KLM Royal Dutch Airlines

KLM Royal Dutch Airlines – Annual Report 2020

Annual Report 2020

Royal Dutch Airlines

KLM

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Report of the Board of Managing Directors

Letter from the President

Pieter Elbers
CEO

The year that is behind us proves how a year can feel short, yet long at the same time. The year was short because it was not too long ago in October 2019 that KLM celebrated its 100th year anniversary.

And how? KLM sizzled with a zest for life! There was confidence that the positive trend of 2019 would continue. The prospects for the company were promising. Our financial position was good, the leadership team aligned and the organisation agile. Between 2014 and 2019 we improved on key metrics such as financial performance, customer experience and staff engagement. KLM was fit for the future. Who would have thought that only a few months after our centenary we would be in the grip of a global pandemic? A crisis that would affect the world, our industry and our company so drastically.

At the same time, the year felt long, very long. It seemed as if the world stood still. As we look at the images of the last year we saw empty departure halls, parked aircraft, empty offices and a closed engine shop. No one has ever experienced this before and sometimes it all looks and feels surreal. In total, over 5,000 colleagues have left KLM during the year. A reduction from some 33,000 colleagues within the KLM group at the start of the year to below 28,000 at year's end. Painful, difficult and emotional, yet unavoidable sacrifices. This has been KLM's biggest crisis since WWII and the road to recovery is unfortunately not linear. To weather this unprecedented storm we adopted a four-pillar approach, which can be compared with simultaneously playing on four different chessboards.

1. Crisis Management

In January 2020, news of a virus came from China. The period since then has been a roller coaster. By March, the virus had spread all over the world and almost our entire operation came to a halt at the beginning of April. Our customers stranded or were forced to fly under difficult circumstances. The crisis lead us to deviate from our initial 2020 plans. We shifted to crisis mode and implemented all necessary measures to safeguard the future of KLM. We have been able to maintain liquidity through a strict focus on cash preservation and cost reduction. Throughout the crisis, we operated a skeleton network to facilitate repatriation, essential travel and crucial cargo operations.

True Colours

The crisis brought out the best in KLM. There was solidarity, courage and creativity throughout the entire organisation. KLM staff repatriated 250,000 Dutch nationals and fellow Europeans, even from far-away places such as Australia, where we had not flown to in decades. The Queen of the Skies, recently retired after nearly 50 years, returned to service and lived up to her name as these Boeing 747s delivered vital personal protective equipment. Together with Royal Philips, we set up an air-bridge to China and conducted more than 130 flights with cargo in the passenger cabins, delivering urgently needed medical equipment. KLM staff with a reduced workload volunteered in healthcare, elderly care and other places of societal importance. Hence, we supported society and society was supportive of us with the governments loans and the NOW payroll support scheme. For me these initiatives were inspiring and motivating.

2. Banks & Government

Mid-March the United States announced travel restrictions between the United States and the European Union. It became apparent that we needed additional financing and therefore we started discussions with the Dutch Government and a consortium of banks. We secured a State financial support package, comprising of a combination of loans and credit lines, which brought financial stability during this difficult period. The State financial support package did come with stringent conditions, which we met by delivering a restructuring plan and by reducing manageable costs by 15 per cent. The conditions were focussed on a contribution by staff, in the form of a wage cut, contribution from suppliers and targets on sustainability and reducing our environmental impact on society.

3. Road to Recovery

As of May, we made a cautious start with our recovery. The KLM network recovered gradually as we added a number of European destinations. During the summer, we progressively expanded the network and were able to fly around 90 per cent of our European destinations, though sometimes at 50 per cent reduced capacity. The intercontinental network remained constrained but the increased demand for cargo allowed us to maintain a skeleton network.

Maintaining a relatively broad network, considering the circumstances, was possible thanks to the loyalty of our customers within the areas of Engineering & Maintenance (E&M), Cargo and our Passenger activities. Our E&M colleagues continued the aircraft, engine and component support. Our services ensured our third party airline customers could keep their aircrafts flying. Even during these challenging times we acquired two new long-term component customers for the Boeing 787. Another important aspect is that we supported our customers worldwide in irregular operations. On average we transported 250 components to clients in 50 countries, every single day. In addition, we were able to make the difference for our customers in the cargo industry with more than 1,800 cargo only flights. We kept vital supply chains in place with the distribution of medicines, medical equipment, personal protective equipment and other critical products. We can be very proud that for the second consecutive year, Air France KLM Martinair Cargo has been named "Cargo Airline of the Year". On the passenger side, at the beginning of the crisis the majority of the efforts were on rebooking and informing our customers. The massive cancellations, due to government restrictions, have led to a tremendous challenge in terms of refunds and vouchers. I am glad that at the end of 2020 the situation was under control. We have worked hard to restore the confidence of our customers by providing additional flexibility, safety and sanitary measures. During 2020 KLM retained its five-star classification based on customer evaluations gathered by the Airline Passenger Experience Association (APEX). We are incredibly grateful to our customers for this evaluation and very proud of all KLM staff for this achievement.

By November, we had restored most of our destinations, but then the second wave emerged and European governments announced renewed lockdowns. The hoped for rebound did not materialise. The sentiment of hope was replaced by resilience. With the government expressing its conditional support, discussions about this topic attracted a lot of attention in parliamentary debates and the media. Despite complicated negotiations with the unions, I am proud that we reached agreements with the works council, the unions and the government to lower costs and thereby securing the future of our company.

4. Restructuring – "Van meer, naar Beter" (Building Back Better)

The world of aviation will be significantly different for an extended period, with less traffic and pressure on revenues. The expectation is to be back on pre-COVID-19 levels as from 2023 to 2024. With the ambition not only to survive and repay loans but also to remain an important player in aviation, we have drawn up a restructuring plan, called *"Van Meer naar Beter"* (Building Back Better). The restructuring plan is agile, based on various market and recovery scenarios, and will allow us to be flexible. It also creates opportunities in the areas of digitisation, sustainability, data and technology. These domains were already in the very heart of our focus and strategy before the pandemic and with the aim to build back better these efforts are now accelerated. The restructuring plan is integral part of the AIR FRANCE KLM Group. Implementation activities will be well aligned with the Group.

KLM's financial results demonstrate how serious the situation is. Our actions during the year have helped to partially mitigate the financial effects of the pandemic. Thanks to the support of the Dutch Government, including the NOW, and the possibility to delay payment of labour taxes, KLM maintained its financial liquidity. I know I speak for everyone at KLM when I say that we are very grateful to the government, and through them, Dutch society. We feel a genuine responsibility to meet the conditions of the State financial support package and to focus on repaying the loans. By granting the loans, the Dutch Government underlined the economic importance of KLM's extensive intercontinental network and the value of KLM as a major employer in the Netherlands.

Personally, this year has been an unprecedented roller coaster. From intense hands-on (operational) crisis management to securing loans to intensive communication efforts both internally as well as externally. KLM was in the middle of a lot of attention in the public arena and media, which required an adequate response. Also, I missed travelling as well as the interaction with customers, partners and colleagues all over the world. December 1, marked an exceptional sad moment for more than 2,000 KLM colleagues who opted for the Voluntary Leave Plan (VLP). Never in our company's history, have so many colleagues left our company at the same time. These departures made a deep and lasting impression on me. Yet, I am proud that we could do this in a good, professional and respectful manner.

I believe in the future of aviation and KLM. KLM will get through this period, not only by adapting the size of the company and cost levels to the new market conditions, but also by continuing to care for our customers. The years to come will be a continuous balancing between people, planet and prosperity. KLM's purpose *"Moving your world by creating memorable experiences"* for our customers has not changed. Our ambition to be a leading European network carrier in customer centricity, efficiency and sustainability remains. The Cargo activity already anticipated Pharma and Express products. There is light at the end of the tunnel and I am proud that KLM will play a key role in the vaccines' global distribution.

This year KLM went through a storm of unprecedented magnitude that demanded an equally unprecedented effort from our staff. The continuously changing rules and regulations tested our agility and perseverance. We, as KLM delivered. It was hard work, often under difficult and challenging circumstances. I have great respect and admiration for that and I would like to sincerely and deeply thank all of my KLM colleagues for their commitment, their perseverance and for their Blue Heart. Looking towards the second half of 2021, I feel optimism and hope. People will fly once again and slowly but surely, we will revive our global network. With the help of our loyal customers and committed employees, we will weather this storm and build back better.

Pieter Elbers – President & CEO

Key figures

REVENUES
5,120
11,075

TOTAL EXPENSES*
5,195
9,132

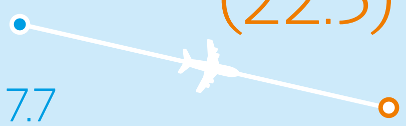
ADJUSTED EBITDA*
(75)
1,943

AMORTISATION, DEPRECIATION, IMPAIRMENT AND MOVEMENTS IN PROVISIONS*
1,079
1,090

PROFIT
(1,546)
449

ADJUSTED INCOME FROM OPERATING ACTIVITIES*
(1,154)
853

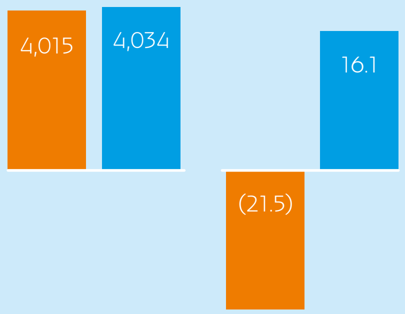
AS A % OF REVENUES
(22.5)
7.7



EQUITY
(115)
1,560

AS A % OF TOTAL LONG-TERM LIABILITIES
(2)
22

EARNINGS PER ORDINARY SHARE (EUR)
(33.05)
9.57



NET DEBT/ADJUSTED EBITDA*
47.4
1.3

DIVIDEND PER ORDINARY SHARE (EUR)
–
0.415

Financial position

CASH FLOW FROM OPERATING ACTIVITIES
(294)
1,835

NET CASH FLOW USED IN INVESTING ACTIVITIES (excluding investments in and proceeds on sale of equity shareholdings, dividends received and purchase of short-term deposits and commercial paper)
(681)
(1,323)

FREE CASH FLOW
(975)
512

ADJUSTED FREE CASH FLOW
(1.354)
132

Passenger

TRAFFIC (in millions of revenue passenger-kilometers, RPK)
33,873
109,476

CAPACITY (in millions of available seat-kilometers, ASK)
64,842
122,452

PASSENGER LOAD FACTOR (%)
52.2
89.4

NUMBER OF PASSENGERS (x 1,000)
11,231
35,092

Cargo

TRAFFIC (in millions of revenue ton freight-kilometers, RTFK)
4,184
4,678

CAPACITY (in millions of available ton freight-kilometers, ATFK)
5,385
7,253

CARGO LOAD FACTOR (%)
77.7
64.5

WEIGHT OF CARGO CARRIED (in tons)
520,458
599,320

Average number FTEs of KLM Group staff

PERMANENT
28,368
28,615

TEMPORARY
1,600
1,957

EMPLOYED BY KLM
29,968
30,572

AGENCY STAFF
772
2,454

TOTAL KLM
30,740
33,026

FTE's KLM Group Staff

PER END FINANCIAL YEAR
27,833
32,942

Headcount KLM Group staff

PER END FINANCIAL YEAR
32,667
36,549

* See Consolidated financial statements note 28 Alternative Performance Measures (APM) for the reconciliation to adjusted EBITDA and adjusted income from operating activities. Also see the APM section in the Notes to the Consolidated financial statements

● 2020 ● 2019
In millions of Euros, unless stated otherwise

Review 2020: resilience

A relentless pandemic pushed passengers and staff to the brink, brought the network to a halt and lead to unheard losses and an increase of debts. KLM responded with resilience, creativity, and agility but also with hard choices that will allow KLM to survive and emerge stronger than before. The Management Board reflects on this and more.

Chief Executive Officer Pieter Elbers acknowledges that 2020 has profoundly impacted KLM's passengers and staff. "Flying has always been associated with excitement and endless possibilities. This year, our passengers dealt with uncertainty and discomfort, if they could fly at all. Their challenges moved us deeply, just as we felt for colleagues who worked hard and cared for our customers, often under difficult and challenging operational circumstances.

Chief Financial Officer Erik Swelheim agrees it was an exceptionally tough year, saying that, despite immediate actions the losses are record-breaking and debt is at its highest point in years. KLM has put many ambitions on hold and agreed to some conditions to secure a financial lifeline from government and banks. "Our first priority was to preserve cash and reduce costs. We had to take tough decisions, stopped almost all our projects and most investments, froze our hiring and said goodbye to external and temporary staff. We postponed refunding tickets of cancelled flights, which protected our liquidity but caused distress amongst passengers. Eventually, though, we distributed 1.5 million vouchers and refunded 1.3 million tickets. We were grateful with the immediate support of the government as this provided firm ground during difficult times and it gave time to work on the recovery and restructuring of the company. By granting the loan and credit lines, the Dutch Government stressed the value of KLM's extensive intercontinental network in combination with the hub at Schiphol to the open economy of the Netherlands, the value of KLM as a major employer in the Netherlands as well as the jobs connected to the wider Schiphol region and the value thereof."

Chief Operations Officer René de Groot admits it was painful seeing the network grind to a halt. "We spent the last few years chasing operational excellence and suddenly there were no flights anywhere. This was terribly frustrating, but the silver lining, is that our network has proven to be resilient. We managed to run a network that changed every day and we flew safely at all times. Cargo contributed much to our result by capitalising on opportunities and creating new products."

Ultimately, a smaller KLM will emerge. One of KLM's key measures was to reduce its workforce within six months, in order to structurally lower costs, improve processes and become more agile. KLM used voluntary leave plans as much as possible with the first round open in June and the second one in October. But unfortunately, KLM had to propose a social plan for specific jobs that will disappear or be reduced in number as a result of the resizing of the company. "Throughout the company people said goodbye and colleagues waved each other farewell. Many of them worked for KLM for a long time. If one thing has become clear in the past difficult period, it is the enormous commitment and solidarity of all KLM staff. Saying goodbye to so many talented and passionate people was heartbreaking, but the harsh truth was that it was inevitable. We are grateful for their years of dedication" De Groot says.

Still, while KLM's production and finances have been set back for years, Elbers, like the rest of the Board, is optimistic. "People will fly again and the industry will recover, albeit slowly. And KLM is well positioned to capitalise on this. Our global network and Schiphol Airport continue to be a powerful combination. Our purpose has not changed, our vision remains the same and our people and processes proved to be resilient. We have tuned and reconfirmed the strategy for the years ahead and our business model is still valid. We will work on initiatives that make our business model more viable in the field of customer centricity, sustainability, including KLM's societal role, as well as data and technology.

Having said that, KLM has realised that when it comes to flying, passenger's needs and expectations have changed. "Hygiene, personal safety and ticket flexibility are important and they remain a priority for us. But also society is more critical of flying, whether for pleasure or business. People, rightly, expect us to make flying more sustainable. That is why in 2020, we continued the Fly Responsibly campaign as well as the Smart and Sustainable program we launched in 2019. And together with the Dutch Government we set targets for the further reduction of CO_2 emissions and noise pollution at Schiphol, as well as better air-to-rail options," Elbers adds.

Cost reductions and re-sizing and re-shaping of the company are necessary to return to profitability. This is where KLM's restructuring plan comes in. "At its core are five simple goals: become smaller, cheaper, more frugal, more agile and more sustainable. "The crisis brought out the best in us and in a matter of 10 weeks we developed the restructuring plan that includes - without exception - every division and every department. It was endorsed by the Works Council and approved by KLM's Supervisory Board and the AIR FRANCE KLM Board and formed the basis for our talks with the Dutch Government. We are grateful to everyone who contributed to the plan under such incredible pressure," De Groot says.

Implementation of the plan will pick up pace in 2021. It is KLM's ambition to fulfil the government's conditions, attached to the State financial support package and to repay the loans by the government and the banks. At the same time, to continue to earn the loyalty of our customers, KLM needs to invest in its product and services, fleet renewal, hygiene measures, people and sustainability. "We will have to make smart choices. KLM decided to invest in the establishment of a new Premium Economy class, which will lead to a better product segmentation, as well as the introduction of direct aisle access in all of our business classes of the intercontinental fleet. KLM also continued the development of AI-tools and supported innovative initiatives" Swelheim adds.

"People will fly again and the industry will recover, albeit slowly. And KLM is well positioned to capitalise on this."

Pieter Elbers
CEO

Erik Swelheim
CFO

René de Groot
COO

The world we operate in

KLM 's year 2020 needs to be understood in the context of international developments. In 2020, the COVID-19 pandemic dominated the aviation industry as a whole. European and national developments influenced KLM's level playing field on various topics.

Global developments

The economy

The COVID-19 pandemic impacted the world in an unprecedented way and caused high and rising cost. Travel restrictions, isolation, lockdowns and widespread closures to slow the spread of the virus were required in order to protect lives and to allow health care systems to cope. This health crisis has a severe impact on economic activities, causing the global economy to contract sharply in 2020.

The economic fallout depended on factors that interacted in ways that were hard to predict. The development of the pandemic, the intensity and effectiveness of containment efforts, shifts in spending patterns, behavioural changes and consumer confidence effects lead to a profound economic uncertainty worldwide. Many countries faced a multi-layered crisis comprising a health shock, domestic economic disruptions, a drop in external demand, and capital flow reversals.

Because the economic impact particularly had its effect on specific sectors, policymakers were forced to implement substantial fiscal, monetary, and financial measures to support affected households and businesses. These measures have helped to maintain economic relationships throughout the crisis and are essential to enable activity to normalise once the pandemic is under control and containment measures are lifted. The response of national governments in affected countries was swift and sizeable in many advanced economies, such as France, Germany, the Netherlands, Italy, Japan, Spain, the United Kingdom and the United States. Many emerging market and developing economies, followed in providing or announcing support. During the year when the pandemic continued to impact economic activity, fiscal measures and financial support were further scaled up around the world.

Uncertainty about the post COVID-19 economic landscape has discouraged investments and concerns about the viability of global value chains and the course of the pandemic have weighed heavily on international trade and tourism. As with previous economic crises, the pandemic is expected to leave long-lasting adverse effects on global economic activity.

The aviation industry

Within the aviation industry, COVID-19 created an external shock unlike any previous crisis, both in terms of length and depth of the crisis. Earlier crises like the Gulf War in 1990, the terrorist attacks in 2001, SARS in 2003 and the financial crisis in 2009 impacted aviation with 10 to 25 per cent for a year or less before recovering to pre-crisis levels with a typical V-shape. COVID-19 differs from these crises because of its global scale, and its depth, with traffic reduced significantly depending on the markets, its length and the expected shape of the recovery. It is not yet possible to predict the precise recovery path. The aviation business depends on defining recovery scenarios and then monitor actual developments to assess which of the scenarios will be the most obvious. The impact of the crisis is expected to differ between different types of players.

European developments

Developments in Europe were dominated by COVID-19 and Brexit and on the longer term the acceleration of the sustainability of the aviation industry.

Due to the COVID-19 pandemic, KLM's network was severely affected. KLM's primary aim remained to offer customers the widest possible range of destinations at all times. In March, the European Commission proposed a slot waiver for the entire summer timetable, to prevent airlines from having to fly empty aircraft just to keep their slots. In October, due to the continued impact of the pandemic, the slot waiver was extended to the winter schedule. These waivers enabled KLM to respond more adequately to the rapidly changing market conditions.

The United Kingdom is a very important market for KLM and a key trade partner for the European Union. With 17 destinations, KLM is one of the largest carriers operating to and from the United Kingdom. On January 31, 2020, the United Kingdom left the European Union with a withdrawal agreement that allowed for a transition period until January 1, 2021, in which the new trade relation between the United Kingdom and the European Union was negotiated. KLM is pleased that a deal was finally reached, allowing for passenger and cargo flows to continue as before. Naturally, there are extra formalities as the United Kingdom has officially become a third country, but the new European Union-United Kingdom Trade and Cooperation Agreement keeps these to a minimum. Furthermore, there are some important provisions on fair competition, data flows and aligning safety standards. Building on the comprehensive agreement it is important that a level playing field with the United Kingdom remains, for instance in terms of environmental policy, data protection standards, passenger rights and economic regulation.

In 2020, EU Regulation 261/2004 regarding air passenger rights continued to contribute to confusion among passengers and airlines. The EU Regulation 261/2004 is not defined and therefore not suitable for the number of cancellations and re-bookings caused by COVID-19. Lack of clarity in the regulations leads to various interpretations and numerous court cases, often forcing airlines to pay compensation for disturbances outside of their control, such as weather conditions and strikes. Between 2013 and 2019, the cost of Regulation 261 has risen 500 per cent and a large portion of the money goes to claim agents rather than passengers. KLM is of the opinion that the European Union should revise Regulation 261/2004 to increase clarity for both passengers and airlines and to reduce costs to reasonable levels.

In 2019, the European Commission launched the European Green Deal, which aims for the European Union to be climate neutral in 2050. The Green Deal also imposes ambitious targets to make the European aviation industry more sustainable. These targets contribute to those of the Sustainable Development Goals of the United Nations, which provide an ambitious global agenda, as well as those of the Paris Agreement, which aim to keep the rise in temperature below 2 degrees, preferably 1.5 degrees, celsius, compared to pre-industrial levels.

The airline industry's contribution to CO_2 reduction is organised globally through the International Civil Aviation Organisation (ICAO), which aims for carbon neutral growth of the aviation industry as from 2020. KLM aims to reduce absolute CO_2 emissions by 15 per cent in 2030, compared to 2005 levels, which is a more ambitious objective than the realisation of a carbon neutral growth by means of CO_2 compensation only.

In 2020, KLM provided input for and welcomed the European Commission's Sustainable and Smart Mobility Strategy that was presented in December 2020. KLM agrees with other European airlines that Europe needs to realise a true Single European Sky, support the production and deployment of affordable and high-quality sustainable aviation fuels and modernise air passenger rights. KLM encourages the European Commission's efforts to promote a level playing field for aviation within and outside the European Union.

KLM emphasises the importance of a level playing field in a highly competitive industry and prefers to see sustainability efforts be organised on a global or European level and the revenue of any taxes reinvested in the research and development of sustainable aviation fuels and efficient aircraft and equipment. The introduction of national guidelines or taxes, like for example, the Dutch ticket tax, could put a break on investments in sustainability, which would undermine efforts to improve the quality of the living environment.

The Netherlands

COVID-19 has had tremendous impact on Dutch society and its economy. The country went through two lockdowns, forcing many businesses to downsize or seize activities, and halting social and cultural activities for much of the year. Throughout 2020, KLM played an important role with repatriation flights and by transporting crucial medical and protective equipment. KLM intends to continue to play a key role through the distribution of vaccines all over the world and kick-start economic recovery in 2021 and beyond. Nearly 300 Dutch companies, including KLM, have signed the statement 'Dutch businesses endorse sustainability' in COVID-19 recovery, in which they pledge support for taking sustainability as the cornerstone in the COVID-19 restructuring plans.

Aviation policy (Luchtvaartnota)

Two years in the making, the Dutch Government finalised its new aviation policy (Luchtvaartnota), which will provide direction for the development of the Dutch airline industry until 2050. The Luchtvaartnota recognises Schiphol together with a successful home carrier as an essential value for the Dutch economy and for attracting business to the Netherlands. The policy allows for moderate growth of the number of flights to and from Schiphol in return for lower CO_2 emissions and a smaller noise footprint. The Luchtvaartnota allows the government to set conditions for growth. KLM already committed reducing the number of night movements in order to reduce noise. The Dutch Government has stated that quality is key in the aviation policy. In implementing the new aviation policy, the balance between the quality of the living environment and the quality of the worldwide network needs to be recalibrated. The government will develop a framework to support a qualitative development of aviation activities within the Netherlands. To this end, KLM will carry through her efforts in sustainability and reducing its footprint while developing its worldwide network. The Luchtvaartnota also encourages the growth of air-rail connections on short haul destinations. KLM is content with the aviation policy and is grateful for the opportunity to cooperate with the Dutch Government on the definition thereof. The Luchtvaartnota sets the conditions for a sustainable development of the Dutch aviation industry and it allows alignment with new insights from the industry. In order to fulfil KLM's commitments regarding noise and CO_2 reduction, investments in fleet and sustainable airline fuel are necessary. Therefore, it is important to have a perspective on Schiphol's development beyond 2023. KLM emphasises that progress in Schiphol's decision-making in the form of *"Luchthavenverkeersbesluiten"* that will enable timely and moderate growth at Schiphol is important.

Sustainable aviation policy (Akkoord Duurzame Luchtvaart)

Within the Netherlands, the aviation industry's contribution to sustainability is implemented through the Aviation Climate Table. This government initiative embraces the objectives of the Smart and Sustainable program jointly developed in 2018 by KLM and partners in the air transport industry and knowledge centers. KLM contributed to the Aviation Climate Table, which resulted in a government policy (Akkoord Duurzame Luchtvaart) for the airline industry that was approved in 2020. This policy, with a primary focus on reducing CO_2 emissions by 2030, promotes the large-scale use of Sustainable Aviation Fuel (SAF), and the electrification of small-scale aviation and ground operations and promotes research in the field of sustainable aviation.

> "Throughout 2020, KLM played an important role with repatriation flights and by transporting crucial medical and protective equipment."

Schiphol

Following the excellent year 2019, the year 2020 could not be more contrasting for aviation. The COVID-19 pandemic downsized passenger numbers to approximately 1992 levels. The number of passengers, traveling via Schiphol fell from 72 million in 2019 to around 21 million in 2020 of which 11.2 million from KLM. The number of flights decreased from 497,000 in 2019 to 227,000 thousand, of which 125,000 from KLM.

Like KLM, Schiphol went through an unprecedented crisis. KLM and Schiphol worked together in order to mitigate the impact from COVID-19 and put all measures in place to safeguard a safe and healthy journey for passengers traveling from or through Schiphol. Passenger flows and processes were aligned to guarantee social distancing. Plexiglass screens were placed at all check-in counters and at places were the social distance could not be realised. The use of the compulsory facemasks was monitored at all times. The KLM Crown Lounge remained open to customers, offering them the opportunity to use the most important facilities.

In April, KLM had parked almost all of its aircraft at Schiphol. The airport graciously halved the usual parking fee, and also proposed for a discount on the landing and take-off charges. Unfortunately, the airport increased the airport charges with 8.7 per cent, although it postponed the implementation of this increase by three months.

As a result of the crisis, Schiphol fully focused on the re-planning of infrastructure projects in this decade and delayed the development of the Schiphol master plan to next year. The Schiphol masterplan provides an outline of Schiphol's infrastructural development and lay-out towards 2050. After consultation of stakeholders, including KLM, Schiphol re-considered major and costly infrastructure projects. Schiphol decided to halt or to delay a number of projects. However, the development of the A-Pier was continued which will ultimately add extra capacity at the airport. SkyTeam will be the main user of the pier. Also, the doubling of taxiway Q continues as planned. The reconstruction of the taxiway will improve the safety level of the airport as it increases the accessibility of the western runways. Furthermore, it will improve punctuality. The renovation of Departure Hall 1 is accelerated to secure passengers safety. KLM emphasises the importance of investments in Schiphol's infrastructure to accommodate passenger's experience and passenger's needs. With passenger flows and aircraft movements expected to recover around the year 2024, and COVID-19 safety measures requiring more space per passenger, KLM wishes to avoid the congestion experienced at the airport in earlier years.

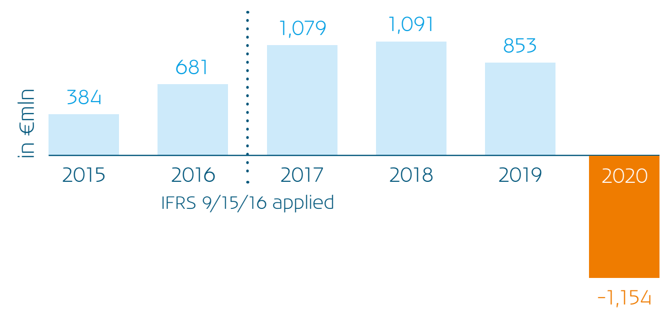
Financial results

KLM suffered significant losses in 2020 but was able to survive by cutting costs, managing cash and the support from the Dutch Government with an EUR 3.4 billion financing package, NOW and the possibility to delay payment of labour taxes.

In 2020, KLM took off from a good starting position. In the years from 2014 to 2019, the company improved financial key performance indicators in many areas in all businesses. Also, the financial and equity position improved over those years. Consequently, KLM was resilient and financially healthy when COVID-19 hit. The financial result of 2020 offset the good performance of the years before. KLM revenues were only EUR 5.1 billion, compared to last year's EUR 11.1 billion, resulting in an adjusted income from operating activities loss of EUR 1,154 million compared to a 2019 adjusted income from operating activities income of EUR 853 million. The operating margin decreased from 7.7 per cent positive to 22.5 per cent negative. Equity, EUR 1,560 million in 2019, decreased to EUR 115 million negative and net debt increased from EUR 2,525 million to EUR 3,536 million. As a consequence, KLM's financial ratios weakened in 2020.

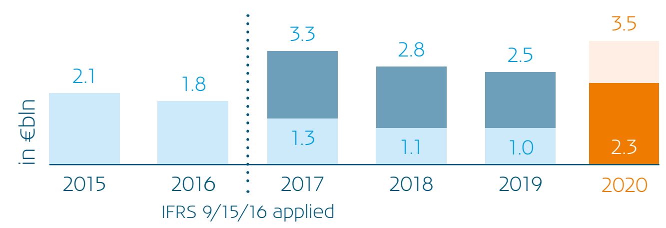
KLM's adjusted operational loss of EUR 1,154 million includes EUR 1,049 million Temporary Emergency Bridging Measure for Sustained Employment (NOW) support from the Dutch Government. The NOW support was designed to cover a significant portion of wages. The swift commitments as regards the NOW and the quick payments thereof by the government have been extremely important for KLM.

Adjusted income from operating activities

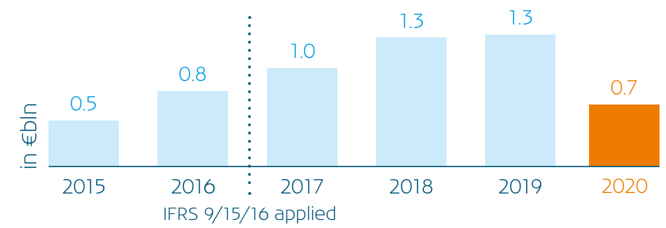


Net debt

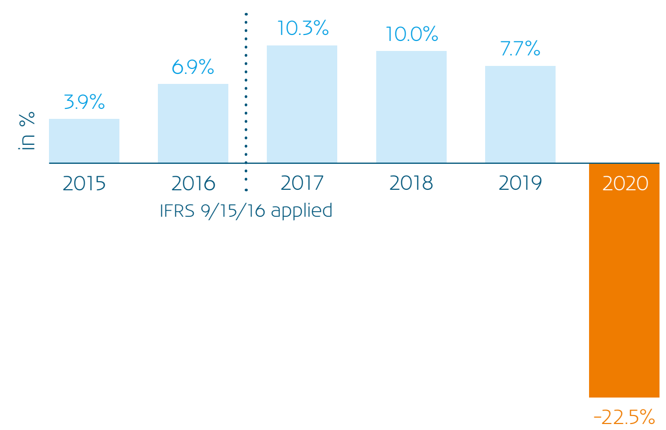
Lease debt



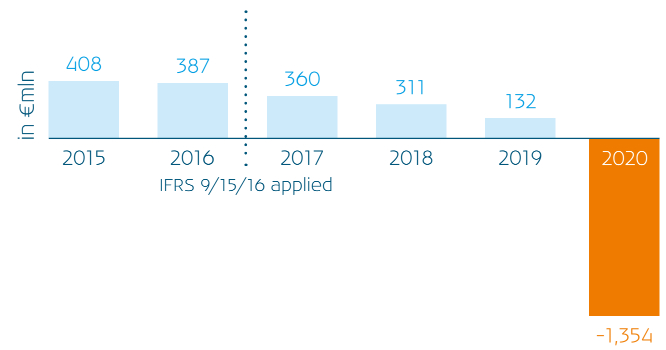
Investments



Operating margin



Adjusted free cash flow



KLM was hit hard across its portfolio of businesses. The passenger side of KLM's network business was impacted most severely by the almost total evaporation of passenger demand as from April. The passenger business was reduced to below 10 per cent of its normal level in the early stages of the COVID-19 crisis, and even when the network started to recover, never rose above 25 per cent. Intercontinental flights never recovered from global restrictions, but in summer KLM's European network managed to run 60 per cent of normal flights with 70 per cent load factors. Transavia, KLM's leisure brand, also made losses in spite of a relatively good summer, but it ceased flying entirely for two months in the second quarter and the latter part of the year.

Cargo had a good year, almost doubled its contribution to KLM's result, due to higher demand and increased prices. Cargo revenues, however, did not compensate for the decline in passenger revenues, and will not support the rebound of the European network. Engineering & Maintenance (E&M) suffered from lower flight hours, both within AIR FRANCE KLM and other airlines, as well as the decision by most airlines to postpone maintenance. In addition, E&M dealt with an increasing number of unreliable debtors, although this will improve once flights resume. Within E&M, where demand usually lags passenger demand with one to two years, a reduction of maintenance demand is observed as both KLM and Air France as well as third parties stopped or heavily reduced flying.

When the severity of the COVID-19 crisis became apparent, KLM took immediate action to retain cash and reduce costs. At the start of the crisis, KLM had EUR 1.3 billion in cash. KLM postponed IT and real estate projects, renegotiated new payments terms with suppliers, and pushed back investments in aircraft. Also the possibility to delay the payment of labour taxes amounting to EUR 764 million as per December 31, 2020 has been used. An existing revolving credit facility of EUR 665 million was immediately used. KLM chose to offer passengers a voucher instead of immediate cash refunds upon flight cancellations, although passengers retained their right to a cash fund later in the year.

KLM's cost base changed significantly. Variable costs such as fuel, aircraft maintenance and airport fees, which account for around 50 per cent of all costs, dropped by some 45 per cent because the number of flights decreased. A concerted plan to achieve structurally lower costs include a simplification of the organisation structure, a reduction of the staff count by more than 5,000 colleagues and a reduction of labour conditions. These measures will eventually lead to an overall manageable cost reduction of more than 15 per cent. The fleet will be made more cost-efficient by phasing out less efficient aircraft types or renegotiating leases. KLM's purchasing and cost-cutting initiatives achieved EUR 350 million of savings reducing the monthly cash burn rate significantly.

Securing loans

The government provided a EUR 1 billion subordinated loan to KLM and guaranteed 90 per cent of a combined EUR 2.4 billion revolving credit facility by a consortium of 11 banks. At year-end KLM has drawn EUR 942 million of the EUR 3.4 billion loan, leaving some EUR 2.4 billion available for the coming five years. By granting the loans, the Dutch Government stressed the value of KLM's extensive intercontinental network in combination with the hub at Schiphol to the open economy of the Netherlands, the value of KLM as a major employer in the Netherlands as well as the jobs connected to the wider Schiphol region and the value thereof. The support did, however, come with a number of financial and non-financial conditions that will remain valid until the loans have been paid back.

The obligation to repay the loans curtails KLM's ability to invest. While in 2019 KLM invested EUR 1.3 billion in people, fleet and IT, investments in 2020 dropped to less than EUR 700 million. At this level, KLM can maintain the current state of its product and assets. Current projections assume passenger growth will return and when it does, KLM aims to return to an investment level of around EUR 1 billion per year in sustainability, product and services, data analytics and better booking tools.

