Air France-KLM Group

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

January 1, 2020 – June 30, 2020

Air France-KLM Group

Table of contents

Air France-KLM Group

CONSOLIDATED INCOME STATEMENT (unaudited)

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

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

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

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (unaudited)

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

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

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

CONSOLIDATED BALANCE SHEET (unaudited)

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

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

CONSOLIDATED BALANCE SHEET (unaudited) (continued)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

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

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

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

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

Air France-KLM Group

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Period from January 1 to June 30 *In € millions*	***Notes***	**2020**	**2019** **restated [1]**
Net income from continuing operations		(4,417)	(226)
Amortization, depreciation and operating provisions		1,527	1,473
Financial provisions		88	108
Loss (gain) on disposals of tangible and intangible assets		(36)	(31)
Loss (gain) on disposals of subsidiaries and associates		-	(2)
Derivatives – non monetary result		224	24
Unrealized foreign exchange gains and losses, net		74	56
Share of (profits) losses of associates		29	(8)
Deferred taxes		244	34
Impairment		639	-
Other non-monetary items		282	64
Financial capacity		**(1,346)**	**1,492**
(Increase) / decrease in inventories		59	(73)
(Increase) / decrease in trade receivables		703	(371)
Increase / (decrease) in trade payables		(875)	24
Increase / (decrease) in advanced ticket sales		378	1,266
Change in other receivables and payables		278	(55)
Change in working capital requirement		**543**	**791**
Net cash flow from operating activities (A)		**(803)**	**2,283**
Acquisition of subsidiaries, of shares in non-controlled entities		(1)	-
Purchase of property plant and equipment and intangible assets (B)	***17***	(1,284)	(1,507)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	***3.2***	357	8
Proceeds on disposal of property plant and equipment and intangible assets (C)		172	76
Dividends received		-	7
Decrease (increase) in net investments, more than 3 months		(3)	20
Net cash flow used in investing activities		**(759)**	**(1,396)**
Increase of equity due to new convertible bonds		-	54
Issuance of debt	***24***	5,014	762
Repayment on debt	***24***	(1,993)	(338)
Payments on lease debts (D)		(412)	(502)
New loans		(20)	(34)
Repayment on loans		72	20
Dividends and coupons on perpetual paid		-	(1)
Net cash flow from financing activities		**2,661**	**(39)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts (net of cash acquired or sold)		(17)	(13)
Change in cash and cash equivalents and bank overdrafts		**1,082**	**835**
Cash and cash equivalents and bank overdrafts at beginning of period	***20***	3,711	3,580
Cash and cash equivalents and bank overdrafts at end of period	***20***	4,793	4,415
Income tax (paid) / reimbursed (flow included in operating activities)		(9)	5
Interest paid (flow included in operating activities)		(180)	(221)
Interest received (flow included in operating activities)		3	14

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

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

OPERATING FREE CASH-FLOW (UNAUDITED)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS DESCRIPTION

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

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

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

2. RESTATEMENT OF ACCOUNTS 2019

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

- Customer compensation

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

- Component approach for Life Limited Parts

A Life Limited Part (LLP) is defined as a major engine part whose failure would jeopardize the engine’s operation. Consequently, as a precaution, engine manufacturers define limited useful lives in cycles beyond which the LLPs must be replaced.
The cost of a complete set of LLPs is significant and their useful lives (depending on the parts) range from 3,000 to 40,000 cycles (a cycle corresponds to one take-off and one landing).

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

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

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

Impact on the consolidated income statement

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

Impact on the consolidated statement of cash flows

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

3. SIGNIFICANT EVENTS

3.1. COVID-19

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

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

Capacity reduction

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

In parallel, the decrease of capacity related to Covid-19 consequences and some specific cost initiatives resulted in a reduction in the Group's external expenses to €3,312 million, down 42.8% versus last year. External expenses excluding fuel price are down 59% compared to last year. Fuel costs were down by only 46.4% due to negative hedge results following the decline of the fuel price.
In addition, following the drastic reduction of fuel consumption, the Group had to terminate a large portion of the fuel hedge relationships leading to a loss of €590 million accounted for in "Other financial income and expenses" as of June 30, 2020.

