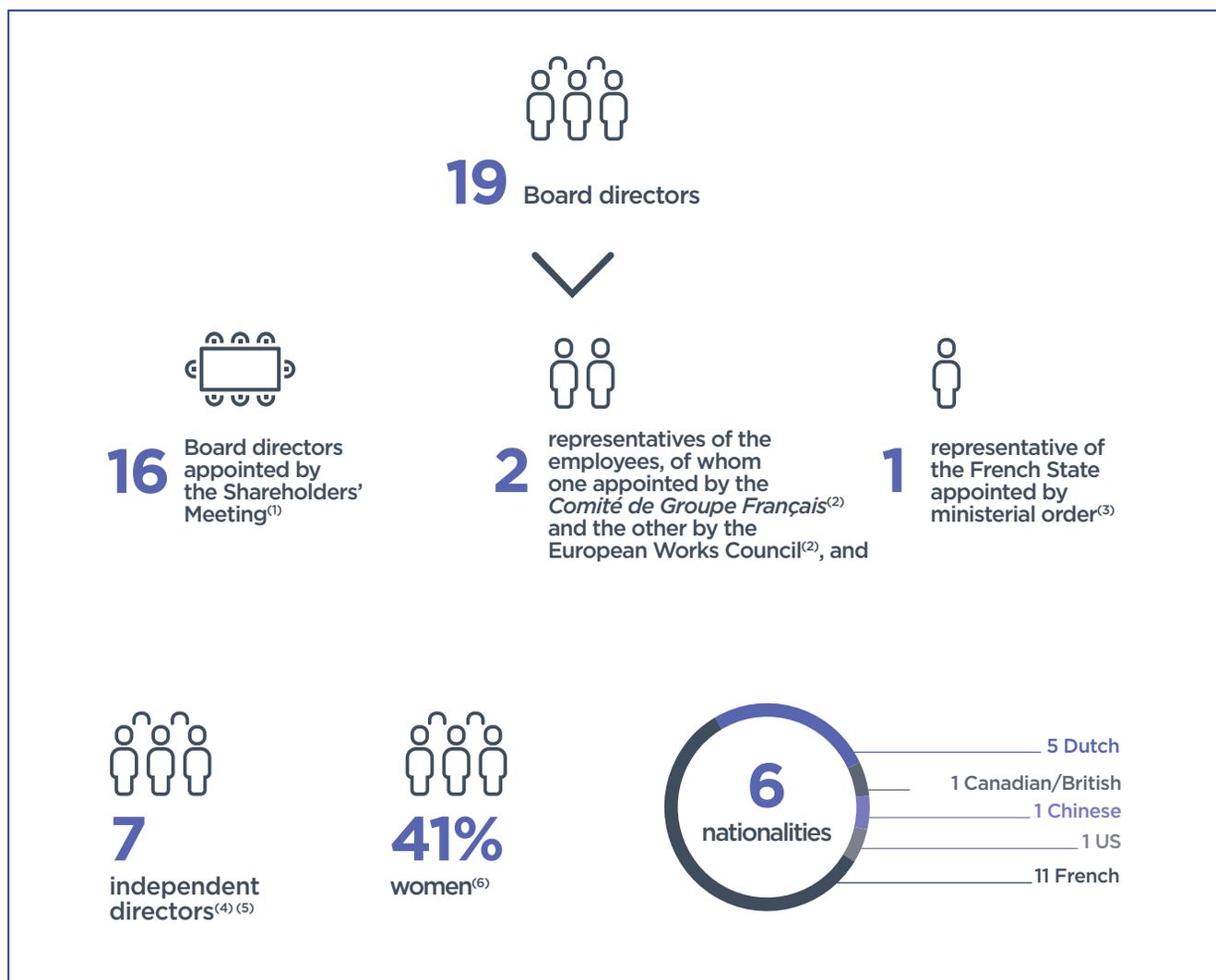
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This section constitutes the corporate governance report foreseen in the final paragraph of Article L. 225-37 of the French Code of Commerce (*Code de Commerce*) and includes the information referred to in Articles L. 225-37-2 to L. 225-37-5 of the *Code de Commerce*.

Pursuant to the provisions of Article L. 225-37 of the *Code de Commerce*, a presentation on this report will be made to shareholders during the forthcoming Annual General Shareholders' Meeting on May 26, 2020.

2.1 COMPOSITION OF THE BOARD OF DIRECTORS

2.1.1 Composition of the Board of Directors at December 31, 2019



(1) Of whom two directors appointed as proposed by the French State and two directors representing the employee shareholders.

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

(3) 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.

(4) Pursuant to the provisions of Article 9.3 of the AFEP-MEDEF Code, the Board directors representing the employee shareholders and the employees are not taken into account for the calculation of this percentage.

(5) At December 31, 2019, the percentage of independent directors stood at 47%. This exceptional situation is linked to the entry into the share capital of the Dutch State and is temporary (see section 2.2.4 Independence of the Board directors).

(6) The Board directors representing the employees, appointed pursuant to Article L. 225-27-1 of the *Code de Commerce*, are not taken into account for the gender parity calculation in line with the provisions of the aforementioned Article.

Changes in the composition of the Board of Directors during the 2019 financial year

	Departure	Appointment	Re-appointment
Board of Directors	Solenne Lepage ⁽¹⁾ April 1, 2019	Martin Vial ⁽²⁾ May 31, 2019	n/a
			Mathi Bouts ⁽³⁾ April 17, 2019
			Karim Belabbas ⁽⁴⁾ May 10, 2019
	Patrick Vieu May 28, 2019	Astrid Panosyan May 28, 2019	Jean-Dominique Comolli May 28, 2019
	Hans N.J. Smits May 28, 2019	Cees 't Hart May 28, 2019	Jaap de Hoop Scheffer May 28, 2019
		Benjamin Smith ⁽⁵⁾ May 28, 2019	
	Bing Tang ⁽⁶⁾ July 30, 2019	Jian Wang ⁽⁶⁾ July 30, 2019	n/a
Audit Committee	Solenne Lepage ⁽¹⁾ April 1, 2019	Martin Vial October 30, 2019	n/a
Appointments and Governance Committee	n/a	n/a	Jean-Dominique Comolli May 28, 2019
Remuneration Committee	Hans N.J. Smits May 28, 2019	n/a	n/a
	Jaap de Hoop Scheffer (in the capacity as Chair) October 30, 2019	Isabelle Bouillot (in the capacity as interim Chair) October 30, 2019	
Sustainable Development and Compliance Committee	Patrick Vieu May 28, 2019	Astrid Panosyan October 30, 2019	n/a
	Bing Tang July 30, 2019	Jian Wang October 30, 2019	
	n/a		

(1) In a letter dated March 29, 2019, Ms. Solenne Lepage informed the company that she would be stepping down as a Board director representing the French State, effective April 1, 2019.

(2) By a ministerial order of May 31, 2019, Mr. Martin Vial was appointed as a Board director representing the French State, replacing Ms. Solenne Lepage.

(3) The mandate of Mr. Mathi Bouts, a Senior Purser on KLM long-haul flights, as a Board director representing the employees, was renewed on April 17, 2019 by the European Works Council for a two-year term of office expiring at the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2020.

(4) The mandate of Mr. Karim Belabbas, a Support Technician Weight and Balance. CDG Hub Ground Operations, as a Board director representing the employees, was renewed on May 10, 2019, by the *Comité de Groupe Français* for a two-year term of office expiring at the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2020.

(5) On May 28, 2019, the Shareholders' Meeting approved the ratification of the co-opting decided by the Board of Directors meeting of December 5, 2018, together with the appointment for a four-year term of office, expiring at the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2022.

(6) On July 30, 2019, the Board of Directors noted the resignation of Mr. Bing Tang from his functions as a Board director and, as proposed by the company China Eastern Airlines, after consultation with the Appointments and Governance Committee, decided to co-opt Mr. Jian Wang as a Board director, effective as of July 30, 2019, for his predecessor's remaining 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, 2020.

Composition of the Board of Directors at December 31, 2019

Board directors	Personal information			Number of shares held
	Gender	Nationality	Age	
Board directors appointed by the Shareholders' Meeting				
Anne-Marie Couderc	Female	French	69	1,000
Benjamin Smith	Male	Canadian and British	48	100,000
Maryse Aulagnon	Female	French	70	1,500
Leni M.T. Boeren	Female	Dutch	56	2,000
Isabelle Bouillot	Female	French	70	230
Delta Air Lines, Inc. (Represented by George Mattson)		US		37,527,410
Cees't Hart	Male	Dutch	61	3,500
Jaap de Hoop Scheffer	Male	Dutch	71	1,025
Anne-Marie Idrac	Female	French	68	1,000
Isabelle Parize	Female	French	62	300
Jian Wang	Male	Chinese	46	300
Alexander R. Wynaendts	Male	Dutch	59	1,000
Board directors elected by the Shareholders' Meeting as proposed by the French State				
Jean-Dominique Comolli	Male	French	71	0
Astrid Panosyan	Female	French	48	0
Board directors representing the employee shareholders elected by the Shareholders' Meeting				
François Robardet	Male	French	62	757
Paul Farges	Male	French	48	816
Board directors representing the French State appointed by ministerial order				
Martin Vial	Male	French	65	0
Board director representing the employees appointed by the <i>Comité de Groupe Français</i>				
Karim Belabbas	Male	French	46	0
Board director representing the employees appointed by the European Works Council				
Mathi Bouts	Male	Dutch	60	0

■ Independent directors.

	Experience	Position within the Board			Participation in Committees			
	Number of directorships in listed companies	Date appointed	Expiry of term of office	Board experience	Audit Committee	Remuneration Committee	Appointments and Governance Committee	Sustainable Development & Compliance Committee
	2	May 19, 2016	2020 AGM	4 years			X (Chair)	
	1	December 5, 2018	2023 AGM	1 year				
	2	July 8, 2010	2021 AGM	10 years	X (Chair)	X		
	2	May 16, 2017	2021 AGM	2 years	X			X
	1	May 16, 2013	2021 AGM	7 years	X	X (interim Chair)		
	2	October 3, 2017	2021 AGM	3 years	X	X		
	2	May 28, 2019	2023 AGM	n/a				
	1	July 7, 2011	2023 AGM	9 years		X		
	4	November 2, 2017	2021 AGM	3 years				X (Chair)
	3	March 27, 2014	2022 AGM	6 years	X	X		
	1	July 30, 2019	2021 AGM	n/a				X
	3	May 19, 2016	2020 AGM	4 years			X	
	1	December 14, 2010	2023 AGM	10 years		X	X	
	2	May 28, 2019		n/a				X
	1	December 6, 2016	2022 AGM	4 years	X	X		
	1	May 15, 2018	2022 AGM	2 years	X			
	3	May 31, 2019	2023 AGM	n/a	X			
	1	June 1, 2017	2021 AGM	3 years				X
	1	October 10, 2017	2021 AGM	3 years				X

2.1.2 Presentation of the Board directors at December 31, 2019

Board directors appointed by the Shareholders' Meeting



Anne-Marie Couderc

Chair of the Board of Directors

Independent director

Chair of the Appointments and Governance Committee

Expertise and professional experience

Born February 13, 1950, Anne-Marie Couderc is a graduate in private law and holds a French Professional Lawyer's Certificate (*Certificat d'Aptitude à la Profession d'Avocat*).

Ms. Couderc began her career in 1972 as a lawyer with the Paris Bar. She then became Chief Legal Officer in Hachette's industrial division between 1979 and 1982, before fulfilling different management functions within the Lagardère Group from 1982 to 1995.

In parallel, Anne-Marie Couderc has pursued a political career: having been elected to the Paris Council in 1983, until 2001 she successively served as Advisor then Deputy to the Mayor of Paris between 1989 and 2001. Having been elected a Deputy of the French National Assembly in 1993, she subsequently joined the government in 1995 where she was appointed Secretary of State to the Prime Minister, responsible for Employment, then Minister for Employment and Social Affairs, responsible for Employment, until 1997.

In 1997, she was named Chief Executive Officer of Hachette Filipacchi Associés followed, from 2006 to 2010, by Secretary-General of Lagardère Active (press and audiovisual). From 2011 to 2017, she was Chair of Presstalis Group (press distribution), Since June 30, 2017, Ms. Couderc has been a company director.

Ms. Couderc has been Chair of the Air France-KLM Board of Directors since May 15, 2018.

Nationality: French

Age: 69 years

First appointed as a Board director:

May 19, 2016

Expiry of current term of office:

2020 Shareholders' Meeting

Number of shares held in the Company's stock:

1,000 shares

Professional address:

Air France-KLM,
2 rue Robert-Esnault-Pelterie,
75007 Paris

Other directorships and offices

French companies

- Chair of the Société Air France ^(G) Board of Directors since 2018;
- Board director and Chair of the Remuneration Committee of Ramsay Générale de Santé since 2014;
- Board director of Transdev since 2012 and member of the Audit Committee of Transdev SA since 2017;
- Board director and Chair of the Remuneration and Nomination Committees of Plastic Omnium⁽¹⁾ since 2010;
- Member of the Supervisory Board of Ayming since December 2014;
- Board director of the Veolia Foundation;
- Member of the ESEC Council since November 2015.

Directorships and offices held in the last five years and having expired

French companies

- Member of the MEDEF Executive Committee until 2018;
- Chair of Presstalis Group until June 2017;
- Board director and Chair of the Board of Directors of Presstalis Group until June 2017;

^(G) Company in the Air France-KLM Group.

⁽¹⁾ Listed company.



Benjamin Smith

Chief Executive Officer

Board director

Expertise and professional experience

Born August 27, 1971, Benjamin Smith is a reputed senior airline industry executive at international level, having spent the past twenty years at Air Canada where he was President Airlines and Chief Operating Officer.

In 1990, in parallel with his studies, he started out as a customer service agent at Air Ontario before taking an entrepreneurial path in 1992 when he set up his own retail corporate travel agency which he ran successfully for eight years. In 1999, he also simultaneously took on a consultancy role for Air Canada before finally joining the Group in 2002.

As of his 2002 arrival, Benjamin Smith fulfilled a number of high-ranking positions at Air Canada including Head of network Planning before joining the executive management team as Executive Vice-President and Chief Commercial Officer.

In 2014, he was appointed President Airlines (Air Canada, Rouge, Express, Cargo) and Chief Operating Officer of Air Canada with overall responsibility for commercial affairs, operations and customer relations for the Group. He was also responsible for Air Canada's commercial growth strategy.

On August 16, 2018, Benjamin Smith was appointed Chief Executive Officer of Air France-KLM. On December 5, 2018, he was appointed as a Board director within the Air France-KLM Board of Directors.

Nationality: British and Canadian

Age: 48 years

First appointed as a Board director:
December 5, 2018

Expiry of current term of office:
2023 Shareholders' Meeting

Number of shares held in the company's stock:
100,000 shares

Professional address:
Air France-KLM,
2 rue Robert-
Esnault-Pelterie,
75007 Paris

Other directorships and offices

French companies

- Board director of Société Air France ^(G) since December 12, 2018; N/A

Non-French company

- Member of the Supervisory Board of KLM ^(G) since April 2019.

Directorships and offices held in the last five years and having expired

^(G) Company in the Air France-KLM Group.



Maryse Aulagnon

Independent director

Chair of the Audit Committee and member of the Remuneration Committee

Expertise and professional experience

Born April 19, 1949, Maryse Aulagnon, Honorary Master of Petitions at the *Conseil d'État*, is a graduate of the *Institut des Sciences Politiques de Paris* and of the *École Nationale d'Administration* and holds a post-graduate degree (DESS) in Economic Sciences.

Having occupied various positions at the French Embassy in the United States and in a number of Ministerial cabinets (Budget, Industry), Ms. Aulagnon joined the CGE Group (now Alcatel) in 1984 as Director of International Business. She subsequently joined Euris as Chief Executive Officer on its creation in 1987. She served as Chair of the Affine Group SA ⁽¹⁾ (a real estate company) which she founded in 1990 until December 18, 2018 and is now developing Finestate (MAB Finances), a co-living company.

Ms. Aulagnon was appointed Chair of the *Fédération des Sociétés Immobilières et Foncières* (FSIF) in April 2019.

Other directorships and offices

French companies

- Lead Director and Chair of the Remuneration Committee of Veolia Environnement⁽¹⁾;
- Chair and CEO of MAB-Finances SAS.

Non-French company

- Director of Holdaffine BV Netherlands (MAB Finances Group).

Directorships and offices held in the last five years and having expired

French companies

Within the Affine Group:

- Chair of Affine R.E⁽¹⁾ until December 18, 2018;
- Chair of Promaffine SAS, CEO of ATIT (SC) and of Transaffine SAS, representative of Affine, Mab Finances and Promaffine within the employee representative bodies of the various Affine Group entities until January 1, 2017;
- Chair of the Board of GESFIMMO (SA) until May 2017;
- Member of the BPCE group's (Banques Populaires Caisses d'Épargne) Supervisory Board and Chair of the Appointments and Remuneration Committees until April 2019.

Non-French company

Within the Affine Group:

- Chair of the Board of Banimmo⁽¹⁾⁽²⁾, Belgium until November 8, 2018.

Nationality: French

Age: 70 years

First appointed as a Board director:
July 8, 2010

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
1,500 shares

Professional address:
Finestate,
25 rue de Ponthieu,
75008 Paris

(1) Listed companies.

(2) Banimmo is controlled by Affine (49.5%).



Leni M.T. Boeren

Independent director

Member of the Audit Committee and of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born December 23, 1963, Leni M.T. Boeren holds a Masters degree in Business Management from Erasmus University in Rotterdam (the Netherlands).

Ms. Boeren started her career in the financial sector at Paribas in 1983. She went on to work for Rabobank, where she held various positions through to 1992. She then moved to Robeco as head of the marketing and product management department from 1992 to 1997. She subsequently became a member of the Board of Directors of Amsterdam Exchanges NV followed, in 2000 to 2005, by her appointment as a member of the Executive Committee of Euronext NV, the result of the merger of the Paris (ParisBourse), Brussels (Brussels Exchanges) and Amsterdam (Amsterdam Exchanges) stock exchanges.

From January 2005 until December 2016, Leni Boeren was successively a member, Vice-Chair and Chair of the Management Board of Robeco Groep NV, an international asset management firm. She was also responsible for Robeco's subsidiaries and held several Board positions. She also served as a member and Chair of the Board of DUFAS, the Dutch Fund and Asset Management Association (2009-2016).

Since February 2018, Ms. Boeren has been a member of the Executive Board of Van Lanschot Kempen N.V.⁽¹⁾ (Netherlands). She is Chief Executive Officer of Kempen Capital Management NV (Netherlands), one of Van Lanschot Kempen's core activities.

Nationality: Dutch

Age: 56 years

First appointed as a Board director:
May 16, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
2,000 shares

Professional address:
Air France - KLM,
2 rue Robert-
Esnault-Pelterie,
75007 Paris

Other directorships and offices

Non-French companies

- Member of the Board of Directors of FCLTGlobal, USA, since 2019;
- Chair of the Executive Board of Kempen & Co NV (Netherlands) since 2018;
- CEO of Kempen Capital Management NV (Netherlands) since 2018;
- Member of the Van Lanschot Kempen N.V.⁽¹⁾ (Netherlands) Executive Board since 2018;
- Member of the Supervisory Board of Tata Steel Nederland BV, Netherlands, since 2014.

Directorships and offices held in the last five years and having expired

Non-French companies

- Chair of the Supervisory Board of Transtrend BV, Netherlands until 2019;
- Within the Robeco Group: Chair of the Management Board of Robeco Groep NV, Chair of the Management Board of Robeco Holding BV, Chair and CEO of the Management Board of Robeco Institutional Asset Management BV, Chair of the Management Board of Robeco Nederland BV, (Netherlands), Chair of the Board of Directors of Boston Partners Global Advisors Inc., (USA), Director of Harbor Capital Advisors Inc., (USA), Vice-Chair of RobecoSAM AG (Switzerland) until 2016;
- Chair and member of the Board of DUFAS, Netherlands, until 2016;
- Member of the Sustainable Asset Management USA Inc. Board of Directors, USA, until 2016.

(1) Listed companies.



Isabelle Bouillot

Independent director

Interim Chair of the Remuneration Committee and member of the Audit Committee

Expertise and professional experience

Born May 5, 1949, Isabelle Bouillot holds an advanced degree in Public Law and is a graduate of the *Institut des Études Politiques de Paris* and the *École Nationale d'Administration*.

Having occupied various positions in the French Public Administration, including Economic Advisor to the President of the Republic between 1989 and 1991 and Budget Director at the Ministry of Economy and Finance between 1991 and 1995, Ms. Bouillot was Deputy Chief Executive Officer in charge of the financial and banking activities at the *Caisse des Dépôts et Consignations* between 1995 and 2000, then Chair of the Management Board of the Investment Bank of the CDC IXIS Group from 2000 to 2003. Since 2006, Ms. Bouillot has been President of China Equity Links (SAS).

Nationality: French

Age: 70 years

First appointed as a Board director:

May 16, 2013

Expiry of current term of office:

2021 Shareholders' Meeting

Number of shares held in the Company's stock:

230 shares

Professional address:

China Equity Links,
9 avenue de l'Opéra,
75001 Paris

Other directorships and offices

French companies

- President of China Equity Links since 2006;
- President of IB Finance;
- Member of the Supervisory Board of Gimar & Cie.

Non-French companies

- Board director of Saint Gobain China;
- President of CELPartners Ltd, Hong Kong;
- Board director of Yafei Dendistry Limited⁽²⁾.

Directorships and offices held in the last five years and having expired

French companies

- Board director of Saint-Gobain⁽¹⁾ until June 2016.

Non-French companies

- Board director of Crystal Orange Hotel Holdings Limited⁽²⁾ until May 2017;
- Board director of JD Holding Inc⁽²⁾ until December 2016;
- Board director of Umicore, Belgium, until May 2015.

(1) Listed company.

(2) Unlisted company registered outside France in which China Equity Links holds or held an equity interest.



Delta Air Lines, Inc.

Board director

Member of the Remuneration Committee and of the Audit Committee

Corporation formed under the laws of the State of Delaware having its registered office sis Delta Bld, Atlanta, GA, USA 30354.

Other directorships and offices

N/A

Directorships and offices held during the last five years and having expired

N/A

Nationality: US

First appointed as a Board director:
October 3, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Number of shares held in the Company's stock:
37,527,410 shares

Professional address:
1030 Delta Boulevard,
Atlanta, GA, USA 30354



George N. Mattson

Permanent representative of Delta Air Lines, Inc.

Expertise and professional experience

Born March 23, 1966, George Mattson is the permanent representative on Air France-KLM's Board of Directors of Delta Air Lines, Inc., a corporation formed under the laws of the State of Delaware having its registered office at 1030 Delta Bld. Atlanta. GA USA 30354.

George Mattson is a retired partner at Goldman Sachs & Co where he had a 19-year career. He has extensive experience in M&A, corporate finance and the capital markets. During this period, he also acquired extensive knowledge of the airline sector.

He is now a private investor focused on acquiring and growing private industrial companies. George Mattson has been a member of Delta's Board of Directors since 2012, where he chairs the Finance Committee and sits on the Personnel & Compensation and Corporate Governance Committees.

Other directorships and offices

Non-French companies

- Board director of Delta Air Lines, Inc.⁽¹⁾, USA;
- Board director of Injection Technologies Inc., Canada;
- Board director of Instant Channel Inc., USA;
- Board director of Tropic Ocean Airways, USA;
- Senior advisor of Comvest. Partners, USA;
- Senior advisor of Star Mountain Capital, USA.

Directorships and offices held during the last five years and having expired

Non-French companies

- Chair of Wilbanks Energy Logistics LLC, USA, until October 2015.

(1) Listed company.





Nationality: Dutch
Age: 71 years

First appointed as a Board director:
July 7, 2011

Expiry of current term of office:
2023 Shareholders' Meeting

Number of shares held in the Company's stock:
1,025 shares

Professional address:
Air France - KLM,
2 rue Robert-
Esnault-Pelterie,
75007 Paris

Jaap de Hoop Scheffer

Board director⁽¹⁾

Member of the Remuneration Committee

Expertise and professional experience

Born April 3, 1948. Jaap de Hoop Scheffer is a law graduate of Leiden University.

Mr. de Hoop Scheffer started his diplomatic career in 1976, subsequently becoming Private Secretary to the Minister of Foreign Affairs (1980-1986). He then became a member of the Dutch Parliament (1986-2002), leader of the Christian Democratic Alliance (CDA) (1997-2001), Dutch Minister of Foreign Affairs (2002-2003) and Secretary General of NATO (2004-2009). Since 2012, Mr. de Hoop Scheffer has taught international politics and diplomacy in the Governance and International Affairs Faculty of Leiden University (Netherlands). Mr. de Hoop Scheffer is a Minister of State.

Other directorships and offices

Non-French companies

- Member of the Board of the Center for European Policy Studies based in Brussels. Belgium;
- Member of the Advisory Board of the Dutch employers' association VNO-NCW, Netherlands;
- Member of the Board of Trustees of Friends of Europe based in Brussels, Belgium;
- Co-President of the Security & Defense Agenda, Brussels. Belgium;
- Member of the European Council on Foreign Affairs, based in London. United Kingdom;
- President of the Advisory Council on Foreign Affairs, Netherlands;
- President of the Netherlands Civil Honors Advisory Committee, Netherlands;
- Member of the Trilateral Commission.

Directorships and offices held in the last five years and having expired

Non-French companies

- Chair of the Supervisory Board of the Rijksmuseum, Netherlands until October 2017;
- Member of the International Advisory Board of Royal Ten Cate NV, Netherlands, until October 2016;
- Vice-Chair of the Franco-Dutch Cooperation Council, Netherlands, until 2015.

(1) In view of the acquisition by the Dutch State of a shareholding in Air France-KLM on February 26, 2019, and on the basis of the report of the Appointments and Governance Committee, during its meeting of March 25, 2019 the Board of Directors considered that Mr. de Hoop Scheffer, a Board director appointed as proposed by the Dutch State, had no longer qualified as an independent Board director as of that date (see section 2.2.4. *Independence of the Board directors*).



Nationality: French

Age: 68 years

**First appointed
as a Board director:**
November 2, 2017

**Expiry of current term
of office:**
2021 Shareholders' Meeting

**Number of shares held
in the Company's stock:**
1,000 shares

Professional address:
Air France - KLM,
2 rue Robert-
Esnault-Pelterie,
75007 Paris

Anne-Marie Idrac

Independent director

Chair of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born July 27, 1951. Anne-Marie Idrac is a graduate of the *Institut d'Études Politiques*, the *École Nationale d'Administration* and the *Institut des Hautes Études de Défense Nationale*. Ms. Idrac has spent most of her career in the fields of the environment, housing, urban development and transport.

She was Chief Executive Officer at the Public Development Agency of Cergy-Pontoise, Director of Land Transportation at the Ministry of Equipment and Transport and subsequently Secretary of State for Transport. She occupied the positions of Chair and CEO of the RATP (Paris Public Transport Authority) from 2002 to 2006, and Chair and CEO of the SNCF (French State Railways) from 2006 to 2008. She was a Member of Parliament from 1997 to 2002 and Secretary of State for Foreign Trade from 2008 to 2010.

Anne-Marie Idrac is a company director and consultant.

Other directorships and offices

French companies

- Board director of Bouygues⁽¹⁾;
- Board director of Saint-Gobain⁽¹⁾;
- Board director of Total⁽¹⁾;
- Board director of SANEF.

Other

- Board director of the Fondation Robert Schuman;
- High representative of the French government for the development of autonomous vehicles;
- President of the France Logistique Association.

Directorships and offices held in the last five years and having expired

French company

- Member of the Supervisory Board of Vallourec⁽¹⁾ until 2015;
- President of the Aéroport de Toulouse-Blagnac Supervisory Board until May 2018.

(1) Listed companies.



Isabelle Parize

Independent director

Member of the Remuneration Committee and of the Audit Committee

Expertise and professional experience

Born June 16, 1957, Isabelle Parize is a graduate of the *École Supérieure de Commerce de Paris*. Having occupied various positions within Procter & Gamble between 1980 and 1993 including notably that of Marketing Manager, Health and Beauty Care, Ms. Parize joined Henkel Group in 1994. She was Managing Director of Schwarzkopf, Henkel France, from 1994 to 1998, and then Senior Vice-President in charge of Europe, the Middle East and Africa and of strategic marketing (based in Germany) from 1998 to 2001. She subsequently became Managing Director of Canal+ Distribution and Chief Executive Officer of CanalSatellite in 2001. She then became President of the Fragrance division at Quest International (2005-07) and Managing Director then Vice-Chair of the company Betclac (2007-11) before joining Nocibé as President of the Managing Board (2011-16). She was Chair and Chief Executive Officer of Douglas Holding AG until October 2017.

In November 2018, Ms. Parize became CEO of Delsey. She is a member of several Boards of Directors.

Nationality: French

Age: 62 years

First appointed as a Board director:
March 27, 2014

Expiry of current term of office:
2022 Shareholders' Meeting

Number of shares held in the Company's stock:
300 shares

Professional address:
Odys SPRL
31, rue des Aduatiques,
1040 Etterbeek
Belgium

Other directorships and offices

French companies

- Board director of Robertet⁽¹⁾ since June 2018;
- Chair of DHI SAS since November 2018;
- Chair of Delsey SA since January 2019.

Non-French companies

- Associate of Odys SPRL, Belgium;
- Board director of DUSH Inc., Delsey Luggage Inc., Delsey Asia Limited; Delsey Hong Kong Ltd; Delsey Korea Holding Ltd since the end of 2018;
- Board director of Pandora⁽¹⁾ since January 2019.

Directorships and offices held in the last five years and having expired

French companies

- Within Nocibé/Douglas Group until January 2016:
 - CEO and Chair of the Managing Board of Al Parfume France,
 - CEO and Chair of the Managing Board of Parfumerie Douglas France,
 - Chair and CEO of Douglas Expansion,
 - Chair of Douglas Passion Beauté Achats DPB-Achats;
- Board director of Auchan Retail International until October 2018.

Non-French companies

- Within Nocibé/Douglas Group until October 2017:
 - Chair and Chief Executive Officer of Douglas Holding AG,
 - Member of the Supervisory Board of Douglas Holding AG. Germany,
 - Member of the Managing Board of Douglas GmbH, Parfümerie Douglas GmbH, Douglas Cosmetics GmbH, Kirk Beauty One GmbH, Kirk Beauty Two GmbH, Germany, Parfumerie Douglas Nederland BV, Douglas Investment BV, Netherlands, Parfümerie Douglas Ges mbH, Austria, Douglas Polska Sp.z.o.o, Poland, Douglas Spain SA and Parfumerie Iberia Holding SL. Spain, Parfümerie Douglas Portugal LDA. Portugal,
 - Member of the Supervisory Board of Beiersdorf AG⁽¹⁾, Germany until February 2016;
- within Nocibé/Douglas until January 2016:
 - Chief Executive Officer of Parfumerie Douglas Portugal SA, Portugal,
 - CEO of Parfümerie Douglas GmbH and Douglas Cosmetics GmbH, Germany,
 - CEO of Douglas Monaco, Monaco.

(1) Listed companies.



Cees 't Hart

Board director

Expertise and professional experience

Born in 1958, Mr. 't Hart holds an MA in Social Science from Leiden University (Netherlands). He worked for 24 years with Unilever⁽¹⁾, starting his career as a management trainee before holding a range of international management positions in the Netherlands, Hungary, Singapore, Poland and Italy. His last position in Unilever was as a member of the Unilever Europe Board as SVP Marketing Operations. After seven years as Chief Executive Officer of the Dutch dairy cooperative Royal FrieslandCampina, he joined Carlsberg Group as Chief Executive Officer in 2015. He has also been a Member of the Supervisory Board at KLM since 2014 and its Chair since May 2019.

Nationality: Dutch
Age: 61 years

First appointed as a Board director:
May 28, 2019

Expiry of current term of office:
2023 Shareholders' Meeting

Number of shares held in the Company's stock:
3,500 shares

Professional address:
NY Carlsberg,
Vej 100, DK-1799,
Copenhagen V, Denmark

Other directorships and offices

Non-French companies

- CEO of Carlsberg Group⁽¹⁾;
- Chair of the Supervisory Board of KLM^(G).

Directorships and offices held in the last five years and having expired

N/A

^(G) Company in the Air France - KLM Group.

⁽¹⁾ Listed companies.



Nationality: Chinese

Age: 46 years

**First appointed
as a Board director:**
July 30, 2019

**Expiry of current term
of office:**
2021 Shareholders' Meeting

**Number of shares held
in the Company's stock:**
300 shares

Professional address:
China Eastern Airlines,
2550 Hongqiao
International Airport
Shanghai 200335 P.R.
China

Jian Wang

Board director appointed as proposed by China Eastern Airlines

Member of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born August 18 1973, Jian Wang graduated from Shanghai Jiao Tong University with a Bachelor degree in Engineering. He also holds a postgraduate Master of Business Administration from East China University of Science and Technology and an Executive Master of Business Administration degree from Tsinghua University. Jian Wang began his career in the aviation industry in 1995 and has extensive experience of corporate governance, strategic investment, capital operations and management. He has designed and facilitated a number of capital and strategic projects in China Eastern.

Since April 2012, Jian Wang has been Corporate Secretary of China Eastern Airlines⁽¹⁾, a controlling subsidiary of China Eastern Air Holding Company Limited. Between November 2016 and February 2019, he was a Board member and President of Eastern Airlines Industry Investment Company Limited, a wholly owned subsidiary of China Eastern Air Holding Company Limited. Since June 2017, Mr. Wang has also been Board member of Eastern Air Logistics Corporation Limited.

Jian Wang is currently Corporate Secretary of China Eastern Airlines Corporation Limited and Chair of Eastern Air Industry Investment Company Limited.

Other directorships and offices

Non-French companies:

- Corporate secretary of China Eastern Airlines Corporation Limited;
- Director, Office of Board Affairs, China Eastern Air Holding Company Limited;
- Chair of Eastern Airlines Industry Investment Company Limited;
- Board member of Eastern Air Logistics Corporation Limited.

Directorships and offices held in the last five years and having expired

Non-French companies:

- Board member and President of Eastern Airlines Industry Investment Company Limited until February 2019.

(1) Listed company.



Nationality: Dutch
Age: 59 years

**First appointed
as a Board director:**
May 19, 2016

**Expiry of current term
of office:**
2020 Shareholders' Meeting

**Number of shares held
in the Company's stock:**
1,000 shares

Professional address:
Aegon NV,
Aegonplein 50,
2591 TV La Haye,
Netherlands

Alexander R. Wynaendts

Independent director

Member of the Appointments and Governance Committee

Expertise and professional experience

Born August 1, 1960. Alex Wynaendts, a Dutch national, holds an electrical engineering degree from the *École Supérieure d'Électricité* (1984) and an economics degree from the *Université Paris-Sorbonne* (1983). He has more than thirty years' experience of insurance and international finance.

Mr. Wynaendts began his career in banking with ABN AMRO in 1984, where he was responsible for commercial and investment banking operations in Amsterdam and London. Between 1992 and 1997, he held various positions with ABN AMRO in London. In 1997 he joined Aegon within the Group Business Development division. He joined Aegon's Executive Board in 2003 and was appointed Aegon's Chief Operating Officer in 2007. Since April 23, 2008, Mr. Wynaendts has been Chair and CEO of Aegon N.V.⁽¹⁾

Other directorships and offices

Non-French companies

- Board director of Citigroup Inc.⁽¹⁾, USA, since 2019;
- Member of the Supervisory Board of Puissance BV, Netherlands, since 2017;
- Chair and CEO of Aegon N.V.⁽¹⁾, Netherlands, since 2008.

Others

- Board director of the Geneva Association, Switzerland;
- Chair of the Supervisory Board of the Rijksmuseum in Amsterdam;
- Member of the Advisory Board of the Vumc Cancer Center in Amsterdam, Netherlands.

Directorships and offices held in the last five years and having expired

Others

- Chair of the Supervisory Board of the Mauritshuis Museum in The Hague, Netherlands, until 2018;
- Vice-Chair of the PEIF (Pan-European Insurance Forum) until 2018.

(1) Listed companies.

Board directors elected by the Shareholders' Meeting as proposed by the French State

Pursuant to Article 6 of French Ordinance No. 2014-948 of August 20, 2014 concerning governance and transactions involving the share capital of public sector companies, and in that the French State has a direct holding of between 10% and 50% in the Air France-KLM share capital, one or several seats are reserved within the Board of Directors for members potentially proposed by the French State.



Nationality: French
Age: 71 years

First appointed as a Board director:
December 14, 2010

Expiry of current term of office:
2023 Shareholders' Meeting

Professional address:
Air France-KLM,
2 rue Robert-Esnault-Pelterie,
75007 Paris

Jean-Dominique Comolli

*Board director appointed by the Shareholders' Meeting as proposed by the French State
Member of the Appointments and Governance Committee and of the Remuneration Committee*

Expertise and professional experience

Born April 25, 1948, Jean-Dominique Comolli is a graduate of the *Institut d'Études Politiques de Paris* and of the *École Nationale d'Administration* and holds a Masters degree in Economic Sciences.

Mr. Comolli began his career in 1977 as a civil administrator before becoming a technical advisor at the French Ministry of Budget under Laurent Fabius, then a member of Prime Minister Pierre Mauroy's and Laurent Fabius' staff. He then became Chief of Staff at the French Budget Ministry under Michel Charasse, before being appointed Director of Customs in 1989. Between 1993 and 2010, he was Chair and Chief Executive Officer of Seita, Vice-Chair of Altadis until 2005 and Chair of the Board of Altadis between 2005 and 2010.

In September 2010, Mr. Comolli was appointed Commissioner for State Holdings, a position he was to occupy until October 2012.

Mr. Comolli is currently an Honorary Civil Service Administrator.

Other directorships and offices

N/A

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Director of France Télévisions. representing the French State.



Nationality: French

Age: 48 years

**First appointed
as a Board director:**
May 28, 2019

**Expiry of current term
of office:**
2023 Shareholders' Meeting

Professional address:
Unibail-Rodamco-Westfield,
7 Place du Chancelier
Adenauer,
75016 Paris

Astrid Panosyan

*Board director appointed by the Shareholders' Meeting as proposed by the French State
Member of the Sustainable Development and Compliance Committee*

Expertise and professional experience

Born August 13, 1971, Astrid Panosyan is a graduate of the *Institut d'Études Politiques* (IEP) Paris, the *École des Hautes Études Commerciales* (HEC) and of Harvard University (Kennedy School of Government).

She began her career at AT Kearney before joining AXA's Strategy Department in 1998 before moving to the Department of Business Support & Development for Asia-Pacific region.

In 2002, she joined Groupama where she successively held various senior positions in the International Department, the Department of Strategy and the Department of Finance. She became General Secretary of the Group in 2011.

Before joining Unibail-Rodamco SE on September 1, 2015, she was previously an advisor and member of the cabinet of Emmanuel Macron, French Minister of Economy, Industry and Digital Affairs, where she was in charge of Economic Attractiveness and International Investments.

She is currently Managing Director of the Central Functions of the Unibail-Rodamco-Westfield Group⁽¹⁾ (URW) in charge of Human Resources, Organization, Information Systems, Legal Affairs, Risks & Compliance and Security.

Other directorships and offices

French companies and public institutions

- Board directorships in companies belonging to the Unibail Radamco-Westfield Group: Chair of Doria, Unibail Management and Espace Expansion Immobilière, Chair of Unibail-Rodamco Participations, Member of the Supervisory Board of Uni-Expos, Chair of URW Brands, Chair of the Board of Directors and CEO of Tayninh;
- Member of the Supervisory Board of AP-HP International;
- Member of the Strategy Committee of Fabernovel Group.

Non-French companies

- Board director of WCL Management PTY Limited⁽²⁾.

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Member of the Management Board of Unibail-Rodamco SE;
- Board director of Radamco Participations.

Non-French companies

- Board director of U&R Management BV;
- Board director of Rodamco Europe Beheer BV.

(1) Listed company.

(2) Company in the Unibail-Rodamco-Westfield Group.

Board director representing the French State appointed by ministerial order

Pursuant to Article 4 of French Ordinance No.2014-948 of August 20, 2014 concerning governance and transactions involving the share capital of public sector companies and Article 2 of the decree-law No.2014-949 of August 20, 2014 applying French Ordinance No.2014-948, in that the French State holds more than 10% of Air France-KLM's share capital, a seat may be reserved for the French State within the Board of Directors. Martin Vial was appointed Board director representing the French State by a ministerial order dated May 31, 2019.



Nationality: French

Age: 65 years

First appointed as a Board director:
May 31, 2019

Expiry of current term of office:
May 2023

Professional address:
Agence des
Participations de l'État,
Ministère de l'Économie des
Finances et de l'Industrie,
139 rue de Bercy,
75572 Paris Cedex 12

Martin Vial

*Board director appointed by the French State
Member of the Audit Committee*

Expertise and professional experience

Born February 8, 1954. Martin Vial is a graduate of ESSEC and the *École Nationale Supérieure des Postes et Télécommunications*.

He began his career as an administrator of Post Offices and Telecommunications in the Financial Office of the French Postal Service (*Direction Générale des Postes*). In 1986 he joined the Treasury Department at the Ministry of the Economy and Finance, where he was responsible for overseeing banking activities and stock flotations. In 1988 he was appointed technical advisor and later Deputy Director of the Office of the Minister for Post Offices, Telecommunications and Space, where he was notably responsible for the institutional reform of the postal service and France Télécom. From 1991 to 1993, he was successively Deputy Director and then director of the Office of the Minister of Infrastructure, Housing, Transport and Space, before going on to become director of the Office of the Minister for Post Offices and Telecommunications.

In 1993 Martin Vial was appointed Chair and Managing Director of the airline Aéropostale, a joint subsidiary of Air France, La Poste and TAT. In 1996 he was elected Chair of the CSTA (French air transport association) and of the FNAM (National Federation of Commercial Aviation).

At the end of 1997, he became CEO of the La Poste Group.

In December 2000, he became Chair of the La Poste Group. At the same time he was a member of the Supervisory Board (1998), then Vice Chair (2002) of the National Welfare Fund (CNP). From 1999 to 2004, he was also a member of the Economic and Social Council and a member of the Strategic Council on Information Technologies under the authority of the Prime Minister.

In September 2002, Martin Vial joined the *Cour des Comptes* as counsel. From 2003 to 2014, he served as CEO of the Europ Assistance Group, the world leader in care services with 44 subsidiaries in 33 countries, and CEO of Europ Assistance Holding. He also Chairs several Boards of Directors of the Group's companies.

In January 2015, he founded Premium Care, a senior assistance company with high-tech content and delivering an end-to-end remote assistance and home services offer.

On August 24, 2015, Martin Vial was appointed a Commissioner of State Shareholdings.

Other directorships and offices

French companies

- Board director of Bpifrance SA. in the capacity as representative of the French State;
- Board director of E.D.F.⁽¹⁾ in the capacity as representative of the French State;
- Board director of Renault Group⁽¹⁾ in the capacity as representative of the French State.

Directorships and offices held in the last five years and having expired

- Board director and member of the Strategy and Governance and Remuneration Committees of Thales⁽¹⁾ until 2017;
- Chair of Sicav Libertés et Solidarité until 2015.

(1) Listed companies.

Board directors representing the employee shareholders

Pursuant to Articles L. 225-23 of the French Code of Commerce (*Code de Commerce*), L. 6411-9 of the French Transport Code (*Code des Transports*) and 17-2 of the Air France-KLM Articles of Incorporation, in that the employees of Air France-KLM subsidiaries hold more than 3% of Air France-KLM's share capital, there are two representatives of the employee shareholders within the Board of Directors:

- one representative belonging to the flight deck crew category of staff; and
- one representative belonging to the other employee category of staff.

These Board directors representing the employee shareholders are elected by the Shareholders' Meeting having been proposed by the shareholders referred to in Article L. 225-102 of the *Code de Commerce*. The employee and former employee shareholders are invited to choose their candidates for each of the two colleges (flight deck crew and other employees), the appointment taking place based on a majority vote in two rounds of balloting. The candidate having obtained the absolute majority of the votes cast in each college, in either the first or second round, is then proposed to the Shareholders' Meeting.



Paul Farges

Board director representing the flight deck crew employee shareholders
Member of the Audit Committee

Expertise and professional experience

Born February 9, 1971, Paul Farges holds two qualifications from the *École Nationale d'Aviation Civile*: a degree in Air Traffic Control Engineering and a diploma as an Airline Pilot (ATPL).

He began his career in 1994 as Head of the *Aviation Sans Frontière* (ASF) mission in Angola before becoming an air traffic controller at the *Centre en Route de la Navigation Aérienne Nord* from March 1995 to June 1998. In 1999 he joined Air France where he was as a Pilot Officer on the Boeing 737 until 2001, then on the Boeing 747 from 2001 to 2007. He subsequently became a Flight Captain on the A320 in 2007, before becoming an airline pilot instructor in 2017. Since 2019, Mr. Farges has been assigned to the Boeing 777.

He also holds a Corporate Directors Certificate (Sciences-Po - IFA).

Nationality: French

Age: 48 years

First appointed as a Board director:
May 15, 2018

Expiry of current term of office:
2022 Shareholders' Meeting

Number of shares held in the Company's stock:
816 shares

Professional address:
Air France,
45 rue de Paris,
95747 Roissy Charles
de Gaulle Cedex

Other directorships and offices

N/A

Directorships and offices held in the last five years and having expired

- Within the SNPL pilots' union:
 - Vice-President of the Air France section and Head of International Affairs until October 2017,
 - Elected member of the *Comité d'Etablissement* until March 2015.



Nationality: French

Age: 62 years

**First appointed
as a Board director:**
December 6, 2016

**Expiry of current term
of office:**
2022 Shareholders' Meeting

**Number of shares held
in the Company's stock:**
757 shares

Professional address:
Air France,
5 avenue Maxwell,
31109 Toulouse Cedex

François Robardet

*Board director representing the current or former Ground Staff and Cabin Crew employee shareholders
Member of the Audit Committee and of the Remuneration Committee*

Expertise and professional experience

Born November 9, 1957, François Robardet is a graduate of the *École Nationale Supérieure des Arts et Métiers*. Mr. Robardet began his career in 1983 as a consulting engineer on management information systems within *Compagnie Générale d'Informatique*.

In 1993 he joined Air Inter as an IT project manager before moving to Air France in 1997.

Other directorships and offices

French entities

- Titular member (elected) of the Supervisory Board of the Aeropelican employee shareholder FCPE;
- Titular member (elected) of the Supervisory Board of the Horizon Epargne Actions diversified savings fund;
- Manager of SCI Arcole 3.

Directorships and offices held in the last five years and having expired

N/A

Board directors representing the employees

Pursuant to Article 17-3 of the Air France-KLM Articles of Incorporation and Article L. 225-27-1 of the French Code of Commerce (*Code de Commerce*), there are two Board directors representing the employees within the Air France-KLM Board of Directors:

- on June 1, 2017, as stipulated in Article L. 2331-1 of the French Employment Code (*Code du Travail*), the *Comité de Groupe Français* appointed Mr. Karim Belabbas, a Support Technician Weight and Balance CDG hub Ground Operations, as a Board director representing the employees. His mandate was renewed by the *Comité de Groupe Français* on May 10, 2019.
- on October 10, 2017, Air France-KLM's European Works Council appointed Mr. Mathi Bouts, a Senior Purser on KLM long-haul flights, as a second Board director representing the employees following the realization, on October 3, 2017, of the capital increases reserved to China Eastern Airlines and Delta Air Lines, Inc. His mandate was renewed by the European Works Council on April 17, 2019.

Mr. Belabbas and Mr. Bouts were both appointed for two-year terms of office, expiring at the end of the Air France-KLM Annual General Shareholders' Meeting to be held during the year in which their terms of offices expire, i.e. at the end of the 2021 Annual General Shareholders' Meeting.



Karim Belabbas

Board director representing the employees

Member of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born July 28, 1973, Karim Belabbas is a graduate of the *École Supérieure des Métiers de l'Aéronautique* in Montpellier (1998). He holds a university degree in aeronautics from Saint-Denis University (2001).

Having been an Air Traffic Operations Coordinator with Aéroport de Paris, Mr. Belabbas joined Air France in November 1999 as an Aircraft Leader.

Since 2005 Karim Belabbas has been a Support Technician Weight and Balance, CDG hub Ground Operations.

Nationality: French

Age: 46 years

First appointed as a Board director:
June 1, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Professional address:
Air France,
45 rue de Paris,
95747 Roissy Charles
de Gaulle Cedex

Other directorships and offices

N/A

Directorships and offices held in the last five years and having expired

N/A



Nationality: Dutch
Age: 60 years

First appointed as a Board director:
October 10, 2017

Expiry of current term of office:
2021 Shareholders' Meeting

Professional address:
KLM, AMS/AF,
PO Box 7700, 1117 ZL
Schiphol Airport,
Netherlands

Mathi Bouts

Board director representing the employees

Member of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born June 29, 1959, Mathi Bouts holds a Bachelor in mathematics and philosophy from the Catholic University of Nijmegen (The Netherlands). He joined KLM in 1987 as a steward. He previously occupied the positions of Chair of KLM's Works Council (where he was, in particular, a member of the Financial Economic Committee) and Vice-Chair of the Air France–KLM European Works Council until 2010. Since 2011, he has been Chair of the Dutch foundation MNO (*Stichting MultiNationale Ondernemingsradenoverleg*), a network of works Councils in multinationals.

Mathi Bouts has been a Senior Purser on KLM long-haul flights since 2017.

Other directorships and offices

Non-French company

- Chair of the Dutch foundation MNO, Netherlands, since 2011.

Directorships and offices held in the last five years and having expired

Non-French company

- Member of the VNC Council Schiphol-Oost, Netherlands, until 2017.

Board directors whose terms of office expired during the 2019 financial year



Solenne Lepage

*Board director representing the French State
Member of the Audit Committee*

Expertise and professional experience

Born February 7, 1972, Solenne Lepage holds a degree in philosophy and an advanced degree in history, and is a graduate of the *École Nationale des Chartes*, the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.

Having started her career in 2002 within the Ministry of the Economy and Finance as a deputy civil administrator reporting to the heads of various offices (Public Banks, Energy, Chemicals, European Coordination and Strategy), she was from 2006 to 2009 Client Relationship Manager for Large Companies in the banking and insurance sector at HSBC France. In 2009 she became Head of the "EDF and Other Shareholdings" office in the Agency for State Shareholdings.

Appointed Deputy Director. "Transport and Audiovisual" at the Agency for State Shareholdings in October 2012., Ms. Lepage was Director of Transportation Shareholdings at the Agency for State Shareholdings from August 2014 until October 2018. From October 2018 until March 2019 she was a Project Manager in the General Management of the Agency for State Shareholdings, reporting to the Commissioner of State Shareholdings.

Since April 2019, she has been Deputy Chief Executive Officer of the French Banking Federation.

Nationality: French

Age: 47 years

First appointed as a Board director:
March 21, 2013

Expiry of current term of office:
May 2019

Professional address:
Fédération Bancaire Française,
18 rue La Fayette,
75440 Paris Cedex 09

Other directorships and offices as representative of the French State

French companies and public institutions

N/A

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Board director of ADP Group⁽¹⁾ (ex-Aéroports de Paris) as a representative of the French State until March 2019;
- Board director of SNCF Mobilités (ex SNCF) as a representative of the French State until March 2019;
- Board director of Régie Autonome des Transports Parisiens (RATP) as a representative of the French State until March 2019;
- Board director of Réseau Ferré de France (now SNCF Réseau) until July 2015.

(1) Listed company.



Nationality: French

Age: 55 years

**First appointed
as a Board director:**
May 21, 2015

**Expiry of current term
of office:**
2019 Shareholders' Meeting

Professional address:
Conseil Général
de l'environnement et du
développement durable,
92055 Paris-La Défense
Cedex

Patrick Vieu

*Board director appointed by the Shareholders' Meeting as proposed by the French State
Member of the Sustainable Development and Compliance Committee*

Expertise and professional experience

Born December 2, 1964, Patrick Vieu holds a history degree and a doctorate in philosophy, having graduated from the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.

Mr. Vieu began his career in 1993 at the French Transport Ministry where he occupied, notably, the functions of Deputy Director of Motorway and Infrastructure Concessions (1999-2004). He served as Director of Rail and Public Transport (2005-2008) then Director of Transport Services (2008-2011) at the Ministry of Ecology, Sustainable Development, Transport and Housing. In summer 2011, he became Project Director reporting to the Vice-President of the General Council for the Environment and Sustainable Development before being appointed Environment and Territories Advisor responsible for advising the French President on transport and sustainability issues in 2012. Since June 2014, Mr. Vieu has been Advisor to the Vice-President of the General Council for the Environment and Sustainable Development.

Other directorships and offices

— Board director of the Fund for the Development of an Intermodal Transportation Strategy in the Alpine Region since March 1, 2019.

Directorships and offices held in the last five years and having expired

N/A



Nationality: Chinese
Age: 52 years

First appointed as a Board director:
October 3, 2017

Expiry of term of office:
July 30, 2019

Number of shares held in the Company's stock:
300 shares

Professional address:
China Eastern Airlines,
36 Hongxiang Sanlu,
Minhang District,
201100 P.R. China

Bing Tang

Board director appointed as proposed by China Eastern Airlines until July 30, 2019
Member of the Sustainable Development and Compliance Committee

Expertise and professional experience

Born February 8, 1967, Bing Tang is an engineer by training and graduated from Nanjing University of Aeronautics and Astronautics majoring in electrical technology. He obtained a doctoral degree in national economics from the Graduate School of the Chinese Academy of Social Sciences.

Bing Tang has pursued his career in the civil aviation industry where he served as Executive Vice-President of MTU Maintenance Zhuhai Co., Limited. Chief of the Administrative Office of China Southern Air Holding Company and President of Chongqing Airlines Company Limited. He occupied various managerial positions within China Southern Airlines from December 2007 until May 2009. He served as Chair of Shanghai Airlines from January 2012 until January 2018. He was also Vice-President of China Eastern Airlines Corporation Limited from February 2010 to March 2019. He was a senior executive for China Eastern Air Holding Company from May 2011 until February 2019.

In February 2019, Bing Tang was appointed Vice-President and Deputy Secretary General of the Party at China Eastern Airlines Holding. Since March 2019, Mr. Tang has been Deputy Secretary General of the Party then, since May 2019, a Board director of China Eastern Airlines⁽¹⁾.

Other directorships and offices

Non-French companies

- Deputy Secretary-General of the Party for China Eastern Airlines⁽¹⁾, China, since March 2019;
- Board director of China Eastern Airlines⁽¹⁾, China, since May 2019.

Directorships and offices held in the last five years and having expired

Non-French companies

- Chair of Shanghai Airlines, China, from January 2012 to January 2018;
- Senior executive of China Eastern Air Holding Company Limited from May 2011 to February 2019;
- Vice-President of China Eastern Airlines⁽¹⁾, China, from February 2010 to March 2019;
- Non-executive director of TravelSky Technology Ltd⁽¹⁾ from June 2018 to September 2019.

(1) Listed companies.



Hans N.J. Smits

Board director

Member of the Remuneration Committee

Expertise and professional experience

Born March 13, 1950, Hans Smits holds a degree in civil engineering from the Technical University of Delft in the Netherlands (1968-1973) and an MBA in business administration from Erasmus University in Rotterdam (1973-1975).

Mr. Smits began his career in the Delta Department of the Dutch Ministry of Transport, Public Works and Water Management where, from 1975 to 1986, he occupied a number of management positions. In 1986, he joined the Ministry of Economic Affairs as Vice Director-General for Services, Small and Medium-Sized businesses and Planning. From 1988 to 1992, he continued his career within the Ministry of Transport, Public Works and Water Management as Director-General for Transport then Secretary-General before being appointed President and Chief Executive Officer of Amsterdam-Schiphol Airport (1992-98).

Between 1998 and 2002, he was Vice-Chair then Chair of the Board of Directors of Rabobank Nederland. In 2003-04, he was a Board director at Arthur D. Little Benelux then, from 2005 to 2014, he was Chair and CEO of Havenbedrijf Rotterdam NV ("Port of Rotterdam Authority").

Since 2014, Mr. Smits has been Chair and Chief Executive Officer of Janssen de Jong Groep⁽¹⁾.

Nationality: Dutch

Age: 69 years

First appointed as a Board director:
May 19, 2016

Expiry of current term of office:
2019 Shareholders' Meeting

Number of shares held in the Company's stock:
1,000 shares

Professional address:
Janssen de Jong Groep BV,
Science Park Eindhoven
5001 5692 EB, Son en
Breugel. Netherlands

Other directorships and offices

Non-French company

- Member of the Supervisory Board of Odfjell S.E.⁽¹⁾, Norway.

Others

- Member of the Supervisory Board of Erasmus University, Rotterdam, from October 1 to December 1, 2019;
- Interim Chair of the Board of Erasmus University, Rotterdam, Netherlands, since December 2019.

Directorships and offices held in the last five years and having expired

Non-French company

- Chair of the KLM NV⁽⁶⁾ Supervisory Board, Netherlands, until May 2019;

Other

- Chair of the Board of Erasmus University, Rotterdam, Netherlands, until May 2018.

(1) Listed company.

(6) Company in the Air France-KLM Group.

2.2 ORGANIZATION AND FUNCTIONING OF THE BOARD OF DIRECTORS

2.2.1 Functioning of the Board of Directors

Corporate Governance Code

The Board of Directors functions according to the corporate governance principles in force in France as set forth in the AFEP-MEDEF Corporate Governance Code (hereinafter the “AFEP-MEDEF Code”), updated in January 2020, and available on the AFEP (www.afep.com) and MEDEF (www.medef.com) websites.

In application of Article L. 225-37-4, paragraph 8, of the French Code of Commerce (*Code de Commerce*) and in line with the recommendations of the AFEP-MEDEF Code, this section identifies in a summary table the recommendations of the AFEP-MEDEF Code that have not been adopted and explains the reasons for this choice (see Section 2.4 Summary table of the AFEP-MEDEF's Comply or Explain recommendations not applied).

Internal Rules

On June 17, 2004, the Air France-KLM Board of Directors adopted a set of Internal Rules based on the corporate governance principles established by the AFEP-MEDEF Code.

In addition to the respective missions and powers of the Chair of the Board of Directors and the Chief Executive Officer, these Internal Rules specify the modalities for the organization and functioning of the Board, and establish the prerogatives and duties of Board directors as regards the rules on reporting, disclosure, confidentiality and conflicts of interest. They also determine the powers of each of the advisory Committees established within the Board.

The last update to the Internal Rules took place on March 12, 2019. It concerned the missions of the newly-created Sustainable Development and Compliance Committee and the changes to the AFEP-MEDEF Code having taken place in June 2018.

The Internal Rules are available on the Air France-KLM website at <http://www.airfranceklm.com> (Governance section).

2.2.2 Separation of the functions of Chair of the Board of Directors and Chief Executive Officer

During its meeting of May 15, 2018, the Board of Directors decided to separate the functions of Chair of the Board of Directors and Chief Executive Officer. This decision followed Mr. Jean-Marc Janaillac stepping down as Chair and Chief Executive Officer of Air France-KLM, and the implementation of a transitional governance to, notably, enable the Chair of the Board of Directors to focus on the effective functioning of the Board and on the search for candidates for the position of Air France-KLM's Chief Executive Officer.

On August 16, 2018, the Board of Directors confirmed the separation of the functions of Chair of the Board of Directors and Chief Executive Officer within the framework of the implementation of the long-term governance with the appointment of Mr. Benjamin Smith as the new Chief Executive Officer of Air France-KLM. The confirmation of the separation of the functions of Chair and Chief Executive Officer reflected the conclusions of the Board of Directors which considered that this form of governance was the best choice for the Company at this stage in its development in that it enables the Company to benefit from a new dynamic with a Chair of the Board of Directors who is dedicated to governance matters and a Chief Executive Officer with recognized expertise in the air transport industry, who is focused on the Group's operations. The complementarity of their profiles and roles optimizes the Group's governance and ensures a balanced and respectful division of their respective missions. It also enables the effective coordination of the Board of Directors thanks to the presence of a Chair of the Board of Directors who is exclusively devoted to its functioning and guarantees a more effective separation between the control and management functions.

Powers and missions of the Chair of the Board of Directors

In her capacity as Chair, Ms. Anne-Marie Couderc organizes and steers the work of the Board of Directors, ensures the preservation of the corporate interests and oversees the effective functioning of the corporate bodies (Board of Directors, advisory Committees and Shareholders' Meetings) in the respect of the principles of good governance. She also ensures that the Board of Directors devotes the time required to issues of interest to the Group's future and, in particular, its strategy.

She has no executive responsibility but may represent the Group in its high-level relations, notably with the public authorities, major customers and partners, at both national and international level, in close collaboration with the Chief Executive Officer. She devotes her best efforts to promoting the values and image of the Group in all circumstances. Lastly, the Chief Executive Officer keeps her regularly informed of any significant events and situations relating to the life of the Group and she may ask him for any information relevant to the understanding of the Board and its Committees ⁽¹⁾. Ms. Couderc, an independent Board director, also retains her role as Chair of the Appointments and Governance Committee.

Powers and missions of the Chief Executive Officer

In his capacity as Chief Executive Officer of Air France-KLM, Mr. Smith is invested with the broadest powers to act in the Company's name in all circumstances within the limits of the corporate purpose and subject to those expressly attributed by law to the Shareholders' Meeting and the Board of Directors.

Furthermore, without prejudice to the legal provisions relating to the authorizations that must be granted by the Board of Directors (regulated agreements, securities, agreements and guarantees, divestment of equity interests and real estate, etc.), the Internal Rules require prior approval from the Board for operations by the Company and its Principal Subsidiaries whose amount is equal to or exceeds €150 million as outlined in points (i), (ii) and (iii) of paragraph (d) on the powers and missions of the Board of Directors hereinafter.

The Chief Executive Officer of Air France-KLM also chairs both the CEO Committee and the Group Executive Committee (see sections 2.6 CEO Committee and 2.7 Group Executive Committee).

Powers and missions of the Board of Directors

The Board of Directors deliberates on any matters falling within the powers devolved to it by law and those stipulated by the Internal Rules or in application of the AFEP-MEDEF Code.

In particular, prior to any decision or deployment by the Company or a principal subsidiary (Air France, KLM, and any other subsidiary, as may be decided by the Board of Directors, hereinafter known as the "Principal Subsidiaries" or individually "Principal Subsidiary"), the Board of Directors:

- a) approves the Group's strategic directions and reviews them as a whole at least once a year;
- b) approves the budget including the capex plan;
- c) without prejudice to the provisions of paragraph (d) below, approves any significant operations that are liable to affect the Group's strategy or modify its financial structure or scope of activity; the Chief Executive Officer is responsible for determining whether or not an operation is significant in nature;
- d) approves the following operations by the Company and its Principal Subsidiaries when their amount is equal to or in excess of €150 million:
 - (i) operating lease contracts, investments, the acquisition or sale of any assets including, specifically, the fleet, interests in companies formed or to be formed, participation in the formation of all companies, groups or organizations, subscriptions to all issues of shares, units or bonds,
 - (ii) borrowings, issues of bonds and aircraft financing,
 - (iii) granting of all exchanges with or without balancing cash adjustments involving the Company's assets, stocks or securities;
- e) as recommended by the Appointments and Governance Committee (as provided in Article 8 of the Internal Rules), approves the appointment of the Chair and Chief Executive Officer or Chief Executive Officer of any of the Principal Subsidiaries; and
- f) as recommended by the Remuneration Committee (as provided in Article 9 of the Internal Rules), approves the compensation of the Chair and Chief Executive Officer or Chief Executive Officer of any of the Principal Subsidiaries.

The Board ensures the proper running of the company and its Principal Subsidiaries, and approves the acquisition or sale of any equity interests whenever their amount is equal to or in excess of €150 million.

(1) Article 1.2 of the Internal Rules of the Board of Directors.

2.2.3 Rules applicable to the appointment and replacement of members of the Board of Directors

Appointment and re-appointment of members of the Board of Directors

The modalities governing the appointment of Board directors are set forth in Article 17 of the Air France-KLM Articles of Incorporation and in the Internal Rules.

The Board of Directors is thus composed of between three and eighteen members, excluding the Board directors representing the employee shareholders and the Board directors representing the employees. The Air France-KLM Board directors are appointed by the Ordinary General Shareholders' Meeting with the exception of the Board director representing the French State (appointed by ministerial order⁽¹⁾) and the two Board directors representing the employees (appointed, depending on the case, by the *Comité de Groupe Français* or the Air France-KLM European Works Council)⁽²⁾.

As proposed by the Appointments and Governance Committee, the Board of Directors submits for approval by the Shareholders' Meeting, the appointment, ratification of the co-opting and re-appointment of the Board directors. The proposals for the appointment, co-opting and re-appointment of Board directors formulated by the Board of Directors comply with the legal and regulatory provisions (including, notably, the rules on parity) and the recommendations formulated by the AFEP-MEDEF Corporate Governance Code (including, notably, the rules on the independence of the Board directors)⁽³⁾.

Pursuant to Article 8.2 of the Internal Rules of the Board of Directors referring to the provisions of the agreements signed on October 16, 2003 (Framework Agreement) within the framework of the business combination between Air France and KLM, the Appointments and Governance Committee submits to the Board of Directors proposals regarding:

- a) the appointment as a Board director of the Chair of the KLM Supervisory Board;
- b) the appointment or re-appointment as Board directors of two high-profile individuals residing in the Netherlands, chosen after consultation and on the recommendation of the KLM Supervisory Board; and
- c) the appointment or re-appointment as a Board director of a high-profile individual residing in the Netherlands, chosen after consultation and on the recommendation of the Dutch State.

Two Board directors are appointed by the Shareholders' Meeting as proposed by the French State, pursuant to Ordinance No. 2014-948 of August 20, 2014.

Furthermore, pursuant to Articles L. 225-23 of the *Code de Commerce*, L. 6411-9 of the *Code des Transports* and Article 17-2 of the Air France-KLM Articles of Incorporation, two Board directors representing the employee shareholders are appointed by the Shareholders' Meeting as proposed by the employee (and former employee) shareholders referred to in Article L. 225-102 of the *Code de Commerce*:

- one representative belonging to the flight deck crew category of staff; and
- one representative belonging to the other employee category of staff.

The employee and former employee shareholders are invited to select their candidates for each of the two colleges (Flight Deck Crew and Other Employees), the appointment taking place based on a majority vote in two rounds of balloting. The candidate having obtained the absolute majority of the votes cast in each college, in either the first or second round, is then proposed to the Shareholders' Meeting⁽⁴⁾.

Lastly, in that the Air France-KLM Board of Directors is composed of more than eight directors, there are two directors representing the employees in the Board of Directors⁽⁵⁾. Pursuant to Article 17-3 of the Air France-KLM Articles of Incorporation, the first Board director representing the employees is appointed by the *Comité de Groupe Français* as stipulated in Article L. 2331-1 of the *Code du Travail*, while the second is appointed by the European Works Council of Air France-KLM. Each Board director representing the employees is appointed for a two-year term of office, expiring at the end of the Annual General Shareholders' Meeting taking place during the year in which their mandate expires⁽⁶⁾.

Pursuant to the corporate governance principles as stipulated by the AFEP-MEDEF Corporate Governance Code, the duration of Board directors' terms of office is four years⁽⁷⁾ and the expiration dates for these terms of office are staggered to facilitate the smooth renewal of the Board of Directors.

Furthermore, every Board director⁽⁸⁾ must own at least ten shares for the duration of their term of office (Article 19 of the Air France-KLM Articles of Incorporation).

(1) Pursuant to Article 4 of Ordinance No. 2014-948 of August 20, 2014 relating to governance and to transactions involving the share capital of State-owned companies and Article 2 of decree No. 2014-949 of August 20, 2014, in application of Ordinance No. 2014-948.

(2) Board directors appointed pursuant to Article L. 225-27-1 of the *Code de Commerce*, in accordance with the modalities foreseen by Article 17-3 of Air France-KLM's Articles of Incorporation.

(3) Article 8.3 of the AFEP-MEDEF Code notably provides that half the members of the Board of Directors must be independent directors (see Section 2.2.4 Independence of the Board directors).

(4) The mandates of the two Board directors representing the employee shareholders will expire at the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2021. The process to select new candidates, whose appointment will be submitted to the Shareholders' Meeting approving the financial statements for the financial year ending December 31, 2021, will be launched in January 2022.

(5) The Board of Directors includes two directors representing the employees pursuant to Article L. 225-27-1 of the *Code de Commerce*, the number of directors representing the employees being increased to two when the number of directors referred to Articles L. 225-17 and L. 225-18 of the *Code de Commerce* is more than eight.

(6) On May 10, 2019, Mr. Karim Belabbas, a Support Technician Weight and Balance, CDG hub Ground Operations, was re-appointed by the *Comité de Groupe Français* while, on April 17, 2019, Mr. Mathi Bouts, a Senior Purser on KLM long-haul flights, was re-appointed by Air France-KLM's European Works Council as a second Board director representing the employees. Their mandates will expire at the end of the Shareholders' Meeting convened to approve the financial statements for the financial year ending December 31, 2020.

(7) With the exception of the Board directors representing the employees whose term of office is two years pursuant to Article 17-3 of the Air France-KLM Articles of Incorporation.

(8) With the exception of the Board directors representing the employees and the Board directors representing the employee shareholders (Article L. 225-25 paragraph 3 of the *Code de Commerce*) and the Board directors appointed by the State or the Shareholders' Meeting as proposed by the State (Article 5 paragraphs 5 and 6 VI of Ordinance No. 2014-948 of August 20, 2014).

Diversity policy applicable to the members of the Board of Directors

As recommended by the Appointments and Governance Committee, in its meeting of February 19, 2020 the Board of Directors reviewed the criteria in the diversity policy applicable to the composition of the Board of Directors. The criteria and targets of this policy set out below take into account the results of the evaluation of the Board together with the skills matrix of the Board directors (see below).

Selection criteria for Board directors

Within the framework of the appointment and re-appointment of Board directors, and to preserve the balanced nature of its composition, the Board prioritizes the following selection criteria:

- openness to the world, international professional experience and the diversity of nationalities. Air France-KLM was born from the business combination of two companies with different nationalities having global operations, leading to numerous international challenges;
- General Management experience acquired within major French or international companies; the Group numbers more than 80,000 employees divided between three major businesses, Passenger, Cargo and Maintenance, across 116 countries;
- knowledge and practical experience of the transport and airline industries, and of tourism, since these are the businesses in which the Group has its main businesses;
- the Board of Directors also ensures that the areas of expertise linked to the Group's strategic priorities are represented amongst its members, particularly in the fields of brand strategy, digital and customer relations, human resources, and Corporate Social Responsibility (CSR);
- the selection of profiles that offer expertise covering the strategic areas for the Group (brands, digital, etc).

Implementation of the diversity policy

The Board has set itself clear targets for the implementation of this diversity policy:

- maintain a balance between the Company's different stakeholders and the balanced representation of men and women;
- prioritize Board directors with independent mindsets;
- promote adherence to the Group's fundamental values;
- ensure the availability of the Board directors.

In connection with this policy, the following changes to the composition of the Board of Directors took place during 2019:

Consolidation of air transport industry expertise:

The Board of Directors welcomed Mr. Wang as the new representative of China Eastern Airlines, an airline company and shareholder of the Group. Mr. Wang succeeded Mr. Tang who stepped down following his promotion within China Eastern. He brings to the Board, in particular, his aviation expertise and international experience. Msrs. Bellabas and Bouts also saw their mandates renewed as Board directors representing the employees. They continue to contribute their in-house perspective and professional skills obtained within the airline industry professions, the former being a support technician in the Ground Operations at the Roissy hub and the latter a Senior Purser on long-haul flights. Lastly, Mr. Smith, the Group's Chief Executive Officer, a recognized air transportation expert, notably as a former Chief Operating Officer of Air Canada, saw his Board director mandate confirmed.

A better balance between nationalities and greater openness to the world:

The arrival in the Board of Mr. 't Hart, a Dutch national appointed as proposed by KLM to replace Mr. Smits (on expiry of his term of office as Chair of the KLM Supervisory Board), enables the Board to consolidate the diversity of its nationalities.

Five Board directors, Ms. Boeren and Msrs Bouts, 't Hart, Wynaendts and de Hoop Scheffer are Dutch nationals within the Board of Directors. Lastly, Mr. Smith, who holds dual Canadian and British nationality, was confirmed in his capacity as a Board director for a four-year term of office.

The Board thus numbers five different nationalities and eight non-French Board directors (one Canadian-British director, five Dutch directors, one US director and one Chinese director), i.e. a proportion of 42%. These Board directors bring to the Board of Directors an in-depth knowledge of their respective markets.

A balance favorable to the exercise of the missions of the Committees

Based on criteria like gender representation, professional qualifications and experience, and nationality, the Board ensures that there is a balance favorable to the exercise of the missions of the individual Committees.

Balanced competencies of the Board of Directors at December 31, 2019

The following table shows, by Board director, the competencies that are key to the effective functioning of the Board in relation to the matters it addresses. These areas of expertise was the subject of a specific review during the evaluation of the Board of Directors, as part of the analysis of the contributions of the individual Board directors to the Board's work.

Competencies of the Board of Directors at December 31, 2019

Board director	Current main function	General Management	Transport	Air Transport	Governance	International	Public Affairs	Finance	HR	CSR
Anne-Marie Couderc	Chair of the Air France-KLM Board of Directors Company director	✓			✓		✓		✓	
Benjamin Smith	Chief Executive Officer of Air France-KLM	✓	✓	✓	✓	✓			✓	
Maryse Aulagnon	Chair and CEO of Mab-Finances SAS	✓			✓		✓	✓		
Leni M.T. Boeren	Member of the Executive Board of Van Lanschot Kempen NV and CEO of Kempen & Co NV (Netherlands)	✓			✓	✓	✓	✓		✓
Isabelle Bouillot	President of China Equity Links	✓			✓	✓	✓	✓		
Delta Air Lines, Inc. (represented by George Mattson)	Airline company	✓		✓		✓		✓		
Cees 't Hart	CEO of Carlsberg Group (Denmark) Chair of the KLM Supervisory Board (Netherlands)	✓			✓	✓			✓	
Jaap de Hoop Scheffer	Professor at the University of Leiden (Netherlands)	✓			✓	✓	✓			
Anne-Marie Idrac	Board director	✓	✓	✓	✓	✓	✓		✓	✓
Isabelle Parize	Corporate counsel and company director	✓			✓	✓	✓	✓		
Jian Wang	Corporate Secretary and Chair of Eastern Airlines Industry Investment Co., Ltd. (Luxembourg)			✓		✓		✓		
Alexander R. Wynaendts	Chair and CEO of Aegon NV (Netherlands)	✓			✓	✓	✓	✓		
Martin Vial	Commissioner of State Shareholdings	✓		✓	✓	✓		✓		
Jean-Dominique Comolli	Honorary Civil Service Administrator	✓			✓	✓	✓	✓		
Astrid Panosyan	Managing Director of the Central Functions of the Unibail-Rodamco-Westfield Group (URW)	✓			✓	✓	✓		✓	
François Robardet	Air France executive			✓				✓	✓	
Paul Farges	Airline pilot instructor			✓						
Karim Belabbas	Support Technician Weight and Balance, CDG hub Ground Operations			✓					✓	
Mathi Bouts	Senior Purser, KLM long-haul flights			✓					✓	
Total number of Board directors		14	2	9	13	13	10	10	8	2

2.2.4 Independence of the Board directors

Having examined the situations of the individual Board directors as at December 31, 2019 in the light of the criteria stipulated by the AFEP-MEDEF Code, and as proposed by the Appointments and Governance Committee, at its meeting of February 19, 2020, the Board of Directors considered that:

- seven Board directors (Ms. Aulagnon, Ms. Boeren, Ms. Bouillot, Ms. Couderc⁽¹⁾, Ms. Idrac, Ms. Parize and Mr. Wynaendts) are independent in that:
 - none of these seven board directors has, directly or indirectly, a relationship with the company, its Group or its management that is such as to color their judgement (aside from the fact that the candidacy of some of these individuals had been proposed to the Shareholders' Meeting by KLM pursuant to the agreements signed in October 2003),
 - no significant business relationships exist between the Group and each of these independent Board directors,
 - in her capacity as Chair of the Board of Directors, Ms. Anne-Marie Couderc receives only fixed compensation and no variable compensation in the form of either cash or shares;
- the other non-independent Board directors are:
 - a representative of the French State appointed by ministerial order: Mr. Vial,
 - board directors whose candidature was proposed to the Shareholders' Meeting by the French State: Mr. Comolli and Ms. Panosyan,
 - a Board director whose candidature was proposed to the Shareholders' Meeting by the Dutch State: Mr. Jaap de Hoop Scheffer⁽²⁾,
 - Delta Air Lines, Inc.⁽³⁾, whose permanent representative is George Mattson, and
 - a Board director whose candidature was proposed to the Shareholders' Meeting by China Eastern Airlines: Mr. Wang⁽⁴⁾,
 - representatives of the employee shareholders: Mr. Farges and Mr. Robardet,
 - representatives of the employees: Mr. Belabbas and Mr. Bouts, and
 - executive directors of the Air France-KLM Group: Mr. Smith, Chief Executive Officer of Air France-KLM and a Board director of Air France and Mr. 't Hart, Chair of the KLM Supervisory Board.

Given the above, and pursuant to the provision of the AFEP-MEDEF Code wherein Board directors representing employee shareholders and Board directors representing the employees are not counted in the calculation of the percentages of independent shareholders within Boards of Directors and Committees (§9.3 and 15.1 of the AFEP-MEDEF Code), the percentages of independent directors as of December 31, 2019 were:

- 47% of the Board of Directors;
- 67% of the Audit Committee (chaired by an Independent director);
- 67% of the Appointments and Governance Committee (chaired by an Independent director);
- 50% of the Remuneration Committee (chaired on an interim basis by an Independent director).

At December 31, 2019, the proportion of independent directors was thus 47%, i.e. below the 50% threshold recommended by the AFEP-MEDEF Code for non-controlled companies. This deviation from the recommendations of the AFEP-MEDEF Code is due to an exceptional situation linked to the acquisition by the Dutch State of a shareholding in February 2019. Discussions are ongoing between the Company, the French State and the Dutch State to re-balance the composition of the Board of Directors. This situation is thus temporary.

(1) Ms. Anne-Marie Couderc, Chair of the Air France-KLM Board of Directors is also non-executive Chair of the Air France Board of Directors.

(2) Pursuant to the agreements of October 16, 2003 concluded between the Dutch State, Air France and KLM.

(3) Pursuant to the provisions of the Memoranda of Understanding signed by these two companies with Air France-KLM on July 27, 2017.

(4) Pursuant to the provisions of the Memoranda of Understanding signed by these two companies with Air France-KLM on July 27, 2017.

Training for Board directors

Newly-appointed Board directors are encouraged to meet with the company's principal executives and are offered site visits to increase their understanding of the Group's business environment and activities. On their appointment, they are also sent a dossier including, notably, the Air France-KLM Articles of Incorporation, the Internal Rules, the Universal Registration Document, the latest press releases issued by the company and a reminder of the stock market Compliance Rules.

On their appointment and during their terms of office, individual Board directors (including the Board directors representing the employees and the employee shareholders) can benefit from the training that they deem necessary for the exercise of their mandates. This training is proposed and organized by the Company.

This training, which is paid for by the Company, is mostly carried out *via* a program designed by a professional body and is aimed at gaining a better understanding of the functioning of the Board of Directors and their roles as Board directors. Accounting and financing modules are also proposed to enable them to improve their financial know-how. A fraction of this training time is carried out within the Company. Pursuant to the applicable regulation, during its meeting of February 19, 2020, the Board of Directors decided to terminate the training program in French and English offered to the Board directors representing the employee shareholders and the employees.

2.2.5 Other rules applicable to Board directors

Situation of conflict of interests

Pursuant to the recommendations of the AFEP-MEDEF Code and in application of Article 11 of the Internal Rules of the Board of Directors, any director is bound to report to the Board any conflict of interest, whether actual or potential, because of the position he or she holds in another company, and must abstain from taking part in the deliberation and voting on the related resolution. Every year, the Company sends the Board directors a questionnaire enabling confirmation that there are no conflicts of interest and the Company to be informed of any potential conflicts.

To the Company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the Board members with regard to the Company and their private interests and other duties.

With the exception of the agreements listed below, there are no arrangements or agreements between the main shareholders, customers, suppliers or other parties, in accordance with which a member of the Board of Directors has been selected:

- (i) the agreements signed on October 16, 2003 between Air France, KLM and the Dutch government pursuant to which the appointments of four Board directors are proposed to the Board of Directors by KLM and the Dutch State (*see Section 2.2.3 Rules applicable to the appointment and replacement of members of the Board of Directors - Appointment and re-appointment of members of the Board of Directors*); and
- (ii) the agreements signed on July 27, 2017 between, firstly, Air France-KLM and Delta Air Lines, Inc. and, secondly, between Air France-KLM and China Eastern Airlines pursuant to which Delta Air Lines, Inc., represented by Mr. Mattson, and Mr. Wang were appointed to the Board of Directors (*see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines*).