Consolidated statement of profit or loss

In millions of Euros	2020	2019	Variance %
Revenues	5,120	11,075	(54)
External expenses	(3,455)	(6,116)	(44)
Employee compensation and benefit expenses*	(1,867)	(3,189)	(41)
Other income and expenses	127	173	(27)
Total expenses	(5,195)	(9,132)	(43)
Adjusted EBITDA*	(75)	1,943	(104)
Amortisation, depreciation, impairments and movement in provisions*	(1,079)	(1,090)	(1)
Adjusted income from operating activities*	(1,154)	853	

* See note 28 Alternative performance measures (APM) for the reconciliation to adjusted EBITDA and adjusted income from operating activities. Also see the Alternative performance measures section in the Notes to the Consolidated financial statements

Revenues

The first two months of 2020 showed strong result, until COVID-19 severely hit KLM's revenues in all businesses, with the only positive exception being the Cargo activities in the Network business unit. Overall revenues dropped 54 per cent compared to 2019, with far less traffic and capacity, much lower load factors and significant lower unit revenues.

Expenses

Variable costs such as fuel, aircraft maintenance and airport fees, which account for around 50 per cent of all costs, dropped by some 45 per cent because the number of flights decreased. Employee compensation and benefit expenses were helped with EUR 1,049 million temporary NOW support and also a reduction of staff count by more than 5,000 colleagues. Furthermore, a reduction of labour conditions was implemented as part of the conditions imposed by the Dutch Government in relation to the loans.

Income from operating activities

In millions of Euros	2020	2019
Adjusted income from operating activities*	(1,154)	853
Total APM adjustements*	(191)	22
Net cost of financial debt	(148)	(148)
Other financial income and expenses	(192)	(127)
Income before tax	(1,685)	600
Income tax expense	136	(162)
Share of results of equity shareholdings	3	11
(Loss)/Profit for the period	(1,546)	449

* See note 28 Alternative performance measures (APM) for the reconciliation to adjusted EBITDA and adjusted income from operating activities. Also see the Alternative performance measures section in the Notes to the Consolidated financial statements

Alternative performance measures (APM) adjustments

The 2020 APM adjustments show an overall negative amount of EUR 191 million (2019: EUR 22 million positive). As a result of the COVID-19 crisis a number of measures and actions have been taken.

The 2020 APM adjustments relate to voluntary leave plans in the Netherlands and abroad amounted to EUR 203 million, restructuring provisions in the Netherlands and abroad amounted to EUR 25 million, a curtailment related to the Ground staff plan in the Netherlands amounted to a release of EUR 16 million, result on sale of assets (mainly Boeing 747 passenger and combi aircraft/engines, results on purchase of former right-of-use Boeing 737 aircraft and sale of emission trade rights) amounted to EUR 38 million, the disposal of the associate Transavia France S.A.S. amounted to EUR 17 million and right-of-use assets write-off of 2 Airbus 330-200 aircraft, which were taken out of operation, amounted to EUR 9 million. Impairments relate to passenger and combi Boeing 747 aircraft in April amounted to EUR 19 million, impairment of intangible assets in use or under development amounted to EUR 8 million and a reversal of an impairment of engines of EUR 2 million.

The 2019 APM adjustments show a positive amount of EUR 22 million. This mainly relates a release of a voluntary leave plan in the Netherlands amounting to EUR 2 million and the sale of Boeing 747 engines and 2 Boeing 737-700's amounting to EUR 20 million.

Net cost of financial debt

Net cost of debt remained stable compared to previous year, mainly related to the reduction of net debt (including lease debt related to IFRS 16) in 2019 and increase of net debt in the second half of 2020. This related to the drawing of EUR 942 million from the government loan and new revolving credit facility from KLM's relationship banks.

Other financial income and expenses

Other financial income and expenses were positively impacted by positive currency exchange result mainly related to a positive impact on the US Dollar debt and maintenance and phase out provisions. Following the COVID-19 impact, the Group's fuel consumption became far less than the volume of fuel hedges outstanding as from the end of first quarter 2020. The group discontinued the fuel hedge relationship of these overhedges and released the market to market value of those hedges from other comprehensive income in equity to the profit or loss account resulting in a loss of EUR 240 million in total.

Income tax

End 2019, KLM was in a current income tax payable position. Given the huge COVID-19 related losses in 2020, KLM was entitled to offset the tax payable with the 2020 taxable losses. Given the current uncertainty about the timing and degree of recovery, KLM decided not to recognise a deferred tax asset for unused taxable operating losses. Last year's announced decrease of the corporate income tax rate to 21.7 per cent as per 2021, has been rolled back by the government and will remain 25 per cent.

Cash flow statement

In millions of Euros	2020	2019
Net cash flow from operating activities	(294)	1,835
Net cash flow used in investing activities (excluding investments in and proceeds on sale of equity shareholdings, dividends received and purchase of short-term deposits and commercial paper)	(681)	(1,323)
Free cash flow	(975)	512
Payments on lease debt	(379)	(380)
Adjusted free cash flow	(1,354)	132

The 2020 operating cash flow was severely hit by the impact of COVID-19. KLM took immediate action to retain cash and reduce costs. Overall, a positive working capital of EUR 219 million was achieved as a result of the immediate actions and the deferred payments for wage tax and social securities, being one of the COVID-19 measures of the Dutch Government to support Dutch companies.

Investing cash flow was strongly reduced from EUR 1,343 million in 2019 to EUR 670 million in 2020. Where possible commitments for new fleet, intangible and tangible fixed assets have been postponed or cancelled.

Equity

Equity stood at EUR 1,560 million as per December 31, 2019. Due to the 2020 net loss of EUR 1,546 million and a net negative movement in the remeasurement of defined benefit pension plan, KLM has a negative equity of EUR 115 million as per December 31, 2020. KLM foresees no immediate issues from this negative equity position. EUR 2.5 billion of the EUR 3.4 billion State Loan and RCF is still undrawn and available for KLM.

Vijay Panday
Director Group Treasury and Risk Management

King of cash

Lessons learned from previous crises, good preparations and some lateral thinking enabled KLM to weather the financial challenges of the pandemic.

If cash is king, then Vijay Panday should be called the King of Cash. As Director Group Treasury and Risk Management, Vijay leads a small team of three experts, surrounded by nine operational staff, that manages all of the airline's cashflows and financial risks. "KLM is a labour and capital intensive company. We lease some of our assets, such as aircraft, and use loans, which costs money. Our goal is to minimise these costs and manage the risks involved."

Some of these risks are inherent to the cyclical and event-driven nature of the airline industry. Broadly speaking, people fly when the economy is doing well, but when a crisis hits, holidays to sunny destinations or business trips are less of a priority. Earlier crises provided KLM with tough but valuable lessons.

"The day after the 9/11 attacks, the majority of the 25 banks we did business with stopped answering our calls. Suddenly, we were too risky for them. Something similar happened in 2003 with the SARS virus outbreak followed by the financial crisis in 2008. Banks hesitated to provide us with credit lines that are necessary for a secured treasury operation. We learned from this and took measures to ensure we were less dependent on banks."

One such measure was to ensure that at all times KLM has enough cash available to ensure it can meet its financial obligations. A second was to develop scenarios for various crises, such as the fall of the euro, caused by the 2008 financial crisis, followed by the 2012 euro debt crisis. Another and important measure was the creation of a centralised Group Treasury that oversees KLM Group's financial risks and payments worldwide. If that sounds simple, think again: KLM's pre-COVID-19 network spanned 171 destinations and the group's turnover mounted to EUR 11.1 billion in 2019, of which 95 per cent is managed centrally by the Group Treasury.

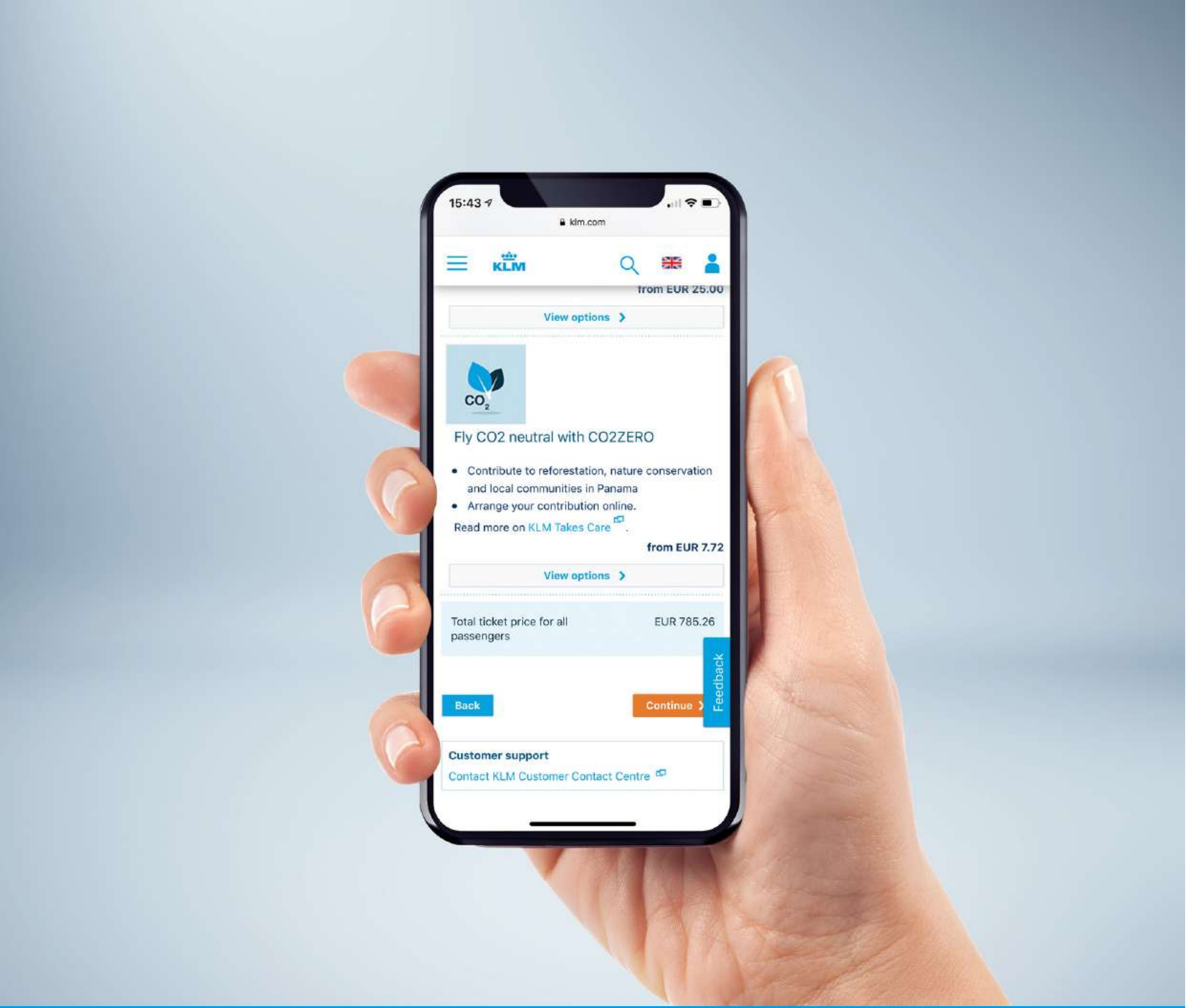
"We used to pay our vendors in dollars and euros everywhere, but now we pay a large part in local currencies, around 85 in total. In Uganda we pay with shillings, in Korea we pay our vendors with wons and in Mexico we pay with pesos. Seeing the money flow in and out is like seeing blood run through the veins of an organism."
Any local net result is transferred to KLM's Group Treasury head office accounts and converted into euros. This sounds complicated, but in practice it's a lean process that requires only a handful of people and a Treasury Management System to run. "It saves us tens of millions each year and acts as a form of natural hedging."

KLM is one of the few airlines that manages its finances this way and Vijay was glad of it when the COVID-19 crisis hit. "When KLM's network was shut down in March, we were prepared. Thanks to the centralisation we were able to act swiftly. Initially, KLM had enough cash in hand to fulfil its short-term financial obligations. But soon it became clear the crisis would last longer. Also, mass cancellations meant KLM would have to pay significant refunds. Eventually in March, we drew on the standby facility with twelve international banks."

One aspect of crisis management was the formation of a central payment team, consisting of the Chief Financial Officer, Treasury, Corporate Control and Procurement. This team managed and monitored every outgoing payment. Some of the main stakeholders chipped in to secure KLM's cash position. Financial agreements were made with suppliers, airports, lessors, insurers and other stakeholders, who all contributed their part. IATA was very cooperative and offered to trade foreign currencies with KLM at the deepest point of the crisis when the banks were not able to help. An unusual way of working but very effective.

When it became apparent that, in order to overcome the crisis and to secure the future of KLM, additional loans were needed, a financing team together with representatives of the banks and the Dutch Government negotiated the loans and state guarantees, for which KLM is grateful.

Reflecting on 2020, Vijay says KLM's centralised system has proven its worth. "Most of our peers have a decentralised system and in a crisis like this that is a liability. It prevents a clear view of cash flows and rolling cash flow budget forecasts." Having said that, he sees room for improvement. "We want to do more with the financial data that is captured by our Group Treasury system to further optimise risk awareness, maximise the return on our cash and further reduce the financing cost. Our next step is to use technology to analyse that data, develop better scenarios and become more financially agile."



Sustainability

KLM has embraced the ambition to become a leading European network carrier in customer centricity, efficiency and sustainability, setting ambitious targets that will impact its operations, fleet and culture, as well as how KLM co-operates with key partners in the aviation industry.

Launching the Fly Responsibly initiative in 2019 already positioned KLM as a sustainability leader in the airline industry, but in 2020 KLM committed itself to even higher ambitions. The COVID-19 pandemic has strengthened calls to make the aviation industry more sustainable. This comes on the back of a more dominant role of governments and other stakeholders, and through them the general public, as well as more ambitious climate goals set by European and national authorities. In light of this, as well as the conditions set to the State financial support package granted by the Dutch Government, KLM felt called upon to take even more responsibility, both on its own and in conjunction with industry partners. A sustainable operation, innovation and cooperation with other parties have been - and still are - the foundations on which our operation is built and they will continue to play a vital role in the reconstruction of our company and sector after the crisis.

"Launching the Fly Responsibly initiative in 2019 already positioned KLM as a sustainability leader in the airline industry."

Compared to 2005, KLM has reduced its total CO_2 emissions by an absolute four per cent and 31 per cent per passenger per kilometer as per 2019. For the sake of transparency it is noted that KLM's production in 2020 deviated significantly from previous years as a result of which this year's CO_2 emission figures can not be compared easily with other years and targets. For 2030, the goals are to reduce these levels by 15 and 50 per cent respectively. To this end, KLM continued to invest in more fuel efficient aircraft with a lower noise footprint. Meanwhile, KLM's CO_2ZERO program enables passengers to compensate their CO_2 emissions and in 2020 some 51,053 ton was offset this way. In 2020, Transavia partnered with KLM on CO_2ZERO.

KLM, which in 2011 was the world's first airline to carry out a commercial flight partly fuelled by Sustainable Aircraft Fuel (SAF), committed itself to use 14 per cent SAF of the total volume used in the Netherlands by 2030. The customer proposition was broadened by expanding the corporate biofuel program to cargo customers and Air France decided to adopt KLM's corporate biofuel program in 2021. KLM remains committed to being the launch customer of Europe's first and dedicated SAF plant, that will be developed within the Netherlands as announced in 2019. KLM sharpened its policy and strategy for SAF and stands for the adherence to strict sustainability criteria for the use of SAF. KLM participates in the World Economic Forum Clean Skies for Tomorrow Coalition, which aims to align partners on a transition to SAF as part of a meaningful and proactive pathway for the industry to achieve carbon-neutral flying. Together with SkyNRG and Schiphol, KLM also participates in the Fuelling Flight Project. This projects aims to overcome controversies about the use of sustainable airline fuel and provides recommendations on the sustainability aspects of the EU's policy design to support SAF.

KLM's ambition is to have zero emissions from ground operations by 2030. Therefore, KLM has invested in the electrification of ground equipment. Some 62 per cent of KLM's ground equipment is now electric. Tests have been conducted at Schiphol with the use of electric taxi equipment.

In order to meet society's need for making flying more sustainable, KLM is in favour of a European network of high-speed trains replacing short distance flights. Early 2020, KLM replaced one of its five daily flights to Brussels with a journey on the Thalys. KLM is actively investigating with the Dutch rail company (NS), Schiphol Airport and the Dutch Government how to replace more short flights by trains.

KLM expanded its notion of sustainability to not only encompass environmental goals, but to include the role it has in serving society, enabling economic activity and being one of the largest private employers in the Netherlands. This deepening and broadening of KLM's sustainability ambitions aligns well with KLM's restructuring plan *"Building Back Better"*. Within this context, KLM developed a vision of how sustainability applies to the people side of the business, by means of a ten-year roadmap that will improve staff engagement, diversity and inclusion, community engagement and human rights across the supply chain.

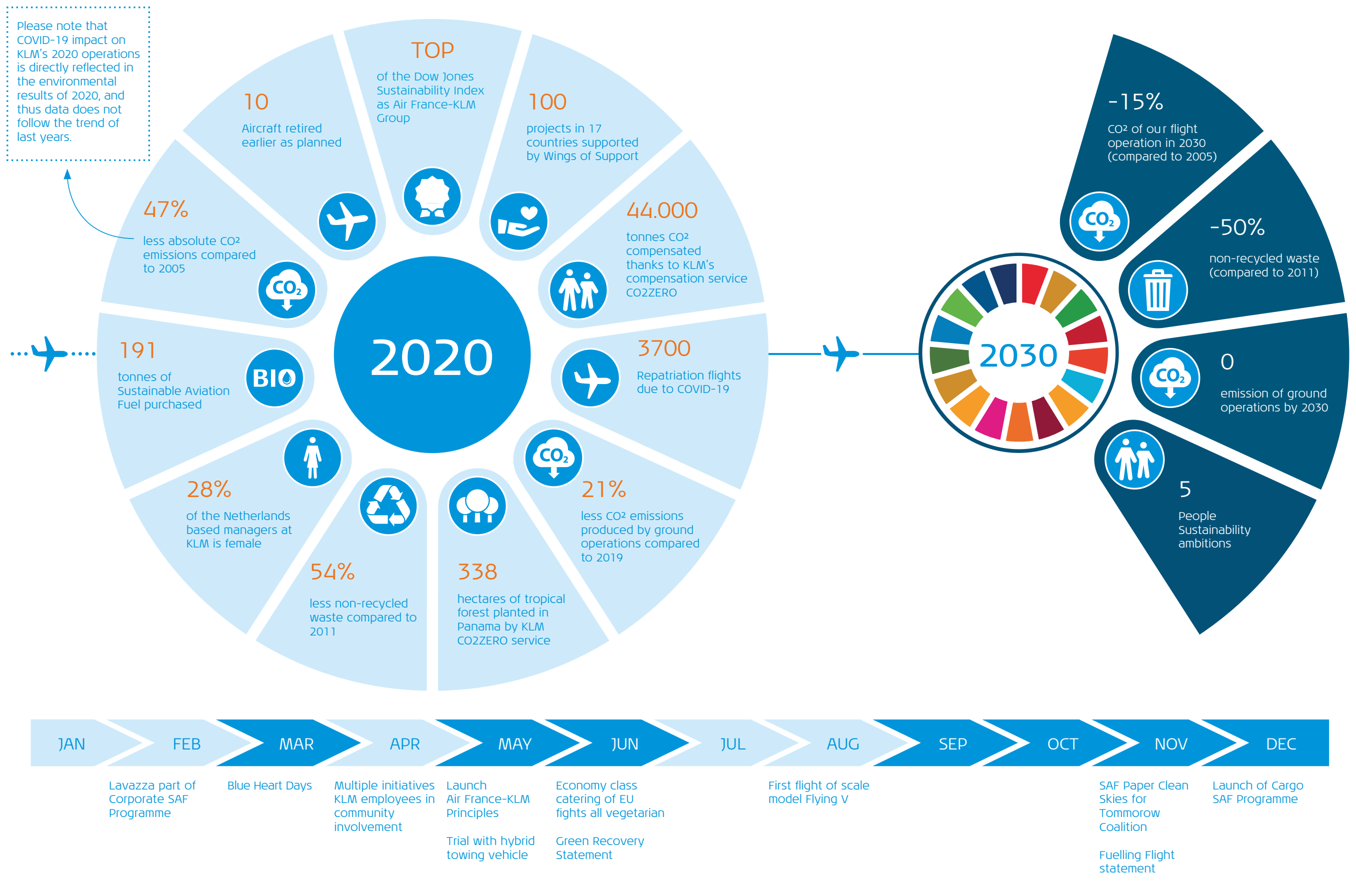
Engagement for sustainability has increased in 2020. Sustainability was integrated into KLM's Compass, which outlines the values, principles and behaviours of staff. A sustainability eco system of people involved in the subject was set up across the company, including Transavia, Cargo and E&M. An internal sustainability portal was built to inspire and educate staff throughout the company.

KLM already worked with academic institutions, airline partners and the government on several initiatives to reduce CO_2 emissions. Strategies for achieving this include fleet renewal, the use of SAFs, optimising flight paths and procedures, the aim for emission-free airports and the adoption of the train on short distances. With help of KLM, the Delft University of Technology made the maiden flight of its revolutionary Flying V model aircraft. KLM contributed to the action program Hybrid Electric Flight, which was submitted to the Dutch parliament. More waste and weight reduction initiatives have been worked on with external partners like the Amsterdam University of Applied Sciences.

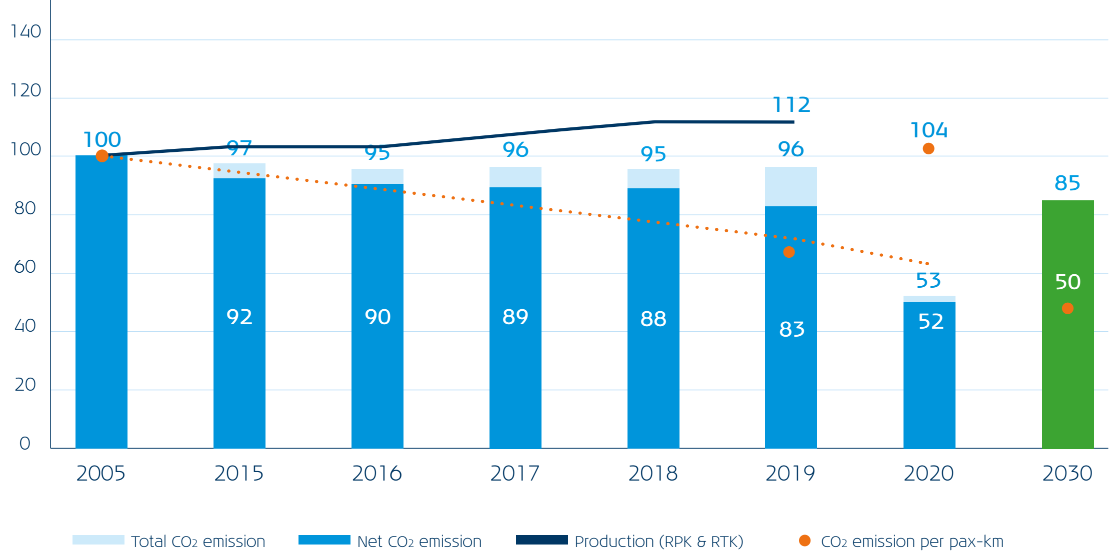
In 2020, for the sixteenth time in a row, KLM together with Air France ranked in the top of the Dow Jones Sustainability World Index. This achievement is the reward of more than a decade of constructive work in the field of sustainability.

KLM Sustainability: 2020 at a glance

Fly Responsibly



KLM Group CO_2 emissions have decreased steadily, with a significant drop in 2020 due to COVID-19 (index 2005=100)



Max Ligthart (L)
Team Lead Pricing Benelux

Peter Cordes (R)
Manager Cabin Crew & Senior Purser

Leave no one behind

During the crisis, KLM worked tirelessly and selflessly to repatriate 250,000 Dutch citizens from all continents. Getting that done, while COVID-19 was raging, was a feat of persistence and responsibility.

When flights worldwide were grounded, Dutch citizens found themselves stuck far away from home, feeling concerned about their wellbeing and uncertain of how the pandemic would evolve. Quickly, the Dutch Government set up a repatriation desk, where these citizens could register, and called KLM to ask if they could organise the repatriation flights. Not thinking twice, KLM took its responsibility, even deciding to offer the flights at cost price. Over several intense weeks, dozens of people at KLM worked 16 hour a day to bring these people home.

Frank Prillevitz, Vice President Government and Industry Affairs, says the flights were challenging to pull off. "Countries were closing their borders and restrictions changed often. Every day, we had to negotiate with governments to let us in. At the same time, the Operational Control Centre had to make sure the flights could actually be flown. Sometimes, after permission, we had just an hour to get an aircraft in the air. Sometimes, people were already boarding when last-minute talks with local authorities had to be finalised. We had to pull out all the stops to make this happen."

In some cases, KLM had to get really creative. When crew was not allowed to disembark in South Africa, it became impossible to fly directly from and to Amsterdam. Realising that Réunion, off the coast of Madagascar, was French territory, KLM worked with Air France to make a stop over there so that crew could rest. "And KLM also ended up flying to Sydney, where it hadn't been in over 20 years. To make this possible, KLM had to obtain an Operating Permit from the Australian Government and upload maps to the aircraft's onboard computer," Frank explains proudly.

> "During the crisis, KLM worked tirelessly and selflessly to repatriate 250,000 Dutch citizens from all continents."

Max Ligthart, Team Lead Pricing Benelux, worked closely with Frank, contacting the Dutch Ministry of Foreign Affairs each day to see which people could be booked on what flight. "Many people were desperate. Some were stuck in Peru for weeks with nothing to do. Others were sick and in need of their medication. In one case, people chartered a private jet from Honduras to get on board our flight from Costa Rica. Often we would be trying to get people on board right up to departure. We wanted to leave no man behind and we didn't."

Now, organising flights was one thing, manning them was quite another challenge. At the beginning of the pandemic, when COVID-19 was less well understood, people were worried. And yet, Peter Cordes, Senior Purser, recalls how a massive 2,000 crew volunteered for the repatriation flights and a lot of those had to be disappointed. "This is KLM's blue heart: we rise to the occasion."

The evening before each flight, Peter would personally call each crew member, from the pilot to the junior cabin attendant. "I asked about their physical and mental state, whether they knew all the safety precautions on board. Or how they felt about not being able to see their family upon return because of quarantine rules. People volunteered, but we had to keep them safe."

All in all, KLM conducted some 65 repatriation flights. Like everybody else, Max is proud not just of that it was done, but also how it was done. "We were like an exciting start-up within an established business, with high energy and speed. In the past it could take longer to start up a new destination, now we did it in two weeks. We pulled off something quite remarkable."

People

The COVID-19 crisis had a profound impact on how staff worked and felt. On the one hand, staff were concerned about their job and health, increased pressure and an inability to interact with colleagues and passengers. The Employee Promotor Score fell from 68 at the end of 2019 to 52 in 2020.

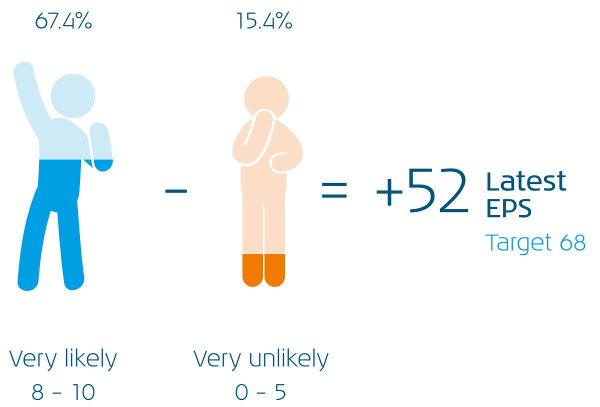
On the other hand, staff displayed remarkable flexibility and compassion. It was impressive how KLM staff, both at Amsterdam as well as at the outstations, worked 24/7, often under difficult circumstances to ensure that regular flights, repatriation flights and Cargo in Cabin flights ran smoothly. These efforts made passengers feel that KLM cares for them in good and in bad times.

The safety, wellbeing and engagement of staff are one of KLM's key priorities. In addition to ensuring cabin crew and ground staff practiced social distancing and had protective equipment, KLM shifted focus of the health portal to COVID-19 and a telephone helpline was opened. These provided access to coping sessions, guidance on creating a healthy workspace at home, both physically and mentally, and helped with managing teams at a distance. KLM set up the Blue Counter, which internally transferred 1,500 staff on a voluntary basis to departments with a strong need for support or extra workforce. With the gradual recovery of the KLM operation, there will be even more need for this internal mobility.

At the beginning of the year, before COVID-19, KLM organised the Blue Heart Days. More than a thousand KLM staff committed themselves as a volunteer on charity work and reached out to the Dutch society. The Blue Heart Days were experienced as inspiring and educational and engaged staff from all over the company. Blue Helps, a spontaneous initiative by KLM staff, also demonstrates the connection of KLM with society. Blue Helps facilitates KLM staff that has temporarily less work to volunteer in charity work, such as healthcare institutions, in need of extra support during the COVID-19 crisis.

KLM EPS December 2020
Employee Promoter Score

How likely are you to recommend KLM as employer?



Staff motivation remained high despite a large amount of uncertainty and restructuring in the deepest airline crisis.

KLM remained committed to diversity and inclusion. By 2030, KLM wants 100 per cent of its employees to experience a diverse and inclusive working climate. The focus was on gender diversity, which is why KLM continued a Female Leadership Program. Women on Board, KLM's informal network of female colleagues, organised online masterclasses to inspire women. For the active LGBTI community, a slimmed-down Coming Out Day was organised. Attention was paid to Amsterdam Pride, and an improved result was shown in the Workplace Pride benchmark for the third year in a row.

In 2020, the re-design of the KLM pension schemes was finalised. In 2017, the pension schemes for cockpit crew and cabin crew were de-risked while the pension fund for ground staff remained a defined benefit scheme. In 2020, KLM and the unions for ground staff agreed to a defined contribution scheme from 2021 onwards. It is expected that the pension fund for ground staff will become a defined contribution plan in the course of 2021.

KLM continued investing in talent. KLM launched a new digital learning environment and expanded the KLM Portal, home to all HR information. In addition, KLM adopted ORBA, the Dutch national standard for job evaluations and grading, for its 9,000 technical and administrative employees. KLM also implemented a new talent management system. In 2020, KLM received the Learning Technology Award, an international award for the best learning technology project in a commercial organisation and the Excellence in Learning Award for the Field Marketing Excellence program, an award for the most innovative blended learning program.

The aim of the restructuring plan is to ensure that KLM survives the COVID-19 crisis and that the company will emerge from it stronger. The restructuring plan is ambitious. Together with the Works Council and divisional works councils, the entire business was re-assessed and detailed plans were laid down in 37 requests for advice. These adjust KLM to a lower cost level and the need to become more agile and increase productivity. All plans were advised positively by the Works Council and will be implemented by the end of March 2021. The speed with which KLM developed these plans under pressure is a testimony to the creativity and resilience of the organisation. The constructive approach of the employee participation bodies and the Works Council in this process is worth a great deal of praise.

KLM consulted the trade unions about the social plans and how to meet the government's condition regarding the reduction of labour conditions. Based on the prognosis that passenger flows will only recover to 2019 levels by 2023 or 2024, KLM sadly concluded that a reduction of 5,000 colleagues was necessary. This number was reached by the end of 2020 by ending temporary contracts, reducing hired staff and the launch of two voluntary departure plans. Around 2,200 colleagues opted for voluntary redundancy. Others made use of opportunities for part-time work, re-education and secondments to other companies. Never in the company's history, have so many colleagues left our company at the same time. In the "Goodbye Lane" in hangar 10, KLM said goodbye to many of them. People handed over their uniforms, suitcases, laptops and KLM ID and for the last time exchanged good memories. Unfortunately, these measures were not enough and KLM had to draft a social plan for staff that became redundant because of the lower production levels. It is with pain in the heart that KLM said goodbye to so many enthusiastic, dedicated and professional colleagues.

Early November, all eight trade unions that represent KLM employees committed to a contribution on the labour conditions for the duration of the financial support package of the Dutch Government. As a result, KLM fulfilled an important condition set by the government to be eligible for further government support in the form of loans and guarantees. The agreements include pay cuts up to 20 per cent and a cap on pay increases. Agreement has also been reached about the way in which KLM will deal with redundancies. The process to come to the commitment clauses was turbulent and put pressure on the company.

Julie van der Wilden (L)
Unit Manager Preparation and Boarding Air France & Delta Air Lines

Mila Overmars (R)
Shift Leader Preparation and Boarding ICA

Compassion and creativity: how ground staff boarded aircraft during covid-19

KLM's purpose is to move the world of its passengers and create memorable experiences for them. During the crisis, ground crew tasked with boarding flights faced incredible challenges to make this a reality.

Before COVID-19, work was relatively straightforward for Mila Overmars, Shift Leader Preparation and Boarding ICA, and Julie van der Wilden, Unit Manager Preparation and Boarding Air France & Delta Air Lines. Each flight was prepared in the back office and handled at the gate. Some families had special seating needs and there was the occasional rowdy passenger. Speed and safety were top priorities and the process was usually smooth. "The longer an aircraft is on the ground, the more money it costs. In recent years, KLM had become good at quickly turning around an aircraft at the gate," Mila says.

The pandemic changed everything. Julie took a seat on the COVID-19 Implementation Team, an expert-team that was linked to the Contingency Team, liaising closely with Mila and her team. Getting an aircraft off the ground became an arduous task. "Each country had its own demands. A PCR test that is not older than 48 hours or 72 hours. A PCR test combined with an IGM test. An online questionnaire that can only be accessed with a QR code. Checking people's temperatures. Proof of payment of a test that will be conducted upon arrival. Our job became to organise these conditions and police it," Julie explains.

KLM had no choice but to comply. Failure to do so could lead to a EUR 5,000 fine per passenger and passengers would simply be refused entry and returned on the next flight. In practice, this meant KLM had to organise test facilities at Schiphol, ensure protective equipment could be purchased in the airport stores and organise quarantine facilities for those who tested positive. "These requirements could change at a moment's notice, which gave us just one or two days to adapt," according to Julie.

Mila explains that the restrictions caused a great deal of hardship. "Elderly people often didn't have a mobile phone, which meant they couldn't scan QR codes or make online payments. Some transfer passengers got stuck for days at the airport because they were refused entry by their destination. And on one flight we had to refuse 15 people at the gate, because an hour before departure the government decided to bar their nationality from entry." Luckily, the crisis also inspired moments of kindness and compassion.

Mila remembers "people without a credit card, who couldn't make the online payment for the PCR test at their destination. So they would give cash to our KLM colleagues, who would then use their personal credit card to pay. And on the flight to Accra, this elderly lady in a wheelchair was unable to pay online, and then a man on the flight paid for her. She was so grateful that she started crying. Everybody knew that you were only flying because you had to get somewhere urgently, and it kindled generosity everywhere."

Another profound change was that for many crew and passengers, flying was no longer the joy it used to be. "Our crew love their work because we can really move people's world and offer them memorable experiences. Now, we had to refuse passengers on their way to a funeral, wear masks and stay behind plexiglass sheets. Instead of being close to passengers and smiling, we had to keep our distance. This goes against everything we love and believe in. Of course we tried to do everything we could to still give our passengers a memorable experience. We have learned to laugh with our eyes, for example. But, it was hard, and it still is," Julie says.

What also changed is that the boarding process has become much harder and time-consuming. In the past, KLM needed three people to board an aircraft, now it needs seven or eight. And preparations start 2.5, even 3.5 hours before departure, instead of the usual 1.5. Even then, flights to destinations like Accra and Dubai are usually delayed by up to an hour, which costs KLM money.

Needless to say, ground crew were strained. "People lost their routine. And while our responsibilities grew, cost cutting meant there were fewer staff. It also became harder for us as a business to make money. Our instinct is to fly as many routes as possible, but now we had fierce discussions about whether to fly to certain places or not. We did have to balance the constraints of every destination and the cost involved versus our, always present willingness to fly," says Julie.

Eventually, KLM's ground crew slowly became more accustomed to the changes. Looking ahead, Mila and Julie wonder what will happen when the pandemic abates and passenger volumes return to normal. "We have begun to prepare for this, though. We are working with other airlines and airports to agree to standards and we are preparing alternative working methods that will help to manage higher passenger volumes" Mila concludes.