Fleet

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

Staff costs reductions

Air France and its subsidiaries implemented part-time activity and KLM, starting as from April 1, 2020, receives support from the Dutch State with the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW).
The Group's cost savings amounts around €850 million in the second quarter of 2020 and has been accounted for on the "salaries and other related costs".

Liquidity position

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

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

On 25 June 2020, the Dutch State, the Air France-KLM group and KLM have finalized an agreement on a financial support mechanism supported by the Dutch State to KLM group for an amount of €3.4 billion (See note 24.5 Loans guaranteed by the French and the Dutch State).

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

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

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

Assets valuation

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

3.2. Events that occurred in the period

Sales of Amadeus shares

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

Issue of notes and tender offer on series of existing notes

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

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

Drawn down of revolving credit facility during the first quarter 2020

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

Furthermore, on March 19, 2020, KLM drew down its revolving credit facility concluded on May 23, 2018 for the full amount of €665 million. This amount has been included into the short-term financial debt as of June 30, 2020.
KLM's first drawing under the new revolving credit facility, as part of the financial package guaranteed by the Dutch State is used to repay and terminate the existing revolving credit facility of €665 million.

Air France-KLM Group

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

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

- A loan of € 4 billion, 90% guaranteed by the French State, provided by a syndicate of nine banks, with an initial 12-month maturity and a one-year or two-year extension option exercisable by Air France-KLM (see note 24.5 Loans guaranteed by the French and the Dutch State).

- A subordinated shareholder loan of €3 billion, granted by the French State to Air France-KLM, with a maturity of four years, with two consecutive one-year extension options exercisable by Air France-KLM (see note 24.5 Loans guaranteed by the French and the Dutch State).

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

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

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

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

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

Restructuring plan for Air France-KLM Group

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

- **KLM Voluntary Resignation Scheme**

The Covid-19 has had a major impact on KLM and, to the contend with the reduction of workload expected until 2024, the option to leave the company on a voluntary basis with financial compensation was opened for KLM employees for a period starting June 1, 2020 and ending July 12, 2020. The 2020 Voluntary Resignation Scheme offers a financial incentive, the level of which depends on the number of years in service. Based on the 2,436 employees who have registered for the voluntary leave plan, KLM recorded a restructuring provision of €178 million as of June 30, 2020.

- **Air France Group**

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

- Air France predicts a reduction of 6,560 jobs by the end of 2022 out of a current total of 41,000. Natural departures expected over this period (more than 3,500) makes it possible to compensate more than half of these job reductions.
- For HOP! the resizing of activity and the restructuring of the company linked in particular to the simplification of the fleet leads to a reduction of 1,020 jobs over the next three years out of the current 2,420. Taking into account the estimated number of natural departures, the overstaffing figure remains at around 820 at the end of 2022.

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

- **Mutual agreement on termination of contract ("Rupture Conventionnelle Collective") for Air France pilots**

During the meeting of the Social Economic Establishment Committee ("CSEE") Flight Operations of June 26, 2020, the management of Air France presented the mutual agreement on termination of contract ("RCC") for pilots. A cost of € (37) million has been accounted for as of June 30, 2020 in "Other non-current income and expenses".

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

3.3. Subsequent events

Air France restructuring plan for cabin crew and ground staff

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

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

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

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

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

4. ACCOUNTING POLICIES

4.1. Accounting principles

<u>Accounting principles used for the consolidated financial statements</u>

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

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

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

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

Change in accounting principles

- **IFRS standards which are applicable on a mandatory basis to the 2020 financial statements**

Amendments to IAS 1"Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors"

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

Amendments to IFRS 9 "Financial instruments" and IFRS 7 "Financial instruments: Disclosures"

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

The application of this amendment has no impact on the Group's financial statements as of January 1, 2020 and allows to continue with the hedge accounting of instruments indexed notably to Euribor and Libor US.

Foreign exchange rate and interest rate derivatives affected by this amendment are derivatives qualified as cash flow for the risk of interest and foreign exchange rate and are presented in the disclosures of the Group's financial statements as of December 31, 2019.