Furthermore, pursuant to the provisions of Ordinance No. 2014-948 of August 20, 2014 concerning governance and transactions involving the share capital of public sector companies and the application decree-law No. 2014-949 of August 20, 2014, a Board director representing the French State is appointed by ministerial order and two Board directors are appointed by the Shareholders' Meeting as proposed by the French State (*see Section 2.2.3 Rules applicable to the appointment and replacement of members of the Board of Directors - Appointment and re-appointment of members of the Board of Directors*);

As of December 31, 2019, there were no service level contracts binding any member of the Board of Directors to Air France-KLM or to one of its subsidiaries and foreseeing the granting of benefits under the terms of the contract.

With the exception of Delta Air Lines, Inc., (*see the Subscription Agreement signed on July 27, 2017 and detailed in Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines*), the Board directors have accepted no restrictions concerning the sale of their shareholdings in Air France-KLM, subject to respect of the rules relating to the prevention of insider trading and the statutory obligation to own at least ten shares in the Company during their terms of office⁽¹⁾.

(1) This obligation to hold at least ten shares in the company for the duration of their terms of office is not applicable to directors representing the employee shareholders, directors elected by the employees and directors representing the employees (Article L. 225-25 paragraph 3 of the *Code de Commerce*), nor to directors appointed by the State or the Shareholders' Meeting as proposed by the State (Articles 5 paragraphs 5 and 6 VI of French Ordinance No. 2014-948 of August 20, 2014).

Stock market and ethical compliance

The Compliance Code, adopted by the Board of Directors on March 25, 2004, and as amended on November 17, 2017, notably reminds company officers, senior executives of the Company, anyone with close personal ties with the latter and certain employees with access to inside information that they are required to refrain from trading in the Company's shares for a minimum of (i) thirty calendar days prior to the publication of the full annual and half-year financial statements and (ii) a minimum of fifteen calendar days prior to the publication of the full quarterly financial statements, the day of their publication being included in these periods. They also reiterate the specific obligations (particularly relating to access to inside information) applying to senior executives, Board directors and anyone with

access to inside information relating to Air France-KLM concerning the use of this information and their trading in the shares of Air France-KLM pursuant to the applicable laws and regulations relating to market abuse.

In the past five years, to the Company's knowledge, no Board director has been the subject of a fraud conviction or official public sanction pronounced by the statutory or regulatory authorities, associated with a bankruptcy, sequestration of goods or a placing of a company into administrative receivership nor has, lastly, been prevented by a court from acting as a member of a management or supervisory body of an issuer or from involvement in managing the business of an issuer. This information is confirmed every year *via* a questionnaire sent to the Board directors.

2.3 ACTIVITIES AND FUNCTIONING OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

2.3.1 Activities and functioning of the Board of Directors

Board activity during the 2019 financial year



The minimum number of Board meetings is set at five per year. Prior to Board meetings a dossier is circulated containing the agenda for the meeting together with any summaries or, where appropriate, full documentation on any issues requiring special analysis and/or prior consideration. The matters raised in meetings are usually the subject of presentations, followed by discussion.

Board meetings are conducted in French; however, individual directors may speak in French, English or Chinese with simultaneous interpretation.

During these meetings, the following matters were notably addressed:

- annual, half-year and quarterly financial statements;
- regular status reports on the Group's activity and financial situation;
- budget including the capex plan;
- financing plan;
- financial operations;
- presentation on the financial, legal, operational, social and environmental risks;
- report on compliance;
- regular information on Air France and KLM activity and development;
- information on the alliances;
- discussions concerning potential acquisitions;
- update on flight safety;
- implementation of the partnerships with Delta Air Lines, Inc. and Virgin;
- governance of the Group and, notably: change in the Group's governance following the acquisition by the Dutch State of a shareholding in Air France-KLM, independence of the Board directors, evaluation of the Board of Directors, appointment and training of the new Board directors, compensation of the top executives and the succession plan for the Company officers.

In April 2019, the Board of Directors held its annual meeting devoted to the Group's strategy, which took the form of a two-day seminar.

Board director attendance

The attendance rates for individual directors at meetings of the Board of Directors during 2019 are presented below:

Board director	Board meeting attendance
Anne-Marie Couderc Chair of the Board and of the Appointments and Governance Committee	100%
Maryse Aulagnon Chair of the Audit Committee	92%
Karim Belabbas	92%
Leni M.T. Boeren	100%
Isabelle Bouillot Interim Chair of the Remuneration Committee	92%
Mathi Bouts	100%
Jean-Dominique Comolli	100%
Cees 't Hart ⁽¹⁾	100%
Jaap de Hoop Scheffer	77%
Delta Air Lines, Inc. (represented by George Mattson)	92%
Paul Farges	100%
Anne-Marie Idrac Chair of the Sustainable Development and Compliance Committee	100%
Solenne Lepage ⁽²⁾	80%
Astrid Panosyan ⁽³⁾	80%
Isabelle Parize	92%
François Robardet	100%
Benjamin Smith	100%
Martin Vial ⁽⁴⁾	100%
Jian Wang ⁽⁵⁾	67%
Alexander R. Wynaendts	85%
Hans N.J. Smits ⁽⁶⁾	22%
Bing Tang ⁽⁷⁾	70%
Patrick Vieu ⁽⁸⁾	88%
Average attendance	89%

(1) Board director since May 28, 2019.

(2) Board director representing the French State until April 1, 2019.

(3) Board director appointed by the Shareholders' Meeting as proposed by the French State since May 28, 2019.

(4) Board director representing the French State since May 31, 2019.

(5) Board director since July 30, 2019.

(6) Board director until May 28, 2019.

(7) Board director until July 30, 2019.

(8) Board director appointed by the Shareholders' Meeting as proposed by the French State until May 28, 2019.

Regulated agreements and commitments

Agreements referred to in Article L. 225-37-4 2 of the *Code de Commerce*

Except for agreements covering current operations and entered into under normal terms and conditions, no agreements were entered into in 2019, either directly or through an intermediary, between, on one side, a Board director or shareholder of Air France-KLM holding a fraction of the voting rights greater than 10% (French and Dutch States) and, on the other, a corporate shareholder in which more than half the share capital is held, directly or indirectly, by Air France-KLM.

Agreements and commitments referred to in Articles L. 225-38 and L. 225-42-1 of the *Code de Commerce*

Agreements and commitments authorized and signed during the financial year

Transatlantic partnership between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic

On October 30, 2019, the Board of Directors mandated the Air France-KLM management to finalize the discussions and negotiate amendments to the agreements authorized during the Board meetings of March 14 and May 15, 2018 (see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines), so as to no longer proceed with the planned investment by Air France-KLM in a 31% equity interest in Virgin Atlantic Limited. This decision resulted in the amendment of the following agreements:

1. termination of the *Share Purchase Agreement* ("SPA") between Air France-KLM Finance SAS and Virgin Investments Limited, enabling Air France-KLM, through its 100%-owned subsidiary Air France-KLM Finance SAS, to acquire a 31% equity interest in Virgin Atlantic, and termination of agreements ancillary to the SPA;
2. amendment and updating of the Joint Venture Agreement between Delta Air Lines, Inc., Virgin Atlantic Airways Limited, Air France-KLM, KLM and Société Air France, aimed at the implementation of a commercial joint-venture between Air France-KLM, Delta Air Lines, Inc., Virgin Atlantic Airways Limited, Air France and KLM (signed on January 30, 2020 and effective as per January 1, 2020) to reflect the termination of the SPA;
3. amendment and updating of the Implementation Agreement between Air France-KLM, Air France-KLM Finance SAS, Société Air France, KLM, Delta Air Lines, Inc., Virgin Investments Limited, Virgin Atlantic Limited, Virgin Atlantic Airways Limited and Sir Richard Branson (signed on January 9, 2020 and effective as per January 1, 2020) to reflect, notably, the termination of the SPA;
4. signature of the agreement between Air France-KLM, Delta Air Lines, Inc. and Virgin Group (signed and effective as per January 30, 2020) granting Air France-KLM, subject to specific conditions, a right to acquire shares in Virgin Atlantic Limited in the event of a sale by Virgin Group of shares in Virgin Atlantic Limited to a third party.

Since Delta Air Lines, Inc. is a Board director of Air France-KLM and of Virgin Atlantic, the aforementioned contracts enter into the application scope for the regulated agreements procedure set forth in Article L. 225-38 of the *Code de Commerce*. Any agreement, entered into directly or through an intermediary between, notably, the company and one of its Board directors, whether this latter has a direct or indirect interest, is subject to the prior authorization of the Board of Directors. Agreements between the company and another company are also subject to prior authorization by the Board of Directors if one of the Board directors of the company is an owner, an unlimited liability partner, a manager, a Board director, a member of the Supervisory Board or, in general, a director of this other company. The termination, amendment or renunciation of regulated agreements must follow the same procedure as their signature, which begins with prior approval by the Board of Directors.

For more information on the July 2017 agreements between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic, see Section 2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines in this Universal Registration Document.

Agreements and commitments authorized and signed in previous financial years

Commitments relating to the severance payment to the benefit of Benjamin Smith, Chief Executive Officer of Air France-KLM

On August 16, 2018, pursuant to the provisions of Article L. 225-42-1 of the *Code de Commerce*, the Air France-KLM Board of Directors authorized the granting of a severance payment to the benefit of Benjamin Smith, Chief Executive Officer of Air France-KLM, in some instances of forced termination and, namely, dismissal, non-renewal of his mandate as Chief Executive Officer or forced resignation linked to a change of control.

It is stipulated that the instances of forced termination enabling the implementation of this severance payment exclude any situation of serious misconduct on the part of the Chief Executive Officer.

In accordance with the recommendations of the AFEP-MEDEF Code, the basis of the severance payment is equivalent to two years of his annual fixed and variable compensation (based, as applicable, on the target variable compensation in the event of a termination during the first 24 months).

A coefficient (between 0 and 100% inclusive) will be applied to the basis of the severance payment based on the achievement rate for the performance criteria relating to the annual variable component of his compensation over the two last financial years of his mandate (or since his appointment, in the event of termination during the first 24 months). The Board of Directors will assess the achievement of these performance criteria.

For more information, please see section 2.5.2 Compensation of the executive officers in this Universal Registration Document.

There were no agreements or commitments authorized and signed over the course of previous financial years whose execution continued during the last financial year.

Procedure for the qualification and regular evaluation of the current agreements entered into under normal terms and conditions.

During its meeting of December 11, 2019, as recommended by the Audit Committee, the Board of Directors established a procedure enabling the qualification and regular evaluation of the agreements relating to current operations entered into under normal terms and conditions pursuant to the provisions of Article L. 225-39 paragraph 2 of the *Code de Commerce*. The current and normal nature of an agreement is evaluated on a case by case basis during the signature, renewal or amendment of the said agreement, on the basis of objective criteria defined in the procedure.

Within the framework of this annual evaluation procedure, the Company:

- draws up an inventory of all the agreements referred to in Article L. 225-39 paragraph 1 of the *Code de Commerce*;
- reviews all the elements and documents having enabled the qualification of the agreements; and
- as necessary, reviews the qualification of any agreements with interested parties (regulated agreement or free agreement, depending on the case).

Persons with an interest in one of these agreements, entered into either directly or through an intermediary, do not participate in their evaluation.

Evaluation of the functioning of the Board of Directors and its Committees

At least once a year, the Board of Directors conducts an evaluation of its functioning and organization, pursuant to Article 10 of the AFEP-MEDEF Code and Article 2 of the Board's Internal Rules. This evaluation is steered by the Appointments and Governance Committee. Every three years, this evaluation is entrusted to an independent external consultant⁽¹⁾.

For 2019, the Board of Directors conducted an auto-evaluation in the form of a questionnaire submitted to each Board director. The following topics were addressed through the evaluation questionnaire:

- composition, organization, functioning and dynamic of the Board of Directors and its Committees;
- relationship between the Board of Directors and the Senior Management;
- effectiveness of the Board of Directors and its Committees;
- articulation of the work of the Board of Directors with those of the subsidiaries of Air France-KLM;
- the individual contributions of the Board directors to the Board's work;
- main changes and areas requiring improvement.

More specifically, the individual contributions of the Board directors were analyzed in two areas:

- analysis of the individual areas of expertise and the skills to be developed within the Board;
- analysis of the obstacles to individual contributions to the work of the Board.

The results of the evaluation were handled under the seal of anonymity and gave rise to a presentation and debate during the Board of Directors meeting of February 19, 2020.

By way of a reminder, a series of measures implemented during the 2018 financial year were pursued in 2019 on the following themes:

- reinforced coordination between the three Air France-KLM, Air France and KLM Boards;
- clarification of the respective missions of the Air France-KLM, Air France and KLM Boards and Committees;
- broadening of the themes addressed by the Board to new operational, business and competition matters;
- development of the deliberations on the strategic options.

During the 2019 financial year, the following actions were also implemented:

- earlier and improved preparation and sharing of the information circulated to the Board directors, and in a more succinct format;
- more effective Board meetings *via* an improved balance between the time allocated to presentations and discussions;
- strengthening of the cohesion within the Board of Directors.

As a general rule, the Board directors considered that the functioning of the Board of Directors had improved during 2019 since the previous evaluation. The evaluation revealed the following positive points:

- the separation of powers between the Chair of the Board of Directors and the Chief Executive Officer, adapted to the size and functioning of the Board;
- a marked improvement in the quality of the information on the competitive environment made available to the Board directors;
- secretarial services to the Board, organization, duration and logistics of Board meetings, together with the secured digital tools for the sharing of information;
- satisfactory complementarity of the expertise within the Board.

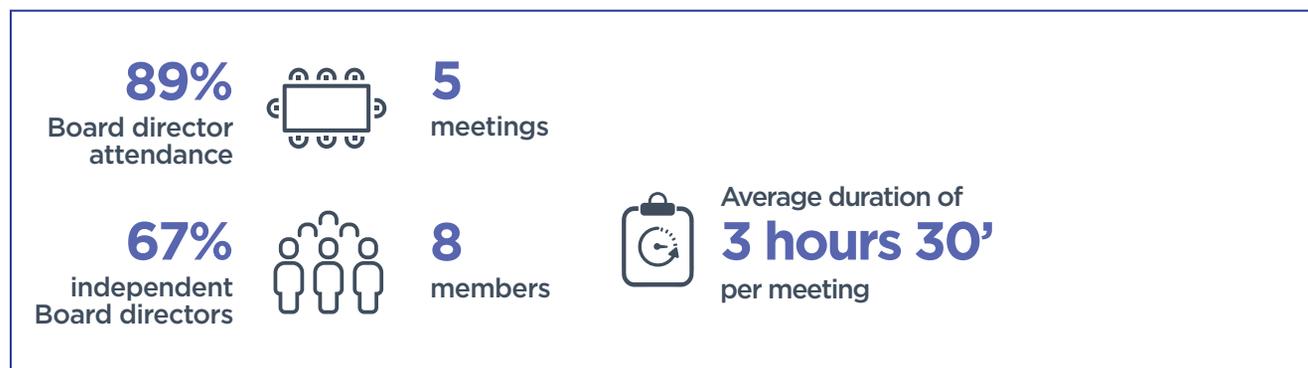
The results of the 2019 evaluation enabled the identification of a number of areas for improvement to be monitored during 2020 and, notably:

- improve the circulation of the work of the Board's advisory Committees amongst all the Board directors;
- increase the participation of the Group's key executives in meetings of the Board of Directors;
- formalize the follow-up process for decisions taken by the Board of Directors.

(1) The last independent evaluation by an independent external consultant was carried out in respect of the financial year ended December 31, 2017.

2.3.2 Activities and functioning of the Committees

Audit Committee



Composition

At December 31, 2019, the Audit Committee was composed of the following eight members: Maryse Aulagnon (Chair of the Committee), Leni M.T. Boeren, François Robardet, Paul Farges, Isabelle Parize, Martin Vial, Isabelle Bouillot and Delta Air Lines, Inc. represented by George Mattson.

Martin Vial became a member of the Committee on October 30, 2019.

The members of the Audit Committee benefit from financial and accounting competencies enabling them to exercise their functions.

At its meeting of November 9, 2011, the Board of Directors adopted the position whereby, pursuant to the provisions of Article L. 823-19 of the *Code de Commerce*, the Company's Audit Committee includes at least one independent member with specific finance and accounting skills in the person of Ms. Aulagnon. It deemed that Ms. Aulagnon's educational background and professional experience fulfill this requirement for specific financial competence, and that she has no relationships with the company, its Group or management that are such as to color her judgment. The seven other Committee members also have financial and/or accounting skills.

The principal executives responsible for accounting, legal affairs, finance, internal control and Internal Audit of Air France-KLM also attend meetings in an advisory capacity.

The Statutory Auditors attended all the meetings of the Audit Committee. At the request of the Chair of the Committee and pursuant to Article 16.3 of the AFEP-MEDEF Code, they were able to consult with Committee members outside the presence of the Group's senior executives on the occasion of the review of the annual financial statements.

Missions

The Audit Committee's principal missions are to review the interim and annual consolidated financial statements to inform the Board of Directors of their content, ensure that they are reliable and exhaustive and that the information they contain,

including the forward-looking information provided to shareholders and the market, meets high standards of quality. The Committee also oversees the auditing of the annual financial statements. In particular, the Audit Committee reviews the:

- consolidation scope;
- relevance and consistency of the accounting methods used to draw up the financial statements;
- principal estimates made by the Senior Management of Air France-KLM;
- principal financial risks with the Senior Management of Air France-KLM and the material off-balance-sheet commitments;
- comments and recommendations made by the Statutory Auditors and, if applicable, any significant adjustments resulting from audits.

As necessary, the Audit Committee formulates recommendations to guarantee the integrity of the process to establish the financial information.

The Audit Committee monitors the effectiveness of the Internal Control and risk management procedures and, as necessary, Internal Audit, in terms of the processes relating to the establishment and treatment of the accounting and financial information, with no compromise to its independence. In this capacity, it reviews in particular the program and results of Internal Audit to ensure, notably, that, in the event of any malfunctioning, the appropriate action plans and follow-up monitoring have been implemented. The Committee discusses with the Statutory Auditors and reviews their conclusions on the half-year and annual financial statements. It also pays particular attention to the audit points identified by the Statutory Auditors and ensures compliance with the legal and regulatory requirements for financial and accounting information.

The Audit Committee is responsible for steering the procedure to select the Statutory Auditors. It submits a recommendation to the Board of Directors when their appointment or re-appointment by the Shareholders' Meeting is envisaged pursuant to Article L. 823-3-1 of the *Code de Commerce*. It proposes the selection procedure to the Board of Directors and, in particular, whether a

call to tender is appropriate. It verifies the independence and quality of the Statutory Auditors' work, examines issues relating to their amount of fees for the execution of statutory audit assignments, reviews and approves the fees submitted by each of the Statutory Auditors on an annual basis and ascertains that the joint system of Statutory Auditors is effective.

The Committee also follows the realization by the Statutory Auditors of their assignment and notes the comments and conclusions of the Audit Office Control Board (*Haut Conseil du Commissariat aux Comptes*) following the verification carried out pursuant to Articles L. 821-9 and following of the *Code de Commerce*.

The Committee approves the supply of services other than the certification of the financial statements pursuant to the applicable regulation. It rules on this point having first analyzed

the risks of any compromise to the independence of the Statutory Auditors and the safeguarding measures applied by the latter.

The Committee is also responsible for reviewing the Group's overall financial, accounting and fiscal policy and its implementation. It issues an opinion on the Group's significant financial operations.

The Audit Committee has access to the resources required to fulfill its mission and may, notably, be assisted by persons from outside the Company. Lastly, the Committee regularly reports to the Board of Directors on the execution of its missions. It also reports back on events subsequent to the certification of the financial statements, on the manner in which this certification process contributed to the integrity of the financial information and on the role it has played in this process.

Activity

Board director	Audit Committee attendance
Maryse Aulagnon Chair of the Audit Committee	100%
Leni M.T. Boeren	80%
Isabelle Bouillot	100%
Delta Air Lines, Inc. (represented by George Mattson)	40%
Paul Farges	100%
Solenne Lepage	100% ⁽¹⁾
Isabelle Parize	80%
François Robardet	100%
Martin Vial	100% ⁽²⁾
Average attendance	89%

(1) For the period from January 1, 2019 to March 31, 2019.

(2) For the period from October 30, 2019 to December 31, 2019.

During the 2019 financial year, the Audit Committee met five times (as in 2018) with an attendance rate for its members of 89% (96% in 2018). The duration of the meetings averaged three and a half hours.

The following matters were notably reviewed by the Audit Committee during the 2019 financial year:

— Review of the financial statements.

The Committee reviewed the quarterly, half-year and annual financial statements, and the budget, prior to their presentation to the Board of Directors. It conducted a detailed examination of the Statutory Auditors' summary reports on the half-year and annual financial statements as well as the significant points noted in audits. The main accounting options adopted were the subject of a special quarterly presentation. In 2019, for example, particular attention was paid to the impact of oil price movements and the issuance of a new convertible bond.

The review of the financial statements by the Audit Committee usually takes place the day before their review by the Board of Directors.

— Review and monitoring of the budget

The Audit Committee reviews the budget prior to its presentation to the Board of Directors and oversees its tracking on a quarterly basis. This year the Audit Committee examined the major points in the 2020 budget prior to its review of the detailed budget.

— Internal control, risk management and Internal Audit

During every meeting of the Audit Committee, Internal Audit gave a presentation on its quarterly activity report.

The Company applies high standards of financial disclosure and corporate governance, and maintains a rigorous level of internal control across the Group.

The Audit Committee reviewed the summary sheet of the main operational and/or strategic risks on a quarterly basis. The Committee also reviewed the financial risks (fuel and emission quotas, currency exchange rates, financing, etc.).

— Statutory Auditors

The Audit Committee approved the budget for the Statutory Auditors' fees prior to the opening of the financial year together with their final amount as of the closing date. The Committee also addressed the matter of the appointment or re-appointment of the Statutory Auditors within the framework of the duration of their mandates and in application of the new requirement to organize a call to tender on the appointment of a new Statutory Auditor (Article 16 of Regulation (EU) No.537/2014 of April 16, 2014).

— Approval of non-audit services

To execute this mission, the Audit Committee relies on an internal procedure deployed within the Group in 2004 and updated in 2016, pursuant to the provisions of Ordinance No. 2016-315 of March 17, 2016 relating to Statutory Auditors, which came into force on June 17, 2016.

As foreseen by its annual work schedule, the Audit Committee also reviewed the following matters in 2019:

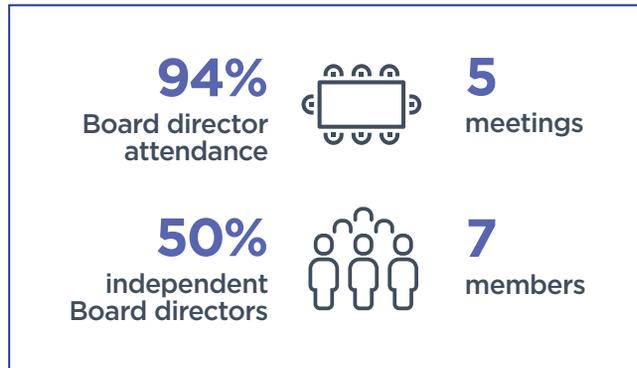
- tracking of the cash and financing situation;

- review of the financing and capex plan;
- review of the principal litigation, fiscal risks and financial risks;
- financial operations;
- discussions concerning potential acquisitions;
- fraud detection and prevention;
- monitoring of activity in the Group's subsidiaries;
- review of the management report;
- monitoring of changes in the KLM pension funds' assets and liabilities.

— Review of the Financial strategy

The Committee is also tasked with reviewing the Group's overall financial, accounting and fiscal strategy, and its implementation. It also advises on the Group's significant financial transactions.

Remuneration Committee



Composition

At December 31, 2019, the Remuneration Committee was composed of the following seven members: Isabelle Bouillot (Interim Chair of the Committee), Jean-Dominique Comolli, Jaap de Hoop Scheffer, Isabelle Parize, François Robardet. Maryse Aulagnon and Delta Air Lines, Inc. represented by George Mattson.

Board director	Remuneration Committee attendance
Isabelle Bouillot Interim Chair of the Remuneration Committee	100%
Maryse Aulagnon	100%
Jean-Dominique Comolli	100%
Delta Air Lines, Inc. (represented by George Mattson)	100%
Jaap de Hoop Scheffer	80%
Isabelle Parize	100%
François Robardet	100%
Hans N.J. Smits	67%
Average attendance	94%

During the 2019 financial year, and in view of the governance changes, the Remuneration Committee formulated a number of recommendations for the Board of Directors concerning:

- during its meetings of February 18, 2019 and December 10, 2019, the modalities for the granting of Board directors' fees;
- during its meetings of February 18, 2019 and March 11, 2019, the 2018 compensation and the compensation policy in respect of 2019 for the Chief Executive Officer of Air France-KLM, the Chief Executive Officer of Air France and the Chief Executive Officer of KLM;

Isabelle Bouillot has acted as interim Chair of the Remuneration Committee since October 30, 2019.

Missions

The Remuneration Committee is primarily responsible for formulating recommendations to the Board of Directors on the level of/changes to the remuneration of the executive officers. It may also be asked to comment on the remuneration of the Group's senior executives who are members of the Executive Committee and on the remuneration granted to individuals recruited for fixed terms, when the level of this remuneration is exceptionally high. The Remuneration Committee reviews and issues an opinion on the policy governing any stock subscription and share purchase option schemes or any other long-term incentive programs.

Activity

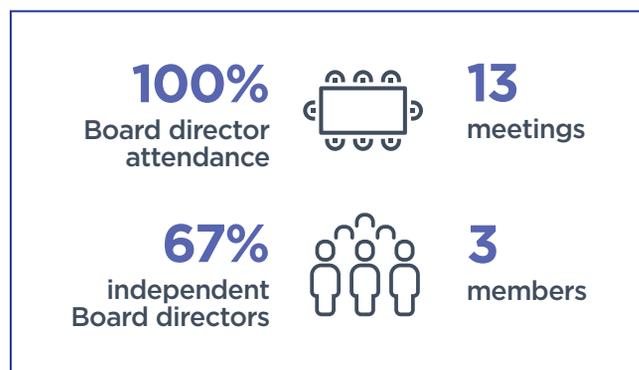
The Remuneration Committee met five times during the 2019 financial year (six meetings in 2018) and the attendance rate for members was 94% (94% in 2018).

- during its meetings of February 18, 2019 and March 11, 2019, the compensation for the Chair of the Air France-KLM Board of Directors.

The Committee was also consulted on the 2019 compensation for the Group's Chief Financial Officer. Furthermore, in his capacity as Chief Executive Officer, the Committee formulated recommendations for Mr. Smith concerning the compensation of the members of the KLM Management Board.

(see Section 2.5 Compensation of the company officers hereinafter, established with the cooperation of the Remuneration Committee).

Appointments and Governance Committee



Composition

At December 31, 2019, the Appointments and Governance Committee was composed of the following three members: Anne-Marie Couderc (Chair of the Committee), Jean-Dominique Comolli and Alexander R. Wynaendts.

Missions

The Appointments and Governance Committee is responsible for proposing candidates for the appointment and replacement of the Chair of the Board of Directors, the other Board directors and the executive officers of Air France-KLM, and for the succession plans for the executive officers, particularly in the event of unforeseen vacancies. Having initiated, when necessary, the

relevant searches, the Committee may submit any proposals it deems fit to the Board of Directors regarding the latter's composition. The Appointments and Governance Committee also formulates recommendations for the Board of Directors on the appointment of the Chief Executive Officers of the Principal Subsidiaries. Furthermore, it is consulted by Air France-KLM's Chief Executive Officer on the appointment of the other executive officers (Executive Vice-Presidents and members of the Management Board) and members of the Boards of Directors and Supervisory Boards of the Principal Subsidiaries. It establishes the succession plan for the executive officers and also formulates proposals to the Board of Directors concerning the diversity and appointment policy for Board directors.

The Appointments and Governance Committee makes recommendations regarding the governance principles for the Air France-KLM Group and reviews the consistency of the governance between the Company and its Principal Subsidiaries.

The Appointments and Governance Committee steers the annual evaluation of the functioning of the Board of Directors.

Lastly, prior to review by the Board of Directors, the Appointments and Governance Committee formulates proposals on the independence of the members of the Board of Directors in the light of the criteria in the AFEP-MEDEF Code.

Activity

During the 2019 financial year, the Appointments and Governance Committee met thirteen times (twelve in 2018) with an attendance rate for members of 100% (94% in 2018).

Board director

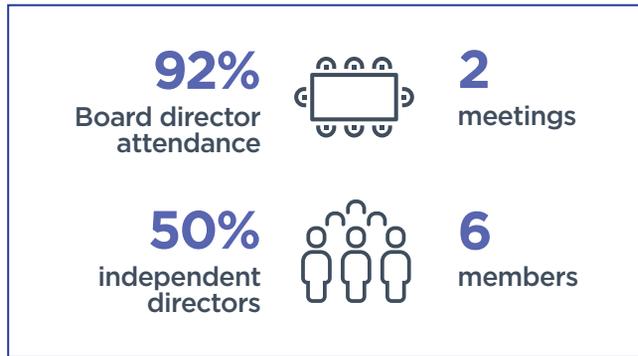
Appointments and Governance Committee attendance

Anne-Marie Couderc Chair of the Appointments and Governance Committee	100%
Jean-Dominique Comolli	100%
Alexander R. Wynaendts	100%
Average attendance	100%

The Appointments and Governance Committee notably addressed the following matters:

- consequences of the acquisition by the Dutch State of a shareholding on February 26, 2019, within the framework of a working group established between the French and Dutch States as announced on March 1, 2019 aimed, notably, at improving the Group's governance;
- proposals relating to changes in the composition of the Board of Directors for submission to the Shareholders' Meeting of May 28, 2019;
- changes in the composition of the Committees, to take into account the change in the composition of the Board of Directors during the 2019 financial year;
- review and regular updating of the succession plan for the Group's principal directors;
- recommendations on the appointment and re-appointment of members of the Air France Board of Directors and the KLM Supervisory Board;
- independence of the members of the Air France-KLM Board of Directors;
- diversity and non-discrimination policy with the Group's management bodies;
- internal rules for the Air France-KLM CEO Committee;
- auto-evaluation of the functioning of the Board of Directors by the Board directors taking place between December 2019 and January 2020 (for more details see Section 2.3.1 Activities and functioning of the Board of Directors).

Sustainable Development and Compliance Committee



Composition

At December 31, 2019, the Sustainable Development and Compliance Committee was composed of the following six members: Anne-Marie Idrac (Chair of the Committee), Karim Belabbas, Leni Boeren, Mathi Bouts, Astrid Panosyan and Jian Wang.

Astrid Panosyan and Jian Wang became members of the Sustainable Development and Compliance Committee on October 30, 2019.

Missions

The Sustainable Development and Compliance Committee assists the Board of Directors in reviewing the Group's policies on compliance and sustainable development. It ensures that the Group promotes long-term value creation and takes the social and environmental issues involved in its activities into account in the establishment of the Group's strategy by submitting recommendations to the Board.

The Sustainable Development and Compliance Committee's mission is thus to:

- review the Group's CSR policy and its implementation;
- examine the extra-financial risks and specifically those relating to environmental, social and societal matters;
- review the Extra-financial performance statement foreseen in Article L. 225-102-1 of the *Code de Commerce* including, in particular, the extra-financial performance criteria;
- review the Group's compliance program and monitor its implementation pursuant to the AFEP-MEDEF Code.

The Sustainable Development and Compliance Committee may also deal with any matters potentially deemed appropriate by the Board of Directors.

Activity

During the 2019 financial year, the Sustainable Development and Compliance Committee met twice (first year of functioning for the Committee), with an attendance rate for members of 92%.

Board director

Sustainable Development and Compliance Committee attendance

Anne-Marie Idrac Chair of the Sustainable Development and Compliance Committee	100%
Karim Belabbas	100%
Leni Boeren	100%
Mathi Bouts	50%
Bing Tang	100%
Patrick Vieu	100%
Average attendance	92%

The Sustainable Development and Compliance Committee notably addressed the following subjects:

- Air France-KLM's Extra-financial performance statement;
- review of the Group's compliance program;

- anti-corruption plan for the Group;
- Group's environmental, social and societal ambitions.

2.4 SUMMARY TABLE OF THE AFEP-MEDEF CODE'S COMPLY OR EXPLAIN RECOMMENDATIONS NOT APPLIED

The following table shows the recommendations of the AFEP-MEDEF Code which have not been applied and the reasons for this:

Provisions of the AFEP-MEDEF Code not applied	Reasons
<p>Meeting of the non-executive directors outside the presence of the executive or "in-house" officers</p> <p><i>"It is recommended that a meeting not attended by the Executive Officers be organised each year".</i></p> <p>(paragraph 11.3 of the AFEP-MEDEF Code)</p>	<p>The current practice is that the main matters concerning executive officers (such as their appointment, performance and compensation) are discussed by the Board of Directors outside the presence of the interested parties, after hearing the opinion of, as required, the Appointments and Governance or Remuneration Committees.</p>
<p>Proportion of independent directors within the Board of Directors</p> <p><i>"The independent directors should account for half the members of the Board in widely held corporations without controlling shareholders."</i></p> <p>(paragraph 9.3 of the AFEP-MEDEF Code)</p>	<p>Following the entry into the share capital of the Dutch State in February 2019, the Board of Directors of Air France-KLM no longer considers Mr. Jaap de Hoop Scheffer, a Board director appointed by the Shareholders' Meeting as proposed by the Dutch State pursuant to the 2003 governance agreements, to be independent. As a result, as of December 31, 2019, the proportion of independent directors stood at 47%, i.e. below the 50% threshold foreseen by the AFEP-MEDEF Code. The discussions initiated in 2019 between the Company and the French and Dutch States are continuing aimed at rebalancing the composition of the Board of Directors. This situation is thus temporary.</p>
<p>Proportion of independent directors within the Remuneration Committee</p> <p><i>"It must not include any executive officer and must mostly consist of independent directors."</i></p> <p>(paragraph 18.1 of the AFEP-MEDEF Code)</p>	<p>Following the entry into the share capital of the Dutch State in February 2019, the Board of Directors of Air France-KLM no longer considers Mr. Jaap de Hoop Scheffer, a Board director appointed by the Shareholders' Meeting as proposed by the Dutch State pursuant to the 2003 governance agreements and a member of the Remuneration Committee, to be independent. As a result, as of December 31, 2019, the proportion of independent directors within the Remuneration Committee stood at 50%. The discussions initiated in 2019 between the Company and the French and Dutch States are continuing aimed at rebalancing the composition of the Board of Directors and its Committees. This situation is thus temporary.</p>

2.5 COMPENSATION OF THE COMPANY OFFICERS

2.5.1 General principles

Pursuant to the new provisions of Article L. 225-37-2 of the French Code of Commerce (*Code de Commerce*), the compensation of Air France-KLM's company officers is set by the Board of Directors, as recommended by the Remuneration Committee, consistent with the provisions of the AFEP-MEDEF Code. The company's Board of Directors thus establishes a compensation policy aligned with the company's interest, linked to its commercial strategy, and which contributes to its long-term sustainability. It outlines all the components of the fixed and variable compensation for the company officers and explains the decision-making process followed for its establishment, revision and implementation. This compensation policy is the subject of a draft resolution submitted for approval by the Shareholders' Meeting, in the conditions foreseen in Article L. 225-98 of the *Code de Commerce*, on an annual basis and on any significant amendment to the compensation policy.

Pursuant to the new provisions of Article L. 225-37-3 and L. 225-100 of the *Code de Commerce*, the Shareholders' Meeting must also vote, on an annual basis, firstly on the information referred to in Article L. 225-37-3 I, including notably the total compensation and benefits of any kind paid in respect of the mandate during the last financial year or granted in respect of the mandate for the same financial year to all the company officers and, secondly, on the total compensation and benefits of any kind paid during the last financial year or granted in respect of the same financial year to each executive officer.

In application of Ordinance No.2019-1234 of November 27, 2019, taken in application of Act No.2019-486 of May 22, 2019 relating to the growth and transformation of businesses (known as the PACTE Act), the Shareholders' Meeting of May 26, 2020 is thus convened to approve the:

- information relating to the compensation for each of the company officers, provided in application of Articles L. 225-37-3 I and L. 225-100 II of the *Code de Commerce*. This information is presented hereinafter in section 2.5.2 of this Universal Registration Document (*Compensation of the company officers in 2019*);
- the fixed and variable elements composing the total compensation and benefits of any kind paid during the 2019 financial year or granted in respect of this financial year to Ms. Anne-Marie Couderc, Chair of the Board of Directors and to Mr. Benjamin Smith, Chief Executive Officer, in application of Article L. 225-100 III of the *Code de Commerce*. This information is presented hereinafter in Section 2.5.2.2 of this Universal Registration Document (*Elements of compensation paid during the 2019 financial year or granted to the executive officers in respect of this financial year and submitted for approval by the Shareholders' Meeting of May 26, 2020*); and the;
- 2020 compensation policy for the company officers, i.e. the Board directors, the Chair of the Board of Directors and the

Chief Executive Officer, as established by the Board of Directors, in application of Article L. 225-37-2 of the *Code de Commerce*. This policy is set forth hereinafter in Section 2.5.3 of this Universal Registration Document (*Compensation policy for the company officers in respect of 2020*).

Note that, pursuant to the new provisions of Article L. 225-37-2 of the *Code de Commerce*, to avoid becoming null and void, no elements of compensation of any kind whatsoever, may be established, granted or paid by the company, nor any commitment made corresponding to elements of compensation, fees or benefits due or potentially due on taking up, stepping down or a change in their duties or following their exercise, unless it complies with the approved compensation policy or, in its absence, with past compensation or practices.

Furthermore, if the Shareholders' Meeting of May 26, 2020 does not approve the draft resolution referred to in Article L. 225-100 II of the *Code de Commerce*, the Board of Directors must submit a revised compensation policy, taking into account the shareholder vote, for approval by the next Shareholders' Meeting. In such a situation, the payment of the sum allocated to the Board Directors for the 2020 financial year would be suspended until approval of the revised compensation policy.

Lastly, the elements of variable or extraordinary compensation attributable to the Chair of the Board of Directors and the Chief Executive Officer in respect of the 2019 financial year may only be paid following approval by the Shareholders' Meeting of May 26, 2020 of the elements of compensation for the relevant individual under the conditions foreseen in Article L. 225-100 III of the *Code de Commerce*.

2.5.2 Compensation of the company officers in 2019

The information referred to in Article L. 225-37-3 I of the *Code de Commerce* and the elements of compensation paid during the 2019 financial year or granted in respect of this financial year to the various company officers of Air France-KLM, to be submitted to the vote by shareholders during the Shareholders' Meeting of May 26, 2020 in application of Article L. 225 100 of the *Code de Commerce*, are detailed hereinafter and concern:

- the Company's Board directors (section 2.5.2.1);
- the Chair of the Company's Board of Directors, Ms. Anne-Marie Couderc (section 2.5.2.2 a.); and
- the Company's Chief Executive Officer, Mr. Benjamin Smith (section 2.5.2.2 b.).

2.5.2.1 Elements of compensation paid during the 2019 financial year or granted to the Board directors in respect of this financial year and submitted for approval by the Shareholders' Meeting of May 26, 2020

The elements of compensation paid during the 2019 financial year or granted in respect of this financial year to the Board directors of Air France-KLM, to be submitted to the shareholder vote at the Shareholders' Meeting of May 26, 2020 pursuant to Article L. 225-100 of the *Code de Commerce*, are detailed hereinafter:

	Attendance rate at Board and Committee meetings and at the Shareholders' Meeting (2019 financial year) ⁽¹⁾	Amounts granted in respect of the 2019 financial year and paid during this financial year or accounting value (in €)	Amounts granted in respect of the 2018 financial year and paid during this financial year or accounting value (in €)
Members of the Board of Directors in function as of the date of this Universal Registration Document			
Anne-Marie Couderc ⁽²⁾	100%	N/A	25,042
Benjamin Smith ⁽³⁾	100%	N/A	N/A
Maryse Aulagnon	98%	55,214	55,797
Karim Belabbas ⁽⁴⁾	96%	43,214	47,500
Leni M.T. Boeren	91%	57,214	60,113
Isabelle Bouillot	95%	49,929	52,500
Mathi Bouts ⁽⁵⁾	75%	50,500	45,684
Jean-Dominique Comolli	100%	50,000	57,500
George Mattson (Permanent representative of Delta Air Lines, Inc.)	78%	55,214	54,500
Paul Farges ⁽⁴⁾⁽⁶⁾	100%	48,000	32,281
Jaap de Hoop Scheffer	79%	21,286	55,910
Anne-Marie Idrac	100%	45,000	43,797
Isabelle Parize	91%	57,214	53,410
Alexander R. Wynaendts	89%	46,643	51,850
François Robardet ⁽⁴⁾	100%	53,000	60,500
Astrid Panosyan ⁽⁷⁾	80%	12,500	N/A
Cees't Hart ⁽⁷⁾	100%	21,286	N/A
Martin Vial ⁽⁸⁾	100%	15,886	N/A
Jian Wang ⁽⁹⁾	67%	14,857	N/A
Former members of the Board of Directors during the 2018 and 2019 financial years no longer acting in the capacity of Board director as of the date of this Universal Registration Document			
Louis Jobard ⁽⁴⁾⁽¹⁰⁾	N/A	N/A	20,042
Solenne Lepage ⁽¹¹⁾	91%	14,100	55,500
Patrick Vieu ⁽¹²⁾	89%	25,643	47,500
Hans Smits ⁽¹²⁾	44%	23,414	47,320
Bing Tang ⁽¹³⁾	86%	39,786	40,759
Total		826,417	907,505

(1) In view of the introduction of a variable portion in the compensation policy for Board directors for their attendance at meetings of the Board of Directors' Committees, the attendance rate presented includes their attendance at meetings of the Board, the Committees and the Shareholders' Meeting.

(2) Ms. Anne-Marie Couderc received compensation in her capacity as a Board director for the period from January 1 to May 15, 2018.

(3) Mr. Benjamin Smith, Chief Executive Officer of Air France-KLM, was appointed as a Board director on December 5, 2018. He does not receive compensation in respect of his Board director duties.

(4) The Board directors representing the employee shareholders and the Board director representing the French employees appointed by the *Comité de Groupe Français* receive compensation in respect of their employment contracts with Air France, with no link to their corporate mandates within Air France-KLM. Furthermore, their compensation is paid to their unions.

(5) Mr. Mathi Bouts receives compensation in respect of his employment contract with KLM, with no link to his corporate mandate within Air France-KLM.

(6) Board director since May 15, 2018.

(7) Board director since May 28, 2018.

(8) Board director since May 31, 2019.

(9) Board director since July 31, 2019.

(10) Board director until May 15, 2018.

(11) Board director until April 1, 2019.

(12) Board director until May 28, 2019.

(13) Board director until July 30, 2019.

In respect of the 2019 financial year and paid during this financial year, the Board directors were granted total compensation of €826,417 (within the framework of the €950,000 budget voted by the Shareholders' Meeting of May 15, 2018).

The compensation for Board directors is composed of a fixed and variable portion, linked to the diligence of the Board directors, whose allocation and granting modalities are set by the Board of Directors, as proposed by the Remuneration Committee. The number of meetings of the Board of Directors and its Committees held during the 2019 financial year and the attendance rates of the individual Board directors at the aforementioned meetings is set forth in Section 2.3 of this Universal Registration Document.

The allocation rules, unchanged since the Board of Directors' resolution of February 19, 2014, are set forth in Section 2.5.3.1 of this Universal Registration Document.

Note that, during its meeting of December 11, 2019, the Board of Directors decided to introduce a variable element of compensation granted to the Board directors in respect of their duties within the Committees:

Audit Committee:

- the Chair now receives a fixed portion of €4,500 and a variable portion of €7,500 based on attendance at Committee meetings; and
- the members now receive a fixed portion of €3,000 and a variable portion of €5,000 based on attendance at Committee meetings.

Other Committees:

- the Chair now receives a fixed portion of €3,000 and a variable portion of €4,500 based on attendance at Committee meetings; and
- the members now receive a fixed portion of €2,000 and a variable portion of €3,000 based on attendance at Committee meetings.

Note also that, in view of the very high number of extraordinary meetings of the Board of Directors taking place during the 2018 financial year within the framework of the transitional governance period and the efforts made by the different Board directors to participate in these meetings, during its meeting of October 29, 2018 the Board of Directors granted an additional extraordinary amount of compensation (within the framework of the budget voted by the Shareholders' Meeting) to each of the Board directors, determined on the basis of a maximum variable amount of €7,500 calculated *pro rata temporis* based on their attendance at the extraordinary meetings of the Board of Directors held during the transition period (i.e. as of May 16, 2018), with the exception of the Chair of the Board of Directors and the Chief Executive Officer.

2.5.2.2 Elements of compensation paid during the 2019 financial year or granted to the executive officers in respect of this financial year and submitted for approval by the Shareholders' Meeting of May 26, 2020

a. Compensation of Ms. Anne-Marie Couderc, Chair of the Board of Directors, for the period from January 1 to December 31, 2019

Presentation of the 2019 compensation structure for Ms. Couderc, Chair of the Board of Directors

Pursuant to the Board of Directors' resolutions of March 12, 2019, the compensation of the Chair of the Board of Directors comprised only a fixed portion of €200,000. There were neither Board directors' fees nor variable compensation in addition to this compensation.

The 2019 compensation policy for the Chair of the Board of Directors was approved by the Shareholders' Meeting of May 28, 2019.

For more details on the compensation policy for the Chair in respect of the 2019 financial year, see Section 2.5.2.6 of the 2018 Registration Document.

Elements of compensation paid during or granted in respect of the 2019 financial year

The elements of compensation paid during the 2019 financial year or granted in respect of this financial year to Ms. Anne-Marie Couderc, Chair of the Board of Directors, for the period from January 1 to December 31, 2019, to be submitted to the shareholder vote during the Shareholders' Meeting of May 26, 2020 pursuant to Article L. 225-100 of *Code de Commerce*, are detailed as follows:

Elements of compensation submitted to the vote	Amounts paid during the 2019 financial year	Amounts granted in respect of the 2019 financial year	Presentation
Fixed compensation	€200,000	€200,000	In her capacity as Chair of the Board of Directors, Ms. Anne-Marie Couderc's annual gross fixed compensation in respect of the 2019 financial year was set at €200,000 by the Board of Directors during its meeting of March 12, 2019. This annual gross fixed compensation is unchanged on its 2018 level.
Annual variable compensation	N/A	N/A	Ms. Anne-Marie Couderc does not benefit from variable compensation.
Multi-year variable compensation	N/A	N/A	Ms. Anne-Marie Couderc does not benefit from multi-year variable compensation.
Extraordinary compensation	N/A	N/A	Ms. Anne-Marie Couderc does not benefit from extraordinary compensation.
Stock options, performance shares or other long-term benefit (equity warrants, etc.)	N/A	N/A	No awards of this type were made during the 2019 financial year. Ms. Anne-Marie Couderc does not benefit from any elements of long-term compensation.
Compensation granted in respect of a Board director's mandate	N/A	N/A	Ms. Anne-Marie Couderc does not receive compensation in respect of her Board director's mandate.
Benefits of any kind	€15,985	€15,985	Ms. Anne-Marie Couderc benefits from a chauffeur-driven company car.
Severance pay	N/A	N/A	Ms. Anne-Marie Couderc does not benefit from severance pay.
Non-compete indemnity	N/A	N/A	Ms. Anne-Marie Couderc does not benefit from a non-compete indemnity.
Supplementary pension scheme	N/A	N/A	Ms. Anne-Marie Couderc does not benefit from a supplementary pension scheme.

b. Compensation of Mr. Benjamin Smith, Chief Executive Officer, for the period from January 1 to December 31, 2019

Presentation of the 2019 compensation structure for Mr. Benjamin Smith, Chief Executive Officer

As proposed by the Remuneration Committee, the compensation policy for the Chief Executive Officer was defined by the Board of Directors during its meeting of August 16, 2018. The 2019 compensation policy for the Chief Executive Officer, set pursuant to the Board of Directors resolutions of February 19, 2019 and March 12, 2019, is composed of the following three elements:

1. fixed compensation;
2. annual variable compensation linked to the performance during the previous financial year; and
3. variable long-term compensation.

The 2019 compensation policy for the Chief Executive Officer was approved by the Shareholders' Meeting of May 28, 2019.

For more details on the compensation policy for the Chief Executive Officer in respect of the 2019 financial year, see Section 2.5.2.6 of the 2018 Registration Document.

Elements of compensation paid during or granted in respect of the 2019 financial year

The elements of compensation paid during the 2019 financial year or granted in respect of this financial year to Mr. Benjamin Smith, Chief Executive Officer, for the period from January 1 to December 31, 2019, to be submitted to the shareholder vote at the Shareholders' Meeting of May 26, 2020 in application of Article L. 225-100 of the *Code de Commerce*, are detailed as follows:

Elements of compensation submitted to the vote	Amounts paid during the 2019 financial year	Amounts granted in respect of the 2019 financial year	Presentation
Fixed compensation	€900,000	€900,000	<p>Mr. Benjamin Smith's annual gross fixed compensation in his capacity as Chief Executive Officer was set at €900,000 by the Board of Directors during its meeting of February 19, 2019.</p> <p>This annual gross fixed compensation is unchanged relative to its 2018 level.</p>
Annual variable compensation	€366,667	€768,456	<p>Note that, as proposed by the Remuneration Committee, in his capacity as Chief Executive Officer for 2018, the amount of Mr. Benjamin Smith's annual gross variable compensation was set at €366,667 by the Board of Directors during its meeting of August 16, 2018. In that he took up his duties during the last part of the 2018 financial year, this amount was not subject to performance criteria. Following approval by the Shareholders' Meeting of May 28, 2019, (fifteenth resolution), this annual gross variable compensation was paid during the 2019 financial year in respect of the 2018 financial year⁽¹⁾.</p> <p>As proposed by the Remuneration Committee, the amount of Mr. Benjamin Smith's annual gross variable compensation in his capacity as Chief Executive Officer was set at €768,456 by the Board of Directors during its meeting of February 19, 2020. This amount corresponds to 85.4% of his annual gross fixed compensation and is composed as follows:</p> <ul style="list-style-type: none"> — quantitative criteria linked to the Group's financial objectives: 41.6% (i.e. 30.4% of his annual gross fixed compensation): <ul style="list-style-type: none"> - 19% (compared with a target at 61% and a maximum at 79%) of the fixed compensation in respect of the quantitative performance linked to Air France-KLM's Current Operating Income (COI), i.e. an achievement rate of 31.2%. This percentage takes into account the level of COI achieved by the Group and the performance relative to the competitors, - 11.4% (compared with a target at 12% and a maximum at 16%) of the fixed compensation in respect of the quantitative performance linked to the adjusted net debt, i.e. an achievement rate of 96.4%. This percentage takes into account the level of Adjusted Net Debt achieved by the Group;

Elements of compensation submitted to the vote	Amounts paid during the 2019 financial year	Amounts granted in respect of the 2019 financial year	Presentation
			<p>— qualitative criteria composed of individual targets: 112.2% (i.e. 55% of his annual gross fixed compensation):</p> <ul style="list-style-type: none"> – 15% (compared with a target at 12% and a maximum at 15%) of the fixed compensation in respect of the qualitative performance linked to social stability and dialogue, i.e. an achievement rate of 125%, This target is evaluated relative to the improvement in the Group's Employee Promoter Score^{(3) (5)}, In its evaluation, the Remuneration Committee noted an increase in this indicator at the end of 2019 and took into account the new employee dialogue established throughout the financial year, based on transparency and trust, – 15% (compared with a target at 12% and a maximum at 15%) of the fixed compensation in respect of the qualitative performance linked to customer engagement, i.e. an achievement rate of 125%, This target is evaluated relative to the improvement in the Group's Net Promoter Score^{(4) (5)}, In its evaluation, the Remuneration Committee noted a significant improvement of more than 33% in this indicator in 2019 resulting, notably, from the deployment of the strategic plan to redefine the commercial offer and the complementary repositioning of the Group's brands, – 13% (compared with a target and a maximum at 13%) of the fixed compensation in respect of the qualitative performance linked to the definition of the strategic orientations to strengthen the Group's competitiveness and their initial execution, i.e. an achievement rate of 100%, This target takes into account the definition of the strategic orientations to strengthen the Group's competitiveness and their initial execution, In its evaluation, the Remuneration Committee took into account the medium and long-term strategic plan defined and unveiled during the Investor Day in November 2019 together with its degree of acceptance by the market, – 12% (compared with a target and a maximum at 12%) of the fixed compensation in respect of the qualitative performance linked to the implementation of the managerial governance, i.e. an achievement rate of 100%, This target takes into account the implementation of the managerial governance and notably the promotion of positive working relationships between the executive teams of Air France - KLM, Air France, KLM and other subsidiaries, In its evaluation, the Remuneration Committee noted the implementation of a new governance as of February 2019, composed of a CEO Committee resulting from reinforced strategic and managerial cooperation within the Group and its subsidiaries. <p>In application of Article L. 225-100 III of the <i>Code de Commerce</i>, the payment of the amount of €768,456 is subject to prior approval by the Shareholders' Meeting of May 26, 2020.</p> <p>In the event of a positive vote by the shareholders during the Shareholders' Meeting of May 26, 2020, authorizing the payment of Mr. Benjamin Smith's variable compensation, the company will not have the option to request its return.</p>



Elements of compensation submitted to the vote	Amounts paid during the 2019 financial year	Amounts granted in respect of the 2019 financial year	Presentation
Long-term variable compensation	N/A	220,506 performance units valued at €2,000,000, calculated with reference to the Air France-KLM opening share price on August 17, 2018	<p>As proposed by the Remuneration Committee, during its meeting of March 14, 2018, the Board of Directors decided to set up two long-term compensation plans: a Long-term Incentive Plan and a Specific Long-term Incentive Plan.</p> <p>As proposed by the Remuneration Committee, during its meeting of March 12, 2019, the Board of Directors decided to grant Mr. Benjamin Smith, in his capacity as Chief Executive Officer, performance units within the framework of two long-term plans:</p> <ul style="list-style-type: none"> – <i>Long-term Incentive Plan (Phantom Shares)</i>: grant of 110,253 performance units, payable in 2022 subject to a three-year presence and performance conditions. Their payment in 2022 (subject to the presence and performance conditions) will be calculated relative to the share price after the results announcement for the 2021 financial year; – <i>Specific Long-term Incentive Plan</i>: grant of 110,253 performance units, payable in Air France-KLM shares (one performance unit conferring the right to one share) in 2022 subject to a three-year presence and performance conditions; <p>Note that Mr. Benjamin Smith does not use and has given an undertaking that he will not use risk hedging transactions within the framework of this plan until the payment of the performance units.</p> <p>The main terms and conditions of these two long-term incentive plans are detailed in Section 2.5.2.6 of the 2018 Registration Document.</p>
Multi-year variable compensation	N/A	N/A	Mr. Benjamin Smith does not benefit from multi-year variable compensation.
Extraordinary variable compensation	N/A	N/A	Mr. Benjamin Smith does not benefit from extraordinary compensation.
Stock options, performance shares or other long-term benefit (equity warrants, etc.)	N/A	N/A	No awards of this type were made during the 2019 financial year.
Compensation granted in respect of a Board director's mandate	N/A	N/A	Mr. Benjamin Smith does not receive compensation in respect of his Board director's mandate.
Benefits of any kind	€313,201	€313,201	Mr. Benjamin Smith benefits from a chauffeur-driven company car, a supplementary health and disability scheme benefiting all the Group's personnel. Given his relocation to France, he also benefits from an accommodation allowance, free airline tickets, school fees and advisory fees.

Elements of compensation submitted to the vote	Amounts paid during the 2019 financial year	Amounts granted in respect of the 2019 financial year	Presentation
Severance pay	N/A	N/A	<p>Pursuant to the 2019 compensation policy approved by the Shareholders' Meeting of May 28, 2019 (seventeenth resolution) and the regulated party agreement referred to in Article L. 225-42-1 of the <i>Code de Commerce</i> (in force at the time) and approved by the aforementioned Shareholders' Meeting (fifth resolution), Mr. Benjamin Smith continues to benefit from the severance payment granted to him by the Board of Directors in its meeting of August 16, 2018 in the event of forced termination linked to a change of control (excluding any situation of serious misconduct on the part of the Chief Executive Officer).</p> <p>Pursuant to the recommendations of the AFEP-MEDEF Code, the basis of this severance payment is equivalent to two years of his annual fixed and variable compensation (based on the specific calculation modalities referring, as necessary, to the target variable in the event of termination in the first 24 months).</p> <p>A coefficient (between 0% and 100%) will be applied to this amount on the basis of the performance of the interested party, measured with reference to the achievement rate of the performance criteria for the annual variable component of his compensation over the preceding two financial years of his mandate (or since his appointment, in the event of termination during the first 24 months). The Air France-KLM Board of Directors is responsible for evaluating the achievement of these performance criteria.</p>
Non-compete indemnity	N/A	N/A	Mr. Benjamin Smith does not benefit from a non-compete indemnity.
Supplementary pension scheme	N/A	N/A	Mr. Benjamin Smith does not benefit from a collective supplementary pension scheme.

(1) For the period from September 17 to December 31, 2018.

(2) For confidentiality reasons, the amount set in the 2019 budget is not disclosed.

(3) EPS = Internal indicator of employee satisfaction

(4) NPS = Customer satisfaction indicator.

(5) The EPS and NPS are internal indicators set each year by company taking into account the histories and performance plans of these companies.

2.5.2.3 Ratios on the multiples of compensation for the executive officers in 2019

This section has been realized pursuant to the provisions of Article L. 225-37-3 I, paragraph 6 of the *Code de Commerce* and sets forth, for the company's last five financial years, the ratios between the level of compensation for the executive officers and, firstly, the average remuneration on a Full Time Equivalent basis for employees of the company other than the company officers and, secondly, the median compensation on a Full Time Equivalent basis for employees of the company other than the company officers.

The following multiples have been calculated based on the annualized fixed and variable compensation paid during the relevant years.

Since the company Air France-KLM does not include a representative number of employees during the period in question, a broader scope has been used ("relevant scope") consisting of Air France employees on permanent contracts (except expatriate and seconded staff) in France, present and paid throughout the year on a full time basis.

	2015 Financial Year	2016 Financial Year	2017 Financial Year	2018 Financial Year
Chair and Chief Executive Officer				
Ratio with average compensation for the employees in the relevant scope	10.97	17.74	13.99	16.97
Ratio with median compensation for the employees in the relevant scope	14.55	22.55	18.00	22.00

Detail on the elements used to calculate the ratios presented above:

– **2016 Financial Year:**

The compensation of the Chair and Chief Executive Officer in respect of the 2016 financial year is composed of:

- Mr. Alexandre de Juniac's compensation in his capacity as Chair and Chief Executive Officer for the period from January 1 to July 4, 2016 (see 2016 Registration Document, page 40), and

- Mr. Jean-Marc Janaillac's compensation in his capacity as Chair and Chief Executive Officer for the period from July 4 to December 31, 2016 (see 2016 Registration Document, page 41);

– **2018 Financial Year:**

The compensation of the Chair and Chief Executive Officer has been annualized based on Mr. Jean-Marc Janaillac's compensation in his capacity as Chair and Chief Executive Officer for the period from January 1 to May 15, 2018.

	2018 Financial Year	2019 Financial Year
Chair of the Board of Directors		
Ratio with average compensation for the employees in the relevant scope	3.09	3.43
Ratio with median compensation for the employees in the relevant scope	4.00	4.43
Chief Executive Officer		
Ratio with average compensation for the employees in the relevant scope	13.89	39.19
Ratio with median compensation for the employees in the relevant scope	18.00	50.66

Detail on the elements used to calculate the ratios presented above:

– **2018 Financial Year:**

- the compensation of the Chair of the Board of Directors has been annualized based on Ms. Anne Marie Couderc's compensation in her capacity as Chair for the period from May 15 to December 31, 2018,
- the compensation of the Chief Executive Officer has been annualized based on Mr. Benjamin Smith's compensation in his capacity as Chief Executive Officer from September 17 to December 31, 2018 (the compensation of Mr. Gagey, interim

Chief Executive Officer from May 15 to September 17, 2018 has not been included in this calculation since it was established on the basis of his compensation as Chief Financial Officer and not on that of the compensation for the Chief Executive Officer);

– **2019 Financial Year:**

The annual variable compensation of the Chief Executive Officer paid in 2019 in respect of 2018 has been annualized based on Mr. Benjamin Smith's compensation in his capacity as Chief Executive Officer for the period from September 17 to December 31, 2018.

2.5.2.4 Change in the compensation policy

This section has been established in application of the provisions of Article L. 225-37-3 I, paragraph 7 of the *Code de Commerce* and shows the annual change in compensation, the performance of the company Air France-KLM, the average remuneration on a Full Time Equivalent basis for employees of the company Air France-KLM other than the Directors and the ratios referred to in section 2.5.2.3 of this Universal Registration Document, for the last five financial years:

	2015 Financial Year	2016 Financial Year	2017 Financial Year	2018 Financial Year	2019 Financial Year
Annual compensation					
Chair and Chief Executive Officer⁽¹⁾					
Compensation	€645,000	€1,065,334	€852,167	€1,100,000	N/A
Change / Y-1		+ 65.17%	- 20%	+29.08%	
Ratio with average compensation	10.97	17.74	13.99	16.97	N/A
Change / Y-1		+ 6.77	- 3.84	+ 2.98	
Ratio with median compensation	14.55	22.55	18.00	22.00	N/A
Change / Y-1		+ 8.00	- 4.55	+ 4.00	

	2015 Financial Year	2016 Financial Year	2017 Financial Year	2018 Financial Year	2019 Financial Year
Chair of the Board of Directors⁽¹⁾					
Compensation	N/A	N/A	N/A	€200,000	€215,985
<i>Change / Y-1</i>					+7.99%
Ratio with average compensation	N/A	N/A	N/A	3.09	3.43
<i>Change / Y-1</i>					+ 0.34
Ratio with median compensation	N/A	N/A	N/A	4.00	4.43
<i>Change / Y-1</i>					+ 0.43
Chief Executive Officer⁽¹⁾					
Compensation	N/A	N/A	N/A	€900,000 ⁽²⁾	€2,470,345
<i>Évolution / Y-1</i>					+ 174.47%
Ratio with average compensation	N/A	N/A	N/A	13.89	39.19
<i>Change / Y-1</i>					+ 25.3
Ratio with median compensation	N/A	N/A	N/A	18.00	50.66
<i>Change / Y-1</i>					+ 32.66
Board directors⁽³⁾					
Compensation (formerly directors' fees)	€625,960	€670,615	€720,695	€907,505 ⁽⁴⁾	€826,417
<i>Change / Y-1</i>		7.13%	7.47%	25.92%	-8.93%
Employees of Air France – KLM relevant scope⁽⁵⁾					
Average compensation	€58,792	€60,040	€60,914	€64,814	€63,033
<i>Change / Y-1</i>		2.1%	1.5%	6.4%	-2.7%
Performance of the Company on the basis of reported figures					
Earnings (<i>in €m</i>)	€127	€792	-€247	€419	€290
<i>Change / Y-1</i>		+€665	-€1,066	+€694	-€129
Current Operating Income (COI) (<i>in €m</i>)	€816	€1,049	€1,488	€1,332	€1,141
<i>Change / Y-1</i>		+€233	+€439	-€83	-€264
Net debt/EBITDA ratio	3.3x	2.9x	2.1x	1.4x	1.5x
<i>Change / Y-1</i>		-0.4	-0.8	-0.7	+0.1

(1) The compensation packages of the Chair and Chief Executive Officer, of the Chair of the Board of Directors and of the Chief Executive Officer set forth above have been calculated on the basis of the fixed and variable compensation paid during the relevant financial years. These elements have been annualized to enable their comparison.

(2) The compensation of the Chief Executive Officer for the 2018 financial year includes only the annualized fixed compensation for the Chief Executive Officer. The variable portion of the compensation for the Chief Executive Officer granted in respect of the 2018 financial year was paid following the Shareholders' Meeting of May 28, 2019.

(3) Note that, during its meeting of December 11, 2019, the Board of Directors decided to introduce a variable portion for the compensation granted to the Board directors in respect of their duties in the Committees:

Audit Committee:

- the Chair now receives a fixed portion of €4,500 and a variable portion of €7,500 based on attendance at Committee meetings; and
- the members now receive a fixed portion of €3,000 and a variable portion of €5,000 based on attendance at Committee meetings.

Other Committees:

- the Chair now receives a fixed portion of €3,000 and a variable portion of €4,500 based on attendance at Committee meetings; and
- the members now receive a fixed portion of €2,000 and a variable portion of €3,000 based on attendance at Committee meetings.

(4) In view of the very high number of extraordinary meetings of the Board of Directors taking place during the 2018 financial year within the framework of the transitional governance period and the efforts made by the different Board directors to attend these meetings, during its Meeting of October 29, 2018 the Board of Directors granted an additional extraordinary amount of compensation (within the limits of the budget voted by the Shareholders' Meeting) to each member of the Board of Directors. These elements are set forth in Section 2.5.2.1 of this Universal Registration Document.

(5) Since the company Air France – KLM does not have a representative number of employees during the period under observation, a broader scope has been used ("relevant scope") composed of Air France employees on permanent contracts (excluding expatriates and staff on secondment), present and paid in France throughout the year on a full time basis.

2.5.2.5 Additional information concerning the compensation paid or granted to all the company officers in 2019

During the 2019 financial year, the amount of compensation paid to the Board directors did not exceed the maximum budget of €950,000, approved by the shareholders during the Shareholders' Meeting of May 15, 2018.

During the 2019 financial year, the elements of compensation paid or granted to the Chair and Chief Executive Officer for the period from January 1 to May 15, 2018 complied with the compensation policy for the Chair and Chief Executive Officer approved by the shareholders during the Shareholders' Meeting of May 15, 2018.

Furthermore, Note that following the resignation of the Chair and Chief Executive Officer on May 15, 2018, the Board of Directors decided that same day to implement a transitional governance. Within this framework, the Board of Directors decided to:

- separate the functions of Chair of the Board of Directors and Chief Executive Officer of Air France-KLM;
- appoint Ms. Anne-Marie Couderc as Chair of the Board of Directors; and
- appoint Mr. Frédéric Gagey as interim Chief Executive Officer.

At its meeting of August 16, 2018, the Board of Directors appointed Mr. Benjamin Smith as Chief Executive Officer, who took up his duties on September 17, 2018, replacing Mr. Frédéric Gagey.

The payment and granting of the elements of compensation in respect of the 2018 financial year to Ms. Anne-Marie Couderc, Mr. Frédéric Gagey and Mr. Benjamin Smith for their respective duties were approved by the Shareholders' Meeting of May 28, 2019.

Nonetheless, pursuant to Article L. 225-37-3 I, paragraph 8 of the *Code de Commerce*, Note that, during the 2019 financial year, following the implementation of the new governance, the total compensation granted or paid to the executive officers did not respect the compensation policy for the Chair and Chief Executive Officer approved by the shareholders during the Shareholders' Meeting of May 15, 2018.

In effect, in view of the adoption of the Group's new governance during the year and in light of Mr. Benjamin Smith's profile and international experience, the Board of Directors considered that it was necessary to change the compensation framework for the new Chief Executive Officer which had initially been foreseen for the Chair and Chief Executive Officer. As a result, during the 2019 financial year, in addition to the elements of compensation paid to the Chair and Chief Executive Officer pursuant to the compensation policy voted by the Shareholders' Meeting of May 15, 2018, for the period from January 1 to May 15, 2018, variable compensation of €366,667 was paid to Mr. Benjamin Smith in his capacity as Chief Executive Officer from September 17 to December 31, 2018. Given that he took up his duties towards the end of the 2018 financial year, this variable compensation was not subject to performance criteria.

Pursuant to Article L. 225-37-3 I, paragraph 10 of the *Code de Commerce*, Note that, during the 2019 financial year, no disparity or other exemption relative to the procedure for implementing the compensation policy was applied. It is however stipulated that, during its meeting of December 11, 2019, the Board of Directors decided to introduce a variation portion into the compensation granted to Board directors for their duties exercised within the Committees.

2.5.2.6 Elements of compensation for the executive officers pursuant to AMF recommendation No. 2009-16, as amended on April 15, 2015

Summary table of the compensation, options and shares granted to each executive officer

(in €)	2019 Financial Year	2018 Financial Year
Ms. Anne-Marie Couderc, Chair of the Board of Directors		
Compensation due in respect of the financial year	200,000	150,042 ⁽¹⁾
Multi-year variable compensation granted during the financial year	N/A	N/A
Stock options granted during the financial year	N/A	N/A
Performance shares granted during the financial year	N/A	N/A
Total	200,000	150,042

(1) Compensation in her capacity as a Board director for the period from January 1 to May 15, 2018 amounting to €25,042 and paid in 2018 + fixed compensation for the period from May 15 to December 31, 2018 in her capacity as Chair of the Board of Directors amounting to €125,000 and paid in 2018.

(in €)	2019 Financial Year	2018 Financial Year
Mr. Benjamin Smith, Chief Executive Officer		
Compensation due in respect of the financial year	1,668,456	629,167 ⁽¹⁾
Multi-year variable compensation granted during the financial year	2,000,000 ⁽²⁾	333,000 ⁽³⁾
Stock options granted during the financial year	N/A	N/A
Performance shares granted during the financial year	N/A	N/A
Total	3,668,456	962,167

(1) Fixed and variable compensation for the period from September 17 to December 31, 2018.

(2) 220,506 performance units valued at €2,000,000 and calculated relative to the Air France-KLM opening share price on August 17, 2018, payable in 2022 subject to performance and three-year presence conditions.

(3) 36,714 performance units valued at €333,000 and calculated relative to the Air France-KLM opening share price on August 17, 2018, payable in 2021 subject to a three-year presence condition.

Summary table of the compensation, options and shares granted to each executive officer

Ms. Anne-Marie Couderc, Chair of the Board of Directors	2019 Financial Year		2018 Financial Year	
	Amounts granted	Amounts paid	Amounts granted	Amounts paid
Fixed compensation	200,000	200,000	125,000 ⁽¹⁾	125,000 ⁽¹⁾
Variable compensation	N/A	N/A	N/A	N/A
Multi-year variable compensation	N/A	N/A	N/A	N/A
Extraordinary compensation	N/A	N/A	N/A	N/A
Compensation granted in respect of a Board director's mandate	N/A	N/A	25,042 ⁽²⁾	25,042 ⁽²⁾
Benefits in kind	15,985 ⁽³⁾	15,985 ⁽³⁾	N/A	N/A
Total	215,985	215,985	150,042	150,042

(1) For the period from May 15 to December 31, 2018.

(2) Ms. Anne-Marie Couderc received compensation in her capacity as a Board director for the period from January 1 to May 15, 2018, paid in 2018.

(3) Ms. Anne-Marie Couderc benefits from a chauffeur - driven company car.

Mr. Benjamin Smith, Chief Executive Officer	2019 Financial Year		2018 Financial Year	
	Amounts granted	Amounts paid	Amounts granted	Amounts paid
Fixed compensation	900,000	900,000	262,500 ⁽¹⁾	262,500 ⁽²⁾
Variable compensation	768,456	366,667 ⁽¹⁾	366,667 ⁽¹⁾	N/A
Long-term variable compensation	2,000,000 ⁽³⁾	N/A	333,000 ⁽¹⁾⁽⁴⁾	N/A
Multi-year variable compensation	N/A	N/A	N/A	N/A
Extraordinary compensation	N/A	N/A	N/A	N/A
Compensation granted in respect of a Board director's mandate	N/A	N/A	N/A	N/A
Benefits in kind	313,201 ⁽⁵⁾	313,201 ⁽⁵⁾	N/A	N/A
Total	3,981,657	1,579,868	962,167	262,500

(1) For the period from September 17 to December 31, 2018.

(2) Payment of the fixed compensation in respect of the 2018 financial year for the period from September 17, 2018 to December 31, 2018.

(3) 220,506 performance units valued at €2,000,000 and calculated relative to the Air France - KLM opening share price on August 17, 2018, payable in 2022 subject to performance and three-year presence conditions.

(4) 36,714 performance units valued at €333,000 and calculated relative to the Air France - KLM opening share price on August 17, 2018, payable in 2021 subject to a three-year presence condition.

(5) Mr. Benjamin Smith benefits from a chauffeur-driven company car, a supplementary health and disability scheme benefiting all the Group's personnel. Given his relocation to France, he also benefits from an accommodation allowance, free airline tickets, school fees and advisory fees.

Summary table of the situation of the executive officers

	Employment contract		Supplementary pension scheme (see above)		Indemnities or benefits due or potentially due on a cessation of function or change of function		Indemnity relating to a non-compete clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Executive directors								
Ms. Anne-Marie Couderc, Chair of the Board of Directors								
Initiation of mandate: May 15, 2018		X		X		X		X
Mr. Benjamin Smith, Chief Executive Officer								
Initiation of mandate: September 17, 2018		X		X		X		X

Loans and guarantees granted to the company officers

None.

Stock subscription or purchase options granted to the company officers of Air France - KLM

Air France-KLM did not put in place any stock subscription or purchase option schemes to the benefit of its company officers during the financial year, nor during the preceding financial years.

Stock subscription or purchase option schemes granted to the company officers of Air France-KLM and to the employees of the Air France - KLM Group by the subsidiaries

Air France and KLM have not recently put in place any stock subscription or purchase option schemes to the benefit of their employees. The last option plan implemented by KLM in 2007 became null and void in 2012.

Information on stock subscription or purchase option schemes granted to the employees of the Air France - KLM Group and exercised by them during the financial year

None.

Performance shares granted to the company officers of Air France - KLM

Air France-KLM and its subsidiaries did not establish a performance share scheme to the benefit of the Air France-KLM company officers during the financial year, nor during the preceding financial years.

2.5.3 Compensation policy for the company officers in respect of 2020

This section has been realized pursuant to Articles L. 225-37-2 and R. 225-29-1 of the *Code de Commerce* and shows the elements composing the compensation policy for the company officers in respect of 2020.

As recommended by the Remuneration Committee, the Board of Directors took into account the vote of the Shareholders' Meeting of May 28, 2019 on the compensation for the executive officers in respect of the 2018 financial year to determine the compensation policy for the company officers in respect of 2020.

Established by the Board of Directors, as recommended by the Remuneration Committee and consistent with the provisions of the AFEP-MEDEF Code, the compensation policy for the company officers of Air France-KLM in respect of 2020 is:

- aligned with the company's interests in that it enables qualified company officers to be attracted and retained while being adapted to the responsibilities of the beneficiary and consistent with the practices in comparable companies;
- linked to its commercial strategy in that it is composed, firstly, of a long-term variable portion giving the executive directors an interest in the company's results and adapted as a function of the strategic priorities; and
- contributes to the company's long-term sustainability in that it is always aligned with the interests of shareholders.

This policy is subject to an annual review by the Remuneration Committee. The work of the Remuneration Committee takes into account the examination of benchmarking studies carried out with the help of external consultants to compare this policy with the practices in comparable companies. The Committee also ensures that the compensation policy is aligned with the company's strategy. On the basis of this work, the Committee formulates recommendations for the Board which then sets the compensation policy on an annual basis. The Remuneration Committee also formulates recommendations for the Board regarding its implementation.

As recommended by the Remuneration Committee, during the establishment of the compensation policy for company officers, the Board of Directors takes into account the remuneration and employment conditions of Air France-KLM's employees. As for all the employees of Air France-KLM, the Board of Directors ensures the implementation of a fair, simple, transparent and consistent compensation policy. The Board of Directors takes particular care that, at their individual level, all the employees and company officers have the material resources required for the fulfilment of their respective duties.

Were a new Chair of the Board of Directors or a new Chief Executive Officer to be appointed, the elements of compensation foreseen in the compensation policy for company officers would also apply to them. As recommended by the Remuneration Committee, the Board of Directors will then determine, while adapting them to the situation of the interested parties, the

targets, levels of performance, parameters, structure and maximum percentages relative to their annual fixed compensation which may not be higher than those approved by the Shareholders' Meeting.

The 2020 compensation policy for the company officers outlines all the components of the fixed and variable compensation for Board directors (Section 2.5.1.2 hereinafter); the Chair of the Board of Directors (section 2.5.3.1 a. hereinafter); and the Chief Executive Officer (Section 2.5.3.1 b. hereinafter), and explains the decision-making process for its establishment, review and implementation.

This 2020 compensation policy for the company officers will be the subject of a draft resolution submitted to the Shareholders' Meeting of May 26, 2020 under the conditions foreseen by Article L. 225-98 of the *Code de Commerce* and on any material amendment to the compensation policy.

2.5.3.1 Compensation for the Board directors in respect of 2020

Subject to approval of the 2020 compensation policy for company officers by the Shareholders' Meeting of May 26, 2020, the Air France-KLM Board of Directors will receive, in respect of their Board directors' mandates, compensation (formerly directors' fees) amounting to a maximum which was set at €950,000 for the entire Board of Directors.

The compensation for Board directors will be composed of a fixed portion and a variable portion linked to the attendance of the Board directors, whose modalities for distribution and granting are set by the Board of Directors, as proposed by the Remuneration Committee.

These allocation rules have been unchanged since the Board of Directors' resolution of February 19, 2014, and are as follows:

- €15,000 for the fixed portion;
- €25,000 for the variable portion, mainly based on attendance at meetings of the Board of Directors and at Shareholders' Meetings; and
- a sum of additional compensation is also granted to non-resident Board directors (€7,000).

At its meeting of December 11, 2019, the Board also resolved to introduce a variable element of compensation allocated to the Board directors for their duties within the Committees:

- for the Audit Committee:
 - the Chair will receive €4,500 as a fixed portion and €7,500 as a variable portion based on attendance at Committee meetings, and
 - the members will receive €3,000 as a fixed portion and €5,000 as a variable portion based on attendance at Committee meetings; and
- for the other Committees:
 - the Chair will receive €3,000 as a fixed portion and €4,500 as a variable portion based on attendance at Committee meetings, and
 - the members will receive €2,000 as a fixed portion and €3,000 as a variable portion based on attendance at Committee meetings.

Note that, relative to the allocation policy voted in 2014, the introduction of the variable portion for duties exercised within the Committees (i) does not change the total budget granted for the duties exercised within the Committees as either member or Chair, and (ii) has been set based on the same proportions as the variable portion defined for meetings of the Board of Directors.

For Board directors leaving or joining the Board during the financial year: their amount of compensation is calculated *pro rata temporis* based on the number of Board of Directors, Committee and Shareholders' Meetings held during the period the Board director was in function.

In respect of the aforementioned allocation, all the Board directors, with the exception of the Chair of the Board of Directors and the Chief Executive Officer, will receive an amount of compensation in line with the allocation modalities set by the Board of Directors.

Note also that, in the event of a high number of extraordinary meetings of the Board of Directors, the Board of Directors may decide on an additional extraordinary distribution, within the limits of the budget allocated by the Shareholders' Meeting. The additional amount will be calculated *pro rata temporis* based on the attendance rates of individual Board directors at these extraordinary meetings.

The Board directors (non-executive directors) may not benefit from:

- a long-term incentive plan or specific long-term incentive plan;
- benefits in kind which are not linked to their duties;
- an employment contract;
- a non-compete indemnity;
- an award of stock-options or bonus shares.

– Modalities for the granting and payment of the compensation (formerly directors' fees) to representatives of the State and Board directors appointed as proposed by the French State

The allocation rules for compensation paid to the Board directors outlined above are applicable to the State representatives and Board directors appointed as proposed by the French State.

Pursuant to Ordinance No. 2014-948 of August 20, 2014 and Article 1 of the ministerial order of December 18, 2014, as amended by the ministerial order of January 5, 2018, the following rules apply:

- for Board directors appointed directly by the French State, 100% of the compensation is paid to the State (Art. 5 of the Ordinance);
- for Board directors appointed by the Shareholders' Meeting as proposed by the French State (Art. 6 of the Ordinance), there are two different cases:
 - for public officials of the French State, 100% of the compensation is paid to the State,
 - for those not acting in the capacity of public officials, the payment of the compensation must be shared as follows:
 - 15% paid to the State, and

- 85% paid directly to the relevant Board director (with the application of the social and fiscal charges).

– Commitment of the members of the Board of Directors of Air France-KLM

On April 3, 2020, the members of the Air France-KLM Board of Directors decided to reduce their compensation paid in respect of 2020 by 25%, *pro rata temporis* for periods of partial activity applied to all employees.

2.5.3.2 Compensation of the executive officers in respect of 2020

As recommended by the Remuneration Committee, the compensation packages of the Chair of the Board of Directors and of the Chief Executive Officer are set by the Board of Directors, pursuant to the provisions of the AFEP-MEDEF Code.

Pursuant to the Internal Rules, as recommended by the Remuneration Committee, the Board of Directors also approves the compensation of the Chief Executive Officers of the principal subsidiaries (Air France and KLM). Furthermore, the Remuneration Committee makes a recommendation to the Chief Executive Officer regarding the compensation of the Group's Chief Financial Officer and reviews the compensation of the members of the KLM Managing Board.

On an annual basis, the Remuneration Committee formulates and reviews these compensation policies, in relation to the performance targets. The annual variable portion of the compensation for the three Chief Executive Officers (Air France-KLM, Air France and KLM) is thus subject to the achievement of performance criteria:

- quantitative financial criteria;
- qualitative criteria relating to the improved performance of the company and the implementation of its strategy;
- performance relative to the principal competitors.