A resilient response

KLM responded to the pandemic and the shutdown of the airline industry by managing the crisis, ensuring short-term recovery and developing a long-term restructuring plan. To weather the crisis, we adapted an approach along the lines of the four quadrants. The actions and measures taken in all four quadrants are closely interrelated.

Crisis and recovery

The months of March, April and May saw KLM thrust into an unprecedented global crisis. The organisation quickly and adroitly responded to secure the safety of everyone involved. As health risks of the coronavirus in countries diminished and local governments relaxed their travel policies, the focus of action shifted from acute crisis management to preparations for recovery. However, the road to recovery appeared not to be linear and much longer than anticipated at the beginning of the pandemic. Activities in the quadrants of crisis management and recovery very much mingled.

Passenger activity

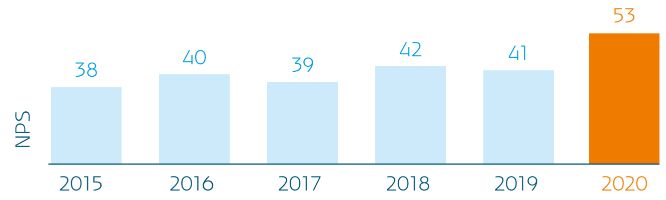
The COVID-19 pandemic particularly impacted the passenger activity. KLM made maximum effort to guarantee passengers a safe journey. Passenger traffic reduced immediately at the start of the crisis and apart form a small peak in summer, did not pick up during the rest of the year. Passenger numbers were reduced to historically low numbers and revenues dropped.

Customer and product

KLM did everything in its power to provide passengers with a safe experience. Preventive measures were taken within every step of the customer journey on the ground and on board. Products and services were adjusted to minimise contact moments and to maximise distance. Passengers clearly expressed the need for reassurance in the areas of hygiene and sanitation, physical and social distancing, health screening and actual and transparent information.

The introduction of QR codes on boarding passes reduced the need for physical contact. This enabled passengers to identify themselves and it supported more self-service activities at the airport. KLM digitised the health declaration and connected it to the boarding pass and introduced virtual waiting lines in the lounge and at transfer desks, which reduced the need for physical lines. Working together with other SkyTeam members, KLM set standards for hygiene, distance, screening, preparation and pre-testing. It developed software to create a seating plan that maximises distance between passengers and launched the Willingness to Fly program, which bundled information about flight restrictions and conditions to fly. In line with its ambition to be a leading European network carrier in customer centricity, KLM kept the Crown Lounge at Schiphol open to ensure passengers could rest in comfort. This made KLM the only major European airline to keep its lounge at the hub open from the beginning of March through to the end of the year. Initially the food and beverage services were limited but from July the lounge cautiously expanded to the full-service offering.

Positive trend of Net Promotor Score



In 2020 NPS is only measured in quarter 1 and quarter 4

When KLM was forced to shut down its network, a wave of more than two million cancellations washed over the organisation. Initially this put much pressure on customer care processes, leading to waiting times. Needing to manage liquidity in a responsible manner, KLM made the tough decision to offer vouchers upon cancellations. KLM compensated passengers by increasing the value of the voucher by 15 per cent, relaxing the conditions of the Flying Blue program and offering flexible booking terms. In due course, KLM mobilised extra staff and expertise and developed a series of digital tools that allowed passengers to get refunds and rebook their flights.

KLM recalibrated its product in order to increase competitiveness. On the one hand, KLM cancelled or postponed projects and investments and renegotiated contracts. These decisions impacted the customer experience and were difficult for suppliers and KLM staff, who had dedicated years to building a product.

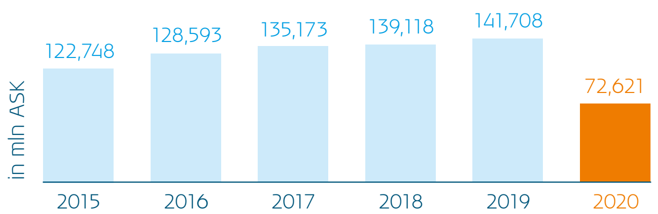
On the other hand, KLM continued installing Wi-Fi connectivity on the intercontinental fleet. In addition, KLM decided to introduce Premium Economy, a class in its own right between Economy and Business Class. It will feature more space and multimedia screens for inflight entertainment, a dedicated service and more exquisite catering. Furthermore, KLM will invest in a direct aisle business class on all Boeing 777-300 aircraft, which already can be found on the Boeing 787. KLM launched an improved website, including a content management system based on AI that supports personalised offering to customers.

By the end of the year, trans-Atlantic partners Delta Air Lines and KLM launched a travel corridor with COVID-19 tested flights from Atlanta to Amsterdam. The airline partners worked with the Dutch Government, Schiphol and Hartsfield-Jackson Atlanta International Airport to allow eligible passengers to be exempted from quarantine after receiving a negative PCR test result after landing in the Netherlands.

Operations and network

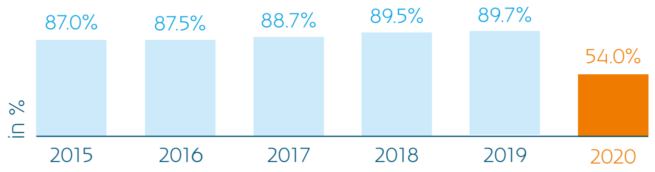
In the 2015-2019 period, KLM streamlined its fleet, invested in IT, began implementing the Operational Excellence philosophy, and developed a more integrated operation and safety organisation. As a result, the reliability, the agility and the cost-efficiency of the operation significantly improved and safety came at an even higher plan. It was with this robust foundation that KLM entered the crisis.

Capacity KLM Group



From March, in a matter of three weeks, KLM's network was forced to scale down and production dwindled to ten per cent of normal capacity. By May, as the first COVID-19 wave in Europe abated, KLM increased production to 20 per cent of normal capacity. The summer schedule was reduced to a skeleton network of 32 European and 25 intercontinental destinations, compared to the normal 171. The frequency of flights was reduced and was adjusted to match the availability of cargo. Over the summer KLM was able, to gradually restore the network even though the load factors were still far behind. The goal was to achieve 75 to 80 per cent recovery towards 2021.

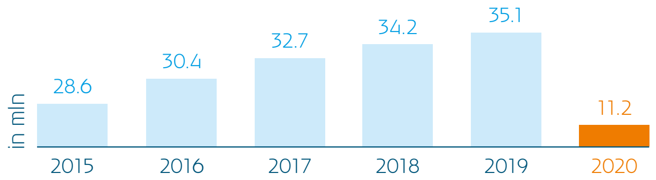
Load factor KLM Group



When the crisis began to unfold, KLM's Contingency Team leapt into action to handle the number of unprecedented situations, and KLM's Integrated Safety Service Organisation played an important role by managing the risks of increased variability. KLM retired its fleet of passenger Boeing 747s ahead of schedule and eventually temporarily parked the majority of its fleet at Schiphol and Groningen airport.

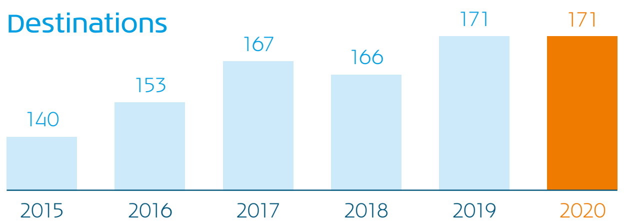
By September, a second COVID-19 wave washed over Europe, impacting the winter schedule that started late October. KLM had to scale back operations from 40 per cent of its normal capacity to 20 per cent, using the smaller and more cost-efficient Embraers of KLM Cityhopper instead of the larger and less efficient Boeing 737. This meant KLM was able to make the most of a precarious situation, even becoming the number one airline in Europe in terms aircraft movements. Ultimately, though, the flow of passengers dropped from 35.1 million in 2019 to 11.2 million in 2020.

Due to the COVID-19 crisis passenger numbers decreased significantly in 2020



KLM maximised the number of destinations even if at low frequencies in order to maintain the global network. This made it easy to capitalise on opportunities and adjust to new travel restrictions. KLM even managed to add new destinations, including Zanzibar (Tanzania) and Riyadh (Saudi Arabia). The winter schedule, which runs from October 2020 to March 2021, has been developed on various scenarios, making KLM flexible to adjust it to whatever changes and opportunities occur.

Destinations



KLM maximised the number of destinations even if at low frequencies in order to maintain the global network.

KLM endeavoured to perform a role that was now more crucial than ever: moving people and goods across the world. Working closely with the Dutch Government, KLM flew back home some 250,000 Dutch natives who were stranded somewhere in the world. Around 65 repatriation flights were organised, often from destinations were KLM had not operated from in years. The Boeing 747s, just retired, were temporarily returned to service to deliver vital medical equipment. Together with Philips, an air bridge with China was set up to transport important medical and protective equipment. KLM conducted more than 153 flights with cargo in the cabins, delivering a total of 120 million protective facemasks, medical overcoats and gloves.

Throughout the year, passengers and crew endured pressure and discomfort. On board of many flights, catering services were reduced and staff had to wear protective clothing. Some destinations did not allow crew to disembark, forcing them to fly back to Schiphol straight away, while other places forced crew to stay in a hotel room until the next flight home. Ground staff had to deal with time-consuming boarding procedures that included checking whether passengers complied with the COVID-19 regulations of the destination.

This pressure echoed on the planning side of the network: while a schedule is usually prepared months in advance and adjusted on a monthly basis, KLM's network now changed daily. In addition, the pandemic also forced passengers to book closer to the day of departure and cancel more easily at the last moment. KLM was able to adjust to this by having the commercial side of the company work even closer with the operational side. Cargo was also closely involved, as passenger flights were increasingly based on cargo demand. KLM built IT tools that allowed to keep track of the income and costs per flight, to inform passengers and to re-accommodate crew two weeks in advance.

KLM continued to make use of artificial intelligence (AI)-based tools to make its operations safer, more reliable and more cost-efficient. In 2020, KLM launched Terra, a tool to improve the resource scheduling process of ground handling staff 'on day of operations'. The system ensures an equal distribution of the workload across all employees, lower delay costs and enhanced task times based on actual load.

KLM remained committed to Kickstart AI, a cooperation with Ahold Delhaize, NS, Philips and ING aimed to accelerate the development of AI technology and nurture AI talent.

In 2020 the partners worked on a prediction model that helps to manage scarce public spaces. Also, 5 (assistant) AI professors were appointed at the participating companies while 5 more will follow. KLM is in contact with the University of Twente and the University of Utrecht to discuss ways to work together in the field of AI.

Looking ahead, KLM will implement the final phase of its Operational Excellence methodology, which will create a better and more reliable operation that delivers on its customer promise at the lowest integral cost. To this end, KLM will reorganise the Operations Control Department, resulting in a centralised decision-making department for all European and intercontinental flights. Also, E&M, Operations and Fleet Services departments will be aligned to increase fleet availability and reduce cost. In practice, these measures will lead to a better preparation of the flights, a faster return to the schedule in case of disruptions and an increased ability to learn from the execution of flights. In time, as passenger flows return to pre-COVID-19 levels, KLM will be able to run the operations at maximum capacity against lower cost.

Alliances

In January 2020, the Transatlantic Extended Joint Venture Partnership Blue Skies was implemented. Blue Skies connects the networks of the existing joint venture partners, KLM, Delta Air Lines and Air France with that of Virgin Atlantic Airways. This extended cooperation aims to deliver better service across a larger network. Discussions are ongoing to enhance this joint venture with additional partners, but the pandemic has delayed this. In light of an unpredictable market, KLM and its partners have agreed to review the financial terms related to their cooperation as the parties wish to avoid uncontrolled financial exposure. Once universal travel restrictions are eased and borders reopen, KLM and its partners plan on stepping up their joint activities.

Discussions were initiated to include Virgin Atlantic in the AIR FRANCE KLM and China Eastern Airlines joint venture in the fall of 2019. The pandemic has delayed this process and Virgin Atlantic is expected to join the joint venture in 2021. In 2020, China Southern Airlines left the SkyTeam Alliance. This has not affected the successful joint venture between KLM, China Southern Airlines and Xiamen Airlines.

Unfortunately, the joint venture between Kenya Airways and KLM was ended in 2020 because of changed market circumstances. The termination will become effective in September 2021. The successful strategic cooperation between AIR FRANCE KLM and GOL was extended for another five years at the end of 2019. Pre-COVID-19, this partnership met more than 99 per cent of demand between Brazil and Europe. The partnerships with China Southern Airlines / Xiamen Airlines, China Eastern Airlines and China Airlines from Taiwan, have made Schiphol Airport the leading gateway from Europe to greater China and from greater China to Europe.

SkyTeam is the first global alliance to commit to common health safety measures and is cooperating with its nineteen members and governmental organisations to restore confidence in air travel.

Fleet

KLM's long-term fleet plan remains unchanged, which is to focus on operating fewer types of aircraft and more fuel efficient aircraft, thereby reducing the carbon footprint, emission and noise. In early 2020 and as part of the fleet renewal program, KLM phased-in the quieter and more fuel efficient Boeing 787-10. When the effects of COVID-19 became clear, KLM phased out all remaining passenger Boeing 747-400s, although three combi aircraft temporarily resumed service later to meet increased demand for cargo. Lease payment deferrals and discounts were negotiated with the majority of the lessors, followed by more structural lease obligation reductions with the most important lessors. Three expected Boeing 787-10 deliveries in 2020 were delayed to 2021. One Boeing 777-300ER was delayed by Boeing to beginning of 2021. Two Airbus A330-200s were taken out of service and will be returned to their lessors in 2021.

For the medium haul fleet, due to COVID-19, the decision was made to accelerate the phase-out of the less efficient Boeing 737-700 starting in 2021. KLM purchased three Boeing 737-900s back from the lessor, which reduced the number of operating leases and long-term commitments. KLM increased the existing order for 21 Embraer 195-E2's by an additional four; all 25 Embraer 195-E2s for the European network will be leased and operated by KLM Cityhopper. The Embraer 195-E2 will significantly contribute to KLM's sustainability objectives. KLM will take the first delivery of the Embraer 195-E2 in the first quarter of 2021. Transavia also plans a reduction of the Boeing 737-700 fleet in 2021. In 2020, one lease of a Boeing 737-700 was ended and one Boeing 737-700 was sold. The Cargo fleet remained unchanged with four full freighter aircraft. The total consolidated KLM Group fleet shrank from 214 to 202 aircraft.

Integrated safety and security

Air transport is heavily regulated and is subject to numerous checks and certifications. KLM meets extremely strict standards at the highest level of regulations in the industry, specifically the European Aviation Safety Agency and International Air Transport Association (IATA). The IATA Operational Safety Audit (IOSA) is a benchmark within the industry and leads to certification that must be renewed every two years. The IOSA audits for the renewal of KLM's and KLM Cityhopper's certification were carried out at the end of 2020 and resulted in the renewal of the certificates in March 2021.

When KLM was confronted with the pandemic, its Integrated Safety Service Organisation (ISSO) took on an important role. First, it determined the risks and mitigation measures of the network's variability, delivering the required analysis and information for KLM to ensure safety for both passengers and staff in a constantly changing environment. Second, ISSO identified, assessed and embedded all restrictions by local governments and institutions worldwide in order to ensure compliance at all times. Where possible, the safety of passengers and crew were enhanced, based on studies and risk analyses and far-reaching measures.

Throughout the year, ISSO contributed to the safety, health and wellbeing of all KLM staff. ISSO conducted staff surveys in order to monitor the mental health condition of employees and advised on measures to increase social coherence. KLM continued its focus on Occupational Safety hazards by renewing the main Occupational Safety policies to provide structure for the required mitigating actions. However, the main focus in 2020 was on COVID-19. Occupational risk analyses have been performed on the transmission of the virus followed by the implementation of mitigating measures. As a result all aircraft, offices and operational spaces were turned into a safe working environment.

Together with stakeholders within the aviation industry, KLM carried out a number of joint safety risk assessments and conducted mitigating actions to improve safety at and around the airport. These activities were performed within the joint sector Integrated Safety Management System, a unique cooperation between the aviation partners at the airport which was established in 2018.

As KLM did not seize flight operations during the pandemic, the impact on safety and compliances has constantly been analysed, assessed and, where needed adjusted. In the aftermath of the pandemic additional challenges on all divisions and employees involved will occur and will have their effect in the fields of health, regulations, training, operations and crew and consumer confidence. These topics will be subject to continued investigation and analysis.

KLM will further integrate the safety operations of KLM, KLM Cityhopper and KLM E&M. This will form the basis of an improved safety and compliance organisation that features a renewed Integrated Safety Management System, expert staff on all disciplines, safety innovation, advanced automation and full focus on safety culture and leadership.

KLM Cityhopper

While demand for European flights collapsed in 2020, KLM Cityhopper was able to utilise its fleet of smaller and more cost-efficient aircraft to not only operate its own network but also take over some of KLM's flights, which are usually conducted with larger aircraft. This network change, combined with changing local lockdowns, last minute cancellations and night flights, made this a tough challenge. Thanks to perseverance and exceptional flexibility, KLM Cityhopper crew managed to do all this in a commercially viable way. KLM Cityhopper was even able to start three new destinations, which are Poznan (Poland), Cork (Ireland) and Southampton (United Kingdom). Catering and safety precautions were scaled up or down depending on the latest requirements.

KLM Cityhopper's fleet ambitions have been adjusted in line with KLM's restructuring plan. The 15 Embraer E-190s will not be densified, but will receive new seats that will also fit the new Embraer 195-E2s. The Embraer 195-E2s are expected as from early 2021. In preparation of their delivery, KLM Cityhopper has purchased an Embraer 195-E2 simulator and adjusted the KLC hangar. The Embraer 195-E2 is one of the most environmentally friendly single aisle aircraft, which emits 30 per cent less CO_2 and produces 50 per cent less noise than the E190, thereby contributing to KLM's overall sustainability goals. The Embraer 195-E2 requires a third cabin attendant and these will be drawn from the pool of KLM cabin crew. On KLM group level this secures an optimal use of resources and a lowering of cost.

Fleet composition klm group

		Average age in years	Owned ***	Finance leases*	Operating leases **/****	Total
Consolidated fleet as at December 31, 2020						
Boeing 777-300ER	wide body	7.9	3	7	4	14
Boeing 777-200ER	wide body	15.9	9	-	6	15
Boeing 787-10	wide body	1.2	3	2	-	5
Boeing 787-9	wide body	4.0	2	2	9	13
Airbus A330-300	wide body	8.1	-	-	5	5
Airbus A330-200	wide body	14.8	6	-	-	6
Total wide body		9.3	23	11	24	58
Boeing 747-400ER Freighter	wide body	17.4	3	-	-	3
Boeing 747-400BC Freighter	wide body	30.5	1	-	-	1
		20.7	4	-	-	4
Boeing 737-900	narrow body	18.8	5	-	-	5
Boeing 737-800	narrow body	11.9	20	7	39	66
Boeing 737-700	narrow body	11.6	2	5	13	20
Total narrow body		12.2	27	12	52	91
Embraer 190	regional	9.1	7	10	15	32
Embraer 175	regional	3.5	3	14	-	17
Total regional		7.2	10	24	15	49
Training aircraft			16	-	-	16
Total consolidated fleet		10.3	80	47	91	218

* With the implementation of IFRS 16, these aircraft are regarded as in substance purchases and therefore included as Owned aircraft in the financial statements

** With the implementation of IFRS 16, these aircraft are recorded as Right of use assets in the financial statements

*** Excluding 2 Boeing 747-400's out of service and to be sold and 1 Boeing 787-10 temporarily not in operation

**** Excluding 2 Airbus A330-200's and 1 Boeing 737-700 to be returned to lessors in 2021

Traffic and capacity

Passenger	Passenger kilometers			Seat kilometers			Load factor	
In millions	2020	2019	% Change	2020	2019	% Change	2020%	2019%
Route areas								
Europe & North Africa	6,804	20,048	(66.1)	10,450	22,960	(54.5)	65.1	87.3
North America	6,763	23,666	(71.4)	15,125	26,474	(42.9)	44.7	89.4
Central and South America	5,437	15,989	(66.0)	10,155	17,798	(42.9)	53.5	89.8
Asia	7,175	28,625	(74.9)	17,081	31,398	(45.6)	42.0	91.2
Africa and Middle East	4,823	14,503	(66.7)	7,840	16,509	(52.5)	61.5	87.8
Caribbean and Indian Ocean	2,871	6,645	(56.8)	4,191	7,313	(42.7)	68.5	90.9
Total	33,873	109,476	(69.1)	64,842	122,452	(47.0)	52.2	89.4

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2020	2019	% Change	2020	2019	% Change	2020%	2019%
Route areas								
Europe & North Africa	6	11	(46.9)	171	366	(53.3)	3.4	3.0
North America	782	994	(21.3)	1,037	1,675	(38.1)	75.4	59.3
Central and South America	1,332	1,250	6.6	1,682	1,875	(10.3)	79.2	66.7
Asia	1,205	1,454	(17.1)	1,280	1,767	(27.5)	94.1	82.3
Africa and Middle East	790	879	(10.1)	1,010	1,281	(21.2)	78.2	68.6
Caribbean and Indian Ocean	69	90	(23.5)	205	289	(29.1)	33.7	31.3
Total	4,184	4,678	(10.6)	5,385	7,253	(25.8)	77.7	64.5

Transavia	Passenger kilometers			Seat kilometers			Load factor	
In millions	2020	2019	% Change	2020	2019	% Change	2020%	2019%
Route areas								
Europe & North Africa	5,349	17,670	(69.7)	7,779	19,256	(59.6)	68.8	91.8
Total	5,349	17,670	(69.7)	7,779	19,256	(59.6)	68.8	91.8

Fleet composition

Boeing 777-300ER/200ER

Number of aircraft	14/15	Maximum passengers	408/320
Cruising speed (km/h)	920/900	Total length (m)	73.86/63.80
Range (km)	12,000/11,800	Wingspan (m)	64.80/60.90
Max. take-off weight (kg)	351,543/297,500	Personal inflight entertainment	

Airbus A330-300/200

Number of aircraft	5/6	Maximum passengers	292/268
Cruising speed (km/h)	880/880	Total length (m)	63.69/58.37
Range (km)	8,200/8,800	Wingspan (m)	60.30/60.30
Max. take-off weight (kg)	233,000/233,000	Personal inflight entertainment	

Boeing 787-10/9 Dreamliner

Number of aircraft	5/13	Maximum passengers	344/294
Cruising speed (km/h)	920/920	Total length (m)	68.30/62.80
Range (km)	9,900/11,500	Wingspan (m)	60.10/60.10
Max. take-off weight (kg)	254,000/252,650	Personal inflight entertainment/ Wi-Fi on board	

Boeing 747-400ER Freighter

Number of aircraft	3	Max. freight (kg)	112,000
Cruising speed (km/h)	920	Total length (m)	70.67
Range (km)	11,500	Wingspan (m)	64.44
Max. take-off weight (kg)	412,800		

Boeing 737-900

Number of aircraft	5	Maximum passengers	188
Cruising speed (km/h)	850	Total length (m)	42.12
Range (km)	4,300	Wingspan (m)	35.80
Max. take-off weight (kg)	76,900		

Boeing 737-800/700

Number of aircraft KLM	31/16	Max. take-off weight (kg)	73,700/65,317
Number of aircraft Transavia	35/4	Maximum passengers	186/142
Cruising speed (km/h)	850/850	Total length (m)	39.47/33.62
Range (km)	4,200/3,500	Wingspan (m)	35.80/35.80

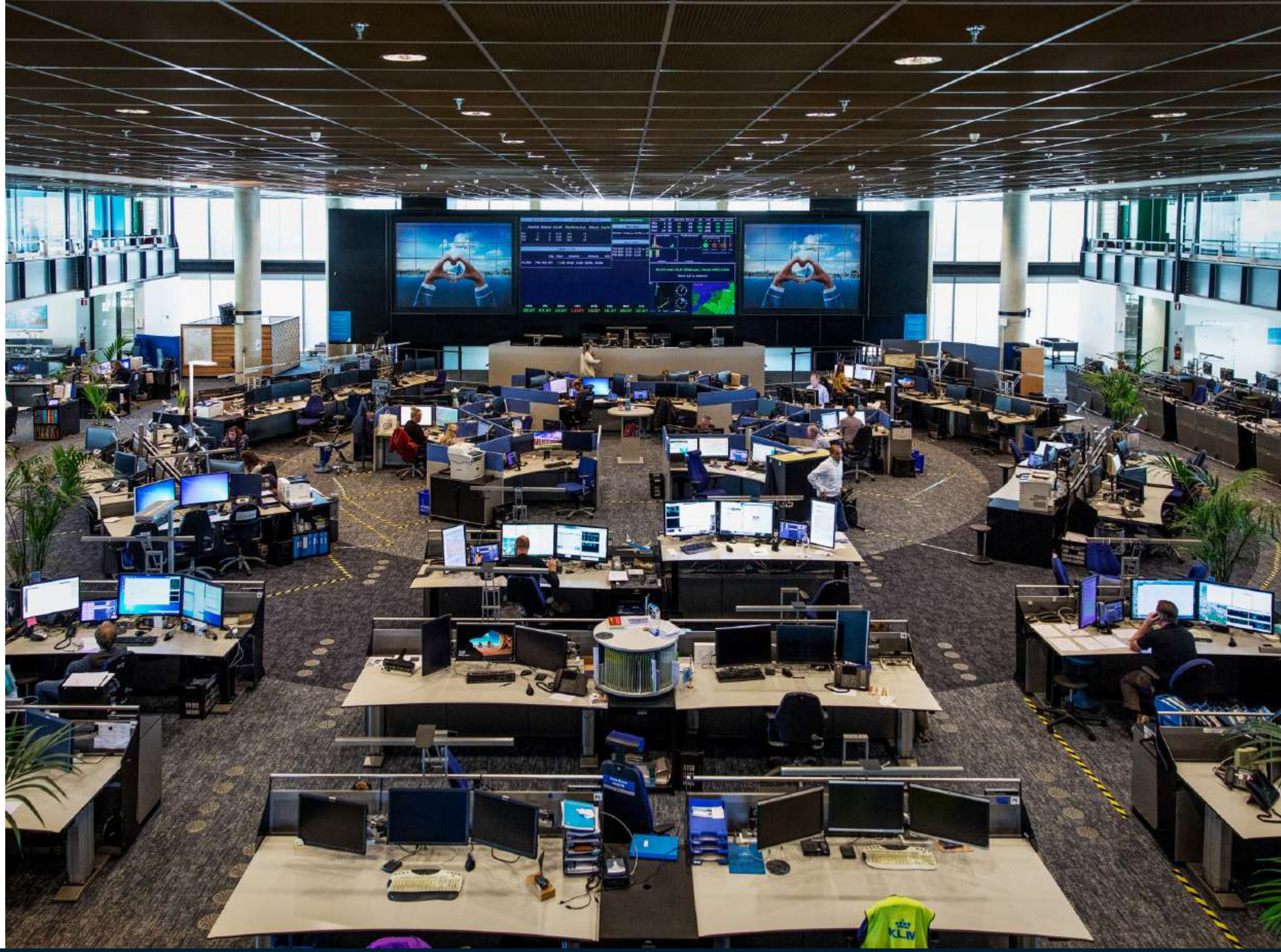
Embraer 190/175

Number of aircraft	32/17	Maximum passengers	100/88
Cruising speed (km/h)	850/850	Total length (m)	36.25/31.68
Range (km)	3,300/3,180	Wingspan (m)	28.72/28.65
Max. take-off weight (kg)	45,000/36,500		

Coen Swaanenburg
Vice President Operations Control

The beating heart of the crisis

The Contingency Team took the reigns during KLM's greatest crisis since World War II, dealing with unprecedented uncertainty and taking responsibility for the safety of passengers and crew.



A multidisciplinary team with representatives from all operational departments, the Contingency Team (CT) is part of the Operational Control Centre (OCC) that monitors and guides all KLM flights worldwide. Normally reserved for short-term contingencies like strikes, major system errors or bad weather, the CT quickly became the nerve centre for all of KLM's operations. Coen Swaanenburg, Vice President Operations Control and Chairman of the CT, played a central role during the incredible months of the crisis.

"Once the news emerged of a new virus in China, the CT jumped into action. Initially we thought it was a local issue and we tried to move network capacity to other areas in the world. But then the virus spread, more parts of our network were impacted and the US suspended all travel from Europe. Suddenly, we had to bring our network to a controlled shutdown and we realised we were going into a situation that would last a long time."

What followed were long days of work and the pressure to make major decisions with little time and information. "In the beginning, like the rest of the world, we were fighting an unknown enemy. We didn't know how infectious COVID-19 was and how to protect against it. To find answers, we worked closely with the Dutch National Institute for Public Health and the Environment, KLM's safety organisation and KLM Health Services."

To make matters more complicated, every country implemented its own safety and health regulations, making it a nightmare to plan flights and ensure compliance. "Some countries demanded crew used separate toilets, others specified we had to clean toilets after five visits during a flight. Some demanded masks, others also gloves. Implementing social distancing in a small cabin was a challenge. The simple act of handing out catering became a complex puzzle. And in some countries, crew were not allowed to disembark, which made it hard to board new passengers."

The CT also had to deal with people's emotions. "Understandably, crew were anxious. If you flew abroad and tested positive, you could end up in quarantine in some hospital for two weeks. Some people were concerned about their children and partners. Others, still, were desperate to fly, having been locked up at home unable to do what they loved. We had to factor this in as well."

While the pandemic caught the world by surprise, KLM was not entirely unprepared. Over the years, the CT has developed and practiced numerous scenarios, and though a COVID-19 one did not exist, others were useful. "KLM developed a scenario after the 2003 outbreak of the SARS virus. This did not cover all aspects of the COVID-19 crisis but it gave us something to work with."

A curious aspect of the CT was that its impact went beyond crisis management. "In a 'normal' situation, the CT conducts crisis management, which is limited in time and scope. Now, because our work touched upon almost every aspect of KLM and the crisis lasted so long, by taking crisis decisions we were effectively creating policy. Once things began to calm down, we were glad to return some responsibilities back to the standing organisation."

The CT is still frequently activated to find solutions for several challenges in our operation. "The men and women of the CT are like firefighters, they act well and quickly under pressure. We worked on a COVID-19 test facility for transfer passengers from China in December and in February we worked on the implementation of the COVID-19 tests for KLM crews. Each day more than 800 colleagues had to be tested prior and after their flight. Apart from the personal impact on our crews, this was quite a logistically challenge to organise."

Asked what his team learned Coen says COVID-19 forces KLM to let go of much of what it has learned. "We used to distinguish between a contingency and a crisis, and our systems were not designed for something that happens once every 100 years. We used to live in a world where next season's schedule was predictable. COVID-19 shows us the world is more complex and dynamic than that. I see the need to become even more agile in responding to crises and developing our IT and processes in order to respond dynamically."

Cargo

The global air cargo industry faced a double challenge in 2020: capacity fell by 30 to 35 per cent because of COVID-19 restrictions, but demand, especially for medical goods, increased. KLM Cargo met both challenges head on and became a vital partner in the delivery of medicines, personal protective supplies and medical equipment. It tapped into its creativity and resilience to maintain the global airfreight network, substantially operating on a cargo-only basis. Passenger aircraft were deployed for cargo-only charter purposes and the freighter fleet was fully utilised. More than 1,800 cargo-only flights were carried out in 2020, serving more than 100 long-haul destinations. This meant Cargo kept global supply chains functioning for the most time-sensitive materials.

Cargo was proud to become an integral part of the fight against the pandemic. Working with the Dutch Government and Philips, KLM set up an air bridge from Asia to the Netherlands to supply health care organisations with important medical goods. Cargo also launched the innovative Cargo in Cabin freight concept, which involves carrying freight on passenger seats. Tens of millions of medical supplies have been transported this way. The next unprecedented logistical challenge will be the global distribution of COVID-19 vaccines. In the years leading up to the pandemic, Cargo had already begun to invest in its pharma business and in 2020 work started on a 1,118 m^3 climate controlled storage facility and an additional 2,061 m^3 cool room.

Late 2020 also saw the launch of the world's first SAF program in the cargo industry, a considerable part of an ambitious sustainability roadmap. This program enables shippers and freight forwarders to power a percentage of their flights with SAF. This will not only make KLM's cargo flights more sustainable, but will also increase the market for SAF, contributing to a cleaner future for air transport.

Cargo revenues were 35 per cent higher than in 2019 and the contribution to KLM results almost doubled. KLM benefited from IT investments in previous years, seeing direct online bookings above 60 per cent for the first time and direct online revenue 35 per cent on average. Visits to the myCargo portal were up 35 per cent in 2020. Total KLM Cargo capacity decreased by 30 to 35 per cent. The number of full freighters remained at four, but as part of KLM's fleet renewal program, the Boeing 747 combi aircraft was phased out in 2020. For the second consecutive year, Air France KLM Martinair Cargo were named Cargo Airline of the Year by the readers of Air Cargo Week/World Air Cargo Awards.

As for its recovery, Cargo aims to become more frugal, more agile, and more sustainable. It also aims to increase its market share in Short and Medium Enterprises and offer a new service model that uses data analytics and real-time information to optimise customer satisfaction and value. Under the banner of the *'From Good to Excellent'* program, Cargo will safeguard operational continuity, minimise complexity, improve quality and optimise the deployment of employees. The starting points for this process will be operational excellence, the philosophy that has guided the improvement of KLM's operations for several years now.

Engineering & maintenance (E&M)

E&M provides KLM and other airlines with competitive aircraft, engine, and component maintenance and engineering support. Crisis management at E&M in the early months of the pandemic focused on making quick but good decisions. As a result, work in the hangars continued at a safe distance, technical training was provided online, and only basic activities or legally required tasks were carried out. Demand for third-party services plummeted, but KLM did acquire two new component customers on the Boeing 787, Air Premia (South Korea) and Bamboo Airways (Vietnam). KLM's internal demand for service was simultaneously reduced and changed. With 166 aircraft temporarily parked at Schiphol, E&M ran a fleet parking program to keep aircraft on the ground in good working condition. All aircraft were maintained in accordance with manufacturer and regulatory demands.

As part of the restructuring plan, E&M focused its recovery and restructuring on two goals. First, to renew the balance between fleet availability, fleet health and fleet (maintenance) cost. Second, related to its engines and components work, maximising the use of own resources, and (re)-defining future investments.

In 2020, E&M together with Fleet Services developed a long-term fleet availability strategy and program. This will increase fleet health, which in turn improves fleet availability and lowers the integral costs for KLM. This is particularly important now that KLM will be smaller and needs to be more agile. This requires more airline-driven maintenance as well as integrated decision-making and optimisation. That is why the program is run by a multi-disciplinary team from Fleet Services, E&M, Network & Operations Control.

Digitisation and innovation remained important to E&M in spite of the crisis. Repair development within engine services, for example, tips the equation of ecological impact, cost reduction and logistic hassle to the right side. Repair management is the continuing process of identifying, developing and industrialising new and smart repairs on expensive engine parts. Instead of replacing these parts, technologically advanced repairs are being developed. Repairs enable cost effective engine operation and significantly reduce the need for raw materials and transportation between suppliers worldwide. In turn, this improves sustainability.

In addition, E&M continued several social innovation initiatives. Engagement, employee ownership and its ongoing cultural leadership program to support 'teaming' will be essential building blocks in the new E&M organisation. Various employee councils were set up, empowering employees to contribute to the implementation of the new organisation.

Transavia

At the start of the year, Transavia was on its way to another record year. COVID-19, however, forced Transavia to shut down its entire operation for 11 weeks in April/May and to cancel 17,000 flights. More than one million passengers demanded refunds and Transavia quickly ramped up customer support and developed a chat bot to speed up the process of customer care. Transavia focused on cash control and froze all spending and investments. Only asset-light investments that directly added value to customers were permitted. This included the launch of Transavia Holidays and Transavia Dichtbij, which supports Transavia's sustainability ambitions by focusing on travel within a 750 km radius. An ancillary product called Flex was introduced to offer certainty and flexibility, features that have become of increasing importance for passengers. Transavia partnered with Takeaway.com to offer "in-flight delivery", which reduces waste and weight on flights.