Amendment to IFRS 3 "Business Combinations"

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

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

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

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

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

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

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

Amendments to IAS 1 "Presentation of financial statements"

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

Amendments to IAS 16 "Property, Plant and Equipment"

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

Amendments to IFRS 3 "Business combinations"

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

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

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

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

Amendments to IAS 37 "Provisions, Contingent liabilities and Contingent Assets"

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

These amendments indicate that the costs to include to assess the "cost of fulfilling a contract" are the costs that relate directly to the contract.

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

Amendment to IFRS 9 "Financial instruments"

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

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

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

Amendments to IFRS 16 « Leases »

(Effective for accounting periods as of June 1, 2020)
This amendment permits to lessees not to assess whether a rent concession occurring as a direct consequence of the Covid-19 pandemic is a lease modification.

This practical expedient allows the lessee to account for those rent concessions related to the Covid-19 pandemic as if they were not lease modifications and to recognize the impact of the rent concession in the result of the period. This practical expedient applies to rent concessions related to Covid-19 fulfilling the following conditions:
- the modification leads to a revision of the lease debt that is substantially the same or inferior to the initial lease debt immediately prior to the modification;
- the rents are initially owed by June 30, 2021 latest;
- there is no other substantial modification in the contract.

4.2. Preparation of condensed interim consolidated financial statements

Seasonality of the activity

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

Income taxes

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

Retirement benefits

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

Fuel hedging

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

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

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

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

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

4.3. Use of estimates

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

- Revenue recognition related to deferred revenue on ticket sales (see note 6)
- Flying Blue frequent flyer program

- Financial instruments (see note 12)
- Intangible assets (see notes 15)
- Tangible assets (see notes 15 and 16)
- Lease contracts (see notes 16 and 25)
- Pension assets and provisions (see note 21)
- Return obligation liability and provision for leased aircraft (see note 23)
- Other provisions (see note 23)
- Current and deferred tax (see note 13)

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable that provide the basis for these assumptions.

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

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

5. CHANGE IN THE CONSOLIDATION SCOPE

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

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

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

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

6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

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

The Group is organized around the following segments:

Network: The Passenger network and Cargo operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (excluding Transavia), including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third-party airlines and services linked to IT systems.
Network revenues also include freight carried on flights operated under the codes of the airlines within the Group and flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from the sales of cargo capacity to third parties and the transportation of shipments on behalf of the Group by other airlines.

Maintenance: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers worldwide.

Transavia: The revenues from this segment come from the "low-cost" activity realized by Transavia.

Other: The revenues from this segment come from various services provided by the Group and not covered by the four segments mentioned above.

Air France-KLM Group

The results of the business segments are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond to EBITDA, current operating income and income from operating activities. Other elements of the income statement are presented in the “non-allocated” column.

Inter-segment transactions are evaluated based on normal market conditions.

Geographical segments

• Activity by origin of sales area

Group activities by origin of sale are broken down into eight geographical areas:

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

Only segment revenue is allocated by geographical sales area.

• Activity by destination

Group activities by destination are broken down into seven geographic areas:

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

6.1. Information by business segment

• First semester ended June 30, 2020

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

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

Air France-KLM Group

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

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

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

Air France-KLM Group

6.2. Information by geographical area

External sales by geographical area

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

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

- **First semester ended June 30, 2019 restated (1)**

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

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

Traffic sales by geographical area of destination

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

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

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

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

7. EXTERNAL EXPENSES

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

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

8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

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

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

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

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

Average number of employees

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

9. AMORTIZATION, DEPRECIATION AND PROVISIONS

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

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

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

10. OTHER INCOME AND EXPENSES

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

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

11. OTHER NON-CURRENT INCOME AND EXPENSES

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

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

Restructuring costs

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

Impairment of fleet

As of June 30, 2020, this line relates to the impact of the phase-out from the fleet of the A380, A340 and B747 by Air France-KLM Group, following the drastic reduction in air traffic in relation with Covid-19 (see note 3.2 Events that occurred in the period).