These compensation policies establish the principles and criteria for determining, allocating and granting the fixed, variable and extraordinary components of the total compensation and benefits of any kind awarded, firstly, to the Chair of the Board of Directors and, secondly, to the Chief Executive Officer, as well as their relative magnitude. All of these elements are detailed in this section in points a. relating to the mandate of the Chair of the Board of Directors and b. relating to the mandate of the Chief Executive Officer, pursuant to the provisions of Articles L. 225-37-2 and R. 225-29-1 of the *Code de Commerce*. Following consultation with the Remuneration Committee, the Board of Directors will be able to derogate, on a temporary basis, from these compensation policies in the event of exceptional circumstances and insofar as the changes are aligned with the company's interests and required to guarantee the Group's sustainability or viability. The elements of compensation which may be derogated and the events giving rise to the use of this derogation are outlined in this section under points a. relating to the mandate of the Chair of the Board of Directors and b. relating to the mandate of the Chief Executive Officer, pursuant to the provisions of Articles L. 225 - 37 - 2 and R. 225 - 29 - 1 of the *Code de Commerce*.

Note that, given the adoption of the new Group governance over the course of 2018, and in view of the profile and international experience of Mr. Benjamin Smith, Chief Executive Officer of Air France-KLM from September 17, 2018, the Air France-KLM Board of Directors considered it necessary to modify the framework for the compensation of the Group's Chief Executive Officer which had been approved by the Shareholders' Meeting of May 15, 2018 and which had de facto become inapplicable.

Within this context, the Board of Directors reviewed the compensation practices for similar functions at competitor airline companies internationally and took into account the compensation paid to Mr. Benjamin Smith in respect of his duties at Air Canada, as well as his residency of Canada which required him to relocate to France.

Note that, to determine the elements of compensation for the Chief Executive Officer, the Air France-KLM Board of Directors referred to a sample of compensation in place in comparable international airline groups.

The structure of the compensation set by the Board of Directors in August 2018 remained unchanged for the 2019 financial year. It is also within this framework that the compensation policy was set for 2020.

a. Compensation of the Chair of the Board of Directors

During its meeting of February 19, 2020, as proposed by the Remuneration Committee, the Board of Directors set the structure of the compensation attributable to the Chair of the Air France-KLM Board of Directors in respect of the 2020 financial year.

Following consultation with the Remuneration Committee, the Board of Directors will be able to derogate, on a temporary basis, from the compensation policy for the Chair of the Board of Directors in the event of exceptional circumstances and insofar as the changes are aligned with the company's interests and required to guarantee the Group's sustainability or viability. The elements of compensation to which the derogation may apply are the annual fixed and variable compensation and the derogations may consist of an increase or decrease to the relevant compensation. The events potentially giving rise to the use of this derogation from the compensation policy shall include, but not be limited to, a major change in strategy or a public health crisis.

— Annual compensation (fixed and variable)

Description of the annual fixed and variable elements

As recommended by the Remuneration Committee, during its meeting of February 19, 2020 the Board of Directors decided to increase the annual gross fixed compensation of the Chair, in respect of her duties, to €220,000.

The Chair of the Board of Directors will not benefit from variable or multi-year compensation.

Commitment of the Chair of the Air France-KLM Board of Directors

- (i) During the meeting of the Board of Directors of March 19, 2020, the Chair informed the Board of her decision to waive the application, in respect of the 2020 financial year, of her new annual fixed compensation set by the Board of Directors on February 19, 2020. Her annual fixed compensation will thus be €200,000 in respect of her duties for 2020;
- (ii) The Chair informed the Board of Directors of her decision to subject her fixed compensation paid in 2020 to the same salary terms and conditions as those that will be applied to all Air France and Air France-KLM SA employees (in particular to reduce the payment *pro rata temporis* for periods of partial employment applied to all employees).

— Annual extraordinary compensation

The Chair of the Board of Directors will not benefit from annual extraordinary compensation.

— Long-term incentive plan or specific long-term incentive plan

The Chair of the Board of Directors will not benefit from a long-term incentive plan or a specific long-term incentive plan.

— Compensation in the capacity of Board director

The Chair of the Board of Directors will not receive compensation in respect of her Board director duties.

— Severance pay

The Chair of the Board of Directors will not benefit from severance pay.

— Benefits in kind

The Chair of the Board of Directors will dispose of material resources that cannot, in practice, be separated from the performance of her duties.

— Other

The Chair of the Board of Directors will not benefit from an employment contract, nor from a top-up pension plan, non-compete indemnity, stock options or bonus shares.

b. 2020 compensation policy for the Chief Executive Officer

— Introductory remarks

As recommended by the Remuneration Committee, during its meeting of February 19, 2020, the Board of Directors decided to maintain the 2019 compensation structure for the 2020 financial year.

It had been expected to define the performance criteria linked to the annual variable compensation, consistent with the priorities and targets defined in the Group's strategic plan unveiled in November 2019. These performance criteria were relative to the Group's financial objectives and to a series of qualitative objectives, defined as follows:

- 60% linked to the Group's financial objectives, evaluating the performance based on the three financial indicators forming the pillars of Air France-KLM's strategic plan:
 - (i) annual COI performance of the Air France-KLM Group,
 - (ii) reduction in the Air France-KLM Group's Net Debt,
 - (iii) reduction in the Air France-KLM Group's Unit Costs;
- 40% linked to qualitative objectives, evaluating as in previous years the performance based on four criteria that remained to be finalized.

Following consultation with the Remuneration Committee, the Board of Directors will be able to derogate, on a temporary basis, from the compensation policy for the Chief Executive Officer in the event of exceptional circumstances and insofar as the changes are aligned with the company's interests and required to guarantee the Group's sustainability or viability. The elements of compensation to which the derogation may apply are the annual variable compensation and the derogations may consist of a redefinition

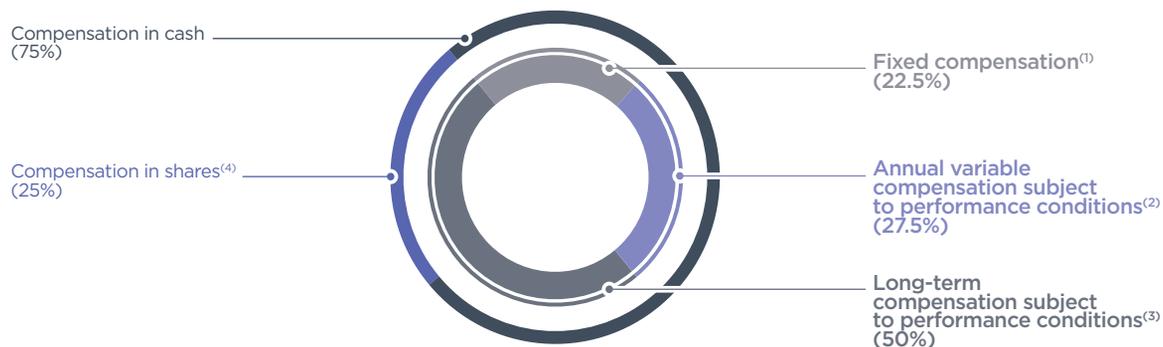
of the performance criteria. The events potentially giving rise to the use of this derogation from the compensation policy shall include, but not be limited to, a major change in strategy or a public health crisis.

During its meeting of March 19, 2020, in view of the escalation of the public health crisis linked to COVID-19, the Board of Directors finally decided to revise the performance criteria for the 2020 annual variable portion to align them with the Group's short-term priorities and to take into account the management of the crisis, the cash issues faced by the Group and the challenges linked to the exit from crisis, and the definition and execution of a recovery plan.

In view of the magnitude of this crisis it is currently difficult to anticipate a recovery date. It can be stipulated here that the return to the prior compensation policy or a new compensation policy will be discussed next year within the framework of the approval of the compensation policy for 2021.

As a result of the decisions taken by the Board of Directors at its meetings of February 19, March 19 and April 3, 2020, the compensation structure, comprising the elements of fixed, variable and long-term compensation and benefits of any kind for the Chief Executive Officer of Air France-KLM in respect of the 2020 financial year, is set forth below.

Structure of the compensation for the Chief Executive Officer of Air France - KLM in respect of the 2020 financial year



(1) Amounting to €900,000.

(2) 122% of the fixed compensation on achievement of the targets, potentially rising to 150% should the targets be exceeded.

(3) Two long-term compensation plans conferring the right to the granting of performance units, each in the amount of €1 million.

(4) The specific long-term incentive plan will be paid in Air France - KLM shares.

– Annual compensation (fixed and variable)

Description of the annual fixed and variable elements

The Chief Executive Officer will benefit from annual gross fixed compensation of €900,000 and annual gross variable compensation potentially reaching between 0% and 122% of the annual gross fixed compensation on partial achievement of the targets (calculated on a linear basis), potentially rising to 122% of the

annual gross fixed compensation on achievement of the targets, and potentially reaching a maximum of 150% should the targets be exceeded (calculated on a linear basis). Note that the structure of the annual compensation is unchanged relative to 2019.

In view of the exceptional nature of the COVID-19 public health crisis which is seriously impacting Air France-KLM, in agreement with the Air France-KLM management, the Board of Directors decided to undertake an in-depth review of the performance criteria for the annual variable compensation and of the evaluation conditions to be retained for the 2020 financial year.

Having consulted with the Remuneration Committee, during its meetings of March 19 and April 3, 2020 the Board of Directors decided that the achievement of the annual variable compensation criteria will be evaluated in accordance with the evaluation of the Group's financial performance in the light of the management and sustainability of the cash (cash for 70% of the evaluation), and the individual performance demonstrated in terms of managing the crisis, the exit from crisis and the definition of a strategic recovery plan (cash for 30% of the evaluation).

Breakdown of the variable portion

	Weight of the performance criteria	Elements of evaluation
Financial performance Air France-KLM Group cash ⁽¹⁾	70%	The evaluation will consider the effective financial situation at the end of the financial year and the efficacy of the action plans deployed to preserve the Air France-KLM Group's cash (adjustment of operations, cost reduction, control over and cancellation of capex, obtaining of support and financing, recovery plan)
Individual performance Leadership demonstrated in terms of managing the crisis, the exit from crisis, and the definition of a recovery plan	30%	The evaluation will consider the actions and results at these three key moments, in the light notably of the following fundamental priorities: <ol style="list-style-type: none"> 1. Social climate and employee engagement (maintained employee trust and engagement as demonstrated by an Employee Promoter Score⁽²⁾⁽⁴⁾ remaining in line with its pre-crisis level; (level of communication; stability of the social dialogue; management of employment) 2. Customer satisfaction (level of communication and commercial and operational offers proposed to support customers; maintained customer trust demonstrated by the level of the Net Promoter Score⁽³⁾⁽⁴⁾ maintained in line with its pre-crisis level; trend in the number of passengers during the recovery of the activities in terms of performance versus the European competitors) 3. Group cohesion (reinforced cohesion and coordination between Air France-KLM, Air France and KLM within the framework of strategic decision-making, the preservation of the interests of the Group and the airlines, and internal and external communication).

(1) For confidentiality reasons, the amount set in the 2020 budget is not disclosed.

(2) EPS = Internal indicator of employee satisfaction.

(3) NPS = Indicator of customer satisfaction.

(4) The targets for the EPS and NPS indicators are set internally each year by company, taking into account the histories and performance plans of these companies.

Upon recommendation of the Remuneration Committee, the Board of Directors will be able to use its judgement when determining the variable compensation, if any, of the Chief Executive Officer. This provision will enable the Board to determine the amount composing the variable compensation for the CEO in line with i) the performance realized by the Group and the Group's financial situation at the end of the financial year, (ii) the compensation policy applied to the Group's employees, (iii) the preservation of the Group's interests and those of its shareholders, (iv) any decisions taken by the governments.

Commitment of the Chief Executive Officer of Air France-KLM

The Chief Executive Officer informed the Board of Directors of his decision to subject his annual fixed and variable remuneration, paid during the year 2020, to the same salary terms and conditions as those which will be applied to all Air France and Air France-KLM SA employees (in particular to reduce the payment *pro rata temporis* for periods of partial activity applied to all employees).

— Long-term incentive plan

The compensation policy for the Chief Executive Officer is primarily composed of elements of long-term variable compensation so as to align this compensation with the Group's performance on the basis of a long-term perspective, thereby contributing to the Company's strategy and sustainability.

These elements of long-term compensation correspond to two long-term incentive plans whose performance is evaluated over a three-year period subject to the realization of demanding performance conditions and covering the interests of the Group, its employees and its shareholders. Note that the vesting and payment of these elements of compensation will only take place at the end of this period.

Long-term compensation scheme for Air France - KLM



In this year of exceptional crisis linked to COVID-19, Air France-KLM's long-term sustainability and performance together with the long-term interests of employees and shareholders remain the common goal.

Given that these elements of compensation are long-term commitments and it being stipulated that payment is made only at the end of the three-year vesting period, and to be able to evaluate over the long term the efficacy of the exit from crisis and the recovery plan, as recommended by the Remuneration Committee, during its meetings of February 19 and April 3, 2020 the Board of Directors decided to maintain, for the 2020 financial year, the long-term compensation policy as defined for the 2019 financial year.

Demanding performance conditions evaluated over a three-year period were set by the Board of Directors during its meeting of April 3, 2020:

KPI	Performance	Vesting of % of the grant
1. Relative share performance for Air France-KLM versus the shares of companies in the sector (30%) ⁽¹⁾	>120	120%
	Between 80 and 100	Between 80% and 120%
	<80	0%
2. Air France-KLM realized ROCE versus the budget (40%) ⁽²⁾	>120	120%
	Between 80 and 100	Between 80% and 100%
	<80	0%
3. Dow Jones Sustainability Index (30%) ⁽³⁾	Position 1	120%
	Position 2	100%
	Position 3	80%
	Position 4 and lower	0%

(1) Defined as the performance of the Air France-KLM share in any financial year relative to the performance of the sector: Lufthansa (40%), IAG (35%), Ryanair (12.5%), easyJet (12.5%).

(2) Calculation is based on absolute ROCE.

(3) The results of the Dow Jones Sustainability Index (DJSI) are published in September of each year.

The number of performance units granted in 2020 will be calculated relative to the Air France-KLM opening share price on April 1, 2020. The payment of the performance units from 2023 (subject to performance and presence conditions) will be calculated relative to the share price following the announcement of the results for the last financial year.

b) Specific long-term incentive plan

The Group intends to launch targeted strategic actions aimed at improving the medium and long-term operational performance, into line with the best international airlines, while taking into account the environmental and societal issues linked to its growth. Accordingly, the specific long-term incentive plan

The performance criteria and targets to be achieved thus remain unchanged, in continuation of the goals and the mission stated prior to the COVID-19 crisis, and the elements of long-term compensation remain composed as follows:

a) Long-term incentive plan

On an annual basis, the Chief Executive Officer is granted performance units equivalent to an amount of €1 million, payable at the end of a three-year period following the grant, subject to the achievement of performance conditions, evaluated over the whole of this period. The vesting of the performance units will be subject to a three-year presence condition, except in the event of death or disability (without performance conditions), or in some cases of forced termination (the performance conditions remaining applicable).

applicable to the Chief Executive Officer and a number of the Group's other managers and employees has been established pursuant to the resolutions of the Board of Directors of August 16, 2018 and March 12, 2019.

This plan provides for the Chief Executive Officer to be granted, annually in 2019, 2020 and 2021, performance units equivalent to an amount of €1 million, payable in shares at the end of a three-year vesting period following the grant, subject to the achievement of specific performance conditions, evaluated over the whole of this period. Note that one performance unit will confer the right to one Air France-KLM share.

The performance conditions that were set by the Board of Directors during its meetings of March 19 and April 3, 2020 are as follows:

	Performance	Vesting of a % of the grant
1. AF-KLM relative COI (80%) reduction in the performance gap with IAG and Lufthansa Group over three years (2020, 2021, 2022)	Performance of Air France-KLM > that of Lufthansa and IAG	Max (100%)
	Reduction in the gap with Lufthansa and IAG	100% to 50% (proportionate)
	Reduction in the gap with Lufthansa and IAG	50% to 0% (proportionate)
	Increase in the gap with Lufthansa and IAG	0%
2. CSR performance targets (20%)		See the evaluation rules below

The CSR performance criteria within the framework of the specific long-term incentive plan are as follows:

	indicators	Targets
Environment	1 Reduce CO ₂ emissions (g CO ₂ /passenger/km, including the market-based measures)	Long-term target of -20% reduction over the 2011-2020 period: to be evaluated yearly and reported in the CSR report/verify yearly if on track to reach this target
Environment	2 Improve the relationship and dialogue with the hub environment (notably on noise)	Keep the noise footprint at the same level despite an increase in the number of movements: Group noise footprint reported annually
Social	3 Improve the Employee Promoter Score (EPS)	Improvement in the EPS: monitored for Air France-KLM, Air France and KLM.
Social	4 Increase diversity	Increase the percentage of female managers
Societal	5 Increase sustainable management of the supply chain	Track the risk management indicators for suppliers in compliance with the due diligence law (Human Rights and Fundamental Liberties, Health, Environment)
Societal	6 Sustainable initiatives at destinations	Develop environmental and societal initiatives and sponsorship

These criteria are evaluated in the following manner:

Criterion	Performance	Vesting as a % of grant
KPIs with the same weight	Significantly above target	Max (100%)
	Target achieved	50%
	Significantly below target	0%

The payment of the performance units will also be subject to a three-year presence condition, except in the event of death or disability (without performance conditions) or in certain cases of forced termination (the performance conditions remaining applicable).

The number of performance units granted in 2020 will be calculated relative to the Air France-KLM opening share price on April 1, 2020. Payment of these performance units (subject to performance and presence conditions) will be made in Air France-KLM shares (one performance unit conferring the right to one share).

Note that Mr. Smith does not use and has given an undertaking that he will not use risk hedging transactions within the framework of this plan until the payment of the performance units.

Severance payment and benefits in kind

The Chief Executive Officer will continue to benefit from the severance payment granted by the Board of Directors in its meeting of August 16, 2018, as approved by the Shareholders' Meeting of May 28, 2019.

During its meeting of August 16, 2018, the Board of Directors authorized the granting to the Chief Executive Officer of a severance payment in some instances of forced termination (notably dismissal, non-renewal of his mandate as Chief Executive Officer or linked to a change of control). Note that the instance of forced termination enabling the implementation of this severance pay excludes any situation of serious misconduct on the part of the Chief Executive Officer.

In accordance with the recommendations of the AFEP-MEDEF Code, the basis of the severance payment is equivalent to two years of his annual fixed and variable compensation (based, as applicable, on the target variable compensation in the event of a termination during the first 24 months).

A coefficient (between 0 and 100% inclusive) will be applied to the basis of the severance payment based on the performance of the interested party with reference to the level of the achievement of the performance criteria relating to the annual variable component of his compensation over the two last financial years of his mandate (or since his appointment, in the event of termination during the first 24 months). The Board will be responsible for evaluating the achievement of these performance criteria.

The Chief Executive Officer will also benefit from the usual benefits in kind (company car with chauffeur, supplementary pension scheme benefiting all Group employees, supplementary health insurance and disability coverage, provision of free airline tickets, Group CEO civil liability insurance - D&O) and benefits consistent with policies applied within the Group for senior manager expatriation and mobility.

Other

The Chief Executive Officer will not benefit from an employment contract, nor from a top-up pension scheme, non-compete indemnity, stock options or bonus shares.



2.6 CEO COMMITTEE

The CEO Committee is led 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 and Chief Executive Officer of KLM;
and
- Mr. Frédéric Gagey, Chief Financial Officer of Air France-KLM.

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

It is responsible for determining the strategic direction of all the Group's airlines and business units.

2.7 GROUP EXECUTIVE COMMITTEE

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

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

Members at December 31, 2019	Relevant professional experience		
	Age at December 31, 2019	Sector	Experience
Benjamin Smith Chief Executive Officer, Air France-KLM	48 years	Air Transport	29 years
Pieter Elbers President and Chief Executive Officer, KLM	49 years	Air Transport	27 years
Anne Rigail Chief Executive Officer, Air France	50 years	Air Transport	28 years
Frédéric Gagey Chief Financial Officer, Air France-KLM	63 years	Public service Air Transport	7 years 26 years
Patrick Alexandre Executive Vice-President Commercial – Sales & Alliances, Air France-KLM	64 years	Air Transport	38 years
Pieter Bootsma Executive Vice-President Commercial – Strategy, Air France-KLM	50 years	Air Transport	24 years
Anne Brachet Executive Vice-President, Engineering & Maintenance, Air France-KLM	56 years	Air Transport	24 years
Angus Clarke Executive Vice-President, Strategy, Air France-KLM	45 years	Air Transport	18 years
Janet Dekker Executive Vice-President Human Resources, Air France-KLM	60 years	Human Resources	30 years
Marcel de Nooijer⁽¹⁾ Executive Vice-President Cargo, Air France-KLM	51 years	Air Transport	24 years
Jean-Christophe Lalanne Executive Vice-President Information Technology, Air France-KLM	58 years	Industry, IT Services Air Transport	22 years 15 years
Anne-Sophie Le Lay Corporate Secretary of Air France-KLM and Air France	48 years	Attorney Law/Governance, Automotive Industry Air Transport	6 years 18 years 2 years

(1) On January 1, 2020, Adriaan Den Heijer replaced Marcel de Nooijer as Executive Vice-President Cargo, Air France-KLM.

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

Information on the way in which the company seeks a balanced representation of men and women within the Air France-KLM Executive Committee

This information is provided in *Section 4.2.4 Fostering diversity and combating discrimination in this Universal Registration Document*.

Information on the results for diversity within the top 10% of the positions with the highest level of responsibility.

This information is provided in *Section 4.2 Human resources in this Universal Registration Document*.

2.8 SHARE CAPITAL AND SHAREHOLDER STRUCTURE

2.8.1 Share capital

At December 31, 2019, the Air France-KLM share capital comprised 428,634,035 fully paid-up shares with a nominal value of one euro, held in registered or bearer form according to shareholder preference. Until April 2, 2016, each share had one voting right attached. In application of the Florange Act ⁽¹⁾ as from April 3, 2016, in the absence of a provision to the contrary in the Air France-KLM Articles of Incorporation, all fully paid-up shares held in registered form in the name of the same shareholder for at least two years automatically benefit from a double voting right. There are no other specific rights attached to the shares.

Changes in the share capital over the last three financial years

The change in the share capital over the last three financial years is as follows:

Financial year ended	Total capital (in €)	Number of shares
December 31, 2017	428,634,035	428,634,035
December 31, 2018	428,634,035	428,634,035
December 31, 2019	428,634,035	428,634,035

(1) Furthermore, there are no securities not representing the share capital. Article 7 of Act No.2014-384 of March 29, 2014 for the Reconquest of the Real Economy.

The authorizations currently in force are summarized in the following table.

Resolution	Delegation	Maximum amount of issues in nominal	Balance available at December 31, 2019
Authorizations granted by the Combined Ordinary and Extraordinary Shareholders Meeting of May 28, 2019			
Outside the context of a public tender offer			
No.19	Capital increase (outside the context of a public tender offer) maintaining preferential subscription rights for shareholders	€214 million in nominal (i.e. around 50% of the current share capital)	€214 million in nominal (i.e. around 50% of the current share capital)
No.20	Capital increase (outside the context of a public tender offer) without preferential subscription rights for shareholders but with a mandatory priority subscription period	€45 million in nominal (i.e. around 10.5% of the current share capital)	€45 million in nominal (i.e. around 10.5% of the current share capital)
No.21	Capital increase (outside the context of a public tender offer) without preferential subscription rights for shareholders but with an optional priority subscription period (authorization limited to the Company or one of its subsidiaries' issuances of securities giving access to capital securities to be issued in the future and issuances of shares within the framework of public exchange offers)	€30 million in nominal (i.e. around 7% of the current share capital)	€30 million in nominal (i.e. around 7% of the current share capital)
No.22	Capital increase (outside the context of a public tender offer) through private placement with qualified investors/restricted group of investors	€30 million in nominal (i.e. around 7% of the current share capital)	€30 million in nominal (i.e. around 7% of the current share capital)
No.23	Increase in the number of securities to be issued in the event of a capital increase (outside the context of a public tender offer) with or without preferential subscription rights ("greenshoe")	15% of the initial issue (not to exceed the cap amounts set under resolutions 19, 20, 21 and 22)	15% of the initial issue (not to exceed the cap amounts set under resolutions 19, 20, 21 and 22)
No.24	Capital increase (outside the context of a public tender offer) to compensate contributions in kind granted to the Company	€30 million in nominal (i.e. around 7% of the current share capital)	€30 million in nominal (i.e. around 7% of the current share capital)
No.25	Capital increase (outside the context of a public tender offer) by capitalization of reserves, profits, issuance premiums, or other amounts eligible for capitalization	€150 million in nominal (i.e. around 35% of the current share capital) [charged against the cap amount of the 19 th resolution, usable outside the context of a public tender offer]	€150 million in nominal (i.e. around 35% of the current share capital) [charged against the cap amount of the 19 th resolution, usable outside the context of a public tender offer]
Within the context of a public tender offer			
No.26	Capital increase (within the context of a public tender offer) maintaining preferential subscription rights for shareholders	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 19 th resolution, usable outside the context of a public tender offer]	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 19 th resolution, usable outside the context of a public tender offer]
No.27	Capital increase (within the context of a public tender offer) without preferential subscription rights for shareholders but with a mandatory priority subscription period	€22.5 million in nominal (i.e. around 5.25% of the current share capital) [charged against the cap amount of the 19 th and 20 th resolutions, usable outside the context of a public tender offer]	€22.5 million in nominal (i.e. around 5.25% of the current share capital) [charged against the cap amount of the 19 th and 20 th resolutions, usable outside the context of a public tender offer]
No.28	Capital increase (within the context of a public tender offer) without preferential subscription rights for shareholders but with an optional priority subscription period (authorization limited to the Company or one of its subsidiaries' issuances of securities giving access to capital securities to be issued in the future and issuances of shares within the framework of public exchange offers)	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 19 th and 21 st resolutions, usable outside the context of a public tender offer]	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 19 th and 21 st resolutions, usable outside the context of a public tender offer]

Resolution	Delegation	Maximum amount of issues in nominal	Balance available at December 31, 2019
No.29	Capital increase (within the context of a public tender offer) through private placement with qualified investors/restricted group of investors	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 19 th and 22 nd resolutions, usable outside the context of a public tender offer]	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 19 th and 22 nd resolutions, usable outside the context of a public tender offer]
No.30	Increase in the number of securities to be issued in the event of a capital increase (within the context of a public tender offer) with or without preferential subscription rights (“greenshoe”)	15% of the initial issue (charged against the cap amounts set under the resolutions 26. 27. 28. 29)	15% of the initial issue (charged against the cap amounts set under the resolutions 26. 27. 28. 29)
No.31	Capital increase (within the context of a public tender offer) to compensate contributions in kind granted to the Company	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 19 th and 24 th resolutions, usable outside the context of a public tender offer]	€15 million in nominal (i.e. around 3.5% of the current share capital) [charged against the cap amount of the 19 th and 24 th resolutions, usable outside the context of a public tender offer]
No.32	Capital increase (within the context of a public tender offer) by capitalization of reserves, profits, issuance premiums, or other amounts eligible for capitalization	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 19 th and 25 th resolutions, usable outside the context of a public tender offer]	€75 million in nominal (i.e. around 17.5% of the current share capital) [charged against the cap amount of the 19 th and 25 th resolutions, usable outside the context of a public tender offer]
Other authorizations in respect of the Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019			
No.33	Delegation of authority granted to the Board of Directors, for the purpose of determining the issue price, within a limit not to exceed 10% of the share capital a year in the event of a capital increase without shareholders’ preemptive subscription rights	10% of the share capital (not to exceed the cap amounts set under resolutions 20, 21, 22, 27, 28 and 29)	10% of the share capital (not to exceed the cap amounts set under resolutions 20, 21, 22, 27, 28 and 29)
No.34	Allocation of free existing shares, subject to performance conditions, to employees and company officers of the Group companies (excluding the Group’s company officers)	2% of the share capital at the time of each issuance (not to exceed 1% per year)	2% of the share capital at the time of each issuance (not to exceed 1% per year)
No.35	Capital increases reserved for members of a company or group savings scheme	2% of the share capital at the time of each issuance [not to exceed the cap amount set under the 19 th resolution] usable outside the context of a public tender offer]	2% of the share capital at the time of each issuance [not to exceed the cap amount set under the 19 th resolution] usable outside the context of a public tender offer]

A common sub-cap of €15 million applies to resolutions 28 to 31 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019. A common sub-cap of €22.5 million applies to resolutions 27 to 31 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019. A common sub-cap of €30 million applies across resolutions 21 to 24 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2018. A common sub-cap of €45 million applies across resolutions 20 to 24 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019. A common sub-cap of €75 million applies across resolutions 26 to 32 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019. Lastly, a common cap amount of €214 million applies across resolutions 19 to 25 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019 and to resolution 35 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019.

The maximum amount of all the aforementioned capital increases is not autonomous and is charged against the cap amount set in resolution 19 of the Combined Ordinary and Extraordinary Shareholders’ Meeting of May 28, 2019.

Amendment to Air France – KLM’s Articles of Incorporation

The Extraordinary Shareholders’ Meeting, deliberating with a majority of two-thirds of the votes held by the shareholders present or represented, is the only entity authorized to amend the Articles of Incorporation in all their provisions pursuant to Article L. 225-96 of the *Code de Commerce*.

The Air France – KLM Articles of Incorporation can be found on the website at <http://www.airfranceklm.com> (Finance/Publications/Articles of Incorporation).

Modalities for shareholders wishing to participate in the Shareholders' Meeting

The modalities for shareholders wishing to participate in Shareholders' Meetings are those stipulated by the regulation in force. They are set out in Article 30 of the Air France-KLM Articles of Incorporation and the detailed conditions can be found in the documentation made available to shareholders ahead of the Shareholders' Meeting.

2.8.2 Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing shares 0.125% 2026

In March 2019, Air France-KLM issued bonds convertible into new shares and/or exchangeable for existing shares, maturing in 2026, for an amount of €500 million, representing 27,901,785 underlying shares.

The nominal unit value of the bonds is €17.92. The bonds bear a coupon of 0.125%, payable annually in arrears on March 25 of each year.

2.8.3 Authorization to buy back Air France-KLM's own shares

Every year, the Air France-KLM Board of Directors asks the Shareholders' Meeting for the authorization to buy back the company's own shares in the stock market, subject to a number of conditions.

During the 2019 financial year, the Group neither purchased nor sold Air France-KLM shares within the framework of these authorizations.

Within the framework of the collective labor agreement reached in August 2015 between KLM and the VNV pilots' union, Air France-KLM and KLM signed an agreement on December 8, 2016 with the VNV and an independent foundation established by the VNV for KLM pilots. Under this agreement, and in consideration for the gains resulting from the August 2015 agreement, on December 12, 2016 KLM financed the acquisition by the foundation of three million Air France-KLM treasury shares at the market price.

As of December 31, 2019, Air France-KLM held 1,201,578 of its own shares, i.e. 0.28% of the share capital, of which 1,116,420 shares held by KLM in respect of its various stock option plans. The valuation of the portfolio stood at €11.9 million at December 31, 2019.

2.8.4 Reinforcement of the Air France-KLM Group's strategic partnerships with Delta Air Lines, Inc. and China Eastern Airlines

During the 2019 financial year, Air France-KLM continued to reinforce its strategic partnerships with Delta Air Lines, Inc. (Delta) and China Eastern Airlines (CEA), launched in 2017.

On July 27, 2017, Air France-KLM announced, firstly, the planned creation of a joint-venture between Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic and, secondly, the intensification of its partnership with CEA. These two commercial alliances were consolidated by equity links in 2017: Delta Air Lines, Inc. and China Eastern each acquired equity interests in Air France-KLM within the framework of reserved capital increases authorized by the Combined Ordinary and Extraordinary Shareholders' Meeting of September 4, 2017 for a total of €751 million. In addition, Air France-KLM announced its intention to acquire a 31% equity interest in Virgin Atlantic, in which Delta has a 49% stake, for around £220 million.

Within this framework, on July 27, 2017, Air France-KLM and CEA on one hand, and Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic on the other, signed partnership agreements aimed at defining the principles of their closer cooperation:

- on July 27, 2017, Air France-KLM, Delta Air Lines, Inc. and Virgin Atlantic signed Memoranda of Understanding laying the foundations for a future combination of the existing joint-ventures between Air France-KLM, Delta Air Lines, Inc. and Alitalia, and between Delta Air Lines, Inc. and Virgin Atlantic, within a single joint-venture. Within this framework, Air France-KLM was expected to acquire a 31% equity interest in Virgin Atlantic, Delta Air Lines, Inc. having held 49% of the latter since 2013, with the historic shareholder Richard Branson retaining 20%. These agreements foresaw specific conditions intended to protect the interests of Air France-KLM in the event of any deterioration in the joint-venture's operating conditions linked to the United Kingdom's exit from the European Union;
- Air France-KLM and CEA also stepped up their commercial cooperation and reinforced their partnership within the framework of the existing joint-venture, through the signature on July 27, 2017, of a Marketing Agreement aimed at defining the principles of their closer cooperation.

Furthermore, to proceed with the capital increases reserved to CEA and Delta Air Lines, Inc., on July 27, 2017 China Eastern Airlines and Delta Air Lines, Inc. signed two Subscription Agreements with Air France-KLM, wherein both investors agreed to subscribe to the new shares in the reserved capital increases and containing the following commitments:

- lock-ups on the stakes wherein China Eastern Airlines and Delta Air Lines, Inc. both undertake, during a five-year period as of the settlement date (i.e. October 3, 2017), not to offer, sell, pledge or otherwise transfer or dispose of a number of

37,527 shares in Air France-KLM (as this number shall be adjusted for any share split or share consolidation of the Company) without the prior written consent of Air France-KLM, and subject to certain exceptions as set out in the Securities Note for the transaction authorized under No.17-441 dated August 17, 2017, section E.5;

- a standstill commitment wherein China Eastern Airlines and Delta Air Lines, Inc. both undertake, during a five-year period as of the settlement date (i.e. October 3, 2017), not to acquire or subscribe to any additional shares of the Company or other equity securities conferring access to the Air France-KLM share capital, directly or indirectly, which would have the effect of increasing the CEA and Delta stakes to above 10% of the Air France-KLM share capital, without the prior written consent of Air France-KLM, except in the case of (a) any person announcing their intention to launch a public offer (in cash, shares or a combination of both) for the Company's shares, (b) the announcement by Air France-KLM or any competent authority of an upcoming change of control for Air France-KLM, it being specified that "control" shall be defined in accordance with Article L. 233-3 of the *Code de Commerce* or (c) the replacement of at least the majority of members of the Board of Directors, in the event this replacement is not recommended by the Board of Directors;
- an approval clause wherein, for the duration of this Subscription Agreement, China Eastern Airlines and Delta Air Lines, Inc. undertake to obtain the formal approval of the Company's Board of Directors if they wish to sell their Air France-KLM shares to another airline company. In addition, following the expiry of the above-mentioned five-year lock-up undertaking, in the event of a trade sale of Air France-KLM shares to a third party *via* an over-the-counter transaction, both CEA and Delta Air Lines, Inc. have undertaken to first give Air France-KLM the option of purchasing these shares, at the same pricing conditions.

On October 3, 2017, Eastern Airlines Industry Investment (Luxembourg) Company Limited, a wholly-owned subsidiary of CEA Global Holdings (Hong Kong) Limited, and Delta Air Lines, Inc. both subscribed in cash to capital increases without shareholders' preferential subscription rights, each for a total (including issue premium) of €375,274,100, at a subscription price of €10 per share (including issue premium). The acquisition of these shareholdings was accompanied by the appointment of two directors to the Air France-KLM Board of Directors designated, firstly, by China Eastern Airlines and, secondly, by Delta Air Lines, Inc.

Lastly, on March 14 and May 15, 2018, within the framework of the implementation of the future single joint-venture between Air France-KLM, Delta Air Lines, Inc., and Virgin Atlantic, and following authorization by the Air France-KLM Board of Directors (see section 2.3.1 *Activities and functioning of the Board of Directors - Agreements and commitments referred to in Articles L. 225-38 and L. 225-42-1 of the Code de Commerce*, the following agreements were signed:

- a *Share Purchase Agreement* (the "SPA") between Air France-KLM Finance SAS and Virgin Investments Limited,

allowing Air France-KLM, through its 100%-owned subsidiary Air France-KLM Finance SAS, to purchase a 31% equity interest in Virgin Atlantic for £220,100,000. Within this framework, a Disclosure Letter relating to the SPA and compensation from Virgin Investments to Air France-KLM linked to tax liabilities relating to the Virgin Atlantic Group (the Tax Deed) were also agreed between the parties;

- a Shareholders' Agreement) between Air France-KLM Finance, Delta Air Lines, Inc., Virgin Investments Limited, Virgin Atlantic Limited and Sir Richard Branson organizing the shareholding in Virgin Atlantic;
- a Put and call Option Deed between Air France-KLM Finance, Virgin Investments and Delta Air Lines, Inc., relating to 31% of the Virgin Atlantic share capital;
- a joint-venture Agreement aimed at the implementation of a commercial joint-venture between Air France-KLM, Delta Air Lines, Inc., Virgin Atlantic Airways Limited, Air France and KLM together with the related bilateral Transition Agreement signed with Delta Air Lines, Inc.; and
- an Implementation Agreement between Air France-KLM, Air France-KLM Finance SAS, Société Air France, KLM, Delta Air Lines, Inc., Virgin Atlantic Limited, Virgin Atlantic Airways Limited and Sir Richard Branson, concerning the realization of the transaction.

On November 21, 2019, the US Department of Transportation granted anti-trust Immunity (ATI) within the framework of the extension of the transatlantic joint-venture. This regulatory step enabled the airlines to move forward with the transatlantic partnership.

In parallel, the partners finalized the expanded joint-venture's governance, agreeing on simplified decision-making processes enabling the joint-venture to deliver its full synergy potential. Air France-KLM and Virgin thus finally considered that Air France-KLM's acquisition of an equity interest in Virgin Atlantic was no longer necessary and negotiated an agreement wherein Air France-KLM would not acquire an equity interest in Virgin Atlantic, with no impact on Air France-KLM's position in the commercial joint-venture between Delta Air Lines, Inc., Virgin Atlantic and Air France-KLM. The Virgin Group will retain its 51% majority shareholding in the capital of Virgin Atlantic while Delta will retain the remaining 49%. This partnership is key to reinforcing the Group's leadership position between Europe and North America and will offer customers a seamless travel experience across the Atlantic.

As a result, on October 30, 2019, the Board of Directors mandated the Air France-KLM management to finalize the discussions and negotiate amendments to the relevant agreements so as to no longer proceed with the planned investment in a 31% equity interest in Virgin Atlantic. This decision led to the following amendments to the agreements listed below, whose signature had been authorized by the Board meetings of March 14 and May 15, 2018:

- termination of the *Share Purchase Agreement* ("SPA") for the acquisition of a 31% equity interest in Virgin Atlantic, and termination of agreements ancillary to the SPA;

- amendment and updating of the Joint Venture Agreement to reflect the termination of the SPA. This agreement was signed on January 30, 2020, effective as per January 1, 2020;
 - amendment (reflecting the termination of the SPA) and updating of the Implementation Agreement. This agreement was signed on January 9, 2020 effective as per January 1, 2020;
 - signature of the agreement between Air France-KLM, Delta and Virgin Group (signed and effective as per January 30, 2020)
- giving Air France-KLM, subject to certain conditions, the right to acquire Virgin Atlantic Limited shares in the event of a sale by Virgin Group of Virgin Atlantic Limited shares to a third party.
- The overall joint-venture between Air France, KLM, Delta Air Lines and Virgin Atlantic was launched in early February 2020, giving their customers a wider choice of routes and loyalty options for travel between Europe, the United Kingdom and North America.

2.8.5 Air France-KLM shareholder structure

Changes in the shareholder structure

On March 1, 2019, the Dutch State gave notification that, on February 26, 2019, it had crossed the thresholds of 5% and 10% in Air France-KLM's share capital and voting rights, and held 60,000,000 shares representing the same amount of voting rights, i.e. 14.0% of the Air France-KLM share capital and 11.91% of the voting rights. The following table shows the changes in the Company's shareholder structure at December 31, 2019 relative to December 31, 2018.

	% of the capital			% of exercizable voting rights ⁽¹⁾			% of theoretical voting rights ⁽²⁾		
	March 26, 2020 ⁽⁴⁾	Dec 31, 2019	Dec 31, 2018	March 26, 2020 ⁽⁴⁾	Dec 31, 2019	Dec 31, 2018	March 26, 2020 ⁽⁴⁾	Dec 31, 2019	Dec 31, 2018
Number of shares or voting rights	428,634,035	428,634,035	428,634,035	543,058,020	550,280,634	501,591,608	586,813,856	586,975,522	503,909,602
French State	14.3%	14.3%	14.3%	22.6%	22.3%	22.7%	20.9%	20.9%	22.6%
Dutch State	14.0%	14.0%	0.0%	11.0%	10.9%	0.0%	10.2%	10.2%	0.0%
Delta Air Lines, Inc.	8.8%	8.8%	8.8%	10.7%	10.5%	7.5%	12.8%	12.8%	7.4%
China Eastern Airlines ⁽³⁾	8.8%	8.8%	8.8%	10.7%	10.5%	7.5%	12.8%	12.8%	7.4%
Causeway Capital Management LLC.	6.9%	2.8%	0.0%	4.4%	2.2%	0.0%	5.1%	2.0%	0.0%
Donald Smith & Co., Inc.	5.2%	5.2%	2.1%	3.9%	4.1%	1.8%	3.8%	3.8%	1.8%
Employees (FCPE)	3.7%	3.8%	3.9%	5.9%	5.9%	6.7%	5.4%	5.5%	6.7%
Treasury stock	0.3%	0.3%	0.3%	0.0%	0.0%	0.0%	0.4%	0.4%	0.5%
Others	38.0%	42.1%	61.9%	30.9%	33.7%	53.8%	28.6%	31.6%	53.6%

(1) The exercizable voting rights do not include the voting rights on treasury shares or shares that have been stripped of their voting rights given late notification of the crossing of a threshold.

(2) The theoretical voting rights calculation takes into account all of the voting rights including the double voting rights.

(3) Through Eastern Airlines Industry Investment (Luxembourg) Company Limited.

(4) Number of shares and voting rights: declaration on the Autorité des Marchés Financiers website of March 26, 2020 for Donald Smith & Co., Inc. and March 10, 2020 for Causeway Capital Management LLC.

Since April 3, 2016, in application of French law, shareholders holding their shares in registered form for more than two years have benefitted from a double voting right.

Shareholder analysis

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM has implemented a procedure for their identification on a quarterly basis.

The TPI (identifiable bearer shares) analysis was carried out on December 31, 2019 on the basis of the following thresholds: intermediaries holding a minimum of 100,000 shares and shareholders holding a minimum of 500 shares. Based on the TPI analysis of December 31, 2019, Air France-KLM is more than 50% held by citizens of the European Union Member States and States party to the European Economic Area Agreement.

	Number of shares			% of the share capital		
	Dec. 31, 2019	Dec. 31, 2018	Dec 31, 2017	Dec. 31, 2019	Dec. 31, 2018	Dec 31, 2017
French State	61,241,325	61,241,325	61,241,325	14.3%	14.3%	14.3%
Dutch State	60,000,000	-	-	14.0%	-	-
Delta Air Lines, Inc.	37,527,410	37,527,410	37,527,410	8.8%	8.8%	8.8%
China Eastern Airlines ⁽¹⁾	37,527,410	37,527,410	37,527,410	8.8%	8.8%	8.8%
Causeway Capital Management L.L.C.	12,012,647	-	-	2.8%	0.0%	0.0%
Donald Smith & Co., Inc.	22,378,429	9,166,172	6,833,227	5.2%	2.1%	1.6%
Employees (FCPE)	16,103,590	16,758,690	16,781,090	3.8%	3.9%	3.9%
Treasury stock	1,201,571	1,201,571	1,201,571	0.3%	0.3%	0.3%
Other European shareholders ⁽²⁾	139,298,475	170,387,302	181,774,397	32.5%	39.8%	42.4%
Other non-European shareholders	41,343,178	94,824,155	85,747,605	9.6%	22.1%	20.0%
Total number of shares	428,634,035	428,634,035	428,634,035	100%	100%	100%

(1) Through Eastern Airlines Industry Investment (Luxembourg) Company Limited.

(2) The shares held by United Kingdom nationals have been included in Other European shareholders.

At December 31, 2019, Air France-KLM was 64.8% owned by European residents, of whom 5.0% were UK nationals.

Shareholder pacts

Air France-KLM is not aware of the existence of any shareholder pacts or agreements whose implementation could lead to a change of control.

Dividend policy

In the past three financial years. Air France-KLM distributed no dividends.

Financial year	Earnings per share (in €)	Dividend paid (in €)
2017 Restated	0.37	-
2018 Restated	0.92	-
2019	0.64	-

2.8.6 A regular dialogue with individual shareholders and investors

The Air France-KLM Group keeps the market informed on its activity through monthly traffic figures and quarterly updates on the trend in its results and strategic orientations. All its regulated information is available on the www.airfranceklm.com website in French and English.

Relations with investors

The Investor Relations department maintains a dialogue with financial analysts and institutional investors. In addition to conference calls and information meetings scheduled to coincide with results announcements, the Group's management regularly meets with financial analysts and institutional investors during road-shows and conferences in Europe, the United States and Asia.

Relations with individual shareholders

The Individual Shareholder Relations Department has a pro-active policy on engaging with individual shareholders. The shareholders' newsletter, with updates on the Group's business activity and objectives, is circulated by email and is available on the website in French and English.

In partnership with the business press, the Group regularly takes part in information meetings exclusively for individual shareholders in the French regions. These are an opportunity for the Group to review its strategy, results and issues in the airline industry, and to address shareholder concerns. In 2019, the Group thus met with shareholders in Lille and Rennes. Site visits are also organized.

The Individual Shareholder Relations Department can be reached by email at mail.actionnaire@airfranceklm.com.

Lastly, since 2000, the Individual Shareholders' Committee, has constituted a forum for discussion and suggestions on Air France - KLM's communication aimed at individual shareholders. Comprising twelve members, the Committee meets several times a year including one meeting devoted to planning the Shareholders' Meeting. It also participates in major company events.

In December 2019, for the second year running, *Le Revenue* magazine awarded the Air France - KLM Group the *Trophée d'Or* for the Best Digital Communication in the SBF120.

2.8.7 Legal and statutory investment thresholds

Pursuant to the option provided in Article L. 233-7 of the French *Code de Commerce*, Article 13 of the Air France-KLM Articles of Incorporation stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's capital or voting rights or any multiple thereof, must notify Air France-KLM by registered mail with acknowledgement of receipt no later than four stock market trading days as of the date on which this threshold is crossed. The declaration must include all the information required to be submitted to the French market regulator (*Autorité des Marchés Financiers*) in the event of the crossing of a legal threshold, as well as a certain amount of information referred to in Article 10 of the Air France-KLM Articles of Incorporation.

Notice must again be given under the same conditions each time a further 0.5% of the capital or voting rights is acquired or disposed up to 50%.

To determine the thresholds foreseen in Article 13 of the Articles of Incorporation, the shares and voting rights defined by the provisions of Article L. 233-9 of the *Code de Commerce* and those of the relevant AMF General Regulation are assimilated in the share capital and voting rights.

In the event of failure to comply with this notification obligation and at the request of one or more shareholders holding at least 0.5% of the Air France-KLM capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings for a period of two years following compliance with notification procedures.

Furthermore, any shareholder (whether acting alone or in concert) acquiring more than 5% of Air France-KLM's share capital or voting rights is required to transfer these securities to registered form within the legal limit of no more than four stock market trading days as of the date on which the threshold is crossed (Article 9.2 of the Articles of Incorporation).

The aforementioned obligations under the Articles of Incorporation do not replace the legal obligation to inform Air France-KLM and the French market regulator (*Autorité des Marchés Financiers* - AMF) no later than four stock market trading days after the capital and voting right thresholds stipulated by law are exceeded.

Furthermore, if the 5%, 10%, 15%, 20% and 25% capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF within five stock market trading days of its intentions for the next six months. This notification is subject to the conditions and sanctions set forth in Article L. 233-14 of the *Code de Commerce*.

Shareholders	Declaration date	Number of shares ⁽¹⁾	% of the share capital ⁽²⁾	Increase or reduction
The Capital Group Companies, Inc. ⁽³⁾	February 28, 2019	24		R
Dutch State	March 1, 2019	60,000,000	14.00	I
China Eastern Airlines ⁽⁴⁾	November 26, 2019	37,527,410	8.76	I
Delta Air Lines, Inc. ⁽⁵⁾	January 29, 2020	37,527,410	8.76	I
Causeway Capital Management LLC. ⁽⁶⁾	March 3, 2020	21,506,317	5.02	I
Causeway Capital Management LLC. ⁽⁷⁾	March 10, 2020	29,706,816	6.93	I
Donald Smith & Co., Inc ⁽⁸⁾	March 26, 2020	24,493,406	5.71	I

(1) "Number of shares" represents the total number of shares held by the declaring shareholder following the declaration.

(2) "% of the share capital" represents the percentage of the share capital held by the declaring shareholder following the declaration.

(3) Acting as "investment advisor" on behalf of funds. The Capital Group Companies, Inc. aggregates the positions held by Capital Research and Management Company (CRMC) and Capital Group International, Inc. (CGI).

(4) Through Eastern Airlines Industry Investment (Luxembourg) Company Limited.

(5) Acting in the capacity of general partner in the partnership under Dutch law DAL Foreign Holdings, C.V. The company Delta Air Lines, Inc. controls DAL Foreign Holdings, C.V. and, in the capacity of general partner of DAL Foreign Holdings, C.V., is the legal owner of the Air France-KLM shares.

(6) Acting as "investment adviser" on behalf of funds and clients for which it has no discretionary power to exercise the voting rights attached to the shares held. Furthermore, the company Causeway Capital Management L.L.C. also manages 12,793,110 Air France-KLM shares but does not exercise the voting rights attached to these shares (these voting rights remaining exercised by its clients). Elements post management report.

(7) Acting as "investment adviser" on behalf of funds and clients for which it has no discretionary power to exercise the voting rights attached to the shares held. Furthermore, the company Causeway Capital Management L.L.C. also manages 16,939,192 Air France-KLM shares but does not exercise the voting rights attached to these shares (these voting rights remaining exercised by its clients). Elements post management report.

(8) Elements post management report.

2.8.8 Identification of shareholders and statutory provisions concerning shareholders

Identification of holders of bearer shares

Pursuant to Articles L. 6411-2 to L. 6411-5 and L. 6411-8 of the *Code des Transports* (French Transport Code), as amended by the French Act No. 2004-734 of July 26, 2004, listed French air transport companies are authorized to include a provision in their Articles of Incorporation allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relating to their nationality. This is because, over time, changes in the shareholder structure of an air transport company whose shares are listed for trading on a regulated market could jeopardize its operating license as an EU air transport carrier, the retention thereof being conditional on EU interests holding a majority of the shares and maintaining effective control, or the traffic rights held by the Company as a French air transport company, pursuant to bilateral international agreements concluded between France and other States outside the European Union.

Identification and monitoring of shareholders

Articles 9 and following of the Air France-KLM Articles of Incorporation set the conditions whereby the Board of Directors can or must decide either to reduce the 5% threshold above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form. Thus, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors can decide to reduce this 5% threshold to 10,000 shares.

Air France-KLM publishes a notice informing the shareholders and the public that non-French shareholders as defined by Article 14 of the Articles of Incorporation own, directly or indirectly, 45% of Air France-KLM's share capital or voting rights. If it appears that non-French shareholders as defined by Article 14 of the Articles of Incorporation represent, directly or indirectly, more than 45% of Air France-KLM's capital or voting rights on a long-term basis, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form. Following an amendment to the Articles of Incorporation in 2014, citizens of the European Union Member States and States party to the European Economic Area Agreement are considered to be French nationals.

Article 10 of the Air France-KLM Articles of Incorporation specifies the information that must be provided to Air France-KLM by shareholders, whether they are private individuals or corporate bodies, subject to the obligation to hold their shares in registered form. This information includes the nationality of the shareholder. Article 11 of the Articles of Incorporation specifies the conditions

under which the Board of Directors may exercise its right to approve new shareholders.

Formal notice to sell and mandatory sale of shares

Article 14 of the Air France–KLM Articles of Incorporation stipulates the information that Air France–KLM must publish and circulate to inform the public that over 45% of the capital or voting rights is held by shareholders who are not of French nationality. As of this threshold, Air France–KLM will be entitled to launch procedures requiring the sale of shares in order to safeguard its nationality. Articles 15 and 16 of the Air France–KLM Articles of Incorporation, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations pursuant to the French Civil Aviation Code (*Code de l'Aviation Civile*) and the French Transport code (*Code des Transports*). The terms for setting the sale price (market price) are foreseen by the *Code des Transports*.

2.8.9 Information on trading in the stock

2.8.9.1 Air France–KLM in the stock market

Air France–KLM shares are listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FRO000031122. 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 10, 2004, as amended (Transparency Directive), is France. The AMF is consequently its competent market authority as regards ensuring compliance with its regulated information obligations.

2.8.9.2 Stock market performance

Over the 2019 financial year, the share price increased by 4.6% compared with a rise of 26.4% for the CAC 40.

	2019	2018	2017
Share price high (in €)	12.73	14.30	14.65
Share price low (in €)	7.46	6.78	4.78
Number of shares in circulation	428,634,035	428,634,035	428,634,035
Market capitalization at December 31 (in €bn)	4.3	4.1	5.8

2.8.9.3 Transactions in Air France – KLM shares in the last 18 months

Air France – KLM shares

Euronext volumes	Trading range (in €)					
	Trading days	Average price (in €)	High	Low	Volumes	Amount (in €m)
2018						
September	20	8.58	9.08	8.04	75,600,100	650.55
October	23	8.34	8.98	7.75	121,177,740	1,012.57
November	22	9.79	10.40	8.51	95,296,056	926.49
December	19	9.29	10.33	8.90	60,801,516	567.24
2019						
January	22	9.96	11.35	8.68	78,821,670	780.8
February	20	10.88	12.73	9.85	124,721,545	1,395.5
March	21	10.52	11.68	9.59	60,017,663	633.8
April	20	10.64	11.35	9.81	45,727,132	486.4
May	22	8.40	10.46	7.52	78,971,634	673.5
June	20	8.02	8.51	7.46	72,008,020	577.7
July	23	8.84	9.50	8.34	60,620,319	537.9
August	22	10.26	10.83	9.48	59,823,145	610.8
September	21	9.41	10.43	8.61	61,818,648	573.1
October	23	10.21	11.12	9.23	61,535,071	627.3
November	21	10.45	11.03	9.77	52,978,951	550.4
December	20	10.21	10.92	9.83	44,650,235	457.8
2020						
January	22	9.30	10.27	8.26	81,772,012	752.8

Source: NYSE Euronext.

Transactions in the Company's shares realized by the company officers

Summary of the transactions referred to in Article L. 621-18-2 of the French Monetary and Financial Code (*Code Monétaire et Financier*) executed during the 2019 financial year:

Relevant individual	Date of the transaction	Nature of the transaction	Number of shares	Unit price
Benjamin Smith, Chief Executive Officer of Air France–KLM <i>Declaration 2019DD606933</i>	May 10, 2019	Acquisition	50,000	€8.6134

3

RISKS AND RISK MANAGEMENT

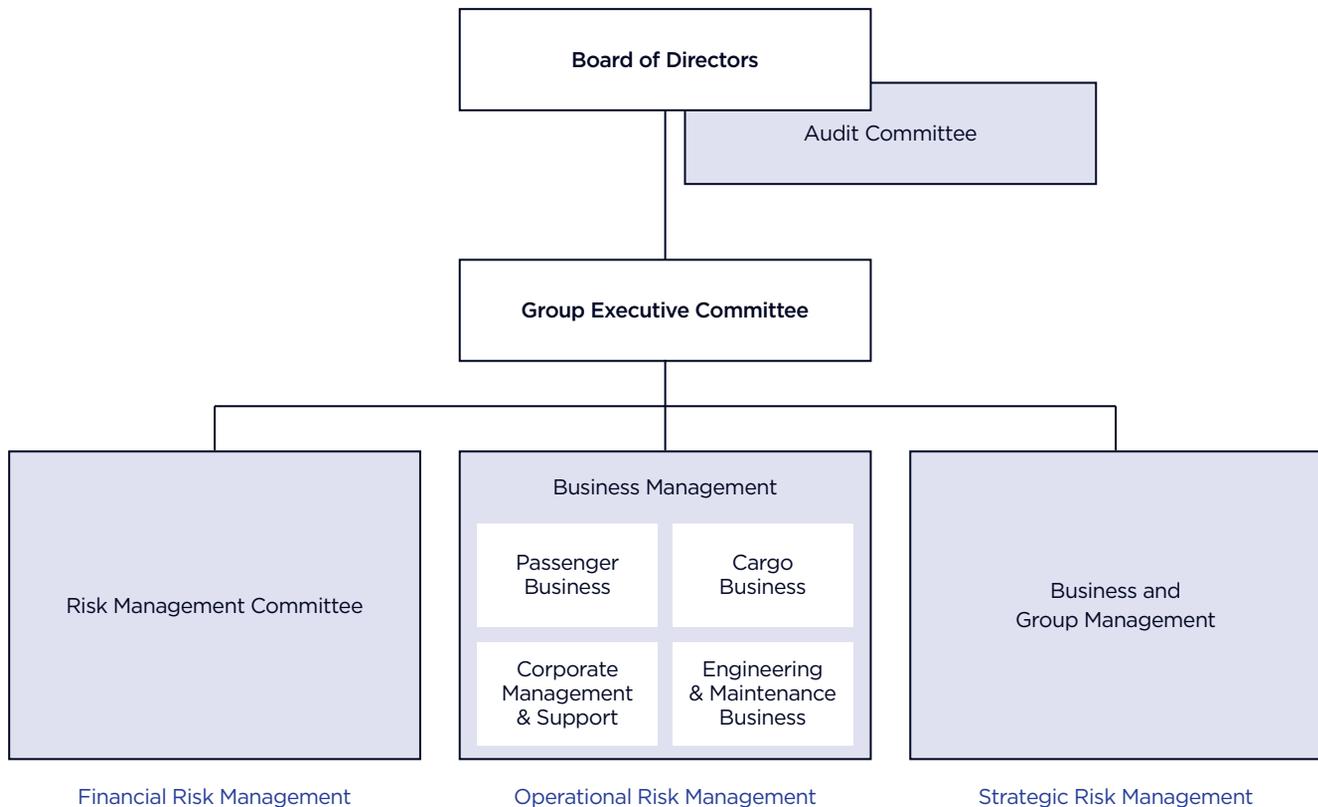
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3.1 ENTERPRISE RISK MANAGEMENT

The Air France–KLM Group is exposed to the general risks associated with the air transport industry and with airline operations, and has consequently implemented a system to identify, analyze, monitor, manage and control its risks.

3.1.1 Risk management process: the players and overall organization

Air France–KLM: the players and governance bodies involved in the risk management process



The risk management process aims to determine the events that could potentially impact the Group and prevent it from achieving its objectives, and to implement a risk management and reporting system.

The risk management process enables, on one hand, the different divisions and principal subsidiaries and, on the other hand, the Group Executive Committee and the Audit Committee to monitor the principal strategic and operational risks, their evolution over time and the measures in place to manage these risks. It thus aims to create and preserve value, and to safeguard the Group's assets and reputation.

Each Group entity is responsible for managing its risks and for producing regular reports.

The overall risk management process also serves as a basis for the Universal Registration Document and makes a major contribution to establishing the annual audit program.

As a facilitator of risk management, Group Internal Audit regularly evaluates the risk management process. Its conclusions are the subject of presentations to the Group Executive Committee and the Audit Committee.

The Risk Management Committee also monitors the management of financial market risks that could have an impact on the financial statements (fuel price, currency exposure, etc.) on a quarterly basis. The risk management process complies with international regulatory standards including the European Union 8th Directive.

In addition to the usual insurance policies covering the industrial sites, the real estate assets and the ancillary activities, the Group's subsidiaries subscribe to specific airline insurance policies covering accidental or incidental damage to aircraft and the resulting costs, liability in relation to their passengers and general liability to third parties in connection with their activities.

3.1.2 Identification and evaluation of the risks

Risk mapping and risk universe procedures have been established and are regularly updated by Internal Audit.

The principal risks are ranked by nature and characterized with respect to their probability of occurrence and potential impact. The risk management procedures are outlined for each risk, together with the situation which is likely to result from their implementation.

Risk monitoring and reporting

Internal Audit produces a biannual report for the Group Executive Committee and the Audit Committee on the Group's operational risks. The Audit Committee may decide to bring specific points to the attention of the Board of Directors. Reporting on strategic risks is part of the Strategic process.

The operational risk reporting process follows a bottom-up process starting in the different Air France and KLM divisions and the principal sub-subsidiaries. Every half year the Enterprise Risk Coordinators, who have been designated by the different businesses, entities and subsidiaries, establish the risk sheets and send them to Internal Audit, the latter being responsible for their consolidation at airline and Group level.

The risk sheets indicate and describe the inherent material risks and the action plans implemented for their mitigation or neutralization, together with an evaluation of their probability of occurrence and the resulting impact. The risk owners and those responsible for the procedures to control risks are specifically named. To ensure the reliability of the process, the risk sheets for each entity are systematically reviewed during regular meetings between Internal Audit and the relevant Executive Vice-Presidents.

The Group's operational risk sheets (summarizing the operational risks of the entities), which detail any new risks or those which have been withdrawn, and the main changes, are the subject of a presentation to the Group Executive Committee which approves them prior to their presentation and review by the Audit Committee.

To be able to complete the Extra-financial performance statement (see Section 4), the main environmental, social and societal risks, linked to the Group's activities across the entire value chain, are reviewed and assessed annually. The most material extra-financial risks are an integral part of the Group's operational risk sheet.

Generally speaking, the management of operational risks is at the heart of the steering procedure for the Air France-KLM Group's businesses. To this end, the additional contributions from Internal Control and the Integrated Management System (IMS) enable the consolidation of an increasingly-prevention-oriented approach. By virtue of the IMS, a risk-scoring matrix (frequency, gravity), an analysis methodology and the "Bowtie" tool are thus used, based on a homogeneous, multi-risk rationale.

Management of risks by the Risks-Insurance departments

Within Air France and KLM, each of the Risks-Insurance departments constitutes an integral part of the Internal Control process. They identify the insurable risks at the level of each company and their subsidiaries, draw up the insurance policies and contribute to the prevention recommendations.

3.2 RISK FACTORS AND THEIR MANAGEMENT

The system for managing risks liable to affect the Group's activity, as set out in section 3.1, aims to identify and analyze these risks, and reduce the probability of their occurrence together with their potential impact on the Group.

This section outlines the main risks to which Air France-KLM considers itself exposed (macro-economic and geopolitical risks, risks linked to the air transportation activity, risks linked to the Group's processes and legal risks), together with the management procedures implemented to mitigate each of these risks. Other risks of which the Group is currently not aware, or risks that as of the date of this document it does not consider to be amongst the most material, could also negatively affect its activities.

At the date of this document, this section outlines the main risks potentially impacting the Group's activity, financial situation, reputation, results and outlook, as notably identified within the framework of the establishment of the Group's risk mapping, which evaluates their criticality, i.e. their seriousness and the likelihood of their occurrence, after having taken into account the action plans in place. Within each of the risk categories set forth below, the risk factors that the Group deems to be the most material as of the date of this document are mentioned first.

3.2.1 Geopolitical and macro-economic risks

3.2.1.1 COVID-19 and other epidemics or threats of epidemics⁽¹⁾

Description of the risk

The existence of an epidemic, in particular the current worldwide COVID-19 coronavirus epidemic, or the perception that an epidemic could occur, have and could have a material negative impact on both the Group's passenger traffic, and thus its revenues, and on the level of operating expenses and its financial situation.

Since February 2020, the Group's activities have thus been strongly impacted by the COVID-19 coronavirus epidemic. Characterized as a "pandemic" by the WHO on March 11, 2020, the COVID-19 coronavirus epidemic has resulted in numerous restrictive measures to limit its spread. The measures put in place by the public authorities in numerous States have notably led to the temporary suspension of airline operations and the reduction or suspension of travel, in particular bound for or near the many countries where the virus is circulating, thereby having

a material and negative impact on the Group's activity in the countries where it operates. Given these travel restrictions and the collapse in passenger traffic and revenues, in March 2020 the Group was obliged significantly to reduce its capacity and, notably, drastically curtail its flight activity which, over the next few months, should be less than 10% of last year's level. The Air France-KLM Group has also implemented substantial cost-saving measures. Given the progressive spread of the pandemic, the current and forthcoming measures from the public authorities in many countries could further disrupt, or even prevent, any activity by the Group for an indefinite period and, in particular, there is no certainty on the resumption date for commercial flights. Based on the current level of visibility and analysis, and depending on their persistence, these elements could have a very significant negative impact on the Group's operating results, financial performance and liquidity, and on those of some of its partners. The health and availability of the Group's staff could also be affected.

This situation leads the Group to forecast a sharply deteriorated financial trajectory compared to the outlook presented on publication of its 2019 annual results.

Lastly, in view of the uncertainties inherent in any health crisis, the Group cannot guarantee that this situation will stabilize in the short term.

Mitigating principles and actions

Each airline is supported by a coordination structure responsible for prevention, crisis management, the circulation of health advice and liaising with the national and international authorities on outbreaks of epidemics or threats of epidemics. As we finalize this document, concerning the management of the public health crisis associated with the COVID-19 virus, the airlines are being supported by a dedicated coordination structure.

Air France permanently refers to the ISO 22000 norm: to ensure strict control over the quality of its catering services, Air France notably carries out some hundred hygiene audits and around 15,000 in-house microbiological checks every year.

Beyond that, with the crisis continuing and the conditions for a recovery remaining uncertain, the Group will continue to monitor the unfolding situation on a daily basis, to make adjustments as necessary and define/deploy protection resources like the appropriate health measures.

(1) Risk updated due to the COVID-19 public health crisis.

3.2.1.2 Terrorist attacks, threats of attack or geopolitical instability

Description of the risk

Since 2016, the security situation resulting from terrorist attacks perpetrated in France, elsewhere in Europe and in the Group's operational zones, together with worldwide politico-security events (Middle Eastern and African countries) have all represented a range of security risks negatively impacting the Group. For example, the fourth quarter results of the financial year ended December 31, 2015 were affected by the Paris terrorist attacks in November 2015. The estimated impact in the fourth quarter revenues of the Group for the financial year ended December 31, 2015 amounted to €120 million.

The occurrence of geographical instability, terrorist attacks or threats of attacks, closure of an airspace or military action could have a negative effect on both the Group's passenger traffic, and thus its revenues, and on the level of operating expenses.

Mitigating principles and actions

In terms of security, the Group's airlines comply with European and international regulations and submit regular reports to the competent authorities of the measures and procedures in place.

The Group has no hedging in place for air transportation operating losses but is insured for the consequences of an attack on one of its aircraft, and has subscribed to war and assimilated risks insurance.

The Group has implemented a series of safety and security management processes in line with the sector's best practices.

Protecting individuals and assets from assault, terrorist attacks and threatened attacks, and potential threats to their integrity of any nature, is also a major priority for the Group. The Security departments in each Air France and KLM company establish the security policies, analyse the threats and take all the appropriate measures, particularly in relation to the factors involved in geopolitical instability.

The Group has also developed emergency plans and temporary adaptation procedures (e.g. the suspension of flight operations) enabling an effective response to diverse situations should an epidemic, geopolitical or other type of event to occur. This aim of these plans is the effective protection of passengers and staff, operational and service continuity, and the preservation of the long-term viability of the Group's businesses. These plans are regularly adjusted to take into account the lessons learnt from events experienced.

3.2.1.3 Competition in the short, medium and long-haul air passenger transportation market

Description of the risk

As the leading group in terms of intercontinental traffic on departure from Europe, the Group is a major global air transport player; in 2019, the Group carried just over 104 million passengers between Europe and the rest of the world as well as on intra-European routes on departure from its local markets.

The air transport industry is extremely competitive. The liberalization of the European market in 1997 and the ensuing increased competition between carriers has led to a reduction in fares.

In short and medium-haul, the Group competes with other airlines and, in particular, the low-cost carriers which have seen very rapid growth over the last fifteen years. It also competes with alternative means of transportation like the high-speed TGV rail network. An extension to the high-speed rail networks in Europe is liable to have a negative impact on the Group's activity and financial results.

In addition, self-connect platforms like Kiwi.com or easyJet Worldwide enable different point-to-point airlines to offer connecting journeys. Should these platforms be significantly expanded and prove successful, the current hub and spoke model of hub carriers like Air France or KLM could be affected.

The competition is also very intense in long-haul, particularly on the routes between Europe and Asia, due to the development of new, rapidly-growing players like the Gulf State airlines, or on the transatlantic routes due to the growth of the low-cost, long-haul carriers.

Mitigating principles and actions

The Group's different strategic plans seek to respond to these risks, particularly *via* the restructuring of the point-to-point operations, the accelerated development of Transavia, cost reduction, the product move up-market and the development of partnerships in large high-growth markets. In parallel, the Group is lobbying the authorities for a legal framework ensuring fair competition between carriers. (See also Section 1.2 Strategic outlook, page 133).

Furthermore, within the framework of the Open Skies agreement between Europe and the United States, European airlines are authorized to operate flights to the United States from any European airport. While this agreement potentially opens the way to increased competition for Paris-CDG and Amsterdam-Schiphol, it has also enabled Air France and KLM to expand their networks and strengthen cooperation within the SkyTeam alliance within the framework, notably, of a transatlantic joint-venture and their transatlantic partners.

3.2.1.4 Cyclical nature of the air transportation industry

Description of the risk

Local, regional and international economic conditions can have a significant negative impact on the Group's activities and, hence, its financial results. Periods of crisis or post-crisis with an unstable economic environment are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to accept delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions. For instance, owing to the global financial crisis, 2009 passenger demand decreased by 3.5% with an average load factor of 75.6% while freight posted a full-year decline of 10.1% with an average load factor of 49.1% (*source: IATA, January 2010*).

Mitigating principles and actions

Air France-KLM has a balanced international geographical network enabling it to limit its exposure to risk within a steadily-growing air transportation environment at global level.

3.2.1.5 Trend in the oil price

Description of the risk

The fuel bill is one of the largest cost items for airlines making oil price volatility a risk for the air transportation industry. For the financial year ended December 31, 2019, aircraft fuel costs amounted to €5,511 million. A sharp increase in the oil price can have a very material negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies (as an illustration, average annual oil prices increased by more than 40% between 2016 and 2018). Similarly, a sharp decline in fuel prices is favorable for airline profitability. However, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty.

Mitigating principles and actions

In addition to permanent efforts to reduce fuel consumption, the Group has implemented a policy of systematically hedging the fuel price risk, as outlined in *Section 3.2.5 - Financial market risks on page 142*.

3.2.1.6 Competition and trends in the aeronautics maintenance market

Description of the risk

Airframers, engine manufacturers and aircraft component manufacturers are rapidly expanding their after-sales services to offer customers increasingly-integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to maintenance providers seeking to exercise their business activity on certain products. This competition is putting pressure on the

revenue side of the maintenance business (which represented 8% of the Group revenue for the financial year ended December 31, 2019) due to increased competition in the sale of services and, on the cost side, owing to an aggressive Original Equipment Manufacturers (OEMs) escalation policy. Ultimately, if it were to result in reduced competition in the aeronautics maintenance market, this trend could have a material adverse impact on airline maintenance costs.

This trend is escalating, especially with the arrival of new aircraft such as the E-jet, A350, Boeing 787, etc. The ability to maintain balanced competitive conditions is a priority objective, both for Air France-KLM's commercial activity in maintenance and to contain the Group's maintenance costs.

The Maintenance, Repair, overhaul (MRO) Market is showing healthy growth although most of this growth is outside the EU and especially in Asia. To maintain customer proximity and optimize the supply chain, further development of the AFI KLM E&M supply chain is needed *via* the expansion of local service centers and the regional industrial footprint.

Mitigating principles and actions

Air France-KLM is working on a number of initiatives to limit the impacts inherent to this risk:

- the involvement of the Maintenance teams in fleet renewal campaigns: procurement of licenses and the securing of industrial cooperation with OAMs/OEMs to be able to continue to develop Air France-KLM's commercial activity in maintenance;
- Air France-KLM's current strong market position has the scale and scope to serve as a basis for win-win partnerships with OEMs and other airlines;
- developing repair solutions and the use of Used Serviceable Materials, thereby reducing the dependence on certain OEMs;
- negotiation of the value added contributed by licenses.

Furthermore, at the request of the airlines, IATA is also maintaining a watching brief on this issue.

3.2.1.7 BREXIT

Description of the risk

Air France and KLM operated approximately 30,000 international flights on departure from the United Kingdom in 2019. The United Kingdom's exit from the European Union is taking place on the basis of negotiated conditions and after a transition period ending December 31, 2020. There may be a number of adverse consequences in terms of the economy, market access and statutory authorizations. Air France-KLM has relatively less exposure than the other European (LCCs) or British carriers.

Mitigating principles and actions

Air France and KLM have measures in place to ensure that a hard landing by the UK has no serious consequences for the Group's

airlines and is maintaining close, regular contact with the EU and national authorities. For the General Management of Operations, Air France has set up a cross-cutting system for identifying risks and monitoring mitigation actions with all of the businesses in the event of a hard Brexit. Based on an internal, in-depth evaluation of the risks, even in the event of a no-deal scenario, Air France-KLM and the Group's airlines will be able to maintain their operations and maintenance activities without their being impacted. In addition, given the number of international flights outbound from the United Kingdom in 2019, Air France and KLM have relatively less exposure than the other European (LCCs) or British carriers. Customs and logistics issues will, however, require close monitoring and contingency planning.

3.2.2 Risks relating to the air transportation activity

3.2.2.1 Risks related to airline safety

Description of the risk

Accident risk is inherent to air transportation which is why airline activities – passenger and cargo transportation, aircraft maintenance – are regulated by a series of European regulatory provisions, transposed into French and Dutch law. Compliance with these regulations governs whether an airline is awarded the AOC (Air Operator Certificate) which is valid for three years.

The national Civil Aviation Authority carries out a series of checks on the proper application of these rules covering notably the:

- designation of a senior executive and managers responsible for the principal operational functions;
- appropriate organization of the flight, ground, cargo and maintenance operations;
- deployment of a Safety Management System (SMS);
- implementation of a quality assurance system.

The materialization of this risk could have a significant negative impact on the Group's reputation and legal or financial consequences.

Mitigating principles and actions

For Air France-KLM, Flight Safety is the absolute priority. Safety is fundamental to maintaining the confidence of customers and staff and is a day-to-day imperative which determines the Group's activity and the long-term future of the air transportation industry.

All of the Group's businesses are subject to numerous checks and certifications, and meet extremely strict standards and the highest level of regulations in the industry, both at European level with the European Aviation Safety Agency (EASA), and globally with the International Air Transport Association (IATA), whose

IOSA Operational Safety Audit is a benchmark within the industry and leads to certification which must be renewed every two years.

The IOSA audits for the renewal of Air France and KLM certification were carried out at the end of 2018, resulting in the renewal of the certificates in 2019. The next renewal audit is planned for 2020, with issuance of the renewed certificates scheduled for March 2021.

To reach the highest possible level of Flight Safety, each airline updates and reinforces its SMS which defines in concrete terms the conditions for the implementation of its risk management system. The SMS, which is an integral part of the organization, procedures and corporate culture, is supported by a commitment made at the highest level of management, and by training and awareness-raising programs for all staff (*See Section 4.4.1 – Flight Safety*).

This risk is covered by the aviation insurance policy.

3.2.2.2 Risks related to the environment

Acceptability of air transportation growth

Description of the risk

From the Flygskam or “flight-shaming” movement in the social media to calls for a tax on kerosene in several countries, air transportation is having to contend with ever-increasing public pressure at both local and global level, and which condemns the industry's impacts on the environment.

The airline industry must pursue its efforts to reduce its impacts and step up communication on its commitments and the mitigating initiatives that are already in place. Airlines accommodate their customers' growing need for mobility, while improving their energy efficiency and focusing on containing noise hindrance at an acceptable level for those living near airports.

In this respect, the actions implemented by Air France-KLM to limit and reduce its environmental impacts directly influence its ability to manage and develop its activities (“license to grow”) in all regions of the world and over the long-term.

The air transport industry is subject to a significant level of environmental legislation governing areas such as the exposure of people to aircraft noise and local emissions, air quality, the treatment of waste products, and the introduction of taxes on airlines and obligations to ensure the compliance of their operations. For example, from 2020, airline tickets issued by all airlines now attract a tax on all flights departing from France (but not on flights arriving), except connecting flights. This tax will raise funds for investment in greener transportation infrastructure, including rail.

Such legislation may have a significant negative impact on the Group's operations and growth which could be reflected in more substantial costs, and could lead to competitive distortions between airlines when applied solely to a specific geographical area.

Mitigating principles and actions

The airline industry is amongst the sectors that are mobilizing the most to reduce their carbon footprints and was the first sector to commit to collectively reducing its CO₂ emissions. As early as 2009, the International Air Transport Association (IATA) set an ambitious global commitment to stabilizing the CO₂ emissions from international aviation at the 2020 level (Carbon Neutral Growth as of 2020), and to reducing CO₂ emissions by 50% in 2050 relative to their 2005 level.

Air France-KLM is a member of the representative associations for the airline industry (IATA, ATAG, A4E, FNAM) which engage in lobbying activities directed at the relevant national, European and international authorities and bodies (ICAO, European Union, supervisory Ministries in France and the Netherlands) to promote effective solutions for the environment, but also to ensure that the measures which are put in place do not lead to any distortion in competition between the air transportation players. For example, Air France-KLM has always supported the implementation of a market-based mechanism for carbon emissions considering that, provided it is equitable, such a system is more effective from an environmental standpoint than a simple tax.

Within the context of the imposition of an “eco-contribution” tax on the air transportation industry in France and the possible imposition of an environmental tax on airline passengers in the Netherlands as of 2021, it is worth remembering that such measures lead to additional costs for the Group and reduce its ability to invest in energy-efficient aircraft. Furthermore, the Air France-KLM Group considers it regrettable that none of the proceeds of the Eco Tax applicable in France have been allocated to the airline industry's energy transition, and notably to research into sustainable solutions like cleaner aircraft or the development of biofuels.

In 2019, the Group's airlines communicated widely, in conjunction with the industry players, on their commitments, the measures already in place and the medium and long-term emission reduction targets. In the 2019 second half, within the framework of the Group's environmental strategy, a number of initiatives were announced to customers and the public at large (introduction of high-energy-performance fleet, KLM's investment in the first European plant dedicated to the production of Sustainable Aviation Fuel, the “Fly Responsibly” commitment, 100% offsetting of emissions on Air France's domestic flights, partnership with the Solar Impulse Foundation, etc.).

In addition, to address all the matters relating to the effects of air transportation activity around airports, regular discussion meetings take place with residents' associations, local elected representatives and the public authorities.

Climate change

Description of the risk

To meet the requirements relating to the carbon budget and low-carbon strategy stipulated in Article 173 III of Act No. 2015-992 of August 17, 2015 relating to the Energy Transition for Green Growth, the Group takes into account the financial risks related

to the effects of climate change. These risks are both operational (linked to the physical impacts of climate change) and financial in nature, the latter being linked to the political and regulatory impacts of the energy transition (e.g. environmental tax).

Climate change will lead to more frequent extreme weather events that will have a greater or lesser impact on all world regions. Air operations depend on meteorological conditions and may be impacted by other natural phenomena (earthquakes, volcanic eruptions, floods, etc.) which may lead to operational disruption such as flight cancellations or delays and diversions. As a general rule, the duration of such adverse natural events tends to be short and their geographical range limited but they may require the temporary closure of an airport or airspace, such as in September 2017 when Hurricane Irma caused considerable damage in the Caribbean, mainly on St. Martin. Another emblematic illustration is the eruption of the Eyjafjallajökull volcano in Iceland in 2010, during which nearly 100,000 flights were cancelled in eleven European countries, leaving ten million passengers stranded. Such events may have significant operational and financial repercussions for the Group's activity given the regulations requiring the Company to assist passengers in the European Union territory (e.g. passenger repatriation and accommodation).

Mitigating principles and actions

To adapt to the already-visible consequences of climate change such as more frequent extreme weather events, Air France-KLM has a policy in place to ensure safe operational and passenger handling conditions, and regularly conducts comprehensive risk analyses to optimize these arrangements.

Through its international operations, Air France-KLM is present in all continents and operates in different weather conditions, including the most extreme. It regularly reviews the operational risks to improve the existing procedures. The operation of a network balanced between the different continents and the flexibility related to the composition of the fleet enable the financial consequences of these impacts to be minimized.

With its partners, the Group has deployed procedures aimed at guaranteeing its services as far as possible and also minimizing the consequences of these situations for its customers. In such circumstances, the Group deploys commercial measures to enable passengers to defer their travel if they so wish, or change their destination. The Group has no hedging in place for operating losses incurred due to such events.