During the restart in June, production was initially increased to 65 per cent of the normal schedule during the peak summer months. Spain and Greece, representing more than half of the production, introduced new travel restrictions in August, resulting in another setback. Winter production hovered around 20 to 30 per cent and the load factor was 45 per cent on average. Countries where restrictions were lifted showed an immediate uptick in bookings, indicating passengers are eager to fly.

Transavia's restructuring plan is based on reshaping the strategy, restructuring the organisation and cost reductions. Transavia will remain the number one leisure carrier in the Netherlands. The strategic focus will be on customer, proposition and distribution, on integral airline planning and on the purpose, people and organisation. Continued fleet renewal will contribute to meeting passengers' expectations, cost reduction, future growth and Transavia's sustainability targets.

"Working with the Dutch Government and Philips, KLM set up an airbridge from Asia to the Netherlands to supply health care organisations with important medical goods."

In 2020, cooperation regarding sustainability increased within the KLM group. Transavia is now part of the Sustainability Leads group and the Fuel Efficiency group. Transavia partnered with KLM on the CO_2 compensation program CO_2ZERO. Participation is stable at around 5.4 per cent of passengers. Transavia worked on more waste and weight reduction initiatives with external partners like the Amsterdam University of Applied Sciences and Product for Product. Another example is the circular approach for our coffee cups introduced in December. All coffee cups on board and in the hangar will be recycled into toilet paper. In future, cups from the Transavia offices will be included.

Restructuring

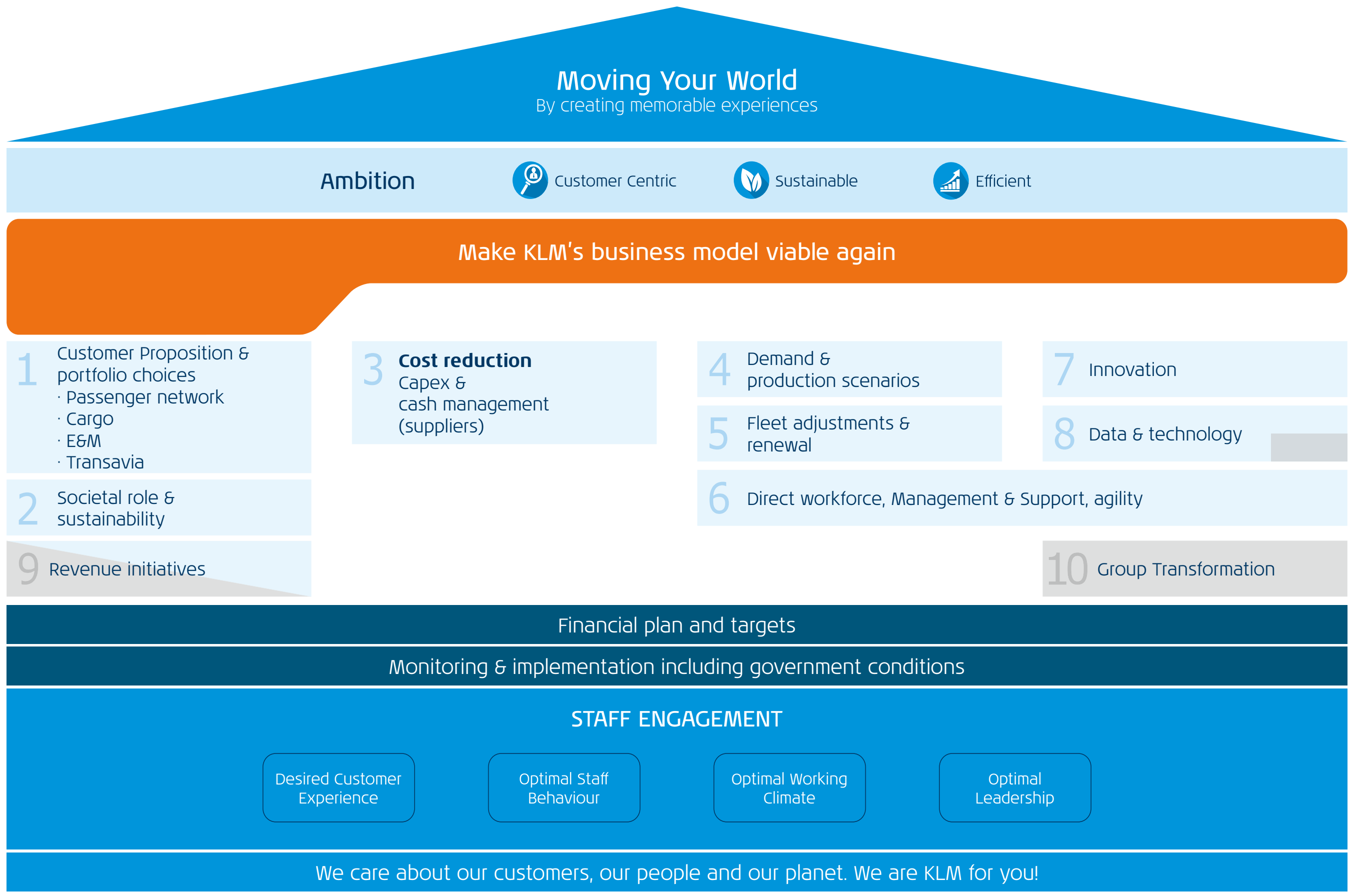
KLM has developed a restructuring plan that will make KLM smaller, cheaper, more frugal, more agile, and more sustainable. Called "Van Meer naar Beter" (Building Back Better) it will enable KLM to emerge stronger after the pandemic.

The pandemic offset KLM's good performance of the 2014 to 2019 period and net debt was set back to a high level. KLM's network business was impacted severely and revenues from cargo, while enjoying an uptick, were unable to compensate for this. Demand for E&M will remain lower than pre-COVID-19 levels because KLM and third parties fly less and airlines have reduced their fleet. Nevertheless, KLM maintains its purpose and ambition and believes that, while strategic objectives have been sharpened, the strategy does not require an overhaul. KLM has adjusted its financial targets so as to repay the debt to the Dutch government and banks by 2025.

In light of this and the enduring uncertainty about the pandemic, KLM has developed a restructuring plan that aims to achieve four strategic objectives. First, to protect KLM's core business and strategic position, by re-assessing and sharpening our strategic choices. Second, to protect liquidity, by strictly managing cash levels and adjusting capex plans. Third, to adjust KLM's size to the recovery of demand, by developing market scenarios specific to KLM and adjusting the network, fleet plans and workforce accordingly. And finally, to emerge stronger, by achieving a structurally better (lower cost, more flexible, more collaborative) organisation and achieving 15 per cent manageable cost reductions. By achieving this, KLM will be able to pay off its debt, meet the conditions set by the government and realise its ambition to become a leading European network carrier in customer centricity, efficiency and sustainability.

A slow recovery is expected, whereby the 2019 levels will not be reached before 2023 or 2024. KLM will operate fewer flights and reduce capacity for an extended period of time. Therefore the organisation will be resized and KLM will become smaller. Cost levels will need to be adjusted because it is expected that revenues will remain lower than 2019 levels for a number of years. KLM will have to be more frugal because there will be less room for investment and focus will be set on repaying the debts as soon as possible. The road to recovery will be long and full of uncertainties. Therefore, it is important to become more agile and more flexible. As public expectations on our societal role are increasing, KLM embraces this role and will continue to be a leader in sustainability, including a supporting role in society.

The basic premise of the restructuring plan is that our KLM business model is still valid and valuable, but that we explicitly need to take far-reaching and structural action to ensure its future success. Ten initiatives have replaced the KLM Flight Plan and Transformation Agenda as a way to realise the restructuring. These initiatives affect the entire company, including subsidiaries, and aim for objectives in areas like revenues, customer proposition, portfolio choices, cost reduction, cash management, fleet adjustments and renewal, innovation, data and technology. There is a detailed plan for each of these initiatives. The restructuring plan is financially substantiated for the next five years but the set-up is flexible and can be aligned with future uncertainties, including uncertain future income level. Implementation of the plan began in 2020.



Ton Veldman (L)
Project Leads Cargo

Paul Crombach (R)
Program Manager Cool Chain

Protecting the world

When the world needed it the most, KLM Cargo transported vital protective equipment and medical ventilators through its innovative Cargo in Cabin initiative. Now KLM Cargo is working on an ever more important challenge: delivering COVID-19 vaccines.

But when global flights were halted in March, countries were cut off from the things they needed the most. Not just day-to-day goods, but novel necessities like face masks for medical professionals and ventilators for COVID-19 patients.

KLM rose to the occasion to ensure hospital, shops and factories received a constant supply of goods. A challenge that was taken up by Ton Veldman and Bert Jansen, both Project Leads Cargo. "Basically, we set up our own business within two months. A new Cargo in Cabin product was developed and organised. The project team recruited volunteers from across KLM, trained them and organised the sales activities. More than 120 passionate KLM colleagues were involved, working as volunteers, next to their regular work. They were happy to put in the extra hours.

Before COVID-19, cargo was transported in a handful of dedicated freighters or, usually, in the belly of regular passenger aircraft. But the cabins were now empty while the bellies were full because demand for medical equipment skyrocketed and cargo capacity went down. KLM brought its three Boeing 747 combi aircraft back from retirement, as part of an air bridge with Philips to deliver medical quipment from China to the Netherlands.

Cargo in Cabin was easier to imagine than to realise. Flight safety has to be guaranteed at all times and cargo had to be prevented from damaging the seats. And then there was a whole range of regulations that had to be complied with. "On our flights to Shanghai to pick up medical supplies, we had 10 extra crew members on board. Amongst these were specific Cargo in Cabin Coordinators, who we trained ourselves. We taught them to handle the cargo properly and to tie down boxes. It was tough and labour intensive work.

Then, there was a lightbulb moment: develop a special cargo bag that fits on a chair. "This would double our capacity, protect the interior and make it easier to load and unload supplies. Together with a supplier we made sketches and we put the product in production.

Then came the hard part: making sure everything complies with regulations and getting permission from local authorities. We are working towards introduction early 2021," Ton states.

Throughout 2020, the Cargo in Cabin team conducted 153 flights, delivering a total of 125 million masks, 5 million gloves and 7.5 million other relief goods. With Philips, meanwhile, KLM set up special flights for the transport of much-needed ventilators, both to the Netherlands and North America.

Then, towards the end of 2020, the news came that COVID-19 vaccines were on their way. While pharmaceutical companies were rushing to get their vaccines approved and produced in large enough quantities for more than 7 billion people, a logistic challenge emerged: transporting the vaccines from a handful production facilities to all corners of the world.

Paul Crombach, Program Manager Cool Chain, who leads KLM's COVID-19 operational vaccine taskforce, describes how temperature is one of the factors. "Pharmaceutical companies are legally responsible for the quality of their product until it gets to the patient.

Fluctuations and peaks in temperature can have a negative effect on the quality of the medicine. Therefore, each medicine has to be transported at just the right temperature and temperature fluctuations need to be reduced to a minimum.

KLM worked flat out to prepare for the transport of the vaccines. For example, KLM upgraded its cooling capacity at Schiphol, which is needed to store the vaccines at the right temperature. The BioNTech/Pfizer vaccine is the most challenging with a storage temperature of -70 celsius. Our aircraft holds can only be maintained at temperatures between 2 and 8 degrees celsius at the lowest. To be able to maintain even lower temperatures special packaging and special containers can be used that are filled with dry-ice. KLM already used the right containers and we have increased our dry-ice stock and our storage and handling capacity for the containers to facilitate the vaccine transport. Next to that KLM upgraded its security protocols and warehouse security, because the vaccines are high-value goods.

We have already transported vaccines to various South American and African destinations, being the first to deliver vaccines to Ecuador, Colombia, Guatemala, Peru, the French overseas territories and the Dutch Antilles. As production of the various vaccines is ramping up and more and more vaccines are completing their clinical trials, we expect to play an increasingly large role in this important transport.

Overview of significant KLM participating interests

As at December 31, 2020

Subsidiaries	KLM interest in %
Transavia Airlines C.V.	100
Martinair Holland N.V.	100
KLM Cityhopper B.V.	100
KLM Cityhopper UK Ltd.	100
KLM UK Engineering Ltd.	100
European Pneumatic Component Overhaul & Repair B.V.	100
KLM Catering Services Schiphol B.V.	100
KLM Flight Academy B.V.	100
KLM Health Services B.V.	100
KLM Equipment Services B.V.	100
Cygnific B.V.	100
Jointly controlled entity	
Schiphol Logistics Park C.V.	53 (45% voting right)
Financial asset	
Kenya Airways Ltd.	8

Risk management and control

The KLM In Control Statement is the KLM approach to voluntarily apply to the Dutch Corporate Governance Code 2016. The purpose of the Code is to facilitate – with or in relation to other laws and regulations – a sound and transparent system of checks and balances and, to that end, to regulate relations between the Board of Managing Directors, the Supervisory Board and the Shareholders. Compliance with the Code contributes to confidence in good and responsible management of companies and their contribution to society. Building blocks of the In Control Statement are the next two paragraphs on Risks and Risk Management and Control and Monitoring. The In Control Statement can be found in the Board and Governance paragraph.

Risks and risk management

KLM is exposed to general risks associated with the air transport industry and with airline operations, and consequently has a system to identify, analyse, monitor, manage and control risks. A distinction is made between strategic, operational, compliance and financial risks. Strategic risks are related to KLM's strategic choices, operational risks are related to operational activities and compliance risks are related to applicable laws and regulations. Financial risks are related to Financial Reporting and to financial markets and market developments. The financial risks are also elaborated upon in the Financial Risk Management section in the notes included in the consolidated financial statements. Overall risks of AIR FRANCE KLM are explained in the relevant parts of the AIR FRANCE KLM financial disclosure reporting. These risks can also have an impact on KLM's brand, reputation, profitability, liquidity and access to capital markets.

Risk profile

The airline industry is a cyclical, capital and labour-intensive business with high levels of fixed cost and relatively small margins. In addition, the airline industry has to deal with strongly fluctuating oil prices and currencies, as well as with increasing numbers of laws and regulations, for instance in the areas of compliance, environment, flight safety, security and passenger rights. KLM is fully aware of this risk profile and has a risk management process and internal control monitoring in place to manage this profile.

Risk appetite

The risk appetite of KLM differs per type of risks:

» Strategic risk: with an ambition to be a leading European network carrier in customer centricity, efficiency and sustainability taking and accepting strategic risks is inevitable;
» Operational risk: KLM operations are diverse. KLM accepts zero risks in the field of flight safety and operational safety, other operational risks are considered in view of the (daily) business;
» Compliance risk: KLM is averse to risks that could jeopardise compliance with applicable external laws, and internal rules and regulations; and
» Financial risk: KLM is averse to risks that could endanger the integrity of finance and reporting.

Risk management process

KLM has implemented a system to identify, analyse, monitor, manage and control risks, which is in line with international risk management standards (COSO Enterprise Risk Management) and complies with the risk management part of the 8th EU Company Law Directive. Strategic and operational risk mapping processes have been established by all the relevant entities, facilitated by Corporate Administrative Organisation / Internal Control (AO/IC) and Internal Audit, where also consolidation of KLM-wide risks takes place.

Twice a year, KLM divisions, departments and Group entities update their decentralised operational risk report that contains an outline of risks, the probability these risks will occur, the potential financial impact and mitigating actions taken or proposed. Risks are discussed within the management teams owning the risks. Both specific decentralised risks to each entity and transversal risks affecting the whole Group are the subject of reporting. In 2020, special attention is on COVID-19 emerging risks and the way we act upon them. The Fraud Risk management process, initiated in 2019, evolved also in 2020 and is an ongoing yearly assessment.

For each reported risk, members of the Board of Managing Directors and the KLM Executive Team are responsible for reviewing measures implemented to control and mitigate the risks. Twice a year, the most significant strategic, operational, compliance and financial risks are presented to the Board of Managing Directors, the KLM Executive Team and the KLM Supervisory Board.

Impact of COVID-19

The COVID-19 crisis has had a significant adverse impact on KLM's activities, financial position and results during the 2020 financial year and is expected to continue to negatively impact the Company in the near future.

Since March 2020, KLM's activities have been strongly affected by the COVID-19 epidemic. Declared as a "pandemic" by the WHO on March 11, 2020, the COVID-19 epidemic has resulted in numerous restrictive measures to limit its spread. The measures put in place by the public authorities in numerous countries have led to the temporary suspension of airline operations and the reduction or suspension of travel, thereby having a material and negative impact on KLM's activity.

Intercontinental/business travel in particular has been impacted by these regulatory restrictions and cost-saving plans of corporate customers of KLM.
Given these travel restrictions and the collapse in passenger traffic and revenues, since March 2020, KLM was obliged to significantly reduce its capacity and, notably, drastically curtail its flight activity.

KLM has also implemented substantial cost-saving measures, in terms of staff reductions and reductions in non-essential investments and expenditure, the implementation of which could in particular damage KLM's reputation due to negative reactions from public authorities or unfavourable media coverage, or even lead to labour disputes, with a negative impact on KLM's activity.
In this context, KLM has also taken various measures to strengthen its cash and liquidity position described in the *"mitigating principles and actions"* paragraph below.
The current and forthcoming measures from the public authorities in many countries could further disrupt, or even prevent, any activity by KLM for an indefinite period. In this context, several countries where KLM conducts its activities have again taken lockdown measures at the year-end. In view of the uncertainties inherent in any health crisis, KLM cannot guarantee that this situation will stabilise in the short-term; KLM's baseline scenario is a return to pre-crisis capacity in 2024. These elements could, in the current state of visibility and analysis and depending on their persistence, have a very significant negative impact on KLM's operating results, financial performance and liquidity, despite the measures taken, and on those of some of its partners.

Reference is made to the going concern paragraph in the Notes to the consolidated financial statements and the mitigating principles and actions described hereafter.

Mitigating principles and actions

KLM is supported by a coordination structure responsible for prevention, crisis management, the circulation of health advice and liaising with the national and international authorities on outbreaks of epidemics or threats of epidemics. Concerning the management of the public health crisis associated with the COVID-19 virus, KLM is supported by a dedicated coordination structure.
The company has also implemented a Network Contingency Planning, for capacity and schedule optimisation, in coordination with AIR FRANCE KLM and partner airlines and is continuously monitoring restrictions of various countries, adapting schedules and route planning accordingly. To this end, the processes for building and adjusting flight programs had to be reinvented.

To strengthen the cash and liquidity position, KLM has taken various measures, including a revolving credit line of EUR 2.4 billion supported by the Dutch Government and a direct loan of EUR 1 billion. The Group also took financial action in order to save cash by cut of operating costs and capex investment plan, labour cost reduction, halt of non-critical projects and significant reduction of consultants and external staff.

With the crisis continuing and the conditions for a recovery remaining uncertain, KLM will continue to monitor the unfolding situation on a daily basis, to make adjustments as necessary and define/deploy protection resources like the appropriate health measures.

Strategic risks – risks relating to the air transport activity

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive with – as a general trend throughout the economic cycle – increasing traffic volumes and reduced airfares. On its short and medium haul flights to and from the Netherlands, KLM competes with alternative means of transportation, such as the high-speed rail network in Europe. In addition, KLM faces competition from low-cost airlines for European point-to-point traffic. To increase revenues per seat, some of the low-cost airlines adopt a more hybrid model by also focusing more on the business travel market. KLM expects downward pressure on airfares in Europe to continue.

On its long-haul flights KLM competes, within the boundaries of governmental air transport agreements, with a multitude of airlines. Point-to-point operations of long-haul low-cost airlines are growing rapidly, especially between Europe and the USA. Furthermore, US carriers are bigger and stronger and non-Western global carriers are rapidly expanding. Non-EU airlines operate under very different regulatory and state aid regimes that allow them to compete successfully in the global market and with lower cost bases. These carriers are actively building positions in the European airline market, disturbing the 'level playing field'.

The accelerating capacity growth of Middle Eastern and Turkish carriers in combination with the capacity growth of Asian carriers will further increase the imbalance between supply and demand to and from East Asia, resulting in the expectation of lower airfares in general.

Due to COVID-19, the outlook for 2021-2024 is not clear. It is unclear to what extent and with which pace demand returns, especially the corporate business class passenger. Much depends on the development of the virus and development and distribution of vaccines. When demand returns, it is not clear whether business and leisure-oriented demand return in the same pace. In addition, it is not clear how competition will position or regroup itself. This can vary per continent and depends on the operational and financial capabilities of the carriers.

Mitigating action(s): Reference is made to section 4 Restructuring - "Van meer, naar Beter" (Building Back Better) section in the Letter from the President in the Report of the Board of Managing Directors.

Risks linked to the air cargo market

2020 was a very good year for the air cargo market with high yields and high load factors, driven by the sharp decline in capacity in wide body belly passenger flights due to COVID-19. Although international production and trade show signs of recovery and are expected to bolster air cargo volumes, economic outlook for 2021 looks promising, but remains uncertain. The air cargo capacity evolution depends on air travel recovery and the availability of COVID-19 vaccines.

Mitigating action(s): KLM addresses the Cargo risks by enhancing the connection to the customer and adding value by digital developments and digitalisation initiatives and by structurally lowering unit cost.

Risks linked to the oil price

Jet fuel is one of the largest cost items for an airline. The volatility of oil prices therefore represents a material risk for KLM. Both an increase and decrease of the oil price may have a material impact on the profitability. Furthermore, any change in the US dollar relative to the euro also results in volatility in the fuel bill.

Mitigating action(s): KLM has a policy in place to manage these price risks, which are set out in the section "Financial risk management" in the notes attached to the consolidated financial statements.

Risks linked to terrorist attacks, the threat of attacks, geopolitical instability and (threats of) epidemics

Any terrorist attack or threat, geopolitical instability and armed conflict may have a negative effect on KLM's business. It could lead to a decrease in demand and an increase of operational, insurance and security cost.
During the first months of 2020, the COVID-19 outbreak has evolved into a pandemic of unprecedented magnitude, with a severely negative impact on all air traffic around the world.

Mitigating action(s): KLM has an Integrated Safety Management System, contingency plans and procedures in place that enable the company to adapt quickly to changing environments and to anticipate and respond effectively to the above-mentioned events. The aim of these measures is the effective protection of passengers and staff, operational and service continuity and the preservation of the long-term viability of KLM's businesses. These measures are regularly evaluated and adapted to reflect changes in the threat environment. KLM complies with national, European and international safety and security regulations and submits regular reports to the national authorities of the measures and procedures deployed.

Especially when COVID-19 evolved, KLM has responded flexibly. KLM reduced its flight schedule as destinations were closed for incoming flights and engaged in crisis management under fast changing circumstances. KLM aims to meet its ongoing commitments in order to overcome the crisis and restore business activity as and when the opportunity arises.

Risks of loss of airport slots or lack of access to airport slots

Due to congestion at major European airports including Schiphol, all air carriers must obtain airport slots, which are allocated in accordance with the terms and conditions defined in EU Council of Ministers Regulation 95/93. Pursuant to this regulation, at least 80 per cent of airport slots held by an air carrier must be used during the period for which they have been allocated. Unused slots will be lost by the relevant carrier and transferred into a slot pool. Any loss of airport slots or lack of access to airport slots due to airport saturation could have negative impact in terms of market share, results or even future development.

Mitigating action(s): Given the 80/20 utilisation rule applying to each pair of airport slots for the duration of the season concerned, KLM manages this risk at a preventive and operational level. Schiphol has reached the maximum capacity, agreed in the 2008 Alders Agreement, therefore access to new airport slots will be limited. Given the COVID-19 crisis, the EU Council of Ministers decided on March 26, 2020 on an exemption of the 80/20 utilisation rule between March 1 and October 24, 2020. On October 14, 2020, the EU Council extended the exemption until March 27, 2021. For IATA summer 2021 period 50 per cent of the slots could be returned before February 26, 2021 to retain historical precedence. Slots which are not returned require a minimum operation rate of 50 per cent to retain historical precedence.

Risks linked to the passenger compensation regulations

Passenger rights in the European Union are defined by European regulations. One of them (EU 261/2004) applies to all flights, departing from an airport located in a Member State of the European Union or flying to the EU if it concerns an EU carrier. More recent judgements of the European Court of Justice, however, have extended the applicability to marketing carriers of flights departing from the EU even if not the marketing carrier, but its codeshare partner experienced a delay.
Regulation EU 261/2004 establishes common rules for compensation, uniform enforcement and assistance on denied boarding or substantial delay in embarkation, flight cancellation or seat class downgrading. However, the interpretation of this regulation differs per jurisdiction. The European Commission therefore published a proposal to amend the regulation issued in March 2013. The proposal is still under review by the Council of the European Union. The timetable for this regulation to become effective is unclear as no presidency of the European Council intends to place this item on their agenda in the near future, blocking any review of this proposal. After this issue has been solved, agreement must be reached at European Parliament, Commission and Council level, which will take time. Another issue is the emergence of claim agents who assist passengers in claiming compensation from airlines. Due to the spectacular growth of the number of claim agencies, the number of claims for compensation ending up in court has grown substantially.

Outside the European Union, air passenger rights apply, but sometimes conflict with other passenger rights. This may lead to regulatory conflicts.
Though - due to the COVID-19 crisis - the amount of EU 261 claims has decreased extremely, we are now confronted with a new risk posed by EU 261 in light of the crisis. Namely the right of passengers to receive a refund of their ticket (after cancellation by the airline) within 7 days. Almost all National Enforcement Bodies (NEB's) within Europe (and many others within other jurisdictions based on their regulations) will penalise KLM if it doesn't abide by this.

Mitigating action(s): KLM actively supports a global standardisation of passenger rights, also in light of a level playing field and the competitive position of EU carriers. For refunds a strong recovery and action program has been implemented to fulfil all requirements. Progress is monitored on a frequent basis.

Risks linked to competition from aircraft, engine and component manufacturers in maintenance

Aircraft, engine manufacturers and aircraft component manufacturers are rapidly expanding their after-sales departments to offer customers increasingly integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to maintenance providers seeking to exercise its business activity on certain products. Ultimately, if it were to result in reduced competition in the aviation maintenance market, this trend could have a material adverse impact on airline maintenance costs.
The COVID-19 pandemic and its impact on the MRO market may lead to additional pressure on competitiveness and therefore a drop in sales prices and overcapacity, leading to a loss of profitability. In addition, several airlines which are also customers of the Group for E&M services have incurred losses due to the crisis, which exposes the Group to a risk of delayed payment of its receivables or even bankruptcy of such companies.

Mitigating action(s): KLM discusses the Original Equipment Manufacturer (OEM) license agreements and is actively developing scenarios for further discussions with manufacturers. Regarding the impact of COVID-19 on the MRO market, the Group is continuously monitoring the customer and competitive landscape and adapts where possible.

Risks linked to the environment

There is increasing public pressure on global and local flight pollution generated by the airline industry. KLM has a deep-rooted belief it has a responsibility towards its customers, employees, and our home base in the Netherlands and the world beyond. The air transport industry has to manage its impact on the environment and is subject to numerous environmental laws, regulations and financial measures covering carbon emissions, such as the Dutch Aviation Act (Luchtvaartnota), the EU Emission Trading Scheme and the Carbon Offsetting and Reduction for International Aviation (CORSIA).
Alongside KLM's sustainability ambition, state loans come with conditions including environmental footprint requirements (50% lower CO_2 emission per Available Seat Kilometer (ASK) by 2030, restriction on night flights and the use of 14% SAF in 2030.

Mitigating action(s): KLM has formulated an ambitious and comprehensive sustainability strategy with clear targets and timelines. One of our chief goals is to reduce our 2030 carbon footprint in absolute terms by 15 per cent compared to 2005 and to achieve a 50 per cent per passenger reduction in CO_2 emissions. KLM is best in class in fuel efficiency and reducing CO_2 emissions and has the ambition to go beyond the target, set by the ICAO. In order to realise these ambitions, KLM is acting to reduce its fuel consumption and carbon emissions by:

- Fleet renewal, improved fuel management, continuous reductions in weight and improved operating procedures;
- Active engagements in scaling up the use of SAF for international aviation. KLM invested in the development of a SAF plant in the Netherlands and supports research, development and creation of a market for SAF together with SkyNRG, corporate customers and several coalitions;
- Support of research on alternative transport modes and aircraft design with TU Delft, and developing low carbon alternatives for the KLM network; and
- Cooperation with national, European and international authorities, e.g. on optimisation of traffic control, scaling up SAF and by creating effective market-based solutions to manage the climate impact of the airline industry.

The Dutch Aviation Act sets out a vision and policies for carbon emission, local emissions and noise. In addition, aviation is subject to laws on aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste and contaminated sites. Over the last few years, the Dutch and European authorities have adopted various measures, regarding noise pollution.

Mitigating action(s): For KLM flight operations and all relevant ground activities in the Netherlands, compliance with environmental rules and regulations and improving environmental performance is ensured by the externally verified environmental management system according to ISO 14001. In addition, KLM actively engages with the local community and sector parties to reduce noise disturbance through the Minder Hinder (Less Disturbance) program. KLM is also committed to local emission reduction plans of the government and Schiphol covering ultrafine particles and nitrogen, and takes part in the Air Rail program with mobility partners and the government.

KLM is subject to the Emission Trading Scheme (EU ETS)[1] implemented by the European Commission, covering emissions from flights within Europe. In November 2017, the EU decided to extend the current intra-EU scope of EU ETS until 2023 and in 2021 a decision will be made on the period 2024-2030. In 2010, the global airline industry agreed to stabilise emissions from 2020. In 2016, ICAO concluded the global climate agreement CORSIA for international aviation, in which 88 countries will voluntary participate in the first stage, covering more than 77 per cent of the global routes from international aviation. It is still uncertain how EU ETS will be aligned with the proposed global ICAO measure.

Mitigating action(s):
KLM has set a strategy to reduce its fuel consumption and defined targets towards 2030 to reduce the carbon footprint from its operations. This will reduce exposure to both ETS and CORSIA. In addition, KLM hedges the EU ETS price two years in advance to limit price volatility.

[1] The principle of the European Emissions Trading Scheme is that each Member State is allocated an annual allotment of CO_2 emission allowances. Each Member State then, in turn, allocates a specific quantity of emission allowances to each relevant company. At the end of each year, companies must return an amount of emission allowance that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell allowances to certain markets in the EU. Furthermore, they can earn a limited amount of credits for their greenhouse gas reduction efforts in developing countries through Clean Development Mechanisms (CDMs).

Operational risks – risks related to the operations of KLM

Operational integrity

Operational integrity is one of the essential conditions for success in the airline industry. Airline operations are sensitive to disruptions. Delays reduce the quality of the network and are costly.
Air transport depends, amongst others, on meteorological conditions, which can lead to flight cancellations, delays and diversions. Adverse weather conditions such as heavy fog and heavy storms may require the temporary closure of an airport or airspace and thus lead to significant costs (repatriation and passenger accommodation, schedule modifications, diversions, etc.).

Due to COVID-19, there is a risk of further shrinkage of the network due to the closure of destinations and/or airports or due to further decreasing passengers trust in a safe flight. In addition, as a result of the COVID-19 outbreak a large number of countries continue to enforce various health measures and travel restrictions for both passengers and crew. This impacts the entire operation. This includes items such as health forms, crew temperature checks, aircraft cleaning/ disinfection, and various EASA directives.

Mitigating action(s): KLM has taken a number of operational initiatives to safeguard its operational integrity, in order to deliver a high-quality service to its customers. The Operations Control Center, where all network-related decisions on the day of operations are taken, is central to ensuring operational integrity.

Airline accident risk, safety and security

Safety and security are fundamental elements of KLM operations and essential to our customers, our employees, our environment and therefore KLM's future. KLM is committed to, maintaining the highest level of safety and security.
KLM builds upon the best safety and security practices through an Integrated Safety Management System, a working environment of continuous learning and improvement and independently positioned oversight of the four safety domains: operational, occupational and environmental safety and operational security.
The effects of the COVID-19 pandemic have prompted KLM to re-engineer its procedures in order to operate in a safe way for their customers, employees and the environment. This includes continuous adaption to all restrictions imposed by local governments and agencies within the operation based on the result of safety studies and risk analysis.

Mitigating action(s): KLM continuously aims to improve its industry-leading, risk and performance-based safety management system in which risk-based decisions can be taken at all levels within KLM. Its Safety Culture program, which includes promotion, communication, training and learning interventions, is embedded throughout the company in order to enhance safety awareness and relevant safe attitudes and behaviours on all levels.

Air transport is also heavily structured by a range of regulatory procedures issued by both national and international civil aviation authorities. The required compliance with these regulations is governed through an Air Operator Certificate (AOC), awarded to KLM for an unlimited period. The civil aviation authority carries out a series of checks and audits on a continuous basis covering these requirements and associated quality system.

In addition to this regulatory framework IATA, member airlines need to meet the requirements for IATA Operational Safety Audit certification (IOSA). The IOSA audits for the renewal of KLM's and KLM Cityhopper's certification were carried out at the end of 2020 and resulted in the renewal of the certificates in March 2021.

It risks and cybercrime

the IT and telecommunications systems are of vital importance to day-to-day operations. They comprise the IT applications in the operating centers that are used through the networking of tens of thousands of different devices. The number of cloud providers, and thus dependency, is increasing, as well as virtualisation of external data centers. This requires more focus on protecting data outside our internal environment.
IT systems and the information they contain may be exposed to risks concerning continuity of functioning, data security and regulatory compliance. These risks arise from both inside and outside of the company. The materialisation of one of these risks could have an impact on KLM's activity, reputation, revenues and costs, and thus its results.
The Cybercrime program, approved by the AIR FRANCE KLM Group Executive Committee, covers the prevention and detection procedures such as cyberthreat surveillance, evaluations of information system security and tests to

pinpoint any information system incursions via the internet. Threats and number of attacks are increasing. The fast-moving technologies of this risk means that the AIR FRANCE KLM Group will always retain a certain level of vulnerability.

A cyber-incident occurred at KLM IT infrastructure in December 2020. It was detected by KLM's Endpoint detection and response tooling and blocked by the security specialists. Cyber investigations started immediately in the Netherlands and France with support of external investigators. Executive Management as well as the Dutch authorities National Cyber Security Center and the Authority AP have been informed. Whilst blocking the attack, immediate precautionary measures were applied. IT Management has per end March 2021 no indications that applications and/or customer data are impacted. Based on the (expected) investigation reports by specialized external parties an action plan will be executed to further strengthen IT security measures in 2021.

Mitigating action(s):
Tools and services have been introduced to prevent from and respond to cyberattacks. The secure functioning of the IT systems is monitored on a permanent basis. Identified vulnerabilities are addressed. The related processes are regularly evaluated and adapted to the changing risk scenario.
Dedicated help centers and redundant networks guarantee the availability and accessibility of data IT systems stay reasonably safe by¬ integrating cybersecurity into business contingency,¬ investing in qualified staff and in the AIR FRANCE KLM Cybercrime program.

The AIR FRANCE KLM IT division implemented security rules aimed at reducing the risks linked to new technologies, (mobile) devices and data. The access controls to IT applications and to the computer files at each workstation together with the control over the data exchanged outside the company are in line with international standards.

Mitigating action(s): Campaigns to raise the awareness of all staff to the potential threats to encourage best practices are regularly carried out. Specialised companies and Internal Audit, comprising of IT experts, regularly evaluate the effectiveness of the solutions in place.

Data security is a priority, especially the protection of personal data pursuant to the General Data Protection Regulation (GDPR). Non-compliance may lead to penalties as high as four per cent of the annual turn-over.