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

The final phase-out of the nine aircraft in the A380 fleet of which 5 owned and 4 leased aircraft, announced on May 20, 2020, and initially planned for the end of 2022, has been brought forward to 2020. The related impact amounts to € (545) million as of June 30, 2020.

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

A €21 million impairment has been recorded at the end of March 2020 to revalue the eight KLM B747s at their estimated market value.

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

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

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

Restructuring costs

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

Modification of pension plans

On February 22, 2019, an agreement was signed amending the retirement indemnities for Air France pilots retiring at 60 years or above, providing an advanced notice of at least 12 months is given, increasing the benefit obligation by €11 million.

Other

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

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

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

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

Financial income

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

Foreign exchange gain (losses)

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

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

Financial instruments and change in fair value of hedged shares

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

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

Other

As of June 30, 2020, this line mainly includes premiums paid on early reimbursement on part of the bonds with maturity dates in 2021 and 2022. The total premium is €22 million (see note 3.2. Events that occurred in the period).

13. INCOME TAXES

13.1. Income tax charge

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

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

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

The current income tax charge relates to the amounts paid or payable in the short term to the tax authorities for the period, in accordance with the regulations prevailing in various countries and any applicable treaties.

- **French fiscal group**

In France, the tax rate is 32.02 per cent and the French Finance Act 2018 provides for a gradual reduction in the French corporate tax rate to 25.83 per cent in 2022. Tax losses can be carried forward for an unlimited period. However, the amount of fiscal loss recoverable each year is limited to 50 per cent of the profit for the period beyond the first million euros. The Group limits its recoverability horizon on the deferred tax losses of the French fiscal group to a period of seven years, consistent with its operating visibility.

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

- **Dutch fiscal group**

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

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

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

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

13.3. Effective tax rate

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

In € millions **Period from January 1 to June 30**	**2020**	**2019 restated [(1)]**
Income before tax	(4,134)	(197)
Standard tax rate in France	32.02%	34.43%
Theoretical tax calculated based on the standard tax rate in France	1,324	68
Differences in French / foreign tax rates	(101)	20
Non-deductible expenses or non-taxable income	(19)	8
Impact of Effective Tax Rate	(1,045)	(134)
Write-off of deferred tax assets	(365)	-
Impact of change in income-tax rate	(34)	1
CVAE impact	(7)	(5)
Other	(7)	5
Income tax expenses	**(254)**	**(37)**
Effective tax rate	-6.2%	-18.9%

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

13.4. Unrecognized deferred tax assets

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

- **French fiscal group**

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

As of December 31, 2019, the cumulative effect of the limitation of deferred tax assets results in the non-recognition of a deferred tax asset amounting to €1,532 million (corresponding to a basis of €5,915 million), of which €1,272 million relating to tax losses and €260 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

- **Dutch fiscal group**

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

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

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

14. EARNINGS PER SHARE

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

Reconciliation of income used to calculate earnings per share

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

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

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

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

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

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

As of June 30	**2020**	**2019**
Weighted average number of:		
- Ordinary shares issued	428,634,035	428,634,035
- Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
- Other treasury stock	(85,151)	(85,151)
Number of shares used to calculate basic earnings per share	**427,432,464**	**427,432,464**
OCEANE conversion	27,901,785	27,901,785
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**455,334,249**	**455,334,249**

14.2 Non-dilutive instruments

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

14.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

15. IMPAIRMENT

- **Year ended June 30, 2020**

The health crisis related to COVID-19 and its economic impact constitutes a trigger event for impairment. Thus, the Group has conducted a test of impairment as of June 30, 2020 using a bottom-up five-year strategic plan subject to the approval by the Board on July 30, 2020. This plan forecasts a return to the level of 2019 activity in 2024 and is subject to the uncertainties related to the current situation
The recoverable value of the CGU assets (Network, Maintenance and Transavia) has been determined by reference to their value in use as of May 31, 2020.

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

After the aforementioned test, no impairment was recognized on the Group’s CGUs, including with a WACC 50-basis point higher combined with a decrease of 100-basis point in the long-term growth rate or a decrease of 100-basis point in the target operating margin.