In addition, during a major climate event, its aim is to reestablish flight operations as soon as possible to fulfil its mission of service continuity and ensure operations and the transportation of humanitarian assistance to the affected regions.

The Group deploys measures to limit the impact on climate change *via* a low-carbon strategy. Air France-KLM's Climate Action Plan stipulates the Group's priorities in terms of reducing its environmental impacts, like fleet modernization, improved fuel management, reducing the mass embarked on board aircraft and optimizing operational procedures.

The use of sustainable aviation fuel is a proven avenue towards reducing CO₂ emissions from aviation and a key element in achieving Air France-KLM's CO₂ emission reduction targets as well as those of the aviation industry as a whole. On the ground, the Group is investing in a fleet of electric ground support equipment and in sources of renewable energy to supply power to its buildings. In 2019, the Group set its CO₂ emission reduction targets for 2030.

Air France-KLM engages in lobbying directed at the French and international authorities – both directly and through representative bodies – to ensure that they take into account the efforts already made by the industry to reduce its emissions and to deliver on its commitments for 2050.

In 2019, the Group adopted the format recommended by the Task Force on Climate-related Financial Disclosures (TCFD) for the management of the financial risks linked to climate change (see *TCFD concordance table, section 4.3.2*).

Carbon credit risk

Description of the risk

As an air operator, the Group is an emitter of carbon dioxide meaning that it has, since 2012, been subject to the European Union emission quota system (EU-ETS or European Union Emission Trading Scheme). It is thus required to offset its emissions by purchasing carbon quotas in the financial markets. For the 2019 financial year, the Group's CO₂ emissions amounted to 28 million tons, of which 6 million tons are expected to fall under the EU-ETS requirement. In addition, for the 2019 financial year, Air France, KLM, Transavia, Air France HOP! and KLM Cityhopper expect this to have an impact on emission allowances to be purchased amounting to 3.3 million tons of CO₂.

As of 2021, the Group will be subject to the global carbon offsetting mechanism, known as CORSIA, adopted by the ICAO in October 2016.

During its 40th General Assembly in October 2019, the ICAO resolved that "CORSIA is the only global market-based measure applying to CO₂ emissions from international aviation so as to avoid a possible patchwork of duplicative State or regional MBMs, thus ensuring that international aviation CO₂ emissions should be accounted for only once." In this context, Air France-KLM considers that its CO₂ emissions are not subject to both the European ETS and CORSIA at the same time. Furthermore – assuming a change to the provisions of the European ETS – Air France-KLM is calling for a detailed impact study to be conducted on the envisaged amendments. In addition, the Group is drawing attention to the need for the prior design of a carbon adjustment mechanism at the frontiers of the European Union, to protect the European airlines from "carbon leakage" which neutralizes or even aggravates the environmental impacts and benefits their international competitors.

Mitigating principles and actions

At financial level, the Group has implemented a carbon credit risk hedging strategy in the form of forward purchases, a strategy whose components are approved by the Risk Management Committee.

At operational level, the Group is also committed to exploring all avenues potentially reducing its fuel consumption and carbon emissions: at its own initiative within the framework of its Climate Action Plan and in cooperation with the authorities (SESAR project for the Single European Sky and optimization of air traffic control).

The Group also uses an internal carbon price (price range) when taking a decision on whether to proceed with investments and projects, to factor the carbon risk into its decision-making scenarios.

(For more details on risks linked to the environment see Section 4.3- Environmental impact).

3.2.2.3 Loss of flight slots or lack of access to flight slots

Description of the risk

Due to the saturation of major European airports, air carriers must obtain flight slots which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers. Pursuant to this Regulation, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. The Regulation does not provide for any exemptions to this rule for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and no longer use their flight slots at the required 80% level during the period in question. The European Commission can, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots, as it has done on several occasions.

Any loss of flight slots or lack of access to flight slots due to airport saturation, which is particularly the case at Schiphol airport where growth capacity is currently limited, could have an impact in terms of market share, results and even growth.

Mitigating principles and actions

Air France-KLM applies the provisions of the European Regulation on the allocation of flight slots, guaranteeing an air carrier the ongoing use of these slots from one season to another provided they have been used for 80% of the time excluding exceptional circumstances. Air France and KLM also liaise with their national authorities to ensure the regular availability at their principal hubs of the capacity necessary to the Group's growth. They also liaise with the national and European Authorities to try to ensure that no revision of the current European Regulation takes place that would limit their accessibility to slots.

3.2.2.4 Reinforcement of passenger compensation rights

Description of the risk

a. European regulations

Within the European Union, the rights of passengers in the event of flight delays, cancellation or denied boarding are defined by Regulation (EC) No.261/2004 of February 11, 2004 which came into force in 2005. It applies to all flights, whether scheduled or unscheduled, departing from an airport located in a European Union Member State (including Paris-Charles de Gaulle and Amsterdam Schiphol, the Group's two hubs) and establishes the European rules for compensation and assistance on denied boarding, substantial delay, flight cancellation and class downgrading.

Numerous rulings by the European Court of Justice (ECJ) have contributed to reinforcing passenger rights by reducing the possibilities for airlines to invoke "extraordinary circumstances" to exempt them from the compensation foreseen in Regulation No.261/2004.

The ever-stricter regulations applying to the European airlines, but only partially applicable to airlines of third-party countries, only increase the existing distortions to competition. The emergence of companies specialized in passenger compensation is increasing the financial cost resulting from this risk. The amount of compensation is, however, the same for Air France-KLM, whether the customer contacts the company directly or via an intermediary.

b. US regulations

In the United States, the regulation increasing US airline passenger protections came into effect on August 23, 2011, and its provisions are now in force.

The US regulations in terms of passenger rights apply to all airlines operating in the US territory and/or marketing flights to/from the United States which means that Air France-KLM is concerned by these US protections.

c. National regulations

IATA has collated some fifty national regulations in a database to be able to monitor changes more effectively.

Mitigating principles and actions

To keep the effects of these regulations as much as possible within financially-acceptable limits, the Group lobbies the national and European institutions, both directly and indirectly through the air transportation industry's professional associations (IATA, A4E), to obtain reasonable obligations which create no competitive distortions or major additional costs which could lead it either to increase its fares or costs. In this respect, Air France-KLM continues to lobby for the revision of Regulation (EC) No.261/2004 of February 11, 2004.

3.2.2.5 Changes in international, national or regional regulations and legislation

Description of the risk

Air transportation activities remain highly regulated particularly with regard to the allocation of traffic rights for extra-community services and the conditions relating to operations (standards on safety, aircraft noise, CO₂ emissions, airport access and the allocation of slots). Within this context, the EU institutions may adopt regulations which may prove restrictive for airlines and are liable to have significant organizational and/or financial impacts. Any changes to regulations and legislation may increase the Group's operating expenses or reduce its revenues.

Mitigating principles and actions

The Air France-KLM Group actively defends its positions with the French and Dutch governments, and the European institutions, both directly and through industry bodies such as the Airlines for Europe association (A4E) regarding changes to European and national regulations. The Air France-KLM Group is engaged in direct lobbying of the European Commission and the national authorities to ensure a reasonable and balanced allocation

of traffic rights to non-European airlines. Coordination with like-minded carriers on this topic takes place within the framework of the Airline Coordination platform (ACP).

3.2.2.6 Regulatory authorities' inquiry into the commercial cooperation agreements between carriers

Description of the risk

Alliance operations and commercial cooperation are required to comply with the competition law in force. In certain jurisdictions, these agreements are liable to be subject to prior investigation by the competition authorities prior to any implementation. In other jurisdictions, particularly in Europe, airlines are required to ensure that their operations are compliant with the applicable competition rules. At any time, the European Commission also has the right to open inquiries into any cases of cooperation it considers of interest to the European Community. For example, the joint-venture between Air France, KLM, Delta and Alitalia was the subject of such an inquiry (resulting in a positive decision in 2015). Such inquiries could have a negative effect on the Group's results, business, reputation, financial position and outlook.

Mitigating principles and actions

In May 2015, the Directorate General for Competition (DG COMP) adopted a favorable decision on the basis of Article 101 of the Treaty on the Functioning of the European Union on the transatlantic joint-venture (Air France-KLM, Delta Air Lines, Inc., Alitalia).

In light of the final undertakings offered by the transatlantic joint-venture, the Commission authorized this agreement for a ten-year period as from the date of its adoption.

The US and other worldwide authorities had already published their conclusions, recognizing the benefits for consumers of this joint-venture. In this regard, the joint-venture between Air France-KLM, Delta and its transatlantic partners has benefited from anti-trust immunity (ATI) on departure from the United States since 2008.

3.2.2.7 Commitments made by Air France and KLM vis-à-vis the European Commission

Description of the risk

In 2003, for the European Commission to authorize the business combination between Air France and KLM, the two companies had to make a number of commitments, notably with regard to the possibility of making landing and takeoff slots available to competitors at certain airports. These commitments (in combination with those made within the framework of the May 2015 decision relating to the transatlantic joint-venture) were recently invoked by Norwegian to access slots at the Amsterdam-Schiphol hub to be able to operate four flights a week between Amsterdam and New York as of the Summer 2018 season. Should these commitments be challenged by the Group's competitors, there could be a negative impact on the Group's results, business, reputation, financial position and outlook.

Mitigating principles and actions

The Air France-KLM Group has ascertained that the eventual consequences of any challenge concerning slot availability is unlikely to lead to a material financial impact.

3.2.3 Risks related to the Group's processes

3.2.3.1 Failure of a critical IT system, IT risks and cyber criminality

The IT and telecommunications systems are of primordial importance when it comes to the Group's day-to-day functioning. The IT applications, deployed in the operating centers or *via cloud computing* systems, are accessed *via* a network comprising thousands of work positions and a growing number of mobile devices. The information contained in all these systems is exposed to a growing number of threats. The information exchanged with customers and third parties is proliferating while aircraft are increasingly connected to the Information System. The number of laws and regulations to be taken into account is also growing.

Business continuity and regulatory compliance

Description of the risk

The IT systems, including revenue management systems and booking systems (including Altea) used by the Group, and the information they contain may be exposed to risks concerning

continuity of functioning, data security and regulatory compliance. These risks have diverse origins both inside and outside the Group. The materialization of one of these risks could have an impact on the Group's activity, reputation, revenues and costs, and thus its results.

Mitigating principles and actions

The Group Executive Vice-President, Information Technology, assisted by the Group IT Committee and the Group Chief Information Security Officer, is responsible for managing the risks relating to their processes and defining, in particular, the IT and Telecommunications Security policy.

The context requires a high level of security, which is guaranteed by the mandate of the Head of IT and his staff who are responsible for System security. Air France and KLM ensure the allocation of the resources required to counter such threats, secure the information and guarantee the regulatory compliance of the information systems.

Air France-KLM monitors the secure functioning of the IT systems on a permanent basis. Dedicated help centers and redundant networks guarantee the availability and accessibility of data and IT processing in the event of major incidents.

The infrastructures of the back-up operating centers and business continuity plans are tested regularly. The access controls to the IT systems and to the data exchanged within the company are governed by rules which meet international laws and standards.

Companies specializing in IT security, external auditors, Internal Audit and Internal Control all regularly evaluate the relevance and effectiveness of the solutions in place.

The risk of damage to the IT facilities and any resulting business interruption are covered by an insurance policy.

Data security

Description of the risk

As airline companies, Air France and KLM collect personal data from their customers and employees. Management of the Group's assets is supported by rigorous management of the required data, whose consistency and integrity presents a permanent challenge for IT projects, and in the operation of digital services. Frequent changes to both applications and processes call for the ongoing adaptation of IT management tools and methods, in coordination with the businesses and their regulatory and operational requirements. If the Group fails to implement such frequent changes or to protect data of a personal nature pursuant to the relevant laws and regulation, this could have a negative impact on the Group's activity, reputation, revenues and costs, and thus its results.

Mitigating principles and actions

The Group's IT division implements security rules aimed at reducing the risks related to new technologies, particularly mobile data terminals. The access controls to IT applications and

to the computer files at each work station together with control over the data exchanged outside the Company all comply with rules pursuant to national, European and international standards. Campaigns to raise the awareness of all staff on the potential threats and encourage best practices are regularly carried out. Specialized companies, external auditors and Internal Audit all regularly evaluate the effectiveness of the solutions in place.

Data security is a priority for the Group, and specifically the protection of data of a personal nature pursuant to the relevant laws and regulations. The new EU General Data Protection Regulation (GDPR) is being applied *via* the GDPR and NIS compliance programs. Within each company, specialist teams ensure that the processing of personal information by the company complies with the relevant legislation.

In each Air France and KLM company, the Data Privacy Officers define the applicable policies, promote the data protection culture and ensure the effective fulfilment of the regulatory standards.

Cybercriminality

Description of the risk

As with any business making extensive use of modern communication and IT data processing technologies, including revenue management systems and booking systems (including Altea), the Group is exposed to threats of cyber-criminality.

Cyber-criminality refers to a wide range of different activities related to the improper use of data and the Information System for personal, financial and psychological ends. Their heavy dependence on IT and communication technologies makes airlines vulnerable to cyber-criminality. Should Air France-KLM fail to counter such incidents of cyber-criminality, this could have a negative impact on the Group's activity, reputation, revenues and costs, and thus its results.

Mitigating principles and actions

To protect itself against this risk, the Group deploys substantial resources aimed at ensuring business continuity, data protection, the security of personal information pursuant to law and the safeguarding of at-risk tangible and intangible assets.

The Cybercrime program, approved by the Group's Audit Committee, covers the prevention and detection procedures such as Cyber-threat surveillance, evaluations of Information System security and tests to pinpoint any Information System incursions *via* the internet. There are regular awareness-raising campaigns on IT security for staff across the Company. An audit of this program was realized in 2017 which confirmed the best practices in place and the orientations adopted. The recommended improvements have been added to the program. The Group complies with the Cyber standards of the Original Aircraft Manufacturers.

In 2018, the Group subscribed to a cyber insurance policy to transfer a part of this risk.

3.2.3.2 Non-compliance with regulations, including competition and anti-bribery laws

Description of the risk

Non-compliance with regulations, like competition laws, anti-bribery laws, trade sanctions or export control regulations owing to the unethical behavior of employees can result in a negative impact on the Group's reputation, and lead to substantial fines and other legal proceedings. The Group is currently involved in investigations in relation to anti-trust matters in the air-freight industry and in the passenger sector.

Mitigating principles and actions

Various measures are in place to mitigate the risk of non-compliance with laws and regulations. The preventive measures include, for example, guidelines in the form of manuals, policies and instructions to clarify expected and acceptable behavior, training in the form of e-learning as well as personal training, and the ability to report any compliance concerns.

With regard to competition law, Air France-KLM has developed its policy to prevent anti-competitive practices by circulating a Competition Law Compliance Manual which is available in three languages.

Other prevention-based tools include dedicated training modules. Having completed this training and taken an evaluation test, employees sign an individual declaration promising to respect the competition rules applying to their functions.

Regarding corruption, further to the anti-bribery campaign at the end of 2017, ongoing efforts have been deployed to further strengthen the awareness and knowledge of employees regarding the prevention of bribery like, for example, presentations and discussions, improved access to compliance documents and communication by the Group's management.

For more detail see Section 4.5.3.

3.2.3.3 Operational performance and customer risks

Description of the risk

For customers, operational performance is a cornerstone of the product. In the day-to-day operations, where there is pressure on airlines and growing congestion in airports and airlines, and where regulations are increasingly complex (e.g. security), within a context of social unrest within the airline industry but also externally (air traffic control and ground handler strikes), increased traffic volume brings with it a risk of sub-optimal operational performance or a lower standard of customer service,

leading to an increase in the costs of operational performance and a reduction in levels of customer satisfaction, which can result in a negative impact on the Group's reputation.

Mitigating principles and actions

For both Air France and KLM, the Operations Control Center is at the heart of operations and any disruption is managed in an integrated manner. Numerous action plans are deployed on operational excellence, service disruption management and recovery, security, network agility, compensation procedure (EU 261), and crew and other critical resources. The goal is to reduce the number of distortions, reduce the impact on customers, improve customer satisfaction and reduce the costs of sub-optimal performance. In 2019, there was a significant fall in the number of service disruptions while customer satisfaction saw a considerable increase (regularity, punctuality, baggage handling, etc.).

3.2.3.4 Working conditions and human capital development

Description of the risk

Employees are at the heart of Air France-KLM and maintaining their trust is vital to enabling them to attain their highest standards of performance to the benefit of customers. Employee engagement and social stability is imperative for the long-term viability and success of the company.

The staff in the different Group entities have different (local) HR contracts and policies which comply with the employment legislation in force in their respective countries. Strategic changes and changes impacting the working conditions of staff are applied pursuant to the legislation and protocols as defined for each of the entities comprising the Group.

In the past and potentially in future, the Group's operations may be disrupted by labor disputes such as strikes, walkouts, industrial action or other forms of social unrest, which could also have a negative impact on the Group's operations, profitability and image.

Mitigating principles and actions

The Group recognizes the constraints and risks to which it is exposed and the need to adapt to a more rapid pace of change. At the same time, the Group seeks to preserve cohesion by fostering a constructive and transparent workplace dialogue and by pursuing a policy based on respect and responsibility.

To ensure the effective coordination of the workplace dialogue, responsibilities and accountabilities are defined for each entity and category of staff. At Group level, coordination takes place between the different entities, specifically for transverse topics concerning categories of staff across several entities. Significant changes to the HR policies and collective labor agreements are approved at the highest level of management within the airlines and the Group.

Various initiatives aimed at improving the workplace dialogue are planned and implemented in the different Group entities.

In Air France and KLM, an Employee Promotor Score indicator has been implemented to measure the engagement of employees. The results feed into local action plans aimed at improving employee engagement and opening up the dialogue between managers and their teams. Decreasing the distance between management and staff is key to understanding the needs and concerns of staff, tackling any issues in a proactive manner and avoiding any escalation.

The level of employee engagement is included in the targets for the highest level of management within Air France-KLM. Continuous monitoring takes place and the methodology will be subject to ongoing improvement (See Section 4.2 - Human Resources).

3.2.3.5 Pension plans

Description of the risk

As of December 31, 2019, the Group's main commitment in terms of defined benefit schemes was the pension plan for Ground Staff based in the Netherlands.

Under IAS 19, the Air France-KLM Group is exposed to changes in external financial parameters (e.g. discount rates, future inflation rate) which could lead to annual fluctuations in its income statement and equity with no impact on cash. The changes in pension obligations together with the level of plan assets related to changes in actuarial assumptions are recognized in equity and are not taken against profit and loss. The potential volatility is explained in Note 4 on "Accounting principles - Employee benefits" and in Note 29 "Other provisions" to the consolidated financial statements for the financial year ended December 31, 2019.

In particular, the KLM Ground Staff pension plan may create accounting volatility for the Group's equity.

Note 29 to the consolidated financial statements presents the sensitivity of the defined benefit cost recognized in profit and loss and the defined benefit obligation to changes in the discount rate, and the level of increases to salaries and pensions.

Mitigating principles and actions

The cash risk on recovery premiums for the Ground Staff pension plan is limited based on the funding agreement between the pension fund and KLM. The regular premium level is fixed.

The current calculations led to the KLM Ground Staff pension plan figuring as an asset in the balance sheet at December 31, 2019, the assets in the funds being higher than the value of the defined benefit obligations.

3.2.4 Legal risks

During their ordinary course of business, the Group's companies could be involved in legal, administrative, criminal, or arbitration proceedings, especially concerning civil liability, competition, industrial, fiscal, or intellectual property claims, or claims relating to the environment and discrimination. In some of these proceedings, significant monetary claims have been made or may be made against one or more Group companies. The relevant provisions, if any, that the Group may have to record in its financial statements may not be sufficient, which could have

a material adverse effect on its business, financial position, results and outlook. As of June 30, 2019, the Group's total provisions for litigation amounted to €412 million (see Note 17 to the Group's unaudited interim condensed consolidated financial statements for the six-month period ended June 30, 2019).

New proceedings, stemming from existing proceedings or otherwise, related to risks already identified by the Group or to new risks, could be initiated against a Group entity. Should these proceedings result in an unfavorable outcome, there could be a significant adverse effect on the Group's business, financial position, results and outlook.

3.2.5 Financial market risks

3.2.5.1 Risks relating to the fuel price

Description of the risk

At December 31, 2019, the Air France – KLM Group's fuel exposure, based on futures prices at December 31, 2019 (\$62.90 a barrel for 2020 and \$58.90 a barrel for 2021), was as follows:

(in US\$ million)	2020	2021
Gross expenditure before hedging	6,380	6,179
Hedge percentage	59%	26%
Gain on hedging	(16)	3
Net expenditure after hedging	6,396	6,176

Based on the forward curve at December 31, 2019, an increase of US\$10 per barrel over 2020 would give an average price of US\$72.90 per barrel and would lead to a US\$593 million increase in the fuel bill after hedging, i.e. a total fuel bill of US\$6,989 million for the Air France–KLM Group. Symmetrically, a fall of US\$10 per barrel over 2020 would give an average price of US\$52.90 per barrel and would lead to a US\$566 million reduction in the fuel bill after hedging, i.e. a total expense of US\$5,830 million.

Mitigating principles and actions

Risks related to the jet fuel price are hedged within the framework of a hedging strategy defined by the Risk Management Committee (the "RMC") and approved by the Board of Directors.

The hedging strategy sets the time span of the hedges at a rolling 24-months and the target hedging ratios at 60% during the first three quarters of the time span, decreasing by 10% in each of the remaining quarters of the time span. The hedging uses simple futures or option-based instruments, eligible for hedging pursuant to the accounting standards in force.

In respect of the application of IFRS 9, hedging by component has been applied since January 1, 2018. Since the Group's fuel procurement is strongly correlated to the Jet Kerosene Cargoes CIF NWE Index, components specific to this fuel risk are used (Brent ICE, Gasoil ICE, Jet CIF NWE) to align the fuel hedging accounting and the Group's risk management policy more effectively.

Within the framework of a dynamic risk monitoring approach, the Group tracks indicators capping the potential maximum loss and the potential maximum gain (value of the portfolio prompting its restructuring).

Lastly, an indicator enabling the measurement of the extreme risk of the portfolio has been deployed. The level of this Value at Risk indicator is calculated and analyzed every week and may also trigger a restructuring of the portfolio.

3.2.5.2 Currency risk

Most of Air France–KLM's revenues are generated in euros. However, because of its international activities, the Group incurs currency exchange risks.

The Group's main exposure relates to the US dollar. Since expenditures on items such as fuel and maintenance exceed the amount of overall revenues in US dollars, the Group is a net buyer of US dollars, representing a residual structural risk.

As a result, any significant appreciation in the US dollar against the euro could result in a negative impact on the Group's financial results.

On the contrary, the Group is a net seller of other currencies, the level of its revenues in currencies other than the US dollar exceeding its expenditures in the same currencies. This exposure is, however, much lower than with the US dollar. A significant decline in these currencies against the euro could nevertheless have a negative effect on the Group's financial results.

Operational exposure

2020 operational exposure (“Transaction risk”)

(in millions of currencies at December 31, 2019)

	US Dollar	Sterling	Yen
Net position before hedging	(2,862)	564	45,226
Currency hedge	1,673	(391)	(14,750)
Net position after hedging	(1,189)	173	30,516

For 2020, the maximum impact on income before tax of a 10% currency variation relative to the euro is shown in the following table. These results cannot be extrapolated due to the use of option-based instruments.

(in € million)

	US Dollar	Sterling	Yen
10% increase relative to the euro	(59)	1	2
10% fall relative to the euro	94	(22)	(4)

Mitigating principles and actions

The currency risk management for the Group’s airline subsidiaries is centralized within each airline company while the currency risks incurred in investments by the Group’s holding company are managed at holding company level.

The risk management of the Group’s overall currency exposure is carried out on the basis of a forecast net exposure for each

currency. Currencies highly correlated to the US dollar are usually aggregated with the US dollar exposure.

For each currency hedged, the time span of the hedging is a rolling 12 to 24-month period, the first four quarters being relatively more hedged than the following four. The RMC sets hedging targets for the US dollar, sterling and the yen on a quarterly basis.

Investment exposure (“Translation risk”)

Description of the risk

Aircraft are generally purchased in US dollars, meaning that the Group is exposed to an appreciation in the US dollar relative to the euro in terms of its investment in aircraft and flight equipment.

The net investments in US dollars figuring in the table below reflect the contractual commitments as of December 31, 2019.

(in US\$ million)	2020	2021	2022	2023	2024	2025
Investments	(1,880)	(1,604)	(1,530)	(1,401)	(952)	(853)
Currency hedge	1,315	1,033	709	361	194	21
Hedge ratio	70%	64%	46%	26%	20%	2%

Mitigating principles and actions

The hedging strategy provides for the implementation of a gradual level of hedging between order and delivery dates of the aircraft or flight equipment.

Exposure on indebtedness

Since the application of IFRS 16 as of January 1, 2018, the Group’s aircraft operating leases, which are mostly denominated in US dollars, have been recognized in the Group’s debt. For airlines generating US dollar revenues, the revaluation of this debt in US

dollars is neutralized at the accounting level through the recognition of this debt as a natural hedge against a fraction of the Group’s US dollar revenues. For airlines not generating US dollar revenues, US dollar-denominated assets and currency hedges are in place to mitigate the exchange rate risk.

The exchange rate risk on debt, other than coming from operating leases, denominated in other currencies than the euro mostly concerns the yen (10%), the US dollar (6%) and the Swiss franc (5%).

Mitigating principles and actions

The exchange rate risk on non-operating lease debt (non-IFRS 16) is limited. At December 31, 2019, 74% of the Group's gross debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt.

3.2.5.3 Counterparty risk exposure**Description of the risk**

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of BBB+ (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality and ranking of their ratings. The RMC also monitors the trend in the respective proportion each counterparty represents in the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the Air France-KLM parent company, are taken into account in the assessment of the overall exposure.

Mitigating principles and actions

The rules concerning counterparty risk management are established by the RMC and applied within each company.

A monthly report is established and circulated to the members of the General Management of the two airline companies. It is supplemented by real time information in the event of any real risk of a rating downgrading for counterparties.

3.2.5.4 Financing risks**Financing strategy****Air France**

To finance its investments, Air France prioritizes long-term resources by raising conventional bank debt secured by its assets (in the form of mortgage debt or finance leases) and, when available, by using export credit.

KLM

To finance its aircraft, KLM uses a number of different structures including traditional bank debt, finance leases and export credit.

In view of the application of prudential standards, the banks could reduce their balance sheets in future years and consequently make a more limited volume of lending available to businesses.

Air France-KLM

Air France-KLM has realized several bond issues. While the issues prior to 2014 benefited from Air France and KLM several guarantees, the issues since 2014 have been unsecured:

- an issue of plain vanilla bonds with a seven-year maturity raising €600 million in June 2014;
- an issue of subordinated perpetual notes raising €600 million in March and April 2015. In accordance with IFRS, these securities were booked as equity. In September 2018, a tender offer was launched for their repurchase and €196.7 million of bonds were presented and accepted. The outstanding subordinated perpetual notes therefore amount to €403.3 million, with a call feature at par and a coupon step up in 2020;
- an issue of plain vanilla bonds with a six-year maturity raising €400 million in October 2016;
- an issue of plain vanilla bonds with a ten-year maturity raising US\$145 million *via* a private placement in December 2016;
- an issue of convertible bonds maturing in 2026, raising around €500 million in March 2019.

Mitigating principles and actions

The financing strategy is decided by the Group in coordination with the Air France Group and the KLM Group. The Air France-KLM Group's financing is mainly composed of bonds and debt collateralized by assets. For the bonds, the issuer is mainly Air France-KLM SA

Furthermore, in view of its investment program, particularly in the fleet, the Air France-KLM Group also plans to be active in the financing market. In the current market conditions, the Group thus intends to finance its forthcoming aircraft deliveries using collateralized debt. These financing or refinancing operations will, as usual, be the subject of competitive requests for proposals.

The Group plans to mitigate this risk by adapting its financing strategy:

- more systematic recourse to financing in the market *via* Air France-KLM;
- diversification of the financing structures;
- diversification in the number of banking or financial investor counterparties.

3.2.5.5 Liquidity risks

Description of the risk

As of December 31, 2019, the Group disposed of undrawn credit lines amounting to €1,765 million. The two main undrawn credit lines amounted, respectively, to €1.1 billion for the Air France-KLM holding company and Air France, and €665 million for KLM.

As of the beginning of the public health crisis linked to the COVID-19 virus, the Air France-KLM Group implemented measures, notably financial, to limit the impact of the virus on its profitability and preserve its financial viability. Within this framework, the Air France-KLM Group drew down the totality of its revolving credit facility in the amount of €1.1 billion and KLM drew down the totality of its revolving credit facility amounting to €665 million. At March 12, the Group and its subsidiaries thus had more than €6 billion of cash and cash equivalents.

As the public health crisis continues, the conditions for a recovery remain uncertain, both in terms of the Group's air operations, but more generally in terms of the timetable for an economic and demand recovery. Furthermore, within a context of significant market volatility and in view of the situation of the Air France-KLM Group, the external financing conditions for the Group could be significantly more difficult than those it has experienced in the past.

At April 17, 2020, as we finalize the 2019 Universal Registration Document, our best estimates incorporating all the measures taken by the Group show that, in the absence of additional financing, a liquidity requirement is expected in the third quarter of 2020.

Mitigating principles and actions

The Air France-KLM Group, Air France and KLM are engaged in in-depth discussions with their respective governments and financial institutions to dispose of the resources that will enable them to secure and sustain adequate levels of liquidity by all means, notably within the framework of the European Commission's Temporary Framework on State Aid published on March 19, 2020.

That being said, given the various options currently being considered and the quality of the discussions with the two States and financial institutions, the Air France-KLM Group is confident that it will be able to obtain additional financing to meet all its future financial obligations and enable it to ensure the recovery of its activity beyond the current crisis.

3.2.5.6 Interest rate risk

Description of the risk

A portion of the overall debt is linked to floating rates and therefore incurs volatility.

After swaps, the Air France-KLM Group's fixed-rate debt exposure represents 72% of the overall total debt exposure. The interest rate on the Group's gross debt after swaps stood at 2.54% at December 31, 2019 (versus 2.96% at December 31, 2018).

Interest rate exposure

(in € million at December 31, 2019)

Financial assets at floating rates	1,352
Financial liabilities at floating rates	3,078
Net exposure before hedging	1,726
Hedging	(1,417)
Net exposure after hedging	309

The Group's net exposure to interest rates after hedging stands at €309 million. A 100-basis point increase in interest rates over twelve months would therefore have an €3 million negative impact on the results.

Mitigating principles and actions

The interest rate exposure is limited by the fact that floating rate debt represents only a small proportion of the total debt. Air France and KLM both use interest rate swap hedging strategies through derivatives contracts to convert their floating-rate debt exposure into fixed rate exposure.

3.2.5.7 Equity risks

Description of the risk

At December 31, 2019, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth €433 million, principally comprising 1.1% of the Amadeus IT Group SA ("Amadeus") share capital. The value of the Amadeus shares was protected by a collar maturing in November 2019. In November 2019, the decision was taken to dispose of all the Amadeus shares in early 2020; to maintain the protection of this investment value until that date, the existing collar was restructured into a forward maturing in January 2020.

Mitigating principles and actions

Air France and KLM's cash resources are not directly invested in the equity market or in equity mutual funds.

3.2.5.8 Investment risks

Description of the risk

The cash resources of Air France-KLM, Air France and KLM are invested so as to maximize the return for a very low level of risk. They are invested in money market mutual funds, and in debt securities and term deposits with highly-rated banks.

Mitigating principles and actions

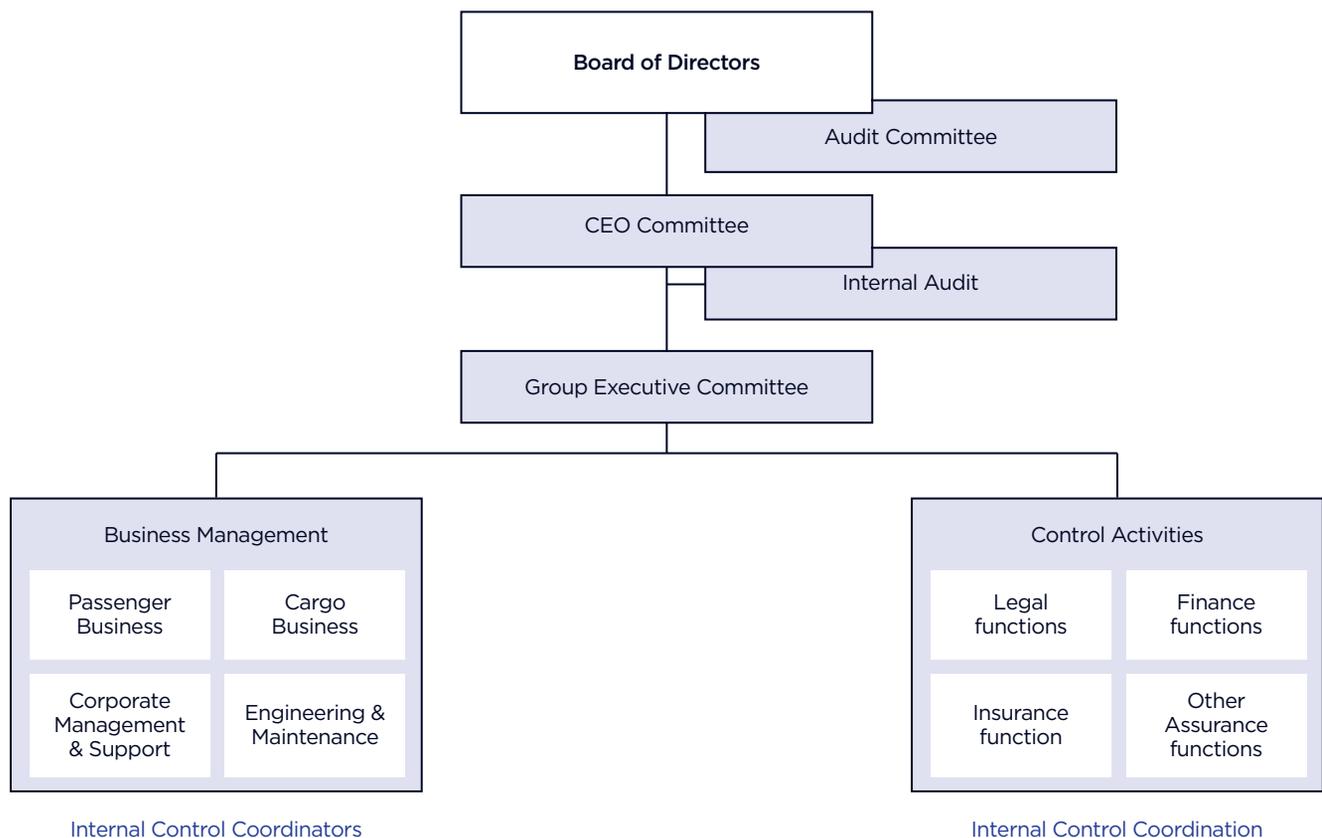
To reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in foreign-currency AAA and AA+ rated bonds.

3.3 ORGANIZATION AND FUNCTIONING OF INTERNAL CONTROL

3.3.1 Internal Control organization and tools

Internal Control network

An Air France–KLM Internal Control network has been established, supported by Internal Control Coordinators embedded in the business units.



The organization within the Group, covering its principal businesses, can be summarized as follows: Passenger (passenger transportation), Cargo and Engineering & Maintenance. Due to the interdependence of each of the businesses, this organization involves numerous cross-functional processes (sale of passenger aircraft belly space to the cargo business, Engineering and Maintenance services relating to the both Passenger and Cargo aircraft, IT services, etc.).

- The Board of Directors is the corporate body that determines the direction of the Group’s activities. To this end, the Board acts to ensure the successful performance of the Air France–KLM Group, supported by advice from the advisory committees mentioned in *Section 2 above, Conditions for preparing and organizing the work of the Board of Directors*;

- The CEO Committee is composed of the Air France–KLM, Air France and KLM CEOs and the Air France–KLM CFO. It is the primary executive management decision body for the Group and has final management rights (except when the approval of the Air France–KLM Board is required) and accountability on all matters pertaining to both Airline and Group functions and performance, while respecting the existing agreements, commitments and bylaws of the relevant airlines. In particular, it is responsible for setting the strategic direction of the Group and for the Airlines, and reviewing the performance of the Airlines and Group functions on an ongoing basis;
- The Group Executive Committee (GEC) puts the Group’s go forward plan into action, within the framework of the strategy defined by the Board of Directors and the CEO Committee. In

December 2019, the GEC was composed of twelve members (the Air France–KLM CEO, the CEOs of Air France and KLM, and the nine heads of Group functions), plus a secretary to the GEC. The Committee meets every two weeks, alternating between Amsterdam and Paris. Its purview covers the following areas: Group Finance; Corporate Secretary, Sustainability, and Communications; Engineering & Maintenance; Cargo; Information Technology; Human Resources; Strategy; Commercial & Revenue.

— Finance functions

A Group Finance division has been constituted around the Group's Chief Financial Officer, staffed by some thirty people (Financial Communication and Investor Relations, Consolidation & Accounting, Central Management Control and Mergers-Acquisitions & Financial Operations). This division submits to the Group Executive Committee and the Board the Group's overall financial policy and orientations (the latter being applied at the level of the Group's two principal companies, which each have their own financial functions) and tracks the Group's financial performance.

In addition, some operations relating to the Air France–KLM holding company are entrusted to Air France, *via* a management mandate (notably treasury management).

— Insurance functions

The insurance functions are responsible for identifying at-risk sectors of the Group that might impact the operations and financial results, so as to reduce their potential impact or transfer them either to insurers through insurance policies, particularly aviation policies, or to third parties under contractual mechanisms.

They also manage the claims and advise the Group's entities on reducing and controlling their risks.

There is an aviation insurance policy in place for the entire Air France–KLM Group to cover civil liability, damage to aircraft and risks of war, which constitute the major financial and legal risks of any airline.

— Legal functions

The legal departments of Air France–KLM, Air France and KLM perform a consulting mission for their management and decentralized organizations, notably in the areas of corporate law, transportation law, contract law and insurance law. They cooperate to establish the Group's legal policy.

Legal Affairs draws up a systematic inventory of the disputes in process, to be able to assess the risks and constitute the corresponding provisions booked as liabilities.

— Compliance functions

The Compliance Officers within Air France–KLM, Air France and KLM pursue and monitor the implementation of the compliance

framework components within the Groups. Within Air France and KLM, Data Privacy Officers are tasked with strengthening privacy compliance while Export Control Managers are responsible for securing trade compliance on the export of goods or technology. The Compliance Officers report to the relevant governance bodies, like the Audit Committee. In addition, the Air France Compliance Committee and the KLM Compliance Committee monitor the respective compliance programs. Various legal experts also provide advice on compliance with laws and regulations.

At the end of 2018, the Board of Directors decided to create a Sustainable Development & Compliance Committee, whose mission is to assist in reviewing the Group's policies.

— Internal Audit

Air France–KLM's Internal Audit is an independent function intended to improve the Group's various processes. It helps the Group to achieve its stated objectives by providing a systematic and formalized approach with which to evaluate and strengthen the effectiveness of the decision-making, risk management, Internal Control and governance processes. The Internal Audit function objectively reviews the reliability of the overall Internal Control procedures implemented by the Group, as well as the controls in place for the processes specific to each business.

Given the Group's governance rules, each company has retained its own Internal Audit department; the coordination of Internal Audit at Group level has, nevertheless, been effective since the beginning of the 2005-06 financial year. The Group's Head of Internal Audit function, which is fulfilled by a Vice-President from within the airlines' Internal Audit departments, is responsible for overall coordination and has a functional reporting line into the Group's Chief Financial Officer. The Internal Control departments in the two sub-groups use identical methodologies (Group Charter, Group Audit Manual, etc.), while a common tool was adopted in early 2017 (Nasdaq Bwise).

The Internal Audit function carries out audits at the level of the Group and its subsidiaries (Air France and KLM). Audits are conducted in collaboration with the internal auditors of the two airlines.

The number of auditors' positions average 24 in FTE (excluding management).

The Internal Audit division reports on its work to the Group Executive Committee and to Air France–KLM's Audit Committee in a summary report presented quarterly.

To execute its mission, Internal Audit, which operates within the framework of the internal Audit Charter established by the Audit Committee of the Air France–KLM Group, either acts on its own initiative or intervenes at the request of the Group Executive Committee, the Audit Committee or the Board of Directors.

An annual program of missions is established and submitted for approval to the Group Executive Committee and to the Group's Audit Committee.

The Internal Audit function performs the following actions:

1. assurance Audit:
 - a. operational Audit: to review the effectiveness, efficiency and general control over processes,
 - b. information and Communication Technologies or Electronic Data Processing (EDP) Audit: to assess the effectiveness and efficiency of internal controls related to the information and communication systems,
 - c. compliance Audit: to check compliance with laws and regulations and/or standards, procedures and/or policies issued by the Group,
 - d. post audit: to check follow-up on findings in previous assurance audits;
2. consulting assignments: advisory services that are performed at the specific request of business management. When performing consulting services, the Internal Auditor must remain objective and not assume management responsibility;
3. fraud investigations: to prevent, detect and investigate significant suspected internal or external fraudulent activities;
4. enterprise Risk Management: to facilitate and improve the risk management process.

Once completed, the conclusions of the audits are summarized in a report highlighting the findings, the risks and the corresponding recommendations.

The audited entities then establish corrective action plans and a follow-up is conducted in the next few months.

The Air France-KLM Group's Internal Audit division has been awarded professional certification by the IFACI (*Institut Français de l'Audit et du Contrôle Interne*). This body has certified that, for the Group Internal Audit activities, all the procedures required to comply with the 2012 version of the Internal Audit Professional Practices Framework (PPF) and thus respect the international standards for Internal Audit have been implemented. This certification, which was renewed in 2018, is valid until July 2021.

Organization of responsibilities

The organization of the individual companies has been defined to ensure compliance with the principles of secure and effective operations. It specifically takes into account the regulatory requirements governing air transportation, notably with regard to air operations (*See Section 3.2.2 Risks linked to airline safety*), ground operations and engineering and maintenance, as well as airline catering and security.

The managers of the relevant entities and subsidiaries are required to apply these principles and organization at their level, and ensure that the organizational charts, job descriptions and procedures defined by business process are up to date. They must ensure their consistency and adequacy, verify that they are taken into account in the main information systems and appropriately integrated within the organization.

Internal Control tools

Charters and manuals

Air France, KLM and their respective subsidiaries have a Social Rights and Ethics Charter that enshrines their individual commitments to Corporate Social Responsibility by orienting their corporate and ethical policy towards respect for individuals at the professional, social and citizenship levels.

The Air France Group deploys a Charter for the prevention of harassment in the workplace, which complies with French legislation and is part of a contractual approach through agreements signed for the benefit of employees. The legal purpose of this Charter is to set forth the principles of prevention, define the actions, stress everyone's individual legal and human responsibilities, and establish internal prevention procedures.

For its part, the KLM Group has published a Code of Conduct addressing the following principal matters: compliance with laws and regulations, conflicts of interest, confidentiality, the safeguarding of assets, environmental protection, Corporate Social Responsibility and intellectual property.

KLM has also implemented a Code of Ethics intended principally for employees in the finance function (*See also Section 4.5.3*).

Manuals to prevent non-compliance

Staff have access to a series of manuals and policies on the intranet sites. With regard to the prevention of bribery, the Anti-Bribery Manual affirms the Air France-KLM Group's commitment to conducting business with loyalty, fairness, transparency, honesty and integrity, and in the strict respect of anti-corruption laws wherever its companies or subsidiaries exercise their activities. The Manual establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations in the light of the anti-corruption legislation. The related Gift and Hospitality Policy ("Policy") sets out the rules and guidelines with regard to Gifts and Hospitality in more detail.

The Competition Law Compliance Manual emphasizes the objectives of integrity and transparency, and contains instructions on the prevention of anti-competitive agreements and the abuse of market power. *For more detail, see section 4.5.1.*

Internal Audit Charter

The Air France-KLM Group's internal Audit Charter was signed by the Chairman and Chief Executive Officer, the Chair of the Audit Committee and the Head of the Group Internal Audit Division in 2019. The internal Audit Charter defines the mission of the Audit division and guarantees its independence as well as the conditions by which the division functions.

In accordance with the International Institute of Internal Auditors (The IIA) rules, the Charter formalizes the position of audit within the business and defines its sphere of operation.

Internal Control Charter

The Internal Control Charter defines the commitments of the three top executives of Air France-KLM, Air France and KLM, and

stipulates the main components of internal control within the Group: governance and the most important tools enabling its exercise, an outline of the overall Internal Control process and the different Internal Control activities (verification of the entity's environment, transactional controls (process) and overall IT control).

Procurement Manual

The organization of the Procurement function common to Air France and KLM is outlined in the Procurement Manual.

The Procurement function regularly updates the Quality reference system. This reference system comprises, notably, the purchasing Code of Ethics for Employees, which stipulates the rules of conduct for Air France-KLM buyers when dealing with suppliers or service providers, and informs all those involved in the process of the limits that must not be exceeded.

Quality reference system

The Air France and KLM quality assurance systems are based on the following principal external and internal standards:

— External standards

Operations: national regulations (based on European regulations) and applicable general laws, international standards (ICAO, IATA, etc.) or those that are specific to aeronautics maintenance (Part 145, etc.).

Passenger service: European and US regulations (Special Care Passengers), European commitments of the Association of European Airlines (AEA), service commitments of those involved in air transportation (airports).

Management, the environment, documentation, food security, health and safety in the workplace: ISO series 9001, 14001, 15489, 22000 and OHSAS 18001 / ISO 45001.

— Internal standards

These represent the application of the external standards, adapted to the processes of each company.

Regulatory level: operating, maintenance and safety manuals, etc., and the related general procedures, which are mostly subject to formal approval by the administrative authorities issuing the authorizations (DGAC, IVW-DL, FAA, etc.).

Management systems: the Air France Integrated Management System/IMS Manual and the KLM Integrated Safety Management System/Manual, together with the related general procedures like the Quality-Safety-Environment manuals of the entities, the manual on health and safety in the workplace, Flight Safety management, environmental management, management of the Company's food hygiene, together with the related general procedures.

Passenger service: standards, services signatures, the five attitudes, the PAMs (Passenger Airport Manuals), the general sale and after-sales conditions, together with the other procedures associated with customer service common to Air France and KLM.

3.3.2 Fundamental components of internal control established within the Group

Based on analysis of the potential major risks, taking into account the changes inside and outside its operations, the Group has established and implemented the fundamental components of Internal Control, aimed at preventing and controlling, insofar as possible, risks that are both financial and non-financial in nature, and evaluating its ability to implement the appropriate remedial measures.

Operational procedures and processes

Management of the quality system

Both the Air France (Integrated Management System/IMS Manual) and KLM Integrated Safety Management System/Manual outline all the general provisions of the quality assurance system applied in the two companies, i.e. the overall organization, management processes, and the procedures and resources required to implement quality management and meet the expectations of customers and other stakeholders.

In each division of the two companies, an ISM/ISMS review takes stock of the operation of the ISM/ISMS management systems and measures the performance of the main steering processes.

In addition to the regulatory approvals enabling each company to carry out its activities, progress is recognized in the achievement of certification from independent bodies, notably, for example, for Air France:

- IOSA certification (IATA Operational Safety Audit) since September 2005, renewed for a seventh time in the autumn of 2018;
- Air France global IMS certification based on the ISO 14001/Environment, ISO 22000 certification for food health and OHSAS 18001/Vocational Health & Safety (renewed in autumn 2017);
- ISO 9001/Quality certification for a growing number of entities.

For KLM:

- the ISO 14001/Environment certification was renewed in 2018;
- IOSA certification (IATA Operational Safety Audit): The audit was performed in the autumn of 2018 and the renewal of the certificate took place in March 2019.

Quality assurance

Control over the operational processes is based primarily on three monitoring methods:

Internal monitoring is carried out by the quality assurance departments articulated around:

- an audit and inspection program (covering, in particular, organization and management, flight operations, in-flight service, flight planning, ground handling and freight, hazardous merchandise, engineering and maintenance);
- regular monitoring of operations with incident analysis and routine use of debriefing;
- proactive prevention processes.

External monitoring is carried out by the Civil Aviation Authorities (IVW-DL, DGAC, FAA, etc.) and specialized certification bodies, and takes the form of audits of the operating principles and of the Group's proprietary internal monitoring system. Air France and KLM are also regularly audited by their customers and partners.

Monitoring of partners

Control over sub-contractors and suppliers is undertaken within the framework of the regulatory monitoring program approved by the Civil Aviation Authorities.

Code share partnerships are subject to an additional requirement to comply with IOSA standards that are recognized by the profession as the ultimate reference in Flight Safety and Security. The general rule is that partners are IOSA certified except in the specific case when, for example, the size of aircraft excludes the airline from the IOSA scope. In this case, the partner airline is not IOSA certified, Air France and KLM implement a special technical monitoring process aimed at providing a reasonable assurance of an equivalent level.

In terms of control over the monitoring process, the supervision of the effective implementation of preventive/remedial actions resulting from this overall monitoring is ensured by the quality assurance departments, coordinated within each airline.

More generally, the sub-contractor control procedure addresses all the areas of risk. It is reflected in the realization of monitoring activities like audits, inspections and checks, sometimes carried out by the sub-contractors themselves. Monitoring is ensured on a quarterly basis. An expanded transverse action plan is in place, taking into consideration the new legislation on the duty of vigilance. More globally an action plan covering the monitoring of sub-contractor activity is deployed in the different Air France entities and coordinated on at the corporate transverse level in dedicated steering committees.

Information systems

The control procedures cover the information and telecommunication systems.

These procedures aim to ensure the:

- reliability of the IT and telecommunications systems;

- integrity of the data through the appropriate resources, infrastructure and checks;
- continuity of IT services and the availability of data at the production sites through a local contingency strategy, secure architecture and a security system covering external access points;
- confidentiality of information within the framework of national laws and the security of IT infrastructures through the establishment of secure, monitored and effective accesses.

The managements of the two companies ensure that the resources and expertise required by the Information systems are developed within the framework of defined strategic objectives.

Project management and software application development tools are also deployed: the so-called Symphony method for common Air France-KLM projects was based on the Tempo (Air France) and Prince2/Steelband (KLM) methods. Air France-KLM has adopted an "Agile" development process based on the SCRUM and DEVOPS methodologies. The main aims are to generate business line added value more rapidly, accelerate "Time to Market", align IT and business line objectives by prioritizing value, avoiding the development of rarely-used functionalities, reducing the risks at the earliest-possible opportunity, streamlining the development and maintenance processes and increasing the effectiveness of the teams.

The work carried out in connection with Internal Control projects and the ongoing project to gradually establish a coordinated and optimized organization is leading to the launch of action plans designed to strengthen Internal Control, particularly with regard to risks like business continuity and personal data protection.

The Group's Information Technology division defines the policies establishing the framework for the functioning, security and consistency of the information systems deployed and has published a Security Information Manual (ISM - ISO 27001 standard), establishing a common security policy for information systems.

Procurement

The common Air France-KLM Procurement organization has been operational since September 1, 2008, and has been headed since its inception by a Group Chief Procurement Officer from KLM, seconded by an Air France Senior Vice-President, Procurement. It is structured around seven procurement teams. These procurement teams act in a transverse and coordinated manner for each of the Air France-KLM Group, Air France and KLM as well as for, when required, a number of the Group's airline subsidiaries.

The activity of the Procurement function aims to supply the entities with suitable products and services at the required time, at the best possible cost of ownership and at the lowest possible risks.

This is achieved by applying a procurement policy focused on the expertise of the buyers, with separate responsibilities (buyer, prescriber and supplier), the establishment of contracts and the use of various (electronic) tools.

The CPO Board, comprising the Group Chief Procurement Officer and Air France's Senior Vice-President, Procurement, coordinates the Procurement teams through regular meetings and presents the procurement performance and developments to the CFOs on a quarterly basis.

The Heads of Procurement meet on a regular basis in the different structures (e.g. the Quarterly Air France-KLM DPO Meeting, a Quarterly Performance Meeting, direct meeting between Heads etc.) to develop joint programs and share best practices.

To assess the risks related to sustainability (environmental, ethics, procurement, social) vendors are analyzed and evaluated by EcoVadis, a company mandated by Air France-KLM, with the emphasis on high-risk segments such as production in low-cost countries, and with a minimum score requirement. In addition, all procurement-managed vendors are required to commit to a Code of Conduct, reflecting Air France-KLM's sustainability requirements.

All new vendors are assessed on their level of financial risk on the basis of the Dun & Bradstreet evaluation. Risk reduction strategies are required for vendors with a high level financial risk.

Lastly, to reduce the risks at Air France-KLM level, all contracts with vendors include clauses on anti-bribery, personal data handling and other relevant risk areas.

Prevention of ticketing fraud

A fraud prevention unit is responsible for preventing, insofar as possible, the risks relating to the:

- fraudulent use of illegally-purchased tickets (credit cards and other means of payment);
- protection of loyalty programs (individual and corporate clients) in terms of both earn and burn;
- internal fraud.

A fraud prevention activity report was submitted to the Audit Committee in October 2019.

Both Air France and KLM have put in place whistle-blower procedures and an e-learning anti-fraud training module aimed mainly at the sales teams.

Prevention of financial fraud

Due to the proliferation of cases of attempted fraud, the Group has strengthened its internal control processes with detailed instruction notes, e-learning modules and training/information sessions.

Evaluation and monitoring of Internal Control

When establishing its internal control framework and risk management process, Air France-KLM chose the COSO 2013 (Committee Of Sponsoring Organisation of the Treadway Commission) standard and the COBIT 5 (Control Objectives for Information and related Technology) as its starting point. This COSO reference framework positions Internal Control in the light of the following three categories of objectives (operations/financial information/compliance) and defines the latter relative to five components:

- control environment;
- risk assessment;
- control activities;
- information and communication;
- monitoring activities.

The COBIT identifies five processes:

- evaluate, direct and monitor;
- align, plan, and organize;
- build, acquire and implement;
- deliver, service and support;
- monitor, evaluate and assess.

Transactional level controls (process) are realized *via* design effectiveness testing, followed by operational effectiveness testing.

Similarly, the IT general controls are the subject of a formalized annual evaluation, followed by monitoring of the ensuing action and remedial plans.

3.3.3 Internal control relating to the establishment and processing of financial and accounting information

Based on an analysis of the significant entries in the consolidated financial statements and an assessment of the risks, the Group has identified the most important companies and, within these entities, the processes that make a predominant contribution to the establishment of the financial statements.

For each of these significant processes, process documentation detailing the controls and separation of tasks has been established, followed by the implementation of existence and effectiveness testing.

The Group's major divisions and subsidiaries had thus evaluated the effectiveness of their Internal Control relating to financial information as at December 31, 2019.

Pursuant to Article L. 823-19 of the *Code de Commerce*, the Audit Committee oversees the process to establish the financial information and, when necessary, formulates recommendations to guarantee the integrity of the process to establish the financial information, the effectiveness of the Internal Control and risk management procedures and, as necessary, of Internal Audit, as regards the procedures required to establish and process the accounting and financial information, with no compromise to its independence. It also ensures the realization by the Statutory Auditors of their mission and respect by the Statutory Auditors of the conditions for their independence.

Financial procedures and processes and the accounting year end

Finance process

Investments are managed at the level of each company and the decision-making process is coordinated by the Group Investment Committee (GIC) through decision-making platforms (above €0.5 million) bringing together all the stakeholders (business line and management controllers at company and Group level). This Group Investment Committee is composed of Air France-KLM's Chief Financial Officer and the Chief Financial Officers of Air France and KLM.

All investments of more than €5 million, together with operations relating to the fleet, and shareholding and divestment transactions, are submitted for approval to the Group Executive Committee by the Group's Management Controller and the Group's Chief Financial Officer.

The management of Air France-KLM's market risks is overseen by the Risk Management Committee (RMC), which meets each quarter and, after examining the Group reporting, determines the hedges to be set up during the coming quarters: the hedging ratios to be achieved, the time period for respecting these targets and, potentially, the preferred type of hedging instrument.

These decisions are then implemented in each company by the Treasury Management departments, pursuant to the procedures for the delegation of powers.

Regular meetings are organized between the Treasury Management departments of the two companies, to optimize the coordination of decision implementation (hedging instruments, the strategies planned and counterparties).

The fuel hedges are covered in a weekly report forwarded to the General Managements of the Air France-KLM Group, Air France and KLM. A summary of the cash positions of Air France, KLM and Air France-KLM is communicated weekly to the Air France-KLM Group's General Management.

The Air France-KLM, Air France and KLM cash positions are the subject of monthly reports to the Finance departments. These reports include the interest rate and currency positions, the portfolio of hedging operations, a summary of investments and financing by currency and a tracking statement of the risk exposure by counterparty. The Risk Management Committee sets the minimum thresholds in terms of the financial quality of counterparties, determines the maximum amount to be allocated to a single counterparty and is responsible for monitoring the quarterly positions.

The hedge strategies aim to reduce the exposure of Air France-KLM and therefore to preserve budgeted margins. The instruments used are futures, swaps and options. The internal risk management procedures prohibit instruments characterized as trading instruments unless expressly authorized by the Chief Financial Officer of Air France-KLM. All the instruments used must qualify as hedging instruments pursuant to the IAS/IFRS accounting rules. Generally speaking, no trading or speculation is authorized.

Any substantive change in the hedging strategy is the subject of a systematic presentation to the Audit Committee.

Accounting and financial statements process

The consolidated financial statements of the Air France-KLM Group are prepared on the basis of the data provided by the finance departments of the Air France-KLM holding company and its subsidiaries.

The Group is principally composed of the two operational sub-Groups, Air France and KLM, which prepare their own consolidated financial statements prior to their consolidation within the Air France-KLM financial statements.

It is imperative that the accounting information reported by the different companies complies with the Group's accounting rules, methods and standards as defined by the Group, and the presentation of the financial statements must comply with the format circulated by the Group.

All the companies within the Group refer to the Accounting Procedures Manual which is based on the International Financial Reporting Standards governing the establishment of the financial statements of European listed companies.

The consolidated financial statements are submitted to the General Management then presented to the Audit Committee every quarter. Furthermore, the half-year and annual financial statements are also reviewed by the Statutory Auditors prior to their formal closure.

The parent company's financial statements are closed annually, reviewed by the Statutory Auditors and presented to the Management and the Audit Committee.

Process for reporting passenger and cargo revenues

This process is performed in each of the companies and enables monthly revenue figures to be communicated to management. Furthermore, Air France and KLM have established a procedure known as the "progressive daily revenue" process making it possible to know the estimated amount of passenger revenues for the previous day.

In addition, departments of the Group, Air France and KLM analyze the results by market and by route (unit revenues per revenue passenger-kilometer, per available seat-kilometer, per revenue ton-kilometer etc.) at the level of the passenger and cargo businesses.

A monthly presentation on the level of transportation revenues (passenger and cargo) is also made to the Group Executive Committee by the senior managers of these entities.

The Shared Services Center (SSC) in Toulouse is in charge of commercial Passenger revenues for the companies Air France and KLM, while the Shared Services Center at Amsterdam-Schiphol is responsible for commercial Cargo revenues for the Group (Air France, KLM and Martinair).

For these two activities, service level agreements have been signed between Air France, KLM and Air France-KLM.

Management Control reporting process

The Group Corporate Control department coordinates the reporting process with the Corporate Controllers in the two sub-groups.

In liaison with the Group's principal divisions and subsidiaries, these three teams of controllers then analyze the past month's financial results and estimate the results for the coming months (forecast adjustment process) through to the end of the current financial year.

Once the accounting result for the month is known, Group Corporate Control produces a monthly document (known as the Group management report) that summarizes the monthly key business, employee-related and financial data, both actual and for the coming months, in order to determine the outcome for the current financial year for the Group, the two sub-groups and each business line. The same applies to the figures on cash-flow, and the cash and debt positions.

This monthly Group management report is presented to the Group Executive Committee by the Group's Chief Financial Officer or the Group Corporate Controller.

In addition, a monthly report on the main financial KPIs is circulated to the members of the Air France-KLM Board of Directors.

In addition, management review meetings take place on at least a quarterly basis between the CEOs, CFOs and Executive Vice-Presidents of the Passenger, Cargo, Engineering & Maintenance and Transavia businesses.

4

CORPORATE SOCIAL RESPONSIBILITY: EXTRA-FINANCIAL PERFORMANCE STATEMENT

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Pursuant to Article L.225-102-1 of the French *Code de Commerce*, the Air France-KLM group sets forth the main social, societal and environmental issues relating to its activities, Human Rights and business ethics across the entire value chain, and stipulates the policies in force to prevent, identify and mitigate the occurrence of these risks.

All of this information is reviewed by one of the Group's Statutory Auditors, as a designated Independent Third Party. The reporting scope covers the Air France-KLM Group. When the information relates to a different scope, the scope of application is specified in the text.

4.1 CREATING LONG-TERM VALUE FOR ALL OUR STAKEHOLDERS

4.1.1 The Group's business model

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 for its employees, customers and shareholders, while assuming its role as a pioneer in sustainable aviation. As such, flight safety is both an absolute imperative that the Group owes to its customers and staff, and a daily commitment.

The Air France-KLM 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 activities and operations have multiple impacts on wider society (qualitative and quantitative). 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.

4.1.2 Identification of the key priorities for building long-term relationships

Ongoing dialogue and a mutual understanding of the challenges facing Air France - KLM and its environment are key to building long-term relationships with stakeholders.

Dialogue with stakeholders

The Group pays a great deal of attention to the expectations of its stakeholders, in particular its customers, shareholders, employees and suppliers, and to local communities and players in civil society like NGOs. A number of initiatives enable their perception to be evaluated on a regular basis, through notably:

- internal barometers and meetings to gather employee suggestions;
- customer perception and satisfaction surveys;
- regular dialogue with individual shareholders and investors;
- dialogue and evaluation of supplier CSR performance;
- exchange of best practices and working groups within the industry and with other large companies;
- discussions with shareholders and Socially Responsible Investment (SRI) investors together with recommendations from extra-financial ratings agencies;
- opinions and remarks gleaned from the dedicated email addresses, websites and the social media;
- feedback channels deployed to enable stakeholders (particularly employees, customers and local residents around airports) to communicate any comments and potential complaints.

In 2019, the Group carried out a new materiality analysis, enabling the priorities key to the Group's activity to be re-evaluated and the results to be compared with those of the materiality analysis carried out in 2017. Nearly 130,000 stakeholders were invited to participate in this survey with a response rate of approaching 7%: national and international corporate and individual customers, the Group's employees and managers, shareholders, investors, suppliers, NGOs, governmental organizations, politicians, local representatives from the Paris and Schiphol regions, CSR experts (extra-financial rating agencies, certification bodies, etc.), CSR managers from leading companies and representatives of the airline sector and the Group's peers. For each topic, the respondents ranked the level of priority to be accorded by Air France - KLM and their perception of the Group's current level of performance.

This new materiality analysis showed that the priorities deemed to be the most important for the Group in 2017 remained so in 2019 including, notably, Customer Satisfaction, Operational Safety and Security, and Financial Performance. Other topics such as Fleet Development and CO₂ Emissions moved up sharply in the ranking, into the top three. The detailed results highlight that the Group and its stakeholders agree on the perception of the priority nature of these issues.

Within the framework of this analysis, stakeholders also ranked a list of strategic priorities potentially impacting the sector's long-term growth, with the acceptability of the environmental impacts of aviation, the use of sustainable alternative fuels and transparency on CO₂ emissions all heading the list.

Analysis of the extra-financial risks

The Group reviews its main extra-financial risks and opportunities on an annual basis. The main environmental, social and societal risks resulting from its activities across the entire value chain have been evaluated to create a matrix of the extra-financial risks, with the following risks emerging as the most material in 2019:

- carbon emissions;
- sustainable aviation (carbon footprint, responsible catering, cabin waste, low-carbon solutions);
- local pollution (noise pollution);
- impact of climate change on flight operations;

Reporting of the Group's extra-financial risks

In its Extra-financial Performance Statement, the Group has opted to report on a number of priorities that it considers important in the light of its analysis of the extra-financial risks, its business activity and the expectations of its stakeholders, and of the regulatory requirements.

The following table summarizes these priorities, the related risks and the opportunities deemed to be the most material, the policies in force to reduce their impacts, the performance indicators and the Group's contribution to the United Nations Sustainable Development Goals (SDGs).

Priority and related SDGs	Description of the risks	Policy and opportunities	Performance indicator
Human resources			
4.2.1 Working conditions and social dialogue⁽¹⁾ SDG 8	<p>Risks:</p> <p>Conflictual negotiations on workplace agreements, social conflicts, strikes.</p> <p>Potential impact on employee engagement, on customer service quality, on operations quality of customer service, on operations, on the Group's reputation and its attractiveness as an employer.</p> <p><i>See 3.2.3 Working conditions and human capital development</i></p>	<p>Foster a constructive and transparent dialogue to build mutual trust, pursue a policy based on respect of individuals and responsibility towards customers, in a confidential manner.</p> <p>Opportunities:</p> <p>Employee motivation and commitment.</p>	Employee Promoter Score (EPS)

- working conditions and social dialogue;
- resource consumption (energy consumption and waste management);
- data privacy;
- talent attraction and retention;
- local and global acceptability.

The risks considered to be the most significant mainly relate to the environmental impacts of Air France – KLM's operations. The analysis also illustrates the need for the Group to find innovative solutions to reduce its impacts and respond to the challenge of the acceptability of its growth. Regarding the main social risks, working conditions and social dialogue appear the most material. Lastly, data privacy remains a strategic issue for the Group.

These results are consistent with the results of the materiality matrix which illustrates the relative perceptions of the internal and external stakeholders, and as compared with the Sustainable Development strategy developed by the Group.

These extra-financial risks are monitored on a permanent basis and are an integral part of the Group's operational risk sheets. They are outlined in Section 3 *Risks and risk management*. They are also an integral part of the Group's Sustainable Development strategy and are the subject of procedures, monitoring procedures and action plans.

(1) Priority linked to a major extra-financial performance risk.

Priority and related SDGs	Description of the risks	Policy and opportunities	Performance indicator
4.2.2 Human capital development⁽¹⁾ SDG 8	<p>Risks:</p> <p>Mismatch between employee skills and the company's needs, shortage of people with specific qualifications, difficulty in recruiting and/or retaining talent.</p> <p>Potential impact on the ability to grow, capture new market shares and fight the competition, and on the employer brand image.</p> <p><i>See 3.2.3 Working conditions and human capital development</i></p>	<p>Offer a training and career development program to every employee, giving them the opportunity to learn and develop their skills.</p> <p>Opportunities:</p> <p>Attract talent, steer skills and qualifications in line with the long-term strategy.</p>	Number of hours of training per employee.
4.2.3 Health and safety in the workplace SDG 8	<p>Risks:</p> <p>Unsafe working situations (safety and security), accidents in the workplace (physical and psychosocial), employee health measures in keeping with the working conditions.</p> <p>Potential financial impacts with an increase in social costs (absenteeism, loss of working time, insurance and replacement costs), deterioration in levels of customer service and in the company's reputation as an employer.</p>	<p>Implement a voluntary and proactive approach towards risk prevention and protecting employee health and safety <i>i.e.</i> the airline safety standards in force.</p> <p>Opportunities:</p> <p>Promotion of a safety-first culture and individual vigilance supported by all the employees.</p>	Frequency and gravity rates for accidents in the workplace.
4.2.4 Promote diversity and equality SDG 5	<p>Risks:</p> <p>Inequitable treatment of employees, discrimination in recruitment, compensation and career development for inappropriate reasons (sex, age, nationality, sexual orientation, disability, religion, ethnicity, etc.).</p> <p>Potential financial impacts with the increase in social costs (disputes, absenteeism, resignations), reduced innovative ability due to a lack of diversity, deterioration in the company's reputation as an employer.</p>	<p>Promote diversity, implement processes ensuring equal opportunity and combatting all forms of discrimination.</p> <p>Opportunities:</p> <p>Employee motivation and commitment, diversity and inclusion for a more innovative company and better to reflect society and customers.</p>	% of women in managerial functions

(1) Priority linked to a major extra-financial performance risk.

Priority and related SDGs	Description of the risks	Policy and opportunities	Performance indicator
Environment			
4.3.1 CO₂ emissions⁽¹⁾ SDG 13, 7, 9	<p>Risks:</p> <p>Questioning of the acceptability of air transportation growth potentially leading to a reduction in operations and more restrictive regulations. Customer expectations and growing pressure from civil society to reduce environmental impacts.</p> <p>Potential financial impacts with an increase in operational costs (new procedures, etc.) and compensation potentially leading to a distortion in competition between carriers. Decline in customer demand. Deterioration in the company's reputation and that of the industry as a whole.</p> <p><i>See 3.2.2 Acceptability of air transportation growth</i></p>	<p>Implement CO₂ emission reduction policies for the air and ground operations and identify ambitious reduction targets through to 2030. Propose offsetting solutions.</p> <p>Opportunities: Modernization of the fleet with the arrival of more efficient aircraft (reduction in fuel consumption), energy transition to electric runway equipment. Contribution to the development of low-carbon energies by supporting the development of industrial production for sustainable alternative fuels. Gain market share by responding to the expectations of individual and corporate customers. Partnerships to develop innovative solutions on the ground and in the air.</p>	<p>CO₂ efficiency per passenger kilometer</p> <p>CO₂ emissions from the ground operations</p>
4.3.2 Adaptation to climate change (operational impacts)⁽¹⁾ SDG 13	<p>Risks:</p> <p>Operational disruption due to more frequent extreme climate events (storms, high winds, flooding, snow, droughts, etc.). Deterioration in customer service.</p> <p>Potential operational and financial impacts linked to flight cancellations, delays and re-routing. Additional costs linked to maintenance and preservation of assets, passenger compensation.</p> <p><i>See 3.2.2 Climate change</i></p>	<p>Implement a policy to secure operations and operational and commercial procedures to guarantee customers service continuity, in the best conditions.</p> <p>Opportunities: Development of a balanced network. Deployment of a differentiated Recovery policy for customers.</p>	
4.3.3 Noise disturbance and air quality⁽¹⁾ SDG 9	<p>Risks:</p> <p>Questioning of the acceptability of air transportation growth potentially leading to more restrictive regulations and the limitation of operations.</p> <p>Potential operational and financial impacts with the implementation of new regulations and procedures.</p> <p><i>See 3.2.2 Acceptability of air transportation growth</i></p>	<p>Pursue a permanent dialogue with the representatives of local-resident associations around airports and implement less noise procedures.</p> <p>Opportunities: Modernization of the fleet with the arrival of more efficient, quieter aircraft.</p>	Noise footprint

(1) Priority linked to a major extra-financial performance risk.

Priority and related SDGs	Description of the risks	Policy and opportunities	Performance indicator
4.3.4 Waste and the circular economy⁽¹⁾ SDG 12	<p>Risks:</p> <p>Questioning of the acceptability of air transportation growth potentially leading to more restrictive regulations on resource management and waste.</p> <p>Potential operational and financial impacts with the implementation of new procedures, impacts on the Group's reputation as a responsible airline operator.</p> <p><i>See 3.2.2 Acceptability of air transportation growth</i></p>	<p>Develop a policy to reduce, recycle and upcycle waste.</p> <p>Opportunities: Respond to the expectations of customers by reducing wastefulness and recycling waste.</p>	Non-recycled waste
4.3.5 Biodiversity	<p>Risks:</p> <p>Impact of air transportation on biodiversity linked to the effects of climate change induced by the CO₂ emissions it generates.</p> <p>Potential financial impacts with the increase in operating costs (new procedures, etc.) and offsetting potentially leading to a distortion in competition between carriers. Decline in customer demand. Deterioration in the company's reputation and that of the industry as a whole.</p>	<p>Offer customers offsetting solutions and support environmental projects.</p> <p>Opportunities: Partnerships to develop innovative solutions on the ground and in the air.</p>	
Customer trust			
4.4.1 Operational safety for stakeholders SDG 12	<p>Risks:</p> <p>Loss of customer trust in the Group's ability to ensure their safety throughout their journeys (flight safety, food security, health, etc.).</p> <p>Potential financial impacts linked to the loss of market share and to competition.</p> <p><i>See 3.2.2 Risks related to airline safety</i></p>	<p>Ensure the safety and health of all stakeholders (customers, employees and partners) while improving the customer experience throughout their journey.</p> <p>Opportunities: Customer loyalty based on trust in the Group's activities.</p>	Net Promoter Scores (NPS)
4.4.2 Confidentiality and data protection⁽¹⁾ SDG 12	<p>Risks:</p> <p>Loss of customer trust in the Group's ability to protect and ensure the confidentiality of their personal data.</p> <p>Potential financial impacts linked to the loss of market share and to competition.</p> <p><i>See 3.2.3 Failure of a critical IT system, IT risks and cyber criminality.</i></p>	<p>Implement data privacy policies and IT systems, and ensure the confidentiality of personal data.</p> <p>Opportunities: Secure customer loyalty based on their trust in the Group's activities.</p>	

(1) Priority linked to a major extra-financial performance risk.

Priority and related SDGs	Description of the risks	Policy and opportunities	Performance indicator
4.4.3 Accessibility of the products and services SDG 12	<p>Risks:</p> <p>Loss of customer trust in the Group's ability to ensure access to its products and services, to all of its customers, throughout their journeys.</p> <p>Potential financial impacts linked to the loss of market share and to competition. Reputational impact on the Group's image as a responsible air operator.</p>	<p>Propose assistance services to passengers with disabilities or with reduced mobility.</p> <p>Opportunities:</p> <p>Gain of market share and customer loyalty based on their trust in the Group's activities. Contribution to a more inclusive society.</p>	
Ethics			
4.5.2 Respect of Human Rights	<p>Risks:</p> <p>Non-respect of the fundamental liberties and social regulations in the capacity as an employer and through the supply chain.</p> <p>Potential financial impacts (substantial fines, legal proceedings) on the Group's reputation.</p>	<p>Implement policies aimed at ensuring respect of the fundamental liberties and the compliance of all the Group's activities. Deploy a responsible procurement policy.</p> <p>Opportunities:</p> <p>Image and reputation as a responsible business.</p>	
4.5.3 Business ethics	<p>Risks:</p> <p>Non-respect of regulations (laws on competition and anticorruption, taxation), commercial sanctions and regulations relating to export control, due to unethical behavior on the part of employees.</p> <p>Potential financial impacts (substantial fines, legal proceedings), on the Group's reputation.</p> <p><i>See 3.2.3 Non-compliance with regulations, including competition and anti-bribery laws</i></p>	<p>Implement a process to ensure the compliance of all the businesses, and measures to prevent anti-competitive practices by employees, <i>via</i> training and awareness-raising initiatives.</p> <p>Opportunities:</p> <p>Image and reputation as a responsible business.</p>	Realization rate of e-learning program on the prevention of corruption.

Priority and related SDGs	Description of the risks	Policy and opportunities	Performance indicator
Societal value			
4.6.1 Local development⁽¹⁾ SDG 8	<p>Risks:</p> <p>Questioning of the Group's regional growth due to more restrictive local and national regulations.</p> <p>Potential financial impacts with the increase in operating costs potentially leading to a distortion in competition between carriers.</p> <p><i>See 3.2.2 Acceptability of air transportation growth.</i></p>	<p>Contribute to local development by creating direct and indirect jobs and activity around the hubs, and in the territories served by the Group.</p> <p>Opportunities:</p> <p>Promote the acceptability of activity growth.</p>	
4.6.2 Responsible procurement SDG 12	<p>Risks:</p> <p>Major break-down in the supply chain due to non-respect or serious breach in terms of working conditions (health and safety), Human Rights (forced working, child labor), the environment (pollution) or corruption.</p> <p>Potential financial impacts (substantial fines, legal proceedings), on the Group's reputation.</p> <p><i>See 3.3.2 Fundamental components of internal control established within the Group</i></p>	<p>Implement a responsible procurement policy enshrining the principles of societal responsibility in relations with suppliers, by reinforcing the management of ethical, social, environmental and supply chain risks.</p> <p>Opportunities:</p> <p>Dialogue with suppliers on the sustainable development priorities, implementation of innovative solutions.</p>	<p>% of suppliers having signed the Sustainable Development Charter.</p> <p>Number of suppliers evaluated by Ecovadis.</p>

4.1.3 Business responsibility at the heart of the strategy

Air France – KLM's ambition is to achieve high standards of performance over the long term by reconciling profitable growth, environmental protection, social progress and the development of the regions in which it operates.

Governance

Sustainable Development governance is ensured by the management bodies at the highest level of the Group:

- the Board of Directors approves the strategic orientations and monitors their implementation;
- within the Board of Directors, the Sustainable Development and Compliance Committee, established in 2018, assists in reviewing the policies, by issuing recommendations and ensuring that issues linked to sustainable development are taken into account when defining the Group's strategy;

- the Group Executive Committee determines the sustainable development policy and ensures that it is an integral part of the Group's strategic planning. It reviews the sustainable development strategy and performance on an annual basis. The Group's Corporate Secretary is responsible for sustainable development and compliance;
- at Air France, the Sustainable Development policy is steered by the Executive Vice-President, Corporate Secretary, who is a member of the Air France Executive Committee, supported by Air France's Sustainable Development Committee composed of members of the of the Air France Executive Committee, which guides and ensures the advancement of Air France's sustainability strategy and efforts. At KLM, this role is fulfilled by the Executive Vice-President General Counsel & Corporate Center and member of the KLM Executive Committee, supported by KLM's Sustainable Development Council, which guides and ensures the advancement of KLM's sustainability strategy and efforts;
- Air France's Environment and Sustainable Development Department and KLM's Sustainability Office are tasked with proposing and implementing the sustainable development strategy.

(1) Priority linked to a major extra-financial performance risk.

The compensation of Benjamin Smith, Chief Executive Officer of the Air France–KLM Group, includes criteria related to non-financial issues and sustainable development both in the annual variable compensation and in the long-term variable remuneration (see section [2.5.2]). The same sustainable development criteria are also included in the variable part of the compensation of Anne Rigail, CEO of Air France and Pieter Elbers, President and CEO of KLM.

Commitments

The Group recognizes its responsibilities as an employer and places its commitment to responsible and innovative corporate citizenship at the heart of its strategy. Its commitments are set forth in its Corporate Social Responsibility Statement, Social Rights and Ethics Charter and Climate Plan.

Air France – KLM's Sustainable Development policy enshrines the respect of fundamental rights as defined in the leading international principles: Universal Declaration of Human Rights, the International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, and the Organization for Economic Cooperation and Development's (OECD) guiding principles.

Air France – KLM has been a signatory of the United Nations Global Compact since 2003 and is committed to respecting its ten principles in the areas of Human Rights, labor, the environment and anti-corruption, and to promoting this commitment to its partners. By integrating sustainability into its business and

operations, the Group strives to contribute significantly to the UN Sustainable Development Goals within its scope of influence.

Extra-financial ratings

Air France – KLM's extra-financial performance is assessed annually, in particular by the RobecoSAM, CDP, Vigeo Eiris, Sustainalytics and ISS-ESG rating agencies.

In 2019, for the fifteenth year running, the Group figured in the Dow Jones Sustainability Indexes (DJSI World and DJSI Europe). Furthermore, last year the Group retained its position as leader of the "Airlines" sector, a ranking it has held for thirteen of the past fifteen years.

The CDP awarded the Group a score of B- (Management level) for the Climate Change Supplier Engagement Rating questionnaire. The rating agency ISS-ESG granted Air France – KLM "Prime" status: the Group is the only airline company to figure in the annual ISS ESG ranking of the large global companies deemed to be achieving the highest standards of ESG performance.

Thanks to its performance, the Group maintains its ranking in the FTSE4Good Index Series, the Euronext Vigeo Eiris indexes (Europe 120 and Eurozone 120) and the Ethibel Sustainability Index (ESI Excellence Europe). The Group is also a component of the Ethibel Excellence and Ethibel Pioneer Investment Registers. The Group has been awarded the Gold Medal by the Ecovadis CSR rating agency.

Extra-financial performance statement

In its Extra-financial Performance Statement, the Group has opted to report on a number of priorities that it considers important in the light of its analysis of the extra-financial risks, its business activity and the expectations of its stakeholders, and on the regulatory requirements.

The following concordance table shows where all the elements presented within the framework of the Extra-financial performance statement (EFPS) can be found:

Elements of the EFPS	Chapter/Section
Strategy and business model	1.1 Market and environment 1.2 Strategic outlook 1.2.3 Air France–KLM's value creation model
Identification and description of the main extra-financial risks linked to the business	3.1.2 Identification and evaluation of the risks 3.2.2 Risks linked to the air transportation activity 3.2.3 Risks linked to the Group's processes 4.1.2 Identification of the key priorities in building long-term relationships
Description of the policies, results and performance indicators	4.2 Human resources, Environmental impacts, Customer trust, to 4.6 Ethics and compliance, Societal value

4.2 HUMAN RESOURCES

Air France-KLM employees, present all over the world, are the Group's main asset; they bring to life the Group's brands and are the face with customers. Thanks to their collective commitment and their professionalism, the Group is able to offer its customers high-end services and a caring journey, promoting lasting relationships while operating its activities efficiently and safely.