Mitigating action(s): As per 2019, when a governance structure was implemented, privacy is the responsibility of the business, with support from the Corporate Privacy Office. Awareness campaigns were launched and training was provided. Privacy Impact Assessments (PIA) have been performed in order to get a clear understanding of the lawfulness of personal data processing, the risks involved and the security measures taken. The Information Security Report (ISR) is also used to define risks and necessary security measures. To improve the acceptance of both documents by the business, focus must be on alignment of these documents. Additionally, the measures of "Privacy by design" and "Privacy by default" which are prescribed by GDPR must be implemented in formal procedures for developing IT solutions. This will reduce the risk of privacy non-compliance from the start and will prevent costly IT changes later in the process.

As with any business making extensive use of modern communication and IT data processing technologies KLM is exposed to threats of cybercriminality. The risk of damage to IT facilities is covered by an insurance policy, but the risk of the operating losses that such damage might cause is not.

Mitigating action(s): To protect itself against this risk, AIR FRANCE KLM deploys substantial resources aimed at ensuring business continuity, data protection, the security of personal information pursuant to the law, and the safeguarding of at-risk tangible and intangible assets. During the COVID-19 crisis, the budget and efforts are safeguarded to further strengthen, where appropriate, activities such as patch management, monitoring of cloud usage, and end-point detection & response tooling for devices like workstations, laptops and iPads.

Risks linked to labour disruptions

Labour costs account for around a quarter of the operating expenses of KLM. As such, the level of salaries has an impact on operating results. Any strike or cause for work to be stopped could have a negative impact on KLM's activity and financial results.

Risks linked to labour cost

In 2020, as a consequence of the COVID-19 pandemic, KLM and all unions had to re-negotiate the Collective Labour Agreements (CLAs) for ground staff, cockpit crew and cabin crew in line with government conditions. The duration of these CLAs is 17 months (until March 1, 2022) for cockpit and 27 months (until January 1, 2023) for cabin and ground. The relations with (specific) unions are tense. No immediate labour disruptions/ industrial actions are to be expected, but developments are closely monitored.

Mitigating action(s): KLM fosters social dialogue and employee agreements among other things in order to prevent the emergence of a conflict.

Risks linked to the use of third-party services

KLM's activities depend in part on services provided by third parties, such as air traffic controllers, airport authorities and public security officers. KLM also uses suppliers, which it does not directly control, like aircraft handling companies, catering companies, aircraft maintenance companies and fuel supply companies. The poor financial situation of suppliers due to COVID-19, may result in cost increases that are necessary for their survival.

Any interruption in the activities of these third parties or any increase in taxes or prices of the services concerned could have a negative impact on the Group's activity and financial results. This is especially the case in the current crisis where most suppliers are heavily impacted by the decrease in economic activity.

In addition, KLM could suffer reputational damage in case a supplier violates a sustainability principle, e.g. by using child labour.

KLM uses sales representatives in certain countries to help generate maintenance business with third party customers. Non-compliance with rules and regulations by a sales representative could have a negative impact on the Group's activity and financial results.

Mitigating action(s): In order to secure supplies of goods and services, the contracts signed with third parties include, whenever applicable, clauses for services, continuity and responsibility.

The financial health of key suppliers in core operational categories, such as airport and inflight services is being reported and followed on on-going basis. In addition, business continuity plans are developed by the Group's different operating entities to ensure the long-term viability of all commercial and operational activities.

Also, to mitigate sustainability risks suppliers in categories with a higher sustainability risk, such as the production of inflight hardware, are being assessed by a specialist rating agency.

KLM has implemented specific policies to ensure compliance with anti-bribery and corruption laws and regulations for sales representatives that are used by KLM in certain countries to help generate maintenance business with third party customers. KLM monitors compliance with such policies and executes background checks and implemented specific information protocols to ensure compliance with laws and regulations including periodic reporting to the Board of Managing Directors and the Supervisory Board. In 2020, KLM paid EUR 6.4 million (2019: EUR 9.6 million) to sales representatives. New contracts will comply with the updated policies. During a transition period the current contracts will be renewed in accordance with the new policies unless they are terminated.

Compliance risks – risks related to non-compliance to applicable laws and regulation

Risks linked to changes in international, European, national or regional laws and regulations

Air transport activities are highly regulated, particularly with regard to the allocation of traffic rights, time slots and conditions relating to operations like safety standards and security, aircraft noise, CO_2 and NOx emissions and airport access. Institutions such as the European Commission or the national authorities decide on regulations that may restrict airlines or have a significant organisational and/or financial impact.
The new European Commission that came into office at the end of 2019 has a strong focus on sustainability and many of the issues outlined in the European Green Deal will affect KLM. Implementation of a Single European Sky is rightly one of the European Commission's priorities. Furthermore, we can expect a revision of the EU Emission Trading System and a proposal on ReFuelEU to ramp up the production and deployment of SAF in Europe. The airline industry also closely follows the implementation of the European Aviation Safety Agency (EASA) basic regulation and a possible revision of the passenger rights regulation.
The Dutch Government presented a new Dutch Aviation Act for the period 2020-2050, which aims at the development of aviation in the Netherlands, and a strengthening of the mainport function of Schiphol. This aviation policy document recognises the essential role of the network of KLM and partners. The government asserted that Schiphol is of major importance to the Dutch economy, and therefore it will be allowed to continue to grow provided its reduces hindrance.

Mitigating action(s): For KLM it is important to monitor that the implementation of laws and regulations does not lead to a distortion of the level playing field in the airline industry, and does not disproportionately burden our industry, e.g. through excessive taxation.
KLM, in close coordination with Air France, actively clarifies its position towards the European institutions and the Dutch Government, both directly and through industry bodies such as IATA, the trade body Airlines for Europe (A4E), BusinessEurope and the Board of Airline Representatives In the Netherlands (BARIN), regarding changes in European and national regulations.

Risks linked to non-compliance with antitrust legislation and compliance in general

KLM and its subsidiaries have been exposed to investigations by authorities alleging breaches of antitrust legislation and subsequent civil claims.
On March 17, 2017, the European Commission announced that it would fine eleven airlines, including KLM, Martinair and Air France, for practices in the Air Cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006. This new decision follows the initial decision of the Commission of November 9, 2010. This decision, issued to the same airlines for the same alleged practices, was annulled on formal grounds by the General Court of the European Union in December 2015. The new fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million. On May 29, 2017, KLM submitted its appeal to the General Court of the EU and oral hearings have been held in July 2019. While the decision is under appeal, there is no obligation to pay the imposed fines. Reference is made to note 22 "Contingent assets and liabilities" of the consolidated financial statements.

Mitigating action(s): Compliance is a priority for KLM. Various programs and procedures aimed at preventing breaches of legislation, such as codes and manuals, online training modules and on-site and tailor-made training sessions, have been implemented and staff has been appointed. Continued business management attention is needed for compliance. KLM will further expand its procedures to secure and monitor compliance.

Risks linked to commitments made by KLM and AIR FRANCE KLM to the European commission or governments

For the European Commission to clear the merger between KLM and Air France, a certain number of commitments had to be made, notably with regard to the possibility of making landing and take-off slots available to competitors at certain airports. The fulfilment of the commitments should not have a material impact on the activities of KLM and Air France. In addition, the implementation of the aforementioned measures to strengthen the Group's liquidity (revolving credit facility of EUR 2.4 billion guaranteed by the Dutch Government and an EUR 1 billion loan from the Dutch Government) has been submitted for prior approval of the European Commission in accordance with state aid regulations. The loans involve various financial covenants. A significant decrease in revenues compared to budget could result in not meeting the covenants, which could lead to a default situation vis-à-vis the government.

Mitigating action(s): The honouring of the commitments is closely monitored and the related (information) dialogue with the European Commission is ongoing. The covenants are continuously monitored, in coordination with the government.

Legal risks and arbitration proceedings

In relation to the normal exercise of activities, KLM and its subsidiaries are involved in disputes or subject to monitoring actions or investigations by authorities.

Mitigating action(s): Any and all proceedings and investigations are duly addressed and claims are defended. External counsel is appointed. Where applicable, provisions are included in the consolidated financial statements and/or information is being included in the notes to the consolidated financial statements as to the possible liabilities. Please refer to note 23 "Contingent assets and liabilities" of the consolidated financial statements for more information.

Financial risks – risks related to integrity of finance and reporting

Financing risks

KLM finances amongst other things its capital requirements via secured financing - using mainly aircraft as collateral, via bilateral unsecured loans with banks and through the COVID-19 related, State financial support package with banks and the Dutch Government. A portion of KLM's financing consists of perpetual debt that does not have a repayment obligation.

Any long-term obstacle to KLM's ability to raise capital could reduce the borrowing capability and any difficulty in securing financing under acceptable conditions could have a negative impact on the AIR FRANCE KLM and KLM's activities and financial results.

The State financial support package with banks and Dutch Government include various financial covenants. A significant shortfall of EBITDA could lead to a covenant breach. In that case KLM needs to request for a waiver from a majority of the revolving credit facility banks and from the Dutch State.

Mitigating action(s): AIR FRANCE KLM and KLM have set up a Risk Management Committee to manage the financial risks and keep those risks within predetermined boundaries, as described in the part Financial Risk Management.
In addition to financing risks, AIR FRANCE KLM and KLM are exposed to market risks and credit risks. These risks and mitigating actions are set out in the section "Financial risk management" in the notes attached to the consolidated financial statements.

The covenants, related to the State financial support package, are constantly monitored, actual covenants are quarterly reported to the revolving credit facility banks and/ or the Dutch State.

Transfer pricing

The combination of KLM and Air France requires measures to ensure compliance with tax legislation including well documented cross-border intercompany transactions.

Mitigating action(s): Strong monitoring and mitigating controls have been introduced, such as an AIR FRANCE KLM guideline and an active monitoring of the arms-length character of the transactions.

Risks linked to pension plans

KLM's main commitments in terms of defined benefit schemes as per December 31, 2020 is the KLM ground staff pension plan based in the Netherlands.
Both the fiscal rules for accruing pensions and the financial assessment framework (part of the Pension Act) in the Netherlands changed as per January 2015. On the one hand this has resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling ten year restructuring plan. This also mitigates the short-term risk that in case of shortages, based on existing or future financing agreements, KLM could be required to make additional cash payments.
Under IAS 19 the KLM Group is exposed to changes in external financial parameters (e.g. discount rate, future inflation rate), which could lead to annual fluctuations in the statement of profit or loss and KLM's equity with no impact on cash. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions will be recognised in KLM's equity and will never be taken

against profit and loss. The current calculations lead to the KLM ground staff pension plan figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the defined benefit obligations. In the consolidated financial statements, the potential volatility is explained in the "Accounting policies for the balance sheet - Provisions for employee benefits" and in note 18 Provisions for employee benefits of the consolidated financial statements.
The sensitivity of the defined benefit cost recognised in profit and loss and the defined benefit obligation to variation to the change in discount rate, salary increase and pension rate are presented in note 18 of the consolidated financial statements.

Mitigating action(s): The KLM ground staff pension plan does create an accounting volatility in KLM's equity. The cash risk on recovery premiums for the ground staff pension plan is limited based on the funding agreement between the pension fund and KLM. The regular premium level is fixed. Given the longer allowed recovery time and recovery strength of the fund itself, this clearly also limits cash risks.

In December 2020, KLM and the unions for ground staff agreed to a defined contribution scheme from 2021 onwards. It will require before implementation, amongst others, the approval of the Board of the pension fund and should qualify as a defined contribution scheme under IFRS. It is expected that in the course of 2021 these conditions will be met and subsequent derecognition of the related pension asset. This would further reduce the risks linked to pension plans significantly.

Risks linked to the impact of external economic factors on equity

KLM's equity has become volatile, following the implementation of the revised IAS 19 for pensions, as of January 1, 2013. Besides the results for the year and potential dividend distributions, which can have an impact on equity, the non-cash impact of "Other Comprehensive Income" coming from the defined pension plans or the changes in the fair value of cash flow hedges (predominantly related to fuel hedges) can have a significant impact on equity.
Following the unprecedented impact of COVID-19 in 2020, KLM's equity has become negative at December 31, 2020. The Company foresees no immediate issues given that this negative equity position has no consequences on the Company's currently lower level of operations (as a result of COVID-19), its operational cash flow is expected to improve again when operations can be increased again and the obtained EUR 3.4 billion financing package consisting of a 90% State guaranteed revolving credit facility of EUR 2.4 billion and a direct Dutch Government loan of EUR 1 billion (reference is made to note 14 Other financial liabilities).
Reference is made to the going concern paragraph in the Notes to the consolidated financial statements, note 10 Share Capital and note 11 Other reserves in the consolidated financial statements.

Mitigating action(s): KLM needs to strengthen its balance sheet and equity, certainly given the negative equity position at December 31, 2020.
The non-cash changes in remeasurements of defined benefit plans (reference is made to the risks linked to pensions plan and related mitigating action(s) in this Risk and Risk management section) and changes in fair value of cash flow hedges will, however, remain volatile. In addition reference is made to the assessment of 'going concern' in this Risks and risk management section.

Insurance

KLM and Air France have pooled their airline risks in the insurance market in order to capitalise on their combined scale.

Insurance coverage

KLM has purchased and maintains an airline insurance policy for its operational risks on behalf of itself and its subsidiaries, which provides cover for aircraft loss or damage, liability with regard to passengers and general aviation third-party liability in connection with its activities. It covers KLM's legal liability to insured amounts that are consistent with industry standards, and also includes liability for damage to third parties caused by terrorism or acts of war. In addition, KLM participates in the payment of claims for damage to its aircraft through a Protected Cell Company (PCC) that enables improved risk management, control and premium settings. In addition to aircrafts, other business risks are also controlled in the PCC.
Lastly, within the framework of its risk management and financing policy, KLM maintains a number of policies to protect its industrial sites and activities ancillary to air transportation.

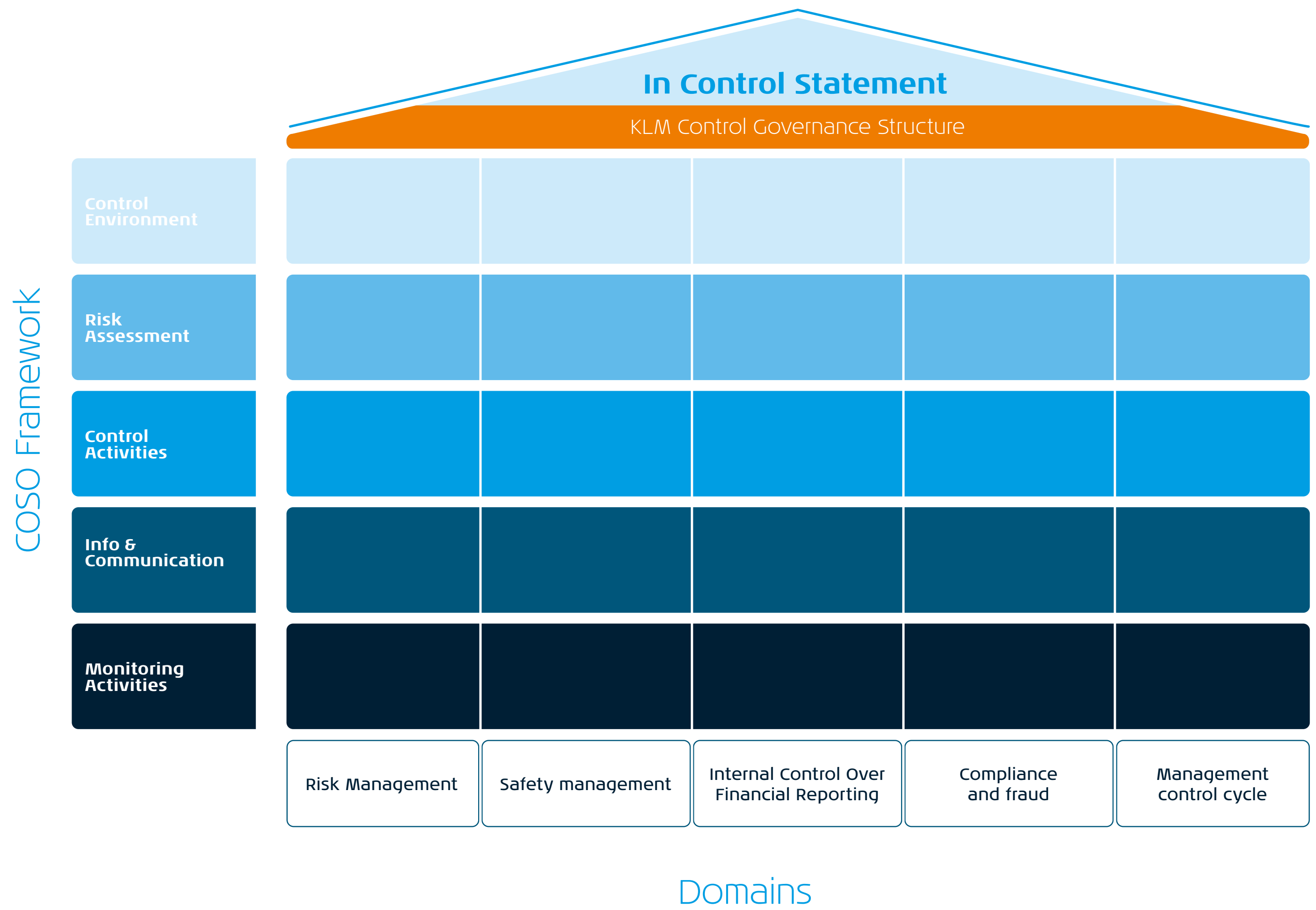
Assessment of going concern

Reference is made to the going concern paragraph in the Notes to the consolidated statements.

Control and monitoring

The foundations of KLM's Internal Control System are the ongoing performed processes throughout the year in the areas of Risk Management, Safety Management, Internal Control Over Financial Reporting, Compliance and Fraud and the Management Control cycle.

In Control Statement



KLM applies the COSO (Committee of Sponsoring Organisation of the Treadway Commission) 2013 standards for internal control. According to these standards, internal control is a process, defined and implemented by the executives, businesses and employees to provide a reasonable level of comfort regarding:
» Reliability of accounting and financial information;
» Compliance with the applicable laws and regulations; and
» Performance and optimisation of operations.
KLM has organised its operations in such a manner to anticipate on these aforementioned risks and minimise exposure. To that end KLM has dedicated departments or functions to help the operation to manage and control the risks in daily activities, in line with the risk groups, as defined in the chapter on Risks and Risk Management.
In addition, to the control organisation, additional comfort and/or assurance is given by the department of Internal Audit. As with any control system, it is not possible to provide an absolute guarantee that risks will be eliminated.

Risk management

The Risk Management process is described in the chapter Risks and Risk Management.

Safety management

The Safety and Security Organisation assures compliance with the rules, regulations and principle of secure, safe and effective operations.

Safety governance is accomplished by the Safety Review Board (SRB), the ISMS Board and the Safety Action Groups.

Safety review board

The SRB is a strategic meeting chaired by the Accountable Manager (Chief Operating Officer) that deals with high-level issues. Its objective is continuous improvement of KLM's safety and compliance.

The SRB sets strategic safety objectives, establishes the safety policies, decides on KLM wide safety improving initiatives and provides the platform to:
» Monitors the integrated safety and compliance performance against safety policies and objectives; and
» Ensure appropriate resources are allocated to achieve the desired safety and compliance performance.

Integrated safety management system board

The Integrated Safety Management System Board (ISMS Board) is a strategic meeting and is chaired by the Accountable Manager (Chief Operating Officer). The ISMS Board sets policies, procedures and methods with respect to the Integrated Safety Management System (ISMS). Its objective is the continuous development of the ISMS for KLM, KLM E&M and KLM Cityhopper and to ensure the effectiveness of KLM's ISMS processes, procedures and methods with respect to safety and compliance monitoring. The ISMS Board allocates the appropriate resources to ensure the proper execution of safety and compliance monitoring.

Safety action group

The responsibility for integrated safety and compliance, including the implementation of mitigations, resides with the Nominated Person or Head of Division and ultimately, the Accountable Manager. Safety Action Groups (SAGs) are established on Corporate, Divisional, Departmental and if appropriate Sub-departmental level. The Management Team Operations is the corporate SAG. The tasks of each SAG is to determine and decide on mitigating measures and monitor safety within their area of responsibility. Its objective is continuous improvement of safety and compliance in the execution of KLM's operation.

The Integrated Safety Services Organisation assures that the measures applied by all the company's entities are consistent.

Safety & compliance execution

It is the responsibility of the divisions and business units within KLM to work safely and in accordance with legislation and agreements (KLM policy).

Advice and support regarding this responsibility is organised both decentral and central. The Integrated Safety & Compliance Manager (ISCM) within the (decentral) line organisation is responsible for the implementation of KLM's safety policy and related culture. Each ISCM has a direct line and access to the highest responsible manager in the division or business unit.

Safety & compliance monitoring

The Integrated Safety Services Organisation (ISSO) is a centralised independent department, which is responsible for monitoring, measuring, policy and advice regarding Operational, Occupational and Environmental Safety & Compliance and Operational Security.

Legal & business ethics compliance organisation

Legal & Business Ethics Compliance Framework, which is adopted by the Board of Managing Directors and the Supervisory Board, ensures staff are capable of adhering rules of conduct, internal procedures and relevant laws and regulations. Several expert functions, including the Legal & Business Ethics Compliance Director, the Corporate Privacy Officer, the Corporate Legal Counsels and the Customs & Export controls Compliance Manager, manage (parts of) the Legal & Business Ethics Compliance Framework. This is done under the supervision of the Board of Managing Directors, who delegated the day-to-day monitoring to the Compliance Committee.

The Compliance Committee's primary role is to support KLM's Board of Managing Directors and the Executive Team on compliance matters under the scope of the Legal & Business Ethics Compliance Framework, excluding all operational safety, occupational safety, environmental safety and operational security compliance matters. The Compliance Committee will (i) specifically monitor the adherence to the KLM Code of Conduct and related codes and regulations and (ii) assist the KLM Board of Managing Directors and Executive Team in fulfilling their responsibilities relating to compliance with laws and regulations.

The KLM Compliance Charter is released by the Board of Managing Directors and subsequently adopted by the Supervisory Board. Its target audience is all employees and regular temporary employees. Its purpose is to inform them of the principles, roles, tasks and responsibilities of the compliance function within the company. The Corporate compliance monitor provides an overview of the compliance status of KLM. The compliance monitor is discussed with the Supervisory Board.

KLM anti-fraud policy

In 2018 the revised Anti-Fraud Policy was implemented to achieve a more vigilant, proactive and consistent approach against fraud. Security Services and Internal Audit took the lead, in cooperation with all relevant internal stakeholders of the (also revised) Fraud Management Table. The Policy and its accompanying documents were endorsed by the KLM Compliance Committee and approved by the Board of Managing Directors. New elements in this Policy include the introduction of a Fraud Risk Management Framework and Fraud Risk Assessments, a zero-tolerance stance against fraud, an Anti-Fraud Policy Statement and a Fraud Response Protocol. By means of the KLM Anti-Fraud policy, KLM mitigates the risk of intentional acts designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM.

Internal control over financial reporting

KLM has a system of internal control in order to provide reasonable comfort regarding reliability of accounting and financial information and to comply with the applicable laws and regulations.

The Corporate Control AO/IC Team supports and guides all activities in relation to the annual assessment of control activities. Principles are laid down in the Internal Control Charter.

Within the businesses and at corporate level Internal Control Coordinators monitor the internal control activities. An important part of the Internal Control Coordinator's activities is to oversee the annual testing of the entity level controls, testing of the operational effectiveness of the transaction level controls in the financial disclosure processes and testing of the IT general controls that are relevant for the financial disclosure processes. The results of the testing are the cornerstones for signing the Document of Representation (DoR) by the business executives and business controllers.

The Corporate Control AO/IC Team has the oversight role for the governance and principles of internal control, support and provide guidance to the Internal Control Coordinators. The Corporate Control AO/IC Team reports on the result of the internal control testing throughout the year to Financial Management and performs quality reviews to monitor the application of internal control principles by the business. Based on received information from the businesses in the DoR and the Internal Control reporting during the year, at year end an Internal Control memo is prepared which is shared with the Board of Managing Directors and the Audit Committee. This memo contains Corporate AO/IC view on the effectiveness of the internal control over financial reporting process.

Even under complex COVID-19 circumstances, the quality of the Internal Control activities improved. This gives confidence for the overall KLM Finance goal to further increase quality towards a more robust Internal Control over Financial Reporting.

Management control cycle

KLM's organisation is based on the network business, in which both passenger and cargo activities are combined, E&M business, leisure business and central staff functions and the subsidiaries controlled by KLM.

The KLM budget and five-year plan process is fully aligned with AIR FRANCE KLM on common key assumptions and timing and review meetings. KLM's Corporate Control Department manages this process for the three core business units and ten of KLM's most significant subsidiaries, covering the entire business of KLM.

A management report is prepared every month by each of the businesses analysing the monthly development of the financial results in relation to the forecast, budget and previous year. Furthermore, these management reports analyse the operational performance of the company. The management reports are discussed with responsible managers of the businesses and the Board of Managing Directors in Monthly Review Meetings (MRMs).
KLM's most significant subsidiaries are monitored through KLM's Corporate Strategy Department and Corporate Control Department on a monthly basis. KLM Board members are represented in the management of the most significant subsidiaries.

Planning & control process

This process is based on the following three structural procedures:

- Group Strategic Framework which was updated in July in close cooperation with Air France and AIR FRANCE KLM;
- Corporate three-year plan which translates this vision in terms of growth and investment. The corporate budget for the next financial year is fully embedded in the first year of the corporate three-year plan. The budget is drawn up on an entity level and consolidated at company level. As mentioned before, this process is fully aligned in AIR FRANCE KLM. The corporate three-year plan, including budget 2021, has been prepared and approved before the start of the financial year 2021 (January 2021); and
- Tactical Planning Meetings (TPMs) held quarterly on a business level, where the performance of the businesses is evaluated (and updated) in the context of the budget.

Accounting process and establishment of accounts

The Corporate Control Department prepares monthly group financial information based on the information submitted by the businesses and subsidiaries. The AIR FRANCE KLM accounting manual meets the compliance objectives for accounting records. The accounting information feedback from the subsidiaries is required to follow the Group's accounting rules, methods and frames of reference are laid down by the company and presentation of financial statements must be in the format circulated by the Group.

The consolidated and company financial statements are submitted twice a year (half-year and year-end) for review by the Vice President Reporting & Control to the external auditors prior to their closure at a summary meeting, and are then forwarded for discussion to the Audit Committee.

Management reporting process

The Corporate Control Department coordinates the company's reporting process. At the beginning of the month, an estimate is prepared in a bottom-up process by the businesses and most significant subsidiaries based on the planned network activity information available of the previous month. Once the accounting result is known, the Corporate Control Department produces a monthly management report listing the main activity data, staff numbers and accounting and financial data. Also each month, the Corporate Control Department examines and analyses with the businesses and main subsidiaries the economic performances for the month and evaluates the results for the coming months up to the end of the current financial year.
The Corporate Controller reports monthly to the KLM Board of Managing Directors and KLM Executive Team and on a bi-annual basis to the Audit Committee, focusing on the variances between actual year and budget/forecast, explaining incidental results recorded during the month and the variances in the full year forecast.

Support functions

Internal audit

KLM has an independent Internal Audit Function (IAF) to strengthen the internal controls. The presence and activities of an IAF provides a powerful element to assure proper risk management, governance and internal control.
The IAF has been subject to a regular external quality assessment by the Dutch and French affiliates of the worldwide Institute of Internal Auditors. The overall opinion is positive.
The IAF aims to add value to the KLM Group and improve its operations by bringing a systematic, disciplined approach to evaluating and strengthening the effectiveness of decision making, risk management, internal control and governance processes. The IAF objectively reviews the accuracy and reliability of the KLM Group's internal controls in general and related processes in particular. Management will be pro-actively advised on required improvements.
The IAF conducts audits at KLM and AIR FRANCE KLM level at request of the AIR FRANCE KLM and KLM Audit Committees, the AIR FRANCE KLM Group Executive Committee and KLM Executive Team, and the KLM Board of Managing Directors. These audits are conducted by the internal auditors from KLM, who are also operating jointly with the Air France internal audit team. An annual audit plan is presented to the Boards and Executive Committees and approved by the Audit Committees.
The IAF performs operational audits, information and communication technologies or electronic data processing audits, compliance audits, post audits, fraud investigations & fraud risk assessments and consulting engagements. Engagements carried out are summarised in a report presenting the conclusions and highlighting findings, risks and related recommendations. For audits, a four points grading scale is used to express the impact of the findings and the level of action required from either local management or the Board of Managing Directors. The follow-up by business management is required and monitored within a desired timeframe depending on risk impact and reasonable corrective action period.
The KLM Internal Audit department reports the outcome of the audits to the Board of Managing Directors and to the Audit Committee of the KLM Supervisory Board twice a year.

As activities of the airline reduced drastically, risks and audit activities changed due to COVID-19. This meant some audits planned for 2020 were not as relevant as foreseen in the audit Plan 2020, but also new emerging risks called for new audits. An extensive analysis was done on existing and new emerging risks due to COVID-19. All (potential) have been matched with the multi-year Airline Risk Universe and Business Process for sufficient coverage of all risks. This resulted in a revised audit plan 2020, which was approved by the Board of Managing Directors and KLM Audit Committee.

Insurance department

The KLM business activities and related processes involve a myriad of major and minor risks. Many of these risks are mitigated by measures, such as contingency plans, hedging and back-up facilities or mandatory insurance. The remaining risks can be either accepted or insured against, the latter if risks are perceived unacceptable, for instance because they may threaten the continuity of KLM. KLM has insured risks such as damage to its owned and leased aircraft and liability to its customers and others in case of an aircraft incident, war risks, damage to property and business interruption. If ever such a risk materialises, the damage can be claimed on the insurance company up to the insured amount taking deductibles and standard market exclusions into account.

Legal department

The Legal Department is responsible for legal practices within KLM and monitors the legal integrity of activities performed by KLM. The Legal Department supports both KLM's Board of Managing Directors and the businesses. The department is centralised, is staffed with qualified legal professionals and functions as a single point of contact for external lawyers.

Reference standards

Charters and manuals

Integrated safety management manual

The Integrated Safety Management Manual (ISMM) describes the Integrated Safety Management System (ISMS). The ISMS is an integrated system that is used in the following KLM domains: operational safety, occupational safety, environmental safety and operational security. The ISMS assures the safe performance of all processes within these domains through effective management of safety risk.
The ISMS complies with relevant national and international legislation. The ISMS is also based on the requirements of other regulatory systems: IOSA, ISAGO, ISO 14001, etc.
The ISMS encompasses all safety management system components and elements as given in ICAO Doc 9859.
By means of the ISMS risks are predictively indicated and proactively eliminated or mitigated before accidents and incidents occur. The ISMS is also used to continuously improve safety by collecting and analysing data, identifying hazards, threats and safety issues, and assessing safety risks to ensure the optimal allocation of company resources.

KLM's ISMS is based on the following main internal and external frames of reference:

External frames of reference:

- Statutory: European and Dutch regulations (including European and Dutch regulations for operational security) and general implementing regulations;
- Industry: IATA Operational Safety Audit (IOSA), a standard that ensures a transparent level of operational safety to enable codeshare operations without further audits on KLM and ICAO doc 9859, for the Safety Management Manual; and
- Environment: ISO 14001; an international standard for monitoring environmental control and impact.

Internal frames of reference:

These are variations of external frames of reference adjusted to the company's own processes:

- Statutory: statutory manuals (operating manuals, maintenance manuals, quality manual) and associated general procedures, which are usually formally validated by the supervisory authorities that issue approval certificates (CAA-NL, FAA, etc.);

» Quality manuals for environmental control; and
» Management system: the company's Integrated Safety Management Manual (ISMM) and associated general procedures.

Social rights and ethics charter
The KLM Group has published a Social Rights & Ethics Charter to enshrine individual commitment to Corporate Social Responsibility by orienting its corporate and ethical policy towards respect for individuals at the professional, social and citizenship levels.

Code of conduct
The KLM Group has published a Code of Conduct addressing the following principal matters: compliance with laws and regulations, conflicts of interest, confidentiality, the safeguarding of assets, environmental protection, Corporate Social Responsibility and intellectual property. KLM has also implemented a code of ethics intended principally for employees in finance positions.

Legal & business ethics compliance framework
The KLM Legal & Business Ethics Compliance Framework ensures staff is capable of adhering to rules of conduct, internal procedures and relevant laws and regulations. The KLM Compliance Charter applies to all employees and regular temporary workforce. The charter informs them on the principles, roles, tasks and responsibilities of the compliance function within the company. The Corporate Compliance Monitor provides an overview of the compliance status of KLM.

Anti-fraud policy
In 2019 the revised KLM's Anti-Fraud Policy and its accompanying documents were endorsed by the KLM Compliance Committee and approved by the KLM Board of Managing Directors. Elements in this policy include the introduction of a Fraud Risk Management Framework and Fraud Risk Assessments, a zero tolerance stance on fraud, an Anti-Fraud Policy Statement and a Fraud Response Protocol. By means of the KLM Anti-Fraud Policy, KLM mitigates the risk of intentional acts designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM.

Manual to prevent the risks of corruption
This manual affirms KLM's commitment to exercising its activities fairly, equitably, honestly and with integrity, and in the strict respect of anti-corruption laws wherever its companies or subsidiaries exercise their activities. It establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations with regard to the anti-corruption legislation.

The AIR FRANCE KLM Bribery Manual and the AIR FRANCE KLM Gift & Hospitality Policy were updated, amongst others, to abide by the French Sapin II law. The e-learning module 'competition law compliance' and 'anti-bribery and corruption' have been available online to all employees since 2014. An updated e-learning training on Anti-Bribery & Corruption has been made available to all KLM management and executive functions.

Internal control charter
The AIR FRANCE KLM Internal Control Charter outlines the methodology used to assess its effective implementation and functioning of financial internal controls. It also reaffirms the involvement in the prevention and control of the risks associated with the KLM Group's activities.

Internal audit charter
To provide the internal auditors with an adequate base, a KLM Group Internal Audit Charter is in place. The charter is revised and tailored to changing needs and is signed in December 2019 by the President and Chief Executive Officer of KLM, the Chairman of the KLM Audit Committee and the Vice President Internal Audit. It is in line with the Dutch Corporate Governance Code.
The KLM Group Internal Audit Charter establishes the framework of the Internal Audit Function and contains the guidelines to which it adheres regarding:
» Internal Audit mission and objective, scope of work and types of work;
» Accountability, independence and relationship to other assurance functions;
» Authority and ethics; and
» Applicable standards.
The KLM Group Internal Audit Charter is in line with the governance structure regarding the Internal Control Function, and the AIR FRANCE KLM Group Internal Audit Charter.

Corporate Governance

Board and governance

Koninklijke Luchtvaart Maatschappij N.V. ("KLM") is a non-listed, limited liability company incorporated under Dutch law. Supervision and management of KLM are structured in accordance with the two-tier model, meaning a Board of Managing Directors supervised by a Supervisory Board.

As part of an international concern, being the AIR FRANCE KLM Group, KLM has been subjected to the mitigated structure regime (as per Dutch company law, Book 2 Dutch Civil Code).

KLM's corporate governance is based on the applicable statutory requirements and on the company's Articles of Association. Although the Dutch Corporate Governance Code doesn't formally apply to KLM, KLM has voluntarily brought its corporate governance as far as possible in line with generally accepted principles of good governance, as laid down in the Code. Furthermore, KLM closely follows developments in legislation on corporate governance in order to further improve its governance.

There have been no material changes in the company's governance in comparison with financial year 2019, except for one: the Dutch Government appointed a State Agent as a condition to the EUR 3.4 billion financial support package. The State Agent monitors the execution of the restructuring plan drafted by KLM. In that context, the State Agent has a standing invitation to attend the Supervisory Board and Audit Committee meetings.

Shareholding structure

KLM's shareholding structure is outlined below. Depositary receipts of shares carry beneficial (economic) ownership, but no voting rights on the underlying KLM shares.