- **Year ended December 31, 2019**

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

16. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

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

17. CAPITAL EXPENDITURES

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

In € millions	2020	2019
As of June 30		
Acquisition of flight equipment	1,022	1,192
Acquisition of other tangible assets	89	110
Acquisition of intangible assets	146	197
Accounts payable on acquisitions	27	8
Subtotal	**1,284**	**1,507**

18. TRADE ACCOUNTS RECEIVABLES

The details of trade accounts receivables are as follows:

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

The charge to allowance mainly relates to maintenance receivables.

19. OTHER ASSETS

The details of other assets are as follows:

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

20. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

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

21. PENSION ASSETS AND PROVISIONS

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

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

The inflation rates used are the following:

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

The duration of between 10 and 15 years mainly concerns the plans located in France while the duration of 15 years and beyond mainly concerns the KLM ground staff plan located in The Netherlands.

Remeasurement of defined benefit pension plans is composed of:

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

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

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

22.1 Breakdown of stock and voting rights

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

The breakdown of stock and voting rights is as follows:

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

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

22.2 Reserves and retained earnings

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

(1) Net of deferred tax

23. RETURN OBLIGATION LIABILITY AND OTHER PROVISIONS

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

23.1. Return obligation liability and other provisions

23.1.1. Return obligation liability on leased aircraft

The movements in return obligation liabilities and provisions (revaluation of future costs and change in discount rate) are booked in the components corresponding to the potential and restoration 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 June 30, 2020 and December 31, 2019.

23.1.2. Restructuring provisions

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

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

23.1.3. Litigation

An assessment of litigation risks with third parties has been carried out with the Group’s attorneys and provisions have been recorded whenever circumstances require.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities, within the framework of tax audits, could reasonably challenge a tax position adopted by the Group or one of its subsidiaries.

In the normal course of its activities, the Air France-KLM Group, its subsidiaries Air France and KLM and their subsidiaries are involved in litigation cases, some of which may be significant.

23.1.4. Litigation concerning antitrust laws in the airfreight industry

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

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

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

In Switzerland, Air France and KLM are challenging a decision imposing a €4 million fine before the relevant court. The Group has provisioned the totality of this fine.
As of December 31, 2019, the total amount of provisions in connection with proceedings which have yet to give rise to definitive decisions amounts to €343 million.

23.1.5. Other provisions

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

23.2 Contingent liabilities

The Group is involved in several governmental, judicial and arbitration procedures for which in most cases provisions have not been recorded in the financial statements in accordance with the applicable accounting rules. Indeed, with respect to most cases the Group is not in a position at this stage in these procedures to give a reliable estimate of the potential loss that would be incurred in connection with these disputes.

23.2.1. Litigations concerning antitrust laws in the airfreight industry

Following the initiation of various investigations by the competition authorities in 2006 and the European Commission decision in 2010, several collective and individual actions were brought by forwarders and air-freight shippers in the civil courts against Air France, KLM and Martinair, and other cargo operators, in a number of jurisdictions.

Under these civil 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 to a limited extent in Norway. This case is stayed awaiting the outcome of the appeal before the EU General Court.

23.2.2. Litigations concerning antitrust laws in the passenger sector

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including Air France and KLM. The plaintiffs allege that the defendants participated in a conspiracy in the passenger air transport service from Canada on the cross-Atlantic routes, for which they are claiming damages. Air France and KLM strongly deny any participation in such a conspiracy.

23.2.3. Other litigations

Rio-Paris AF447 flight

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

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

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

US Department of Justice investigation related to United States Postal Service

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

Case brought against KLM by (former) Martinair Cargo pilots

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

Except for the matters specified under the paragraphs 23.1 and 23.2, the Group is not aware of any governmental, judicial or arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, for a period covering at least the past twelve months.

24. FINANCIAL DEBT

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

Change in financial debt

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

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

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

24.1 Perpetual subordinated debt

24.1.1 KLM Perpetual subordinated debt in Japanese Yen

The perpetual subordinated loan in Japanese Yen was provided to KLM in 1999 for a principal amount of JPY 30 billion.