Air France-KLM aims to become one of the best places to work, by creating a safe and motivating environment for its employees,

and by targeting a high result in the Employee Promoter Score (EPS). The Group continues to invest in human capital development and training, to develop the skills of employees and empower them, to enable them to exceed customer expectations.

The relationship that links the Air France-KLM Group to its employees is based on four values: trust, respect, transparency and confidentiality.

Key Performance Indicator	Definition	Results	
Employee Promoter Score (EPS)	Percentage change in the EPS measured among Air France and KLM employees (between July and December 2019)	2018 NA ⁽¹⁾	2019 +15%
Percentage of women in managerial functions	Top 10% management level for ground staff	2018 32%	2019 33%
	Flight deck crew managerial functions	5.1%	5.2%
	Cabin crew managerial functions	65.4%	65.5%
Number of hours of training per employee	Number of hours of training per employee consolidated at Group level	2018 39.7 hours	2019 40.4 hours

For the definition see Note on the methodology for the reporting of the social performance indicators, section 4.2.5.4

(1) NA: Not Available.

4.2.1 Working conditions and social dialogue

Context and strategy

As an airline company, Air France-KLM's success and growth relies on the professionalism of its employees, and on their levels of motivation and commitment. The working conditions and social dialogue within each entity constitute a key performance lever for the Group.

The 2019 financial year was marked by regained trust between the social partners and the management. The principles of respect, transparency, confidentiality and trust were advocated in all the negotiations. The Group's ambitions, as reflected in a new strategy and a clarified brand portfolio with three master brands (Air France, KLM Transavia), were discussed and shared within the Air France Group. In the interest of simplification, the Joon and Hop! brands were discontinued, by integrating Joon within Air France and rebranding HOP! as Air France HOP!.

The Group seeks to preserve cohesion by fostering a constructive and transparent social dialogue and by pursuing a People Strategy based on mutual respect and responsibility towards employees. The objective shared by all companies within the Air France-KLM Group is the provision of working conditions enabling employees effectively to fulfil their functions. Due to differences between the entities or country legislation, the HR policies are managed separately.

Measures and performance

Social dialogue and functioning of the representative bodies

Air France-KLM

For Air France-KLM, the coordination of the workplace dialogue takes place in each of the airlines comprising the Group and within the Group's European Works Council, bringing together the representatives of staff whose head offices or entities are based in the European Community.

The Group's European Works Council was convened three times during 2019, for two plenary ordinary meetings and one extraordinary meeting, chaired by Air France-KLM's Executive Vice-President, Human Resources.

In April 2019, the meeting was attended by Benjamin Smith, President & CEO of Air France-KLM while, within the framework of the European Works Council, the Group's Strategic Committee met four times with Air France-KLM's CEO to discuss the Group's strategic orientations.

During 2019, the Air France-KLM CEO Benjamin Smith, KLM President & CEO Pieter Elbers and Air France CEO Anne Rigail held regular meetings with employees at various locations to engage in dialogue on current topics.

At Air France, KLM and Transavia, the Employee Experience was a key element of the People Strategy in 2019 and will remain so for the foreseeable future. "Our people deliver our customer experience" and it is through this policy that the company can

outperform its competitors. Using the Employee Promoter Score (EPS) as a common engagement and performance indicator, managers conduct dialogues with their employees, to know what drives them and to fulfil their needs. This in turn helps to build employee commitment.

The roadmap is defined in a Flight Plan for the company, focusing notably on an ongoing commitment to staff development, support for initiatives, the promotion of team spirit and reinforcing levels of motivation.

To measure employee engagement, both Air France and KLM use the EPS, the in-house equivalent of the Net Promoter Score which is used to measure customer satisfaction. In the two companies, a rotating random group of employees are asked whether they would recommend Air France or KLM as an employer. The results are shared with all staff.

In July 2019, KLM and Air France aligned their Employee Promoter Score distribution and calculation methods.

In 2019, the KLM Employee Promoter Score increased by nine points (to +70 compared with +61 in 2018). Following the roll-out of the Employee Promoter Score tool in July 2019, Air France's EPS increased by 28 points in the second half. Transavia Netherlands also monitors the EPS, and realized an EPS score of +44 in 2019.

At Group level, the consolidated EPS increased by 15% between July and December 2019.

The EPS can also be used to facilitate dialogue; in 2019, 534 EPS polls were submitted to KLM teams with a response rate of 67.1%. EPS polls for Air France-KLM's worldwide commercial teams have also been introduced.

Air France

Following the new governance structure and the appointment of Benjamin Smith and Anne Rigail, the negotiations had led to the signature of an agreement on salary increases at the end of 2018 and a calming in social relations. In 2019 the workplace dialogue was more serene and saw the signature of more than 25 collective agreements across all categories of staff.

2019 was marked by the professional elections in March, conducted for the first time by electronic voting, and by the establishment of the new representative bodies pursuant to the Macron Act. The Social and Economic Committee (*Comité Social et Économique*) and the Health and Safety at Work Commission (*Commission Santé Sécurité au Travail*) replaced the former bodies, the employee delegate (*Délégué du Personnel* - DP), the Works Council (*Comité d'Établissement* - CE) and the Health, Safety and Working Conditions Committee (*Comité d'Hygiène Sécurité et Conditions de Travail* - CHSCT). A specific agreement setting forth the functioning modes and resources, notably with the establishment of local representatives, was signed in the spring.

This major change in the HR landscape involving the organization of the representative bodies did not prevent the negotiations proceeding as planned. The HR agenda was duly pursued and enabled the presentation of corporate projects to the Group Social and Economic Committee and the Social and Economic Committees in the companies.

At Air France, the Employee Experience is a strategic priority in support of the required transformation of the company.

In 2019, a number of different initiatives improved the Employee Experience. For example:

- two thousand Air France employees were invited to take part in the second round of Citizenship Days (1,000 employees in the first round in 2018), during which they dedicated a day of work to various humanitarian and ecological associations;
- the intrapreneurship program continued for the second year with the selection of four projects;
- specially-themed weeks, dedicated to various topics - new technologies, the Digital Factory, Health and Safety, Learning Week and Sustainable Development - were organized at the different Air France sites.

KLM

KLM renewed the collective labor agreements for Flight Deck Crews, Cabin Crews and Ground Staff that were set to expire in June 2019 through to February 28, 2022. KLM had a signature of agreements for two CLAs; Ground Staff and Flight Deck Crews and a negotiation result has been achieved for the CLA Cabin Crews. In January 2020, KLM also had a signature of agreement for Cabin Crews. These agreements include a salary increase and various agreements on sustainable employability, learning and development.

In 2019 the KLM Works Council held its three-yearly elections followed by an installation meeting for the new Works Council on June 1.

An agreement was also signed by the KLM Works Council and the KLM Board of Directors on how to modernize employee participation within KLM.

KLM NV has three pension schemes and three pension funds in the Netherlands for Pilots, Cabin Crews and Ground Staff. The pension funds for Pilots and Cabin Crews were de-risked in 2017 (Defined Contribution scheme) while the pension fund for Ground Staff remains a Defined Benefit scheme. Furthermore, in 2019, a study was conducted into de-risking the Ground Staff scheme and, in 2020, negotiations will start with the unions to seek an agreement on a Defined Contribution scheme.

In the meantime, the Dutch government announced a new pension system for 2022 based on age-independent and degressive pension accrual. This will be a major reform with a significant impact on all three pension schemes.

KLM's renewed organization-wide focus on sustainability also encourage the submission of ideas on how to make KLM a more welcoming and inspiring employer for every single employee, with the offer of various opportunities for professional development. In general, the aim is to motivate staff and facilitate activities that help them to discover and develop their talents so they can make better choices in an ever-changing environment.

Some examples:

- WhatsApp – a tool that facilitates dialogue within teams and helps to determine actions to improve the Employee Experience (empowerment);
- employee events both across the company and in various divisions to create memorable experiences for individual employees. The teams were also recognized for their contributions through various awards in categories like innovation, customer experience and diversity & inclusion;
- simplified “people” processes to make day-to-day life easier for employees.

Employability and mobility

Air France - KLM

In terms of Human Resources, employability and professional mobility are priorities.

Air France-KLM's workforce needs to be fit for today's jobs but also those of tomorrow. Demographic changes, digitalization, changing labor markets and new technologies in the airline industry mean that the company needs to prepare its employees to adjust to these changes. Strategic workforce planning with a combined HR and business approach focuses on insights in the workforce and scenario planning for the future, while delivering solutions on mobility, employability, finding and binding staff and managing the effects of the digital transformation.

Air France

At Air France, recruitment on permanent contracts continued in 2019, particularly for ground staff and operational profiles for cabin crews and pilots. A high number of cabin attendants were recruited, along with mechanics and some expert profiles. Internal mobility is prioritized for recruitment in the support functions.

The company's proactive approach to internship was pursued with an increase in the recruitment rate of interns.

Career progression initiatives including the recognition of employee skills through the Validation of Previous Experience scheme, recruitment *via* internal selection, external recruitment in liaison with actions in favor of local young people, initiatives to promote vocational integration and the policy to foster maintained employment of employees with disabilities also illustrate Air France's commitment as a responsible company.

Lastly, the financial year was marked by the implementation of a Voluntary Departure Plan which was offered to employees in the French provincial stations and part of the Commercial France division: 297 departure requests were approved. The employee departures are staggered between November 2019 and March 2020.

In 2019, Air France was ranked the transportation company leader in the Epoka-Harris Interactive barometer which recognizes the most credible companies in terms of communication on a sector basis. Air France was also amongst the top 10 in the Universum 2019 ranking, which measures the attractiveness of companies for students and young graduates from engineering and business schools.

KLM

In 2019, KLM had to contend with numerous internal and external labor market changes. While an enormous increase in external vacancies needed to be filled in the face of a very tight labor market, KLM nonetheless managing to hire almost 2,000 new people. KLM's Sourcing Strategy was reviewed to be able to deal with these changes: for example, implementing special techniques in the recruitment campaigns and procedures to foster a more diverse workforce and inclusive corporate culture.

KLM's ambition to be an attractive employer in a competitive labor market means that it seeks to facilitate a memorable experience for candidates, something which is key to attracting the best talent required to realize KLM's goal of delivering an excellent customer experience. 2019 achievements included the introduction of Employer Branding and recruitment marketing campaigns (especially in IT, digital, data, technology), the introduction of a new career website for top talent, recruitment in specific target groups fitting the agile transformation of the Ground Staff team, the implementation of Diversity and Inclusive methods and the implementation of the Flex Talent program to attract and retain the right temporary (flex) talent.

For cabin crews, an online platform, MyJourney, was launched to create insights into talents and possibilities for cabin crew, to enable them to make informed career choices (c.1,400 talent and career scans completed).

In 2019, KLM won the Intermediair magazine award for the most attractive employer for highly-educated people in the Netherlands and was named number one in the for-profit sector by Randstad Employer Brand Research. In September 2019, the Monsterboard site awarded KLM the Monster Studios Movie award in the “Best Storytelling” category.

The KLM Transition Center aims to help employees whose jobs have been made redundant to find new careers within KLM or externally. Since the establishment of the KLM Transition Center in June 2016, KLM has supported 683 employees in search of new jobs either inside or outside KLM, of whom 552 succeeded in finding a new job either internally or externally (52%/48%).

4.2.2 Human capital development

Context and strategy

The effective management of skills within an organization makes a positive contribution to employee engagement, which in turn helps to achieve the company's objectives. Training programs are developed to give employees the opportunity to learn and develop their skills. Whenever possible, relevant joint training programs are organized in a cross-cutting manner across domains or entities for different target groups, so as to share experience and learn from each other. In 2019, the groundwork was laid for a new training management system to be used by the different entities to manage the development of new skills within the Group in a standardized manner.

In 2019, a renewed digital landscape supported by a new Learning Management System (LMS) for Air France and KLM was developed for launch in early 2020. Air France and KLM conducted this project together to create one joint system for both companies but with the ability to maintain their singularity.

The new LMS will improve the User Experience and facilitates employee development through a personalized learning experience, alongside the more formal (compliance) training program. The new LMS is thus a very important prerequisite for continuous learning: support and encourage employees in their continuous development by offering them relevant, personalized and easy-to-find development opportunities.

Measures and performance

Continuous Learning

Air France - KLM

The Group pursued its training policy: the number of training hours per employee increased from 39.7 hours in 2018 to 40.4 hours in 2019. This increase was mainly due to the development of the My Learning self-service training platform at Air France and KLM.

An example of Continuous Learning is the Sales Excellence Development Program for Air France and KLM. After offering classroom training programs to Account Managers worldwide, a toolkit was developed to continue learning and development in their daily working lives, to take the next step in their Sales Excellence journey.

This toolkit was developed in close co-operation with the Sales Excellence team, and the Air France and KLM HR departments, and is packed with interesting, inspiring and diverse exercises on twelve topics to help put into practice what staff have learned in the previous classroom training sessions. Individual, peer-to-peer and group exercises were also developed to learn on the job and together with colleagues.

Air France

At Air France, 95% of employees benefited from training in 2019.

Conditions for access to training were facilitated like access to My Learning self-service training modules for all employees, webinars, Massive Open Online Courses, Manager Cafes and days dedicated to the HR networks and manager labs.

During 2019, the training plan supported all recruitment and particularly that of flight crews (hostesses, stewards and pilots), but also executives and technicians.

An ambitious training policy is key to supporting the Employment policy and the company's strategy, and is based on a series of general principles that are reaffirmed on an annual basis and form an integral part of the Employee Experience:

- guarantee access to training for everyone;
- ensure the visibility of everyone's skills, notably by developing graduate training and certifying diplomas;
- manage the economic balances.

In 2019, the recognition of employee skills *via* the Validation of Previous Experience scheme continued through partnership with a network of prestigious universities and programs at all levels of the company and its professions.

Support for mobility, vocational retraining and training to meet the need for advanced professional capabilities are also a priority.

KLM

At KLM, starting in 2018, all ground staff were given the opportunity to spend the equivalent of 1.93% of their annual salary on professional development to support Continuous Learning. The budget has been increased to 3% for the years 2020 and 2021 and, as of 2022, this percentage will be 2%.

In the KLM Ground Services division, traditional classroom training was replaced by the ultra-modern KLM Ground Services Training Center at the Regional Training Center (ROCvA) in Hoofddorp, where technologies, like virtual reality and immersive video, are deployed to train staff preparing for jobs in Apron Services, Baggage Services and Passenger Services. The special simulation areas in the training center enable 1,000 recruits on temporary contracts to be trained every year, in a calmer environment and within a shorter time period.

In collaboration with MBO Airport College, KLM also provides vocational education programs for employees with extensive professional experience but who have never had the opportunity to gain a degree. In the last five years more than five hundred KLM operational employees graduated with a nationally-recognized vocational degree as part of this "life-long learning" program. In 2019, the program was also made available to new recruits on temporary KLM contracts, to strengthen their position in the labor market after their assignments at KLM.

Leadership, talent and performance development

Air France - KLM

In 2019, Air France and KLM made the transition from exclusive (targeting a selection of employees) towards inclusive Talent Management (every employee is a talented individual who must be given the opportunity to develop his or her skills) by implementing a Talent development grid jointly created by the two companies, and by implementing joint development strategies and actions.

Air France

Air France offers Talent and Leadership programs like the training and coaching program known as *Femmes de Talent* aimed at enabling high-potential women to develop their skills within the company and occupy senior management positions, joint financial programs with the HEC business school for future managers and Focus on the Future programs to project talents into the company's future.

For some years, Air France has been developing coaching and mentoring at different levels of the company and supporting employees with training leading to professional diplomas.

In 2019, Air France initiated an individual assessment program for senior management, which will continue in 2020, as a starting point for individual development plans to support Air France's transformation.

KLM

In a shift from performance management towards performance development, 2019 saw KLM create a new vision of Performance Management and adopt a forward-looking approach around the following points: purpose, connection and the appreciation of talents.

Regular discussions are held within a team context on the company and team goals and direction, and on contributions. In individual performance conversations, KLM puts the emphasis on talent and development of the expertise and skills needed for high performance in both current and future roles and activities. The aim is to help discover employees' talents and their individual potential for growth, and thus maximize everyone's contribution to the company's results.

As part of KLM's People Strategy, which focuses on Diversity & Inclusion, People Development and Leadership, in 2019 KLM launched a leadership development program for Senior Management (Executive level).

This program includes an individual development assessment for all KLM executives and a diagnosis of the current KLM culture, followed by feedback sessions and development plans to improve on KLM's connecting leadership. KLM has decided to continue this development assessment for future executives.

In addition to leadership development at executive level, as part of the KLM Compass, KLM started building a leadership curriculum for managers at all levels, aimed at supporting managers in creating a culture of learning and collaboration.

4.2.3 Health and safety in the workplace

Context and strategy

For the Air France-KLM Group, health, safety and the quality of life in the workplace is a major priority on which there may be no compromise. Everyone working for or with the Air France-KLM Group has the right to a working environment that guarantees their health and safety, and takes into account their physical and mental well-being. To this end, a proactive policy aimed at preventing risks and potential vocationally-related conditions is deployed.

Measures and performance

The Air France-KLM Group monitors and reports the indicators related to health and safety at work on an annual basis: absenteeism, number of workplace accidents, frequency rate and severity rate of workplace accidents (see sections 4.2.5.2 and 4.2.5.3).

Air France

Management of health, safety and quality of life in the workplace

Air France's policy on Health and Safety and Quality of Life in the Workplace (formalized in 2012) was revised in 2018. It focuses on five priority themes which guide the Air France approach:

- prevent serious accidents;
- reinforce compliance with/respect of regulations;
- develop ergonomic approaches;
- improve the quality of life in the workplace and the prevention of psychosocial risks;
- structure and organize prevention measures around a steering system deployed in a cross-cutting manner across the businesses.

The steering and coordination of the health, safety and quality of life in the workplace networks by the Health, Safety and Quality of Life in the Workplace division, which numbers representatives in all the entities, ensures the coordinated deployment of the policy and its actions and targets, and promotes the exchange of best practices, priority actions and investment. Accidentology analysis enables the adjustment of the policy and actions designed to safeguard human health and safety. The monitoring of indicators ensures the ongoing adaptation of the initiatives.

Since 2013, the company's business segments have developed their approach on the Health and Safety Environment management reference systems so as to gain overall consistency while respecting the specificities of the different activities. In 2020, a reference framework common to all the business segments will be progressively deployed to gain readability and reinforce the safety-first culture, consistent with the company's operational requirements.

Health Safety and the Quality of Life in the Workplace is an enduring concern for managers and a regular topic accompanied by mandatory KPIs on the agendas for meetings of the Executive Committee and Management Committees. To mobilize employees and raise their awareness, in-field checks on safety issues are regularly carried out by the entity heads. Health Safety and the Quality of Life in the Workplace is also included in staff appraisals.

All of these measures had enabled Air France to record significant progress in 2018, with a substantial decline in the frequency and gravity rates for vocational accidents. The indicators did not, however, show the improvements expected for 2019, meaning that accidents in the workplace remain a major point of vigilance for the company.

Prevention of the risks linked to health and safety and the quality of life in the workplace

To improve the conditions of life in the workplace and the well-being of staff, action programs are deployed across all the Air France business divisions. The aim of this approach is to increase staff motivation by reducing work-induced stress.

To promote a balance between professional and private lives a number of different actions and schemes have been deployed, in particular remote working, access to special part-time arrangements and help with parenting (parenthood booklet).

In addition, to support employees who may be contending with personal or professional difficulties more effectively, Air France puts a network of social assistants at their disposal. The latter also manage a vacation day donation scheme. In 2019, their expertise was reinforced with three days of training to supplement their knowledge on the theme of caregivers and design the basis of effective communication to all employees and, specifically, those facing this issue (information booklets, collective action, forum, etc.).

The Human Resources division also launched an awareness-raising and training program for managers to:

- raise their awareness and knowledge of addictive behaviors;
- prevent the risks linked to incivility for staff in contact with customers and support staff who are victims of such incivility;
- communicate on internal cases of incivility and prevent the risks of moral or sexual harassment;
- promote dialogue on workloads and connection-deconnection practices.

In terms of preventive measures to promote vocational health and safety, in liaison with the vocational healthcare teams and the company's mutual insurance company, information days are regularly organized, during which staff are able to meet with health professionals (posturologist, smoking cessation specialist, dermatologist, etc.), take part in workshops and benefit from personalized support based on test results. Awareness-raising days are also held to prevent more specific vocational risks like, malaria, otalgia, night and shift working, etc.

Lastly, to improve risk monitoring, vocational risk evaluation now takes place *via* a common tool, ensuring the consistency and visibility of the risks identified in every operational unit, followed by the deployment of prevention measures.

Air France is also pursuing its prevention efforts by reinforcing its risk management process *via* the definition of an appropriate methodology, the consolidation of its lessons learnt process and higher professional standards with regard to the areas at risk in accident analysis.

KLM

Occupational health and safety management

Within KLM, safety and compliance are managed *via* a system of processes and procedures known as the Integrated Safety Management System (ISMS). The ISMS ensures that KLM is and remains compliant, and continuously improves in the areas of operational, occupational and environmental safety and operational security. The ISMS identifies hazards, threats and safety issues, collects and analyses data, assesses safety risks, implements mitigations and monitors the results. The ISMS supports the mitigation of risks in order to keep accident and incident rates below an acceptable level.

In 2019, several initiatives were organized by the divisions and ISSO, a central independent organization reporting directly to the Chief Operating Officer, to promote a healthy way of life and working environment. The ISSO organized several informative meetings elaborating on occupation-related subjects such as Fatigue and Psychosocial Occupational Health. An e-learning module focusing on Fatigue was also published and implemented for Flight Deck and Cabin Crews.

The Safety Promotion activities continued on the four major KLM-wide Safety & Security Themes, i.e. Challenge, Be Fit, reporting and Just Culture. With the guidance of the ISSO, the communication, promotion and training on all four themes was developed and implemented. Several tool boxes and video script animations were developed to facilitate and support the line management and their teams on subjects like reporting, SIRA-requests (Safety Issue Risk Analyses) and Just Culture.

A Safety reporting App was rolled out for Ground Staff, making it easier to report unsafe situations. This resulted in a 40% increase in reports compared to the number of reports received in 2018 (previous year). As a result, KLM's already-excellent reporting culture was significantly improved, enabling the company to be more proactive and predictive in mitigating safety risks.

Also in 2019, KLM implemented a Just Culture Toolbox with videos, assessments and cases for training and inspiration purposes. The ISMS Training plan was further implemented, including the launch of a new line facilitator course and the roll out of Just Culture training in all layers of KLM, using the Just Culture Toolbox.

In 2018, a structured process was introduced to update and implement KLM's Occupational Safety and Health (ARBO) policy. In accordance with the KLM goals and objectives for 2019, some ten Occupational Safety (ARBO) policies were drafted including the recommended implementation provisions and plans. Eight ARBO policies have already been approved by the Safety Review Board, agreed by the KLM Works Council and adopted by the KLM Board.

To further implement these policies and reduce Occupational Safety and Health risks a mitigation team of occupational experts was created over the summer to support line management and their departments as of the fall of 2019, to ensure the correct implementation of the mitigation measures concerning Occupational risks and to support business unit efforts to ensure a safe and healthy work environment. This support will continue in 2020.

In 2019, KLM introduced the running program, which encourages employees to exercise in and around the workplace, by participating in running and walking training, yoga and boot camp. Various master classes on nutrition, breathing and focus are also offered. The highlight of the year was the Centennial Run, a race held in honor of KLM's 100th anniversary with 1,500 staff taking part. Corporate sponsorship of the KLM Urban Trails Series in the Netherlands also ensured the participation of numerous KLM employees.

In order to perform optimally, good health is essential in that it contributes to a vital and happy life both inside and outside work. To this end, KLM introduced the MyHealth portal in February 2019, a space where employees can find a comprehensive range of information on vitality and health. This resulted in more than 1,100 employees booking a trial vitality program through the new portal. In addition, a pilot took place to offer workshops and coaching on a dedicated e-health platform.

The first steps towards a smoke-free KLM were put in place with the removal of the smoking areas at KLM's head office. The rest of the smoking areas within KLM buildings will be removed in the coming years.

KLM also continued the "weight loss" program to help employees adopt a healthier lifestyle and attain a healthier weight. In 2019, more than 200 employees took advantage of this initiative, helping them to lose weight and gain fitness.

One of the main goals of the Reintegration center of expertise is redesigning and simplifying the sick leave process. By implementing digital tooling (Verea) in this area, KLM offers employees and managers optimal support. Selected pilot groups were launched for Verea deployment in 2019 and a more widespread roll out is planned for 2020.

4.2.4 Fostering diversity and equality

Context and strategy

As a signatory of the United Nations Global Compact, Air France-KLM is committed to respecting the universal principles relating to the respect of human rights.

In the Corporate Social Responsibility Statement and Social Rights and Ethics Charter, the Group affirms its commitment to fostering a climate of trust and mutual respect in a working environment where no form of discrimination or harassment is tolerated. Various initiatives have been implemented at Air France and KLM to support this commitment.

Air France-KLM strongly believes that a diverse and inclusive workforce has a positive impact on the performance of the organization and therefore continues to support all forms of action to encourage equal opportunity, equality between men and women, LGBTI networks, the vocational integration of young people, the employment of seniors and transmission of knowledge and skills, and the maintained employment and recruitment of persons with disabilities.

Measures and performance

Equal opportunities

Air France-KLM

At Air France-KLM Group level the company strives for a balanced representation of men and women in the Group Executive Committee. Concretely, in the event of the recruitment and/or appointment of new members, and in candidates of an equal level, there is a preference for female candidates. In 2019, 33% of the members of the Group Executive Committee were women, compared to 27% in 2018.

In 2019, the proportion of women in managerial positions increased for all categories of staff: ground staff (33% of the 10% highest levels of management were women compared to 32% in 2018), pilots (5.2% of flight captains were women compared to 5.1% in 2018), cabin crew (65.5% of pursers were women compared to 65.4% in 2018).

Air France-KLM pursued its policy of promoting diversity and reiterated the need to combat all forms of prejudice and discrimination by putting the emphasis on the power of diversity and inclusion *via* coordinated interventions and an increased commitment. More diverse and inclusive organizations are known to attract more talent and to be more customer driven, have higher levels of employee engagement, take better decisions and are more innovative and creative. All of these factors are key to the shared ambition set by the two airlines in terms of equal opportunity and combating all kinds of prejudice and discrimination.

Air France

The commitment to fostering equal opportunity applies to all the collective recruitment and internal selection processes, and to professional development.

For Air France, professional gender and wage equality between women and men is a major business priority and an area in which the company would like to make progress in terms of human resources management. This undertaking was reflected in the signature with the unions of a fifth agreement on Professional Equality between Women and Men.

To ensure equal treatment between women and men, a series of male-female comparative indicators are tracked annually within the framework of an audit carried out within each division of the company (training, careers, vocational safety, remuneration, etc.). Special wage equalization and equitable salary management measures are in place, together with an annual audit of male and female comparative remuneration.

The internal Women For Tomorrow (WoTo) network, whose goal is to reinforce the recognition of women within the Group, currently numbers some 600 members. The 2019 financial year was marked by working groups, meetings with external contributors, workshops and the launch of the woto-airfrance.com website. Air France is also a member of the *Elles Bougent* external network, composed of female business mentors, to encourage young girls to join the engineering and technical professions. These mentors notably participated in a major event at the 2019 Paris Air Show involving more than 200 girls.

Lastly, in the spring of 2019, Air France organized a Rainbow Morning event with more than 200 people from the airline and seven LGBT associations during the International Day Against Homophobia, Transphobia and Biphobia. On this occasion the Air France CEO, Anne Rigail, signed the association *L'Autre Cercle's* LGBT+ commitment Charter. Furthermore, Air France renewed its support for the *Personn'ailles* LGBT and Gay Friendly employee association, which participated in the 2019 Paris Gay Pride. The company also supported World Aids Day.

A number of initiatives are also supported by Air France in favor of young people in the airport catchment area to promote their access to training and employment like *Tous En Stage*, an innovative scheme offering children business experience, and *Article 1* and *Nos Quartiers Ont Des Talents*, mobilizing more than 100 mentors from within the company.

To facilitate the long-term vocational integration of young interns within the company who are unlikely to be recruited on permanent contracts, various support measures directed at external employment are organized at the end of their internship contracts (organization of job-seeking forums, workshops on how to set up a company and job-seeking techniques, availability of dedicated job offer websites, etc.).

KLM

With respect to governance, Diversity and Inclusion (D&I) has become an integral part of the transformation agenda and thus a strategic topic for the KLM Board. As of 2018, a Diversity Circle composed of KLM Executive Committee members, representatives of the Women on Board network and internal ambassadors became responsible for defining and executing a clear D&I strategy for 2019. The D&I circle is a governance structure which will continue to exist in 2020.

In March 2019, the KLM President & CEO signed the Talent to the Top Charter, a manifesto aimed at increasing the number of women in management positions. This Charter helps to bring the right focus to the company's diversity policy and activate the right dialogue. The Charter contains guidelines and clear agreements that help KLM purposefully work towards durable and effective results. Every year KLM's progress is monitored based on six criteria: Leadership, Strategy and Interventions, HR Management, Communication, Knowledge and Skills and Work Climate. These criteria are used to frame KLM's strategy and governance.

D&I targets with respect to the percentage of women in management positions have been integrated in the overall Flight Plan for KLM, thereby becoming the responsibility of all divisions. At the end of 2019, KLM had attained all the targets with women occupying 27% of management positions. KLM also launched a female leadership program involving fourteen highly-qualified women to support their personal and career development. In 2020 another group of twelve women will commence this program.

Dashboards based on HR data have been designed to monitor the number of promotions, and the inflow and outflow of men and women. Overall, the KLM Compass links the company's purpose to a set of values and shows the balanced need for both masculine and feminine-labelled behaviour in leadership and team composition.

The female network Women on Board and the LGBTI Over the Rainbow network work closely together with the D&I Circle. The focus of Over the Rainbow has been on increasing awareness and enhancing discussion. The Women on Board network organizes inspiring events giving women opportunities to connect and learn from each other. In 2019, Women on Board numbered more than 1,000 women from all divisions and levels of KLM. Men can also attend the events. These internal networks, supporting the importance of Diversity and Inclusion for Women and LGBTI employees, organized a number of events during 2019:

- KLM hosted the annual Workplace Pride International Conference around the theme Inclusive Sustainability for more than 300 visitors from all over the world. Workplace Pride is a non-profit organization dedicated to improving the working conditions of LGBTI employees worldwide;

- Fifty years after Stonewall, KLM organized a special Pride Flight with an all-gay crew. KLM participated in the Workplace Pride Global Benchmark and emerged as one of the Top Improvers with an increase of 18 points. KLM also reached the top 3 for network, showing best practice for organization linked to the company strategy and Executive Committee sponsorship.

Policy on disability

Air France

Dating back 30 years, Air France has deployed a proactive policy on the employment and vocational integration of employees with disabilities. This policy is based on three-year inter-category agreements. On November 13, 2019, the Air France CEO Anne Rigail signed the mandate for the inclusion of people with disabilities in economic life, which was also signed by a hundred or so large French companies, thereby reaffirming Air France's commitment to supporting a bona fide societal project.

In 2018, Air France's employment rate for workers with disabilities (including both direct employment and indirect employment through procurement from the sheltered sector) exceeded the legal threshold of 6% to stand at 6.68%, with 1,950 employees with disabilities present in the company.

In 2019, Air France continued to recruit staff with disabilities across all divisions. It also ensured the maintained employment

of staff with disabilities through more than 250 support programs, and the adaptation of posts and working conditions.

Within the framework of its societal responsibility policy, the company supports a number of initiatives in favor of young people with disabilities to facilitate their access to training and employment. Thus, within the framework of *Tous En Stage*, Air France welcomed 25 teenagers with disabilities on work experience internships. Air France also partners associations like *Tremplin* and *Arpejeh*.

Air France continues to call on the services of businesses and organizations in the adapted and sheltered employment sector, with procurement spending entrusted to this sector amounting to a little over €20 million in 2019.

Awareness-raising actions are conducted throughout the year. In May 2019, the DuoDay initiatives offered employees the opportunity to welcome a disabled person for a day to learn about their profession but also to change their perception of disability. Awareness-raising events on deafness were organized and Air France also participated in the European Disability Employment Week with, notably, events and activities in the various divisions in cooperation with the Diversity Handicap representatives, the vocational physicians, social assistants and associations, and the signature of a partnership with tennis handisport champion Emmanuelle Morch.

KLM

To redesign and simplify the sick leave process, KLM rolled out a digital tool (Verea), to offer employees and managers optimal support. In 2019, in a pilot scheme, Verea was made available to selected groups while the longer-term goal is for all KLM managers, employees and staff to use this tool.

In 2019 a significantly higher success rate was achieved in finding alternative employment for people who were unable to return to their original jobs due to disability. This means not only suitable positions within KLM but also the redeployment of incapacitated employees outside KLM. This success was due to the dedicated support of the Reintegration Officers and a better program with various providers for a better match on the external labor market.

At KLM, according to Dutch Law, every employee has equal rights in the workplace. Differentiating between employees on the basis of disability or chronic disease is not allowed. Only when people with a certain handicap or disease are not able to do the essential tasks necessary to do a job effectively can the employer refuse to hire them, especially if health or safety is a major issue. It is also mandatory for an employer to investigate whether a disabled person can execute the work to be done by adjusting the tasks or the working environment.

4.2.5 Social indicators for the Group

4.2.5.1 Consolidated social data for the Air France - KLM Group

	Air France - KLM Group			
	2017	2018	2019	19/18 in %
Total staff (Full Time Equivalent) at 12/31	80,595	81,527	83,097	1.9%
Scope of Social reporting	96%	98%	97%	-1%
Total staff (headcount, permanent and fixed-term contracts) ⁽¹⁾	87,312	88,888	90,386	+1.7%
Ground staff	53,185	53,985	54,342	+0.7%
Cabin crew	25,859	26,153	26,684	+2.0%
Flight deck crew	8,268	8,750	9,360	+7.0%
Staff under permanent contract	82,283	83,994	85,442	+1.7%
Recruitment under permanent contract at 12/31 ⁽²⁾	2,815	4,153	4,384	+5.6%
Recruitment under fixed-term contract at 12/31 ⁽³⁾	6,289	5,920	5,858	-1.0
Departures at 12/31 ⁽⁴⁾	10,156	10,535	8,842	-16.1%
of which redundancies (incl. economic)	247	337	476	+41.2%
Percentage of women at 12/31 ⁽⁵⁾	45.3%	45.3%	45.1%	-0.4%
Percentage of part-time employees at 12/31	29.7%	29.7%	29.9%	+0.7%
Breakdown of staff by age at 12/31				
≤ 29 years	7,501	9,091	10,275	+13.0%
Between 30 and 39 years inclusive	17,145	16,246	15,585	-4.1%
Between 40 and 49 years inclusive	32,348	31,758	31,003	-2.4%
50 Years and above	30,318	31,793	33,523	+5.4%
Breakdown of staff by geographical area at 12/31				
Europe (except France and the Netherlands)	3,041	3,373	3,116	-7.6%
North & South America	1,560	1,634	1,848	+13.1%
Caribbean/Indian Ocean (including French overseas territories) ⁽⁶⁾	718	711	695	-2.3%
Asia/Pacific	1,645	1,625	1,654	+1.8%
Africa/Middle East	1,170	1,167	1,061	-9.1%
The Netherlands	30,217	30,600	31,609	+3.3%
Continental France	48,961	49,778	50,403	+1.3%
Training				
Number of training hours by employee ⁽⁷⁾	NA*	39,7	40,4	+1.8%

(a) Air France Group: Air France and Air France subsidiaries.

Air France subsidiaries: Barfield, Blue Connect, Bluelink, Bluelink International CZ, CRMA, Hop!, Sodexi and Transavia France.

(b) KLM Group: KLM and KLM subsidiaries.

KLM subsidiaries: Cygnific, KLM UK Engineering, KLM Cityhopper BV, Transavia Pays-Bas, KLM Catering Services Schiphol BV and Int. Airline Services.

(1) (2) (3) (4) (5) (6) (7): See Note on the Methodology.

NA*: Not Available.

Air France Group ^(a)				KLM Group ^(b)			
Air France Group		of which Air France		KLM Group		of which KLM	
2018	2019	2018	2019	2018	2019	2018	2019
51,707	52,512	44,728	45,850	29,818	30,568	23,147	23,597
99%	99%	100%	97%	97%		100%	
54,959	55,292	48,124	48,791	33,929	35,094	28,344	29,157
34,693	34,413	30,903	30,427	19,292	19,929	15,868	16,309
15,147	15,461	13,311	14,147	11,006	11,223	9,517	9,583
5,119	5,418	3,910	4,217	3,631	3,942	2,959	3,265
52,280	52,951	45,819	46,734	31,714	32,491	27,265	27,741
3,241	3,077	1,687	2,410	912	1,307	629	940
4,085	4,341	3,021	3,460	1,835	1,517	798	1,075
8,223	6,971	5,899	5,131	2,312	1,871	1,239	1,186
246	393	92	179	91	83	32	44
45.5%	45.2%	45.9%	45.9%	45.2%	45.0%	44.4%	43.9%
21.6%	21.2%	23.1%	22.6%	42.9%	43.5%	44.0%	44.2%
5,366	5,990	3,911	4,833	3,725	4,285	2,203	2,598
9,714	8,723	7,694	6,986	6,532	6,862	5,125	5,477
22,028	21,726	19,881	19,637	9,730	9,277	8,517	8,097
17,851	18,853	16,638	17,335	13,942	14,670	12,499	12,985
2,071	1,802	1,120	991	1,302	1,314	891	883
1,194	1,416	1,194	975	440	432	436	431
662	649	661	648	49	46	49	46
542	411	541	411	1,083	1,243	733	700
724	618	724	618	443	443	443	443
52	46	52	46	30,548	31,563	25,728	26,601
49,714	50,350	43,832	45,102	64	53	64	53
38,9	42,4	37,1	41,5	41,0	37,2	36,2	39,3

4.2.5.2 Other social data for the Air France Group (according to local legislation)

Air France (100% of the staff headcount, registered and paid at the end of the calendar year) ^(a)

	2018	2019	19/18
Absenteeism ⁽¹⁾			
Due to illness	3.80	3.56	-6.3%
Due to work accidents	0.71	0.67	-5.6%
Maternity leave	0.44	0.34	-22.7%
Health and safety			
Total workplace accidents ⁽²⁾	2,148	2,214	+3.1%
Number of fatal workplace accidents	0	5	
<i>Frequency rate of workplace accidents ⁽³⁾</i>	29.94%	30.34%	+1.3%
<i>Severity rate of workplace accidents ⁽³⁾</i>	0.92%	0.89%	-3.3%
Disabled staff ⁽⁵⁾			
Total staff with disabilities	1,971	1,950	-1.1%
Total staff with disabilities recruited during year	42	40	-4.8%
Yearly spending in the sheltered sector in €m ⁽⁶⁾	19	20	+5.3%
Signed collective agreements	40	48	+20.0%

(a) Data in italics concerns only Air France in Continental France and the French overseas territories.

Air France subsidiaries

	2018	2019	19/18
Scope of reporting for Air France subsidiaries	89%	90%	+1.1%
Health and safety			
Total workplace accidents ⁽²⁾	627	391	-37.6%
Number of fatal workplace accidents ⁽²⁾	0	0	+0%
<i>Frequency rate of workplace accidents ⁽³⁾</i>	58.1%	39.5%	-31.9%
<i>Severity rate of workplace accidents ⁽³⁾</i>	1.38%	1.2%	-35.5%
Disabled staff ⁽⁵⁾			
Total staff with disabilities	141	128	-9.2%
Total staff with disabilities recruited during the year	6	1	-83.3%
Signed collective agreements	38	24	-36.8%

(1) (2) (3) (4) (5): See Note on the Methodology.

4.2.5.3 Other data for the KLM Group (according to local legislation)

KLM (100% of the staff headcount, registered and paid at the end of the calendar year) ^(a)

	2018	2019	19/18
Absenteeism ⁽¹⁾			
Due to illness	6.86%	6.23%	-9.2%
Due to workplace accidents	0.11%	0.11%	0%
Maternity leave	0.37%	0.35%	-5.4%
Health and safety			
Total workplace accidents ⁽²⁾	169	155	-8.3%
Number of fatal workplace accidents	0	0	
Frequency rate for workplace accidents ⁽³⁾	3.75%	3.36%	-10.4%
Severity rate of workplace accidents ⁽³⁾	0.20%	0.19%	-5.0%
Disabled staff ⁽⁵⁾			
Total staff with disabilities	791	799	1.0%
Signed collective agreements	3	2	-33.3%

(a) KLM: data concerns KLM without international staff.

KLM Subsidiaries

	2018	2019	19/18
Scope of reporting for KLM subsidiaries	87%	87%	+0%
Health and safety			
Total workplace accidents ⁽²⁾	75	50	-33.3%
Number of fatal workplace accidents	0	0	+0%
Frequency rate for workplace accidents ⁽³⁾	6.56%	4.4%	-32.9%
Severity rate of workplace accidents ⁽³⁾	0.35%	0.22%	-37.1%
Disabled staff ⁽⁵⁾			
Total staff with disabilities ⁽⁶⁾	89	62	-30.34%
Signed collective agreements	7	5	-28.6%

(1) (2) (3) (4) (5) (6): See Note on the Methodology.

4.2.5.4 Note on the methodology for the reporting of the social performance indicators

In 2005-06, under the aegis of the Disclosure Committee, and validated by the college of Statutory Auditors, the Air France – KLM Group's social performance indicators were defined to comply with the requirements of the French New Economic Regulations law (*Les Nouvelles Régulations Économiques*, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Work on optimizing these indicators was undertaken in 2018 to align the Grenelle II reporting with the new requirements linked to the transposition of the Directive on the Extra-financial performance statement.

Since the 2007-08 financial year, the Group has chosen to appoint one of its Statutory Auditors, KPMG Audit, a department of KPMG SA, to be responsible for verifying a selection of its reported social indicators.

As of 2018 and in application of the provisions of Article L. 225-102-1 of the *Code de Commerce*, it is the responsibility of our Independent Third Party to determine the compliance of the Extra-financial performance statement and the accuracy of the published CSR information.

Reporting scope

The Air France–KLM Group's social reporting consolidation scope is based on the number of employees (expressed as headcount) on the payroll at the end of the calendar year.

The reporting scope covers 97% of the average employees in the Air France–KLM Group at the end of the 2019 calendar year, expressed in full-time equivalent.

The subsidiaries of Air France and KLM over which the Group exercises control at the 50% minimum, whose acquisition dates back at least one full year and which have at least 250 employees, are included in this social reporting scope.

Note that the number of employees for Air France and KLM and its subsidiaries comprises their entire workforces including staff employed internationally:

- for the 2019 financial year, the Air France consolidated subsidiaries are: Barfield Inc., Blue Connect, BlueLink, BlueLink International CZ, CRMA, HOP, Sodexi and Transavia France, representing 90% of the employees of the subsidiaries in the Air France Group;
- for the 2019 financial year, the KLM consolidated subsidiaries are: Cygnific, KLM UK Engineering, KLM Cityhopper, Transavia C.V., KLM Catering Services and Int. Airline Services, representing 87% of the employees in the subsidiaries of the KLM Group.

In 2019, Barfield Inc. was included in the reporting scope for the Air France subsidiaries.

The subsidiary Joon was discontinued but all its staff were transferred to Air France: employees formerly under Joon contract and having rejoined Air France have been included in Air France hires. Those not joining Air France have not been counted in the departures.

The KLM reporting scope did not change compared to 2019 with no subsidiaries being either included or withdrawn.

The reference number of employees for calculating the coverage rate of the social reporting is the average number of employees in Full Time Equivalent during 2019 derived from the Management Control division's BFC tool.

The reporting period for the Group's social information is based on the calendar year to ensure consistency with the social performance indicators of other French companies.

Reporting tools

The indicators are compiled and consolidated using the Osyris (Operating SYSTEM for reporting on Sustainability) reporting software at the disposal of contributors from Air France, KLM and their subsidiaries across the entire reporting scope. Precise definitions of each indicator and user guides for contributors have been produced and are available in the Osyris tool.

Consistency tests have been incorporated within the tool. The data are verified and approved locally at the level of each subsidiary by a manager who is responsible for the HR statistical data.

This system is supplemented by a general coordination to launch the process and by a general reporting procedure which defines the process for compiling, calculating and consolidating the indicators, based on an instruction memorandum circulated by the Air France–KLM Group's Finance division.

The consolidation of the Air France–KLM Group's social information is carried out by Air France's CSR department.

Details and methodology – Definition of the key performance indicators and comments on changes in the indicators

Definition of the key performance indicators

Employee Promoter Score (EPS)

Scope: Air France and KLM (employees on French or Dutch contracts).

The Employee Promoter Score (or EPS) is the score given to Air France and KLM in their capacity as employers by their employees. Since July 2019, this indicator has been measured at Air France and KLM on a weekly basis, based on a random group of 1,500 employees representing all the Air France and KLM businesses, in the form of a question sent by mail: "How likely are you to recommend Air France–KLM as an employer to friends and family?", on a scale of 0 to 10. The EPS corresponds to the difference between the percentage of employee promoters (score of 8 to 10) of the employer brand and the percentage of detractors (scores 0 to 5).

The indicator measured is the annual change in the consolidated EPS for Air France–KLM. For 2019, the result is the percentage change between July 2019 and December 2019.

Percentage of women in management functions (ground staff, pilots, cabin crews)

Scope: Air France and KLM employees (expressed as “headcount”) on both permanent (CDI) and fixed-term (CDD) contracts, on the payroll as of December 31 of the reference year.

The indicator measured is the percentage of women in the three staff categories:

Ground staff: percentage of women in the top 10% management level. The percentage of women is calculated by combining all the levels of management, classified in descending hierarchical order, until the threshold of 10% of the total salaried workforce of Air France and KLM is reached. For this last level of management, the entire workforce is taken into account.

Pilots: percentage of women amongst the pilots exercising management functions (captain)

Cabin crews: percentage of women amongst the cabin crews exercising management functions (pursuers)

Number of training hours

See Training below (Note 7).

Comments on changes in the indicators**“Consolidated social data for the Air France – KLM Group” table**

This table presents the indicators relating to the number of employees, recruitment and departures, the proportion of female employees and the percentage of staff working part time. These indicators are consolidated at the level of the Air France–KLM Group.

The notes below refer to the references in the social indicator tables (Section 4.2.1).

Employees

Note 1: The number of people employed by the Group (expressed as headcount) on both permanent (CDI) and fixed-term contracts (CDD) on December 31 of the reference year.

Recruitment under permanent contracts

Note 2: The indicator concerns employees hired on permanent contracts (CDI).

For Air France, the calculation of the number of employees recruited on permanent contracts includes those initially recruited on fixed-term contracts (CDD) transferring to permanent contracts (CDI) during the year.

For KLM, only employees recruited directly on permanent contracts are taken into account.

This year, it was not possible to include the Transavia Netherlands data on this topic in the Group’s social indicators.

Recruitment under fixed-term contracts**– Air France and Air France subsidiaries**

Note 3: In 2018, HOP! harmonized its accounting method with that of Air France: at Hop! and Air France, each new fixed-term contract now generates a hire.

– KLM subsidiaries

Note 3: This year, it was not possible to include the Transavia Netherlands data on this topic in the Group’s social indicators.

Departures including redundancies**– KLM subsidiaries**

Note 4: This year, it was not possible to include the Transavia Netherlands data on this topic in the Group’s social indicators.

Percentage of women – Organization of working time

Note 5: These indicators enable the percentage of women to be evaluated relative to the workforce and the proportion of part-time employees on both permanent and fixed-term contracts at December 31 of the reference year.

Employees by geographical zone at December 31

Note 6: For 2019, the Air France Group employees in the French Overseas Departments and Territories, i.e. 596 employees, are included in the Caribbean-Indian Ocean geographical zone.

Training

Note 7: The “Number of training hours by employee” indicator is calculated based on all the training sessions, divided by the average monthly headcount. For the first time in the social indicators, this indicator is presented at Air France–KLM Group consolidated level.

– Air France and Air France subsidiaries

Note 7: For the first time this year, the “Number of training hours by employee” indicator includes the number of hours of training at Bluelink International CZ (this data was not available the previous years).

– KLM and KLM subsidiaries

Note 7: The hours of external training dispensed to KLM Group administrative employees and the hours of training given to employees of the Transavia Netherlands subsidiary (less than 10% of the Air France–KLM Group headcount) are not booked in the “Training Hours” indicator due to there being no information population process in place. Measures will be taken to progressively expand the reporting scope of these indicators in the coming financial years.

“Other social data” tables

The indicators reported in the “Other social data” tables are subject to different qualification and legal reporting obligations in France and the Netherlands, meaning that they are not comparable and need to be presented separately for Air France and KLM. The subsidiaries concerned in these tables are listed in the reporting scope section above.

Absenteeism – Health and safety in the workplace

A significant portion of the work-related accidents reported by Air France is due to cases of barometric otitis and musculoskeletal disorders which are recognized as work-related accidents in France whereas they are recorded as sick leave by KLM in accordance with Dutch law.

The absenteeism rate is not communicated for the Air France and KLM subsidiaries (around 15% of the Air France-KLM Group headcount), the monitoring measures being in the verification process at the level of these entities. Measures will be taken to progressively expand the reporting scope of this indicator in the coming years.

– Air France

Note 1: The absenteeism rates are calculated based on the hours of absence expressed as a ratio of the hours theoretically worked (excluding leave). For Air France flight crew, absenteeism is broken down into days then converted into hours by multiplying by five hours.

The absenteeism rate for accidents in the workplace also takes into account travel-related accidents.

– KLM and KLM subsidiaries

Note 1: Since the 2014 financial year, the absenteeism rates due to work-related accidents or illness have been reported separately.

The absenteeism rates are calculated by expressing the number of calendar days of absence as a percentage of the calendar days theoretically worked. Absenteeism is tracked on the basis of figures declared by the KLM entities in the Netherlands.

Health and safety – work-related accidents

There are significant differences in the definition criteria for work-related accidents between France and the Netherlands (see also paragraph on absenteeism).

– Air France and Air France subsidiaries together with KLM and KLM subsidiaries

Note 2: Work-related accidents taken into account are work-related accidents involving time off work (at least one day of absence from work). Travel-related accidents are not included in the indicator but are the subject of specific monitoring and action plans.

Frequency and severity rates

– Air France and Air France subsidiaries

Note 3: The frequency and severity rates are calculated in calendar days:

- for ground staff, based on the actual paid hours worked;
- for flight crews, based on the hours of “commitment”.

For Air France, the number of days of sick leave recorded for the year corresponds only to the accidents having taken place during the financial year. Part-time working for health reasons is booked as sick leave. The total period of sick leave is booked in the month of the accident.

The frequency and severity rates for work-related accidents in Air France subsidiaries (around 7% of the Air France-KLM Group’s headcount) have been reported since 2019. The relatively higher frequency rate for accidents in the workplace at Air France subsidiaries compared to Air France is explained by:

- the substantial number of cases of barometric otitis within accidents in the workplace;
- the proportion of flight crew represented across the Air France subsidiaries. Flight crew on permanent and fixed-term contracts effectively amount to 39% of the total headcount in the subsidiaries even though these staff are subject to barometric otitis which is recognized as an accident in the workplace in France;
- since the network of airline subsidiaries is focused in particular on short and medium-haul flights, the flight crews as a whole have to contend with more pressure changes leading to otitis.

– KLM and KLM subsidiaries

Note 3: The frequency and severity rates are calculated for all staff based on the hours theoretically worked.

The days lost for work-related accidents are tracked based on figures declared by the KLM entities in the Netherlands.

Number of disabled employees

– Air France and Air France subsidiaries

Note 5: For Air France, the number of disabled employees are those who, based in Continental France and the French Overseas Departments and Territories, were present for at least one day during the year and for whom a valid certificate, pursuant to French law (Article L. 5212-2 of the French Labor Code), is available.

Note that the data for international employees is reported based on local legislation.

The number of disabled employees recruited corresponds to the number of permanent and fixed-term employment contracts signed during the year; an employee recruited on a fixed-term contract who then transfers to a permanent contract during the year will be reported twice.

Note that the rate of employment of disabled employees for 2019 was not yet known on the date the figures for the reporting of the social indicators were produced for the management report and the Registration Document.

– KLM and KLM subsidiaries

Note 5: The definition of a disabled person varies according to the local legislation governing the entities in the Netherlands and the United Kingdom.

For KLM and KLM’s Dutch subsidiaries, an individual is deemed to be disabled if unable to carry out his or her work or any other work at an equivalent salary level. This requires the employer and the employee to look for another position with a salary as near as possible to the previous level and gives the employee the right to government benefits to compensate for any difference.

For KLM's UK subsidiaries, the reported number of employees with disabilities refers to the employees on the payroll at December 31, 2019, for whom a valid certificate, pursuant to national legislation, is available.

This year, it was not possible to include Transavia Netherlands data on this topic in the Group's social indicators.

– Air France

Note 6: "Yearly spending in the sheltered sector" indicator. This concerns revenues expressed in millions of euros generated with companies in the protected sector. This is an estimated figure as of the date of publication, ahead of the final submission of the declarations within the framework of the DOETH (mandatory declaration of employees with disabilities).

4.3 ENVIRONMENTAL IMPACT

There is growing international concern about climate change. Attitudes towards the acceptability of air transportation growth are changing both at political level and in terms of wider society, while we are witnessing the occurrence of increasingly-extreme climate events. Both France and the Netherlands have implemented policies to ensure the transition to a zero-carbon society by 2050. Air France-KLM's growth increasingly depends on its ability to reduce its environmental footprint.

Within a context in which, unlike other modes of transportation, commercial aviation currently has no viable alternative to fossil fuels and no disruptive technologies are expected to emerge in the short term, Air France-KLM needs to maintain its efforts in this area and respond to the expectations of its stakeholders.

See also paragraph 3.2.2 in Section 3 Risks and risk management.

Key Performance Indicator	Definition	Results	
CO ₂ efficiency per passenger kilometer	Specific CO ₂ footprint for passenger transportation	2018 80 g. CO ₂ /passenger/km	2019 79 g. CO ₂ /passenger/km
	Percentage change in CO ₂ efficiency (g.CO ₂ /passenger/km) between 2005 and 2019 (operational measures only)	2019 -20%	
	Percentage change in CO ₂ efficiency (g.CO ₂ /passenger/km) between 2005 and 2019 (operational measures and market-based measures)	2019 -30%	2030 target 50% reduction compared to 2005
CO ₂ emissions from the ground operations	Percentage change in absolute CO ₂ emissions from the ground operations between 2018 and 2019	2019 -32%	2030 target Carbon neutrality
Non-recycled waste	Percentage change in non-recycled waste between 2011 and 2019.	2019 -31%	2030 target 50% reduction compared to 2011
Noise footprint	Percentage of variation of global noise energy per movement (Global Noise Energy calculated in kJ divided by the total number of movements between 2000 and 2019.	2018 -42%	2019 -43%

See Note on the methodology for the reporting of the environmental indicators, section 4.3.6.3.

√ Figures verified by KPMG for 2019 (reasonable level of assurance).

4.3.1 Carbon emissions

Context and strategy

Aviation is responsible for 2% to 3% of man-made greenhouse gas emissions. However, given the growth for global air traffic over the coming decades and if no action is taken, this proportion could increase.

In 2009, the International Air Transport Association (IATA) set ambitious worldwide targets for reducing the CO₂ emissions from air transportation:

- 1.5% average annual fuel efficiency improvement until 2020;
- carbon neutral growth from 2020 onwards;
- a 50% reduction in net aviation CO₂ emissions by 2050 relative to 2005 levels.

Air France–KLM endorses the IATA targets and the Group has set itself some proprietary intermediate targets.

The Group's 2020 target had been to reduce its CO₂ emissions by 20% per passenger km compared to 2011 but this objective was achieved in 2018 with a reduction of 21.6%.

In 2019, Air France–KLM thus set itself a 2030 target of reducing its CO₂ emissions by 50% compared to 2005 (in g. of CO₂/passenger/km including the market-based measures): in 2019, the Group achieved a 30% reduction in its CO₂ emissions compared to 2005 (operational measures and market-based measures) and a 20% reduction taking into account only the operational measures.

The Group has established a Climate Action Plan to reduce its carbon footprint. This Plan is composed of six main mitigating priorities, on the basis of which targets have been identified and action plans implemented:

- fleet modernization and contributing to aeronautical research;
- sustainable Aviation Fuel and participating in research into renewable energies;
- operational measures;
- supporting the implementation of the global climate agreement (CORSIA) with a fair contribution for aviation;
- regulatory and proactive offsetting;
- supporting environmental programs;
- carbon offsetting programs for customers.

Measures and performance

Greenhouse gas emissions: Scopes 1, 2 and 3

Most of the greenhouse gas emissions (GHG) are generated by Air France–KLM's direct activities (scope 1), and mainly by the flight operations which represent 99.7% of the Group's total direct emissions. The ground operations (testing bench, runway vehicles, etc.) represent 0.3%.

The ground operations, like the aircraft maintenance and tertiary activities, also generate indirect greenhouse gas emissions (scope 2), through electricity consumption in buildings (electricity and air conditioning). The Group implements actions to reduce ground energy consumption.

The indirect Scope 3 greenhouse gas emissions mostly come from the upstream phase (extraction, production, distribution, etc.) in aviation kerosene production and carbon emissions from vehicles and runway equipment. The other scope 3 components are the purchasing of goods and services, passenger road travel to and from airports, and employee commuting. Air France and KLM implement measures to reduce scope 3 emissions. For the air operations, scope 3 emissions account for around 16% of total emissions (scopes 1, 2 and 3).

Every year, the Group reports 100% of its scope 1 and 2 CO₂ emissions, and the scope 3 emissions resulting from the upstream phase in aviation kerosene production (according to internal estimates, these emissions represent approximately half of the total scope 3 emissions). These emissions are reported in the form of indicators presented in the environmental indicator tables, accompanied by a definition of the respective scopes (see *Section 4.3.6*).

Fuel-saving measures

All possible avenues of fuel-savings are identified and, when feasible, implemented, subject to strict respect of the rules on Flight Safety. All the airlines within Air France–KLM are involved in the Fuel Plan so that the Group can improve its energy efficiency and reduce its carbon footprint.

Fleet modernization

Currently the most impactful way to reduce the carbon footprint is to invest in a more fuel-efficient fleet. The Group focuses on simplification and rationalization to make the fleet more competitive while its transformation is being pursued with the arrival of more modern, high-performance aircraft with a significantly-lower environmental impact. For the long-haul fleet, Air France's A340s and A380s and KLM's Boeing 747-400s are gradually being replaced by Boeing 787-9s and 10s and by A350-900s. In 2019, the average age of the fleet was 11.6 years. *For more information on the Group's fleet see Section 1.4.*

Sustainable aviation fuel

The use of Sustainable Aviation Fuel (SAF) is a promising avenue for reducing the CO₂ emissions from aviation. Such fuels are key to achieving Air France–KLM's CO₂ emission reduction targets as well as those of the aviation industry as a whole.

Air France–KLM's goal is to contribute to the establishment of a sustainable fuel industry for aviation. Both Air France and KLM have established innovative partnerships with corporate customers, suppliers, airports and logistics partners. This is exemplified by last year's announcement from KLM and SkyNRG, aimed at developing Europe's first dedicated plant for the production of SAF in Delfzijl (the Netherlands). However, strong governmental support accompanied by incentives are required for both their more widescale deployment and the creation of economically-viable production facilities for producers and operators alike.

Air France–KLM is very exacting as regards the sustainability standards of the Sustainable Aviation Fuel it uses, requiring for example a significant reduction in CO₂ emissions, a minimal impact on biodiversity, no competition with food production or access

to food resources, and a positive impact on local development. Air France and KLM have been members of the sustainable certification body Roundtable on Sustainable Biomaterials (RSB) since 2008, in their capacity as founder members of the Sustainable Aviation Fuel Users Group (SAFUG).

Stimulating the industry

Air France and KLM are members of working groups and support research projects aimed at the creation of a Sustainable Aviation Fuel market. For example:

- Air France has joined forces with the ATAG (Air Transport Aviation Group) to promote, with the French Civil Aviation Research Council, greater knowledge of biofuels for aviation and thus raise public authority awareness of the need to support a French biofuels industry. Air France is also actively participating in the establishment of the French national road map on aviation biofuels managed by the National Alliance for Coordination of Research on Energy (ANCRE);
- KLM continues to purchase an annual 120,000 liters of SAF for its Växjö (Sweden) flights, equalling 5% of the total fuel use on all flights to/from that destination. Together with Södra and the City of Växjö, KLM and SkyNRG are investigating the feasibility of producing SAF locally;
- in 2017, Air France signed an Engagement for Green Growth (*Engagement pour la Croissance Verte* – ECV) with the French Ministry for the Ecological and Inclusive Transition, the French Ministry of Transport and the French Ministry of the Economy and Finance, along with four other major French industrial companies (Airbus, Safran, Suez and Total). This Engagement for Green Growth aims to promote the emergence of sustainable aviation biofuel industries, in economically viable conditions that fully integrate circular economy principles. Its conclusions were published in January 2020, together with a French governmental roadmap to set, on the basis of the ECV recommendations, the principles and ambition for Sustainable Aviation Fuel incorporation and the launch of a call for expressions of interest to build production facilities in France.

Supporting regulatory incentives in France and the Netherlands, and at international level

Air France and KLM are actively involved in the European Advanced Biofuels Flightpath initiative. They are also members of the ART Fuels Forum.

Furthermore, Air France is participating in the Ini-FCA French Future Alternative Fuels Initiative, spearheaded by the French Civil Aviation Authority (DGAC). Within the CORAC (Council for Civil Aeronautical Research), the company actively participates in formulating a sustainable biofuels strategy involving coordinated actions to further technological research and innovation towards the attainment of ecological transition objectives within a global context.

KLM is actively involved in the BioPort Holland, a collaboration between the Dutch Government and several private parties with a collective ambition of launching sustainable aviation fuel production in the Netherlands.

Innovating in the supply chain

KLM is one of the founders of SkyNRG, the current worldwide market leader for Sustainable Aviation Fuel. Since 2016, all KLM flights from Los Angeles airport have been operated with SAF produced by the local World Energy (former AltAir Fuels) refinery and supplied by SkyNRG. Additionally, KLM has purchased SAF for flights out of Amsterdam Airport Schiphol. This sustainable fuel produced by Neste from used cooking oil will bridge the gap until the coming on stream of the SAF production plant.

In 2019, KLM made a decade-long commitment to developing and purchasing an annual 75,000 tons of Sustainable Aviation Fuel. KLM is the first airline in the world to invest in SAF on this scale. SkyNRG will develop Europe's first dedicated plant for the production of SAF. The construction of this facility, which is scheduled to open in 2022, is a concrete step towards fulfilling KLM's sustainability ambitions.

In November 2019, Air France and Shell signed a memorandum of undertaking confirming their commitment to fueling the airline's flights on departure from San Francisco with a blend of conventional and sustainable fuel for aviation as of June 1, 2020. This alternative fuel, produced mostly from inedible waste fats and oils, has obtained RSB certification and respects strict sustainability criteria. Distribution will take place *via* the airport's centralized infrastructure. This initiative will avoid the emission of around 6,000 tons of CO₂ over 16 months and illustrate's the airline's proactive commitment to reducing its environmental footprint at every stage of the value chain.

Involving customers and partners

As part of its WWF-Netherlands partnership and the Green Deal commitment, in 2012 KLM launched the KLM Corporate BioFuel program, a first for aviation. In 2019, the KLM Corporate BioFuel Programme was partnered by ABN Amro, Accenture, Arcadis BV, Arcadis NV, Amsterdam Municipality, Loyens & Loeff, Air Traffic Control the Netherlands (LVNL), Microsoft, the Ministry of Infrastructure and the Environment, Neste, the Royal Netherlands Aerospace Centre (NLR), PGGM, Schiphol Group, SHV Energy, Södra and the University of Delft.

Air France has long supported the development of a viable industry for the production of sustainable fuel for aviation. It has been trialing the use of such fuel on its commercial flights since 2014 and invests substantial sums in innovation alongside research institutes. In France, Air France mobilizes the partners in the biofuel value chain around the Engagement for Green Growth.

Operational measures

Weight reduction: the lighter the aircraft, the less fuel it consumes. All the divisions of Air France-KLM are working to reduce weight on board. This includes, for example, reducing the weight of seats, galley and service equipment, products such as paper documentation for cargo and flight decks, magazines and the loading of drinking water.

Route and flight path optimization: Improvements in fuel efficiency are made through the optimization of routes, flight paths and altitudes, and a reduction in aircraft waiting times. Air France–KLM is proactively involved in the SESAR program, which contributes to the targets of the Single European Sky (SES) directed at better management of air traffic. SESAR aims to contribute to the SES 10% CO₂ reduction target by reducing fuel burn.

Flight operations optimization: For example, pilots are trained to apply the most-fuel-efficient procedures: Flight Plan precision, speed adjustments and optimized trajectories, and, on the ground, taxiing with one engine shut down. New efficient tools based on artificial intelligence are being implemented, in partnership with innovative startups.

Mandatory CO₂ compensation

Since 2012, the Group has been subject to the application of the European Union Emission Trading Scheme for greenhouse gas emission quotas (EU-ETS) (for the 2019 figures, see Section 4.3.6 Environmental indicators table). Until the end of 2023, the EU-ETS scope is limited to intra-European flights.

The global market-based mechanism established by ICAO, known as CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), aims to limit the CO₂ emissions from international aviation by targeting carbon neutral growth relative to the 2020 baseline. Air France, KLM and the other IATA airline members continue to work actively on the implementation conditions of this agreement.

For the implementation of CORSIA, the Air France–KLM Group contributed to the calculation of the CO₂ emission reference data as of January 1, 2019 t (average of the 2019 and 2020 emissions). The implementation of CORSIA offsetting will begin with a first phase from 2021 to 2026, based on the States volunteering to contribute, i.e. currently 81 countries, representing around 76% of international aviation activity.

The EU will implement the ICAO's CORSIA scheme in the current EU-ETS regulations for aviation for the scope of international flights. In this context, Air France–KLM considers that its CO₂ emissions are not simultaneously subject to both the EU-ETS and CORSIA. Assuming a change to the provisions of the EU-ETS, the Group is calling for a detailed impact study to be conducted on the envisaged amendments, and is drawing attention to the need for the prior design of a carbon adjustment mechanism at the frontiers of the European Union, to protect the European airlines from "carbon leakage"

Voluntary carbon offsetting and support for environmental programs

Air France and KLM offer their individual and corporate customers the opportunity to offset their CO₂ emissions on a voluntary basis, by making CO₂ emission calculators available to customers on their websites. These calculators are directly linked to an emission evaluation system, enabling passengers to offset the carbon emissions associated with their travel, should they so wish.

With the Trip and Tree program, Air France is partnering the A Tree for You association which brings together, in complete transparency, contributors and tree-planting projects from all over the world. When purchasing a flight ticket, customers can volunteer to help the planet by making a donation in the amount of their choice to finance one of the tree-planting projects supported by the Trip and Tree program.

KLM's compensation service CO2ZERO also enables passengers to offset their carbon emissions. Customer contributions are invested directly in a carbon-offsetting project in Panama certified by the Gold Standard for the Global Goals label that focuses on planting new trees, preserving existing forests and supporting the local community. In 2019, the number of journeys booked including a CO₂ compensation request doubled on the previous year, with more than 175,000 customers opting to offset their flight-related emissions. For the first time last year, KLM included the price of CO₂ compensation prominently in its sales campaigns.

Transavia also offers its customers the opportunity to offset their CO₂ emissions on a voluntary basis when booking thanks to the CO2ZERO program.

Since January 1, 2020, Air France has been proactively offsetting 100% of the CO₂ emissions generated by its domestic flights. This represents a daily average of more than 450 flights. In cooperation with its partner EcoAct, this compensation takes the form of participation in projects certified by the highest international standards, and selected for their effective contribution to the United Nations Sustainable Development Goals (SDGs) and their significant benefits for the local population, to support reforestation, preserve forests and biodiversity, and develop renewable energies. Air France is one of the first airlines in the world to offset the emissions generated by its domestic flights.

Lastly, corporate customers can also opt for voluntary compensation of up to 100% of the emissions generated on their short, medium and long-haul flights *via* a dedicated offer.

For more information on these programs see Section 4.3.5 Biodiversity.

Ground energy consumption

Energy consumption in the ground operations, such as fuel use for ground support equipment, gas for heating purposes and electricity for aircraft maintenance and tertiary activities, generates direct and indirect greenhouse gas emissions (scope 1 and scope 2).

Air France and KLM had been targeting a 20% improvement in ground operation energy efficiency by 2020 (relative to the 2011 level), by optimizing energy consumption and increasing the use of renewable energies. Air France reached this target in 2017, and is pursuing its initiatives to maintain and improve this achievement, despite the fluctuations in consumption linked to climate events (e.g. particularly hot summer in 2018).

In 2019, Air France and KLM set a target of carbon-neutral ground operations in 2030. The reporting corresponding to this target

will be put in place in 2020. In 2019, the Group reduced its CO₂ emissions by 32% compared to 2018.

In 2019, the Group pursued actions to reduce its energy consumption, in particular by upgrading its equipment and including this objective in supplier contracts. For example, at Air France, a new energy-efficient lighting system has replaced the traditional system in the cargo warehouses and is being deployed at the maintenance sites, enabling a near-80% saving (reduction in energy and maintenance costs) and a saving of 550 tons of CO₂ a year.

Other initiatives are based on the increased use of renewable energies. For example, at Toulouse and Valbonne, in the south of France where the bulk of the IT servers are located, 100% of the heating needs of the tertiary buildings are met by recycling the heat generated by the air conditioning system. Photovoltaic energy projects will be deployed at the company's facilities in Toulouse and the Roissy-CDG head office: in total, this equipment will generate power of 1,300 KWc.

In 2019, KLM achieved a 59% reduction in greenhouse gas emissions from its ground operations compared to their 2011 level. This was achieved in part by increasing electricity efficiency by at least 2% per annum as part of a fifth multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs running through to 2020. In 2019, KLM took a major step towards this ambition by switching to green electricity. A further reduction in greenhouse gas emissions has resulted from increasing the share of electric ground support equipment to 60%, replacing diesel with Gas-to-Liquid and reducing gas consumption.

Environmental management/ISO 14001 certification

Air France and KLM's Environmental Management Systems (EMS) have been ISO 14001 certified, respectively, since 2008 and 1999, for all air and ground operations in France (metropolitan and Saint-Denis de La Réunion and Papeete outstations) and the Netherlands. This certification was renewed for a three-year period in 2017 for Air France and in 2018 for KLM. Internal and external audits verify the effective implementation of the Environmental Management System.

In addition to compliance with the regulations in force, the Environmental Management System is used to drive an improvement in environmental performance and innovation, both within the Group and at its suppliers.

4.3.2 Adaptation to climate change

Context and strategy

For air transportation, the impacts of climate change could have consequences for the routes and destinations served. The size of the Air France-KLM network, with services balanced between the different continents, and the flexibility obtained through fleet

composition are all valuable assets when it comes to minimizing the economic consequences of these impacts and adapting flight schedules to market requirements.

Measures and performance

Contributing to the reduction in CO₂ emissions

To avoid air traffic growth contributing to an increase in CO₂ emissions, the aviation industry is the first economic sector to have defined ambitious long-term reduction targets and to have set up a carbon offsetting scheme at global level within the framework of the International Civil Aviation Organization, to guarantee carbon-neutral growth in global air transportation from 2020.

While international aviation is not included in the Paris Climate Agreement, the industry's efforts respond to the latter's target of limiting the global temperature increase to below 2°C. In its Energy Technology Perspectives 2017, the International Energy Agency considers that the airline industry's target for 2050 is more ambitious than what would be required for a 2°C scenario (2°C Scenario - 2DS) and close to a scenario of beyond 2°C (Beyond 2°C Scenario - B2DS).

In 2019, the Group set its CO₂ emission reduction targets for 2030 and 2050. In terms of carbon-free energy, the use of Sustainable Alternative Fuels is a promising avenue towards reducing CO₂ emissions from aviation and a key element in achieving Air France-KLM's CO₂ emission reduction targets as well as those of the aviation industry as a whole.

During the Paris Air Show in June 2019, Air France reaffirmed its commitment, alongside all the French air transportation players - *Groupement des Industries Françaises Aéronautiques et Spatiales* (GIFAS), ADP Group, *Fédération Nationale de l'Aviation Marchande*, *Union des Aéroports Français* - to combatting climate change. Air France was behind this collective approach shared by all the stakeholders in the sector.

For the initiatives under way within Air France-KLM, see section 4.3.1

Implementing operational solutions

Since they are present across all continents, the Group's airlines already operate in all weather conditions. They have thus already deployed the procedures and resources to ensure operations in extreme climate conditions.

The more frequent occurrence of extreme climate events could, however, affect flight operations (re-routing, flight cancellations and delays, etc.). In response, Air France, KLM and Transavia have developed special training programs for employees on the management of emergency situations. The companies also work together with airports to ensure safe operational and passenger handling conditions and, in such circumstances, deploy commercial measures to enable passengers to defer their travel should they so wish, or change their destinations.

Mobilizing partners and supporting research and development

The Group is mobilizing the industry and is committed to research and development into innovative solutions, in both design, aeronautical and engines maintenance and navigation tools, and in Sustainable Alternative Fuels.

In December 2019, Air France announced the signature of a partnership with the Solar Impulse Foundation, to promote the identification and rapid implementation of economically and ecologically-viable solutions for aviation. Air France and the Solar Impulse Foundation are calling for clean, efficient and profitable solutions to accelerate the ecological transition of the aviation sector. The PROGNOS solution, deployed by Air France Industries KLM Engineering & Maintenance, has already obtained the Solar Impulse Label. This predictive analysis program is based on harnessing big data technologies to offer an effective and innovative aeronautics maintenance service. The environmental benefits of PROGNOS stem from reducing flight cancellations leading to extra flights to recover grounded passengers, as well as reducing the number of Quick Return Flights (return of the aircraft to its departure airport) on technical alerts, which require fuel tanks to be emptied prior to landing. It also optimizes overall aircraft fuel consumption by monitoring the status of equipment more precisely.

At the end of 2019, Air France invited partners, experts, high-profile individuals, innovation players and business leaders to participate in a round table on the theme Acting Together For Responsible Travel (*Agir ensemble pour un voyage responsable*). In a series of figures and using concrete examples, this meeting was aimed at outlining the airline's commitments to reducing the impact of its activity on the environment and to mobilizing the players around responsible travel.

Principles of the Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) was set up by the G20 in December 2015 during the United Nations COP21 conference to draft recommendations for financial and non-financial companies to use in the public disclosure of the impacts of climate-related risks and opportunities. These recommendations, which are applicable across all sectors and can be included in existing financial reports, aim to increase the transparency between companies and investors, thereby reducing investment risks and reconciling short-term financial decisions with the longer-term consequences of climate change.

In 2019, the Group realized the TCFD Climate Maturity Assessment developed by KPMG, to evaluate the concordance of its environmental reporting with the principles of the TCFD. The actions implemented by the Group are presented in the following table.

As a result, Air France-KLM has decided to become an official supporter of the TCFD principles with a commitment to continuing to improve its knowledge and reporting.

Table of concordance

TCFD principles	Sections in the Universal Registration Document 2019
1. Governance	
1.1 Describe the board's oversight of climate-related risks and opportunities	Sections 2.3.2, 3.1.2
1.2 Describe management's role in assessing and managing climate-related risks and opportunities	Section 2.3.2
2. Strategy	
2.1 Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	Sections 3.2.2, 4.1.2, 4.3.2
2.2 Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning	Sections 3.2.2, 4.1.2, 4.3.2
2.3 Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Section 4.3.2
3. Risk management	
3.1 Describe the organization's processes for identifying and assessing climate-related risks	Sections 3.2.2, 4.3.2
3.2 Describe the organization's processes for managing climate-related risks	Sections 2.3.2, 3.2.2, 4.3.2
3.3 Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	Section 3.1.2
4. Metrics and targets	
4.1 Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	Sections 4.31, 4.3.2
4.2 Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Sections 4.31, 4.3.6
4.3 Describe the targets used by the organization to manage climate-related risks and opportunities, and performance against targets	Sections 4.3.1, 4.3.2

4.3.3 Noise and local pollution

Noise

Context and strategy

Airlines accommodate their customers' increased demand for mobility, while maintaining noise hindrance at an acceptable level for those living near airports. Air France-KLM has formalized its commitment to noise mitigation by making it a requirement enshrined in its Corporate Social Responsibility Statement.

Fleet modernization and improved operational procedures are the two pillars of the Group's noise reduction strategy. All of the aircraft in the Air France-KLM fleet meet the criteria established by the ICAO Chapter 4 Noise Standard, the most exacting standard covering the acoustic quality of civil aircraft. Fleet renewal enabled a 33% reduction in the Air France-KLM Group's noise footprint between 2000 and 2019, whereas the number of aircraft movements increased by 18% over the same period.

Specific solutions are also sought to reduce the noise emissions from aircraft. Whenever possible, Air France-KLM thus implements continuous descent or NADP (Noise Abatement Departure Procedure) procedures which significantly reduce noise pollution. The SESAR program also aims to improve the management of noise and its impact through precision landing procedures using satellite navigation and optimized flight paths, including optimized climb and descent operations.

Measures and performance

Thanks to the actions implemented for several years, the Air France-KLM Group reduced overall noise energy per movement (takeoff and landing) by 43% between 2000 and 2019.

Air France and KLM are committed to ensuring a permanent dialogue with stakeholders in all territories. They meet with the representatives of local communities, the airport authorities and air traffic control to identify measures enabling a reduction in noise hindrance potentially affecting the inhabitants of areas located near airports.

In the Netherlands, KLM participates in *het Regioforum* which addresses issues surrounding noise with the local community. In France, this dialogue is mainly conducted within the context of the CCEs (Environmental Consultative Commissions) and CCARs (Advisory Residents' Assistance Commissions) in which Air France participates at all the French airports where it has operations.

Air France has been actively involved in a Night Flights working Group, overseen by the Prefect of the Paris-Charles de Gaulle airport region. This working Group notably proposed new "dead of night" continuous descent procedures and welcomed the voluntary retirement of noisy aircraft including Air France's Boeing 747s. Air France reaffirmed this commitment with the announcement of the phase-out from the fleet of the Airbus A340s. In 2019, during the French National Air Transportation Debate (*Assises du Transport Aérien*), the government announced

a commitment to the widespread application of continuous descent procedures in the medium-term (2023). Lastly, the punctuality of flights scheduled for late at night or early in the morning is the subject of a specific expert monitoring group.

In 2019, the Air France Group's contribution (Air France, Air France HOP! and Transavia France) to the Airport Noise Tax (TNSA) paid to the French State amounted to €18.3 million. Its proceeds are allocated to the financing of sound-proofing for homes located around the main airports. Since the TNSA was put in place, around €720 million has been allocated to the sound-proofing of housing, to which the Air France Group has made a substantial contribution.

Around Schiphol airport, all the noise disturbance measures have been implemented. Over the past two decades, KLM has contributed most of the total €754 million in noise taxes, devoted to the sound-proofing and compensation for loss of value in property around Schiphol airport.

Air quality

Context and strategy

The Air France-KLM Group monitors its atmospheric emissions for both the flight and ground operations, including low altitude emissions which impact the quality of the air around airports. The indicators cover emissions of CO₂, SO₂ and NO_x.

Most of these gas and particle emissions come from aircraft movements. The remainder is produced by the ground operations and maintenance activities, airport logistics and road travel by passengers, employees and suppliers.

Measures and performance

Air France-KLM reduces its local emissions *via* a number of levers:

- a modern fleet with more energy-efficient aircraft;
- electric or more efficient ground vehicles and runway equipment, powered by cleaner fuels;
- optimized operational procedures for the ground operations: taxiing time, taxiing using just one engine, the use of ground power units (GPUs) to ensure the functioning of on-board systems, replacing the Auxiliary Power Units (APUs) on kerosene-powered aircraft.

At Air France, an increased budget for 2019 enabled investment in runway equipment meeting the new environmental standards in force and the development of electrical power. For ground vehicles, hybrid petrol and electric engines are prioritized when renewing the fleet.

The replacement of the diesel engines on twelve conveyor belt vehicles with electric motors powered by a new type of lithium-ion batteries from recycled car batteries will allow CO₂ emissions to be reduced by 3 tons per year and per conveyor belt. The company has set itself a target of 90% of its ramp vehicles and equipment to be electrically-powered by 2025.

Similarly, Air France is accelerating the use of electric power converters (ACUs) for the air conditioning of aircraft on the ground. This enables a reduction in emissions due to the use of thermal ACUs, APUs and GPUs.

KLM increased the proportion of full-electric ground support equipment to 58% in 2019, thereby reducing CO₂ and local emissions. In summer 2019, diesel was replaced with Gas-to-Liquid (GTL) in the fuel supply system at Schiphol Airport. This was initiated by KLM to ensure a substantial reduction in the related local emissions.