AIR FRANCE KLM holds:
» All KLM priority shares;
» A proportion of the common shares, together with the priority shares representing 49% of the voting rights in KLM;
» The depositary receipts issued by Stichting Administratiekantoor KLM (SAK I) on common KLM shares and on the cumulative preference shares A; and
» The depositary receipts issued by Stichting Administratiekantoor Cumulatief Preferente Aandelen C (SAK II) on the cumulative preference shares C.

On December 31, 2020, SAK I held 33.59% of the voting rights in KLM on the basis of common shares and cumulative preference shares A. SAK II holds 11.25% of the voting rights in KLM on the basis of cumulative preference shares C. The Dutch Government directly holds cumulative preference shares A, which represent 5.92% of the voting rights.

Physical bearer share certificates issued by KLM

On July 21, 2005 all bearer shares in KLM's issued share capital were converted into registered shares pursuant to an amendment of the Articles of Association made at the time. In order to exercise the rights vested in the shares, holders of former bearer shares were required to hand in their bearer share certificates. Pursuant to an amendment of Section 2:82 of the Dutch Civil Code (DCC) in 2019, a bearer share certificate which has not been handed in with KLM on or before December 31, 2020, has become void and the share represented by the bearer share certificate has been acquired by KLM for no consideration. A shareholder who hands in a bearer share certificate with KLM no later than 5 years after December 31, 2020 is entitled to receive from KLM a replacement registered share. KLM shareholders who still have not handed in their bearer share certificates on January 1, 2026, will lose any entitlement to exchange their bearer share certificates for a registered replacement share. For this purpose, a shareholder may contact the company.

AIR FRANCE KLM

KLM and Air France share the same holding company, AIR FRANCE KLM S.A. The holding company's Board of Directors *(Conseil d'Administration)* has 19 members. The Board has five Dutch members, of which one is appointed upon nomination by the Dutch Government and two upon nomination by the KLM Supervisory Board. The fourth Dutch member is the Chairman of the KLM Supervisory Board. The fifth Dutch member joined the AIR FRANCE KLM Board as Director representing employees. The KLM CEO attends the Board meetings as permanent guest/observer.

Supervisory Board

The Supervisory Board supervises the management conducted by the Board of Managing Directors and the general performance of the company. It also provides the Board of Managing Directors with advice. The Supervisory Board discusses KLM Group's strategy and approves major management decisions. For certain major resolutions by the Board of Managing Directors, approval of the Supervisory Board is required. The members of the Supervisory Board fulfil their duties in the interests of the company, its stakeholders and its affiliates.

Pursuant to the Articles of Association, KLM's Supervisory Board shall consist of at least nine and at most eleven members. On December 31, 2020, KLM's Supervisory Board consisted of nine members. Supervisory Board members are appointed and reappointed by the General Meeting of Shareholders. The General Meeting of Shareholders may recommend candidates to the Supervisory Board, whereby the KLM Works Council has the legal right to recommend one third of the Supervisory Board members. Five members are appointed upon recommendation of AIR FRANCE KLM. The General Meeting of Shareholders can reject the nomination by an absolute majority of the votes cast, representing at least one third of the issued capital.

A Supervisory Board member is appointed for a term of four years and can be reappointed for another term of maximum four years. In case of a reappointment after eight years of service, the Supervisory Board states the reasons for such reappointment. The candidates are selected in accordance with the Supervisory Board's profile, which also includes its diversity policy.

As stated earlier in this chapter, the Dutch Government appointed a State Agent who is responsible for monitoring the execution of KLM's restructuring plan. Although the State Agent has a standing invitation to attend the Supervisory Board and the Audit Committee meetings, he is not a member of the Supervisory Board and does not participate in the deliberations and the voting by the Supervisory Board.

KLM's Company Secretary & General Counsel acts as Secretary of the Supervisory Board. The Secretary ensures that the Supervisory Board acts in accordance with the law, KLM's articles of association and its own regulations. In addition, the Secretary ensures timely and adequate provision of information to the Supervisory Board and assists the Chairman of the Supervisory Board in the organisation of the Supervisory Board meetings.

Committees

Three committees are active within the Supervisory Board: an Audit Committee, a Remuneration Committee and a Nomination Committee. All these committees have their own regulations, which lay down, among others, their composition, role and responsibilities.

Further information on the composition and functioning of the Supervisory Board and its committees can be found in the section Report of the Supervisory Board.

Board of Managing Directors

Pursuant to the Articles of Association, the Board of Managing Directors shall consist of at least three Managing Directors. On December 31, 2020, KLM's Board of Managing Directors consisted of three members. The Managing Directors are appointed and dismissed by the General Meeting of Shareholders, upon a proposal submitted by the Supervisory Board. The members of the Board of Managing Directors are appointed for a fixed term of four years. A member of the Board of Managing Directors may, whether or not on a proposal by the Supervisory Board, be dismissed by the General Meeting of Shareholders. The Supervisory Board appoints one of the members of the Board of Managing Directors as President & Chief Executive Officer and may in addition appoint one or more Managing Directors as Deputy CEO.

Regardless of the allocation of tasks among its members, the Board of Managing Directors acts as a single organ with collective responsibility. The Board of Managing Directors has final responsibility for the overall management of the company and monitors all corporate governance activities.

Further information on the members' terms and conditions of service as well as remuneration is presented in the section Remuneration Policy and Report.

General Meeting of Shareholders

The shareholders of KLM in principle exercise their rights via the annual or extraordinary General Meetings of Shareholders. The date, agenda and location of the annual General Meeting is announced through a national newspaper and registered shareholders are notified by letter.

The main powers of the General Meeting of Shareholders consist of appointing, suspending and dismissing members of the Board of Managing Directors and Supervisory Board, determining the remuneration (policy) of the Board of Managing Directors and the Supervisory Board, adopting the financial statements, discharging the Board of Managing Directors and the Supervisory Board from liability and the appointment of external auditors. Furthermore, resolutions of the Board of Managing Directors entailing a significant change in the identity or character of the company are subject to the approval of the General Meeting of Shareholders. Resolutions amending the Articles of Association may only be adopted by the General Meeting of Shareholders. A resolution to dissolve the company may only be adopted if at least three-quarters of the issued shares are represented at the General Meeting of Shareholders and at least two-third of the votes are cast in favour of the resolution. The aforementioned powers are not limitative and the exact procedures are explained in KLM's Articles of Association.

KLM's Annual General Meeting of Shareholders will be held on May 4, 2021. In addition to the Annual General Meeting of Shareholders, a General Meeting of Shareholders may be convened by the Board of Managing Directors, President & Chief Executive Officer, the Supervisory Board, three Supervisory Board members or the Meeting of Priority Shareholders, each of which has equal power to do so.

Staff participation

The Board of Managing Directors, represented by the President & Chief Executive Officer, meets with the company's Works Council on a regular basis. During these meetings, a number of topics is discussed, such as the developments within AIR FRANCE KLM and the company's strategy and financial results. Also the topic of conduct and culture within KLM is addressed. The KLM Works Council has 25 members. Given the COVID-19 crisis, the KLM Works Council met representatives of the Board of Managing Directors more frequently than usual in financial year 2020. This to discuss a wide variety of crisis related topics, including the State financial support package and the restructuring plan.

At AIR FRANCE KLM level a European Works Council has been installed to jointly represent KLM and Air France. This council focuses on issues that pertain to both Air France and KLM. In 2020, the European Works Council convened more frequently than their planned meetings for 2020, due to the COVID-19 crisis.

Diversity

KLM recognises the importance and added value of a diverse and balanced composition of the Board of Managing Directors and Supervisory Board and believes that their diversity policy should set an example to the rest of the company. To this end, both the Board of Managing Directors and Supervisory Board profiles deal with the aspects of diversity such as age, nationality, gender, education and working background. When searching, selecting and evaluating the candidates for new appointments to the Board of Managing Directors, the Supervisory Board will duly consider the relevant diversity requirements.

On December 31, 2020, one third of the members of the Supervisory Board was female. The Supervisory Board consists of five French board members and four Dutch board members.

Currently, all members of the Board of Managing Directors are male. In KLM's leadership team (the Executive team) 3 out of 13 members are female. KLM recognises that, despite the progress made in recent years, there is still room for improvement. KLM therefore developed a robust diversity policy with explicit targets for the number of women in executive positions.

Compliance & Business ethics

The KLM Compliance & Business Ethics Framework supports leadership and staff to do business with loyalty, fairness, transparency, honesty and integrity. It requires KLM staff to reach out, take ownership and leadership and to be competent, to connect, to guide, to challenge and to inspire their teams in a joint effort to secure the integrity of the KLM organisation internally and vis-à-vis third parties that KLM deals with in its day-to-day business.

The KLM Code of Conduct serves as a framework that reflects the basic principles of business integrity and shall be taken into account by KLM staff, management and contracted third parties. The Code of Conduct clarifies rules and standards that are to be complied with and sets out expected behaviours. The KLM Code of Conduct serves as an umbrella for all available compliance codes, such as the AIR FRANCE KLM Bribery Manual, the AIR FRANCE KLM Gift & Hospitality Policy, the AIR FRANCE KLM Competition Law Compliance Manual and the KLM Whistleblower policy.

Designated individuals are required to complete training on antitrust and competition laws, anti-bribery and corruption law, trade compliance and data protection. KLM has published relevant codes and regulations on its intranet.

On behalf of the Board of Managing Directors, KLM's Compliance Committee monitors the effectiveness of the KLM Compliance & Business Ethics Framework. The KLM Compliance Committee meets at least quarterly and in principle submits the Corporate Compliance Monitor to the KLM Board of Managing Directors and the Supervisory Board bi-annually. Due to the COVID-19 crisis the Corporate Compliance Monitor was only submitted once in 2020 to the KLM Board of Managing Directors and the Supervisory Board.

KLM had deployed an organisation dedicated to compliance and business ethics. The Director Compliance & Business Ethics and designated expert functions are tasked with pursuing the implementation of the compliance programs within KLM.

Dutch Corporate Governance Code

Apart from the deviations listed below, KLM's Corporate Governance is in line with generally accepted principles of good governance, such as laid down in the Dutch Corporate Governance Code. Although KLM, as a non-listed company, is not formally obliged to comply with the Dutch Corporate Governance Code, it has committed itself to follow the Dutch Corporate Governance Code voluntarily where possible. On several occasions the Board of Managing Directors together with the Supervisory Board discussed the impact of the Dutch Corporate Governance Code on KLM's corporate governance.

KLM deviates from the best practices described in the Code in a limited number of areas. In accordance with the 'comply or explain' principle, these deviations are:

» Regulations and other documents are not made available on the company website. Regulations and other documents are available upon written request;
» The composition of the Supervisory Board does not meet the Best Practice Provision 2.1.7 sub i that relates to the Independence of the Supervisory Board; and
» The severance pay of newly appointed members of the Board of Managing Directors, from within KLM, in the event of dismissal is set at a maximum of two years base salary, and consequently does not comply with Best Practice Provision 3.2.3.

Conflict of interest

The handling of conflicts of interest between the company and members of the Board of Managing Directors or the Supervisory Board is governed by Dutch law, the relevant provisions of the Dutch Corporate Governance Code and the Regulations of the respective Board. With the amendment in 2018, the Articles of Association have been aligned with Dutch law, hence now explicitly stating that a Managing Director or member of the Supervisory Board may not participate in any discussion or decision-making on a subject in which he or she has a direct or indirect personal interest that conflicts with the interests of KLM and the business connected with it. A member of the Board of Managing Directors or the Supervisory Board is required to report any conflict of interest or potential conflict of interest that is of material significance to the company and/or to the member concerned, to the Chairman of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with members of either Board that are of material significance to the company or such member requires the approval of the Supervisory Board.

During the financial year 2020, no conflicts of interest were reported.

Internal regulations

The regulations adopted in respect of the Supervisory Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Board of Managing Directors are reviewed on a regular basis. The Supervisory Board Regulations, the profile of the Supervisory Board, the Board of Managing Directors Regulations, the Terms of Reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, and the rotation schedule, in so far not published in this annual report, may all be viewed at the company's head office. Copies shall be made available to shareholders upon written request to the company secretary.

In control statement

The COVID-19 crisis affected the airline industry (and so KLM) in 2020 in an unprecedented way. KLM's financial ratios and results had improved considerably over the last couple of years, a trend that continued until early 2020. Hence, at the start of the crisis KLM was fortunately in a strong financial position and well equipped to weather the crisis. However, this position came quickly under pressure due to the unfolding of the crisis. Immediate attention was paid to the impact of the crisis, ensuring the continuity of KLM: strict cost and cash saving measures were implemented and investments were downsized. Next to that, the company engaged in discussions with the government and a consortium of banks, which led to the State financial support package of in total EUR 3.4 billion (EUR 2.4 billion in a 90% State-guaranteed RCF and EUR 1.0 billion in a direct loan provided by the State). Less than EUR 1 billion was drawn per December 31, 2020. Also during the crisis, extra activities have been executed on risk management, safety management, internal control and corporate compliance. On the other hand, KLM Group staff reductions due to voluntary leave and restructuring plans and the reduction of working hours (activité partielle) at Air France affected the joint Finance, Internal Audit and IT domains to a certain extent.

The duration of the COVID-19 crisis is uncertain, as is the post-COVID competitive situation in the airline industry including, with today's limited visibility on impact on customers' travel behaviour, corporate demand and supply chains. To be able to act on these challenges, KLM provided for this by an extensive restructuring plan, focussing on cost efficiencies, reduction of labour conditions and fulfilling the (other) governmental requirements in amongst others the area of sustainability and liveability. Progress on the implementation of this plan will be monitored closely, and if circumstances require, extra measures will be taken. The recent start of vaccination programs gives perspective for a recovery as of the second half of 2021.

Ongoing attention will be given to internal control processes, IT security and compliance. Especially in the upcoming period of change, where the organisation is in transition and people are leaving, extra attention is needed for control during the transformation.

In accordance with previous paragraphs on Risk Management, Safety Management, Compliance and on Internal Control and Monitoring, in addition to the Going Concern statement in the Management Control paragraph, all currently known circumstances taken into consideration, the Board of Managing Directors states to the best of its knowledge that:

- The Annual Report 2020 provides sufficient insights into potential material failings in the effectiveness of the internal risk management and control systems;
- The internal risk management and control systems of the company provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- The Annual Report 2020 states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report; and
- As disclosed in the Going concern paragraph in the Note to the financial statements, material uncertainty exists that may cast significant doubt on KLM's ability to continue as a going concern. Notwithstanding this material uncertainty caused by the current COVID-19 pandemic, management believes, based on the near cash position of EUR 1 billion and the available credit lines facilities of EUR 2.5 Billion (in total EUR 3.5 billion) and the expected continued willingness of the Dutch State and bank syndicate to support KLM, that KLM will be able to continue to fulfill its financial obligations for at least twelve months and as such continue on a going concern basis. Therefore, the financial statements have been prepared on the going concern assumption.

Report of the Supervisory Board

Duties and powers

The Supervisory Board is entrusted with supervising and advising the Board of Managing Directors, and overseeing KLM's strategy and the general course of its businesses. The Supervisory Board performs its tasks in accordance with the law, the Dutch Corporate Governance Code, KLM's Articles of Association and its own regulations. Each individual Supervisory Board member is expected to act in the best interests of KLM, its businesses and all of its internal and external stakeholders.

Supervisory Board meetings

During 2020, the Supervisory Board held five regular meetings according to its predetermined schedule and 14 extraordinary meetings. Except for the February meeting, all Supervisory Board meetings were held by means of video call due to the COVID-19 related international travel restrictions.

As from early February, the agendas of the regular meetings were adjusted, whereby the financial position as well as KLM's five-year plan (budget, investment plan and financial plan) were discussed in light of the COVID-19 crisis.

The extraordinary meetings were required to ensure that the Supervisory Board was closely involved in the Board of Managing Directors' immediate response and approach to the COVID-19 crisis. In the earlier months of the crisis, much attention was paid to the process with the Dutch Government and the banks to secure the EUR 3.4 billion State financial support package for the company. During the course of 2020, the focus of the meetings gradually extended from immediate crisis management to recovery and to adapting KLM's strategy to the new reality.

The Board of Managing Directors kept the Supervisory Board also well informed on developments between the meetings. Furthermore, the Chairman of the Supervisory Board met frequently with the President & Chief Executive Officer on the progress of actual topics. At the same time, the Chairman of the Audit Committee had close contact with the Chief Financial Officer regarding KLM's financial position.

Despite the tight timeframe for scheduling the extraordinary meetings, all Supervisory Board members have shown maximum flexibility and availability. Except for a limited number of occasions, and for valid reasons, Supervisory Board members attended all meetings in 2020. The Supervisory Board members reserved adequate time to perform their tasks, which increased significantly in 2020 as the Board intensified its supervision and advice role due to the COVID-19 reality. The average attendance of the Supervisory Board meetings was 95.3 per cent.

Long-term value creation: road map to recovery

Since redefining its strategy in 2015, KLM has made important steps to realise its purpose and ambition of being a leading European network carrier in customer centricity, sustainability and efficiency. The successful implementation of the past years was however abruptly halted by the COVID-19 crisis.

In 2020, the Supervisory Board was extensively involved in the process of reviewing and reassessing KLM's strategy against the background of the crisis. Proper analyses and in-depth discussions led to the conclusion that KLM's business model is still valid and valuable, but cost reductions as well as resizing and reshaping of the company are necessary to return to profitability. KLM's reassessed strategy has been embodied in a restructuring plan with the ambition to turn KLM's business. In that context, more substance will be given to customer proposition, KLM's societal role & sustainability and innovation in data & technology. KLM's purpose, strategy and the roadmap to survive and emerge stronger from the crisis come together in the restructuring agenda and plan.

The Supervisory Board is well engaged in the Board of Managing Director's process of development of KLM's strategy for realizing long-term value creation. In addition to the regular Supervisory Board meetings, a temporary Restructuring Progress meeting has been introduced. During the monthly Restructuring Progress meetings, the Board of Managing Directors updates the chair of the Supervisory Board, the Audit Committee and the State Agent (see paragraph highlights 2020 and chapter Board & Governance) on the execution of KLM's restructuring plan.

Highlights 2020

The Supervisory Board reflects on an unprecedented year in which the COVID-19 crisis dominated the agendas of its meetings. The work of the Supervisory Board focused in particular on monitoring and advising the Board of Managing Directors on how to weather this crisis. In that regard, the Supervisory Board closely reviewed, discussed and approved a number of topics. This paragraph outlines the highlights of the Supervisory Board meetings in 2020.

Throughout the year, the Board of Managing Directors informed the Supervisory Board through a so called crisis flight plan with four focus areas, being i) crisis management, ii) banks & government, iii) recovery trajectory and iv) restructuring plan.

During the first months of the year, the Supervisory Board thoroughly observed the evolution of the COVID-19 crisis and its impact on KLM's businesses. The rapidly deteriorating situation required immediate measures under serious time pressure. In the course of the developments, the Supervisory Board examined the actions to minimise the cash outflow through, among others, reducing investments, delaying ongoing projects and agreeing with leasing companies on postponement of lease instalments. The Supervisory Board also deliberated at length on sensitivity analysis on cash burn. The Dutch Government swiftly implemented certain nation-wide support measures that amongst others enabled companies to maintain employment and continue paying salaries. The NOW support helped and still helps KLM significantly in facing the crisis.

Despite a strong financial starting position and immediate cost cutting and cost-saving measures, the severity and scale of the crisis made additional financing inevitable. The Board of Managing Directors elaborated on the status of the negotiations regarding a revolving credit facility of EUR 2.4 billion with a 90 per cent State guarantee and a direct loan of EUR 1 billion from the Dutch Government. During the second quarter of 2020, the Supervisory Board conferred extensively on the (legal) terms and conditions related to these loans. Particular attention has been paid to the requested cost reductions to be realised in return to the financial support. As additional financing became a prerequisite for KLM's future, the Supervisory Board fully supported the conclusion of the agreements with a syndicate of banks and the Dutch Government.

The Audit Committee had parallel meetings for in-depth analysis of KLM's financial position and the conditions attached to the loans. The Audit Committee reported on the outcome of these meetings to the Supervisory Board (see paragraph Committees).

As from the third quarter, the Supervisory Board was closely involved in the development of KLM's restructuring plan (5-year horizon), required for preparing the business for the post COVID-19 period. During multiple meetings, the Supervisory Board challenged the Board of Managing Director's strategic choices and assumptions regarding the recovery scenarios, market developments and the size of KLM's fleet. The Dutch Government approved the restructuring plan early November and appointed a State Agent who will monitor the execution of the plan. The State Agent has a standing invitation to attend the Supervisory Board, the Audit Committee as well as the Restructuring Progress meetings.

Throughout the year, the Board of Managing Directors kept the Supervisory Board informed on the discussions with the Works Council and the unions. The Supervisory Board supported the difficult but necessary decision to substantially reduce the staff numbers, and the various actions in that respect led to a reduction of the workforce by 5,000 colleagues per year-end. Furthermore, the Supervisory Board paid particular attention to the discussions between the Board of Managing Directors and the unions regarding the employee contributions expected under the aforementioned restructuring plan and the conditions attached to the State financial support package imposed by the government. The Supervisory Board realises that the employee contributions are difficult to accept for employees, but nevertheless are necessary for the long(er) term survival of the company. The Board of Managing Directors has regularly informed the Supervisory Board on its discussions with the unions. The necessity of a positive outcome to safeguard KLM's future has been emphasised from the start, which has been fully supported by the Board.

Within the framework of the financial support to KLM, the political and public discussion on aviation and sustainability further increased in 2020. The Supervisory Board underscores that sustainability remains a prerequisite for KLM's future growth. Therefore, the Supervisory Board paid close attention to the sustainability goals included in the restructuring plan. Furthermore, given KLM's role and responsibilities towards the Dutch society, the Supervisory Board fully supported KLM's efforts such as repatriation flights and transport of medical supplies.

Throughout the year, the Supervisory Board has been updated on the developments at AIR FRANCE KLM Group and Air France level. The Supervisory Board underlined that both KLM and Air France should continue their strong cooperation and share their experiences in weathering the crisis.

In 2020, KLM's network and operational performance were tremendously impacted by the spread of the COVID-19 crisis. KLM continuously adapted its network and capacity in response to the travel restrictions imposed worldwide. In that context, the Supervisory Board welcomed the European Commission's decision to waive its slot regulation until March 2021 in order to address the industry's need for certainty and flexibility. This provided KLM with the necessary room and clarity in its efforts to recover its network.

The operational constraints have inevitably affected the customer's experience. The Supervisory Board encouraged the Board of Managing Directors to take steps to mitigate the consequences for KLM's customers. In that regard, the Supervisory Board intensively monitored KLM's approach towards the policies as regards the vouchers and refunds, and emphasised the importance of proactive and clear communications towards KLM's customers.

In 2020, the Supervisory Board discussed the optimisation of KLM's cabin product against the background of industry trends. In order to maintain KLM's competitive position in the post COVID-19 era, the Supervisory Board approved investments in Premium Economy, Direct Aisle for Business Class and the cabin layout optimisation.

End 2020, the Supervisory Board discussed the budget for financial year 2021. Following in-depth discussions on the various recovery scenarios, the Supervisory Board approved the final budget for 2021. Next to that, the Supervisory Board has also been regularly informed on the anticipated recapitalisation scenarios.

Other topics discussed during the financial year, some of which are recurring, were the fleet development strategy, hedging and the competitive landscape.

Financial topics

KLM managed to improve its financial situation and operating results over the period 2015 to 2019. Despite the solid starting point and immediate response, the COVID-19 crisis nullified the results achieved in previous years. During financial year 2020, the Supervisory Board discussed KLM's financials in light of the COVID-19 crisis.

As from the beginning of the crisis, the Supervisory Board closely monitored the Board of Managing Directors' efforts to safeguard KLM's future and critically examined the response to the deteriorating financial situation. The Supervisory Board fully supported the Board of Managing Directors' immediate and significant steps to protect cash outflow in order to keep a solid cash position.

Parallel to actual crisis management, the Supervisory Board deliberated at length on KLM's financial plans and targets for the upcoming years. In the context of the restructuring plan, the Supervisory Board examined the Board of Managing Directors' sensitivity analysis and underlying assumptions regarding the recovery of KLM's businesses. In that regard, the Supervisory Board underscores that to recover the 2020 losses and be resilient to future risk, strong financial performance is required in the years to come. Given the significant increase of KLM's debt, the Supervisory Board agrees that investment levels need to be adjusted in the upcoming years.

The Supervisory Board acknowledges that the forecasts and analysis are subjected to various uncertainties regarding the evolution of the crisis and agrees that the speed of recovery mainly depends on the availability and distribution of a vaccine. Therefore, the financial plans and assumptions are continuously reviewed and reassessed in light of new (market) developments.

Risk management

The Supervisory Board paid close attention to the topic of risk management. KLM's Audit Committee takes responsibility for monitoring the adequacy of KLM's risk control system and prepares discussions in the Supervisory Board. KLM's internal audit function is firmly positioned within the organisation and creates conditions for an effective interaction between the Board of Managing Directors, the Supervisory Board and the Audit Committee.

The focus of the risk management framework changed during the financial year, making it more fit to monitor risks associated with the new reality, resulting in adjustments to the main risk categories, being, (i) cash & solvability, (ii) market demand, (iii) recovery & operations, (iv) people & change and (v) state loans & conditions.

During the updates on the topic of risk management, the Supervisory Board reviewed and discussed the assessments of the Board of Managing Directors of the adequacy and effectiveness of the risk management and control system. Following the cyber incident of end 2020, the Supervisory Board discussed this incident within the context of risk management. The Supervisory Board is closely monitoring the mitigating measures to protect the company from potential cybercrime. On several occasions, the Supervisory Board discussed with the Board of Managing Directors in particular the biggest risks occurred from the COVID-19 pandemic.

Compliance & Business ethics

Within the company's Legal & Business Ethics Compliance Framework and the Compliance Charter, the Supervisory Board monitored KLM's compliance with rules and regulations. During the October meeting, the Supervisory Board was updated on the main compliance activities. The Supervisory Board was informed that despite the COVID-19 situation, training & communication activities have been continued. However, investments in the e-learning training platform have been put on hold in 2020. In addition, the Supervisory Board monitored the improvements regarding the speak up and whistle blower policies.

KLM has committed itself to follow the principles and best practice provisions of the Corporate Governance Code.

Evaluation

The COVID-19 crisis required the Supervisory Board members to decide on important matters under great time pressure. To maintain the constructive cooperation within the Supervisory Board and with the Board of Managing Directors, the members regularly discussed the performance of the Supervisory Board during various meetings.

However, due to the focus on crisis management, the regular self-assessment for 2020 was executed early 2021. The results of the interviews between the chairman of the Supervisory Board and individual members will be discussed during the Supervisory Board meeting in the second quarter of 2021.

Induction program

For each new member of the Supervisory Board a tailor-made induction program is being prepared. During the multiple-day induction program, new Board members visit KLM's headquarters in Amstelveen as well as its locations at Schiphol to develop deeper knowledge of KLM and its businesses. Meetings on general financial, social and legal affairs, sustainability, human resources, governance, relationship with the Works Council and the responsibilities of the Supervisory Board members are fixed components of the induction program. Depending on the individual role and needs of the new board member, in-depth sessions with the senior management of the relevant departments are incorporated in the induction program. Following his appointment, a virtual concise induction program for Mr. Nibourel has been prepared. As soon as the travel restrictions have been lifted, an extensive program with physical visits will be organised.

Composition of the Supervisory Board

Effective as of the end of the Annual General Meeting of Shareholders of 2020, Mr. Calavia stepped down as Supervisory Board member of KLM. Upon recommendation of AIR FRANCE KLM and filling the vacancy of Mr. Calavia, Mr. Nibourel was appointed as Supervisory Board member for a first term of four years. During the same meeting, Messrs. Enaud and Riolacci have been appointed for a second term of four years, in accordance with the proposal of AIR FRANCE KLM.

The KLM Supervisory Board expresses its gratitude to Mr. Calavia for his valuable and excellent contributions during his many years of service at both AIR FRANCE KLM and KLM.

As per the Annual General Meeting of Shareholders in May 2021, Mrs. De Gaay Fortman is due to retire by rotation. The Works Council has the right to nominate a candidate for this position.

Mrs. De Gaay Fortman notified the company that she is not available for reappointment, after careful consideration of the desired profile for this position going forward, also in view of the challenges the company is facing, and discussions with the Works Council on this.

Hence, the Works Council will propose a candidate for the vacancy that arises from the resignation of Mrs. De Gaay Fortman. The KLM Supervisory Board wishes to express its gratitude for her valuable contributions to the company, the Board and Works Council.

Independence
The Supervisory Board considers all but two of its members to be independent in the sense of the Dutch Corporate Governance Code. Mr. Riolacci in his capacity of former Chief Financial Officer of AIR FRANCE KLM is not considered independent. Mr. Riolacci resigned as Chief Financial Officer of AIR FRANCE KLM as per July 2016. Furthermore, Mr. Smith, in his capacity as Chief Executive Officer of AIR FRANCE KLM, is not considered as independent.

Committees
The Supervisory Board has three committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. All committees prepare policy and decision-making and report on their activities to the full Supervisory Board. Committee meetings are open to all members of the Supervisory Board regardless of membership of the Committees.

Audit Committee
The Audit Committee is charged with the responsibility to monitor KLM's financial-accounting process, the efficiency of the internal control over financial reporting, internal audit and risk management systems. In addition, the Audit Committee prepares the selection of the external auditors and advises the Supervisory Board regarding the external auditors' nomination for appointment, reappointment or dismissal. The Audit Committee consists of Mr. De Jager, Mrs. Pellerin and Mr. Riolacci. Mr. Riolacci chairs the Audit Committee.

In 2020, the Audit Committee held three regular meetings. In addition to the regular meetings, the Audit Committee held two extraordinary meetings with the Chief Financial Officer to discuss KLM's measures on cost reduction, various scenarios and required financing.

Except for the February meeting, all meetings were held via video call. All but one Audit Committee member attended all of the meetings. Furthermore, the Chief Financial Officer attended all meetings of the Audit Committee. The external auditors, the Vice President Internal Audit and the Senior Vice President Corporate Controller, also attended the three regular meetings. Senior managers and other experts within KLM were invited to the Audit Committee's December meeting.

During the February 2020 meeting, the Audit Committee discussed the first implications of the COVID-19 outbreak, which was, at that point in time, mainly limited to KLM's China market. This meeting focused primarily on KLM's financial results for 2019. Also, the Audit Committee discussed the KLM Group operational risk report, fraud risk report, internal audit activity report for the period July-December 2019 and KLM's financial resilience. In addition, the external KPMG/Deloitte audit report and the performance of the external auditors were discussed. Furthermore, the 2019 management letter of the external auditors was discussed. During the extraordinary meeting in May, the Audit Committee dealt intensively with KLM's measures in response to the COVID-19 crisis. In that regard, the committee discussed the required staff reduction and further decrease of investments to protect KLM's liquidity position. Particular attention has been paid to KLM's committed and uncommitted fleet orders. Furthermore, the committee assessed the recovery scenarios and their impact on capacity development. The Audit Committee reported to the Supervisory Board on its analysis of the situation.

In June, an extraordinary meeting was organised to pre-discuss the details of the Revolving Credit Facility to be provided by the banks. During this meeting, the Audit Committee reviewed and assessed the conditions linked to the loan and the drawing mechanism. The Audit Committee advised the Supervisory Board on its conclusions regarding the loan documentation.

During the July meeting, the Audit Committee discussed KLM's first half-year results. Particular attention was paid to several future scenarios, the voluntary departure plan and the hedge contracts. The audit plan, revised in light of COVID-19, was also discussed. The external auditors KPMG and Deloitte presented the external audit plan.

The meeting held in December, was dedicated to discussing the financing & financial risk plan for 2021. Given the impact of COVID-19, the Audit Committee also conducted in-depth reviews in the field of audits, fraud risks, hedging policies. Also, the internal audit plan for 2021 as presented by the internal auditor, was discussed. Furthermore, the 2020 management letter of the external auditors was discussed.

During the February 2021 meeting, KLM's financial results for 2020 were discussed. Furthermore, the summary of the internal audit activity report for the period July-December 2020 as well as the KLM Group operational risk report were discussed during this meeting. During the March 2021 meeting, the external KPMG/Deloitte audit report was discussed.

Remuneration Committee
The Remuneration Committee is charged with the responsibility to prepare a clear and understandable proposal for the remuneration policy, the remuneration of the individual members of the Board of Managing Directors and to make proposals for the remuneration of the individual members of the Supervisory Board. The Remuneration Committee consists of Mr. Enaud, Mrs. De Gaay Fortman and Mr. 't Hart. Mrs. De Gaay Fortman chairs the Remuneration Committee.
The Remuneration Committee met on one occasion during the financial year. All members attended the meeting. In order to align with the AIR FRANCE KLM policy and relevant benchmarks, the Remuneration Committee prepared amendments to KLM's Remuneration Policy. However, given the COVID-19 reality, the implementation of these amendments have been postponed. The Committee evaluated the performance of the members of the Board of Managing Directors against the collective and individual targets set for the financial year. Further information can be found in the Remuneration Policy and Report section of this annual report.

Nomination Committee
The Nomination Committee is charged with the responsibility to draft selection criteria and appointment procedures for Supervisory Board members and Board of Managing Directors members. Furthermore, the committee is responsible for assessing the size and composition of the Boards and the functioning of individual board members, drafting a plan for succession and making proposals for (re) appointments and preparing the decision-making process for the Supervisory Board. The Nomination Committee consists of Mr. Enaud, Mrs. De Gaay Fortman and Mr. 't Hart. Mr. 't Hart chairs the Nomination Committee.

The Nomination Committee met on one occasion during the financial year and all members attended. During the meeting, the composition of the Supervisory Board and the Board of Managing Directors, including succession planning, was discussed.

Distribution to shareholders
Article 32 of KLM's Articles of Association provides for the appropriation of profit. Paragraph 1 of that article gives the Meeting of Priority Shareholders (AIR FRANCE KLM) the right to set aside an amount of the disclosed profit to establish or increase reserves. The Meeting of Priority Shareholders may do so only after consultation of the Board of Managing Directors and the Supervisory Board.

Since no net profit was made during the financial year 2020, no distribution of dividends to any class of share shall be made.

Apart from the above-mentioned, the Dutch Government imposed conditions regarding the distribution of dividend to KLM's shareholders in light of the State financial support package of EUR 3.4 billion. Even if KLM's financial situation would allow a distribution in a certain financial year, no dividend may be distributed to the shareholders during the term of the State support and also not following the NOW payroll support scheme regulations..

Financial statements 2020
The Supervisory Board hereby presents the annual report and the financial statements for financial year 2020. KPMG Accountants N.V. and Deloitte Accountants B.V. have audited the financial statements. The Supervisory Board has discussed the financial statements and the annual report with the external auditors and the Board of Managing Directors. The unqualified auditors' report , with a going concern emphasis of matter paragraph, as issued by KPMG and Deloitte can be found in the Other Information section of the financial statements.
The Supervisory Board is satisfied that the annual report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of KLM Group's affairs and the Supervisory Board's supervision thereof in the financial year 2020.

Closing remarks
The Supervisory Board reflects on a year in which KLM has navigated through a crisis of unprecedented scale. Despite the emerging challenges and uncertainties, the entire KLM organisation delivered an unparaleled performance.

The Board is proud of all employees at KLM who keep showing their unlimited commitment to our customers, regardless of the faced difficulties. Furthermore, the Supervisory Board is grateful for the Dutch Government's support provided throughout the year.

On behalf of the Board, I hereby would like to thank the Board of Managing Directors, the Executive Team and all colleagues for their continuous efforts, resilience and flexibility towards KLM and its customers around the world.

Cees 't Hart
Chairman

Remuneration report and policy

In light of the extraordinary circumstances in 2020 caused by COVID-19 and the conditions attached to the State financial support package for the duration of the support the execution of the KLM's regular existing remuneration policy will not apply. Therefore, the order of this chapter is different from previous years and will first deal with the explanation of the actual remuneration in 2020.