As per August 28, 2019 KLM has partially redeemed JPY 10 billion, leaving the residual outstanding principal amount to JPY 20 billion, i.e €166 million as of June 30, 2020. As from this date, the fixed JPY interest rate was reset to 4% per annum applicable on residual notional amount.

This perpetual loan can be redeemed at KLM's discretion on each fifth anniversary of the first interest payment date, August 28, 1999. The next repayment option date at Par is therefore set on August 28, 2024. Note that an indemnity is due if the JPY loan is redeemed in another currency than JPY.

This loan debt is subordinated to all other existing and future debt at KLM.

24.1.2 KLM Perpetual subordinated debt in Swiss francs

The perpetual subordinated bond debt in Swiss francs was issued by KLM in two tranches, one in 1985 and one in 1986. The initial nominal amount for these two perpetual bonds combined was CHF 500 million. Over the years, KLM has proceed several partial buy back transactions to partially redeem debt. The total amount now outstanding is CHF 375 million, i.e. €352 million as of June 30, 2020.

Concerning the perpetual bond debt issued in 1985, KLM is entitled to early redeem at Par the then prevailing outstanding residual amount on each tenth anniversary of the interest payment date. The next "Call date" is February 12, 2025. The coupon reset date is fully aligned with the above mentioned frequency. If not Called, the next coupon reset date is set on February 12, 2025. The current outstanding coupon is 0.75% per annum.

Concerning the perpetual bond debt issued in 1986, KLM is entitled to early redeem at Par the outstanding residual amount on each fifth anniversary of the interest payment date. The next "Call date" is May 15, 2021. The Call price amount in 2001 was 101.75 per cent of the notional face value, and thereafter with a premium declining by 0.25 per cent on each fifth anniversary of the interest payment date. Therefore from May 15, 2036, the Call price amount will be set at Par. The fixed interest coupon is 5.75% per annum.

The bond debt is subordinated to all other existing and future KLM debts.

The two CHF perpetual bond debts are ranked "pari passu" with the JPY perpetual loan debt.

24.2 Bonds

Bond	Issuing date	Nominal amount (in millions)	Maturity date	Reimbursement date	Coupon
Bond issued in 2014	4 June 2014	€ 288	18 June 2021	-	3.875%
€ Bond issued in 2016	5 Oct. 2016	€ 360	5 Oct. 2022	-	3.75%
$ Bond issued in 2016(1)	12 Dec. 2016	$ 145	15 Dec. 2026	-	4.35%
€ Bond issued in 2020	10 Jan. 2020	€ 750	16 Jan. 2025	-	1,875%

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

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

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

24.3 OCEANE

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

Repayment at par, plus accrued interest, will be possible on March 25, 2024 at the request of the bond holders. Air France-KLM can enforce the cash reimbursement of these bonds by exercising a call option running from April 15, 2022 if the share price exceeds 130 per cent of the nominal, i.e. €23.29, encouraging OCEANE bond holders to convert their bonds into Air France-KLM shares.
Upon issue of these convertible bonds, Air France-KLM recorded a debt of €446 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. The option value, calculated by deducting this debt value from the total nominal amount of the issue (i.e. €500 million), was recorded in equity.

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

24.4 Other debt

Other debt breaks down as follows:

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

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgagee a right to enforce the security (by order of a judge), the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

Other debt corresponds mainly to bank borrowings. They also include €19 million related to debt issuing expenses on financial debt.

24.5 Loans guaranteed by the French and the Dutch state

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

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

- A loan of € 4 billion, 90% guaranteed by the French State, with an initial 12-month maturity and a one-year or two-year extension option exercisable by Air France-KLM. The loan has a coupon at an annual rate equal to EURIBOR (floored at zero) plus a margin of 0.75% in the first year, 1.50% in the second year and 2.75% in the third year. The cost of the French State guarantee initially equals to 0.5% of the total amount of the loan and which will step up to 1% for each of the second and third years. The loan includes a mandatory partial early repayment of 75% of the any net new money raised by Air France-KLM or Air France from financial institutions or through debt capital markets, subject to some exceptions and a mandatory total early repayment notably in case of change of control of Air France-KLM or Air France.