Air France has participated in the Paris Region “Atmosphere Protection Plan” since 2008 through its Mobility Plan and, at the outstations in the French provinces, has launched the roll-out of their own Mobility Plans. In December 2019, the Toulouse outstation received an award at the Eco Mobility Trophies organized by the region’s public transport organization for its Mobility Plan, drawn up in collaboration with the airport authorities.

With more than 80% of staff commuting to work by car, the aim of the Mobility Plan is to reduce the pollutant emissions linked to their travel. This is thus a major challenge for the company, in terms of both the environment and health and safety in the workplace.

In 2019, the Mobility Plan was based on the following initiatives:

- promoting public transport;
- encouraging remote working for positions allowing this: 5,692 employee teleworkers in France in 2019, i.e. an increase of more than 100% relative to 2018. These unrealized commutes to/from work represent approaching 8 million kilometers and a saving of 1,932 tons of CO₂;
- installing charging terminals for electric vehicles in its car parks;
- participating in the development of the car share platform available free of charge to employees of Air France and those of ten other companies. In the French provinces, car sharing is also encouraged and supported;
- raising employee awareness of the link between air quality and methods of commuting to/from work;
- making nomad workspaces available;
- implementing collective initiatives with the other companies located at each work site to maximize the effectiveness of the measures.

Other areas are also being studied like carpooling and the development of environmentally-friendly transportation methods like cycling.

4.3.4 Waste and the circular economy

Context and strategy

Air France–KLM handles many forms of waste, mostly arising from flight operations and maintenance, within a context of strict regulatory obligations. Across the entire supply chain, the Group strives to minimize waste and increase the proportion that is recycled or reprocessed. Air France and KLM base their actions on the four principles of the circular economy: rethink, reduce, reuse and recycle.

Air France has set itself a target of recycling or processing for energy recovery 100% of non-hazardous waste and 60% of hazardous waste by 2020. KLM has already achieved its 2020 objective of reprocessing or recycling 100% of non-hazardous waste.

In 2019, both Air France and KLM set themselves a target of a 50% reduction in residual waste (non-recycled waste from the cabin and ground activities) by 2030 compared to 2011. In 2019, the Group reduced non-recycled waste by 31% compared to the 2011 level.

Measures and performance

Inflight waste

Air France and KLM run programs aimed at a constant improvement in the overall management of flight waste: waste prevention, increasing the recycled portion, eco-design of products and the identification of appropriate reprocessing facilities, with reducing residual waste as the main goal. For example, a significant proportion of reusable obsolete equipment, like trays, drawers, blankets and trolleys, is recycled.

Since October 1, 2019, Air France has been selectively sorting its on-board waste. This sorting, realized on all the short, medium and long-haul flights bound for Paris, concerns plastic bottles, cardboard juice cartons and aluminium cans. The articles are sorted on board by the cabin crews then handled by Servair at Paris-CDG and Paris-Orly, before being recycled in France or elsewhere in Europe. Every year, nearly 7 million bottles, 3 million juice cartons and 6 million cans are consumed on the company’s flights. The capability to extend the initiative on flights from Paris is being studied based on a regulatory and operational analysis at each destination.

At KLM, the use of less product packaging has been a focus of efforts. On all the European flights, on-board waste is sorted and trolleys have been adapted to collect plastic and cardboard cups. Glass, cans, aluminum lids, paper, EPS boxes, PET plastic bottles and other forms of plastic are also sorted and recycled by the catering teams. In 2019, KLM introduced the From Drink To Ink program that collects PET bottles to turn them into filament for 3D printing in its engine maintenance shop.

Whether for reasons of hygiene and food safety, or to reduce the weight embarked, the inflight service uses a substantial quantity of single-use plastic products (SUPs). The Air France-KLM Group is committed to reducing the environmental impact of SUP in its operations. The Group achieves this by: removing SUPs wherever possible; replacing these plastics with other materials if more sustainable alternatives are available (based on Life Cycle Assessments or other environmental proofs); redesigning SUPs to decrease material use; using recycled plastic or ensuring SUPs are recycled where possible.

In 2019, to reduce its environmental footprint, Air France committed to replacing 80% of single-use plastic items with sustainable alternatives between now and 2025, while respecting the airline rules and health requirements. At the end of 2019, Air France gradually eliminated 210 million single-use plastic items, i.e. 1,300 tons (100 million plastic cups replaced by cardboard versions, 85 million plastic cutlery items replaced by versions manufactured and packaged using bio-based materials, 25 million plastic stirrers replaced by wood versions).

In 2019, Transavia also committed to the progressive and significant reduction of single-use plastic items on board its aircraft by proposing, on its scheduled flights, certified alternatives to single-use plastic (Duty Free bags in Kraft paper and cups, stirrers and cutlery kits of plant origin, etc.). In total, more than seven million single-use plastic items are no longer distributed each year on the scheduled flights, or 41 tons of plastic.

Action to combat food waste and food insecurity

Air France-KLM handles the food waste coming from flight operations in the respect of a permanent commitment to guaranteeing food safety and security, within a context of strict regulation. The regulations vary depending on the context of each station and are often very exacting, like the European Regulation requiring the incineration of any elements having been in contact with food on flights arriving from outside the EU.

Two main levers enable a reduction in food waste: the adjustment of the catering embarked on flights and a strict policy of merchandise inventory management.

Based on statistics and historic flight load factors, and on passenger habits, the number of meals actually embarked is regularly re-evaluated. This re-evaluation prevents waste arising and reduces both production and transportation costs and overall waste. This also reduces the onboard weight, resulting in lower CO₂ emissions.

Digital innovation enables customer demand to be more accurately predicted, like for example the pre-selection of hot dishes in the Air France Business cabin.

Rethinking some offers also contributes to a reduction in food waste. In 2019, Air France revisited the kit containing a stirrer and sachets of sugar and creamer. It decided to leave out the creamer

and offer this to passengers on request, thereby avoiding the embarkation and wastage of around 30 tons of products per year.

Furthermore, when some foodstuffs or articles can no longer be loaded on board, they are donated to charities. The company also works with the *Restos du Cœur* soup kitchens and the Food Bank.

Air France-KLM Martinair Cargo is active in the perishable goods transportation segment. The teams maintain a permanent relationship with all the players in the value chain (producers, exporters, importers, supermarkets, airport authorities, etc.) to promote sustainable development in the agricultural and air transportation sectors. Numerous initiatives are under way: joint communication actions with the Paris-CDG plant protection department and exporter customers, improvement in perishable goods handling capacity and management of the cold chain, etc. The Group is also a member of the Cold Chain association and contributes to its work on reducing food waste. Within this framework, 2019 saw the definition of the priority measures to be implemented for the sustainable development of air-shipped exports of West African mangoes, at both technical (combatting fruit flies which degrade the quality of the fruit) and logistical level (improvement in airport infrastructures at Burkina Faso and in Senegal notably, and verification procedures at Paris-CDG).

Aeronautical waste

Air France and KLM have a procedure in place for recycling metal aeronautical waste. Wherever possible, the cradle-to-cradle principle is applied to reintegrate waste in a new production cycle. The process foresees procedures to reuse and recycle spare parts. This program has been extended to other types of waste: furniture, equipment, pallets and blankets.

At Air France, the move up-market for the medium and long-haul cabins with the installation of new seats has been accompanied by the implementation of a recycling and dismantling process for the old seats ranging from the reuse and recycling of components to the recovery of foams and metals.

Hazardous waste from the maintenance activities is the subject of a comprehensive tracing system and its management is harmonized in the different maintenance sites. This approach is also reflected in the optimized management of suppliers and costs, and the search for more relevant solutions in the light of regulatory changes.

Promoting the principles of the circular economy

The two companies are working on initiatives to up-cycle waste for new uses like, for example, the recycling of used uniforms.

A permanent recycling system is in place for Air France uniforms and work clothing. Staff are invited to adopt good recycling practice by depositing uniforms and work clothing in secure containers in the Air France premises. Uniforms are collected (30.2 tons of textiles since September 2018 at the Roissy site)

from the various sites and are recovered by different partners including a French Support and Work Assistance Establishment (ESAT for the employment of disabled workers), before subsequently being up-cycled. Uniforms are thus up-cycled *via* the help of energy recovery in the form of textile pellets. Finally, these ashes will be used as fuel in the manufacturing of cement. In addition, employees have launched the 100% Uniforms initiative to recycle these uniforms into other products such as the new collection of accessories (pouches etc.).

To avoid the destruction of products and promote their reuse, in January 2017 Air France signed a framework agreement with the *Agence du Don en Nature* (ADN). By donating new, re-modeled and recycled products like crockery and blankets respectively, Air France supports the work of the ADN association which collects and redistributes new non-food everyday products to combat exclusion in France. In 2019, during the upgrade to Air France's cabin decor, more than 25,000 blankets in Business were donated to ADN. In addition, at the end of the Joon operations, more than 6,500 items of Joon uniforms were recycled *via* a donation to the SAMU Social organization.

KLM sorts over 14 types of waste, with paper, wood, plastic and metal being its main residual forms. In cooperation with its partners, KLM for example up-cycles old cargo straps into bags, pillows and laptop cases, recycles uniform fibers into cabin carpets, furniture and KLM goodies, and up-cycles old furniture.

4.3.5 Biodiversity

Context and strategy

The impact of air transportation on biodiversity is linked to the effects of climate change induced by the CO₂ emissions it generates. The Group supports a number of projects and initiatives aimed at protecting biodiversity around its hubs and outstations.

The investment in other projects, aimed at advancing knowledge and preserving biodiversity, also contributes to a better understanding of the issues associated with ecosystem services like sustainable biofuel production. Although certain types of biofuel for road transportation can have a negative impact on biodiversity, Air France-KLM is committed to guaranteeing the use of Sustainable Aviation Fuels with the lowest impact on the food chain and biodiversity, and a positive impact on local communities.

Measures and performance

Supporting projects through customer offsetting

Alongside the French Civil Aviation Authority (*Direction Générale de l'Aviation Civile* - DGAC), Air France is a founder member of the A Tree For You association which brings together, in complete transparency, donors and tree-planting projects everywhere in the world.

The Trip And Tree by Air France program became an integral part of the online ticket sales process in 2019. On purchase of a flight ticket, customers have the opportunity to make a donation in the amount of their choice to reduce their environmental footprint and contribute to a reforestation project in France and across the world. Having been selected by a committee of recognized and independent experts, these projects also comprise a citizenship dimension with the creation of jobs in these countries.

At the end of 2019, six months after its launch, more than 20,500 donors had contributed to the comprehensive financing of ten projects across four continents, i.e. more than 160,000 trees planted.

Supporting projects *via* the offsetting of domestic flights

Since January 1, 2020, Air France customers have been able to undertake carbon-neutral travel in mainland France thanks to a proactive scheme to compensate 100% of the CO₂ emissions on the airline's domestic flights. In liaison with the United Nations Sustainable Development Goals, this offsetting scheme takes the form of a contribution to reforestation, forest preservation and biodiversity projects, and those dedicated to the development of renewable energies, while guaranteeing the protection of the most vulnerable populations.

Eight first projects across four continents (France, Brazil, Peru, Cambodia, India and Kenya) were selected and launched with EcoAct, a pioneer in carbon offsetting in France.

For the ninth project, Air France offered its customers the opportunity to become players in this scheme by voting on line for their preferred project. Three projects were proposed (a forestry preservation project in Brazil, a photovoltaic program in Senegal and a bio-gas from waste production program in Vietnam). The forestry preservation program received the largest number of the 27,000 votes cast and is now amongst Air France's carbon offsetting project portfolio.

All the projects selected have received the highest certification standards on the voluntary carbon offset market, the World Wildlife Fund (WWF) Gold Standard, VERRA's VCS and CCBA's additional CCB standard.

CO2ZERO service

Since 2008, KLM has contributed to preserving and restoring forests *via* its CO2ZERO-projects in Panama and a number of African countries. The Gold Standard for the Global Goals-certified project in Panama, CO2OL Tropical Mix, turns formerly degraded pasture land into mixed forestry by planting a blend of mainly native tree and some exotic species. In addition to the numerous environmental benefits such as biodiversity protection and ecosystem restoration, the project's activities enable skills development and the creation of long-term employment with a sustainable source of income for the local population which improves their living conditions.

At the end of 2019, Transavia joined the program.

An association to promote the preservation of biodiversity in the areas around airports

In June 2019, to extend the scope of its initiative launched in 2013 to promote biodiversity around airports, the *Hop! Biodiversité* association was renamed *Aéro Biodiversité*. With preserved green areas averaging 73% (representing 350 km² at national level), aviation can play a role in the preservation of grasslands, Western Europe's natural habitat that is now most under threat.

Protected from urban development and from multiple human activities, these airport grasslands which are generally unsprayed and untilled favor the reproduction of a flora and fauna often little known to the wider public. These semi-natural spaces are present in every French region and it is important to optimize their management to be able to protect the species living there.

The association's efforts take place within a methodological framework scientifically approved by the French Natural History Museum, a founder member of the association. They involve a diverse local HR resource calling on the participatory sciences. Two hundred and fifty-two bird species have been numbered on the land of partners and more than 2,800 plant and animal species recorded. The data amassed supplements the national databases of knowledge on biodiversity.

While affirming its priority of ensuring aeronautical safety, the French Civil Aviation Authority (*Direction Générale de l'Aviation Civile*) is also a very active founder member of the association. It is possible to enrich the biodiversity of the relevant spaces by, for example, practicing the appropriate strategies in terms of mowing and by eliminating crop protection products.

At the end of 2019, the association brought together four airline members (Air France, HOP!, Air Corsica, Air Saint-Pierre) and 18 French airports. All have included this project in their sustainable development policies and, since 2016, the in-field engagement has been recognized by the French Minister for Sustainable Development in respect of the National Biodiversity Strategy (*Stratégie Nationale pour la Biodiversité - SNB*).

As an active and founding partner, Air France contributes to raising awareness of the association's initiatives amongst its staff through:

- awareness-raising forums: 720 participants in the Environment forum in September 2019;
- citizenship Days proposed to all employees and biodiversity observations aimed at staff whose area of professional activity involves the environment and biodiversity: in 2019, more than 50 employees participated, most often on a full-day basis, at Paris-CDG.

Contributing to combating the traffic in protected species

Air France and KLM are signatories of the Buckingham Palace Declaration which formalizes their resolute commitment to combatting illegal trading in protected species.

For many years, the Group has been committed to combating this illegal trade. For example, its Cargo division has already carried out a number of initiatives, notably employee training and awareness raising for customers, and participates in working groups with international bodies and associations (World Organization for Animal Health - OIE, IATA, United for Wildlife).

In 2019, Air France pursued its awareness-raising program for frontline ground staff to help them spot and report suspicious behavior or baggage to the relevant authorities. Air France provides information for its customers, particularly on its commercial website under Prohibited and Regulated Goods and also on board its long-haul flights through an awareness-raising video on illegal trafficking.

Air France is behind a working Group set up at the end of 2017, bringing together Paris Aéroport, the Customs authorities, Chronopost and WWF, to plan joint, coordinated initiatives at the Paris-CDG hub. In 2019, the Europe Handling Group joined this working group.

4.3.6 Environmental indicators

4.3.6.1 Carbon Emissions

		Air France – KLM Group			
		Unit	2018	2019	19/18
Greenhouse gas emissions (Scope 1 GHG protocol) ⁽³⁾	Aviation Fuel [√]	ktons CO ₂	27,571	28,228	+2.4%
	Ground Operations	ktons CO ₂	62.3	60.7	-2.6%
Greenhouse gas emissions (Scope 2 GHG protocol)	Electricity	ktons CO ₂	46.2	7.6	-83.5%
Greenhouse gas emissions (Scope 3 GHG protocol)	Upstream emissions from fuel production	ktons CO ₂	5,685	5,907	+3.9%
Total carbon Emissions		ktons CO ₂	33,365	34,203	+2.5%
Offsetting	Mandatory carbon offsets	ktons CO ₂ credits	3,106	3,253	+4.7%
	Voluntary carbon offsets	ktons CO ₂ credits	0	24	n.a.
	Customers' carbon offsets	ktons CO ₂ credits	0	98	n.a.

[√] Figures verified by KPMG for 2019 (reasonable level of assurance).

(1) Air France Group scope: all flights under AF and A5 code operated by Air France, Joon and HOPI, all flights under TO code operated by Transavia France.

(2) KLM Group scope: all flights operated by KLM, KLM Cityhopper, Martinair and Transavia.

(3) CO₂ emissions represent 98% for air transport (Carbon base at January 31, 2020: www.bilans-ges.ademe.fr/).

n.a.: not available.

	Air France Group ⁽¹⁾			KLM Group ⁽²⁾		
	2018	2019	19/18	2018	2019	19/18
	15,628	16,195	+3.6%	11,943	12,033	+0.8%
	20.7	21.3	+2.9%	41.6	39.4	-5.3%
	9.2	7,6	-17.4%	37,0	0	-100%
	3,222	3,389	+5.2%	2,463	2,518	+2.2%
	18,879	19,613	+3.9%	14,485	14,590	+0.7%
	1,632	1,643	+0.7%	1,474	1,610	+9.2%
	0	0	n.a.	0	24	n.a.
	0	0	n.a.	0	98	n.a.

4.3.6.2 Flight Operations

				Air France – KLM Group	
				2019	19/18
	Unit	2018			
Consumption of raw materials					
Conventional Aviation Fuel √	ktons	8,753		8,961	+2.4%
Sustainable Aviation Fuel	ktons	n.a.		6.9	n.a.
Fuel efficiency					
Specific CO ₂ footprint for passenger transport √	gram CO ₂ /pax km	80		79	-1.3%
Specific CO ₂ footprint for cargo transport	gram CO ₂ /100kg cargo km	45.6		44.5	-2.4%
Non-carbon emissions					
NO _x low altitude (<3,000 ft)	ktons	9.3		9.5	+2.2%
SO ₂ low altitude (<3,000 ft)	ktons	0.9		0.8	-3.2%
In-flight fuel jettison					
Occurrence of fuel jettison	nbr	42		47	+11.9%
Fuel jettison	tons	1,179		1,511	+28.2%
Noise impact					
Global noise energy indicator	10 ¹² kJ	1.68		1.69	0.6%

(1) Air France and its subsidiaries (Joon, HOPI, Sodexi, CRMA, BlueLink and Transavia France).

(2) KLM and its subsidiaries: KLM Cityhopper BV (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS), KLM Health Services (KHS), Cygnific BV, Transavia NL and Martinair. n.a.: not available.

	Air France Group ⁽¹⁾			KLM Group ⁽²⁾		
	2018	2019	19/18	2018	2019	19/18
	4,961	5,141	+3.6%	3,792	3,820	0.8%
	0	0	n.a.	0	6.9	n.a.
	83	82	+0.8%	76	75	-1.3%
	47.4	46.6	-1.7%	44.3	42.8	-3.4%
	6.1	6.3	+3.3%	3.2	3.2	0.0%
	0.5	0.5	0.0%	0.4	0.3	-25.0%
	28	28	0.0%	14	19	+35.7%
	778	851	+9.4%	401	660	+64.7%
	0.99	1.00	1.0%	0.69	0.69	0.0%

4.3.6.3 Ground Operations

				Air France – KLM Group	
		Unit	2018	2019	19/18
Consumption					
Electricity	Total consumption	MWh	278,724	267,564	-4.0%
	of which renewable	MWh	n.a.	102,359	n.a.
Other energies					
	Fuels	MWh	163,005	159,671	-2.0%
	Natural Gas	MWh	113,834	111,088	-2.4%
	Steam/other heating/cooling	MWh	82,603	80,146	-3.0%
	of which renewable	MWh	n.a.	24,848	n.a.
Water	Water consumption	m ³	542,570	481,609	-11.2%
Non-carbon emissions					
	NO _x	ktons	0.495	0.445	-10.1%
	SO ₂	ktons	0.006	0.006	0.0%
Waste					
Non-hazardous industrial waste	Total quantity	tons	23,221	20,456	-11.9%
	Percentage recycled	%	37%	38%	+1pt
Hazardous industrial waste	Total quantity	tons	5,427	4,305	-20.7%
	Percentage recovered	%	71%	54%	-17pts

(1) Air France and its subsidiaries (HOPI, Sodexi, CRMA, BlueLink and Transavia France).

(2) KLM and its subsidiaries: KLM Cityhopper BV (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS), KLM Health Services (KHS), Cygnific BV, Transavia NL and Martinair.

(3) Renewable electricity certificates are bought based on an annual estimation of electricity consumption and therefore may vary from actual consumption.

n.a.: not available.

	Air France Group ⁽¹⁾			KLM Group ⁽²⁾		
	2018	2019	19/18	2018	2019	19/18
	198,916	192,193	-3.4%	79,808	75,371	-5.6%
	n.a.	26,249	n.a.	n.a.	76,110 ⁽³⁾	n.a.
	58,938	61,463	+4.3%	104,067	98,208	-5.6%
	31,131	31,989	+2.8%	82,703	79,098	-4.4%
	82,603	80,146	-3.0%	n.a.	n.a.	n.a.
	n.a.	24,848	n.a.	n.a.	n.a.	n.a.
	380,342	321,622	-15.4%	162,228	159,986	-1.4%
	0.306	0.276	-9.8%	0.189	0.169	-10.6%
	0.002	0.003	+50.0%	0.004	0.003	-25.0%
	6,146	5,073	-17.5%	17,075	15,382	-9.9%
	71%	65%	-6pts	28%	29%	+1pt
	3,359	2,592	-22.8%	2,068	1,713	-17.2%
	57%	45%	-12pts	93%	68%	-25pts

4.3.6.4 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined to comply with the requirements of the French New Economic Regulations law (*Les Nouvelles Régulations Économiques*, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Work on optimizing these indicators was undertaken in 2018 to align the Grenelle II reporting with the new requirements linked to the transposition of the Directive on the Extra-financial performance statement.

As of 2018 and in application of the provisions of Article L. 225-102-1 of the *Code de Commerce*, it is the responsibility of our Independent Third Party to determine the compliance of the Extra-financial performance statement and the accuracy of the published CSR information.

Furthermore, the data relating to the "greenhouse gas emissions (Scope 1 GHG protocol) from aviation fuel", "Consumption of Conventional aviation fuel", "Specific CO₂ footprint for passenger transport" indicators linked to the Flight Operations have, since 2007-08, been verified with the highest level of assurance, reasonable assurance (indicated by the symbols √).

Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- all the commercial flights under the AF and A5 codes operated by Air France, Joon and Air France HOP!, and the TO codes operated by Transavia France;
- all the commercial flights under the KLM code operated by KLM and its subsidiaries KLM Cityhopper BV (KLC), Martinair and Transavia Netherlands.

For the ground operations, the consolidation scope for the environmental reporting covers nearly 100% of the sites in France and the Netherlands (some very small subsidiaries being excluded). The international outstations are not taken into account (partially for the French Overseas Departments and Territories).

- The Air France consolidated subsidiaries: Air France HOP!, CRMA, Sodexi, Blue Link and Transavia France.

Furthermore, for Air France, the indicators in the French stations are not reported when there is no detail available on the charges invoiced by airports. The contribution from the relevant stations is, however, marginal compared with the reported data.

- The KLM consolidated subsidiaries: KLC (KLM Cityhopper), KES (KLM Equipment Services), KCS (KLM Catering Services), KHS (KLM Health Services), Transavia Netherlands, Martinair and EPCOR (for a portion of the indicators).

Reporting tools

The environmental indicators are assembled at local level *via* different reporting tools: Osyris (Enablon software), Tennaxia for waste, SAP Finance (invoicing) for Air France and CaeSaR for KLM.

The reliability of the reporting process is supported by definitions of each indicator and tool user guides made available to the contributors. Consistency tests have also been implemented.

The consolidation of the Air France-KLM Group's environmental data is carried out by the Air France CSR department.

Details and methodology - Definition of the key performance indicators and comments on changes in the indicators

At Air France-KLM Group level, the regulatory requirements and the reporting and consolidation principles are outlined in a common document which is updated annually.

Within the framework of an improvement-based approach, methodological details are provided on some indicators, and particularly on their definitions. When these changes have a significant impact on the data, comparison with the figures for previous years is not meaningful.

When the data is not available, the figure reported for the year (N) is estimated based on the value reported for the previous year (N-1).

The reporting period for the Group's environmental data is based on a rolling twelve-month period from October 1 N-1 until September 30 N.

Definition of the key performance indicators

CO₂ efficiency per passenger kilometer

- Specific CO₂ footprint for passenger transportation. Definition: refer to the paragraph "Flight operations" "Carbon efficiency - Specific CO₂ footprint for passenger transportation".
- Percentage change in CO₂ efficiency (g.CO₂/passenger/km) between 2005 and 2019 (operational measures only): percentage change of specific CO₂ footprint for passenger transportation between 2005 and 2019, only considering operational measures (fleet modernization, optimized procedures, weight on-board reduction, etc.).
- Percentage change in CO₂ efficiency (g.CO₂/passenger/km) between 2005 and 2019 (operational measures and market-based measures): percentage change of specific CO₂ footprint for passenger transportation between 2005 and 2019, considering operational measures (fleet modernization, optimized procedures, weight on-board reduction, etc.) and market-based measures (mandatory offsetting and voluntary offsetting). The mandatory offsetting per calendar year is based on an estimate since the final data are reported after the publication of this document. To determine the CO₂ offsetting, Air France-KLM deducts the free allowances from the total CO₂ emissions reported under EU ETS.

CO₂ emissions from the ground operations

Percentage change in absolute CO₂ emissions from the ground operations between 2018 and 2019. These emissions include all the scope 1 and 2 emissions. Definition: refer to the paragraph "Carbon emissions" "Scope 1 - Ground operations" and "Scope 2 - Electricity".

Non-recycled waste

Percentage change in non-recycled waste between 2011 and 2019. Definition: refer to the paragraph "Ground operations" "Waste – Non-hazardous industrial waste, and percentage recycled".

Noise footprint

Percentage of variation of Global Noise Energy per movement between 2000 and 2019. Definition: refer to the paragraph "Flight operations" "Noise impact – Global noise energy indicator". The Global Noise Energy calculated in kJ is divided by the total number of movements (legs).

Comments on changes in the environmental indicators

Carbon Emissions

The direct and indirect CO₂ emissions are reported in line with the greenhouse gas Protocol. Since 2017, scope 3 emissions have been reported. These are solely based on the reported scope 3 emissions from the flight operations (upstream emissions from Jet fuel). According to Ademe, the CO₂ emissions correspond to 98% of all the greenhouse gases.

Scope 1 – Aviation fuel

The scope 1 emissions generated by the combustion of aviation fuel are reported for all the kerosene used in Air France–KLM's flight operations. The emission factor used of 3.15 kg CO₂ per kg kerosene is in line with the emission factor from the EU ETS. Note that there are differences between the scope of the reported CO₂ emissions and those in the EU ETS for greenhouse gas emission quotas, such that comparison is not meaningful.

The increase in CO₂ emissions is due to the growth in activity, in particular for Transavia and Air France long-haul flights.

Scope 1 – Ground operations

The direct emissions from the ground operations are based on the consumption of energy coming from different sources and their corresponding emission factors. The factors are based on national standards or are delivered by the energy supplier. In summer 2019, KLM changed from diesel to Gas-to-Liquid (GTL), explaining the difference in consumption and the reduction in emissions.

Scope 2 – Electricity

The emissions resulting from electricity use are based on the volume of consumption and the corresponding emission factors. The CO₂ saving from purchasing Certificates of Origin for renewable electricity are subtracted from the total.

The decrease in scope 2 CO₂ emissions is mainly explained by the supply of 100% renewable electricity for KLM.

Scope 3 – Upstream emissions from kerosene production

These emissions are generated during the production, transportation and distribution of kerosene. The emission factor for the scope 3 calculation is the ICAO full life cycle GHG emissions factor (89gCO₂e/MJ for jet fuel A1).

Mandatory carbon offsetting (EU-ETS)

The volume of reported mandatory carbon offsets is based on the annual EU ETS reporting and, in future, CORSIA. Free allowances are excluded.

Voluntary carbon offsetting

The volume of voluntary carbon offsets is based on the calendar year. Voluntary CO₂ compensation paid by our customers is not included. The reported offsets are purchased by Air France and KLM (e.g. for employee business-related trips or for 100% of the CO₂ emissions from Air France domestic flights as of January 2020) and are Gold Standard Certified.

Carbon offsetting by customers

The volume of voluntary carbon offsets is based on the calendar year. This regards the voluntary CO₂ compensation paid for by our customers *via* the Air France and KLM compensation programmes.

Flight operations

Consumption of raw materials – Conventional Aviation Fuel

This is the actual consumption of conventional fuel for each flight. It includes the fuel consumed by APU usage.

The increase in fuel consumption is due to the growth in activity, in particular for Transavia and Air France long-haul flights.

Consumption of raw materials – Sustainable Aviation Fuel

This is the quantity of Sustainable Aviation Fuel (SAF) purchased for the reporting period.

Carbon efficiency – Specific CO₂ footprint for passenger transportation

Carbon efficiency is expressed in grams of CO₂ per passenger kilometer. The calculation is based on an allocation of fuel between passengers and cargo. The fuel consumption for passengers is divided by RPK (revenue passenger kilometer) and adjusted by the ratio between the Flight Plan and ground circle distance.

Although activity increased in 2019 relative to its 2018 level, the carbon footprint for passengers saw a more-than 1% reduction thanks to the arrival of more-efficient aircraft (Boeing 787), and an improvement in passenger load factor.

Carbon efficiency – Specific CO₂ footprint for cargo transport

Energy efficiency is expressed in grams of CO₂ per 100kg of cargo. The calculation is based on an allocation of fuel between passengers and cargo. The fuel consumption for cargo is divided by 0.1TK and adjusted by the ratio between the Flight Plan and ground circle distance.

Other emissions – low altitude NO_x

The methodology used for the calculation of low altitude emissions (i.e. below 3,000 feet) is common to Air France and KLM. It is based on the LTO (Landing-Take Off) cycle and on engine data communicated by the ICAO (International Civil Aviation Organization). The taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology. Note that, since the actual taxiing time is not available for Transavia France, the standard ICAO values have been used for this subsidiary.

Other emissions – low altitude SO₂

Note: the “low altitude” and “LTO” for Landing-Take Off cycle denominations are equivalent.

The calculation of the SO₂ emissions from flight operations is based on the average sulfur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms which is applied, respectively, to all fuel used during the year by KLM and its subsidiaries, and by Air France and its subsidiaries.

In-flight fuel jettisons

These are exceptional operations (fewer than one flight in 10,000 per year) involving the jettisoning of a quantity of fuel in flight to avoid an overloaded aircraft on landing whenever a flight is aborted. Each operation is carried out in close coordination with air traffic control under strict conditions governing geographical location (avoiding urban zones) and altitude (generally at or above 1,000m).

Noise impact – Global noise energy indicator

The total noise energy indicator is calculated according to the methodology defined by the French Civil Aviation Authority (*Direction Générale d'Aviation Civile* – DGAC). The flights concerned are those which are operated, franchised and chartered under the AF or KLM codes, with the exception of code shares.

Ground operations**Consumption – Electricity, of which renewable**

This is the total volume of electricity consumed in MWh. For KLM the volume of renewable electricity is based on the purchase of Certificates of Origin of EU wind energy. Renewable electricity certificates are bought based on an annual estimation of electricity consumption and therefore may vary from actual consumption.

The decrease in electricity consumption for both Air France and KLM is explained by energy-saving measures and best practices.

Consumption – Other energies: Fuel

The total volume of fuel used by the ground operations includes:

- kerosene (Jet fuel A1) for testing engines;
- non-road diesel fuel for the Air France runway equipment;
- gasoline, diesel and GTL for ground support equipment.

Consumption – Other energies: Natural gas

The total volume of natural gas is mainly used for heating buildings, maintenance hangars and cargo warehouses. The conversion factor of the quantity of gas consumed in energy takes into account the characteristics of the gas specific to France and the Netherlands.

Consumption – Other energies: Steam/other heating/cooling, of which renewable

This includes superheated and iced water for climate comfort. For Air France, superheated and iced water is supplied by ADP (Aéroports de Paris) for the Orly and Roissy sites. The KLM facilities do not consume this type of energy;

Water consumption

The consumption of water is taken into account for all the ground activities. Water used on board flights is not included.

Between 2018 and 2019, the decline in water consumption is explained by the implementation of water-saving measures.

Non-carbon emissions – NO_x

The NO_x emissions related to engine testing are calculated based on a methodology similar to the one used for the Flight Operations, which reflects the actual testing conditions. Other sources of NO_x include fuel combustion by ground support equipment. For Air France, the calculation is based on the European standards EURO 1 to 6 for light vehicles, and Stage I to IV for diesel engines (European Directive 97/68/EC for non-road mobile machinery), setting the emission limits based on engine power. For KLM, the NO_x emissions from ramp equipment and gas-fired installations are determined by direct measurements, from manufacturer data or external databases.

Non-carbon emissions – SO₂

The SO₂ emissions are measured based on the sulfur content in the Jet fuel used for engine testing and in the fuel used to power the ground support equipment. The variations in SO₂ emissions are mostly explained by the fluctuation of levels of sulfur content in fuels from one year to another.

Waste – Non-hazardous industrial waste, and percentage recycled

Non-hazardous waste is monitored and reported based on data provided by contracted waste management suppliers. The KLM scope includes KLM Catering Services and thus includes catering waste, unlike the Air France scope. The reported percentage of recycled non-hazardous waste covers all waste that is sorted for recycling purposes. The recycling percentage does not cover the waste that is incinerated with energy recovery (EURAL R1 code).

In 2019, the substantial decline in the quantity of waste relative to its 2018 level is explained by the deployment of measures to improve waste management by the Air France facility manager, and a more-than 15% reduction in the waste from KLM flights.

The Air France–KLM Group is targeting an increased level of non-hazardous waste recycling to reach a recycling rate of 50% of the total waste by 2030.

Waste – Hazardous industrial waste, and percentage recovered

Hazardous industrial waste (HIW) is monitored and reported based on data provided by contracted waste management

suppliers. If the quantity of hazardous waste has not been communicated at the end of the reporting period, the quantity mentioned in the specification slip is taken into account. This quantity is, however, estimated to be marginal. The reprocessing of hazardous waste complies with the EU Regulation. The recovery percentage is the ratio between the HIW waste recycled/recovered (R code) and the total HIW.

4.4 CUSTOMER TRUST

For Air France–KLM, customer satisfaction is a key priority and the Group is developing numerous initiatives to improve the customer's end-to-end travel experience. Customer satisfaction is notably measured through the Net Promoter Score (NPS), the reference indicator driving customer recommendations. Performance indicators and tools have been developed to track the results on a daily basis.

Customer satisfaction is above all based on their trust in the Group's activities. As a responsible airline Group, Air France–KLM must ensure the safety and health of its customers, employees and partners. This commitment covers flight safety, the safety of the food services offered on board and in the lounges, the protection of personal data and also occupational health and safety (see *Section 4.2.3*). The Group is also committed to facilitating access to its products and services, particularly for passengers with disabilities or those with reduced mobility.

Key Performance Indicator	Definition		Results	
Net Promoter Scores (NPS)	Change in the NPS (expressed as an annual average) of Air France, KLM, Transavia (France and the Netherlands) between 2018 and 2019		Variation	2019 Target
		Air France	+15 pts	Yes
		KLM	-1 pt	No
		Transavia France	-1 pt	No
		Transavia Netherlands	+1 pt	No
	Achievement of the 2019 target			

Definition

Scope: Air France, KLM, Transavia France and Transavia Netherlands.

The Net Promoter Score (or NPS) is a recommendation indicator given by customers to the products and services of Air France, KLM and Transavia (France and the Netherlands) in their capacity as airlines, ranging from 0 to 10 (0 corresponding to "I will definitely not recommend" and 10 to "I will definitely recommend". It corresponds to the difference between the percentage of promoter customers (scores 9 and 10) and the percentage of customers critical of the brand (scores 0 to 6). This concerns the response to the first question asked in Air France–KLM's e-Score online customer satisfaction questionnaire: "Based on your opinion and experience, how likely are you to recommend Air France/KLM/Transavia to your friends/colleagues?"

For each brand, the indicator measured is the annual change in the NPS (calculated as an annual average). Note that, since they are reported *via* two different measurement tools, the Net Promoter Scores for Transavia France and Transavia Netherlands cannot be consolidated.

For each brand, whether or not the annual target has been achieved is also indicated.

4.4.1 Operational safety for stakeholders

Flight safety

Context and strategy

Flight Safety is paramount for Air France–KLM. It is key to retaining the trust of both customers and staff, and imperative for the long-term viability of its operations and of air transportation as a whole.

All of the Group's activities are subject to numerous checks and certifications, in particular *via* the supervisory actions carried out by the Civil Aviation authorities in each country and *via* the International Air Transport Association (IATA), whose IOSA Operational Safety Audit is a benchmark within the industry. Air France and KLM's IOSA certifications were renewed in 2019; the next renewal audit is foreseen for 2020, their certification being scheduled for renewal in 2021.

See also Section 3.2.2 in Section 3 Risks and risk management.

Measures and performance

To achieve the highest attainable standard of Flight Safety, each company updates and reinforces its Safety Management System (SMS) which concretely defines the modalities in place to manage aviation risks.

Management of flight safety risks

Air France and KLM both use the evaluation method for operational risks recommended by the European Aviation Safety Agency. They have deployed this method in all the operational entities and at all levels of the company. The management of flight safety risks enables, notably through systems compiling flight parameters and situation reports, threats to be identified, risks to be evaluated, the implementation of remedial measures and the monitoring of the results obtained. It enables proactive management of the risks to maintain them below the level that is deemed acceptable. An internal quality assurance procedure continuously evaluates the proper functioning of flight safety management.

More broadly, Air France develops synergies between an array of progress-oriented and risk management approaches – Flight Safety, Health & Safety in the Workplace, Customer Service Quality, Operational Performance, Environmental and Sustainable Development, Food Safety & Hygiene. This quality-based approach is the vector for the steering and management of the businesses, aimed at a continuous improvement in results.

KLM deploys a similar approach to that of Air France. To reach its objective of achieving a leadership position on safety, KLM has an Integrated Safety Management System (ISMS), covering occupational safety, operational safety and security, and environmental safety. This ISMS is outlined in KLM's Integrated Safety Management Manual (ISMM) and has been approved by the Dutch Civil Aviation authorities as part of the Air Operator Certificate.

KLM continuously improves its integrated, performance-based Safety Management System based on the evaluation of risks and results, guaranteeing that decisions integrating risks are taken at all levels of KLM. Its Safety Culture program, which includes promotional and communication initiatives, theoretical and practical training and learning interventions, is continuously updated and deployed throughout the company to enhance safety awareness and the relevant safe attitude and behavior at all levels. The Integrated Safety Services Organization (ISSO) further professionalizes this integrated approach to safety and compliance throughout the company, increases the level of expertise in all domains across all the safety and compliance processes, and advances KLM's ISMS to the next level.

Governance

Corporate Flight Safety Committees, chaired by the Executive Vice-Presidents responsible for the operational entities, meet every quarter in Air France. Their task is to approve the action plans established to apply the orientations set by the companies, the results of inquiries and the results of supervisory acts.

These committees are also tasked with sharing information on the emergence of new Flight Safety issues originating from feedback or risk analysis, by ensuring that the resources and action plans in place are adapted to the issues.

Flight Safety Committee meetings are also held four times a year at the level of each company, to evaluate the effectiveness of the existing action plans.

At KLM, the Corporate Safety Committee within the KLM Board of Directors meets every quarter to analyze the Safety Indicators. In 2019, KLM continued its focus on Occupational Safety Hazards by renewing the main Occupational Safety Policy to provide structure for the required mitigating action. After four occupational policies implemented in 2018, 2019 saw the establishment of ten Occupational Policies, including the recommended implementation provisions and plans. In 2019, KLM also initiated fulfilment of the ISO High Level Structure Management System requirements.

Together with the aviation industry stakeholders at Schiphol Airport (e.g. airport authorities and Dutch Air Traffic Control), KLM carried out a number of joint safety risk assessments during 2019 and conducted mitigating actions to improve safety around the airport. These activities are performed within the joint sector Integrated Safety Management System, a unique collaboration between the aviation players at the airport which had been established in 2018.

Developing a Safety-first culture

Building a company-wide awareness of the prerequisite for a safety culture across all the operations is a gradual yet ongoing approach aimed at raising the ambition of the airlines in the Air France–KLM Group. Vocational training is a cornerstone of this culture and thus primarily takes into account the skills and expertise to be acquired in matters of safety: safety training for pilots and cabin crews, training relating to the maintenance professions and ground operations.

Air France is targeting the development of an ever-stronger safety-first culture since this is an area in which it must make continuous progress by accepting no compromise.

Hence the launch of the Safety Attitude program at the end of 2018, aimed at further reinforcing this culture and promoting industry best practices. The Safety Attitude program began with a comparative study of five benchmark companies, supplemented by a diagnostic phase carried out by an independent body. 22,500 employees from all the Air France business lines replied to a questionnaire and more than 600 people were interviewed. This in-depth diagnostic enabled the identification of areas for work that will federate all employees around a shared Safety-first Culture embedded in operations, based on transparency and trust. To this end, a three-year program of concrete actions adapted to each business line has been structured: mobilization of the line management, a culture of transparency, respect of the procedures, evaluation of non-technical skills, inter-business-line exchanges.

Food safety

Context and strategy

Every year, the Air France-KLM Group serves some 85 million meals and snacks to its customers and flight crews. The company aims to guarantee food services that are healthy and hazard-free for the consumer. The related regulations are, moreover, increasingly exacting. This is why food safety is a key priority for the Group. Air France and KLM both deploy quality-control procedures to comply with these requirements.

Measures and action plans

The management system is based on four processes, steered by a centralized unit within Air France. The first process is cross-cutting and applies to the whole risk area: regulatory intelligence, risk analysis and definition of the measures to control these risks, employee training, establishment and updating of the reference standards, monitoring of the action plans, etc. The three other processes are operational and are detailed based on the activity: on board services, water on board and services in the lounges.

The management measures are deployed by a Food Safety contact appointed in each relevant entity: procurement, air operations, ground services, maintenance, operations, international stations, logistics and flight product, etc. They are the guarantors that the measures have been applied within their business lines and report back on functioning together with the associated action plans. The management measures are regularly monitored through indicators and decision-making committees ensuring the effectiveness of the provisions in place relating to Food Safety.

In addition, within the framework of external resource management, all food suppliers are referenced based on very strict specifications and are the subject of close monitoring. Some hundred hygiene

audits of world-wide caterers and around 15,000 in-house microbiological checks are carried out every year to monitor food supplies, together with between 400 and 500 annual analyses of water for a total volume of 19,000 tons of water embarked on departure from Paris.

At KLM, risk control at relating to food safety is managed in several different ways. Firstly, all KLM caterers are audited at least once a year by an external company, specialized in food safety for inflight catering. These audits are executed by specifically-trained auditors, and are unannounced and on-site. The audit verifies compliance with the QSAI Food Processing Safety and Food Processing Quality standards, based on the HACCP (Hazard Analysis and Critical Control Point) principles. E-audits are conducted to check traceability, completeness and effectiveness at all KLM caterers.

In addition, all food suppliers are referenced based on very strict specifications and are the subject of close microbiological monitoring, carried out by KLM's in-house ISO 17025-accredited laboratory.

Results and performance

Back in 2006, Air France became the first airline in the world to attain ISO 22000 certification. An annual audit carried out by an external body verifies that the management system complies with the standard and with regulatory requirements. Internal audits are also realized based on a three-year plan across all the relevant business lines.

A series of key indicators, one per operational process, form part of a monthly dashboard presented to the Executive Committee. Any malfunctioning flagged, notably, by flight crews or customers, is also studied to be able to implement remedial and/or preventive measures. Throughout the year, numerous meetings of in-house steering bodies are held, enabling the monitoring of current events in this area. These bodies also track performance *via* indicators and action plans, with a view to ensuring a continuous improvement.

4.4.2 Data and IT systems protection

Data and IT systems protection

Context and strategy

Passenger bookings, flight schedule management, baggage checking, the calculation of ticket prices, aircraft maintenance and crew information: IT is at the heart of all of Air France-KLM's activities. Privacy and data protection constitutes a major operational and financial challenge for the business, and for customer trust.

Measures and action plans

Air France-KLM manages its cybersecurity risks with the national authorities and cooperates with the relevant European Agencies (EASA, ENISA). The Group also takes part in the cybersecurity workshops of the main air transportation professional associations (IATA, A4E, GIFAS) and contributes to research with associations specialized in cybersecurity (CLUSIF, CESIN, CIGREF, R2GS, European Aviation ISAC).

Permanent benchmarking and the work of an independent cyber rating agency enable Air France-KLM to be compared with other companies in the air transportation industry and, in December 2019, the Group was ranked amongst the leading large companies. Air France-KLM also uses the expertise of leading consultants in the cybersecurity market and actively cooperates with companies with which its Information System is connected.

To offer the best level of protection on the ground and in the air, the Air France-KLM Group has developed four major cybersecurity programs in recent years:

- a program directed at more effective cybersecurity techniques, to adapt to the unfolding cyber threats;
- an awareness-raising program for all staff;
- a program to ensure regulatory compliance;
- a program to support the digital transformation to offer a simplified user experience.

Results and performance

An annual presentation on these programs is made to the Executive Committee and the Audit Committee, guaranteeing sponsorship at the highest level of the company. These programs are supported by Cybersecurity Governance composed of:

- a cybersecurity regulatory framework for ground IT and onboard systems (safety policy based on a series of international ISO 27000 regulations and other standards or regulations concerning Air France-KLM's activities);
- an annual monitoring plan for risks linked to the digital technologies (audits) and testing of the Cyber Crisis mechanism overseen by the Operations Control Center and the authorities;
- three management committees with complementary perspectives. The Group's IT Executive Committee evaluates the coherence between the cyber risks and investment in IT. The Cyber Plane Committee, chaired by the accountable manager, decides on the orientations to be adopted to reduce the potential cyber risks for flights. Lastly, the Safety Performance Committee, chaired by the Head of Safety, evaluates the effective mitigation of generic safety risks, including cybersecurity;

- a report on the residual cybersecurity risk in the major operational risk sheets managed by Internal Control.

See also section 3.2.3 in section 3 Risks and risk management.

Data privacy

Context and strategy

In force since May 25, 2018, the European General Data Protection Regulation (GDPR) to protect personal data firstly extended the rights of data subjects and, secondly, strengthened the accountability and obligations for data controllers, requiring proof of compliance on personal data protection. To respond to the GDPR requirements, in 2018 Air France and KLM chose to deploy a broad-ranging program to reinforce their already-rigorous cybersecurity policies and define a strengthened personal data management framework to ensure compliance with privacy by design and by default principles.

While the design and implementation of the governance, policies and register had been broadly completed in 2018, this program was pursued throughout 2019 with the focus more on operational effectiveness,

Measures and action plans

In January 2019, responsibility for privacy compliance was formally transferred to the Business, represented by the members of the Air France Executive Committee and the KLM Executive Committee as Internal Data Controllers. The other roles of Internal Data Processing Owner and Privacy Coordinator have been further developed.

In 2019, regular meetings between the Data Privacy Officer team and the heads of internal data processing were established, in further support of effective governance. The second wave of e-learning was also extended to Air France and KLM employees who are involved in developments/initiatives relating to the use of personal data.

Results and performance

The effectiveness of the overall privacy compliance framework is assessed on a regular basis through a dedicated Internal Audit program. This framework was improved in 2019, but still needs to be strengthened hence further enhancements will be implemented in 2020.

See also paragraph 3.2.3 in Section 3 Risks and their management.

4.4.3 Accessibility of products and services

Context and strategy

The Group offers all its customers the best-possible travel experience and undertakes to provide comfortable, convenient and reliable air travel. Passengers with disabilities or reduced mobility (PDRM) are welcome, providing that air travel is not counter to medical advice.

This calls for the appropriate assistance involving a degree of complexity owing to the differences between EU and US regulations. In the US, the responsibility falls solely to the airline and there are no reporting requirements for US citizens and passengers on flights to/from the US. In the EU, however, it is the airport authority that is responsible for the end-to-end assistance of PDRMs during their journeys through airports and passengers are invited to report to the airline 48 hours before departure, the airline then being responsible for forwarding this information to the airport authority 36 hours prior to departure. At Paris-CDG, for example, where more than 80% of PDRM passengers are traveling with Air France, Paris Aéroport (ADP Group) oversees special assistance for passengers *via* its *Passerelle CDG* and *Samsic* services. At Amsterdam-Schiphol Airport, Axxicom Airport Caddy is the supplier.

Measures and action plans

The Air France dedicated assistance service for passengers with reduced mobility, known as *Saphir (Service d'Assistance aux Personnes Handicapées pour les Informations et la Réservation)*, offers an array of adapted services, such as easy-booking procedures, airport assistance, baggage assistance and special equipment on board. Based in Nice and Marseilles, with some twenty dedicated advisors, *Saphir* fielded around 83,000 calls in 2019: phone and online services enable ticket bookings and the provision of the appropriate assistance. A special phone assistance service for the hard of hearing or deaf customers is also offered. Around nineteen other Customer Relations Centers around the world are able to process requests from our PDRM customers.

Air France has also long been a partner to multiple associations dedicated to disability and has forged strong links with the national and European authorities in this field, to design and develop service improvements.

KLM Cares is a dedicated service assisting customers with the planning and booking of flights. At the airport and on board, KLM offers specially-adapted facilities to ensure a seamless travel experience.

Both Air France and KLM cabin crews are specially trained in the assistance needs of persons with disabilities.

Results and performance

The number of people with disabilities or reduced mobility flying with the Group is growing year after year. Nearly 580,000 PDRM customers traveled with Air France in 2019: more than 80% were looked after by Paris-CDG.

KLM saw a year-on-year increase of 2.3% in the number of passengers with reduced mobility: to a total of 428,000 in 2019. The share of PDRM passengers remained equal to 2018. 94% of all requested PDRM services is wheelchair assistance, of which the vast majority (70%) is the most basic wheelchair assistance for customers not able to walk long distances.

For Air France and KLM, the Net Promoter Score, which measures customer satisfaction, is higher for this category of passengers than the NPS for other passengers. At Air France, a Key Customer Club including PDRM passengers has been created to collate feedback from the latter cohort and help improve certain services, including a better flow of information, both up-stream and during the journey, for both customers and frontline staff, in connection with Air France's Attentive Relationship.

Other new initiatives have also been deployed, such as the upgraded pages on Air France's and KLM's website pages devoted to PDRMs, providing a wealth of travel tips and pushing tailored information to all passengers based on their type of disability.

For customer-facing staff, onboard and at the airport, awareness-workshops focusing on the appropriate forms of words and actions to adopt with PDRM customers have been launched, together with online tools to facilitate their care.

At the IFTM Top Resa trade show, Air France won the 2019 Grand Prix Marco Polo which for the first time recognized the airline with the highest CSR (Corporate Social Responsibility) commitment. In particular, Air France was recognized for its action to improve the travel experience of passengers with disabilities.

4.5 ETHICS AND COMPLIANCE

As an international Group with operations all over the world and employing a large number of staff, Air France-KLM is committed to respecting both ethical values and legislation. This includes respect for Human Rights and the fight against corruption, tax fraud and tax evasion.

As a signatory of the United Nations (UN) Global Compact, the Group supports its ten principles and encourages partners and suppliers to make the same commitment.

Key Performance Indicator	Definition	Results	
Realization rate of the e-learning program on the prevention of corruption	Number of employees having completed the entire training program as of December 31, 2019 divided by the total number of employees invited to undertake this training	2018	2019
		NA ⁽¹⁾	86%

Definition

Scope: Target group of Air France-KLM Group employees.

For the target group of staff the training is mandatory. The target group is selected based on level of function or exposure to bribery risk.

The measured indicator is the number of employees having completed the entire training program as of December 31, 2019 divided by the total number of employees invited to undertake this training. The training is considered to have been completed if the individual passes the test with a score of at least 70%.

(1) NA: Not Available.

4.5.1 Group reference texts

Social Rights and Ethics Charter

The Group's Social Rights and Ethics Charter affirms the Group's commitment to fostering a climate of trust and mutual respect in the workplace, a safe working environment and social dialogue. The Charter applies to all Air France and KLM employees, and to those in their European subsidiaries.

Corporate Social Responsibility Statement

Air France-KLM's commitment to environmental protection, social equity and local development is set out in its Corporate Social Responsibility Statement. The Group is committed to fostering fair practices with all its stakeholders.

Further guidance on business conduct

The importance of respecting ethical principles in everyday business conduct is underscored in a number of documents. For issues applying to all employees, like combating corruption and fair competition, manuals and other forms of information sources are brought to their attention while there are specific codes for certain functions like procurement. The Air France-KLM Anti-Bribery Manual and Air France-KLM Gift & Hospitality policy are publicly available on the airfranceklm.com website.

The Procurement divisions have contributed to the establishment of a Sustainable Development Charter for suppliers. As the application of ethical, social and environmental principles constitutes an important criterion when selecting suppliers, the latter must confirm their respect of these principles. This Charter has been supplemented by a Supplier Code of Conduct which specifies the commitments on Human Rights, health and safety, the environment and ethics.

4.5.2 Respect of Human Rights

Air France-KLM respects and supports the protection of Human Rights, combats corruption and opposes all forms of child and forced labor.

These fundamental principles are based on international norms, including the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the Core Conventions of the International Labor Organization (ILO) and the Children's Rights and Business Principles.

In its CSR Statement and Social Rights and Ethics Charter, Air France-KLM affirms its commitment to fostering a climate of trust and mutual respect amongst employees.

These values and rights are the foundation for social, economic and cultural cohesion within each company and across the Group. Every employee of the Air France-KLM Group has the right to working conditions that respect their health, safety and dignity, and guarantee a social dialogue. The Charter applies to all the employees of Air France and KLM, and of their European subsidiaries.

Currently, Air France-KLM is working on amending its Social Rights and Ethics Charter by integrating its Human Rights policy. The aim is to arrive at a policy document that formulates not only the rights of Group employees and those of its suppliers, but also gives instructions for execution and implementation, including risk assessment. This document is being reviewed in liaison with the European Works Council, with a view to publishing the updated version in 2020.

Within the framework of its activities, the Group has identified the risk factors relating to Human Rights. The measures put in place to mitigate these risks fall into a number of different areas: health and safety of individuals, equal opportunity, achieving a better work/life balance and data protection procedures to

protect the personal data of customers and employees (see Sections 4.2, 4.4.1, 4.4.2, 4.4.3, 4.6.3).

In its relationships with suppliers, the Group is committed to ensuring that the fundamental principles and social rights are properly respected, everywhere in the world. Suppliers are invited to sign a Sustainable Development Charter based on the principles of the United Nations Global Compact (see Sections 4.6.2 and 4.6.3).

In 2019, Air France carried out awareness-raising actions for its employees on human trafficking, to help them to identify at-risk situations and take action against this form of international organized crime, comparable with modern-day slavery. Whether it is trafficking for the purpose of forced labor or crime, sexual exploitation, illegal adoption or forced marriage, child soldiers, organ trafficking or other forms of human exploitation, ground staff and flight crews must be able to recognize behavior that may be considered abnormal or worrying and, in the event of suspected human trafficking, report the event as soon as possible and in accordance with the instructions.

4.5.3 Business ethics

Fair business practice

Context and strategy

The prevention of bribery and anti-competitive behavior is an important factor in honest and fair business practice. As unethical or inappropriate behavior can have considerable negative consequences, both financial and in terms of the Group's reputation, preventing unfair practices is key.

The Air France-KLM Group's commitment to conducting business in good faith, founded on equity, transparency, honesty and integrity, and in the strict respect of the anti-corruption laws in all the countries where its companies or subsidiaries exercise their activities, is affirmed in the Anti-Bribery Manual. This Manual acts as a Code of Conduct for all employees and establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations with regard to the anti-corruption legislation.

Since 2017, the Anti-Bribery Manual has been supplemented by a Gift & Hospitality Policy. This Policy aims to provide clear guidelines for staff, including financial limits, on giving and receiving gifts and hospitality. Both the Anti-Bribery Manual and the Gift & Hospitality Policy documents are available in three languages and can be consulted by staff *via* the intranet sites.

In terms of anti-competitive practices, Air France-KLM is developing its policy aimed at the prevention of anti-competitive acts by circulating a Competition Law Compliance Manual.

The KLM Group has implemented a Code of Conduct which contains an overview of the rules governing the KLM Group's business conduct and its suppliers. The KLM Code of Conduct covers the following areas: Safety, Business Integrity, Social Responsibility and reporting Violations. The KLM Group has also deployed a Code of Ethics for the Finance Function.

Measures and action plans

Compliance program and governance bodies: the Compliance activities are based on compliance programs, executed within the context of a formalized framework. New legislation or requirements relating, for example, to anti-bribery or data privacy are taken into account when establishing the compliance programs and their increased appropriation is ensured *via* awareness-raising campaigns. Dedicated processes or projects may also be set up to secure compliance.

Compliance functions: the Group has deployed an organization dedicated to compliance. The Compliance Officers within Air France-KLM, Air France and KLM are tasked with overseeing the implementation of the Compliance programs within the Group. They are supported by a network of compliance representatives in the subsidiaries. Depending on the type of business transactions and the complexity within the departments or entities, subject matter experts and compliance representatives facilitate compliance with specific legislation and the roll-out of the relevant compliance program elements.

Training and awareness: one important element of the compliance program is training and awareness. Matters that require greater awareness and transcend businesses, like the prevention of bribery and anti-competitive behavior, are the subject of awareness-raising campaigns. These campaigns are supplemented by dedicated training which is available to individual employees. Employees can also raise questions or concerns with the Compliance Officers and legal experts.

Whistle-blower procedure: since all employees are required to respect these rules, employees in all the Group's entities are encouraged to discuss any compliance concerns with their line managers. They can also contact a Compliance Officer directly. Employees also have the option of flagging any issues *via* the Whistle Blower procedures. These procedures also include the possibility of reporting any serious situations relating to the duty of vigilance (Human Rights, fundamental freedoms, health and safety, environment), pursuant to the regulation in force.

Results and performance

An anti-bribery e-learning training campaign was deployed at the end of 2019 to maintain and further strengthen the anti-bribery awareness and knowledge of staff (the realization rate of the e-learning program on the prevention of corruption reached 86%). Awareness is also reinforced through, for example, information meetings and discussions, improved access to compliance documents and communication by the Group's General Management.

Reports under the Whistleblowing procedures are investigated and the appropriate corrective actions are taken and implemented.

See also Section 3.2.2 *Risks relating to the air transportation activity*.

Tax strategy

Group tax policy

Air France-KLM recognises the important role fiscal compliance plays in its strategy and undertakes to act with integrity and transparency in all tax matters.

Air France-KLM's tax policy aims to act at all times in accordance with the applicable local and international laws (bilateral tax treaties, OECD and UN guidelines), and to prevent fiscal evasion. Air France-KLM complies with the OECD's Base Erosion and Profit Shifting Action Plan and files all the required transfer pricing documents, including a Country-by-Country Report. Air France-KLM complies with the letter and spirit of the tax law and regulations wherever the Group has a taxable presence.

Following the specific guidelines for the taxation of international air transportation services, wherein operational income is taxed in the country of domicile, Air France-KLM appropriately reports

most of its airline income in France and the Netherlands. Specific local taxation rules require the Group to also report a relatively small component in foreign jurisdictions where the Group operates.

The filing of tax returns is made in a timely and accurate manner that meets the fiscal obligations of Air France-KLM to the tax authorities and taxes due are paid on time.

Tax is an integral part of the Finance function of Air France and KLM and supports Air France-KLM in delivering its strategic ambitions. Tax affairs are managed in a way which takes into account the Group's corporate values. Air France-KLM seeks to establish and maintain an open and constructive dialogue with the tax authorities and other government bodies. The Group participates in the development of tax policies by contributing constructive inputs to public consultations. On March 14, 2019, a fiscal partnership was signed between the French tax authorities and Air France - KLM, the consolidating entity of the French tax group.

Fiscal risk management and the Anti-Tax-Avoidance rules

The Group's aim is to take sustainable tax positions which are long-term in nature, in support of the business operations. Air France-KLM operates with a minimum level of risk with respect to tax matters and complies with the anti-tax-avoidance rules in line with the requirements of the European Directive (EU) 2016-1164 transposed into French Law on October 23, 2018 (Act No. 2018-898).

The Tax Affairs department seeks to anticipate and reduce the tax risks to a low level. It ensures that reasonable care applies in relation to all processes that could materially affect its compliance with its tax obligations and is particularly vigilant in the application of the rules combating fraud and tax-avoidance.

4.6 SOCIETAL VALUE

Air France-KLM strives to add economic and social value in the areas where it operates, around its hubs and destinations. By working together with local partners, the Group creates new business opportunities and supports projects that contribute to the future generations and local communities.

As a major purchaser of diverse products and services, the Group integrates ethical and sustainability criteria in its supply chain by sourcing products and services that minimize the environmental footprint and have a positive social impact.

Key Performance Indicator	Definition	Results		
		2018	2019	Target 2020
Suppliers having signed the Sustainable Development Charter	Number of Air France and KLM suppliers under contract who have signed Air France-KLM's Sustainable Development Charter divided by the total number of Air France and KLM suppliers under contract at December 29, 2019	67%	68%	75%
Number of suppliers evaluated by Ecovadis	Number of Air France and KLM suppliers under contract evaluated by the CSR rating agency Ecovadis or an equivalent body, at December 29, 2019	355	414	100 additional suppliers

Definitions

Suppliers having signed the Sustainable Development Charter.

Scope: Suppliers under contract with Air France and KLM, monitored under ARIBA.

As of the initiation of the purchasing process, suppliers are invited to sign the Air France-KLM Sustainable Development Charter.

The indicator measured is the number of Air France and KLM suppliers under contract (monitored *via* ARIBA) who have signed the Charter divided by the number of suppliers concerned (under contract followed under ARIBA) (beginning of January of the reference year).

Number of suppliers evaluated by Ecovadis

Scope: Suppliers under contract with Air France and KLM, monitored under ARIBA, and scoring under Ecovadis.

As part of its supplier risk policy, Air France-KLM has its suppliers evaluated and takes into account their sustainable development performance. In the event of an elevated or severe risk, suppliers must be assessed by the CSR rating agency Ecovadis or an equivalent body on the following four themes: environmental, social, ethical and responsible purchasing. All other suppliers are invited to carry out this evaluation on a voluntary basis.

The indicator measured is the number of suppliers evaluated by Ecovadis or an equivalent body (end December of the reference year).

4.6.1 Local development

Context and strategy

The Group's direct and indirect activities contribute to economic development at national level in France and the Netherlands, and specifically around its Paris and Amsterdam hubs. These hubs offer multiple connections and form an extensive, high-quality network that generates an attractive business environment. According to an Opinionway survey of international investors carried out in 2019, the presence of a hub offering direct and frequent international connections is the second most important criterion in choosing a location.

With more than 90% of the Group's employees based in France and the Netherlands, Air France-KLM is a significant contributor to job creation in the regions where the two hubs are located. With more than three-quarters of the jobs linked to sub-contracting located in Europe, the Group's activities also generate numerous indirect and induced jobs: assistance and catering in the outstations, cleaning and sub-contracted services required for the operation of aircraft.

The hubs create highly-attractive business environments while airport proximity leads to the development of other activities like hotels and congresses, company show-rooms, commercial and marketing functions, business services and activities linked to innovation.

As the number one air operator carrying international tourists visiting France, Air France-KLM makes a significant contribution towards promoting France and the Netherlands as destinations, and to the development of tourism.

KLM's extensive network has contributed to making the Netherlands an attractive location for both Dutch and international companies. The Air France Group, with operations at 44 French airports (mainland France and overseas), reinforces the appeal of the regions and contributes to the growth in local activity (more than €710 million of contractual procurement).

Historically, the Group has also played an active role in promoting international development worldwide, particularly through its support of NGOs and projects sponsored by its employees.

Measures and action plans

Contributing to national and local development

For many years, Air France-KLM has supported the development of small and medium-sized companies to which the Group entrusts a significant part of its procurement. The Group is constantly working to support innovation and start-ups via initiatives such as the creation of an innovation counter, and participation in special business incubators.

Air France-KLM works alongside its national and local stakeholders to shape sustainable areas. In 2019, at the Paris Air Show in particular, Air France coordinated discussions to shape the future for air transportation, strengthen competitiveness and define the strategy for the French flag and ensure its improved competitiveness.

At local level, Air France and KLM are involved in various initiatives to promote sustainable development, and build human capital and the attractiveness of the territories around their hubs. Air France is working in cooperation with local officials and companies as a member of the Board of the *Club des Acteurs du Grand Roissy*. This association aims to promote harmonious and balanced development of the *Grand Roissy* area, in synergy with the airport platform, and to promote public transport, housing and infrastructure projects essential for the development of this area.

Creating social impact

Air France and KLM support initiatives enabling the development of skills, the vocational integration of young people and the social integration of vulnerable individuals. This also includes promoting access to training leading to professions in the airline industry through a number of different associations and educational programs for young people.

Air France is a founder member and partner of four organizations involved in information and training programs on aviation careers (*AirEmploi*, *Jeremy*, *AFMAé*, and *Engineers for Schools*). Every year, to reduce the gap between education and business, Air France welcomes several hundred students and school children for their end-of-study training courses and internships to gain business experience. The company also organizes skills sponsorship initiatives, by mobilizing its in-house teams and leveraging the expertise of associations like *Mozail RH*, the *Nos Quartiers ont du Talent* association, *Article 1* and *Tous En Stage*, an association for which Air France was a founder member. *Tous En Stage* organizes multi-company internships for young people in the regions (mainland France, French Overseas Departments and Territories) and those with disabilities.

KLM supports a number of education programs to attract and motivate future talent through collaboration with ROCs, Schiphol Aviation College, the Amsterdam University of Applied Sciences and the JINC foundation. The KLM Maintenance division offers internships to students training in aeronautical mechanics: more than 100 ROC students benefited from internships at KLM in 2019. KLM also pursued its partnership with Schiphol Aviation College.

Air France and KLM continue to support workers with disabilities by working with sheltered sector companies on multiple projects

(e.g. within Air France, upkeep of green spaces at some sites, shipment of packages of uniforms, packaging of headphones used on board, etc.), and by entrusting them with highly-critical services (four sheltered sector suppliers work with the IT department).

Both Air France and KLM encourage employee solidarity initiatives. In 2019, a second edition of the Air France Citizenship Day took place involving 2,000 employees who volunteered to assist 60 aid associations in ten French regions around six areas for action: supporting children in need, education-training-employment, disability and health, the fight against insecurity, the environment and intergenerational solidarity. The numerous Air France and KLM outstations based internationally offered employees the opportunity to volunteer and donate a working day to sharing their skills and energy with a non-profit organization in the social and environmental fields: in 2019, more than 60 Citizenship Days were organized everywhere in the world. This initiative will be repeated in 2020.

Social partnerships

Air France provides practical support to development projects through five long-standing partnerships: the Air France Corporate Foundation, the Air France Humanitarian Aid Department, Acting for Life, *Aviation Sans Frontières* and *Gawad Kalinga*.

In 2019, the Air France Foundation supported 63 projects across 32 countries to the benefit of 155,000 children. Since its inception in 1992, the Foundation has facilitated the realization of 1,480 projects in favor of childhood, mostly sponsored by Air France employees. Furthermore, over 4,000 employees are involved in volunteer work, skill-sharing and donation projects within the Friends of the Air France Foundation network.

The Air France Humanitarian Aid Department supported 25 NGOs helping children in need of medical care and issued 393 tickets for the transportation of medical teams and the repatriation of sick children. Free carriage of excess baggage was also offered to 76 NGOs for the transportation of medical and emergency equipment.

In 2019, Acting for Life, which has been supported by the company for more than forty years, ran 33 development projects in Africa, Asia, Latin America, the Middle East and Oceania. Thanks to the financial support and transportation facilities donated by Air France, the emergency aid organization *Aviation Sans Frontières* accompanied more than 1,200 sick children on the company's flights and shipped nearly 8,400 packages of drugs and minor medical supplies to 26 destinations.

Twenteth-three years ago, Transavia Netherlands launched the Peter Pan Holiday Club. This initiative, supported by Transavia employees, organizes holidays for young people between the ages of 13 and 20 years who are unable to on a "regular" holiday due to illness or difficult circumstances. Transavia Netherlands also works closely with JINC, an organization that arranges activities for children from economically-disadvantaged backgrounds. Transavia employees are invited and encouraged to actively participate in initiatives during which children visit companies to gain valuable insight into the working world and its functioning, and become familiar with the concept of networking. These

initiatives illustrate the Transavia Netherlands conviction that “everybody deserves to be seen” and contribute to a more inclusive society.

Transavia France supports associations, like Louis Carlesimo, thereby enabling sick children to enjoy magical moments during a trip. The airline's staff are committed to combating diseases like cancer *via* the *Les Hôtesses de l'Air Contre le Cancer* association and the Movember Foundation, or to promoting diversity with *Personn'ailes*, Air France's LGBT and gay-friendly association.

For many years, Air France has been involved in promoting sustainable and responsible tourism within the travel profession ecosystem, especially those involved with *Agir Pour Un Tourisme Responsable* (ATR). Air France also acts as an information conduit notably on the devastation caused by child sex tourism, by financing ECPAT International's prevention campaign and handing out literature during long-haul flights.

In the event of environmental disasters, Air France and KLM Cargo participate in the shipment of emergency equipment.

KLM works in partnership with Wings of Support and six other organizations: WWF, the Ocean Cleanup, Close the Gap, the Red Cross, UNICEF and Giro555. In 2019, the Wings of Support Foundation was the main charity to be backed by KLM. Both KLM flight crews and ground staff are actively involved in the work of the Foundation. In 2019, Wings of Support assisted 75 projects in 16 countries worldwide.

Lastly, Air France-KLM customers who are members of the “Flying Blue” loyalty program are offered the opportunity to donate their Miles to 18 NGOs selected by Air France and KLM. In 2019, 70 million Miles were donated to NGOs, i.e. 1,653 tickets. In March 2019, exceptional support amounting to three million Miles was allocated to the French Red Cross in response to the devastation caused by the cyclone in Mozambique.

Results and performance

National and regional economic impact

In France:

- €40 billion positive economic impact attributable to the Air France-KLM's activity, representing 1.6% of French GDP;
- 475,000 FTE jobs depend on the Group's activity;
- for every job created by the Group, 8.7 jobs are created in the French economy;
- for every euro invested, the Group generates two euros in the national economy;
- the Air France-KLM Group's activity directly generates €3.6 billion (including the taxes and social contributions paid by the Group and its employees);
- Air France is a leading private sector employer in the Paris region.

In the Netherlands:

- as the third largest private sector employer in the Netherlands, the KLM Group accounted for 33,000 of the 65,000 directly-generated jobs in the Schiphol catchment area in 2019.

Contribution to the sheltered and adapted sector

In 2019, Air France signed a Manifesto for the vocational integration of persons with disabilities, consisting of ten concrete measures. This agreement ring-fences €3.4 million to be used in promoting the employment of persons with disabilities.

The company has invested €20 million in procurement, subcontracting and service contracts from the sheltered and adapted sector.

Contribution to community projects

In 2019, Air France-KLM supported NGOs and other social and environmental initiatives by donating €13 million. A key performance indicator to measure the impact of the sums allocated is in the development phase.

4.6.2 Sustainable procurement

Context and strategy

As a service company, Air France-KLM's business activity is heavily dependent on procurement which represented €13.3 billion in 2019. Fuel purchasing amounted to some 38% of this expenditure, followed by aircraft maintenance and components, airport and navigation fees and airport handling.

Given the significant proportion of external expenses relative to total revenues, optimizing, innovating and making the supply chain more sustainable are priorities for the Group and contribute to improving profitability. The Procurement department deploys an ambitious policy and encourages the adoption of responsible practices within its processes. For a number of years, this responsible procurement policy has aimed to incorporate societal responsibility principles into relationships with suppliers by reinforcing control over ethical, social, environmental and supply chain risks.

Measures and action plan

Pursuing a responsible procurement policy throughout the whole process

Air France-KLM pursues a responsible procurement policy throughout the process:

- the buyers send suppliers a supplier questionnaire, addressing a number of themes such as safety, environmental management, HR policy, etc.;
- suppliers are invited to sign the Sustainable Development Charter for suppliers based on the principles of the UN Global Compact or provide their own equivalent document which may be approved following analysis. Since 2015, this Charter has been supplemented by a Supplier Code of Conduct;

- the tender documents frequently list the criteria enabling the evaluation of the environmental impact of the product or service, which are then taken into account during the evaluation of the different supplier proposals. This is an integral part of the assessment of the total cost of ownership and the life cycle analysis;
- supplier contracts include an ethical and environmental clause based on the relevant products and services.

To supplement the existing process, the Procurement function uses the services of EcoVadis, a company specialized in the evaluation of suppliers based on Corporate Social Responsibility criteria.

The risk mapping process, which takes place at the beginning of the procurement process, takes into account the different sectors of procurement and the countries in which the suppliers are based:

- buyers must systematically verify the positioning of each supplier in the risk map. There are six levels of risk;
- in the event of an elevated or severe level of risk, suppliers are contacted so that they can be evaluated by EcoVadis or an equivalent organization on the following four themes: environment, social, ethics and sustainable procurement (as defined in the EcoVadis system);
- if the risk category of the supplier is lower than “high risk”, buyers are advised to encourage their supplier to be evaluated. The latter can then share their scores with other companies, which may prove a competitive advantage in terms of winning bids and contracts.

Following their evaluation, suppliers having failed to reach an acceptable level will need to put in place corrective measures to meet the Procurement requirements.

At Air France, these cases are discussed during quarterly Steering Committee meetings, overseen by the Procurement and CSR departments.

Air France is pursuing its ambitious Purchase Plan launched in 2018, aimed at capturing more innovation with its suppliers and, in particular, with small and medium-sized companies and start-ups. Purchasing from the sheltered and adapted sector reaffirms Air France's values and thus underscores its commitment to Social and Environmental Responsibility. In 2019, Air France organized four Purchasing meetings aimed at increasing procurement with SMEs, the sheltered sector and innovative companies.

The KLM Fuel Procurement Department has made a decade-long commitment to developing and purchasing 75,000 tons of sustainable aviation fuel per year. To this end, KLM is contributing, alongside SkyNRG, the world leader in sustainable aviation fuels (SAF), to the development of the first European plant dedicated to the production of SAF in Delfzijl. The construction of this facility, scheduled to open in 2022, is a concrete step towards achieving KLM's ambitions for sustainable development and contributes to the broader “Smart and Sustainable” industrial plan. As of 2022, the plant will produce 100,000 tons of SAF annually, as well as 15,000 tons of bioLPG, as a by-product. This will mean an annual CO₂ reduction of 270,000 tons for the

aviation sector. This is an important milestone for the industry in its quest to reduce carbon emissions and meet the growing demand for sustainable fuel for aviation.

Empowering the buyers

Air France–KLM buyers are committed to respecting the Group's societal responsibility commitments. On their first day in the office, they sign a Code of Ethics outlining the ethical rules to be followed when dealing with suppliers. In the light of the Anti-Bribery legislation, a reminder of the Code of Ethics has been sent to the prescribers. The Procurement Sustainable Development Charter and the Code of Ethics are available on the Procurement website.

An internal process has also been established to develop the buyers' skills, with training modules, seminars and web links providing more information on best environmental practices. All Procurement staff have completed an anti-corruption e-learning module. All new buyers receive training on the department's CSR commitments, the duty of vigilance and the anti-bribery processes, and on how to use a scoring tool (EcoVadis).

The Procurement function encourages the maintenance of a watching brief on information relating to CSR (news, legislation, events, conferences, webinars, etc.) and the sharing of experience.

The Procurement Action Plan sets out the CSR undertakings as a strategic lever; this Plan has been distributed to the team and forms part of the induction documentation for new recruits. More than ever, CSR is a challenge for Air France–KLM, which places sustainable development at the heart of its priorities and projects: the buyers seek suppliers who can help the Group make progress on this issue and contribute suggestions and innovative ideas.

Mobilizing and innovating with suppliers

The Supplier Relations Management Program (SRM) is based on building long-term relationships between Air France–KLM and its strategic suppliers. This program enables issues like Corporate Social Responsibility to be central to discussions and to move forward together on these issues.

The Procurement function sees its suppliers as bona fide partners in mutually-beneficial growth. In this capacity, it supports their quest for innovative solutions and analysis of the environmental impact of products. During the drafting of a product specification, the prescriber and buyer work together to identify the environmental and societal characteristics, thereby encouraging the supplier to not only develop the environmental performance of its products but also make in a wider commitment to sustainability.

Air France entrusts a significant part of its procurement to SMEs. Through a formalized action plan, the Procurement function promotes the development of SMEs and start-ups through initiatives such as the creation of an innovation counter and participation in incubators and on specific themes.

Procurement is committed to building high-quality relationships with SMEs. To promote and protect this eco system, Air France is a member of the SME Pact and establishes an action plan on an annual basis within the context of its relationships with SMEs (midcaps, start-ups and VSBs). These actions include a reduction

in payment terms thanks to the extension of Tradeshift (cloud-based business network and platform for supply chain payments) and also the strengthening and deployment of innovation *via* a “start-up Kit”, enabling the company to work more nimbly with start-ups and promote POC (“Proof of Concept”).

Air France cooperates with associations and companies in the sheltered sector on multiple projects which represented approximately €20 million of the Group’s purchasing in 2019 (e.g. upkeep of green spaces in some sites, shipment of packages of uniforms, packaging of headphones, etc.). In 2019, as part of its laundry services, the ESAT du Centre de la Gabrielle launched an ecological approach by using eco-responsible detergents. This same approach will gradually be extended by the other laundry companies operating in the sheltered and adapted employment sector.

In 2019, KLM initiated the recycling of plastic waste with its recycling suppliers, transforming this waste into a material for 3D printing. KLM collects tons of plastic bottles on flights and then sorts and recycles them to obtain recycled plastic pellets. This recycled plastic is used, for example, to print tools for the maintenance of aircraft.

Taking into account social and environmental priorities

The obligations of suppliers in terms of the environment and vocational health and safety are stipulated in the product or service specifications. To prevent the risks linked to joint-activity during interventions, the establishment of prevention plans is systematic. This approach is the subject of a General Occupational Health and Safety Procedure. For Air France, the accident record for sub-contractors is tracked in the Company’s annual social reporting.

Furthermore, an environmental clause figures in Air France’s catering contracts which includes measures to reduce the environmental footprint, such as the sorting and recycling of waste and the use of seasonal products.

Measures in favor of responsible catering

Air France and KLM are developing the concept of responsible catering. Indeed, since its airlines serve a total of 85 million meals and snacks every year and given the quantity of food products required for their production, the Group’s choices can have an impact on biodiversity.

For catering procurement, in partnership with its different catering suppliers, Air France prioritizes local products which are responsible and, whenever possible, seasonal. Certified protected origin products (*produits d'appellation d'origine contrôlée et protégée* – AOC/AOP), particularly cheese, form part of a broad range of products. Organic food products are also offered, particularly in the meal trays intended for children.

As of the design of on-board equipment, multiple criteria are taken into consideration: weight of the articles, materials used, place of manufacturing, mode of transportation, management of the material’s end of life. Particular attention is paid to reducing the amount of packaging and the use of single-use plastics. At the end of 2019, on board Air France’s aircraft, plastic cups, cutlery and stirrers, i.e. the equivalent of 1,300 tons of plastic, were progressively replaced by cardboard cups while cutlery and stirrers were designed in wood sourced from FSC label forests and covered in paper wrappers.

Rethinking some food services also contributes to this goal of reducing single-use plastics. For example, the development of the *Bon Appetit* bag distributed on medium and long-haul flights avoids the use of around 200 tons of cutlery and other plastic items.

Whenever feasible, to contribute to the overall objective of attaining the Sustainable Development Goals, KLM chooses products and partners that share its values. The company’s responsible catering policy mainly focuses on environmental preservation in production areas, Human Rights, working conditions and animal welfare. It is applied to all flights departing from Amsterdam Schiphol Airport and elsewhere in Europe and, where possible, responsible products are included in the catering products on board flights on departure from other countries. For KLM, it is important that the ingredients in meals, such as fish, chocolate, palm oil and soy, are sourced responsibly. To this end, KLM is a member of the Responsible Soy (RTRS) and Sustainable Palm Oil (RSPO) Round Table and offers certified products on board its aircraft such as MSC and ASC-certified fish, “better life” egg, chicken and veal and UTZ-certified coffee, tea and chocolate.

The Group donates a number of products from in-flight catering not distributed to passengers to charitable associations (see Section 4.3.4 Action to combat food waste).

Results and performance

Through its website ([www.af-klm.com /procurement](http://www.af-klm.com/procurement)), the Procurement department maintains an ongoing dialogue with suppliers, informing them, amongst other things, on the function’s commitment to sustainable development.

Right from the inception of the procurement process, suppliers thus become aware of these issues and are invited to sign the Air France – KLM Sustainable Development Charter. In 2019, 68% of suppliers signed the Sustainable Development Charter and, in 2020, the goal is to increase this number to 75%.

In 2019, the number of companies evaluated on EcoVadis or an equivalent body increased by 17% (414 suppliers evaluated in 2019 versus 355 in 2018). Furthermore, as part of a continuous-improvement process, the company aims to evaluate 100 additional suppliers in 2020.