Remuneration 2020

Due to COVID-19 and its significant impact on the company, KLM's Board of Managing Directors had already decided and communicated in April 2020 to refrain from their variable income over the year 2020. In addition, Mr. Elbers (CEO) voluntarily reduced his base salary by 20% as from June for the remainder of the year.

In the context of the obtained State financial support package, the government imposed certain conditions (amongst others) relating to remuneration of the Board of Managing Directors as from mid-2020: *"total remuneration shall be reduced by at least twenty per cent and shall remain at this reduced level for as long as the State financial support package has not been fully repaid. Part of the reduction is that there shall be no variable income"*.

The effect on the total Board of Managing Directors' remuneration for 2020 is as follows:

	CEO	COO/CFO
Overall reduction/pay cut (Actual 2020 versus 2019)	-45%	-34~38%
Base salary	-20% in 2nd half	no change
Short-term incentive 2020	NO	NO
Long-term incentive 2020 (PPS)	NIL granting	NIL granting
Long-term specific AF/KL shares 2020	NIL granting	n.a.

1. Total remuneration (Base salary + Pension + Short-term Incentive + Long-term Incentive)

With the above adjustments, the total remuneration for the Board of Managing Directors in 2020 is as below. The actual reduction / pay cut of 45% for CEO and 34/38% for COO/CFO are well matching the "at least 20% reduction" condition as set out by the Dutch Government.

(amounts in EUR)	2020	2019	%
P.J.Th. Elbers	722,818	1,322,953	-45%
R.M. de Groot	494,829	754,217	-34%
E.R. Swelheim	474,870	764,753	-38%
Total	1,692,517	2.841,923	-40%

Further details of the remuneration received by the individual members of the Board of Managing Directors is provided in note 33 of the financial statements

2. Base salary

Mr. Elbers' base salary in 2020 has not been increased and stands at EUR 600,000. In response to the difficult financial situation caused by the COVID-19 crisis, Mr. Elbers has decided to voluntarily cut his fixed salary by 20 percent for the remainder of 2020 (June – December 2020).

The base salaries of Messrs. Swelheim and De Groot have also not been increased in 2020 and stand at EUR 390,000 (2019: EUR 390,000).

As a general remark, the base salaries of the Board of Managing Directors remain significantly below the median of the applicable market benchmark as well as below that of previous KLM CEOs in the case of Mr. Elbers.

3. Short-term incentive plan

The Board of Managing Directors voluntarily decided in April to refrain from their short-term incentive for 2020, in light of company's financial situation due to the COVID-19 crisis.

4. Long-term incentive plan

As per the conditions attached to the State financial support package, no phantom shares have been granted for the year 2020 under KLM's long-term incentive plan.

For the KLM CEO, also an AIR FRANCE KLM specific LTI (SLTI) plan applies. Under this plan, also no granting took place for the year 2020.

Internal pay ratios

In line with the Dutch Corporate Governance Code, internal pay ratios are an important input for assessing the Remuneration policy for the Board of Managing Directors. The ratio between the annual total compensation for the CEO and the average annual total compensation for an employee of KLM was 7.6 for the 2020 financial year, which is significantly lower than the KLM pay ratio for 2019 (11.7) and well below the ratios at peer companies in the Netherlands. The Annual total compensation include base salary, variable income if applicable, in any year and pension benefits. The development of this ratio will be monitored and disclosed going forward.

Loans and advances

No loans or advances have been granted to members of the Board of Managing Directors.

Remuneration policy for the Board of Managing Directors

The execution of the remuneration policy is affected by the conditions imposed by the State in connection with the financial support package. Therefore, the below existing KLM remuneration policy has not been applied in 2020 with respect to the variable income (both Short Term - and Long Term Incentive). For completeness sake though, a summarised explanation of the policy, as is common practice, has been included in this annual report.

Process

The Supervisory Board's Remuneration Committee is responsible for formulating, implementing and evaluating the remuneration policy of KLM with regard to the terms and conditions of service and remuneration of the members of the Board of Managing Directors and the remuneration of the members of the Supervisory Board. The remuneration policy is thereafter proposed by the Supervisory Board and, in accordance with the Articles of Association, adopted by the General Meeting of Shareholders.

In accordance with the Articles of Association and the remuneration policy, and subject to prior approval of the Meeting of Priority Shareholders (AIR FRANCE KLM), the Supervisory Board sets the remuneration and further terms and conditions of service of the individual members of the Board of Managing Directors. These decisions are prepared by the Supervisory Board's Remuneration Committee. Any changes in individual remuneration resulting from the evaluation are proposed by the Remuneration Committee to the Supervisory Board. The Supervisory Board in turn adopts the remuneration, subject to approval of the Meeting of Priority Shareholders.

Objective of the policy

The main objective of the remuneration policy is to create a clear and understandable remuneration structure that enables KLM to attract and retain qualified Managing Directors and to offer them a stimulating reward. Furthermore, the remuneration policy aims to encourage Managing Directors to improve the performance of KLM and to achieve KLM's long-term objectives within the context of AIR FRANCE KLM.

Structure of the policy

The remuneration package for the members of KLM's Board of Managing Directors consists of three basic components:
1. Base salary;
2. Short-term incentive in cash related to performance in the past financial year; and
3. Long-term incentive in the form of phantom shares, and, in addition for the CEO, partially also in AIR FRANCE KLM shares, based on a percentage of the base salary, related to certain pre-determined financial and non-financial targets.

Other

Managing Directors may retain payments they receive from other remunerated positions (such as membership of a supervisory board or similar body) with the maximum number of remunerated positions set at two per Managing Director. Acceptance of such position requires the prior approval of the Supervisory Board. Any payment in connection with Supervisory Board memberships with KLM Group companies or with other airline companies remains due to KLM. Members of the Board of Managing Directors are furthermore entitled to make use of travel facilities comparable to the travel facilities as described in the travel regulations for KLM employees.

Claw back clause

The Supervisory Board has the authority to reclaim payments on the basis of article 2:135 sub 8 of the Dutch Civil Code.

Pensions

In accordance with KLM's pension policy the Pension Plan for members of KLM's Board of Managing Directors is a career average salary scheme. The short-term incentive (up to a maximum of 30 per cent) is part of pensionable income.

In line with the fiscal regime, pensionable income is capped at EUR 110,111 (2020). In addition, Managing Directors are entitled to an allowance, comparable to the premium available for pension accrual for the part of base salary above EUR 110,111, which can be used as a premium (deposit) for a net pension scheme that is offered by KLM's pension fund.

Employment contracts with members of the Board of Managing Directors

Members of the Board of Managing Directors have a contract of employment with KLM. In case of newly appointed external members of the Board of Managing Directors, the term of the employment contract is set at a maximum of four years. When Board members are appointed from within KLM, the years of service are respected in their new employment contract, and the appointment as a board member has a fixed term of four years. With regard to the current members of the Board of Managing Directors:

- Mr. Elbers' employment contract of indefinite duration contains a fixed-term appointment clause as a board member for a period of four years until the Annual General Meeting of 2023;
- Mr. Swelheim's employment contract of indefinite duration contains a fixed-term appointment clause as a board member for a period of four years until the Annual General Meeting of 2022;
- Mr. De Groot's employment contract of indefinite duration contains a fixed term appointment clause as a board member for a period of four years until the Annual General Meeting of 2023.

Severance pay

In case of newly appointed members of the Board of Managing Directors from outside KLM, the maximum severance pay in the event of dismissal is established at one year's base salary. In case of newly appointed members of the Board of Managing Directors from within KLM, the severance pay in the event of dismissal has been set at a maximum of two years' base salary, whereby in establishing the amount due consideration will be given to the years of service with KLM.

Remuneration policy and report for the Supervisory Board

Remuneration 2020

In response to the COVID-19 crisis, for the second half of 2020 the Supervisory Board members voluntarily agreed to reduce their remuneration by 20 percent. As a consequence, the fixed fee for the Chairman amounted to EUR 37,452 and for the other members to EUR 23,408.

Details on the remuneration received by individual members of the Supervisory Board are presented in note 32 of the financial statements.

Remuneration policy

The remuneration policy for members of the Supervisory Board has not changed since 2008. The remuneration consists of a fixed annual fee and a fee for each committee meeting that is attended. Members of the Supervisory Board do not receive a performance-related reward or shares or rights to shares by way of remuneration, nor are they granted loans, advances or guarantees. The remuneration of the members of the Supervisory Board is fixed by the General Meeting of Shareholders.

The remuneration for the Supervisory Board is as follows: The fixed fee payable for services amounts to EUR 42,500 for the Chairman and EUR 26,500 for the other members of the Supervisory Board. The fee per meeting of the Audit Committee attended amounts to EUR 2,000 for the Chairman of the committee and EUR 1,000 for the other members. The fee per meeting of the Remuneration Committee and the Nomination Committee amounts to EUR 1,500 for the Chairman of the committee and EUR 1,000 for the other members. Members of the Supervisory Board are furthermore entitled to make use of travel facilities described in the travel regulations for KLM employees.

Supervisory Board and Board of Managing Directors

Supervisory Board (situation as at December 31, 2020)

Name	Year of birth	Nationality	First appointment/ Current term	Current function / Supervisory Board memberships and former functions*
Cees 't Hart (Chairman)	1958	Dutch	2014/(second) 2018 - 2022	CEO Carlsberg Group Former CEO of Royal Friesland Campina Former SVP Marketing Operations Unilever Europe
François Enaud ***	1959	French	2016 (second) 2020 - 2024	President FE Development / board member of Linkbynet, ABMI, Ayesa and Visiativ and Talan, Chairman of Shadline and DejaMobile, Managing Partner of Towerbrook and Omnes Capital, President of ANSA, Former Group CEO Sopra Steria Group
Marry de Gaay Fortman **	1965	Dutch	2017 / (first) 2017-2021	Partner at Houthoff/ Member Supervisory Board De Nederlandsche Bank, Chair Topvrouwen.nl, various board memberships in the cultural sector
Jan-Kees de Jager	1969	Dutch	2019/(first) 2019-2023	President and investor at Easygenerator, investor and strategic advisor at Sana Commerce / Former CFO and member of Board of Managing Directors of Royal KPN N.V., former managing partner and CEO of ISM eCompany
Christian Nibourel ***	1958	French	2020 (first) 2020 - 2024	President OneUp / President of Greater Paris Investment Agency, Member of CESE, French National Council of Industry, Global Apprenticeship Network France, chairman of INSA-Lyon, President de Association de Garantie des Salaries, Former CEO Accenture France Benelux
Fleur Pellerin ***	1973	French	2018 / (first) 2018-2022	CEO of Korelya Consulting and Korelya Capital/ Board member of Schneider Electric, board member of Devialet, board member of Talan, board member of Ledger, President of Canneseries Festival, Board member of Stanhope
Pierre François Riolacci ***	1966	French	2016 (second) 2020 - 2024	CEO Europe of ISS World Services A/S / Former Group CFO of ISS World Services A/S, Former CFO of AIR FRANCE KLM, Former CFO of Veolia Environnement, former Director of Finance at Veolia Environnement
Benjamin Smith ***	1971	Canadian	2019 (first) 2019 - 2023	CEO of AIR FRANCE KLM/ Member of AIR FRANCE KLM Board of Directors, Director of Société Air France Former president airlines and COO of Air Canada
Janine Vos **	1972	Dutch	2019 (first) 2019 - 2023	Member of the Managing Board and CHRO of Rabobank/ Member of the Advisory Board Topvrouwen.nl and member of the Advisory Board Social Capital Former CHRO of Royal KPN N.V.

* Only memberships of Supervisory Boards and functions with large companies on December 31, 2020 are shown here

** Appointed upon recommendation of KLM's Works Council

*** Appointed upon recommendation of AIR FRANCE KLM

Board of Managing Directors (situation as at December 31, 2020)

Name	Year of birth	Nationality	First appointment	Function
Pieter J.Th. Elbers	1970	Dutch	2012	President and Chief Executive Officer KLM
René M. de Groot	1969	Dutch	2015	Managing Director and Chief Operating Officer KLM
Erik R. Swelheim	1965	Dutch	2014	Managing Director and Chief Financial Officer KLM

Company Secretary & General Counsel

Name	Year of birth	Nationality
Barbara C.P. van Koppen	1966	Dutch

2020 Financial Statements

KLM Royal Dutch Airlines Consolidated balance sheet

In millions of Euros		December 31, 2020	December 31, 2019
Before proposed appropriation of the result for the year	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	1	5,398	5,361
Right-of-use assets	2	1,745	2,028
Intangible assets	3	475	509
Investments accounted for using the equity method	4	18	16
Other non-current assets	5	175	223
Other financial assets	6	411	617
Deferred tax assets	17	77	21
Pension assets	18	211	420
		8,510	9,195
Current assets			
Other current assets	5	78	151
Other financial assets	6	295	161
Inventories	7	180	298
Trade and other receivables	8	902	1,269
Cash and cash equivalents	9	482	697
		1,937	2,576
TOTAL ASSETS		10,447	11,771
EQUITY			
Capital and reserves			
Share capital	10	94	94
Share premium		474	474
Reserves	11	(441)	(315)
Retained earnings		1,303	858
Result for the year		(1,547)	448
Total attributable to Company's equity holders		(117)	1,559
Non-controlling interests		2	1
Total equity		(115)	1,560
LIABILITIES			
Non-current liabilities			
Financial debt	12	1,129	1,130
Lease debt	13	872	1,173
Other non-current liabilities	5	931	148
Other financial liabilities	14	1,924	1,005
Deferred income	16	258	229
Deferred tax liabilities	17	-	84
Provisions for employee benefits	18	429	398
Return obligation liability and other provisions	19	1,219	1,343
		6,762	5,510
Current liabilities			
Trade and other payables	20	1,485	2,145
Financial debt	12	226	181
Lease debt	13	334	404
Other current liabilities	5	174	85
Other financial liabilities	14	193	77
Deferred income	16	998	1,382
Current tax liabilities	17	-	82
Provisions for employee benefits	18	23	22
Return obligation liability and other provisions	19	367	323
		3,800	4,701
Total liabilities		10,562	10,211
TOTAL EQUITY AND LIABILITIES		10,447	11,771

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

KLM Royal Dutch Airlines Consolidated statement of profit or loss

In millions of Euros	Note	2020	2019
Revenues	23	5,120	11,075
Expenses			
External expenses	24	(3,455)	(6,116)
Employee compensation and benefit expenses *	25/28	(2,079)	(3,187)
Other income and expenses	26	127	173
Total expenses		(5,407)	(9,130)
EBITDA*	28	(287)	1,945
Amortisation, depreciation, impairment and movements in provisions *	27/28	(1,058)	(1,070)
Income from operating activities*	28	(1,345)	875
Cost of financial debt	29	(164)	(172)
Income from cash and cash equivalents	29	16	24
Net cost of financial debt		(148)	(148)
Other financial income and expenses	29	(192)	(127)
Income before tax		(1,685)	600
Income tax income/(expense)	30	136	(162)
Net income after tax		(1,549)	438
Share of results of equity shareholdings		3	11
(Loss)/Profit for the year		(1,546)	449
Attributable to:			
Equity holders of the Company		(1,547)	448
Non-controlling interests		1	1
		(1,546)	449
Net (loss)/profit attributable to equity holders of the Company		(1,547)	448
Dividend on priority shares		-	-
Net (loss)/profit available for holders of ordinary shares		(1,547)	448
Average number of ordinary shares outstanding		46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699
(Loss)/Profit per share (in EUR)		(33.05)	9.57
Diluted (loss)/profit per share (in EUR)		(33.05)	9.57

* See note 28 Alternative performance measures (APM) for the reconciliation to adjusted EBITDA of EUR 75 million negative (2019: EUR 1,943 million positive) and adjusted income from operating activities of EUR 1,154 million negative (2019: EUR 853 million positive). Also see the Alternative performance measures section in the Notes to the consolidated financial statements

	Note	2020	2019
Income from operating activities*	28	(1,345)	875
Total APM adjustments income from operating activities	28	(191)	22
Adjusted income from operating activities (as per AIR FRANCE KLM Group reporting)	28	(1,154)	853

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

KLM Royal Dutch Airlines Consolidated statement of profit or loss and other comprehensive income

In millions of Euros	2020	2019
(Loss)/Profit for the year	(1,546)	449
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	375	(27)
Change in fair value transferred to profit or loss	(391)	182
Exchange differences on translation foreign operations	1	(2)
Tax on items of comprehensive income that will be reclassified to profit or loss	11	(41)
Total of comprehensive income that will be reclassified to profit or loss	(4)	112
Remeasurement of defined benefit pension plans	(182)	142
Fair value of equity instruments revalued through OCI	8	(24)
Tax on items of comprehensive income that will not be reclassified to profit or loss	73	(65)
Total of comprehensive income that will not be reclassified to profit or loss	(101)	53
Total of other comprehensive income after tax	(105)	165
Recognised income and expenses	(1,651)	614
- Equity holders of the company	(1,652)	613
- Non-controlling interests	1	1

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

KLM Royal Dutch Airlines Consolidated statement of changes in equity

	Attributable to Company's equity holders							
In millions of Euros	Share capital	Share premium	Reserves	Retained earnings	Result for the year	Total	Non-controlling interests	Total equity
As at January 1, 2020	94	474	(315)	858	448	1,559	1	1,560
Transfer to retained earnings	-	-	-	448	(448)	-	-	-
Net gain/(loss) from cash flow hedges	-	-	(16)	-	-	(16)	-	(16)
Fair value of equity instruments revalued through OCI	-	-	8	-	-	8	-	8
Exchange differences on translation foreign operations	-	-	1	-	-	1	-	1
Remeasurement of defined benefit pension plans	-	-	(182)	-	-	(182)	-	(182)
Transfer from retained earnings	-	-	(12)	12	-	-	-	-
Deferred tax on items taken directly to or transferred from equity	-	-	75	9	-	84	-	84
Net income/(expense) recognised directly in equity	-	-	(126)	469	(448)	(105)	-	(105)
(Loss) for the year	-	-	-	-	(1,547)	(1,547)	1	(1,546)
Total recognised income/(expenses)	-	-	(126)	469	(1,995)	(1,652)	1	(1,651)
Dividends paid	-	-	-	(19)	-	(19)	-	(19)
Other movements	-	-	-	(5)	-	(5)	-	(5)
As at December 31, 2020	94	474	(441)	1,303	(1,547)	(117)	2	(115)

	Attributable to Company's equity holders							
In millions of Euros	Share capital	Share premium	Reserves	Retained earnings	Result for the year	Total	Non-controlling interests	Total equity
As at January 1, 2019	94	474	(651)	478	565	960	1	961
Transfer to retained earnings	-	-	-	565	(565)	-	-	-
Net gain/(loss) from cash flow hedges	-	-	155	-	-	155	-	155
Fair value of equity instruments revalued through OCI	-	-	(24)	-	-	(24)	-	(24)
Exchange differences on translation foreign operations	-	-	(2)	-	-	(2)	-	(2)
Remeasurement of defined benefit pension plans	-	-	142	-	-	142	-	142
Transfer from retained earnings	-	-	162	(162)	-	-	-	-
Deferred tax on items taken directly to or transferred from equity	-	-	(97)	(9)	-	(106)	-	(106)
Net income/(expense) recognised directly in equity	-	-	336	394	(565)	165	-	165
Profit for the year	-	-	-	-	448	448	1	449
Total recognised income/(expenses)	-	-	336	394	(117)	613	1	614
Dividends paid	-	-	-	(18)	-	(18)	(1)	(19)
Other movements	-	-	-	4	-	4	-	4
As at December 31, 2019	94	474	(315)	858	448	1,559	1	1,560

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

KLM Royal Dutch Airlines Consolidated cash flow statement

In millions of Euros	Note	2020	2019
(Loss)/Profit for the year		(1,546)	449
Adjustments for:			
Depreciation, amortisation and impairment	27	1,049	1,076
Changes in provisions	27	30	14
Results of equity shareholdings		(3)	(11)
Results on sale of equity accounted investments		(16)	-
Changes in pension assets		54	81
Changes in deferred tax	30	(54)	80
Other changes		(27)	109
Net cash flow from operating activities before changes in working capital		(513)	1,798
Changes in:			
(Increase) / decrease in inventories		103	(18)
(Increase) / decrease in trade receivables		333	57
Increase / (decrease) in trade payables		(306)	(96)
(Increase) / decrease in other receivables and other payables		89	94
Change in working capital requirement		219	37
Net cash flow from operating activities		(294)	1,835
Purchase of intangible fixed assets	3	(111)	(156)
Purchase of aircraft	1	(557)	(1,091)
Proceeds on disposal of aircraft		31	46
Purchase of other tangible fixed assets	1	(98)	(135)
Proceeds on disposal of other (in-)tangible fixed assets		54	13
Investments in equity shareholdings		-	(1)
Proceeds on sale of equity shareholdings		17	10
Dividends received		-	8
Proceeds on short-term deposits and commercial paper		(6)	(37)
Net cash flow used in investing activities		(670)	(1,343)
Proceeds from long-term debt		2,092	491
Repayment on long-term debt		(986)	(717)
Payments on lease debt		(379)	(380)
Proceeds from long-term receivables		(16)	(62)
Repayment on long-term receivables		64	16
Dividend paid		(19)	(19)
Net cash flow used in financing activities		756	(671)
Effect of exchange rates on cash and cash equivalents		(6)	1
Change in cash and cash equivalents		(214)	(178)
Cash and cash equivalents at beginning of period		696	874
Cash and cash equivalents at end of period *	9	482	696
Change in cash and cash equivalents		(214)	(178)
Interest paid (flow included in operating activities)		(136)	(182)
Interest received (flow included in operating activities)		4	13

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

* Including unrestricted Triple A bonds, deposits and commercial paper the overall cash position and other highly liquid investments amounts to EUR 1,031 million as at December 31, 2020 (December 31, 2019 EUR 1,390 million)

In millions of Euros	2020	2019
Net cash flow from operating activities	(294)	1,835
Net cash flow used in investing activities (excluding investments in and proceeds on sale of equity shareholdings, dividends received and purchase of short-term deposits and commercial paper)	(681)	(1,323)
Free cash flow	(975)	512
Payments on lease debt	(379)	(380)
Adjusted free cash flow*	(1,354)	132

* See the alternative performance measures section in the Notes to the Consolidated financial statements

Financial Statements financial year 2020

Notes to the consolidated financial statements

General

Koninklijke Luchtvaart Maatschappij N.V. (the "Company" or "the Group") is a public limited liability company incorporated and domiciled in the Netherlands. The Company's registered office is located in Amstelveen.

The Company is a subsidiary of AIR FRANCE KLM S.A. ("AIR FRANCE KLM"), a company incorporated in France. The Company financial statements are included in the financial statements of AIR FRANCE KLM which can be obtained from the AIR FRANCE KLM Financial communication department. AIR FRANCE KLM's shares are quoted on the Paris and Amsterdam stock exchanges.

These financial statements have been authorised for issue by the Board of Managing Directors on March 31, 2021 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on May 4, 2021.

Going concern

Since the beginning of 2020, the worldwide spread of COVID-19 has had and continues to have a major impact on air traffic around the world and consequently also on KLM. After the significant drop in traffic in the second quarter due to very stringent constraints on the movements of travelers worldwide, the expected recovery in the second half of 2020 has been delayed with the resurgence of COVID-19 end of summer. At the date of the 2020 authorisation of the financial statements in March 2021, the Dutch Government imposed travel restrictions from South Africa, Central and South America and introduced testing protocols for passengers and crew. Moreover the Dutch State communicated to Dutch citizens an advice to limit travel abroad to necessary only up to half May 2021.

Our measures and State Aid

From the start of the COVID-19 crisis, KLM has taken a number of strong measures to limit the effect of COVID-19 on its business to manage the short and long term viability and continues to monitor and evaluate further developments. These measures include, amongst others, a reduction of the capacity offered by the network, the phase out of the passenger and combi Boeing 747, limiting leased aircraft extension options, other cost savings measures, reassessing of capital expenditures and cash preservation measures. By October 2020, KLM prepared its restructuring plan that was imposed by the Dutch State in order to ensure the EUR 3.4 billion State financing support package consisting of a

EUR 1.0 billion State loan and EUR 2.4 billion Revolving Credit Facility (RCF) with a bank syndicate. The Dutch State has guaranteed 90% of the EUR 2.4 billion RCF. The restructuring plan includes conditions, notably at least 15% reduction of manageable costs, reduction of labour conditions for all staff and to meet certain sustainability goals. The restructuring plan was approved by the Dutch State on November 3, 2020, ensuring the EUR 3.4 billion financing package.

As per December 31, 2020, KLM has drawn EUR 0.9 billion of the State Loan / RCF and EUR 2.5 billion is available for future liquidity requirements. Together with the near cash position of EUR 1.0 billion (reference is made to the footnote in the Consolidated cash flow statement), the available liquidity by December 31, 2020, is close to EUR 3.5 billion.
In addition, during 2020 KLM was granted around EUR 1 billion support from the "Temporary Emergency Bridging Measure for sustained employment" (NOW) and used amongst others the possibility to delay the payment of wages tax and social securities of EUR 764 million the latter being repaid over 36 months as from October 2021. Moreover, KLM reassessed capital expenditures and internal projects, deferred or reversed entitlements of the employee's profit sharing scheme and made arrangements with suppliers about improved payment terms. By the end of 2020, over 5,100 staff left the Company through voluntary departure plans and discontinuation of temporary contracts. Despite these measures, KLM's financial performance for the coming period will continue to be severely affected by the impact of COVID-19 and the related loss of revenue, sales of tickets and negative cash flows to an extent and for a duration that is currently uncertain.

Scenario modelling

Throughout 2020, KLM has continuously prepared financial scenarios that were updated with the assessed financial impact of information about customer demand, travel restrictions imposed by governments and development of the COVID-19 virus worldwide. These scenarios were shared with the KLM Supervisory Board and the Dutch State and its advisors. These scenarios included the general available support from the Dutch State. To date the Dutch State has continued its support to KLM by extending measures like NOW when "lockdown" measures and travel restrictions are extended.

By January 2021, KLM presented its budget for 2021 and forecasts for the years 2022-2025 to the KLM Supervisory Board. In determining the appropriate basis of preparation of the financial statements for the year ended December 31, 2020, KLM's Board of Managing Directors and Supervisory Board are required to consider whether the Group can continue its operations for the coming 12 month period after the date of these financial statements. Based on the modelled scenario's KLM has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts of KLM in the context of the current COVID-19 pandemic. These scenarios are based on the materialisation of the assumptions as set out below.
The budget for 2021 assumes a progressively ramp up of capacity towards summer 2021 and expects recovery in the second and third quarter 2021 thanks to the vaccine deployment. Also during the period between budget preparation and budget approval, additional (travel) restrictions and testing protocols were imposed by the Dutch Government. Although not part of the budget, amongst others, this led to additional measures of further reduction of 800 to 1,000 jobs.
Based on the 2021 budget, and recent developments and forecasts it is expected that KLM has sufficient liquidity, mainly driven by the following factors:

- the continuing NOW subsidies from the Dutch Government to support the staff costs;
- a high level of production related costs, such as fuel and flight related costs;
- the adjustment of the capacity to the expected demand in order to operate only incrementally flights providing positive operating cash flow;
- the limitation of capex investment plan;
- the additional new financing of aircraft delivered from manufacturers; and
- other measures available to management, e.g. FTE reductions.

Liquidity

Despite the high level of liquidity by the end of 2020, special attention is given in the 2021 budget and forecast to the risk for the long- and short term liquidity. This in relation to the applicable conditions and covenants in the State Loan/ RCF and due to the fact that there is an increased working capital requirement.

The long term liquidity risks consist of not being able to finance future fleet investments due to the negative equity position as per December 31, 2020.

The short term liquidity risk is related to the covenants included in the State Loan/RCF that will be first measured by the end of September 2021 and subsequently by end of December 2021 and March 2022. The budget 2021 projects that no covenants will be breached and with a maximum 10% downward sensitivity analysis on activity levels and additional measures considered the covenants will stand the test.

Sensitivity test

As the timing of resumption of flying is uncertain, KLM also modelled a further, but plausible, scenario assuming an additional decrease of 10% of activity in 2021 compared to the 2021 budget, to assess the liquidity position over the entire going concern period of at least 12 months from the date of signing of these financial statements.

In this scenario, thanks to the high level of variable costs and the subsidies supporting the staff costs, KLM would have enough cash to continue over this 12 months period. Further actions can be:

- further optimisation and reduction of the network and the capacity;
- deferral of capital expenditure;
- further significant restructuring; and
- additional costs reductions.

Nevertheless, in the event that this scenario transpires, a breach of covenants is likely to occur. As a consequence the State Loan/RCF will be payable on demand. In this event KLM will be required to negotiate with its syndicate banks and the Dutch State for a waiver on the bank covenants.

Uncertainty and going concern assumption

The worldwide COVID-19 pandemic and potential future waves create severe uncertainties requiring further scenario's to be assessed. In the event that covenants will be breached, KLM will have to negotiate with the syndicate banks and the Dutch State for a waiver or to lower the covenant target. The Dutch State has already shown its support by next to the guarantee for the EUR 1.0 billion State Loan, also guarantying 90% of the EUR 2.4 billion RCF. On the short term, for KLM the uncertainties impacting future cash flows mainly relate to the timing and extent of recovery of passenger demand in addition to the possible change in travel behavior and uncertainties around the lack of alternative sources for financing for a sustainable solvency, both for the long and short term and the timing and achievement of the assumption incorporated in the current liquidity and cash flow forecasts as explained in the preceding paragraph on Sensitivity test.

On the long term, KLM probably needs further support to obtain a sustainable solvency position. Currently the Dutch State is in discussion with the European Commission about potential support for KLM. Reflecting on the short term, in order to bridge the period during the COVID-19 pandemic there is uncertainty that the covenants could be in breach resulting that the State loan/RCF are due and payable. This event would require mitigation actions.
Based on the above, material uncertainty exists that may cast significant doubt on KLM's ability to continue as a going concern. Notwithstanding this material uncertainty caused by the current COVID-19 pandemic, management believes, based on the near cash position of EUR 1 billion and the available credit lines facilities of EUR 2.5 Billion (in total EUR 3.5 billion) and the expected continued willingness of the Dutch State and bank syndicate to support KLM, that KLM will be able to continue to fulfill its financial obligations for at least twelve months and as such continue on a going concern basis. Therefore, these financial statements have been prepared on the going concern assumption.

Subsequent events

Additional restructuring

On January 21, 2021, the Group announced that given the ongoing COVID-19 crisis and related reduced workload, between 800 to 1,000 additional jobs will need to be reduced. It concerns approximately 500 jobs within cabin, 100 at cockpit and between 200 and 400 within the ground domain.

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards adopted by the European Union (EU-IFRS) and effective at the reporting date December 31, 2020. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of the Dutch Civil Code. As permitted by Section 402 of Book 2 of the Dutch Civil Code the Company statement of profit or loss has been presented in condensed form.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).

Significant accounting policies

The consolidated financial statements are prepared on historical cost basis unless stated otherwise. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented in these financial statements, unless stated otherwise.

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

- Amendments to IAS 1"Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors". These amendments, which define the term materiality, give guidance on the information to be disclosed in the financial statements, based on its importance;
- Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosures". Since January 1, 2020, the Group has applied Phase 1 amendments to IFRS 9, IAS 39 and IFRS 7 released by the IASB in September 2019 as part of the interest-rate benchmarks reform (IBORs). These amendments allow the Group not to consider the uncertainties over the future of the interest-rate benchmarks in the assessment of hedging relationships and/or in the appraisal of the highly probable hedged

flows, enabling to maintain the existing and future hedging relationships until the effective set up of these new interest-rate benchmarks.
The application of this amendment has no impact on the Group's financial statements and allows to continue with the hedge accounting of instruments indexed notably to Euribor and Libor US;

- Amendments to IFRS 3 "Business Combinations". The amendment provides changes in the definitions of the separate components of a business. Hence, an acquired set of activities must be substantive and, like the operating staff, able to create outputs;

- IFRS IC interpretations of the lease term (IFRS 16) and useful life of leasehold improvements (IAS 16). This interpretation gives some clarification concerning the enforceable duration of indefinite lease contracts cancellable by either party, subject to prior notice, or concluded for an initial contractual term, and renewable by tacit agreement, unless terminated by either party. This interpretation also gives clarification on the link between the enforceable lease term and useful life of leasehold improvements; and

- Amendments to IFRS 16 "Leases". This amendment permits to lessees not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification.

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

These amendments and interpretations did not have a material impact on the Group's financial statement as of December 31, 2020.

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

- Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial instruments: Disclosures" and IFRS 16 "Leases" (effective for accounting periods as of January 1, 2021). These amendments relate to the phase 2 of the interest rate benchmark reform (IBORs) and are applicable retrospectively.

  They mainly address issues regarding the accounting treatment to apply if the basis for determining the contractual cash flows of financial assets or financial liabilities changes and the effects of these changes on the hedging relationships included in the scope of the IBORs reform. They also indicate the financial information to disclose relating to this reform and its accounting impacts as well as the accounting treatment of these changes applicable to the standards different from those, which are specific to financial instruments such as the standard for leases. Amendments to IFRS 9 and IAS 39 mainly suggest to:
  - manage changes linked to the IBOR reform by modifying the effective interest rate of the concerned financial assets and liabilities on a prospective basis, without impact on the net result; and
  - introduce some flexibilities in terms of the eligibility criteria for the fair value hedge or the cash flow hedge accounting in order to be able to maintain the relations in the scope of this reform.

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

- Amendments to IAS 1 "Presentation of financial statements" (effective for the accounting periods as of January 1, 2022). These amendments clarify the classification of current or non-current liabilities and aim to promote a consistent approach to this classification. Reference is made to note 14 Other financial liabilities;

- 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 derecognition of some types of liabilities immediately after an acquisition. Reference to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or IFRIC 21 "Levies" must be made to identify the liabilities assumed in a business combination for transactions or other events falling within the scope of these texts. The contingent assets acquired in a business combination shall not be accounted for.

- Amendments to IAS 37 "Provisions, Contingent liabilities and Contingent Assets" (effective for accounting periods as of January 1, 2022). These amendments standardize the identification and assessment practices related to the provisions for onerous contracts, especially regarding losses upon termination arising from contracts concluded with customers within the scope of IFRS 15 "Revenue from Contracts with Customers";

  These amendments indicate that the costs, including in the assessment of the "cost of fulfilling a contract", are the costs that relate directly to the contract. These amendments will apply to the contracts for which the entity has not yet fulfilled all its obligations as from the commencement date of the year of the first-time adoption; and

- 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 derecognised 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.

Use of estimates and the exercise of judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from the estimates.
The preparation of these financial statements also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further in the note Accounting policies for the consolidated balance sheet.

Alternative performance measures (APMs)

Adjusted EBITDA and adjusted income from operating activities

The Group considers it relevant to the understanding of its financial performance to use certain alternative performance measures (APMs) not defined by IFRS. These APMs should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. APMs do not have standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other companies.

In addition APMs are also important for the Group given that these provide alignment with the understanding of the financial performance and external reporting of its ultimate parent company, AIR FRANCE KLM S.A.

To provide clear reporting on the development of the business, APM adjustments are made that impact EBITDA and income from operating activities. A reconciliation of these APMs to the most directly comparable IFRS measures can be found in Note 28 Alternative performance measures.

Adjusted EBITDA (Adjusted Earnings Before Interests, Taxes, Depreciation, Amortisation and movements in provision): by extracting the main line of the statement of profit or loss which does not involve cash disbursement ("Amortisation, depreciation, impairments and movements in provision") from income from operating activities, adjusted EBITDA provides a simple indicator of the Group's cash generation on operational activities. Elements that have less predictive value due to their nature, frequency and/or materiality to arrive at adjusted EBITDA are:
- Restructuring costs;
- Infrequent elements such as derecognition of a pension plan and recognition of provisions for litigation.