- A subordinated shareholder loan of €3 billion, granted by the French State to Air France-KLM, with a maturity of four years, with two consecutive one-year extension options exercisable by Air France-KLM.
  This loan has a coupon payable annually or capitalizable at the discretion of Air France-KLM at a rate equal to EURIBOR 12 months (floored at zero) plus a margin of 7% for the first four years, 7.5% for the fifth and 7.75% for the sixth.

This rate will be increased by 5.5% step up in case (i) the general assembly would not approve a capital increase proposed by the Board of Directors that would enable incorporation in the company's shareholder equity of all or part of the outstanding shareholder loan, (ii) the general assembly would approve, without the approval from the French State, a capital increase which would not enable the incorporation of all or part the outstanding shareholder loan in the company's shareholder equity or (iii) a third party, not acting in concert with the French State, would exceed, alone or in concert, the threshold of 20% of the capital of Air France-KLM. This loan is subordinated to the French State guaranteed bank loan and, in the event of receivership or liquidation, to all the Air France-KLM senior bond and bank debt, without prejudice of an incorporation of all or part the outstanding shareholder loan in the company's shareholder equity.

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

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

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

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

- A revolving credit facility of €2.4 billion, for 90% guaranteed by the Dutch State and with a maturity of 5 years. This revolving credit facility has an interest of EURIBOR (floored at zero) plus a margin of 1.35%. The cost of the associated Dutch State guarantee equals to 0.50% in year 1, 1.00% in year 2 and 3 and 2.00% after year 3.

- A direct loan of €1 billion, granted by the Dutch State to KLM, with a maturity of 5.5 years and an interest of EURIBOR 12 months (floored at zero) plus a margin of 6.25% for year 1, 6.75% for year 2 and 3, and 7.75% for year 4 and 5. This loan is subordinated to the new revolving credit facility and any other outstanding unsecured debt of KLM.

Both the revolving credit facility and the direct loan will be drawn simultaneously on a pro rata basis.
KLM's first drawing under the new revolving credit facility will be used to repay and terminate the existing revolving credit facility drawn on 19 March 2020 for an amount of €665 million (see note 24.7 Credit facilities).
Further drawings subsequent to the first drawing are subject to certain conditions being fulfilled by KLM.

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

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

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

24.6 Maturity analysis

The financial debt maturities breaks down as follows:

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

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

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

24.7 Credit lines

On March 13, 2020, Air France-KLM drew down its revolving credit facility concluded for a total amount of €1.1 billion divided into two tranches of €550 million each. The total amount was repaid on May 7, 2020 and the Group terminated the credit facility.

On March 19, 2020, KLM has drawn down its revolving credit facility concluded on May 23, 2018 for the full amount of €665 million.
KLM's first drawing under the new €2.4 billion revolving credit facility (see note 24.4), 90% guarantee supported by the Dutch State, will be used to repay and terminate the existing revolving credit facility drawn on 19 March 2020 for an amount of €665 million.

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

25. LEASE DEBT

The lease debt break down as follows:

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

26. NET DEBT

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

(1) Included in "others financial assets"

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

27. DEFERRED REVENUE ON TICKET SALES

This line corresponds to the unused air tickets which will be recognized in revenues at the date of transportation. The COVID-19 crisis and the lockdown of borders cause the Group to reduce the capacity and cancel an important number of flights. In that case, customers can either ask for the refund of the ticket or the issuance of a voucher. As of June 30, 2020, this line includes €670 million of air tickets (fare and carrier imposed charges) for which the date of transportation has passed and which are eligible to refund and € 920 million of vouchers that can be used for future flights.

28. OTHER LIABILITIES

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

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

29. FLIGHT EQUIPMENT ORDERS

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

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

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. All these amounts are hedged.

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

Long-haul fleet (passenger)

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

Medium-haul fleet

The Group did not take delivery of an aircraft.

The Group's commitments concern the following aircraft:

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

30. RELATED PARTIES

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