4.6.3 Monitoring of Act No. 2017-399 known as the Duty of Vigilance Law

The Air France-KLM Group is subject to the obligations introduced by the Act of March 27, 2017 relating to the duty of vigilance for parent companies and ordering companies.

Since 2018, in response to the regulatory requirements, the Group has implemented a vigilance plan in compliance with the legal provisions, it being understood that the Group already had processes in place enabling it to comply directly or indirectly with the requirements of the new Act. In particular, having established verification processes in the areas required to be covered by the vigilance plan, the Group has ensured that it is in a position to benefit, as effectively as possible, from the contributions of its various entities. In 2019, Air France-KLM pursued these actions and focused on measuring their effectiveness within the Group and its subsidiaries.

Identification and regular risk evaluation procedures

The identification and evaluation of the various risks relating to the duty of vigilance are part of the overall risk management process established within the Air France-KLM Group. As a facilitator of risk management, Group Internal Audit regularly evaluates the risk management process and its conclusions are the subject of presentations to the Group Executive Committee and the Audit Committee.

The Air France-KLM Group's overall sub-contracting management system applies to all risk areas. It is based on contract reviews, compliance monitoring and supervision acts such as audits, inspections and checks, carried out by the sub-contractors themselves where appropriate.

Every year, the Group conducts a review of the non-financial risks generated by its activities. This analysis verifies the relevance and comprehensiveness of the measures and action plans aimed at the effective prevention, control and mitigation of the non-financial risks deemed to be the most material.

See Section 3 Risks and risk management and Section 4.1.2 Identification of the key priorities in building long-term relationships.

Measures deployed to prevent and mitigate the risks and monitoring mechanisms

Air France-KLM's policy enshrines the respect of fundamental rights as established in the leading international principles: Universal Declaration of Human Rights, International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, and the Organization for Economic Cooperation and Development's (OECD) guiding principles.

Air France-KLM has been a signatory of the United Nations Global Compact since 2003 and is committed to respecting and promoting its ten principles in the areas of Human Rights, labor, the environment and anti-corruption. This undertaking is reaffirmed each year by the Group's top management.

The duty of vigilance is a multi-risk approach. The management of risks is at the heart of the steering of the Air France-KLM Group's business activities, based on a rationale of prevention and homogeneous management *via* common methods and tools.

Human Rights and fundamental liberties

In its Corporate Social Responsibility Statement, the Group undertakes to scrupulously respect Human Rights, oppose child and forced labor, apply laws and ask its service providers and suppliers to uphold these principles.

The Social Rights and Ethics Charter affirms the Group's commitment to fostering a climate of mutual trust and respect amongst staff, and ensuring a safe working environment. The Group undertakes to apply the labor legislation of the European Union and its Member States and all national collective agreements, and to respect the exercise of trade union rights in all the relevant countries.

In 2019, the Social Rights and Ethics Charter was reviewed by a working group bringing together the relevant Group entities and the European Works Council, to develop its content towards the formalization of principles fostering the respect of Human Rights. This new document, for both internal and external use, will be published during 2020.

In view of its organization, the Group delegates to its subsidiaries the responsibility of respecting and promoting the content of these commitments locally, in the respect of the national provisions and legislation specific to each country.

See Section 4.2 Human resources and 4.5.2 Respect of Human Rights.

Health and safety

For Air France-KLM, the health and safety of both customers and staff is an absolute priority.

Flight safety is paramount for the Group. It is key to retaining the trust of customers and imperative for the long-term viability of its operations. All the Group's activities are the subject of multiple checks and certifications, comply with extremely strict norms and achieve the highest standards in the industry.

Both companies deploy Safety Management Systems, which are integral to their business organizations, processes and corporate cultures.

See Section 3 Risks and risk management and Section 4.4 Customer trust.

Safeguarding health and safety in the work place is a human priority to which the Group responds by preventing vocational risks and improving the quality of life in the workplace.

See Section 4.2 Human resources.

The Group must guarantee its customers and flight crew safe catering services and, to this end, has put in place a Food Hygiene and Safety process to respond to the regulatory requirements linked to the preparation and supply of meals.

See Section 4.4 Customer trust.

Environment

Air France-KLM's Climate Action Plan embodies the Group's strategy and main priorities for reducing its impact on climate change. In November 2019, the Group unveiled its global strategy through to 2025, based on global environmental sustainability.

The Air France and KLM Environmental Management Systems (EMS) aim to prevent and mitigate the environmental impacts of their operations. They have ISO 14001 certification and internal and external audits enable the verification of their effective deployment.

In 2019, the Group adopted the format recommended by the Task Force on Climate-related Financial Disclosures (TCFD) for the management of financial risks linked to climate change (TCFD concordance table, section 4.3.2).

See Section 4.3 Environment.

Supply chain

In its relations with sub-contractors and suppliers, Air France-KLM ensures that the fundamental social rights and principles, and environmental protection provisions, are properly respected everywhere in the world.

A supplier selection process has been implemented to respond to the duty of vigilance requirements. To this end, Air France-KLM's Procurement function provides awareness training on these risks for its buyers.

A risk-mapping process is in place with, for each segment and procurement domain, an evaluation of the environmental, social and ethical risks. Risk is also evaluated by country.

For all new contracts or contract renewals, the signature of the Sustainable Development Charter or an equivalent commitment covering the four areas (environment, social, ethical and supply chain) is mandatory and is included in the contract's appendix.

In the segments most exposed to risks, suppliers are asked to submit an evaluation of their sustainability performance, carried out by a specialized organization or the equivalent. This evaluation must address four areas: environment, social, ethics, supply chain. The "Supplier supply chain" section provides visibility for tier 2 suppliers.

Suppliers failing to reach an acceptable level are required to put in place a remedial action plan. Independent in-situ audits may also be triggered.

Independently of the level of risk, all suppliers are encouraged to carry out evaluations of their CSR performance.

In 2019, at the Group's request, 414 suppliers had their sustainability performance evaluated.

See Section 4.6 Societal value.

Listening to stakeholders and whistle blower mechanism

In 2019, Air France-KLM realized a new materiality analysis by questioning a representative panel of internal and external stakeholders. The comparison of these results with those of the analysis carried out in 2017 enabled confirmation of the relevance of Air France-KLM's strategic choices in the light of the issues deemed to be priorities for its activities and the expectations of its stakeholders.

Several processes enable the Group to regularly evaluate the perception of its stakeholders and to understand the related risks. The Group also has a number of feedback channels in place enabling stakeholders (particularly employees, customers and local residents around airports) to communicate any complaints.

See Section 4.1.2 Identification of the key priorities in building long-term relationships.

The Air France-KLM Group has updated the scope of its internal whistle-blower procedures to enable employees to report any situations arising within the scope of the Act of March 27, 2017 relating to the duty of vigilance of parent companies and ordering companies. For reports under the Whistleblowing procedure please see paragraph 4.5.3 Business ethics.

4.7 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED NON-FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

To the Annual General Meeting,

In our capacity as Statutory Auditor of your company (hereinafter the “entity”) appointed as Independent Third Party, and accredited by the French Accreditation Committee (*Comité Français d’Accréditation* or COFRAC) under number 3-1049⁽¹⁾, we hereby report to you on the consolidated non-financial statement for the year ended 31st December 2019 (hereinafter the “Statement”), included in the Group management report pursuant to the requirements of articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de Commerce*).

Responsibility of the entity

The Management Board is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity’s procedures (hereinafter the “Guidelines”), the main elements of which are presented in the Statement and are available upon request at the entity’s head office.

Independence and quality control

Our independence is defined by the requirements of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de Déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with applicable legal and regulatory requirements, the ethical requirements and French professional guidance.

Responsibility of the Statutory Auditor appointed as Independent Third Party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the requirements of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225-105 I, 3° and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the “Information”).

Our responsibility is also to provide a report expressing, at the request of the entity and outside of the scope of accreditation, a reasonable assurance conclusion that information selected by the entity, presented in Appendix and identified with the symbol Ain chapter has been prepared, in all material respects, in accordance with the Guidelines.

However, it is not our responsibility to comment on the entity’s compliance with other applicable legal and regulatory requirements, in particular the French duty of care law and anti-corruption and tax avoidance legislation nor on the compliance of products and services with the applicable regulations.

(1) Accreditation scope available at www.cofrac.fr.

Nature and scope of our work

The work described below was performed in accordance with the provisions of Article A.225-1 *et seq.* of the French Commercial Code, as well as with the professional guidance of the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes* or CNCC) applicable to such engagements and with ISAE 3000 (international standard on assurance engagements other than audits or reviews of historical financial information):

- we obtained an understanding of all the consolidated entities' activities and the description of the principal risks associated;
- we assessed the suitability of the criteria of the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225-102-1 III, as well as information regarding compliance with Human Rights and anti-corruption and tax avoidance legislation;
- we verified that the Statement provides the information required under article R. 225-105 II of the French Commercial Code, where relevant with respect to the principal risks and includes, where applicable, an explanation for the absence of the information required under article L. 225-102-1 III, paragraph 2 of the French Commercial Code;
- we verified that the Statement presents the business model and a description of principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships, their products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators associated to the principal risks;
- we referred to documentary sources and conducted interviews to:
 - assess the process used to identify and confirm the principal risks as well as the consistency of the outcomes, including the key performance indicators used, with respect to the principal risks and the policies presented,
 - corroborate the qualitative information (measures and outcomes) that we considered to be the most important presented in Appendix; concerning certain risks⁽¹⁾, our work was carried out on the consolidating entity, for the other risks, our work was carried out on the consolidating entity and on a selection of entities⁽²⁾;
- we verified that the Statement covers the scope of consolidation, i.e. all the consolidated entities in accordance with article L. 233-16 of the French Commercial Code, within the limitations set out in the Statement;
- we obtained an understanding of internal control and risk management procedures the entity has put in place and assessed the data collection process to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative outcomes that we considered to be the most important presented in Appendix 1, we implemented:
 - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
 - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities⁽²⁾ and covers between 40% and 100% of the consolidated data selected for these tests;
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgment, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

(1) Business ethics, Respect of human rights, Responsible procurement, Adaptation to climate change, Biodiversity, Operational safety for stakeholders, Accessibility of the products and services, Local development, Confidentiality and data protection.

(2) Social: Air France, Bluelink, HOP!, KLM, Transavia Netherlands.
Environment: Air France in France and KLM Schiphol for ground operations; Air France, HOP!, KLM and KLC for air operations.

Means and resources

Our work was carried out by a team of seven people between December 2019 and February 2020 and took a total of ten weeks.

We were assisted in our work by our specialists in sustainable development and Corporate Social Responsibility. We conducted interviews with the people responsible for preparing the Statement.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the non-financial statement is not presented in accordance with the applicable regulatory requirements and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines, in all material respects.

Reasonable assurance report on a selection of non-financial information

Nature and scope of our work

With regard to the information selected by the entity presented in Appendix 1 and identified with the symbol √ in chapter 4, we conducted the same procedures as those described in the paragraph “Nature and scope of our work” (for the most important non-financial information). However, these procedures were more in-depth, particularly regarding the number of tests.

Consequently, the selected sample represents 94% of the information identified with the symbol √.

We believe that these procedures enable us to express reasonable assurance regarding the information selected by the entity and identified with the symbol √.

Conclusion

In our opinion, the information selected by the entity and identified with the symbol √ in chapter 4 has been prepared, in all material respects, in accordance with the Guidelines.

Paris-La Défense, on February 19th 2020

KPMG SA

Fanny Houlliot
Partner
Sustainability Services

Eric Jacquet
Partner

Annex 1

Qualitative information (actions and results) considered most important

Human resources Information

Support employees toward individual development and professional retraining

Actions in favor of diversity and equal opportunities

Social dialogue and collective agreements

Occupational Safety Policies

Environmental Information

Measures in favor of the circular economy

Projects of reduction of the carbon footprint

Commitments for the preservation of biodiversity

Societal Information

Measures to promote the safety and security of operations

Measures in favor of the accessibility of the products and services

Actions to raise employees' awareness on Human Rights risks

Tax partnerships

Net Promoter Score

Key performance indicators and other quantitative results considered most important

Human resources key performance indicators and outcomes	Level of assurance
Total staff and distribution by age and gender	Limited
Number of recruitments and Number of departures	Limited
Training hours by employee	Limited
Percentage of women at 12/31	Limited
Percentage of women in managerial functions	Limited
Total staff with disabilities	Limited
Employees Promoter Score (EPS)	Limited
Collective agreements signed	Limited
Frequency rate of workplace accidents with lost time	Limited
Severity rate of workplace accidents	Limited

Environmental key performance indicators and outcomes	Level of assurance
--------------------------------------------------------------	---------------------------

Air operations

Fuel consumption	Reasonable
CO ₂ emissions related to fuel consumption	Reasonable
Specific CO ₂ footprint for passenger transport	Reasonable
Percentage change in CO ₂ efficiency between 2005 and 2019 (operational measures)	Reasonable
Specific CO ₂ footprint for cargo transport	Limited
Emissions of NO _x low altitude	Limited
Emissions of SO ₂ low altitude	Limited
Global noise energy indicator	Limited
Percentage of variation of global noise energy per movement between 2000 and 2019.	Limited

Societal key performance indicators and outcomes	Level of assurance
---------------------------------------------------------	---------------------------

Ground operations

Direct CO ₂ emissions	Limited
Percentage change in CO ₂ emissions from the ground operations between 2018 and 2019	Limited
Emissions of SO ₂	Limited
Emissions of NO _x	Limited
Quantity of hazardous and non-hazardous industrial waste	Limited
Percentage change in non-recycled waste between 2011 and 2019.	Limited
Percentage of hazardous industrial waste recovered	Limited

Key performance indicators and other quantitative societal outcomes	Level of assurance
----------------------------------------------------------------------------	---------------------------

Realization rate of the e-learning program on the prevention of corruption	Limited
Number of suppliers evaluated by Ecovadis	Limited
Suppliers having signed the Sustainable Development Charter	Limited

5

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5.1 INVESTMENTS AND FINANCING

During the 2019 financial year, the Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €3,372 million and proceeds on disposals to €100 million. With net cash-flow from operating activities amounting to €3,895 million, the Group generated positive operating free cash-flow of €623 million.

At December 31, 2019, the Group's cash position amounted to €4.71 billion, including €111 million of investments with maturities

of above three months, €300 million of cash pledges and €585 million of bond deposits. In addition, the Group had credit facilities of €1.765 billion subscribed by Air France, KLM and Air France-KLM, fully available at December 31, 2019 (see also Section 3 - Liquidity risk, page 144).

Net debt stood at €6.15 billion (€6.16 billion at December 31, 2018). The detailed net debt calculation can be found in Note 33 in the Notes to the financial statements, page 298).

5.1.1 Investments

(in € million)	2019	2018 restated
Acquisition of intangible assets	(328)	(253)
Investment in flight equipment	(2,746)	(2,325)
Other property, plant and equipment	(298)	(266)
Acquisitions of subsidiaries, of shares in non-controlled entities	(1)	(9)
Loss of control over subsidiaries, disposal of shares in non-controlled entities	13	6
Proceeds on disposal of property, plant and equipment and intangible assets	100	133
Dividends received	14	6
Net decrease (increase) in investments of between 3 months and 1 year	(72)	4
Net cash-flow used in investing activities	(3,318)	(2,704)

Investment in flight equipment included advance payments and balances on the delivery of aircraft purchases, capitalized aircraft modifications, spare parts procurement and maintenance costs eligible for capitalization. Investment in intangible assets related

to the purchase of software and capitalized IT development. Other investments in tangible assets mostly included the acquisition of industrial equipment for the flight operations, maintenance and IT.

5.1.2 Financing

(in € million)	2019	2018
Capital increase due to new convertible bonds	54	-
Repurchase of perpetual (including premium)	-	(211)
Issuance of debt	1 617	539
Repayment of debt	(1,156)	(1,400)
Payments on lease debts	(1,008)	(972)
New loans	(89)	(195)
Repayment on loans	161	89
Dividends and coupons paid on perpetual	(26)	(38)
Net cash-flow from financing activities	(447)	(2,188)

5.1.3 Structure of the financial debt and reimbursement profile

Structure of the financial debt

The Group's gross debt stood at €7.11 billion at December 31, 2019, of which €4.43 billion is guaranteed by pledged or mortgaged assets amounting to €5.87 billion, representing 36.4% of the net book value of the relevant assets (see also Note 38.1 in the notes to the consolidated financial statements, page 313). After hedging, 71% of the gross debt (excluding lease debt) is at fixed rates and 74% (excluding lease debt) is denominated in euros. The average cost of the debt is 2.54% (see also Section 3.3 - Financial market risks, page 142).

The structure of the debt is as follows:

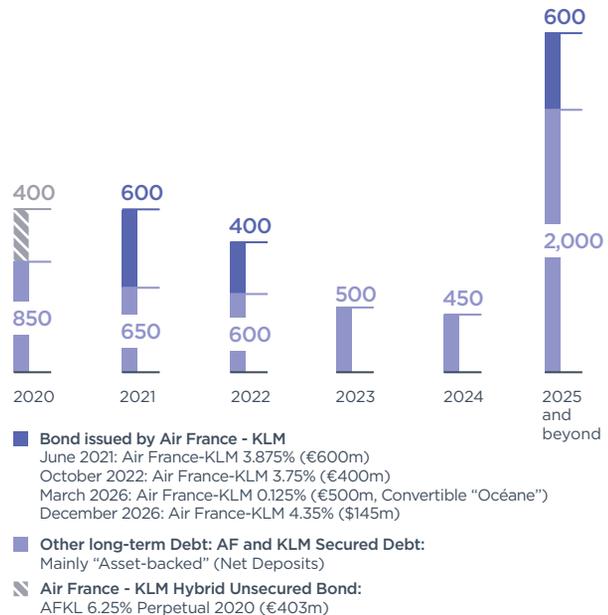
- market financing (bonds and perpetual subordinated loan stock): €2.09 billion;
- capital lease commitments: €3.48 billion;
- other borrowings including bank debt and accrued interest: €1.54 billion.

Reimbursement profile for debt and subordinated securities, excluding lease debt and KLM perpetuals

The debt reimbursement maturities are progressive over time.

Debt reimbursement profile⁽¹⁾

(in € million)



(1) Excluding operating lease debt payments and KLM perpetual debt.

New 5 year bond issue for €750m with a 1.875% annual coupon and Tender Offer accepted for June 2021 and October 2022 bond issues amounting to €350m, completed in January 2020.

5.2 COMMENTS ON THE FINANCIAL STATEMENTS

5.2.1 Consolidated results at December 31, 2019

Restatement of the 2018 financial statements

Since January 1, 2019, the Group has applied two new accounting methods: the Component approach for Life Limited Parts and the booking of Customer Compensation in contra-revenue (previously under expenses).

These restatements are outlined in *Note 2 in the Notes to the consolidated financial statements on page 241*.

Scope at December 31, 2019

At December 31, 2019, the consolidation scope was composed of 75 fully consolidated companies, 21 companies consolidated using the equity method and one joint-venture. The two main subsidiaries, Air France and KLM, represented 91% of revenues and 75% of the balance sheet. The other subsidiaries are principally involved in air transportation (Hop!, KLM Cityhopper), maintenance and low-cost transportation (Transavia).

As far as possible, the changes in the like-for-like figures have been estimated on a constant currency basis.

(In € million)	2019	2018 restated	Change
Revenues	27,189	26,227	962
EBITDA	4,128	4,293	(165)
Income from current operations	1,141	1,405	(264)
Income from operating activities	1,010	1,393	(383)
Net income from continuing operations	293	422	(129)
Net income, Group part	290	420	(130)
Basic earnings per share, Group (in €)	0.64	0.92	(0.28)

Revenues

Consolidated revenues for the period amounted to €27.2 billion, an increase of 3.7% and 2.2% on a constant currency basis. The 2019 financial year was characterized by a 1.2% decrease in unit revenues on a constant currency basis, due to the performance of the passenger (-0.4%) and cargo (-10.7%) transportation activities, both these activities being included in the Network business, and despite the performance from Transavia (+3.0%). In addition, Air France-KLM increased its overall capacity by 2.9% (ASK). Air France and KLM increased their passenger capacity by 2.5% (ASK), and their Cargo capacity by 1.7% (ATK). Transavia's capacity growth stood at 6.5% (ASK). Revenues from the Network business rose by 2.6% while third-party maintenance revenues increased by 11.3%. Transavia revenues grew by 9.3%.

Operating expenses

Operating expenses increased by 4.9% to €26 billion.

External expenses increased by 6.3% to €15.9 billion versus €14.9 billion over the previous twelve months. Excluding fuel, external expenses were up by 3.9% relative to the previous twelve months.

The breakdown of external expenses was as follows:

(in € million)	2019	2018 restated	% Ch.	% ch. at constant currency
Aircraft fuel	5,511	4,958	11.2	5.5
Chartering costs	525	577	(9.0)	(11.2)
Landing fees and en route charges	1,933	1,893	2.1	1.0
Catering	822	783	4.4	3.2
Handling charges and other operating costs	1,715	1,673	2.5	1.6
Aircraft maintenance costs	2,628	2,410	9.1	4.1
Commercial and distribution costs	1,029	1,034	(0.5)	(2.2)
Other external expenses	1,730	1,618	6.9	6.2
Total	15,893	14,946	6.3	3.1

The main changes were as follows:

- **aircraft fuel:** fuel expense for the year rose by 5.5% (constant currency), mainly due to a currency effect (-€265 million), a higher fuel bill after hedging (-€189 million) and the increase in capacity (-€153 million), partially offset by improved efficiency (+€52 million);
- **chartering costs:** the costs incurred in leasing aircraft capacity from other airlines. Their decrease in 2019 is mainly explained by lower aircraft chartering and seat block costs at Air France;
- **landing fees and en route charges:** these costs are incurred for air navigation services and the use of airports;
- **catering costs:** these costs comprise the services supplied on board the Air France-KLM Group's own aircraft;
- **handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. The increase in these costs is explained by the increased costs of handling by third parties in the stations;
- **aircraft maintenance costs:** they include maintenance procurement and consumption for the Group's aircraft and for the third-party activity; their progression is in line with the growth in this activity;

— **commercial and distribution costs;**

- **other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. Their increase is mainly explained by the rise in sub-contracting, particularly at IT level and for training.

Salaries and related costs increased by 4.9% to €8.14 billion versus €7.76 billion in 2018 due to the new CLA agreements while average headcount was up by 1.7% to 86,138 employees.

Taxes other than income taxes stood at €154 million in 2019 versus €166 million in 2018, down by 7.2%.

Other income and expenses stood at net income of €1,125 million versus net income of €937 million at December 31, 2018. They included:

- capitalized production amounting to €1,122 million in 2019 against €993 million in 2018;
- a result from joint-ventures of €(49) million in 2019 against €(57) million in 2018;
- €64 million from currency hedges in 2019 versus €(16) million at December 31, 2018;
- a €(54) million expense booked in respect of CO₂ quotas versus €(19) million in the previous financial year.

EBITDA

EBITDA amounted to €4,128 million (versus €4,293 million at December 31, 2018).

The contributions to EBITDA by business segment were as follows:

(in € million)	2019	2018 restated	% Ch.
Network	3,130	3,352	(6.6)
Maintenance	606	534	13.6
Transavia	362	369	(1.8)
Others	30	38	(21.05)
Total	4,128	4,293	(3.8)

Amortization, depreciation and provisions

Amortization, depreciation and provisions totalled €2.99 billion in 2019 versus €2.89 billion in 2018.

Income from current operations

The result from current operations was positive to the tune of €1,141 million (versus €1,405 million at December 31, 2018).

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

(in € million)	2019		2018 restated	
	Revenues	Income from current operations	Revenues	Income from current operations
Network	23,272	749	22,671	1,042
Maintenance	2,138	260	1,920	214
Transavia	1,744	131	1,595	145
Others	34	1	38	4
Total	27,188	1,141	26,224	1,405

The nominal unit cost per ASK (available seat-kilometer) rose by 1.3%. In addition, there was a 1.4% increase on currency variation, and a fuel price increase of 0.8%. Together this amounted to a unit cost ex currency ex fuel price effect of -0.9%.

Income from operating activities

The income from operating activities amounted to €1,010 million (€1,393 million in 2018).

Over the 2019 financial year, the result from operating activities included, notably:

- the impact of the A380 phase-out amounting to €(126) million;
- restructuring charges of €(36) million.

In 2018, they had included, notably:

- the result on the sale of other assets amounting to €32 million;
- restructuring charges amounting to €(19) million;
- an adjustment to the provision for the cargo fine amounting to €(8) million.

These operations are detailed in Note 11 in the Notes to the financial statements, page 265.

Net cost of financial debt

The net cost of financial debt fell to €393 million versus a net cost of €426 million during the previous financial year. This is explained by a:

- €23 million decline in interest on financial debt;
- €10 million increase in interest on financial assets.

Other financial income and expenses

Other net financial income and expenses amounted to €(271) million in 2019 versus €(336) million in 2018. The breakdown was as follows:

- a foreign exchange loss of €(80) million versus €(224) million in 2018. At December 31, 2019, the foreign exchange result mainly included a €82 million unrealized foreign exchange loss, composed of a loss of €42 million on return obligation liabilities and provisions on aircraft leased in US dollars and a €36 million

foreign exchange loss on the debt in US dollars (€15 million) and Japanese yen (€26 million). At December 31, 2018, the foreign exchange result had mainly included an unrealized foreign exchange loss of €224 million, composed of a loss of €133 million on return obligation liabilities and provisions on aircraft leased in US dollars, and a €101 million foreign exchange loss mainly on debt in US dollars (€20 million) and Japanese yen (€56 million);

- a €33 million change in fair value of financial instruments and hedged shares revalued through profit and loss in 2019 (positive variation of €55 million in 2018), mainly linked to the Amadeus shares and their collar for €42 million;
- an accretion effect on long-term return obligation liabilities on aircraft: €(212) million in 2019 versus €(152) million in 2018, the variation being linked to an increase in the discount rate from 4.6% in 2018 to 6.0% in 2019.

Net result – Group part

Income taxes stood at a charge €(76) million in 2019 versus €(224) million in 2018. The effective tax rate as of December 31, 2019 was 22.0%.

Share of profits/(losses) from associates contributed a profit of €23 million in 2019 versus €15 million in the previous year. This was principally the result from the Servair Group and from partnerships in the maintenance business.

The net result, Group part stood at income of €290 million in 2019 versus income of €420 million in 2018.

The contributions to the net result by quarter were, respectively, €(323) million at March 31, 2019, €97 million at June 30, 2019, €361 million at September 30, 2019 and €155 million at December 31, 2019.

Basic earnings per share, Group part amounted to €0.64 at December 31, 2019 versus €0.92 at December 31, 2018.

5.2.2 Investments and financing of the Group

Operating cash-flow was positive to the tune of €3.90 billion (€3.8 billion at December 31, 2018).

Capital expenditure on tangible and intangible assets amounted to €3.37 billion over the financial year (€2.84 billion in 2018), of which €1,350 million of investment in the fleet, €725 million in maintenance, €418 million in spare parts, €219 million in cabin refurbishment and €625 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets amounted to €100 million versus €133 million at December 31, 2018.

After taking into account net capital expenditure on tangible and intangible assets, operating free cash-flow stood at €623 million (€1.09 billion in 2018). After the reimbursement of lease debt, adjusted operating free cash-flow was €(385) million in 2019 (€115 million in 2018).

At December 31, 2019, the Group had €4.71 billion of net cash, of which €3.71 billion in cash and cash equivalents. Furthermore, the Group has undrawn credit facilities amounting to a total of €1.8 billion.

Net financial debt amounted to €6.15 billion at December 31, 2019 (€6.16 billion at December 31, 2018).

5.2.3 Consolidated equity at December 31, 2019

Equity attributable to equity holders of Air France-KLM amounted to €2,284 million against €1,786 million as of December 31, 2018, after restatement for the change in accounting treatment for Customer Compensation and the Component approach for Life Limited Parts. The €498 million variation is mainly explained by the following items contributing to the Group part:

- a positive net result of €290 million;
- a change in the fair value of the Group's hedging instruments amounting to €274 million (net of tax); and
- a €(70) million change (net of tax) in the fair value of the Group's pension liabilities.

5.2.4 Air France – KLM parent company results

The Air France – KLM parent company results were closed on December 31, 2019.

As a holding company, Air France – KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France – KLM logo by the two operational companies and the supply of services invoiced to Air France and KLM. Its expenses mostly comprise financial communication expenses, Statutory Auditors' fees, the expenses linked to the compensation of company officers and the staff made available by Air France and KLM. At December 31, 2019, the operating result was a loss of €7 million (compared with €(1) million in 2018).

The net result was a €11 million loss, mainly due to the financial costs on the bond issues together with the costs of undrawn credit lines.

Pursuant to the provisions of Article 39-5 and Article 223 quinquies of the French Tax Code relating to expenses in the statement of general expenses excluded from non-tax-deductible expenses, Note that no amount was recognized during the financial year.

Pursuant to the provisions of Article 39-4 and Article 223 quater of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable for the company Air France – KLM

At December 31, 2019, accounts payable stood at €15 million of which €11 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At December 31, 2018, accounts payable stood at €13 million of which €5 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.3 KEY FINANCIAL INDICATORS

Restated net result, Group share

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

(in € million)	Year	
	2019	2018
Net income/(loss), Group share	290	420
Unrealized foreign exchange gains and losses, net	82	56
Change in fair value of financial assets and liabilities (derivatives)	(29)	(53)
Non-current income and expenses	131	12
Tax impact on gross adjustments net result	(52)	(4)
Restated net income/(loss), Group part	422	431
Coupons on perpetual	(17)	(25)
Restated net income/(loss), group share including coupons on perpetual (used to calculate earnings per share)	405	406
Restated net income/(loss) per share (in €)	0.95	0.95

Financial cover ratios

Net debt/EBITDA ratio

	2019	2018 restated
Net debt (in €m)	6,147	6,164
EBITDA (in €m)	4,128	4,293
Net debt/EBITDA	1.49	1.44

EBITDA/net cost of financial debt ratio

	2019	2018 restated
EBITDA (in €m)	4,128	4,293
Net cost of financial debt (in €m)	393	426
EBITDA/net cost of financial debt	10.50	10.08

Return on Capital Employed (ROCE)

Return on capital employed measures the return on invested capital by expressing a result after tax as a percentage of capital employed. The calculation methodology is as follows:

- the calculation of the capital employed is based on an additive method by identifying the relevant balance sheet items. The capital employed for the year is obtained by taking the

average of the capital employed on the opening and closing 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.

(in € million)	Dec 31, 2019	Dec 31, 2018 restated	Dec 31, 2018 restated	Dec 31, 2017 restated
Goodwill and intangible assets	1,522	1,411	1,411	1,338
Flight equipment	11,334	10,308	10,308	9,728
Other property, plant and equipment	1,580	1,503	1,503	1,418
Right-of-use assets	5,173	5,664	5,664	6,216
Investments in equity associates	307	311	311	301
Other financial assets excluding shares available for sale, marketable securities and financial deposits	146	133	133	113
Provisions excluding pension, cargo litigation and restructuring	(4,058)	(3,776)	(3,776)	(3,456)
WCR, excluding market value of derivatives	(6,309)	(6,133)	(6,133)	(5,896)
Capital employed	9,695	9,421	9,421	9,762
Average capital employed (A)	9,558		9,592	
Income from current operations	1,141		1,405	
Dividends received	(2)		(2)	
Share of profits/(losses) of associates	23		15	
Normative income tax	(345)		(421)	
Income from current operations after tax (B)	817		997	
ROCE (B/A)	8.5%		10.4%	

Cost of capital

	2019	2018
Cost of stockholders' equity	9.9%	12.0%
Marginal cost of debt, post tax	2.2%	2.9%
Percentage of stockholders' equity/target debt		
Stockholders' equity	48%	37%
Debt	52%	63%
Weighted average cost of capital after taxation	5.9%	6.3%

Net cost per ASK

To analyze the cost performance of each transportation activity, the Group divides the net cost of this activity by the capacity produced, expressed in ASK for the passenger business and Transavia, and in ATK for the cargo business. 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 the revenues other than those generated by the three transportation activities (passenger, cargo and Transavia) from total operating expenses. The capacity produced by the two passenger transportation activities is combined by adding the capacity of the passenger business (in ASK) to that of Transavia (in ASK).

	2019	2018 restated
Revenues (in €m)	27,188	26,224
Income/(loss) from current operations (in €m)	1,141	1,405
Total operating expense (in €m)	(26,047)	(24,819)
Network business – other network revenues (in €m)	1,021	940
Third-party revenues in maintenance (in €m)	2,138	1,920
Transavia – other revenues (in €m)	(10)	(3)
Other businesses (in €m)	34	38
Net cost (in €m)	22,864	21,925
Capacity produced, reported in ASK	332,473	323,034
Net cost, per ASK (in € cents)	6.88	6.79
Gross change		+1.3%
Currency effect on net costs (in €m)		(304)
Change at constant currencies		-0.1%
Fuel price effect (in €m)		(188)
Change on a constant currency and fuel price basis		-0.9%
Net cost per ASK on a constant currency and fuel price basis	6.88	6.94

5.4 SUBSEQUENT EVENTS AND OUTLOOK FOR 2020

5.4.1 Subsequent events

There were no significant events arising subsequent to the accounting year end (see Note 3.2 in the Notes to the consolidated financial statements).

5.4.2 Outlook for 2020

The demand outlook was initially stable or even improving based on projected moderate capacity growth for the industry. However, the recent developments linked to the Coronavirus have impacted the demand outlook for the first quarter 2020, especially in the Asian network.

Based on the current data from the passenger network business:

A good performance in January, with positive unit revenues linked to demand.

The impact of the Coronavirus is negatively impacting forward-booking load factors for February to May.

Passenger network unit revenues at constant currency are now expected to be down for the first quarter of 2020.

For the cargo business, the Coronavirus impact is expected to lead to maintained pressure on the load factor and yield in the first part of 2020.

Coronavirus impact on the operating result: estimated at -€150 million to -€200 million for the period through to May 2020, assuming a progressive resumption in operations to China as of April 2020⁽¹⁾.

(1) All flights to China were suspended as of January 30, 2020. Air France-KLM's Mainland China network represents 16.5 billion ASKs, 5.5% of Passenger network activity.

Impact of COVID-19 post February 2020

Recent events

As of April 17, 2020, as we finalize this 2019 Universal Registration Document, the COVID-19 crisis has continued to spread.

Since the beginning of the COVID-19 public health crisis, the Air France-KLM Group has implemented measures to ensure the protection of its passengers and staff, and to preserve the conditions of its financial viability.

Faced with the increasingly strict measures taken by many countries, including restrictions on travel opportunities and border closures, the Air France-KLM Group has drastically reduced its flight activity which, over the coming months, should be less than 10% of last year's level.

The Group has implemented strong measures since the beginning of the crisis which include, amongst others:

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

- cost reduction measures, estimated at this stage at €500 million in 2020, an increase of €300 million compared to previous announcements;
- the possibility of early retirement of certain sub-fleets of aircraft;
- implementation by Air France of partial activity measures and application by KLM of the Temporary Emergency Bridging Measure for Sustained Employment (NOW), with an impact estimated at this stage at around €1.1 billion for 2020;
- review of the investment plan which will be reduced by at least €700 million in 2020, i.e. €350 million more than in previous announcements, to which will be added the impact of the decline in own and third-party activity on the amount of maintenance investments.

in solidarity with all the employees, the members of the Air France-KLM Board Directors, its Chair and the Chief Executive Officer will also participate in the effort within the framework of the measures applicable to the employees of the Group, with a similar reduction in their remuneration.

Outlook for 2020

As the crisis continues, the conditions for a recovery remain uncertain, both in terms of our air operations, but more generally in terms of the timetable for an economic and demand recovery.

Currently, our best estimates incorporating the aforementioned measures show that, in the absence of additional financing, a liquidity requirement is expected in the third quarter of 2020.

As a result, the Air France-KLM Group, Air France and KLM are engaged in in-depth discussions with their respective governments and financial institutions to

dispose of the resources that will enable them to secure and sustain adequate levels of liquidity by all means, notably within the framework of the European Commission's Temporary Framework on State Aid published on March 19, 2020.

At this stage, given the various options currently being envisaged and the quality of the discussions with the two States and financial institutions, the Air France-KLM Group is confident that it will be able to obtain additional financing to meet all its future financial obligations and enable it to ensure the recovery of its activity beyond the current crisis.

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5.5 CONSOLIDATED FINANCIAL STATEMENTS

5.5.1 Consolidated income statement

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

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

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

5.5.2 Consolidated statement of recognized income and expenses

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

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

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

(2) Remeasurement of defined benefit pension plans is composed of €1,290 million related to the difference between the expected and actual return on assets (2018: €(379) million) and € (1,289) million related to the change in actuarial assumptions (2018: €188 million).

5.5.3 Consolidated balance sheet

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

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

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

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

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

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

5.5.4 Consolidated statement of changes in stockholders' equity

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

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

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

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

5.5.5 Consolidated statement of cash flows

Period from January 1 to December 31 (in € millions)	Notes	2019	2018 restated ⁽¹⁾
Net income from continuing operations		293	422
Amortization, depreciation and operating provisions	9	2,987	2,888
Financial provisions	12	217	159
Loss (gain) on disposals of tangible and intangible assets		(43)	(33)
Derivatives - non monetary result		30	(49)
Unrealized foreign exchange gains and losses, net		82	223
Share of (profits) losses of associates	21	(23)	(15)
Deferred taxes	13	(21)	201
Other non-monetary items	40.1	238	(254)
Financial capacity		3,760	3,542
(Increase)/decrease in inventories		(93)	(31)
(Increase)/decrease in trade receivables		61	(39)
Increase/(decrease) in trade payables		(133)	57
Change in other receivables and payables		300	269
Change in working capital requirement		135	256
Net cash-flow from operating activities [A]		3,895	3,798
Acquisition of subsidiaries, of shares in non-controlled entities		(1)	(9)
Purchase of property plant and equipment and intangible assets [B]	19	(3,372)	(2,844)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities		13	6
Proceeds on disposal of property plant and equipment and intangible assets [C]		100	133
Dividends received		14	6
Decrease (increase) in net investments, more than 3 months		(72)	4
Net cash-flow used in investing activities		(3,318)	(2,704)

Period from January 1 to December 31 (in € millions)	Notes	2019	2018 restated⁽¹⁾
Capital increase due to new convertible bonds		54	-
Perpetual	28.4	-	(211)
Issuance of debt	31	1,617	539
Repayment on debt	31	(1,156)	(1,400)
Payments on lease debts [D]	32	(1,008)	(972)
New loans		(89)	(195)
Repayment on loans		161	89
Dividends and coupons on perpetual paid		(26)	(38)
Net cash-flow from financing activities		(447)	(2,188)
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		1	7
Change in cash and cash equivalents and bank overdrafts		131	(1,087)
Cash and cash equivalents and bank overdrafts at beginning of period	27	3,580	4,667
Cash and cash equivalents and bank overdrafts at end of period	27	3,711	3,580
Income tax (paid)/reimbursed (flow included in operating activities)		(6)	(35)
Interest paid (flow included in operating activities)		(436)	(465)
Interest received (flow included in operating activities)		25	12

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

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

Operating free cash-flow

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

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

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

5.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BUSINESS DESCRIPTION

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

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

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

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

NOTE 2 RESTATEMENT OF 2018 FINANCIAL STATEMENTS

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

— Customer compensations

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

— Component approach for Life Limited Parts

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

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

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

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

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

Impact on the consolidated income statement

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

Impact on the consolidated statement of recognized income and expenses

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

Impact on the consolidated balance sheet

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

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

(1) Current and non-current.

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

(1) Current and non-current.

Impact on the consolidated statement of cash flows

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

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

NOTE 3 SIGNIFICANT EVENTS

3.1 Events occurring during the period

Phase-out of the A380 aircraft

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

The impact of the change in depreciation slopes will be spread over the period through to 2022, consistent with the retirement timetable for the aircraft.

Voluntary Departure Plan

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

Convertible bond (OCEANE) issued in 2019

On March 20, 2019, Air France-KLM issued 27,901,785 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) maturing on March 25, 2026

raising a total nominal amount of €500 million. Each bond has a nominal value of €17.92. The annual coupon amounts to 0.125 per cent. The conversion period of these bonds runs from May 4, 2019 to the seventh working day preceding the normal or early reimbursement date. The conversion ratio is one share for one bond.

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

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

3.2 Subsequent events

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

NOTE 4 ACCOUNTING POLICIES

4.1 Accounting principles

Accounting principles used for the consolidated financial statements

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

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

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

Change in accounting principles

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

Amendment to IFRS 9 “Financial Instruments”

This amendment deals with prepayment features with negative compensations.

The Group opted for the early adoption of this amendment, concurrently with the implementation of IFRS 9.

IFRIC 23 “Uncertainty over Income Tax Treatments”

This interpretation applies to any situation of uncertainty concerning the acceptability of a tax treatment that relates to income taxes, as regards tax law.

Fiscal treatments applied by the Group in terms of income taxes during the period do not relate to significant amounts.

Amendment to IAS 28 “Long-term Interests in an Associate or joint-venture”

This amendment relates to “other interests” in associates or joint ventures to which the equity method is not applied.

Amendment to IAS 19 “Employee Benefits”

This amendment concerns the consequences of a plan amendment, curtailment or settlement for the current service cost and the net interest.

Amendment to IAS 12 “Income Taxes”

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

Amendment to IFRS 11 “Joint Arrangements”

This amendment clarifies the accounting treatment for the acquisition of an interest in a joint operation.

Amendment to IAS 23 “Borrowing Costs”

This amendment clarifies the borrowing costs that are eligible for capitalization.

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

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

Amendments to IAS 1 “Presentation of financial statements” and IAS 8 “Accounting policies, changes in accounting estimates and errors”

The amendments define the concept of materiality.

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

Amendment to IFRS 3 “Business Combinations” (Effective for the accounting periods opening as of January 1, 2020)

This amendment clarifies the definition of a business.

Amendments to IFRS 9 “Financial instruments” and IFRS 7 “Financial instruments: Disclosures” (Effective for the accounting periods opening as of January 1, 2020)

These amendments are designed to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks (IBORs). They modify certain hedge accounting requirements. In this context, the Group pays increased attention to the modalities defined within the framework of new financing.

IBORs continue to be used as reference rates for financial markets and the valuation of financial instruments with maturities that exceed the expected end date of these IBORs.

The Group believes the current market structure supports the continuation of the hedge accounting as of December 31, 2019.

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

4.2 Use of estimates

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

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

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

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

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

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

4.3 Consolidation principles

Subsidiaries

In conformity with IFRS 10 “Consolidated Financial Statements”, the Group’s consolidated financial statements comprise the financial figures for all the entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated. An entity is controlled

when the Group has power over it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.

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

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

Interest in associates and joint ventures

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

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

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

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

The Group's share of losses of an associate exceeding the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity are not accounted for, unless the Group has:

- incurred contractual obligations to recover losses; or
- made payments on behalf of the associate.

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

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

Intra-Group operations

All intra-Group balances and transactions, including income, expenses and dividends, are fully eliminated. Profits and losses resulting from intra-Group transactions are also eliminated.

Gains and losses realized on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group's interest in the entity, providing there is no impairment.

4.4 Translation of foreign companies' financial statements and transactions in foreign currencies

Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

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

Translation of foreign currency transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies assessed on an historical cost basis are translated

using the rate in effect at the transaction date or the hedging rate, when applicable.

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

4.5 Business combinations

Business combinations completed on or after April 1, 2010

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

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

Costs other than those related to the issuance of debt or equity securities are recognized immediately as an expense when incurred.

For individual acquisitions, the Group has the option of using the "full" goodwill method, where goodwill is calculated by taking into account the fair value of non-controlling interests at the acquisition date rather than their proportionate interest in the fair value of the assets and liabilities of the acquiree.

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

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

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

Business combinations carried out before April 1, 2010

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

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

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

4.6 Sales

Passenger and freight transportation

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

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

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

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

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

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

Maintenance

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

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

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

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

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

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

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

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

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

– Sales of spare parts repair and labor – Time & Material contracts

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

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

– Third-party procurement

The Group also purchases equipment on behalf of third-parties. In this situation, the revenue recognition method is as follows:

- when the Group serves as a broker between its suppliers and end customers, the Group acts as an agent and hence, recognizes the margin that results from this operation as revenue;
- when the Group puts in place Sale & Lease back agreements, the Group recognizes the proceeds on disposal as well as a net book value.

4.7 Loyalty programs

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

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

The deferred amount due in relation to the acquisition of Miles by members is estimated:

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

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

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

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

Such elements are as follows:

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

4.9 Aggregates used within the framework of financial communication

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

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

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

4.10 Earnings per share

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

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

4.11 Financial instruments

Valuation of trade receivables and non-current financial assets

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

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

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

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

Investments in equity instruments

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

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

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

Derivative financial instruments

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

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

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

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

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

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

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

There are three classifications:

— Derivatives classified as fair value hedge

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

— Derivatives classified as cash-flow hedge

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

— Derivatives classified as trading

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

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

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

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

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

Convertible bonds

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

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

Financial assets, cash and cash equivalents

Financial assets at fair value through profit and loss

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

Cash and cash equivalents

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

Financial debt

Financial debt is recognized initially at fair value. Subsequent to the initial measurement, financial debt is recorded:

- at its net book value for bonds;
- based on amortized cost calculated using the effective interest rate for the other financial debt.

Under this principle, any redemption and issue premiums, as well as issue costs, are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans using the effective interest method.

Fair value hierarchy of the financial assets and liabilities

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

This scale has three levels of fair value:

Level 1: Fair value calculated from the exchange rate/price quoted on an active market for identical instruments,

Level 2: Fair value calculated from valuation methods based on observable data such as the prices of similar assets and liabilities or scopes quoted on an active market,

Level 3: Fair value calculated from valuation methods which rely completely or in part on non-observable data such as prices on an inactive market or multiple-based valuation for non-quoted securities.

4.12 Goodwill

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

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

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

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

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

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

4.13 Intangible assets

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

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

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

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

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in Note 4.22 “Emission Trading Scheme” and the “Risks on carbon credit” paragraph in Note 36.1 “Risk management”. As such, the Group is required to purchase CO₂ quotas to offset its emissions. The Group records the CO₂ quotas as intangible assets. These assets are not depreciable.

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

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

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

4.14 Property, plant and equipment

Principles applicable

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

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

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

Flight equipment

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

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

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

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

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

Other property, plant and equipment

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

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

4.15 Lease contracts

Lease contracts, as defined by IFRS 16 “Leases”, are recorded in the balance sheet and lead to the recognition of:

- an asset representing a right of use of the asset leased during the lease term of the contract; and
- a liability related to the payment obligation.

Aircraft which are not eligible for an accounting treatment according to IFRS 16 “Property, Plant and Equipment” are those:

- which were acquired by the airline or for which the airline took a major share in the acquisition process from the OEMs (Original Equipment Manufacturers);
- and which, in view of the contractual conditions, will almost certainly be purchased at the end of the lease term.

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

Measurement of the right-of use asset

At the commencement date, the right-of-use asset is measured at cost and comprises:

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

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

Measurement of the lease liability

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

Amounts involved in the measurement of the lease liability are:

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

The lease liability is subsequently measured based on a process similar to the amortized cost method using the discount rate:

- the liability is increased by the accrued interests resulting from the discounting of the lease liability, at the beginning of the lease period;
- less payments made.

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

In addition, the lease liability may be remeasured in the following situations:

- change in the lease term;
- modification related to the assessment of the reasonably certain nature (or not) of the exercise of an option;
- remeasurement linked to the residual value guarantees;
- adjustment to the rates and indices according to which the rents are calculated when rent adjustments occur.

Types of capitalized lease contracts

– Aircraft lease contracts

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

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

The discount rate used to calculate the lease debt corresponds, for each aircraft, to the implicit interest rate induced by the contractual elements and residual market values. This rate is easy to calculate due to the availability of current and future data concerning the value of aircraft. It is recalculated on each contract renewal (prolongation). The implied rate of the contract is the discount rate that gives the aggregated present value of the minimum lease payments and the unguaranteed residual value. This present value should be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

Since most of the aircraft lease contracts are denominated in US dollars, starting from January 1, 2018 the Group put in place a cash-flow hedge for its US dollar revenues *via* the lease debt in US dollars. Consequently, the revaluation of the Group’s debt at the closing rate is accounted for in “Other comprehensive income”.

– Real-estate lease contracts

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

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

– Other-assets lease contracts

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

Types of non-capitalized lease contracts

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

– Short duration lease contracts

These are contracts whose duration is equal to or less than 12 months. Within the Group, they mainly relate to leases of:

- surface areas in our hubs with a reciprocal notice-period equal to or less than 12 months;
- accommodations for expatriates with a notice period equal to or less than 12 months;
- spare engines for a duration equal to or less than 12 months.

– Low value lease contracts

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

Sale and leaseback transactions

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

– Sale according to IFRS 15

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

– Transaction not deemed to be a sale according to IFRS 15

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

4.16 Impairment test

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

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

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

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

4.17 Inventories

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

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

Inventories are valued on a weighted average basis.

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

4.18 Treasury shares

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

4.19 Employee benefits

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

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

The actuarial gains or losses relating to termination benefits (mainly jubilees) are recognized in the income statement.

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

– Specific information related to the recognition of some pension plan assets

Pension plans in The Netherlands are generally subject to minimum funding requirements (“MFR”) that can involve the recognition of pension surpluses.

These pension surpluses constituted by the KLM sub group are recognized in the balance sheet according to the IFRIC 14 interpretation (IAS 19 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”).

4.20 Return obligation liability and provision on leased aircraft

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

Overhaul and restoration works (not depending on aircraft utilization)

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

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

The airframe and the engine potentials as well as the limited life parts are recognized as a complement to the right-of-use assets

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

4.21 Other provisions

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

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

4.22 Emission Trading Scheme

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

According to this approach, the quotas are recognized as intangible assets in the following way:

- free quotas allocated by the State are valued at nil; and
- quotas purchased on the market are accounted at their acquisition cost.

These intangible assets are not amortized.

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

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

4.23 Capital increase costs

Capital increase costs are deducted from paid-in capital.

4.24 Current and deferred taxes

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

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

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

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

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

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

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

Impact of the Contribution on Added Value of Enterprises

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

4.25 Non-current assets held for sale and discontinued operations

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

The Group determines on each closing date whether any assets or groups of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".

Any liabilities related to these assets are also presented on a separate line in liabilities on the balance sheet.

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

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

NOTE 5 CHANGE IN THE CONSOLIDATION SCOPE

— Year ended December 31, 2019

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

— Year ended December 31, 2018

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

NOTE 6 INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

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

The Group is organized around the following segments:

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

The revenues also including income from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties and transportation of shipments on behalf of the Group by other airlines.

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

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

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

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

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

Geographical segments

— Activity by origin of sales area

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

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

Only segment revenue is allocated by geographical sales area.

— Activity by destination

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

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

6.1 Information by business segment

Year ended December 31, 2019 (in € millions)	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	23,315	4,616	1,747	251	-	29,929
Intersegment sales	(43)	(2,478)	(3)	(217)	-	(2,741)
External sales	23,272	2,138	1,744	34	-	27,188
EBITDA	3,130	606	362	30	-	4,128
Income from current operations	749	260	131	1	-	1,141
Income from operating activities	655	220	130	5	-	1,010
Share of profits (losses) of associates	-	3	-	20	-	23
Net cost of financial debt and other financial income and expenses	-	-	-	-	(664)	(664)
Income taxes	-	-	-	-	(76)	(76)
Net income from continuing operations	655	223	130	25	(740)	293
Depreciation and amortization for the period	(2,359)	(326)	(230)	(26)	-	(2,941)
Other non-monetary items	179	43	10	18	(12)	238
Total assets	16,679	3,936	1,661	1,996	6,463	30,735
Segment liabilities	10,106	1,857	1,061	209	3,965	17,198
Financial debts, lease debts, bank overdrafts and equity	-	-	-	-	13,537	13,537
Total liabilities	10,106	1,857	1,061	209	17,502	30,735
Purchase of property, plant and equipment and intangible assets	2,761	432	177	2	-	3,372

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

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

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

Year ended December 31, 2018 (restated) ⁽¹⁾ (in € millions)	Network	Maintenance	Transavia	Other	Non allocated	Total
Total sales	22,711	4,349	1,601	247	-	28,908
Intersegment sales	(40)	(2,429)	(6)	(209)	-	(2,684)
External sales	22,671	1,920	1,595	38	-	26,224
EBITDA	3,352	534	369	38	-	4,293
Income from current operations	1,042	214	145	4	-	1,405
Income from operating activities	999	216	145	33	-	1,393
Share of profits (losses) of associates	1	2	-	12	-	15
Net cost of financial debt and other financial income and expenses	-	-	-	-	(762)	(762)
Income taxes	-	-	-	-	(224)	(224)
Net income from continuing operations	1,000	218	145	45	(986)	422
Depreciation and amortization for the period	(2,297)	(316)	(223)	(34)	-	(2,870)
Other non-monetary items	(190)	(3)	(84)	(30)	53	(254)
Total assets	17,158	4,121	1,585	495	6,278	29,637
Segment liabilities	10,126	1,546	968	34	4,069	16,743
Financial debts, lease debts, bank overdrafts and equity	-	-	-	-	12,894	12,894
Total liabilities	10,126	1,546	968	34	16,963	29,637
Purchase of property, plant and equipment and intangible assets (continuing operations)	2,199	455	190	-	-	2,844

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

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

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

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

6.2 Information by geographical area

External sales by geographical area

Year ended December 31, 2019

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

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

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

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

Traffic sales by geographical area of destination

Year ended December 31, 2019

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

Year ended December 31, 2018

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

NOTE 7 EXTERNAL EXPENSES

Period from January 1 to December 31

(in € millions)

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

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

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

NOTE 8 SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

Period from January 1 to December 31
(in € millions)

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

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). Since this multi-employer plan is assimilated with a French State plan, it is

accounted for as a defined contribution plan in “pension costs linked to defined contribution plans”.

Average number of employees

Period from January 1 to December 31

	2019	2018
Flight deck crew	8,512	7,983
Cabin crew	22,465	21,973
Ground staff	52,119	51,570
Temporary employees	3,042	3,188
Total	86,138	84,714

NOTE 9 AMORTIZATION, DEPRECIATION AND PROVISIONS

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

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

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

The variations relating to inventories and trade receivables are presented in Notes 24, 25 and 26.

The movements in provisions for risks and charges are detailed in Note 30.

NOTE 10 OTHER INCOME AND EXPENSES

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

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

NOTE 11 OTHER NON-CURRENT INCOME AND EXPENSES

Period from January 1 to December 31
(in € millions)

	2019	2018
Restructuring costs	(36)	(19)
Modification of pensions plans	(11)	(5)
Disposals of subsidiaries and affiliates	-	(1)
Disposals of other assets	6	32
Phase-out of A380 aircraft	(126)	-
Other	14	(23)
Other non-current income and expenses	(153)	(16)

Year ended December 31, 2019

Restructuring costs

At December 31, 2019, this mainly includes the new provision relating to a Voluntary Departure Plan for Air France ground staff (see Note 3.1).

Modification of pension plans

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

Phase-out of the A380 aircraft

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

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

Year ended December 31, 2018

Restructuring costs

These mainly include a new provision relating to the Voluntary Departure Plan for KLM cabin crew.

Modification of pension schemes

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

Disposals of other assets

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

Other

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

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

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

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

Net cost of financial debt

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

Foreign exchange gains (losses)

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

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

Financial instruments and change in fair value of hedged shares

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

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

Undiscounting of provision

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

NOTE 13 INCOME TAXES

13.1 Income tax charge

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

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

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

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

— French fiscal group

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

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

reflected in a reduction in deferred tax assets and thus a deferred tax charge in 2017.

— Dutch fiscal group

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

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

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

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

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

13.3 Effective tax rate

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

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

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

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

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

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

13.4 Variation in deferred tax recorded during the period

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

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

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

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

– French fiscal group

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

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

– Dutch fiscal group

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

13.5 Unrecognized deferred tax assets

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

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

– French fiscal group

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

As of December 31, 2018, the cumulative effect of the limitation of deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €1,503 million (corresponding to a basis of €5,803 million), of which €1,272 million relating to

tax losses and €231 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

– Dutch fiscal group

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

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

NOTE 14 EARNINGS PER SHARE

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

Reconciliation of income used to calculate earnings per share

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

– Results used for the calculation of basic earnings per share

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

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

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

– Results used for the calculation of diluted earnings per share

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

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

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

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

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

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

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

14.2 Non-dilutive instruments

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

14.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

NOTE 15 GOODWILL

15.1 Detail of consolidated goodwill

As of December 31

(in € millions)	2019			2018		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Network	197	-	197	196	-	196
Maintenance	24	(4)	20	25	(4)	21
Total	221	(4)	217	221	(4)	217

15.2 Movement in net book value of goodwill

As of December 31

(in € millions)

	2019	2018
Opening balance	217	216
Currency translation adjustment	-	1
Closing balance	217	217

NOTE 16 INTANGIBLE ASSETS

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

The intangible assets mainly comprise:

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

- software and capitalized IT costs.

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

NOTE 17 IMPAIRMENT

Year ended December 31, 2019

Concerning the methodology followed for the impairment test, the Group has allocated each item of goodwill and each intangible fixed asset with an indefinite useful life to Cash Generating Units (CGUs), corresponding to its business segments (see "Accounting Policies").

The recoverable value of the CGU assets has been determined by reference to their value in use as of December 31, 2019. The tests were realized for all the CGUs on the basis of a three-year Group plan, approved by the management.

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

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

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

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

Year ended December 31, 2018

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

NOTE 18 TANGIBLE ASSETS

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

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

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

As of January 1, 2019 Air France extended the useful life of its A330 fleet to 25 years.

Previously the useful life had been 20 years. This decision led to a € 9 million reduction in depreciation charge in 2019 versus 2018.

Note 38 details the amount of pledged tangible assets.

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

NOTE 19 CAPITAL EXPENDITURES

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

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

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

NOTE 20 RIGHT-OF-USE ASSETS

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

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

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

Information related to lease debt is available in Note 32.

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

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

NOTE 21 EQUITY AFFILIATES

Movements over the period

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

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

Maintenance

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

Servair Group

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

core businesses: inflight and collective catering, airport services and additional services like engineering and the integration of services.

Following the acquisition of gategroup by HNA on December 22, 2016, Air France and gategroup finalized the agreement for the sale to gategroup of 49.99% of the Servair share capital. On conclusion of this transaction, the operational control of Servair was transferred to gategroup in application of the governance planned in the agreements between Air France and gategroup. As a consequence, the Servair group has been consolidated according to the equity method since December 31, 2016.

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

Other

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

of the activities and the percentages of interest in these partnerships are presented in Note 42.2.

NOTE 22 PENSION ASSETS

As of December 31

(in € millions)

	2019	2018
Opening balance	331	590
Net periodic pension (cost)/income	(138)	(96)
Contributions paid to the funds	101	84
Fair value revaluation	126	(247)
Closing balance	420	331

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

NOTE 23 OTHER FINANCIAL ASSETS

As of December 31

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

Equity instruments

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

(1) Listed company.
(2) Not-available.

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

— Year ended December 31, 2018

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

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

Transfer of financial assets that are not derecognized in their entirety

Transfer of receivables agreement

The Group entered into a loan agreement secured by Air France's one per cent housing loans. For each of the CILs (*Comités*

Interprofessionnels du Logement), Air France and the bank concluded, in July 2012, a tripartite receivables delegation agreement with reference to the loan agreement. Through this agreement, the CILs commit to repaying the bank directly on each payment date. These are imperfect delegations: in the event of non-repayment by the CILs, Air France remains liable to the bank for repayments of the loan and interest.

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

Loan of shares agreement

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

NOTE 24 INVENTORIES

As of December 31

(in € millions)

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

NOTE 25 TRADE ACCOUNTS RECEIVABLES

As of December 31

(in € millions)

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

NOTE 26 OTHER ASSETS

As of December 31

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

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

NOTE 27 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

As of December 31

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

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

28.1 Issued capital

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

The number of issued shares held is as follows:

As of December 31

(in number of shares)

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

Authorized stock

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

Acquisition by Dutch State

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

Breakdown of the share capital and voting rights

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

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

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

Other securities giving access to common stock

— OCEANE

For more information please refer to Note 31.3.

28.2 Additional paid-in capital

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

28.3 Treasury shares

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

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

28.4 Perpetual subordinated bond

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

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

On September 3, 2018, Air France-KLM launched a tender offer to repurchase any and all of this perpetual bond, the final results being announced on September 12, 2018. Notes for a nominal

amount of €194.5 million were presented and accepted for repurchase. In addition to this public operation, €2.2 million of perpetual bonds were purchased by “*de gré à gré*” or over-the-counter agreement at the same price. As a result, the nominal amount of the outstanding notes after completion of the tender offer is €403.3 million.

On October 1, 2019 and October 1, 2018, Air France-KLM disbursed respectively coupons of €25 million and €38 million, before tax, relating to this instrument.

28.5 Reserves and retained earnings

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

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

(2) Net of tax.

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

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

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

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

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

NOTE 29 RETIREMENT BENEFITS

(in € millions)

	Retirement benefits
Amount as of December 31, 2017	2,202
<i>Of which: non-current</i>	<i>2,202</i>
New provision	137
Use of provision	(190)
Fair value revaluation	(55)
Currency translation adjustment	1
Amount as of December 31, 2018	2,098
<i>Of which: non-current</i>	<i>2,098</i>
New provision	143
Use of provision	(124)
Fair value revaluation	125
Currency translation adjustment	11
Amount as of December 31, 2019	2,253
<i>Of which: non-current</i>	<i>2,253</i>

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

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

29.1 Characteristics of the main defined benefit plans

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

Pension plan related to KLM Ground Staff – The Netherlands

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

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

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

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

If the coverage ratio is under the funding ratio detailed above, the pension funds are required to implement a recovery plan that aims for compliance with the 125 per cent threshold within ten years and includes projected future returns on investment. As a

consequence, the recovery plan for the Ground Staff plan was updated as of April 1, 2019. If the threshold is not reached within ten years, additional contributions are payable by the company and the employee (transitional period of 12 years as of 2015).

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

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

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

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

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

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

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

Air France pension plan (CRAF) – France

The employees covered by this plan are the Air France ground staff affiliated to the CRAF until December 31, 1992.

The participants receive, or will receive on retirement, an additional pension paid monthly or a lump sum based on the monthly annuity and definitively calculated based on the data known as of December 31, 1992 and expressed in the form of points. The value of each point is adjusted every year based on the weighted increases seen in the CNAV and ARRCO schemes over the last twelve months.

Until 2009, the CRAF had the legal form of a supplementary pension institution (pursuant to the “*Code de Sécurité Sociale*”). With this status, the CRAF was responsible, on behalf of the Air France ground staff employed in France, for managing the pension plan resulting from the merging of the Air France ground staff plan with the mandatory pension plan for the private sector.

Following the 2003 law on pension reform foreseeing the disappearance of supplementary pension institutions as of December 31, 2009, the CRAF’s Board of Directors opted to transform it into an institution managing supplementary pensions. The CRAF is now responsible for the administrative functions linked to the plan.

The pension rights were not amended by this reform. Air France is directly responsible for the pension obligations.

As of December 31, 2009, all the funds managed by the CRAF had been transferred to two insurance companies.

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

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

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

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

Pursuant to French regulations and the company agreements, every employee receives an end of service indemnity on retirement.

In France, this indemnity depends on the number of years of service, the professional category of the employee (flight deck crew, cabin crew, ground staff, agent, technician and executive) and, in some cases, on the age of the employee at retirement.

On retirement, employees consequently receive an end of service indemnity based on their final salaries over the last twelve-months and on their seniority. The indemnity is only payable to employees on their retirement date.

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

The relevant outsourced funds are invested in bonds and equities.

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

29.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation were made as of December 31, 2019 and 2018.

These calculations include:

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

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

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

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

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

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

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

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

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

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

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

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

Sensitivity to changes in the inflation rate

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

Sensitivity to changes in the discount rate

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

Sensitivity to changes in salary increase (excluding inflation)

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

Sensitivity to changes in pension increase

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

29.3 Evolution of commitments

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

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

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

Amendments, curtailment and settlement of pension plans

— As of December 31, 2019

ICS benefits have been increased for the Air France cockpit crew as part of a retirement at the minimum age of 60, if providing an advanced notice of at least 12 months.

In this case, the cockpit crew member is entitled to the determined ICS compensation. In this respect, an exceptional expense of 11M€ has been recorded.

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

— As of December 31, 2018

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

29.4 Asset allocation

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

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

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

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

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

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

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

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

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

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

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

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

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

30.1 Provisions

30.1.1 Return obligation liability and provision on leased aircraft

The movements in return obligation liabilities and provisions (revaluation of future costs and change in discount rate) are booked in the components corresponding to the potential and restoration work performed on leased aircraft and recorded in the right-of-use assets. The effects of accretion and foreign exchange translation of return obligation liabilities and provisions

recorded in local currencies are recognized in “Other financial income and expenses” (see Note 12).

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

30.1.2 Restructuring provisions

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

As of December 31 2019 and 2018, the restructuring provisions mainly concern the Voluntary Departure Plans at Air France and its regional subsidiaries, and at KLM and Martinair.

30.1.3 Litigation

An assessment of litigation risks with third parties has been carried out with the Group's attorneys and provisions have been recorded whenever circumstances require.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities, within the framework of tax audits, could reasonably challenge a tax position adopted by the Group or one of its subsidiaries.

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

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

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

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

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

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

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

30.1.5 Other provisions

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

30.2 Contingent liabilities

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

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

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

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

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

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

30.2.2 Litigations concerning anti-trust laws in the passenger sector

Canada

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

30.2.3 Other litigations

Rio-Paris AF447 flight

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

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

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

US Department of Justice investigation related to United States Postal Service

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

Case brought against KLM by (former) Martinair Cargo pilots

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

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

NOTE 31 FINANCIAL DEBT

As of December 31

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

Change in financial debt

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

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

31.1 Perpetual subordinated debt

31.1.1 KLM Perpetual subordinated debt in Japanese Yen

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

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

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

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

31.1.2 KLM Perpetual subordinated debt in Swiss francs

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

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

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

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

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

31.2 Bonds

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

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

31.3 OCEANE

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

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

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

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

31.4 Other debt

Other debt breaks down as follows:

As of December 31

(in € millions)

	2019	2018
Reservation of ownership clause and mortgage debt	1,072	646
Other debt	422	617
Total	1,494	1,263

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

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

31.5 Maturity analysis

The financial debt maturities break down as follows:

As of December 31

(in € millions)	2019	2018
Maturities in		
Y+1	970	1,077
Y+2	1,456	897
Y+3	1,071	1,548
Y+4	570	683
Y+5	964	828
Over 5 years	2,870	2,335
Total	7,901	7,368
Including:		
– principal	7,113	6,559
– interest	788	809

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

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

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

31.6 Currency analysis

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

As of December 31

(in € millions)	2019	2018
Euro	5,247	4,820
US Dollar	691	541
Swiss franc	355	341
Yen	820	857
Total	7,113	6,559

31.7 Credit lines

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

After having exercised a first extension option in November 2018, Air France-KLM and Air France exercised their second extension option on their joint revolving credit facility in November 2019. Following this exercise, the two tranches of the revolving credit facility, amounting respectively to €550 million and €550 million, have now same duration and maturity date in November 2022.

These revolving credit facility lines are subject to financial covenants calculated based on the Air France-KLM Group's consolidated financial statements. These financial covenants were respected as of December 31, 2019.

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

NOTE 32 LEASE DEBT

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

Change in lease debt

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

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

The lease debt maturity breaks down as follows:

(in € millions)	As of December 31, 2019	As of December 31, 2018
Y+1	1,231	1,236
Y+2	1,058	1,090
Y+3	868	921
Y+4	631	744
Y+5	391	490
Over 5 years	1,025	1,124
Total	5,204	5,605
Including:		
– principal	4,120	4,535
– interest	1,084	1,070

NOTE 33 NET DEBT

As of December 31,

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

(1) Included in "other financial assets".

As of December 31,

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

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

NOTE 34 LOYALTY PROGRAM

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

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

The breakdown of the "Flying Blue" program is as follows:

"Flying Blue" - Deferred revenues

(in € millions)	2019	2018
As of January 1	763	747
Accumulation	319	302
Redemption	(308)	(286)
As of December 31	774	763

NOTE 35 OTHER LIABILITIES

As of December 31,

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

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

NOTE 36 FINANCIAL INSTRUMENTS

36.1 Risk management

— Market risk management

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

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

Each company centralizes the management of the market risks of its subsidiaries.

Regular meetings are organized between the Treasury Management departments of the two companies on the hedging instruments used, strategies planned and counterparties.

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

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

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

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

— Fuel price risk

The fuel bill is one of the largest cost items for airlines making oil price volatility a risk for the air transport industry. A sharp increase in the oil price can have a very material negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies. Similarly, a sharp decline in fuel prices is favorable for airline profitability. However, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty.

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC for the whole of the Air France–KLM Group.

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

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

Main characteristics of the hedge strategy

Hedge horizon: two years rolling

Minimum hedge percentage, to reach at the end of the current quarter:

- quarter underway: 60% of the volumes consumed;
- quarter 1 to quarter 3: 60% of the volumes consumed;
- quarter 4: 50% of the volumes consumed;
- quarter 5: 40% of the volumes consumed;
- quarter 6: 30% of the volumes consumed;
- quarter 7: 20% of the volumes consumed;
- quarter 8: 10% of the volumes consumed.

Increment of coverage ratios: 10% by quarter

Underlyings: Brent, Gas Oil and Jet Fuel

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

Implementation of monitoring indicators on positions:

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

— Currency risk

Most of the Air France–KLM Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The management of the currency risk for the subsidiaries of the two companies is centralized by each company. The principal exposure relates to the US dollar. Since the expenditure on items such as fuel and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars. As the result, any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Inversely Air France–KLM Group is a net seller of other currencies, the level of revenues in these currencies exceeding its expenditure. This exposure is far less significant than with the US dollar. As a result, any significant decline in these currencies against the euro would have a negative effect on the Group's financial results.

The management of the Group's exchange rate risk is carried out on the basis of the forecast net exposure for each currency. Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.

For each currency hedged, the time span of the hedging is a rolling 24-month period, the first four quarters having more hedging than the following four. The RMC sets the hedging targets for the dollar, sterling and the yen.

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

Aircraft are purchased in US dollars, meaning that the Group is exposed to an appreciation in the dollar relative to the euro in terms of its investment in flight equipment.

The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

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

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

– Interest rate risk

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

– Risks on carbon credit

To meet its regulatory obligations, the CO₂ emission quota acquisition strategy has been monitored and reviewed during every RMC meeting since October 2011. Its implementation led to the progressive hedging of the future requirement through the use of forwards contracts meaning that the 2019 requirement and a portion of the 2020 requirement are hedged.

Underlyings: EUA, EUAA and CER quotas.

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

– Investment risks

The cash resources of Air France, KLM and Air France–KLM are currently invested over a short-term time horizon, primarily deposits, money market mutual funds and certificates mainly rated A1/P1, the other lines being rated A2/P2.

Lastly, in order to reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in high-quality foreign-currency denominated bonds.

– Equity risks

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

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

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

– Counterparty risk management

The rules concerning the management of counterparty risk are established by the RMC and applied by the companies.

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of BBB+ (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their rating. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the Air France–KLM parent company, are taken into account in the assessment of the overall exposure. A monthly report is established and circulated to the members of the General Management in the two companies. It is supplemented by real time information in the event of any real risk of a rating downgrade for counterparties.

The transactions involving potential counterparty risk are as follows:

- financial investments;
- derivative instruments;
- trade receivables;
- counterparty risk linked to financial investments and derivative instruments is managed by the Risk Management Committee which establishes limits by counterparty, for all instruments except investments in money market funds (OPCVM) for which the counterparty risk is deemed not to be significant. The Group's counterparty-risk reporting is circulated each month to the executive managements, the risk being measured at the fair market value of the various instruments. Any exceeding of a limit immediately results in the implementation of corrective measures,
- the counterparty risk linked to derivative instruments is taken into account in the valuation of their market value as described in Note 4.11. Derivative instruments are governed by the ISDA and FBF compensation master agreements. Within the framework of these agreements, compensation (in the event of default) must be made by counterparty for all the derivatives governed by each type of agreement,
- counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of the customers comprising the trade receivables portfolio.

The Group has identified the following exposure to counterparty risk:

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

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

— Liquidity risk

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

36.2 Derivative instruments

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

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

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

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

36.2.1 Commodity risk linked to fuel prices

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

As of December 31, 2019

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

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

The price after hedge of the total fuel expenses is equal to the market price, to which unitary into-plane costs and hedge results

have been added. The hedge results reflects the payout of the hedging strategy based on the forward curve as of December 31, 2019. The hedge results include realized over-effectiveness, option premiums, results of unwound structures and exclude time value.

As of December 31, 2018

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

Fuel hedge sensitivity

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

As of December 31

(in € millions)	2019		2018	
	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent
Gains/(losses) taken to equity	577	(584)	563	(564)

36.2.2 Exposure to interest rate risk

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

As of December 31, 2019

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

As of December 31, 2018

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

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

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

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

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

Interest rate sensitivity

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

36.2.3 Exposure to exchange rate risk

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

As of December 31, 2019

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

As of December 31, 2018

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

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

Currency hedge sensitivity

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

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

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

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

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

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

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

36.2.4 Carbon credit risk

As of December 31, 2019, the Group has hedged its future purchases of CO₂ quotas as follow:

As of December 31, 2019

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

As of December 31, 2018

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

These contracts mostly expire within three years.

36.3 Market value of financial instruments

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

- the estimated market values of financial instruments are estimated on the basis of the market price as of December 31, 2019 and December 31, 2018;
- the estimated amounts as of December 31, 2019 and December 31, 2018 are not indicative of gains and/or losses potentially arising on maturity or in the event of cancellation of a financial instrument.

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

The methods used are as follows:

- cash, trade receivables, other receivables, short-term bank facilities, trade payables and other payables:

The Group considers that, due to their short-term nature, net book value can be deemed a reasonable approximation of their market value;

- marketable securities, investments and other securities:

The market value of securities is determined based mainly on the market price or the prices available on other similar securities. Securities classified under equity instruments are recorded at their stock market value.

Where no market comparable exists, the Group uses their book value, which is deemed a reasonable approximation of their market value in this instance;

- borrowings, other financial debts and loans:

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

- derivative instruments:

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

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

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

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

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

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

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

NOTE 37 FLIGHT EQUIPMENT ORDERS

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

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

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

The number of aircraft under firm order as of December 31, 2019 increased by 59 units compared with December 31, 2018 and stood at 108 aircraft.

This change is explained by the delivery of 13 aircraft and 72 aircraft on order.

Long-haul fleet (passenger)

The Group took delivery of six Boeing Boeing 787s and three Airbus A350s.

Medium-haul fleet

The Group took delivery of four Boeing Boeing 737s.

Regional fleet

The Group did not take delivery of an aircraft.

Aircraft type	To be delivered in	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet - passenger								
A350	As of December 31, 2019	6	7	5	7	4	6	35
	As of December 31, 2018	3	3	7	5	7	3	28
Boeing 787	As of December 31, 2019	5	3	3	-	-	-	11
	As of December 31, 2018	6	4	4	2	1	-	17
Boeing 777	As of December 31, 2019	2	-	-	-	-	-	2
	As of December 31, 2018	-	-	-	-	-	-	-
Medium-haul fleet								
A220	As of December 31, 2019	-	6	15	15	12	12	60
	As of December 31, 2018	-	-	-	-	-	-	-
Boeing 737	As of December 31, 2019	-	-	-	-	-	-	-
	As of December 31, 2018	4	-	-	-	-	-	4
Regional fleet								
Total	As of December 31, 2019	13	16	23	22	16	18	108
	As of December 31, 2018	13	7	11	7	8	3	49

NOTE 38 OTHER COMMITMENTS

38.1 Commitments made

As of December 31
(in € millions)

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

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

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

38.2 Commitments received

As of December 31
(in € millions)

	2019	2018
Warranties, sureties and guarantees	274	235
Put option on shares ⁽¹⁾	240	241

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

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

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

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

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

38.3 Order book

Long term contracts of maintenance business

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

Passenger and freight transportation

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

Loyalty program

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

NOTE 39 RELATED PARTIES

39.1 Transactions with the principal executives

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

Period from January 1 to December 31
(in € millions)

	2019	2018
Short-term employee benefits	8.5	6.4
Post-employment benefits	0.4	0.4
Termination benefits	-	1.2
Share-based payment	1.5	0.6
Total	10.4	8.6

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

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

39.2 Transactions with the other related parties

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

As of December 31 (in € millions)	2019	2018
Assets		
Net trade accounts receivable	181	189
Other current assets	18	20
Other non-current assets	9	9
Total	208	218
Liabilities		
Trade accounts payable	196	165
Other current liabilities	164	188
Other long-term liabilities	1	2
Total	362	356
As of December 31 (in € millions)		
Net sales	192	243
Landing fees and other rents	(339)	(349)
Other selling expenses	(22)	(21)
Passenger service	(414)	(442)
Other	(87)	(79)
Total	(670)	(648)

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

Aéroports de Paris (ADP)

- land and property rental agreements;
- airport and passenger-related fee arrangements.

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

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

Amsterdam Airport Schiphol (AAS)

- land and property rental agreements;
- airport and passenger-related fee arrangements.

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

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

French Defense Ministry

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

Direction Générale de l'Aviation Civile (DGAC)

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

China Eastern Airlines

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

Delta Air Lines

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

NOTE 40 CONSOLIDATED STATEMENT OF CASH FLOW**40.1 Other non-monetary items and impairment**

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

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

NOTE 41 STATUTORY AUDITORS' FEES

KPMG:

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

Deloitte & Associés:

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

NOTE 42 CONSOLIDATION SCOPE

As of December 31, 2019, the scope includes 74 fully-consolidated entities, 21 equity affiliates and 1 joint operation.

Based on the Air France-KLM ownership in terms of both voting rights and equity interest and on the functioning mode of the Group's Executive Committee, Air France-KLM has the power to

manage the KLM Group's financial and operational strategies and controls KLM. As a result, KLM is fully consolidated in Air France-KLM's consolidated financial statements.

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

42.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KONINKLIJKE LUCHTVAART MAATSCHAPPIJ NV	Netherlands	Multisegment	100	49
BLUE CONNECT	Mauritius	Passenger	70	70
BLUELINK	France	Passenger	100	100
BLUELINK INTERNATIONAL	France	Passenger	100	100
BLUELINK INTERNATIONAL AUSTRALIA	Australia	Passenger	100	100
BLUELINK INTERNATIONAL CZ S.R.O.	Czech Rep.	Passenger	100	100
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	Passenger	100	100
BLUELINK INTERNATIONAL CHILE	Chile	Passenger	100	100
BLUELINK INTERNATIONAL STRASBOURG	France	Passenger	100	100
CONSTELLATION FINANCE LIMITED	Ireland	Passenger	100	100
CYGNIFIC BV	Netherlands	Passenger	100	49
HOP!	France	Passenger	100	100
HOP! TRAINING	France	Passenger	100	100
IASA INCORPORATED	Philippines	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	100	49
KLM CITYHOPPER BV	Netherlands	Passenger	100	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	100	49
KLM EQUIPMENT SERVICES BV	Netherlands	Passenger	100	49
KLM LUCHTVAARTSCHOOL BV	Netherlands	Passenger	100	49
STICHTING STUDENTENHUISVESTING VliegVeld EELDE	Netherlands	Passenger	100	49
BLUE CROWN BV	Netherlands	Cargo	100	49
MARTINAIR HOLLAND NV	Netherlands	Cargo	100	49
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
SODEXI	France	Cargo	65	65
AFI KLM E&M TEARDOWN MANAGEMENT SAS	France	Maintenance	100	100
AIR FRANCE INDUSTRIE US	United States	Maintenance	100	100

Entity	Country	Segment	% interest	% control
AIR FRANCE KLM COMPONENT SERVICES CO LTD	China	Maintenance	100	100
AIR ORIENT SERVICES	France	Maintenance	100	100
BARFIELD INC	United States	Maintenance	100	100
CRMA	France	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) BV	Netherlands	Maintenance	100	49
KLM E&M MALAYSIA SDN BHD	Malaysia	Maintenance	100	49
KLM UK ENGINEERING Limited	United Kingdom	Maintenance	100	49
REGIONAL JET CENTER BV	Netherlands	Maintenance	100	49
BLUE TEAM III SAS	France	Transavia	100	100
TRANSAVIA AIRLINES BV	Netherlands	Transavia	100	49
TRANSAVIA AIRLINES C.V.	Netherlands	Transavia	100	49
TRANSAVIA COMPANY SAS	France	Transavia	100	100
TRANSAVIA FRANCE SAS	France	Transavia	100	100
TRANSAVIA SERVICES GMBH i.L.	Germany	Transavia	100	49
TRANSAVIA VENTURES BV	Netherlands	Transavia	100	49
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE FINANCE SAS	France	Other	100	100
AIR FRANCE KLM E&M PARTICIPATIONS SAS	France	Other	100	100
AIR FRANCE KLM FINANCE SAS	France	Other	100	100
AIRPORT MEDICAL SERVICES BV	Netherlands	Other	80	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	80	39
ASP BEHEER BV	Netherlands	Other	60	49
AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	76	49
BIGBLANK	France	Other	100	100
BLUE TEAM V SAS	France	Other	100	100
BLUE YONDER IX BV	Netherlands	Other	100	49
BLUE YONDER XIV BV	Netherlands	Other	100	49
BV KANTOORGEBOUW MARTINAIR	Netherlands	Other	100	49
CELL K16 INSURANCE COMPANY	United Kingdom	Other	100	0
EXECUTIVE HEALTH MANAGEMENT BV	Netherlands	Other	100	49
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ BV	Netherlands	Other	100	49
KLM AIR CHARTER BV	Netherlands	Other	100	49
KLM CATERING SERVICES SCHIPHOL BV	Netherlands	Other	100	49
KLM HEALTH SERVICES BV	Netherlands	Other	100	49
KLM INTERNATIONAL CHARTER BV	Netherlands	Other	100	49
KLM OLIEMAATSCHAPPIJ BV	Netherlands	Other	100	49
MARTINAIR VESTIGING VliegVeld Lelystad BV	Netherlands	Other	100	49

Entity	Country	Segment	% interest	% control
ORION-STAETE BV	Netherlands	Other	100	49
PELICAN	Luxembourg	Other	100	100
PYRHELIO-STAETE BV	Netherlands	Other	100	49
RIGEL-STAETE BV	Netherlands	Other	100	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	100	49
TRAVEL INDUSTRY SYSTEMS BV	Netherlands	Other	100	49
TREASURY SERVICES KLM BV	Netherlands	Other	100	49
WEBLOK BV	Netherlands	Other	100	49

42.2 Equity affiliates

Entity	Country	Segment	% interest	% control
ADM BLUE	Madagascar	Passenger	40	40
AAF SPARES	Ireland	Maintenance	50	50
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
AFI KLM E&M BGAC LINE MANAGEMENT CO LTD	China	Maintenance	60	60
IGO SOLUTIONS SAS	France	Maintenance	40	40
MAX MRO SERVICES	India	Maintenance	26	26
SHS TECHNICS	Senegal	Maintenance	49	50
SINGAPOUR COMPONENT SOLUTIONS PTE	Singapore	Maintenance	50	50
SPAIRLINERS	Germany	Maintenance	50	50
TRADEWINDS ENGINE SERVICES LLC	United States	Maintenance	50	50
TURBINE SUPPORT INTERNATIONAL LLC	United States	Maintenance	50	50
AIR ANTWERP BV	Belgium	Other	25	25
AIRCRAFT CAPITAL LTD	United Kingdom	Other	40	40
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
MAINPORT INNOVATION FUND BV	Netherlands	Other	25	25
MAINPORT INNOVATION FUND II BV	Netherlands	Other	24	24
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	53	45
SERVAIR	France	Other	50	50
SKYNRG BV	Netherlands	Other	20	20
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25

42.3 Joint operations

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

5.7 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

To the Shareholders' Meeting of Air France-KLM SA,

1. Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Air France-KLM for the year ended December 31, 2019.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2019, and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

2. Basis for opinion

Audit framework

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

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

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2019 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5 (1) paragraph 1 of Regulation (EU) no. 537/2014 or in the French Code of Ethics for Statutory Auditors.

3. Emphasis of matter

We draw your attention to the Note 2 of the consolidated financial statements which describes the change in accounting method related to the capitalization of limited life parts by component and the change in accounting method related to compensations paid to customers for delays or cancellations ("customer compensations").

4. Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

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

Revenue recognition for issued but unused passenger tickets (Note 4.6 to the consolidated financial statements)

Risk identified

Network revenue amounts to €23 315 million and essentially corresponds to passenger transport services, and to a lesser extent to cargo. The revenue related to passenger transportation is recognized when the transportation service is provided and, consequently, passenger tickets recorded when issued as “Deferred revenue on ticket sales” for a liability amounting to €3,289 million as at December 31, 2019. However, a portion of these sales, relating to tickets that have been issued but which will never be used, is recognized as revenue at the theoretical date of the transport, based on a statistical rate regularly updated. The rate is determined by the Air France-KLM Group based on historical data taken from the information systems and adjusted for non-recurring and specific events of the periods considered.

We considered revenue recognition for issued but unused passenger tickets to be a key audit matter due to the importance of the Group judgment in determining the recognition assumptions.

Our response

We tested the key controls implemented by the Group that we considered the most relevant in determining the statistical rates for “Deferred revenue on ticket sales.”

Our procedures primarily consisted in:

- assessing the appropriateness of the methodology adopted by the Group;
- corroborating the historical database with the databases used;
- corroborating the statistical rate calculations;
- comparing actual revenue from unused passenger tickets with prior year-end estimates;
- analyzing the age of deferred revenue on ticket sales presented on the consolidated balance sheet to assess the appropriateness of the revenue recognized in the period.

Provisions for litigations and contingent liabilities (Notes 4.21, 30.1 and 30.2 to the consolidated financial statements)

Risk identified	Our response
<p>Air France-KLM is involved in several governmental, judicial or arbitration procedures and litigations, particularly concerning anti-trust laws. The outcome of these procedures and litigations depends on future events, and the Company's estimates are inherently based on the use of Group assumptions and assessments.</p> <p>We considered the measurement of the litigation provisions to be a key audit matter due to the uncertainty surrounding the outcome of current procedures, the high degree of Group estimates and judgment and the potentially material nature of the impact of provision amounts on consolidated net income and equity should these estimates change.</p>	<p>We specifically assessed the estimates and assumptions adopted by the Group in determining the need to recognize a provision and, where applicable, its amount.</p> <p>Based on discussions with the Group, we familiarized ourselves with the latter's analysis of the risks and status of each significant litigation, whether reported or potential.</p> <p>We assessed the items justifying the recognition or not of a provision. We analyzed the lawyers' replies to your enquiries, familiarized ourselves with the exchanges between the Company, its lawyers and other parties to the suits and considered any new developments up to the issue date of our report.</p> <p>Based on these items, we conducted a critical review of the estimates and positions adopted by the Group.</p> <p>We also assessed the appropriateness of the disclosures in the Note 30 to the consolidated financial statements.</p>

Recognition of deferred tax assets (Notes 4.24 and 13 to the consolidated financial statements)

Risk identified	Our response
<p>Deferred tax assets for a net amount of €523 million are recognized in the consolidated balance sheet. This balance comprises €693 million in deferred tax assets for French tax group tax loss carry-forwards mainly compensated by 201 million deferred tax liabilities on temporary differences. These deferred tax assets are recognized based on their likelihood of recovery pursuant to budgets and medium-term plans prepared by the Group. The recovery horizons for these deferred tax assets are seven years for the French tax Group.</p> <p>We identified this issue as a key audit matter due to the importance of the Group judgment in the recognition of these assets and the particularly high level of tax loss carry-forwards of which only a portion has been capitalized due to recoverability prospects.</p>	<p>Our audit approach consisted in assessing the probability of the Company making future use of the tax loss carry-forwards generated to date, particularly in regard to:</p> <ul style="list-style-type: none"> – deferred tax liabilities in the same tax jurisdiction, where the base could be offset against deferred tax assets with the same maturity; and – the Group's ability to generate future taxable profits in the French tax jurisdiction in order to use prior-year tax losses recognized as deferred tax assets. <p>We assessed the appropriateness of the methodology adopted by the Group to identify existing tax losses carried forward that will be utilized, either by offset against deferred tax liabilities or future taxable profits.</p> <p>To assess future taxable profits, we appraised the reliability of the preparation process for the mid-term business plan underlying the assessment of the probability that deferred tax assets will be recovered. Our work consisted in assessing the future growth assumptions used to prepare the mid-term business plan by:</p> <ul style="list-style-type: none"> – comparing income forecasts for prior years with actual results for the years concerned; – comparing these assumptions with the ones adopted for non-current asset impairment tests. <p>We also assessed the consistency of Group assumptions used to prepare income forecasts for the period beyond the mid-term business plan particularly with the economic data for the Group's operating sector and the information gathered during discussions with the Group.</p>

5. Specific Verifications

We have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' management report.

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

We attest that the consolidated non-financial statement required by Article L. 225-102-1 of the French Commercial Code is included in the Group management report, being specified that, in accordance with the provisions of Article L. 823-10 of the code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information contained therein and should be reported on by an independent insurance services provider.

6. Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Air France-KLM by the Shareholders' Meeting of September 25, 1998 for Deloitte & Associés and September 25, 2002 for KPMG Audit.

As of December 31, 2019, Deloitte & Associés and KPMG were respectively in the 22nd year and 18th year of total uninterrupted engagement, which are the 21st year and 18th year since securities of the Company were admitted to trading on a regulated market.

7. Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

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

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

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

The consolidated financial statements have been approved by the Board of Directors.

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

Objectives and audit approach

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

As specified by Article L. 823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which the Company's Management has conducted or will conduct the affairs of the entity.

As part of an audit in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit and furthermore:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;
- assess the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, we draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, we modify our opinion;

- evaluate the overall presentation of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities included in the consolidation scope to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We

also bring to its attention any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

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

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) no. 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

Paris-La Défense, February 19, 2020
The Statutory Auditors

KPMG Audit
Division of KPMG SA

Eric Jacquet
Partner

Deloitte & Associés

Guillaume Troussicot
Partner

Pascal Colin
Partner

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information required by European Regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the information concerning the Group presented in the management report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

5.8 STATUTORY FINANCIAL STATEMENTS

5.8.1 Income statement

Year ending December 31, (in € millions)	Notes	2019	2018
Operating income	3	52	49
External expenses	4	(50)	(46)
Salaries and related costs	5	(8)	(3)
Other expenses		(1)	(1)
Total operating expenses		(59)	(50)
Income from current operations		(7)	(1)
Financial income		59	54
Financial expenses		(80)	(103)
Net financial income	6	(21)	(49)
Earnings before tax and non-recurring items		(28)	(50)
Non-recurring income		-	-
Non-recurring expenses		-	-
Non-recurring income/- (loss)	7	-	-
Income tax	8	17	12
Net income/(loss)		(11)	(38)

5.8.2 Balance sheet

Assets (in € millions)	Notes	December 31 2019	December 31 2018
Long-term investments	9.2	4 678	4 668
Loans & receivables related to long-term investment	9.3	468	563
Fixed assets	9.1	5 146	5 231
Trade receivables	13	14	37
Other receivables	13	206	141
Marketable securities	10	1 820	1 222
Cash and cash equivalent		307	247
Prepaid expenses		2	4
Current assets		2 349	1 651
Issue costs		9	9
Bond redemption premium		1	1
Total Assets		7 505	6 892
Liabilities & equity (in € millions)	Notes	December 31 2019	December 31 2018
Capital	11.1	429	429
Additional paid-in capital	11.2	4 139	4 139
Legal reserve		70	70
Reserves		(52)	(14)
Income for the year	11.2	(11)	(38)
Shareholder's equity	11.2	4 575	4 586
Other equity	12	403	403
Provision for risks & liabilities	12 - 17	1	1
Financial debts	12	1 652	1 148
Trade payables and related accounts	13	15	13
Tax and social debts	13	4	2
Other liabilities	13	847	728
Liabilities	13	2 518	1 891
Unrealized foreign exchange gain		8	11
Total Liabilities & Equity		7 505	6 892

5.8.3 Notes

The following information constitutes the notes to the financial statements for the year ended December 31, 2019.

It is an integral part of the financial statements.

Air France-KLM SA, a public limited company (*société anonyme*) with registered office at 2 rue Robert Esnault Pelterie 75007 Paris, is the parent company of the Air France-KLM Group. It is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

1. Accounting policies and procedures

Generally accepted accounting policies have been applied, consistent with the prudence principle and in accordance with the legal and regulatory provisions applicable in France and to the base assumptions whose aim is to provide a true and faithful representation of the company:

- going concern;
- consistent accounting methods from year to year;
- independence of financial periods.

and in accordance with the general rules for establishing and presenting annual financial statements.

The basic method used to value items recorded in the financial statements is the historical cost method.

The main accounting methods used are the following:

Long-term investments

Investments in equity securities are presented on the balance sheet at their acquisition cost net of impairment, if any. A provision for impairment is recorded as soon as the fair value falls below the acquisition value. The fair value of securities is determined by taking into account the share of shareholders' equity, the outlook for profitability and the stock market values that can be used as a reference.

Transfer taxes, fees or commissions and legal fees related to the acquisition of securities are expensed, according to the option offered by the regulations.

Treasury shares not allocated to employees or to a capital decrease are booked in long-term investments. They are shown at the lower of their acquisition cost or fair value. The fair value is determined based on the average market price for the last month of the financial year.

Trade receivables

Trade receivables are valued at their nominal value. They are valued on a case-by-case basis and a provision is set up as required based on the assessed risks.

Marketable securities

Marketable securities are shown on the balance sheet at the lower of their acquisition cost and their market value. In the case of listed shares, this market value is determined based on the market price at the end of the financial year.

Treasury shares invested as part of a liquidity agreement are valued at the lower of their acquisition price and fair value. The fair value is determined based on the last month average market price at the end of the financial year.

Negotiable debt securities (certificates of deposits, and bills issued by financial companies) are booked at their acquisition cost. Interest is booked as financial income, on a-prorata temporis basis.

Foreign currency transactions

Operating expense and income transactions in foreign currencies are recognized at the average exchange rate for each relevant month.

Trade payable and receivable in foreign currencies are valued at the exchange rate in effect at December 31, 2019.

Unrealized losses and gains are recognized as assets and liabilities on the balance sheet. Provisions are established for unrealized losses, except for the following cases:

- transactions where the currency and the term contribute to an overall positive currency position; and
- currency hedging contracts concerning the payment of future investment deliveries.

Debts

Debts are valued at their nominal amount. The debt in foreign currency is valued at the closing rate Euro/Dollar.

Financial instruments

Financial derivative instruments are used to reduce exposure to interest rates risk and to foreign exchange. They are over the counter instruments with first class counterpart. Group management policy bans subscription of trading instruments.

Dividends received

Dividends are recognized as income – when they are approved by the competent bodies in the companies (i.e.: the Board of Directors or the General Shareholders' Meeting depending on the local regulations) – or according to the terms of the bylaws.

2. Significant events of the period

Since February 2019, the Dutch government has purchased 14% of the capital of Air France KLM. (See Note 11.1)

For the general financing needs of the company, Air France-KLM issued bonds convertible into and/or exchangeable for new or existing shares (OCEANE) dated March 25, 2019 for a nominal amount of € 500 million.(See Note 12.2)

3. Other income

Period (in € million)	2019	2018
Management fees	32	28
of which Air France	18	17
of which KLM	14	11
Royalties	20	21
of which Air France	12	12
of which KLM	8	9
Total	52	49

4. External expenses

Period	2019	2018
Fees and surveys	19	19
Insurance	1	1
Sub-Contracting and rent re-invoiced by Air France and KLM	25	21
Financial communication	1	2
Other	4	3
Total	50	46

During the financial year 2019, the teams assigned to Air France-KLM holding company represent 74 Full Time Equivalent seconded from Air France and 25 full-time equivalent seconded from KLM.

5. Compensation of the company officers

The gross remuneration of the company officers, recognized as an expense in 2019, amounts to €2.62 million compared to €1.26 million in 2018. For 2019, it corresponds to that of Benjamin Smith over the entire period. For 2018, this remuneration includes those of Jean-Marc Janaillac from January to mid-May, Frédéric

Gagey from mid-May to mid-September and Benjamin Smith from mid-September to the end of December.

The remuneration of the non-executive Chair of the Board of Directors amounts to €0.20 million.

6. Net financial Income

This section regroups interest paid or received, currency losses and gains, and allocations and reversal of financial provisions. The break-down is as follows.

Period	Notes	2019	2018
Interest on loans and other financial expenses		(75)	(103)
<i>of which related companies commission on the guarantees granted by Air France and KLM & interests on current account</i>		(1)	(11)
<i>of which interest on OCEANE</i>	12.2	-	-
<i>of which interest on bonds</i>	12.2	(38)	(43)
<i>of which interest on perpetual subordinated loan</i>	12.1	(25)	(34)
<i>of which premium included in tender price of perpetual subordinated loan</i>		-	(14)
<i>of which others</i>		(12)	(11)
Interest on loans		25	38
<i>of which related companies</i>		25	38
Other financial income		24	10
<i>of which related companies</i>		2	2
<i>of which investment in mutual funds and certificates of deposit</i>		4	4
Allocation to provisions		5	6
<i>of which provision for risks & liabilities</i>		(4)	-
<i>of which Air France-KLM Finance shares</i>		9	6
Total		(21)	(49)

7. Non-recurring income

None.

8. Income tax

Air France-KLM has benefited from the tax consolidation scheme since April 1, 2002.

The consolidation scope, for which Air France-KLM is the parent company, mainly includes Air France, HOP! and Transavia France Companies.

The tax consolidation agreement is based on the so-called neutrality method and puts each member company of the tax group in the situation in which it would have been in without consolidation.

Air France-KLM has a tax losses carried forward of € 824 million. The Group's cumulative tax losses, which can be carried forward indefinitely, amount to € 7 037 million.

The subsidiaries recording a net earning, generated a tax consolidation gain of € 17 million to Air France-KLM for this financial year (€ 12 million on the previous financial year).

9. Long-Term Investments

9.1 Net book value

(in € millions)	Notes	Beginning of year	Increase/ allocation	Decrease/ reversal	End of year
Equity investments	9.2	4 668	-	10	4 678
Loans & receivables related to long term investment	9.3	563	23	(117)	468
Net amount	-	5 231	23	(107)	5 146

9.2 Equity investments

(in € millions)	Notes	December, 31 2019	December, 31 2018
Gross value			
Air France		3821	3821
KLM		824	824
Air France-KLM Finance		31	31
Transavia Company		4	4
Air France-KLM Mobility		-	-
Big Blank		-	-
Total gross		4 680	4 680
Impairment			
Air France		-	-
KLM		-	-
Air France-KLM Finance		(2)	(11)
Transavia Company		-	-
Air France-KLM Mobility		-	-
Big Blank		-	-
Total impairment		(2)	(11)
Net			
Air France		3821	3821
KLM		824	824
Air France-KLM Finance		29	20
Transavia Company		4	4
Air France-KLM Mobility		-	-
Big Blank		-	-
Total Net	9.1	4 678	4 668

9.3 Loans & receivables related to long term investment

Gross value (in € millions)	Note	Beginning of year	Increase/ allocation	Decrease/ reversal	End of year
Air France		392	21	(16)	397
KLM		99	2	(101)	-
Air France-KLM Finance		71	1	-	72
BigBlank		1	3	-	4
Total gross		563	27	(117)	473

Impairment	Impairment beginning of year	Allocation	Reversal	Impairment end of year
Air France	-	-	-	-
KLM	-	-	-	-
Air France-KLM Finance	-	-	-	-
BigBlank	-	(4)	-	(4)
Total impairment	-	(4)	-	(4)

Net	Net value at beginning of year	Increase/ allocation	Decrease/ reversal	Net value end of year	
Air France	392	21	(16)	397	
KLM	99	2	(101)	-	
Air France-KLM Finance	71	1	-	72	
BigBlank	1	(1)	-	-	
Total Net	9.1	563	23	(117)	469

10. Marketable securities

(in € millions)	December 31, 2019	December 31, 2018
Gross Value		
Mutual funds, certificates of deposit & marketable term notes	1 820	1 222
Securities Compagnia Aerea Italiana	355	355
Total Gross value	2 175	1 577
Depreciation		
Securities Compagnia Aerea Italiana	(355)	(355)
Total Depreciation	(355)	(355)
Total	1 820	1 222

The net carrying amount for the marketable securities, mutual funds and certificates of deposit is the market value.

11. Shareholders' equity

11.1 Distribution of share capital and voting rights

The issued capital comprises 428,634,035 fully paid-up shares with a nominal value of one euro. Each share is entitled to one voting right. However since April 3, 2016, any shareholder who has been owning registered shares for more than two years is entitled to double voting rights, raising the number of voting rights to 586,975,522 as at December 31, 2019. Distribution is as follows:

	% of capital		% of voting rights	
	December 31 2019	December 31 2018	December 31 2019	December 31 2018
French State	14%	14%	21%	23%
Dutch State	14%	-	10%	-
Delta Air Lines	9%	9%	13%	7%
China Eastern Airlines	9%	9%	13%	7%
Employees and former employees ⁽¹⁾	4%	4%	6%	7%
Public	50%	64%	37%	56%
Total	100%	100%	100%	100%

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

11.2 Statement of changes in shareholders' equity

(in € millions)	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At December 31, 2017	429	4 139	86	(30)	4 624
Allocation of earnings	-	-	(30)	30	-
Earnings for the period	-	-	-	(38)	(38)
At December 31, 2018	429	4 139	56	(38)	4 586
Allocation of earnings	-	-	(38)	38	-
Earnings for the period	-	-	-	(11)	(11)
At December 31, 2019	429	4 139	18	(11)	4 575

12. Financial debt and other equity

(in € millions)	Notes	December 31 2019	December 31 2018
Other equity			
Perpetual subordinated loan	12.1	403	403
Total Other equity		403	403
Non-current financial debt			
Bonds	12.2	1 629	1 126
Total non-current debt		1 629	1 126
Current Financial Debt			
Accrued interest		22	22
Total current debt		22	22
Total financial debt		1 652	1 148

12.1 Perpetual subordinated loan

Between April 1 and April 17, 2015, Air France-KLM issued a €600 million perpetual subordinated loan, presented as other equity. These securities, which have no maturity date, have a first repayment option in October 2020 at Air France-KLM discretion. They carry an annual coupon of 6.25%.

On September 14, 2018, a partial repurchased reduced the debt by € 196.7 million.

12.2 Bonds

Bond	Issuing date	Amount issued (in millions)	Maturity date	Coupon
Bond issued in 2014	4 June 2014	€600	18 June 2021	3.875%
€ Bond issued in 2016	5 Oct. 2016	€400	5 Oct. 2022	3.75%
\$ Bond issued in 2016 ⁽¹⁾	12 Dec. 2016	\$145	15 Dec. 2026	4.35%
€ Bond in 2019	25 mars 2019	€500	25 mars 2026	0,125%

(1) Issuance bonds with Asian institutional investors by way of unlisted private placement.

On June 4, 2014, Air France-KLM issued € 600 million of bonds maturing on June 18, 2021 with an annual coupon of 3.875%.

In August 2015, an amount of € 200 million has been hedged and converted to a floating rate through a swap and is connected to a floor. On December 31, 2018, the fair value of the floor is € 0.7 million leading to a provision for risks and liabilities of the same amount (see Note 17).

On October 5, 2016, Air France-KLM issued € 400 million of bonds with a 6 years maturity. The annual coupon arises 3.75%.

On December 12, 2016, Air France-KLM issued -fully hedged- USD 145 million senior notes by way of unlisted private placement to Asian institutional investors. Maturity is December 15, 2026 and annual coupon arises 4.35%. This loan is the object of a complete cover. (See Note 17).

On March 25, 2019, Air France-KLM issued a bond in the form of a bonds convertible into and/or exchangeable for new or existing shares (OCEANE) of € 500 million with a 6-year maturity. The coupon rate is 0,125%.

13. Maturity of receivables and debt

As of December 31, 2019

Receivables (in € millions)	Gross amount	Up to one year	More than one year	Related companies
Non-current assets				
Loans and receivables related to long-term investment (Note 9.1)	473	83	390	461
Current assets				
Trade receivables and related accounts	14	14	-	14
Other receivables (including tax receivables) ⁽¹⁾	206	145	61	63
Total	693	242	451	538
Debt				
(in € millions)	Gross amount	Up to one year	More than one year	Related companies
Financial debt (Note 12)	1 652	22	1 629	-
Trade payables and related accounts	15	15	-	4
Tax and social debts	4	4	-	-
Other liabilities ⁽¹⁾	847	847	-	829
Total	2 518	888	1 629	833

(1) Other liabilities comprise, mainly, a financial current account with Air France including cash pooling for € 699 million as of December 31, 2019.

14. List of subsidiaries and equity investments

(in € millions)

Companies or Groups of companies	Shareholders' equity other than capital	Share of capital held	Carrying amount of shares held		Loans & advances granted and not reimbursed	Amount of security and guarantees given	Revenues (excl. tax) for financial year	Net profit or loss for financial year	Dividends booked during financial year	
			Gross	Net						
Detailed information about individual investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France) ⁽¹⁾	-	-	100%	3820	3820	390	19	15 557	53	-
KLM (Netherlands) ⁽¹⁾	-	-	99,7%	824	824	0	44	9 936	460	18
Air France-KLM Finance ⁽¹⁾	-	-	100%	31	29	71	-	-	3	-

(1) Statutory financial statements at December 31, 2019.

15. Items concerning related companies

As of December 31, 2019

(in € millions)

	Amount
Trade receivables & related accounts of which:	
– Air France	6
– KLM	7
– Air France-KLM Finance	1
Other receivables of which:	
– Air France	62
– KLM	1
Trade payable and related accounts of which:	
– Air France	2
– KLM	2
Other payables of which:	
– Air France- Cash pooling	829
– Other members of the tax group	17

16. Commitments

– KLM shares

During the business combination of the Air France and KLM groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government had to sell its cumulative preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer had occurred during the first three years following the business combination.

In the latter case, the foundation would have issue, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates would have conferred to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KLM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain SAK I and SAK II foundations, Air France-KLM did not carry out this exchange. Furthermore, Air France-KLM can decide to dissolve the foundations at any time and at its sole discretion.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (i.e. a unit price of €2.27 per cumulative A preferred share, which has to be paid *pro rata* during any sale or transfer under the conditions above).

– Hedges

The € 600 million bond dated June 18, 2014, is hedged for a nominal value of € 200 million converting fix rate to a floating rate through a swap connected to a floor-isolated open position. On December 31, 2019, the fair value of the swap is € 6.3 million and the fair value of the floor amounts to € (0.8) million. (See Note 12.2).

The \$ 145 million bond is fully hedged by a cross currency swap. As of December 31, 2019 the fair value of this derivative instrument is € (12) million. (See Note 12.2).

– Other

Since January 2009, Air France-KLM has acted as a guarantor for Air France Company within the framework of its commitments to Aéroport de Paris in respect of civil leases. This guarantee has been renewed in July 2014 and more recently on 23 September 2019 for a period of 5 years. The guarantee is now expressly limited to €19,362,446 million (and, cumulatively, at a maximum of 3 months' rent per contract).

Air France-KLM guarantees a debt that KLM holds on the Airline GOL for an amount of USD50 million.

Air France-KLM guarantees the payment by Transavia Holland to a lessor, of outstanding operational leases until 2024 for an amount of USD50 million at December 31, 2019.

17. Litigation

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

Air France-KLM, as parent company of Air France, KLM and Martinair, is involved, since February 2006, 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 with up to twenty-five other airlines.

As of December 31, 2017, most of these investigations have 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 16 December 2015. On 17 March 2017, the European Commission issued a new decision against eleven air cargo carriers, including Air France, KLM and Martinair. The total amount of fines imposed on the Air France-KLM Group is €339 million. This amount has been reduced by €15 million as compared to the initial decision owing to a lower fine for Martinair due to technical reasons. On 29 and 30 May 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 these fines.

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

Those provisions are booked by each airlines and do not have any impact in the financial statements of Air France-KLM.

18. Contingent liabilities

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 airfreight shippers in the civil courts against Air France, KLM and Martinair, and other cargo operators, in a number of jurisdictions.

Under these civil lawsuits, Air France-KLM is involved as the parent company of the airlines. Shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to alleged competition law infringement.

Air France, KLM and/or Martinair remain defendants, either as main defendants (in particular in The Netherlands, Norway) or as third party interveners brought in these cases by other main defendants under "contribution proceedings". Where Air France, KLM and/or Martinair are the main defendants, they have also initiated contribution proceedings against other airlines.

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

Except for the matters specified under the paragraphs 18 and 19, the company is not aware of any governmental, judicial and 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 company's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

19. Subsequent events

A new bond issue was issued on January 16, 2020 for 750 million euros.

€ 311 million was allocated to the redemption of the 2014 bond issue and € 39 million to the 2016 bond issue. The remaining balance is intended to finance the operating requirements of the business.

5.9 FIVE-YEAR RESULTS SUMMARY

Year ended 31	December 2019	December 2018	December 2017	December 2016	December 2015
	12 months	12 months	12 months	12 months	12 months
1. Share capital at year end					
Share capital (<i>in €</i>)	428,634,035	428,634,035	428,634,035	300,219,278	300,219,278
Number of ordinary shares outstanding	428,634,035	428,634,035	428,634,035	300,219,278	300,219,278
Number of shares with a priority dividend	-	-	-	-	-
Maximum number of shares that may be created:					
— by bond conversion	27,901,785	-	-	53,386,532	74,449,544
— by exercise of subscription rights	-	-	-	-	-
2. Transactions and results for the year (<i>in € thousand</i>)					
Net revenues	-	-	-	-	-
Net income/(loss) before income tax, employee profit- sharing, net depreciation, amortization and provisions	(32,516)	(56,742)	(73,163)	(204,605)	(134,768)
Income tax	(17,173)	(12,182)	(35,980)	(11,343)	(10,484)
Employee profit-sharing for the year					-
Net income/(loss) after income tax, employee profit- sharing, net depreciation, amortization and provisions	(11,051)	(38,406)	(29,668)	(160,569)	(125,192)
Distributed net income			-	-	-
3. Per share data (<i>in €</i>)					
Net income/(loss) after income tax and employee profit- sharing but before net depreciation, amortization and provisions	(0.04)	(0.10)	(0.09)	(0.64)	(0.41)
Net income/(loss) after income tax, employee profit- sharing, net depreciation, amortization and provisions	(0.03)	(0.09)	(0.07)	(0.53)	(0.42)
Dividend per share	-	-	-	-	-
4. Employees					
Average number of employees during the year	1.9	-	-	-	-
Total payroll costs	825	-	-	-	-
Employee welfare contributions and similar charges (Social Security, employee organizations, etc.)	299	-	-	-	-

5.10 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

To the Shareholders,

1. Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meetings, we have audited the accompanying financial statements of Air France-KLM for the year ended December 31, 2019.

In our opinion, the financial statements give a true and fair view of the assets and liabilities, and of the financial position of the Company as at December 31, 2019 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

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

2. Basis for opinion

Audit Framework

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

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

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2019 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014 or in the French Code of ethics for Statutory Auditors.

3. Justification of assessments – Key Audit Matters

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific elements, accounts or items of the financial statements.

Equity interests (Notes 1 (long term investments), 9, 14 to the statutory financial statements)

Risk identified

As of December 31, 2019, equity interests represented a net value of €4,678 million compared to a total balance sheet of €7,505 million. They are recorded as of their entry date at acquisition cost and impaired based on their fair value by taking into account the share of equity, earnings outlooks and stock market values that can be used as a reference.

The fair value estimate of these long-term investments requires management to exercise judgment in its choice of items to consider according to the nature of the investments concerned. Such items may correspond, as the case may be, to historical items (for certain entities, equity, and for others, average stock market prices over the last month), or forecast items (earnings outlooks and economic situation in the countries considered).

We considered the determination of the fair value of equity interests to be a key audit matter because of i) the uncertainties inherent to certain assumptions and specifically the probability of forecasts, and ii) the potential importance of a reversal or impairment of an equity interest provision in the Company's accounts.

Our response

To assess the reasonableness of the fair value estimate of equity interests, based on the information communicated to us, our work mainly consisted in verifying that the estimate of these values, as determined by management, is based on an appropriate justification of the valuation method and the figures used, and according to the securities concerned:

For the valuations based on historical items:

- verifying that the equity retained is consistent with the accounts of the entities that were the subject of an audit or analytical procedures and that any equity adjustments are based on probative documentation.

For the valuations based on historical items:

- obtaining the financial profitability outlooks for the entities concerned;
- verifying the consistency of the assumptions adopted with the economic environment on the dates the accounts were prepared and closed;
- comparing the forecasts adopted for preceding periods with the corresponding realizations in order to assess the achievement of past objectives;
- verifying that the value resulting from cash-flow forecasts was adjusted for the debt of the entity considered.
- verifying the arithmetical accuracy of the computed fair values

In addition to assessing the fair values of equity interests, our work also consisted in evaluating the recoverability of related receivables with respect to the equity interest analysis.

Provisions and contingent liabilities concerning anti-trust laws (Notes 17 and 18 to the financial statements)

Risk identified

Air France-KLM is involved in a number of governmental, legal or arbitration proceedings and litigation, specifically in terms of anti-trust laws. The outcome of these procedures and litigations depends on future events and the Company's estimates are inherently based on the use of management assumptions and assessments.

We considered the provisions for litigation to be a key audit matter due to the uncertainty over the outcome of current proceedings, the high level of management estimates and judgments and, the potentially material nature of the impact of provision amounts on net income and equity should these estimates change.

Our response

We specifically assessed the estimates and assumptions adopted by the Group in determining the need to recognize a provision and where applicable its amount.

Based on discussions with the Group, we familiarized ourselves with the latter's analysis of the risks and status of each significant litigation, whether reported or potential.

We assessed the items justifying the recognition or not of a provision. We thus analyzed the lawyers' replies to your enquiries, familiarized ourselves with the exchanges between the Company, its lawyers and other parties to the suits and considered any new developments preceding the issue date of our report.

Based on these items, we conducted a critical review of the estimates and positions adopted by management.

We also assessed the appropriateness of the disclosures in Notes 17 and 18 to the financial statements.

4. Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the management report and in the other documents provided to shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to shareholders with respect to the financial position and the financial statements.

We attest the fair presentation and the consistency with the financial statements of the information related to payment terms mentioned in Article D. 441-4 of the French Commercial Code (*Code de commerce*).

We attest that extra-financial performance declaration required under article L. 255-102-1 of the French Commercial Code (*Code de commerce*) is included in the management report, it being clarified that, in compliance with the terms of Article L. 823-10 of this Code, we have not verified the fair presentation and the consistency with the financial statements of the information contained therein and should be reported on by an independent insurance services provider.

Information related to the governance

We attest that the section related to the governance of the management report of the Board of Directors contains the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (*Code de commerce*).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the Directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Concerning the information relating to the items that your Company considered likely to have an impact in the event of a tender or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code (*Code de commerce*), we have verified their compliance with the underlying documents which have been communicated to us. Based on our work, we have no comment to make on this information.

5. Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Air France-KLM by the Shareholders' Meeting of September 25, 1998 for Deloitte & Associés and September 25, 2002 for KPMG Audit.

As of December 31, 2019, Deloitte & Associés and KPMG were respectively in the 22th year and 18th year of total uninterrupted engagement, which are the 21th year and 18th year since securities of the Company were admitted to trading on a regulated market.

6. Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The financial statements have been approved by the Board of Directors.

7. Statutory Auditors' responsibilities for the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it

exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Report to the Audit Committee

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

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

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

Paris La Défense, February 19, 2020
The Statutory Auditors

KPMG Audit
A division of KPMG SA

Éric Jacquet
Partner

Deloitte & Associés

Guillaume Troussicot
Partner

Pascal Colin
Partner

5.11 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS

SHAREHOLDERS' MEETING HELD TO APPROVE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019.

To the Shareholders' Meeting of the company Air France-KLM SA,
In our capacity as Statutory Auditors of your company, we hereby present to you our report on regulated agreements.

The terms of our engagement require us to communicate to you, based on the information provided to us, the principal terms, conditions and justifications of interest for the company of agreements brought to our attention, or that may have been discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness, and without identifying the existence of other agreements if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (*Code de commerce*), to assess the interest related to the conclusion of those agreements for approval purposes.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past year of agreements previously approved by the Shareholders' Meeting.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux comptes*) relating to this engagement. These procedures consisted in verifying the consistency of the information provided to us with their underlying documentation.

Agreements submitted to the approval of the Shareholders' Meeting

Agreements authorized and/or concluded during the year

In accordance with the provisions of article L. 225-40 of the French Commercial Code (*Code de commerce*), we have been advised of the following agreements which have been subject to the preliminary authorization by your Board of Directors.

Modification of the transatlantic partnership between Air France - KLM, Delta Air Lines and Virgin Atlantic

Common directors concerned:

Delta Airlines Inc.: member of the Board of Directors of Air France-KLM, represented by M. George N. Mattson, and Virgin Atlantic

Nature, purpose and terms:

Air France-KLM (AF-KLM), Delta Air Lines Inc. (Delta) et Virgin Atlantic (VAL) announced on February 3, 2020, the implementation of the an expanded transatlantic partnership (the "Partnership"), as well as the confirmation that AF-KLM would no longer proceed with the acquisition of a 31% equity interest in VAL. This decision resulted in the amendment of the Partnership agreements concluded in May 15, 2018, and authorized by your Board of Directors during meetings held in March 14 and May 15, 2018, without affecting the AF-KLM position in the commercial joint-venture involving Delta, VAL and AF-KLM. Those agreements had been approved by the Shareholders' Meeting held in May 28, 2019, on the special report of the Statutory Auditors dated March 29, 2019.

The following signed agreements, authorized by your Board of Directors dated October 30, 2019, lead to the implementation of the Partnership:

1. termination of the *Share Purchase Agreement* ("SPA") between Air France-KLM Finance SAS ("AFKL Finance") and Virgin Investments Limited, related to the purchase of 31% stake in VAL, and termination of other agreements ancillary to the SPA;
2. amendment and updating of the joint-venture Agreement between Delta, Virgin Atlantic Airways Limited, AF-KLM, KLM and Société Air France (signed on January 30, 2020 and effective as per January 1, 2020), in order to reflect the termination of the SPA;
3. amendment and updating of the Implementation Agreement between AFKL Finance, Société Air France, KLM, Delta, VAL, Virgin Investments Limited, Virgin Atlantic Airways Limited and Sir Richard Branson (signed on January 9, 2020 and effective as per January 1, 2020), in order to reflect the termination of the SPA;
4. signature of an agreement between AF-KLM, Delta et Virgin Group (signed and effective as per January 30, 2020) granting AF-KLM, subject to specific conditions, a right to acquire shares in VAL in the event of a sale by Virgin Group of shares in VAL to a third party (the "Agreement").

Justification of the interest of the agreement for the company

Your Board of Directors considered:

- the amendment of the joint-venture agreement and of the Implementation agreement has been concluded in order to reflect, among other interests, the AF-KLM decision not to proceed with the acquisition of a 31% equity interest in VAL, without affecting AF-KLM commercial position within the joint-venture, as approved on May 15, 2018;
- following the AF-KLM decision not to proceed with the acquisition of a 31% equity interest in VAL, Virgin Group maintains its majority interest by 51% in VAL, with Delta owning 49%. AF-KLM benefits from a right to acquire shares in VAL from Virgin Group subject to specific conditions defined in the Agreement.

Agreements previously approved by the Shareholders' Meeting

Agreements approved in prior years which remained current during the year

We hereby inform you that we have not been advised of any agreement previously approved by the Shareholders' Meeting which remained in force during the year.

Paris-La Défense, April 7, 2020
The Statutory Auditors

KPMG Audit
A division of KPMG SA

Éric Jacquet
Associé

Deloitte et Associés

Guillaume Troussicot
Associé

Pascal Colin
Associé

This is a free translation into English of the Statutory Auditors' special report on regulated agreements with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

6

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6.1 HISTORY

Two companies born on the same day

October 7, 1919

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its colonies.

October 7, 1933

Air France is born from the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

1934

First KLM transatlantic flight from Amsterdam to Curaçao in a Fokker F-XVIII Snip.

Air transportation and the two companies take off

1945-46

Air France is nationalized.

KLM flights, interrupted by the war, resume service.

Introduction of scheduled flights to New York in DC-4s, from Paris with Air France and from Amsterdam with KLM. At this time, the flight takes nearly 24 hours.

Air France and KLM are equipped with Constellations and engage in mutual assistance.

1958

Air France and KLM inaugurate the polar route, flying from Paris and Amsterdam to Tokyo *via* the North Pole.

1959-1960

Arrival of the jet era: Air France brings the first Caravelles and Boeing 707s into service, reducing the duration of the Paris-New York flight to eight hours. KLM brings its first DC-8 aircraft into service.

1961

Air France bases its operations and maintenance at Orly Sud.

1967

First KLM flight takes off from the new Schiphol airport.

1970-71

The Boeing 747 is first used on long-haul routes by Air France in 1970 and by KLM in 1971.

1974-1982

Air France operations move, in 1974, to the new Terminal 1 at Paris-Charles de Gaulle, then to CDG 2 in 1982.

1976

The supersonic airplane, Concorde, is brought into service, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes then, in 1977, on Paris-New York, connecting the two cities in three hours 45 minutes.

Development of the two majors

1989

Conclusion of an alliance, the first in the history of air transportation, between KLM and the US company Northwest Airlines.

1990

Air France acquires UTA (*Union des Transports Aériens*), founded in 1963.

1991

KLM founds a regional company, KLM Cityhopper, by merging NLM Cityhopper and NetherLines, and reinforces its shareholding in Transavia from 40% to 80%.

1992

Air France and UTA merge, giving Air France a 72% stake in Air Inter after combining its own shareholding in that company with that of UTA.

KLM establishes the first European medium-haul/long-haul transfer platform at Schiphol airport.

First Open Skies agreement between the Netherlands and the United States.

1993

All KLM and Northwest Airlines flights between Europe and the United States are operated within a joint-venture.

1996

Air Inter becomes Air France Europe.

Establishment of Air France's medium-haul/long-haul transfer platform at Paris-CDG.

1997

Air France Europe is merged with Air France.

1999

Air France is listed for trading on the Monthly Settlement Market of the Paris Stock Exchange for the first time on February 22, 1999.

2000

Air France, Aeromexico, Delta Air Lines, Inc. and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and CityJet.

2001

Open Sky agreement signed between France and the United States.

Alitalia and CSA Czech Airlines join SkyTeam.

Creation of Air France-KLM, the leading European air transport group**2003**

September 30: Air France and KLM announce their intention to merge through a public exchange offer.

2004

May: Air France-KLM shares are listed for trading on the Euronext Paris and Amsterdam markets as well as on the New York Stock Exchange. Privatization of Air France with the transfer of the majority of its shares to the private sector involving the dilution of the French State's shareholding.

September: Finalization of the Group's organizational structure with the creation of the Air France - KLM holding company, regrouping the two airline subsidiaries, Air France and KLM. KLM and its US partners Northwest Airlines and Continental join the SkyTeam alliance.

December: The French State reduces its shareholding from 44% to 23% by selling shares in the market.

2005-06

The French State reduces its shareholding in Air France-KLM from 23% to 18.6% by selling shares within the framework of the share offer (ORS) reserved to Air France employees.

2006-07

Signature of the Open Skies agreement between Europe and the United States to come into force in March 2008.

2008-09

The US Department of Transportation grants Air France, KLM, Delta Air Lines, Inc. and Northwest anti-trust immunity with the obligation to establish a single transatlantic joint-venture between these four airlines before the end of 2009.

Air France-KLM acquires a 25% equity interest in Alitalia.

2009-10

In April, Air France-KLM and Delta Air Lines, Inc. implement the joint-venture on the North Atlantic joined, in July 2010, by Alitalia.

2012

Launch of the "Transform 2015" plan targeting a €2 billion reduction in net debt, the restoration of the Group's competitiveness and a turnaround in the short and medium-haul network.

2014

In early September, the Group unveils its new strategic plan, "Perform 2020", foreseeing an ongoing improvement in competitiveness and an increase in the Group's exposure to growth markets.

2015

The Boeing 787 enters the KLM fleet.

2016

Air France-KLM returns to the offensive with the launch of the new "Trust Together" strategic project.

2017

Air France-KLM takes a further major step in the reinforcement of its strategic partnerships when China Eastern Airlines and Delta Air Lines, Inc. become shareholders.

2018

Anne-Marie Couderc is appointed Chair of the Air France-KLM Board of Directors. Benjamin Smith is appointed Chief Executive Officer.

2019

The longest-standing commercial airline in the world still to be flying under its original name, on October 7, 2019 KLM celebrates its centenary.

The Dutch State acquires 14% of the Air France-KLM share capital.

6.2 GENERAL INFORMATION

Corporate name

Air France-KLM

Trade name

Air France-KLM Group

Registered office

2 rue Robert Esnault-Pelterie, 75007 Paris
Tel: + 33 (0)1 43 17 21 96

Mailing address

BP 90112 75326 Paris Cedex 07

Website

www.airfranceklm.com

The Company information figuring on the website is not an integral part of this document excepting incorporation by reference.

Legal status

French public company (*société anonyme*) with a Board of Directors

Legislation

French law.

Air France-KLM is governed by the French *Code de Commerce* and the provisions of the Civil Aviation and Transport Codes relating to air transport companies and notably to Air France. The Transport Code contains a provision designed to safeguard the nationality of air transport companies whose shares are listed for trading on a regulated market.

Incorporation and expiry dates

Incorporated on: April 23, 1947.

Due to expire on: July 3, 2045 barring early liquidation or extension.

Corporate purpose (Article 2 of the Articles of Incorporation)

The primary purpose of Air France - KLM is to hold direct or indirect interests in the capital of air transport companies and, more generally, in any companies in France or elsewhere whose purpose is related to the air transport business.

Trade register

Paris Trade and Company Register: 552,043,002
APE code: 6420Z

Legal Entity Identifier

969500AQW31GYO8JZD66 (LEI Code)

Consultation of legal documents

The legal and corporate documents relating to Air France-KLM may be consulted at 45 rue de Paris, Tremblay en France, 95737 Paris-CDG Cedex.

Financial year

The financial year begins on January 1 and ends on December 31.

Appropriation of income

After approving the financial statements and taking due note of the income available for distribution, the shareholders vote in the Shareholders' Meeting on the total or partial distribution of such income (with, in the latter case, the appropriation of the undistributed balance to one or more reserve accounts), or the appropriation of all distributable income to one or more reserve accounts.

Relations between Air France - KLM and its subsidiaries

Air France - KLM and its subsidiaries Air France and KLM have signed agreements whose aim is to define the conditions under which Air France and KLM, at the request of Air France - KLM, provide technical and administrative support services to Air France - KLM (intra-group accounting, administrative, legal, financial and IT services).

6.3 INFORMATION ON THE AGREEMENTS CONCLUDED IN CONNECTION WITH THE BUSINESS COMBINATION BETWEEN AIR FRANCE AND KLM

In connection with the business combination taking place in 2004 between Air France and KLM for the creation of the Air France-KLM holding company, agreements were entered into with various stakeholders, some of whose provisions continue to apply as of the date of this Universal Registration Document.

6.3.1 Agreements relating to the KLM shareholding structure

Holding of shareholder voting rights by two Dutch foundations

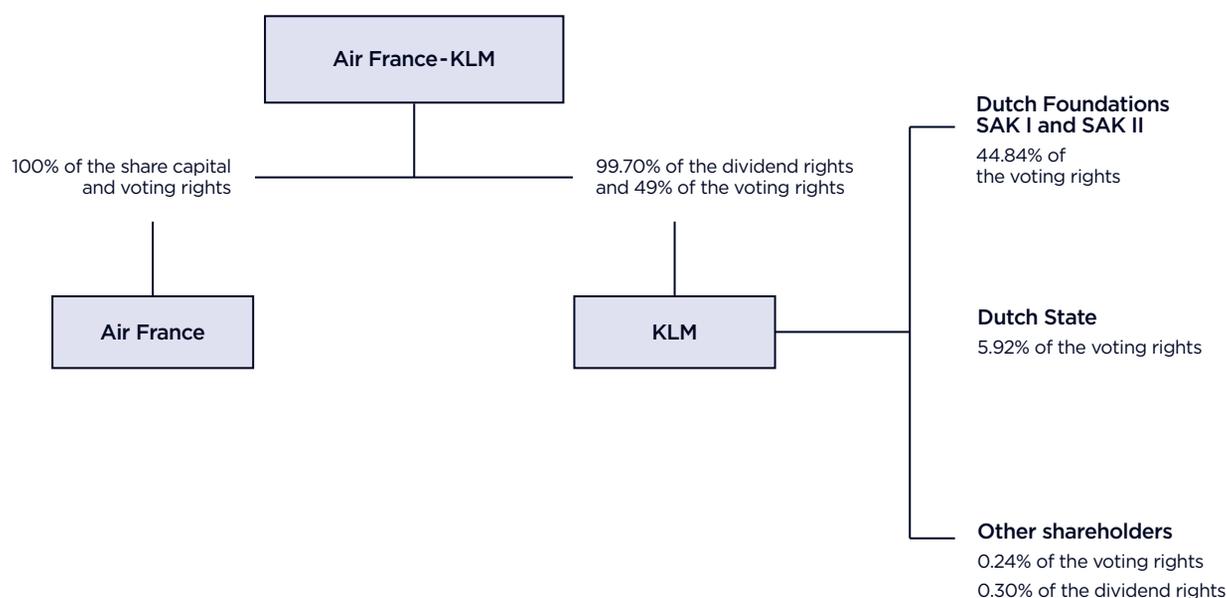
In order to continue to comply with specific regulatory requirements relating to KLM air transport operations, a system to separate the rights attached to KLM shares and the exercise of the voting rights attached to these shares by two Dutch foundations (SAK I and SAK II) was put in place in 2004.

Pursuant to this system which is still in force, Air France - KLM held, as at December 31, 2019, 93.84% of KLM's economic rights, 99.70% of KLM's dividend rights and 49% of KLM's voting rights, while the two Dutch foundations held, together, 44.84% of KLM's voting rights.

Furthermore, as at December 31, 2019, the Dutch State held 5.92% of KLM's voting rights and the remaining minority shareholders held 0.24% of KLM's voting rights and 0.30% of its dividend rights.

In KLM Shareholders' Meetings, the two Dutch foundations, SAK I and SAK II, exercise the voting rights they hold in accordance with decisions taken unanimously by the three Board directors constituting their respective Boards of Directors, it being specified that these Board directors must act in accordance with the corporate governance principles defined in the agreements relating to the business combination between KLM and Air France, and in the best interests of KLM, Air France-KLM and its shareholders. If a unanimous decision cannot be reached by the three Board directors in the Board of Directors for each of the Dutch Foundations, no resolution may be passed by the Board of the relevant Foundation, which consequently cannot then vote on the relevant resolutions in the KLM Shareholders' Meeting.

Amongst the three Board directors for each of the foundations, one member is appointed by Air France - KLM, one by KLM and the third, acting in the capacity of Chair of the Foundation, is appointed by the first two directors, it being specified that the majority of the members of the Boards of Directors of each Foundation, including the Chair, must be Dutch residents.



Unilateral termination option for Air France – KLM at any time

Initially incorporated in 2004 for a three-year period, the two SAK I and SAK II foundations were however extended for an unlimited period by a 2007 agreement. Nevertheless, this agreement provides that Air France – KLM may, at any time as of May 6, 2007 and at its sole discretion, terminate this administered shareholding structure for KLM shares through SAK I and SAK II and proceed to regroup the economic and voting rights attached to the KLM shares, thereby holding 93.84% of KLM's voting rights.

6.3.2 Agreements with the Dutch State

To enable the completion of the business combination and safeguard KLM's traffic rights, airline status and the scale of its network and operations at Schiphol, Air France and KLM entered into the following agreements with the Dutch State.

Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement pursuant to which the Dutch State agreed to decrease its interest in KLM proportionately to any reduction by the French State of its stake in Air France – KLM. To this end, the Dutch State will sell its cumulative preferential A shares to Air France – KLM or to SAK I on behalf of Air France – KLM as long as this foundation is maintained. In such case, SAK I will issue share certificates to the benefit of Air France – KLM corresponding to the cumulative preferential A shares transferred to SAK I. These share certificates confer to Air France – KLM the economic right attached to the transferred cumulative preferential A shares, i.e. a right to a dividend, the corresponding voting rights being exercised by SAK I until the share certificates have been exchanged by Air France – KLM against the said shares.

In March 2005, pursuant to the agreement, 5,103,885 cumulative preference A shares were transferred by the Dutch State to SAK I on behalf of Air France – KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period (2004 to 2007), Air France – KLM had the option to exchange the share certificates against cumulative preferential A shares, and to directly hold the cumulative preferential A shares. Having decided, in 2007, to maintain the SAK I and SAK II foundations, Air France – KLM did not proceed with this exchange but could still do so at any time, in whole or in part. In addition, Air France – KLM is free to decide to dissolve the foundations at any time and at its sole discretion.

Furthermore, the Dutch State benefits from the right to transfer, at any time, as many cumulative preferential A shares as it wishes to Air France – KLM.

These agreements relating to the cumulative preferential A shares remain in force.

Option for the Dutch State to subscribe for preferential KLM B shares

This option granted to the Dutch State lapsed in May 2010.

Assurances given to the Dutch State

Nature and duration of the assurances – unilateral termination option

Within the framework of the 2004 business combination, Air France and KLM granted the Dutch State, for an initial eight-year period starting from the completion of the business combination (i.e. expiring in 2012), various assurances as to KLM's airline status, its air services and the scale of its passenger and cargo operations at Schiphol airport with a view to maintaining the quality of KLM's network at Schiphol which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France – KLM Group and its shareholders (the "Assurances").

In return for these Assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months;
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

Pursuant to an agreement entered into on May 25, 2010, the Dutch State, Air France – KLM and KLM agreed to extend the Assurances given to the Dutch State, with the exclusion, however, of an assurance foreseeing that the combined growth should not negatively impact KLM's operations in the passenger and cargo segment, beyond May 5, 2012 for an indefinite period, subject to Air France – KLM's right to terminate these Assurances, at its sole discretion, with prior notice of nine months. This agreement was confirmed by a meeting between, *inter alia*, the Minister for Transportation of the Netherlands, the Chairman and Chief Executive Officer of Air France – KLM and the President of the Management Board of KLM which took place on March 12, 2015.

Mechanism to ensure compliance with the Assurances

Air France and KLM set up a Dutch foundation, known as the KLM Assurances Foundation (*Stichting Assurances KLM* – duration extended in 2010) to facilitate the provision of binding advice (*bindend advise*) on the interpretation of the Assurances granted to the Dutch State (the "Advice"). These advices are issued by a KLM Assurances Foundation Committee in the event that a decision taken by the KLM Supervisory Board, KLM Management Board or Air France – KLM Board of Directors is considered to be in conflict with the Assurances given to the Dutch State.

When giving its Advice, the KLM Assurances Foundation must act in the best interests of KLM, the Air France – KLM Group and its shareholders.

The Committee is composed of three members:

- one member appointed by Air France – KLM;
- one member appointed by the Dutch State; and
- one member jointly appointed by the first two members as well as by a Board member of the KLM Assurances Foundation appointed by KLM who is not a Committee member; it being specified that the member appointed by Air France – KLM has a double voting right for the appointment of the third Committee member.

The filing of a case with the Foundation's Committee relating to a decision taken by the KLM Supervisory Board, the KLM Management Board or the Air France – KLM Board of Directors can be made by the Dutch State only in relation to the Assurances given to it.

If the KLM Assurances Foundation Committee issues an Advice indicating that the decision submitted to it contravenes the Assurances given to the Dutch State, the KLM Supervisory Board, the KLM Management Board or the Air France – KLM Board of Directors will be required to cancel or amend its decision as soon as possible and nullify the effects of any measure taken in connection with the said decision, in accordance with the issued Advice. The Committee's decisions are adopted by majority vote of its members.

As at December 31, 2019, no Advice had been rendered by the KLM Assurances Foundation Committee.

6.3.3 Assurances given to KLM

The assurances granted to KLM have been null and void since May 6, 2009.

6.4 LEGISLATIVE AND REGULATORY ENVIRONMENT FOR THE AIR TRANSPORT INDUSTRY

Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each State undertakes to apply in its air space after their ratification.

6.4.1 Freedoms of the air and international conventions

In addition to the eight freedoms of the air established by the Chicago Agreements relating to transit and transport (1944), three main treaties establish the legal and regulatory framework for commercial aviation: the Chicago Convention (1944), the Montreal Convention (1999) and the Tokyo Convention (1963). A fourth treaty, the Rome Convention (1952), covers damage caused to third parties on the ground.

Freedoms of the air

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

- 1st freedom – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State;
- 2nd freedom – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the “transit right”;
- 3rd freedom – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State;

- 4th freedom – A carrier that leaves from a foreign State has the right to load passengers in this foreign State and unload them in its State of origin;
- 5th freedom – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States;
- 6th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State;
- 7th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin;
- 8th freedom – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

The Chicago Convention (1944)

The Convention relating to international civil aviation, known as the Chicago Convention, sets out the legal, regulatory and technical rules governing commercial aviation and its Member State signatories are required to implement a common legal framework governing their domestic air space and their relations with one another.

Signed on December 7, 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) as the instrument of cooperation between the 193 signatory States in all areas of civil aviation.

The Montreal Convention (1999)

The Montreal Convention of May 1999, ratified to date by 136 States, aims to provide better protection for passengers suffering damages. This convention entered into force on June 28, 2004. It is based on several fundamental provisions, notably the principle of the unlimited liability of air transport companies in the event of physical injury with the implementation of a two-tier system:

- a first tier that sets an objective liability for the air transport company of up to 128,821 Special Drawing Rights (SDR);
- a second tier, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages result exclusively from the acts of a third party.

The Rome Convention (1952)

The Rome Convention, signed in 1952, covers damages caused to third parties on the ground by foreign aircraft. This convention has not been ratified by France, the Netherlands or the United States. The ICAO's legal commission is currently involved in a major initiative to redraft the wording which would facilitate its ratification by making a distinction between everyday risk and terrorist risk.

The Convention relating to compensation for damage caused to third parties following acts of unlawful interference with aircraft, signed in Montreal on May 2, 2009 by thirteen States, for the most part African, is still not applicable. It has only been ratified by three of the 35 States required for its entry into force.

The Tokyo Convention (1963)

The Tokyo Convention, in force since December 4, 1969, sets out the principles and establishes the procedures for handling offences against penal law (except those of a political nature and based on racial or religious discrimination) and acts endangering the safety of the aircraft or that of the persons and property on board.

One of the specific characteristics of this Tokyo Convention is that it recognizes certain powers and immunities of aircraft commanders, exonerating them, under certain conditions, from responsibility for any harm potentially caused to individuals committing such unlawful acts.

This Tokyo Convention (ratified by France in 1970) is currently the subject of a revision process within the ICAO.

A Protocol to amend the Tokyo Convention was adopted in Montreal on April 4, 2014. It gathered the minimum of 22 ratifications required for its entry into force and is thus applicable in the States having ratified it. The ratification process is currently under way in France.

This Montreal Protocol expands the jurisdiction by recognizing, under certain conditions, the jurisdiction of the State of Landing and the State of the Operator over offences and acts committed

on board aircraft. The establishment of such jurisdiction over offences is mandatory if the criteria stipulated in the Protocol are respected. Furthermore, the Protocol grants legal recognition and some protections to in-flight security officers. It also contains provisions covering matters such as intra-State coordination, due process of law and fair treatment.

6.4.2 European legislation

Single European air space

Within the European Union, these eight freedoms have been supplemented, since April 1, 1997, by common legislation that creates a homogeneous regulatory situation for all European carriers. All European airlines may freely operate and, in particular, perform cabotage operations within a single European air space. Furthermore, any resident of an EU Member State may hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State. The existence of this legislation eliminates the need for bilateral agreements between EU Member States and does not prevent them from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

Open Skies agreement between Europe and third-party countries

Based on mandates issued by the Council of Ministers, the European Union and its Member States have signed air transport agreements with the following third-party countries:

- **United States:** the agreement signed in April 2007 was amended by a protocol of June 2010 enabling, notably, European airlines to operate an unlimited number of flights, aircraft and routes to the United States from any European airport with the freedom to set prices, and to operate their services within the framework of cooperation agreements with partners of their choice. This agreement does not change the US rules on ownership and control and, similarly, cabotage remains forbidden;
- **Canada:** the agreement signed in December 2009 offers EC carriers similar opportunities to those figuring in the agreement with the United States and also includes the same restrictions;
- **European Union neighboring countries:** the agreement signed with Morocco in December 2006 was the first in a series of agreements signed with European Union neighboring countries: Georgia and Jordan in December 2010, Moldavia in June 2012 and Israel in June 2013. These agreements foresee the liberalization of bilateral air relations subject to the relevant countries adopting the EU aviation-related acquis;
- **Balkan States** (Albania, Bosnia, Macedonia, UNMIK, Montenegro, Serbia): the agreement signed in June 2006 aims to create a common air space. At the end of transition periods that vary by country, the Balkan airlines will benefit in Europe from the

same traffic rights as EC airlines. At this stage, only the 3rd and 4th freedom rights have been liberalized.

In April 2002, the European Union also signed an air transport agreement with Switzerland giving Swiss carriers, which are assimilated with EU carriers, access to all the intra-Community rights with the exception of cabotage.

Access to the market between France and States other than those mentioned above for which there are existing agreements at European Community level remains governed by bilateral aviation agreements signed between France and these third-party States.

Community air transport policy

The regulation applicable to air transport within the European Union is primarily of European Community origin. The aims as outlined in the work programs of the European Commission are to reinforce the competitiveness of European Community airlines while insisting on the need to reduce the air transport industry's environmental impact and offer a high degree of passenger protection⁽¹⁾. The principal positive measures consist of establishing a legal framework favoring fairer competition between EU and third-party carriers, the effective implementation of the Single European Sky and a commitment to developing biofuels. The European Commission also proposed a series of measures known as the "Better Airports" package, aimed at reducing the cost of infrastructure use within the European Union. The latter initiatives have only come to very partial fruition due to persistent disagreements within the European institutions. A new European Commission Aviation Strategy was published on December 7, 2015 but the concrete consequences of the proposed measures remain to be evaluated. This strategy should notably be reflected in the adoption of a new EC commercial defense instrument aimed at protecting European airlines against competition from subsidised air carriers from third-party countries.

6.4.3 Other legal aspects of Air France - KLM's activities

Allocation of slots

Access to the main international airports is subject to the prior allocation of time slots. A European Regulation covers access to most so-called coordinated European airports (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.). Elsewhere in the

world, the allocation of slots is generally done on the basis of recommendations issued by IATA in a Worldwide Slot Guidelines reference document. Countries nonetheless retain sovereignty for defining the modalities of slot allocation and may apply rules that differ slightly from the IATA recommendations (e.g. China, Japan, United States, Dubai, etc.).

For airports within the European Union, each Member State with coordinated airports under its responsibility, after consulting the airlines that regularly use the airports concerned, their representative organizations and the airport authorities, must designate a coordinator or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:

- airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as grandfather rights) for past operations;
- a pool is then created that regroups, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a carrier or have become available for any other reason;
- finally, the coordinator allocates half of the pooled slots to newcomers and the other half to the other operators.

Since slots are first allocated to existing long-standing operators, and given the expansion plans of all the airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:

- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

(1) The passenger compensation rules are detailed in section 3.2.2 Risks relating to the air transportation activity, page 135.

6.5 INFORMATION AND CONTROL

6.5.1 Person responsible for the Universal Registration Document and for the Annual Financial Report

Benjamin Smith, Chief Executive Officer of Air France – KLM.

6.5.2 Certification by the person responsible

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions to this effect, the information contained in this Universal Registration Document reflects reality and that nothing has been omitted that would be likely to change the significance thereof.

I further declare that, to the best of my knowledge, the financial statements have been prepared 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 all the companies within the consolidation scope, and that the information contained in the management report figuring on pages **6 to 108, 33 to 413, 118 to 128, 129 to 154, 155 to 220 and 339** of this

Universal Registration Document provides a true and fair view of the changes in the business, results and financial position of the Company and all the companies within the consolidation scope, and that it outlines the main risks and uncertainties that they face.

I have obtained a completion letter from the Statutory Auditors confirming that they have verified the information regarding the financial position and the financial statements contained in this Universal Registration Document and reviewed the entire Universal Registration Document.

The consolidated financial statements for the financial year ended December 31, 2019 included in this Universal Registration Document are the subject of a Statutory Auditors' report figuring on pages **321 to 345**.

The consolidated financial statements for the financial year ended December 31, 2018 included in the Registration Document filed with the AMF on April 8, 2019 under the registration number D.19-0285 were the subject of a Statutory Auditors' report figuring on pages **302 to 326**.

The consolidated financial statements for the financial year ended December 31, 2017 included in the Registration Document filed with the AMF on March 29, 2018 under registration number D.18-0232 were the subject of a Statutory Auditors' report figuring on pages **257 and 258**.

Benjamin Smith
Chief Executive Officer of Air France – KLM

6.5.3 Statutory Auditors

Incumbent Statutory Auditors

Deloitte et Associés

6 place de la Pyramide, 92908 Paris-La Défense Cedex, France
Represented by Guillaume Troussicot and Pascal Colin
Starting date of first mandate: September 25, 1998
Renewed for a six-year period by the Shareholders' Meeting of May 19, 2016.

KPMG Audit

A division of KPMG SA
Tour EQHO, 2 avenue Gambetta,
CS 60006, Paris-La Défense Cedex
Represented by Eric Jacquet
Starting date of first mandate: September 25, 2002
Renewed for a six-year period by the Shareholders' Meeting of May 20, 2014.

Deputy Statutory Auditors

BEAS

7/9 Villa Houssaye, 92200 Neuilly-sur-Seine
Starting date of first mandate: September 25, 1998
Renewed for a six-year period by the Shareholders' Meeting of May 19, 2016.

KPMG ID Audit

A division of KPMG SA
Tour EQHO, 2 avenue Gambetta,
CS 60006, Paris-La Défense Cedex
Starting date of first mandate: May 20, 2014
First appointed for a six-year period by the Shareholders' Meeting of May 20, 2014.

6.5.4 Head of Investor Relations

Olivier Gall
Mailing address: Air France – KLM/AFKL.FI
95737 Paris-CDG Cedex

6.5.5 Documents available to the public

Amongst the documents available on the Company's website (www.airfranceklm.com) figure, notably:

- the 2019 Universal Registration Document;
- 2019 first-half financial report;
- the 2018, 2017, 2016, 2015, 2014, 2013, 2012 and 2011 Registration Documents filed with the *Autorité des Marchés Financiers*;
- the financial press releases (traffic, quarterly, half-year and annual results);
- the offering memoranda;
- the financial presentations;
- the Company's Articles of Incorporation.

GLOSSARIES

Air transport glossary

A4E

Airlines for Europe. On January 20, 2016, at the European Aviation Summit, the five largest European airline groups – Air France – KLM, easyJet, International Airlines Group, Lufthansa Group and Ryanair – announced the creation of the new association.

The five groups, which carry more than 50% of passengers in Europe, chose to join forces with the aim of influencing European aviation policy.

A4E aims to replace the AEA in lobbying the European Commission effectively on at least three major measures:

- reducing European airport charges;
- ensuring a safe and efficient air space by reducing the cost of air traffic control (ATC);
- stimulating increased economic activity and employment by creating an appropriate regulatory framework.

AEA

Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)

Total number of seats available for the transportation of passengers multiplied by the number of kilometers traveled.

Available ton-kilometers (ATK)

Total number of tons available for the transportation of cargo, multiplied by the number of kilometers traveled.

Biometry

Technique enabling the identity of an individual to be verified, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

Coordinated airport

Airport where a coordinator has been appointed to allocate landing and take-off slots according to rules established in advance. All large European Union airports are coordinated.

Cabotage

Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country.

Capacity

Capacity is measured in available seat-kilometers.

Catering

In-flight catering involves the planning and preparation of meals and the assembly of meal trays destined to be served on board an aircraft.

Codeshare

In accordance with a codeshare agreement, two partner airlines offer services on the same aircraft, each under their own brand, their own IATA code and their own flight number. Codesharing may take two forms. In the first case, the two airlines purchase and sell seats to and from each other at an agreed price. The airline which has purchased the seats then markets them under its brand and at its fares. In the second case, under the system known as free flow, the two airlines are allowed to sell all the seats on the flights involved. Each airline retains the revenues generated on the flight it operates and remunerates the other airline for the number of seats the latter has sold on its aircraft.

Combi

Aircraft whose main deck is equipped for the transportation of both passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

Connecting traffic

Traffic between two destinations which are not linked by a direct flight.

DGAC

Direction Générale de l'Aviation Civile. Under the authority of the French Ministry of Transport, the DGAC is in charge of the security of air transport and of air space in France.

DGTL

Directoraat-Generaal Transport en Luchtvaart.

Under the authority of the Dutch Ministry of Traffic and Public Works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

E-services

Range of ground services offered by Air France and KLM to their passengers, based on the new information technologies. E-services notably enable passengers to check in using self-service kiosks or *via* the airlines' websites as well as the use of electronic tickets.

EASA

European Aviation Safety Agency. EASA develops safety and environmental protection expertise in civil aviation in order to assist the European institutions to establish legislation and implement measures regarding aircraft security, organizations and associated staff.

Electronic ticket

All the journey information for one or several passengers which, instead of being printed, is recorded in an airline's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces a traditional paper ticket.

FAA

Federal Aviation Administration. Body responsible for civil aviation security in the United States.

Handling

Preparation of the aircraft, involving loading and unloading, as well as the associated logistics such as management and storage of hotel products.

Hub

Term used for a transfer platform where departures and arrivals are scheduled to minimize transit times. Air France – KLM disposes of two of the four major European hubs: Paris-CDG and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer opportunities for customers.

IATA

International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with various commercial and financial support services.

ICAO

The International Civil Aviation Organisation, a UN Specialized Agency, promotes the safe, secure and sustainable development of civil aviation worldwide. It establishes the standards and regulations required to ensure the safety, security, efficiency and continuity of aviation operations as well as the protection of the environment.

Joint-venture

Joint company with two partners, often held equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

Load factor

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK). In the cargo activity this is revenue ton-kilometers (RTK) divided by available ton-kilometers (ATK).

Multi-hub

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the round-trip offer to and from worldwide destinations.

Premium

Fare classes corresponding to business or first class.

Over-reservation or over-booking

Over-reservation or over-booking consists of accepting more bookings than seats available. Practiced by all airline companies and permitted by European legislation, over-booking enables management of the fact that some passengers cancel their trips but not their reservations. It thus allows many passengers to find a seat on board flights that could have departed with available seats. Airlines usually have a passenger compensation policy.

Point-to-point traffic

Traffic between two airports, excluding passengers prolonging their trip with a connecting flight.

Revenue management

Technique designed to optimize revenue on flights, by constantly seeking a better balance between the load factor and the fares offered.

Revenue passenger-kilometer (RPK)

Total number of paying passengers carried multiplied by the number of kilometers traveled.

Revenue ton-kilometer (RTK)

Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is carried.

Safety and security

Airline safety includes all the measures implemented by air transport professionals aimed at ensuring the reliable operation and maintenance of aircraft.

Airline security involves all the measures taken by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media impact offered by such activity. Airline security notably includes baggage screening, and the screening and questioning of passengers.

Self-service check-in kiosk

Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

Segment

Section of a flight between two destinations. The number of passengers is calculated by segment carried.

Slot

A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date.

Sub-fleet

All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration, etc.).

Summer season

Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of seven months.

Traffic

Traffic is measured in revenue passenger-kilometers (RPK).

Unit revenue

In the passenger business, corresponds to the revenue for one available seat or for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenue for one available ton or one ton transported over one kilometer.

Winter season

Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over five months.

Financial glossary**Adjusted net interest charges**

The net financial charges are adjusted for the portion of operating leases (34%) deemed to be interest charges.

Adjusted net debt

Adjusted net debt comprises net debt and the amount resulting from the capitalization of operating leases (7x the annual charge).

ADR

American Depositary Receipt. ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars. The Air France – KLM level 1 ADR program is traded on the OTC Pink Open Marketplace.

Earnings per share

Net income divided by the average number of shares for the period.

EBITDA

Earnings before interest, taxation, depreciation and amortization.

Fuel hedging

Financial mechanism aimed at protecting Air France – KLM from the risk of a rise in the fuel price. Involves purchasing financial instruments, mostly in the form of options, whose value fluctuates as a function of the jet fuel price and the related oil products (oil, diesel). The hedging strategy is detailed in *Note 36.1, page 300*.

IFRS

International Financial Reporting Standards. International accounting standards used by European Union listed companies to establish their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

ISIN

International Securities Identification Number. Attributed to securities listed for trading on the Euronext market.

Market capitalization

The market capitalization corresponds to the share price multiplied by the number of shares comprising the Company's capital.

Net result, Group part

Corresponds to the net result, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

Result from current operations

The result from current operations corresponds to the difference between revenues and the operating expenses incurred (external expenses, salaries and related costs, and amortization, depreciation and provisions). It represents what the Company earns from its main activity before the impact of financial and exceptional items.

Return on Capital Employed (ROCE)

A measure of the returns that a company is making on the capital employed to ensure its business activity. The calculation method is detailed in *Section 5.3, page 228*.

Revenues

Revenues correspond to the total sales generated by the Air France - KLM Group in its three core businesses (passenger, cargo, maintenance) and in its ancillary activities. The revenues from airline operations are recognized on realization of the transportation, net of any potential discounts granted. Consequently, when passenger and cargo tickets are issued, they are recorded in balance sheet liabilities under deferred revenue on ticket sales (see *Note 4.6, page 248*).

Share capital

Corresponds to the total contributions either financial or in kind made by the shareholders either at the time the company is created or during capital increases. It is equal to the number of shares multiplied by the nominal value of the share.

Stockholders' equity

Stockholders' equity represents accounting value of the capital contributed by the shareholders to establish the company or subsequently, or left at the disposal of the company as income not distributed in the form of dividends. Corresponds to total balance sheet assets, net of total debt.

TPI

Titre au Porteur Identifiable or identifiable bearer shares. TPI analysis enables a company to identify its shareholders holding stock in bearer form.

TABLE OF CONCORDANCE FOR THE UNIVERSAL REGISTRATION DOCUMENT

This concordance table is based on the main headings required by the Delegated Regulation (EU) 2019/980 of March 14, 2019 (“the Regulation”), supplementing the provisions of Regulation (EU) 2017-1129 of June 14, 2017, and provides the page numbers in this Universal Registration Document on which the relevant information can be found.

No.	Information based on Annex 1 of the regulation	Pages
1	Persons responsible, information from a third party, from experts' reports and approval by the competent authority	
1.1	Persons responsible	p.356
1.2	Information from a third party, from experts' reports and declarations of interest	Not applicable
2	Statutory Auditors	p.357
3	Risk factors	p.129 to 154
4.	Information about the issuer	p.350
5.	Business overview	
5.1	Principal activities	p.24 to 41
5.2	Principal markets	p.24 to 41
5.3	Important events in the development of the issuer's business	p.7 to 10
5.4	Strategy and objectives	p.18 to 23
5.5	Dependence on patents, licenses, contracts or manufacturing processes	Not applicable
5.5	Competitive position	p.13 to 17
5.6	Principal investments	p.42 to 45, p.222 to 223, p.274 to 277, p.181 to 201
6	Organizational structure	
6.1	Brief description of the Group	p.20 and 21, p.147 to p.154, p. 224, p.351 to 353
6.2	List of significant subsidiaries	p.224, p.318 to 320, p.336
7	Review of the financial situation and results	
7.1	Financial situation	p.4, p.222 to 223, p.224 to p.227, p.228 to 230
7.2	Operating result	p.4, p.224 to 227, p.228 to 230
8	Capital resources	
8.1	Information on the Group's capital resources	p.118 to 128 and p.282 to 285 and p.334
8.2	Sources and amounts of cash flows	p.142 to 146, p.222 to 223, p.239 to 240 and p.316
8.3	Information on borrowing requirements and funding structure	p.143 to 146, p.223, p.226 and p.227, p.228 to 231, p.294 to 297, p.299, p.306 to p.311 and p.334 to 336
8.4	Restrictions on the use of capital resources having materially affected or potentially materially affecting the Group's activities	p.142 to 146, p.294 to 297 and p.283
8.5	Anticipated sources of funding	p.8, p. 142 to 146 and p.223
9	Regulatory environment	p.353 to 356
10	Information on trends	p.10

No.	Information based on Annex 1 of the regulation	Pages
	Update on recent events linked to COVID-19	p.10 and p.231
11	Profit forecasts or estimates	Not applicable
12	Administrative, management and supervisory bodies, and the Senior Management	p.50 to 74
12.1	Information relating to members of the Board and the Senior Management	p.48 to 74
12.2	Conflicts of interest affecting members of the Board of Directors and the Senior Management	p.81
13	Compensation and benefits	
13.1	Compensation and benefits in kind	p.94 to 115
13.2	Amounts set aside or accrued to provide pension, retirement or similar benefits	p.115 and p.314
14	Functioning of the administrative and management bodies	p.75 to 76
14.1	Mandates of the members of the Board of Directors	p.48 to 74
14.2	Service contracts binding the members of the management bodies	p.81
14.3	Information on the Audit Committee and the Remuneration Committee	p.87 to 90
14.4	Statement of compliance with a Corporate Governance regime	p.75 and p.93
14.5	Potential material impacts on Corporate Governance	p.93
15	Employees	p.164 to 180
15.1	Number of employees and breakdown of persons employed	p.174 to 175, p.263
15.2	Shareholdings and stock options held by members of the Board of Directors and the Senior Management	p.50 to 74, p.106, p.121 to 124, p. 282 to 284
15.3	Employee shareholding in the issuer's share capital	Not applicable
16	Major shareholders	
16.1	Identification of the main shareholders	p.121 to 124
16.2	Existence of specific voting rights	p.118
16.3	Control of the issuer	Not applicable
16.4	Agreements known to Air France – KLM which could lead to a change in control	p.124
17	Related party transactions	p.314 to 316
18	Financial information concerning the issuer's assets and liabilities, financial position and results	
18.1	Historical financial information	p.4 and 5, p.234 to 320, p.327 to 338 and p.364, p.321 to 326, p.340 to 343
18.2	Interim and other financial information	Not applicable
18.3	Auditing of historical annual financial information	p.321 to 326, p.340 to 343
18.4	Pro forma financial information	Not applicable
18.5	Dividend policy	p. 124
18.6	Legal and arbitration proceedings	p. 142, p. 291 to 293
18.7	Significant change in the issuer's financial position	p. 6 to 10 and p.241 to 320
19	Additional information	
19.1	Share capital	p.118 to 120, p.282 to 283, p.334, p.339
19.2	Memorandum and Articles of Incorporation	p.125 to 127, p.350, p.118 to 120
20	Material contracts	Not applicable
21	Documents available to the public	p.75, p.357

INFORMATION INCLUDED BY REFERENCE

Pursuant to Article 19 of Regulation (EU) 2017-1129 of the European Parliament and of the Council of June 14, 2017, the following information is included by reference in this Universal Registration Document:

2018 Financial Year

The Registration Document for the 2018 financial year was filed with the *Autorité des Marchés Financiers* on April 8, 2019 under the registration number D. 19-0285. The consolidated financial statements are presented on pages **200** to **301** and the related Statutory Auditors' report on pages **302** to **307**. The full statutory financial statements can be found on pages **308** to **320** and the related Statutory Auditors' certification on page **321** to **324**. The selected financial information is presented on pages **4** and **5** of the Registration Document. The management report figures on pages **6** to **8**, pages **10** to **42**, **43** to **111**, pages **30** to **32**, pages **39** to **42**, pages **125** to **146**, pages **126** to **148**, pages **148** to **166**, pages **167** to **176**, pages **204** to **219** and pages **118** to **121**.

2017 Financial Year

The Registration Document for the 2017 financial year was filed with the *Autorité des Marchés Financiers* on March 29, 2018 under the registration number D. 18-0232. The consolidated financial statements are presented on pages **200** to **286** and the related Statutory Auditors' report on pages **287** to **292**. The full statutory financial statements can be found on pages **293** to **305** and the related Statutory Auditors' certification on page **307** to **310**. The selected financial information is presented on pages **4** and **5** of the Registration Document. The management report figures on pages **6** to **8**, pages **10** to **54**, **66** to **73**, **87** to **89**, pages **83** to **89**, pages **96** to **99**, pages **102** to **125**, pages **128** to **148**, pages **149** to **157**, pages **157** to **179**, pages **190** to **198**, page **306** and pages **55** to **62**.

TABLE OF CONCORDANCE FOR THE ANNUAL FINANCIAL REPORT

This Universal Registration Document contains all the elements of the financial report as referred to in Article L. 451-1-2 of the French Monetary and Financial Code (*Code Monétaire et Financier*) and required by Article 222-3 of the AMF's General Regulation. The table below resumes the elements of the financial report.

Elements required	Pages of the Universal Registration Document
The annual statutory financial statements	p.327 to p.338
The Group's consolidated financial statements	p.234 to 320
Corporate governance report	p.47 to 128 <ul style="list-style-type: none"> — update on the shareholder structure at March 26, 2020, p.123 — update on the declarations on the crossing of thresholds since December 31, 2019, p.126; — update relating to the 2020 compensation policy decided by the Board of Directors on April 3, 2020 linked to the COVID-19 crisis, p.111 to 113.
Management report	p.6 to 108, p.33 to 413, p.118 to 128, p.129 to 154, p.155 to 220, p.339 Following the COVID-19 public health crisis, the elements in the blue boxes relate to a comprehensive update of the paragraphs in the management report relating to the health and liquidity risks on, respectively, p.132-133 and p.145
Certification by the person responsible for the Annual Financial Report	p.356
Statutory Auditors' report on the statutory financial statements	p.340 to p.343
Statutory Auditors' report on the consolidated financial statements	p.321 to 326
Statutory Auditors' fees	p.317

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