Elements that have less predictive value due to their nature, frequency and/or materiality to arrive at adjusted income from operating activities are:
» Result on sales of aircraft, other flight equipment and disposals of other assets;
» Impairment of assets;
» Income from the disposal of subsidiaries and affiliates;
» Infrequent elements such as the recognition of badwill in the statement of profit or loss.

Adjusted free cash flow
In addition to provide clear reporting on the development of the business, APM adjustments are also made that impact the adjusted free cash flow. A reconciliation of this APM to the most directly comparable IFRS measures can be found in the Consolidated cash flow statement.

Free cash flow corresponds to the net cash flow from operating activities net of purchase of (prepayments in) aircraft, property plant and equipment and intangible assets less the proceeds on the disposal of aircraft, property plant and equipment and intangible assets. It does not include the other cash flows linked to investment operations, particularly investments in subsidiaries and other financial assets and net cash flow from the operating activities of discontinued operations.

Adjusted free cash flow: this corresponds to operating free cash flow net of the repayment of lease debts.

Near cash
Also near cash is mentioned in the Consolidated cash flow statement. Near cash: corresponds to financial assets that can be transferred to cash on short notice. This includes cash and cash equivalent, highly liquid investments and other assets with an original maturity between 3 and 12 months, such as bonds, long-term deposits and commercial paper.

Consolidation principles

Subsidiaries
In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial statements for all entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated.
An entity is controlled when the Group has power over it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken.
The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.

Non-controlling interests are presented within equity and on the statement of profit or loss separately from Company's equity holders and the Group's net result, under the line "non-controlling interests".

The effects of a buyout of non-controlling interests in a subsidiary already controlled by the Group and divestment of a percentage interest without loss of control are recognised in equity. In a partial disposal resulting in loss of control, the retained equity interest is remeasured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this remeasurement and the gain or loss on the sale of the equity interest, including all the items initially recognised in equity and reclassified to profit or loss.

Interest in associates and jointly controlled entities
In accordance with IFRS 11 "Joint arrangements", the Group applies the equity method to partnership over which it exercises control jointly with one or more partners (jointly controlled entities). Control is considered to be joint when decisions about the relevant activities of the partnership require the unanimous consent of the Group and the other parties sharing the control. In cases of a joint activity (joint operation), the Group recognises assets and liabilities in proportion to its rights and obligations regarding the entity.

In accordance with IAS 28 "Investments in Associates and Joint Ventures", companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are also accounted for using the equity method. The ability to exercise significant influence is presumed to exist when the Group holds more than 20% of the voting rights.

The consolidated financial statements include the Group's share of the net result of associates and jointly controlled entities from the date the ability to exercise significant influence begins to the date it ceases, adjusted for any impairment loss.

The Group's share of losses of an associate that exceeds the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity is not accounted for, unless the Group:
» Has incurred contractual obligations; or
» Has made payments on behalf of the associate.

Any surplus of the investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.
Investments in which the Group has ceased to exercise significant influence or joint control are no longer accounted for by the equity method and are accounted at their fair value as other financial asset on the date of loss of significant influence or joint control.

Intra-group operations
All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits or losses resulting from intra-group transactions are also eliminated. Gains and losses realised on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group's interest in the entity, providing there is no impairment.

Scope of consolidation
A list of the significant subsidiaries is included in note 37 of the consolidated financial statements.

Foreign currency

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the exchange rate of the related hedge, if applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies
The financial statements of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
» Assets and liabilities are translated at the closing rate;
» The statement of profit or loss and the cash flow statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
» All resulting translation differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity.

When control is given up, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used for the most significant currencies were as follows:

	Balance Sheet December 31, 2020 EUR	Average in Statement of profit or loss 2020 EUR	Balance Sheet December 31, 2019 EUR
1 US dollar (USD)	0.81	0.89	0.89
1 Pound sterling (GBP)	1.11	1.13	1.18
1 Swiss franc (CHF)	0.93	0.93	0.92
100 Japanese yen (JPY)	0.79	0.82	0.82
100 Kenya shilling (KES)	0.71	0.81	0.86

Business combinations

Business combinations are accounted for using the purchase method in accordance with IFRS 3 revised standard "Business combinations". The cost of a business combination is measured at the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquirer. Any other costs directly attributable to the business combination are recorded in the statement of profit or loss.

When a business combination agreement provides for an adjustment to the cost contingent on future events, then the adjustment is taken into account when determining the cost if the adjustment is probable and can be measured reliably.

Where goodwill has been initially determined on a provisional basis, adjustments arising within twelve months of the acquisition date are recognised on a retrospective basis. Goodwill acquired in a business combination is no longer amortised, but instead is subject to annual impairment test or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Segment reporting

The Company defines its primary segments on the basis of the Group's internal organisation, main revenue generating activities and the manner in which the Board of Managing Directors manages operations.

The Group has as its principal businesses: network activities, which include air transport of passengers and cargo activities, aircraft maintenance, leisure and any other activities linked to air transport.

Business segments

The activities of each segment are as follows:

» Network

Includes air transport of passengers and cargo activities:

» Passenger main activity is the transportation of passengers on scheduled flights that have the Company's airline code. Passenger revenues include receipts from passengers for excess baggage. Other passenger revenues are derived from commissions from SkyTeam alliance partnership arrangements and revenues from block-seat sales; and
» Cargo activities relate to the transportation of freight on flights under the Company's code and the sale of cargo capacity to third parties.

» Maintenance

Maintenance revenues are generated through maintenance services (engine services, component services and airframe maintenance) provided to other airlines and clients around the world.

» Leisure

This segment covers primarily the provision of charter flights and (low-cost) scheduled flights operated by transavia.com.

» Other

This segment covers primarily catering and handling services to third-party airlines and clients around the world.

Geographical segments

Revenues are allocated to geographical segments on the basis of destination as follows:

» Direct flights: Revenue is allocated to the geographical segment in which the destination falls; and
» Flights with stopovers: Revenue is allocated to the geographical segments in which the various sections of the route fall in accordance with IATA guidelines (based on weighted Passenger-kilometers).

The greater part of the Group's assets comprises aircraft and other assets that are located in the Netherlands. Inter-segment revenues are determined using the prices actually used for invoicing. These prices have been determined on a consistent basis.

Accounting policies for the balance sheet

Property, plant and equipment

Property, plant and equipment are stated initially at historical acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment loss. Flight equipment acquired in foreign currency is translated at the exchange rate applicable at the date of acquisition or the hedged rate where a hedging instrument has been used. Manufacturers' discounts are deducted from the acquisition cost.

Aircraft fixtures and fittings and initial potentials to be restored on aircraft by major maintenance operations, which include life limited parts (which are defined as a major engine part whose failure would jeopardise the engine's operation), are classified as separate components from the airframe and depreciated separately.

The cost of major maintenance operations (such as airframes, engines and life limited parts) which are carried out in accordance with specifications and schedules defined by manufacturers and regulating authorities are capitalised when incurred. Other maintenance costs are expensed as incurred.

Depreciation

Property, plant and equipment are depreciated to estimated residual values using the straight-line method over average estimated useful lives.

During the annual operational planning cycle, the Group reviews the depreciation methods, useful lives and residual values and, if necessary amends these.

The useful lives of property, plant and equipment are as follows:

Category	Useful life (years)
Aircraft	20 to 25
Aircraft fixtures and fittings, major maintenance components and spare parts	3 to 25
Land	Not depreciated
Buildings	10 to 40
Equipment and fittings	3 to 15
Other property and equipment	5 to 20

Lease contracts

Lease contracts as defined by IFRS 16 "Leases", are recorded in the balance sheet, which leads to the recognition of:

» An asset representing a right-of-use of the asset leased during the lease term of the contract; and
» A liability related to the payment obligation.

Arrangements with the following financing features are not eligible to an accounting treatment according to IFRS 16:

» The lessor has legal ownership retention as security against repayment and interest obligations;
» The airline initially acquired the aircraft or took a major share in the acquisition process from the Original Equipment Manufacturers; and
» In view of the contractual conditions, it is (virtually) certain that the aircraft will be purchased at the end of the lease term.

Since these financing arrangements are "in substance purchases" and not leases, the related liability is considered as a financial debt under IFRS 9 and the asset, as an owned asset, according to IAS 16 Property Plant and equipment.

Measurement of the right-of-use asset

At the commencement date, the right-of-use asset is measured at cost and comprises:

» The amount of the initial measurement of the lease liability, to which is added, if applicable, any lease payments made at or before the commencement date, less any lease incentives received;
» Where relevant, any initial direct costs incurred by the lessee for the conclusion of the contract. These are incremental costs which would not have been incurred if the contract had not been concluded; and
» Estimated costs for restoration and dismantling of the leased asset according to the terms of the contract. At the date of the initial recognition of the right-of-use asset, the lessee adds to its costs, the discounted amount of the restoration and dismantling costs through a return obligation liability as described in the paragraph on "Return obligation liability on leased aircraft". These costs also include restoration obligations with regard to engines, airframe and life limited parts.

Following the initial recognition, the right-of-use asset must be depreciated over the useful life of the underlying assets. This is the lease term for the rental component, flight hours or expected period until engine removal for the component relating to engine maintenance or on a straight-line basis for the component relating to the airframe until the date of the next major overhaul, for life limited parts over the lease term for wide body aircraft and over the time until the maintenance event in which they are replaced for narrow body aircraft.

Measurement of the lease liability

At the commencement date, the lease liability is recognised for an amount equal to the present value of the lease payments over the lease term.

Amounts involved in the measurement of the lease liability are:

» Fixed payments (including in-substance fixed payments; meaning that even if they are variable in form, they are in-substance unavoidable);
» Variable lease payments that depend on an index or a rate, initially measured using the index or the rate in force at the lease commencement date;
» Amounts expected to be payable by the lessee under residual value guarantees;
» The exercise price of a purchase option if the lessee is reasonably certain to exercise this option; and
» Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured based on a process similar to the amortised cost method using the discount rate:

» The liability is increased by the accrued interests resulting from the discounting of the lease liability, at the beginning of the lease period; and
» Less payments made.

The interest cost for the period as well as variable payments, not taken into account in the initial measurement of the lease liability and incurred over the relevant period are recognised as costs. In addition, the lease liability may be remeasured in the following situations:

» Change in the lease term;
» Modification related to the assessment of the reasonably

certain nature (or not) of the exercise of an option;
» Remeasurement linked to the residual value guarantees; and
» Adjustment to the rates and indices according to which the rents are calculated when rent adjustments occur.

Types of capitalised lease contracts

» Aircraft lease contracts
For the aircraft lease contracts fulfilling the capitalisation criteria defined by IFRS 16, the lease term corresponds to the duration of the contracts signed except in cases where the Group is reasonably certain of exercising the renewal options contractually foreseen. The accounting treatment of the maintenance obligations related to leased aircraft is outlined in the paragraph "Return obligation liability on leased aircraft".

Aircraft lease contracts concluded by the Group do not include guaranteed value clauses for leased assts.

The discount rate used to calculate the lease debt corresponds, for each aircraft, to the implicit rate determined by the contractual elements and residual market values. This rate is based on the readily availability of current and future data concerning the value of aircraft. The implied rate of the contract is the discount rate that gives the aggregated present value of the minimum lease payments and the unguaranteed residual value. This present value should be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

Most of the aircraft lease contracts are denominated in US dollars. The Group put in place a cash flow from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. The effective portion of the foreign exchange revaluation of the lease debt in US dollars at the closing date is recorded in "other comprehensive income". This amount is recycled in revenues when the hedged item is recognised. For the COVID-19 related impact reference is made to note 11.

» Real-estate lease contracts
Based on its analysis, the Group has identified lease contracts according to the standard concerning surface areas rented in its hubs, lease contracts on building dedicated to the maintenance business, customised lounges in airports other than hubs and lease contracts on office buildings, including leasehold land when applicable.

The lease term corresponds to the non-terminable period. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the signature debt. The incremental borrowing rate is the rate that the lessee would pay to borrow the required funds to purchase the asset over a similar term, with a similar security and in a similar economic environment. This rate is achieved by the addition of the interest rate on government bonds and the credit spread. The coupon on government bonds is specific to the location, currency, period and maturity. The definition of the spread curve is based upon reference points, each point consisting of asset financing on assets other than aircraft.

» Other assets lease contracts
The other lease contracts identified correspond to company cars, pools of spare parts and aircraft engines. The lease term corresponds to the non-terminable period. The discount rate used to calculate the lease debt is determined, for each asset, according to the incremental borrowing rate at the signature debt. The incremental borrowing rate is the rate that the lessee would pay to borrow the required funds to purchase the asset over a similar term, with a similar security and in a similar economic environment (refer to the paragraph above "Real estate lease contracts" regarding the method to determine the incremental borrowing rate).

Types of non-capitalised lease contracts
The Group uses the two exemptions foreseen by the standard allowing for non-recognition in the balance sheet: short-term lease contracts and lease contracts for which the underlying assets have a low value.

» Short duration lease contracts
There are contracts whose duration is equal to or less than 12 months. Within the Group, they mainly relate to leases of:
» Surface areas in our hubs with a reciprocal notice-period equal to or less than 12 months;
» Accommodations for expatriates with a notice period equal to or less than 12 months; and
» Spare engines for a duration equal to or less than 12 months.

» Low-value lease contracts
Low-value lease contracts concern assets with a value equal to or less than USD 5,000. Within the Group, these include, notably, lease contracts on printers, tablets, laptops and mobile phones.

Sale and leaseback transactions
The Group qualifies as sale and leaseback transactions, operations which lead to a sale according to IFRS 15 "Revenue from Contracts with Customers". More specifically, a sale is considered as such if there is no repurchase option on the goods at the end of the lease term.

» Sale according to IFRS 15
If the sale by the vendor-lessee is qualified as a sale according to IFRS 15, the vendor-lessee must:
(i) de-recognise the underlying asset; and
(ii) recognise a right-of-use asset equal to the retained portion of the net carrying amount of the asset.

» Sale not according to IFRS 15
If the sale by the vendor-lessee is not qualified as a sale according to IFRS 15, the vendor-lessee keeps the goods transferred on its balance sheet and recognises a financial liability equal to the disposal price (received from the buyer-lessor).

Intangible assets

Goodwill
Goodwill is stated at cost less accumulated impairment losses. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associates. Goodwill on acquisition of subsidiaries is included in intangible assets. If the cost of acquisition is less than the fair value of the net identifiable assets, liabilities and contingent liabilities at the level of the (groups of) cash-generating units (CGU's) it relates to, the difference is recognised directly in the statement of profit or loss. Goodwill on acquisition of associates is included in investments in associates. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of profit or loss on disposal. The useful life of goodwill is indefinite.

Computer software
Computer software is stated at historical cost less accumulated amortisation and accumulated impairment losses. Only the costs incurred in the software development phase are capitalised. Cost incurred in respect of feasibility studies and research etc. and post-implementation and evaluation phases are charged to the statement of profit or loss as incurred. The costs comprise the cost of KLM personnel as well as external IT consultants.

Amortisation takes place over the estimated useful lives (mainly 5 years and with a maximum of 20 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortisation commences when the software is taken into use. Prior to this moment the cost are capitalised as prepaid intangible assets.
The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Impairment of assets
In accordance with IAS 36 "Impairment of Assets", the Group's assets, other than inventories, deferred tax assets, assets arising from construction contracts, assets arising from employee benefits, financial assets that are within the scope of IFRS 9 and non-current assets held for sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, software with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to the relevant CGU and software to the CGU which uses the software.

An impairment loss is recognised in the statement of profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs), which correspond to the Group's Business segments.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs (or groups of CGUs) and then, to reduce the carrying amount of the other assets in the CGU (or group of CGUs) on a pro-rata basis.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. To determine the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Financial instruments: Recognition and measurement of financial assets and liabilities

Valuation of trade receivables and non-current financial assets
Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are initially recorded at fair value. They are subsequently valued using the amortised cost method less impairment losses, if any. Regarding the impairment of trade receivables, the Group has chosen the simplified method approach. Considering its business and risks, trade receivables have already been depreciated to the same level equal to the expected loss.

The Group considers that the change in credit risk on the non-current financial assets since their initial recognition is limited due to the criteria defined (e.g. type of instrument, counterparty rating, and maturity). The impairment recorded by the Group consists of the expect credit loss over the 12 months following the closing date.
Purchases and sales of financial assets are booked for as of the transaction date.

Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control or joint control, which is presumed to exist when the Group holds more than 20% of the voting rights. Jointly controlled entities are entities whereby the Group together with one or more parties undertakes activities related to the Group's business that are subject to joint control.

Investments in associates and jointly controlled entities are accounted for by the equity method and are initially recognised at cost. The Group's investment includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, taking into account other than temporary losses (impairment). When the Group's share of losses in an associate/jointly controlled entity equals or exceeds its interest in the associate/jointly controlled entity, including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate/jointly controlled entity.

Unrealised gains on transactions between the Group and its associates/jointly controlled entities are eliminated to the extent of the Group's interest in the associates/jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in equity securities

Investments in equity securities qualifying as equity instruments are recorded at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price at the closing date. For non-quoted securities, the valuation is made on the basis of the financial statements of the entity.
The valuation of capital instruments is either in fair value through the statement profit or loss or in fair value through other comprehensive income:

» When the instrument is deemed to be a cash investment, i.e. it is held for the purposes of monetary transactions, its revaluations are recorded in "Other financial income and expenses"; and
» When the instrument is deemed to be a business investment, i.e. it is held for strategic reasons (as it mainly consists of investments in companies whose activity is very close to that of the Group) its revaluations are recorded in "Other comprehensive income" non-recyclable. Dividends are recorded in the statement profit or loss.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially (trade date), and are subsequently re-measured, at fair value. Fair values are obtained from quoted market prices in active markets or by using valuation techniques where an active market does not exist.
Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterpart, a legal right to offset exists and the cash flows are intended to be settled on a net basis.

Recognition of fair value gains and losses

The method of recognising fair value gains and losses on derivative financial instruments depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged.

All derivative financial instruments are held for hedging purposes. It is KLM's policy not to hold derivative financial instruments for trading purposes. The derivatives, which do not qualify for hedge accounting, are described as items not qualifying for hedge accounting in these notes to the financial statements.

Categories of hedging transactions

Derivatives are used to hedge the risks associated with changes in interest rates, foreign currency rates, fuel prices and ETS (Emission Trading Scheme).

Forward currency contracts and options are used to hedge exposure to exchange rate movements. The Group also uses interest rate swaps to manage its exposure to interest rate risk. Finally, the exposure to fuel price risks is covered by swaps or options on jet fuel and fuel related indices such as Gasoil and Brent. The risk related to ETS is hedged by forwards.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging relationships are documented as required by IFRS 9 "Financial Instruments".

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value adjusted for the market value of the Group's credit risk (DVA) and the credit risk of the counterparty (CVA). The calculation of the credit risk follows a common model based on default probabilities from CDS counterparties. The method of accounting for changes in fair value depends on the classification of the derivative instruments.

Hedging transactions fall into two categories:

1. Fair value hedges; and
2. Cash flow hedges.

1. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

2. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item will affect profit or loss. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

For options, only the intrinsic risk can be hedged. The time value is excluded as it is considered as a cost of hedging. The change in fair value of the option time value is recognised in other comprehensive income insofar as it relates to the hedged item. When the latter occurs (if the hedged item is transaction-related), the change in fair value is then recycled and charged and impacts the hedged item or is amortised over the hedging period (if the hedged item is time-related).

Regarding forward contracts, only the spot component is considered as a hedging instrument, since the forward element is considered as a hedging cost and accounted for similarly to the option time value.
The currency swap basis spread is also excluded from the hedging instrument and considered as a hedging cost.

Hedge effectiveness testing

At inception of the hedge and on an on-going basis at each reporting date or on a significant change in circumstances (whichever comes first), the following elements will be assessed:

» Economic relationship: hedge ratio should be aligned with Group guidelines.

In case of a significant change in circumstances the following elements will be assessed:

» Credit risk: change in credit risk of the hedging instrument or the hedge item must not be of such magnitude that it dominates the value change that results from the economic hedge relationship; and
» Need for rebalancing.

The documentation at inception of each hedging relationship sets out how it is assessed whether the hedging relationship meets the hedge effectiveness requirements.

If the hedge relationship no longer meets the criteria for hedge accounting, is sold, is terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecasted transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in equity is recognised immediately in profit or loss.

Fair value hierarchy

Based on the requirements of IFRS 7, the fair values of financial assets and liabilities are classified following a scale that reflects the nature of the market data used to make the valuations. This scale has three levels of fair value:

» Level 1: Fair value calculated from the exchange rate/price quoted on the active market for identical instruments;
» Level 2: Fair value calculated from valuation techniques based on observable data such as active prices or similar liabilities or scopes quoted on the active market; or
» Level 3: Fair value from valuation techniques which rely completely or in part on non-observable data such as prices on an inactive market or the valuation on a multiple basis for non-quoted securities.

Financial assets
The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt financial instruments are subsequently measured at amortised cost, fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'):
- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion;
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition.

For financial assets at amortised cost, the Group applies the effective interest rate method and amortises the transaction cost, discounts or other premiums included in the calculation of the effective interest rate over the expected life of the instrument. Other financial assets are classified and subsequently measured, as follows:
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9;
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

Cash and cash equivalents
Cash and cash equivalents cover all highly liquid instruments with original maturities of three months or less and include cash in hand, deposits held at call and on short-term with banks and bank overdrafts. Bank overdrafts are shown under "Financial liabilities" in "Current liabilities" in the balance sheet.
Where the Company has a practice and legally enforceable right to offset bank balances, the net balance is included under cash and cash equivalents or bank overdrafts as applicable. Cash and cash equivalents are stated in the balance sheet at fair value.

Financial liabilities
Financial liabilities are initially recognised at fair value. Transaction costs are included in this initial measurement. Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments, carried at amortised cost and calculated using the effective interest rate for the other financial debt. Under this principle, any redemption and issue costs, are recorded as debt in the balance sheet and amortised as financial income or expense over the life of the loans using the effective interest method.

Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled. Any costs that were attributable to financial liabilities are expensed through the statement of profit or loss.

Inventories
Inventories consist primarily of expendable aircraft spare parts, fuel stock and other supplies and are stated at the lower of cost and net realisable value. Cost, representing the acquisition cost, is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Deferred income

Advance ticket sales
Upon issuance, both Passenger and Cargo sales, including fuel and security surcharges, are recorded as deferred income under Advance ticket sales.

Deferred gains on sale and leaseback transactions
This item relates to amounts deferred arising from sale and leaseback transactions.

Flying Blue frequent flyer program
KLM and Air France have a common frequent flyer program "Flying Blue". This program allows members to acquire "miles" as they fly on KLM, Air France or with other partner companies. These miles entitle members to a variety of benefits such as free flights with the two companies.
The probability of air miles being converted into award tickets is estimated using a statistical method. The value of air miles is estimated based on the deferred income approach, based on its fair value. This estimate takes into consideration the conditions of the use of free tickets and other awards.

The estimated value of air miles is recorded as a deduction from revenues and recorded under the caption "Deferred income" as liability on the balance sheet at the same time the qualifying flight for which air miles are awarded is recognised.

The Group also sells miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of the miles sold representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognised as revenue immediately.

Deferred income taxes
Deferred tax assets and liabilities arising from the tax losses carried forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes are determined using the balance sheet liability method and calculated on the basis of the tax rates that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled. Except for goodwill arising from a business combination, deferred tax assets are recognised to the extent that is probable that taxable profit will be available against which the tax losses carried forward and the temporary difference can be utilised.

Deferred tax assets and deferred tax liabilities are set off only when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same authority.

A deferred tax asset is recognised for all deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that is not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be realised.

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions for employee benefits

Pensions and other post-employment benefits
Pensions and other post-employment benefits relate to provisions for benefits (other than termination benefits) which are payable to employees on retirement. The provisions cover defined benefit pension plans, early-retirement schemes and post-employment medical benefits available to employees. The Group has various defined benefit and defined contribution pension plans, which are generally funded through payments to separately administered funds or to insurance companies.

The amount recognised as a liability or an asset for post-employment benefits at the balance sheet date is the net total of:
- The present value of the defined benefit obligations at the balance sheet date; and
- Minus the fair value of the plan assets at the balance sheet date.

The actuarial gain and losses are recognised immediately in other comprehensive income.

The present values of the defined benefit obligations are calculated using the projected unit credit method. The calculations of the obligations have been performed by independent qualified actuaries. This benefit/years-of-service method not only takes into account the benefits and benefit entitlements known at the balance sheet date, but also increases in salaries and benefits to be expected in the future. When a plan is curtailed or settled, gains or losses arising are recognised immediately in the profit or loss.

The determination of the liability or asset to be recognised as described above is carried out for each plan separately. In situations where the fair value of plan assets exceeds the present value of a fund's defined benefit obligations an asset is recognised if available. The service cost and the interest accretion to the provisions are included in the statement of profit or loss under "Employee compensation and benefit expense".

Other long-term employment benefits
The provision for other long-term employment benefits relates to benefits (other than pensions and other post-employment benefits and termination benefits) which do not fall within twelve months after the end of the period in which the employees render the related service. The provision covers jubilee benefits. The benefits are unfunded.

The amount recognised as a liability for other long-term employment benefits at the balance sheet date is the present value of the defined benefit obligations. Appropriate assumptions are made about factors such as salary increases, employee turnover and similar factors impacting the measurement of the obligations.

The service cost, the interest accretion to the provisions and the remeasurement of the net defined liability are included in the statement of profit or loss under "Employee compensation and benefit expense".

Termination benefits
Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy.

The provision is recognised when, and only when, a formal employee termination plan has been drawn up and approved and there is no realistic possibility of it being withdrawn. Where the benefits fall due in more than 12 months after the balance sheet date the provision is the present value of the expenditures expected to settle the obligation.

Return obligation liability on leased aircraft

The Group recognises return obligation liabilities in respect of the required restoration or reinstalment obligations within the framework of the lease of aircraft to lessors. The constitution of these return obligation liabilities depends on the type of restoration or reinstalment obligations to fulfil before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These return obligation liabilities also consist of compensation paid to lessors in respect of wear or tear of the life limited parts in the engines for wide body aircraft. If during the lease term life limited parts need to be replaced for wide body aircraft these will be recorded as expense when incurred, as such replacements do not take place within planned major engine overhaul within the lease term.

Overhaul and restoration works

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul are recognised as return obligation liabilities as of the inception of the contract. The counterpart of this return obligation liability is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

This liability is valued on commencement date at the discounted value of the expected cost of restoration. At the same time and for the same value, an additional asset component is recognised in the right-of-use asset for the aircraft lease on commencement date, which is amortised over the lease term.

Airframe and engine potentials reconstitution

The airframe and the engine potentials are recognised as a complement to the right-of-use assets since they are considered as full-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognised at the inception of the contract. When maintenance events aimed at reconstituting these potentials take place, the costs incurred are capitalised. These potentials are depreciated over the period of use of the underlying assets, which is flight hours for the engine potentials component or straight-line for the airframe potentials component and for life limited parts over the time until the maintenance event in which they are replaced for narrow body aircraft.

This liability is valued on commencement date at the discounted value of the expected cost of reinstatement or compensation of the used productive potentials (both related to expected cost of the maintenance event required to reinstate the used potentials).

Other provisions

Provisions are recognised when:

- There is a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

The provisions are carried at face value unless the effect of the time value of money is material, in which case the amount of the provision is the present value of the expenditures expected to settle the obligation. The effect of the time value of money is presented as a component of financial income.

Emission Trading Scheme

European airlines are subject to the Emission Trading Scheme (ETS). In the absence of an IFRS standard or interpretation regarding ETS accounting, the Group chose the following scheme known as the "netting approach".

According to this approach, the quotas are recognised as intangible assets:

- Free quotas allocated by the State are valued at nil; and
- Quotas purchased on the market are accounted at the acquisition cost.

These intangible assets are not amortised.

If the difference between recognised quotas and real emissions is negative, then the Group recognises a provision. This provision is assessed at acquisition cost for acquired rights and, for the non-hedged part, with reference to the market price as of each closing date. At the date of the restitution of the quotas corresponding to real emissions, the provision is written-off and the intangible assets are returned.

Accounting policies for the statement of profit or loss

Revenues

Network

Revenues from air transport transactions, which consist of passenger and freight transportation, are recognised when the transportation service is provided. The transport service is also the trigger for the recognition of external expenses such as commissions paid to agents, certain taxes and volume discounts. The revenues however include (fuel) surcharges paid by passengers.

Both passenger tickets and freight airway bills are consequently recorded as "advance ticket sales". The booking of this revenue known as "ticket breakage" is deferred until the transportation date initially foreseen. This revenue is calculated by applying a statistical rate on tickets issued and unused. This rate is regularly updated.

The Group applies the exemption provided by IFRS 15 which allows the balance of the outstanding transactions to remain unspecified as well as their planned recognition date for the performance obligations related to contracts with an initial term set at one year or less. If the tickets are not used, the performance obligations related to passenger and freight transportation effectively expire within one year.

Legally enforced compensations to passenger after irregularities in the fulfilment of the revenue generating performance obligations under IFRS 15, including those from EU261 regulations, are recorded as revenue deducting. The Group recognises a corresponding amount in liabilities for future refunds to passengers.

Passenger ticket taxes calculated on ticket sales are collected by the Group and paid to the airport authorities. Taxes are recorded as a liability until such time as they are paid to the relevant airport authority as a function of the chargeability conditions (on ticket issuance or transportation).
The Group considers that the company that issues the airway bill acts as principal since the latter has control over the achievement of the performance obligation. When the Group issues freight airway bills for its goods carried by another carrier (airline company or road carrier), the Group acts as principal. Therefore, at the time of transportation the Group recognises as revenue the amount invoiced to the customer in its entirety and recognises as chartering costs the amounts invoiced by the other carrier for the service provision.

Maintenance contracts

The main types of contracts with customers identified within the Group are:

» Sales of maintenance and support contracts

Some maintenance and support contracts cover the airworthiness of engines, equipment or airframes, an airframe being an aircraft without engines and equipment. The invoicing of these contracts is based on the number of flight hours or landings of the goods concerned by these contracts. The different services included within each of these contracts consist of a unique performance obligation due to the existing interdependence between the services within the execution of these contracts. The revenue is recognised: (i) if the level of completion can be measured reliably; (ii) if costs incurred and costs to achieve the contract can be measured reliably. As there is a continuous transfer of the control of these services, the revenue from these contracts is recognised as the costs are incurred.

As long as the margin on the contract cannot be measured in a reliable manner, the revenue will only be recognised at the level of the costs incurred. Forecast margins on the contracts are assessed through the forecast future cash flows that take into account the obligations and factors inherent to the contracts as well as other internal parameters to the contract selected using historical and/or forecast data. These forecast margins are regularly reviewed. If necessary, provisions are recorded as soon as any losses on completion of contracts are identified. Amounts invoiced to customers, and therefore mostly collected, which are not yet recognised as revenue, are recorded as liabilities on contracts (deferred revenue) on the balance sheet. Inversely, any revenue that has been recognised but not yet invoiced is recorded under assets on the balance sheet.

» Sales of spare parts repair and labour - Time & Material contracts

These services which relate to engines, equipment or airframes, an airframe being an aircraft without engines and equipment, are generally short-term. They consist of a unique performance obligation. The revenue is recognised as costs are incurred.

External expenses

External expenses are recognised in the statement of profit or loss using the matching principle which is based on a direct relationship between cost incurred and obtaining income related to the operation. Any deferral of cost in view of applying the matching principle is subject to these costs meeting the criteria for recognising them as an asset on the balance sheet. In order to minimise the financial risks involved with such transactions the Company makes use of financial derivatives such as fuel forward contracts, foreign currency options and swaps. The gains and losses arising from the use of the derivatives are included in these costs.

NOW subsidy
Following the COVID-19 crisis, the Group applied for the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW) as installed by the Dutch Government. The Group applied for the NOW compensations, being NOW 1, 2 and 3.1 in 2020, and recognised the subsidy as there is reasonable assurance that KLM will comply with the relevant conditions of the NOW schemes and thereupon the compensation will be received (IAS 20.7). The required separate NOW audits for 1, 2 and 3.1 are not finalised yet. The compensation is recognised as cost deducting over the period necessary to match them with the related cost, for which they are intended to compensate, being wages and salaries, on a systematic basis (IAS 20.12).

Other financial income and expense

Cost of financial debt
Cost of financial debt includes interest on loans of third parties, financial debt and on lease debt using the effective interest rate method.

Income from cash and cash equivalents
Interest income includes interest on loans, interest-bearing marketable securities, short-term bank deposits and money at call. Interest income is recognised on an accrual basis.

Foreign currency exchange gains and losses
Foreign exchange gains and losses resulting from the translation of transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Fair value gains and losses
Fair value gains/losses represent the increases/decreases during the year in the fair values of assets and liabilities, excluding derivative financial instruments designated as cash flow hedges.

Share-based

Phantom shares
The Group has cash-settled long-term incentive plans in which it grants to its employees phantom shares. The phantom shares are shares, generating an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of shares. Phantom shares are accounted for as a liability at the fair value at each reporting date. The liability will be built up monthly during a three-year vesting period.

The fair value of the phantom shares is measured at the AIR FRANCE KLM share closing price at the end of the month. Changes in the fair value of the liability are recognised as employee benefit expense in profit or loss.

Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, financial debts and fair value changes have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net cash acquired). Dividends paid to ordinary shareholders, if any, are included in financing activities. Dividends received, if any, are classified as investing activities. Interest paid and received are included in operating activities.

Accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the corresponding actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets
Factors may exist which require the recognition of an impairment of certain assets and/or CGUs. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)), which correspond to the Group's business segments. Such impairment is based on estimates of the fair value less cost to sell and the value in use. The fair value less cost to sell is derived from assumptions in relation to the possible selling price of a certain asset. The value in use is based on the discounted value of the cash flows that the asset/CGU is expected to generate in the future. These future cash flows are based on the business plans for the coming years. The value in use also takes into account possible adverse developments, which may lead to impairment. It is possible that the Group may have to recognise additional impairment charges in the future as a result of changes in (market) conditions that may take place in future periods.

The COVID-19 crisis resulted in a significant 2020 loss in income from operations and consequently an impairment trigger was identified. The recoverable value of the CGU assets has been determined by reference to their value in use as of December 31, 2020.

Revenues (network, leisure and maintenance), costs and investments forecasts are based on reasonable hypothesis and are management's best estimates. They are subject to the uncertainties related to the current situation, specifically the WACC and the extrapolated cash flows after the five-year period due to the timing, extent and degree of the recovery on the operations after the COVID-19 pandemic. The forecasts reflect the increased risks arising from COVID-19 and take into account a gradual return from the second quarter 2021 onwards to the level of 2019 activity in 2024 as supported by internal and external industry data as also described in our going concern paragraph and savings related to currently initiated restructuring plans set up by the Group that have been approved by the Board of Managing Directors and which can be executed by management under existing agreements.

The discount rate used for the test corresponds to the Group's average weighted average cost of capital (WACC) after tax. This stood at 6.5 per cent as at December 31, 2020. Moreover, cash flow projections used in the impairment tests are based on the 2021 Budget and five-year Group plan, presented by the Board of Managing Directors to the Supervisory Board in January 2021. Cash flows extrapolated beyond the five-year period are projected to increase based on a long-term growth rate of 1%.

At December 31, 2020 the Board of Managing Directors reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered for each CGU which include reducing the operating margin by 1% and long-term growth rates in the terminal value calculation to zero and increasing the WACC with 1%. For the reasonable possible changes in key assumptions applied to the remaining CGUs, no impairment arises.

Useful lives of property, plant and equipment
The carrying amount of flight equipment and other property and equipment is determined by using estimates of the depreciation periods, which are derived from the

expected technical and economic useful life of the assets involved. Due to advancing technology, evolving market circumstances and changes in the use of the assets involved, the expected technical and economic life of the asset may be subject to alteration.

Valuation of inventories
The Group records its inventories at cost and provides for the risk of obsolescence using the lower of cost or market principle. The expected future use of inventory is based on estimates about future demand and past experience with similar inventories and their usage.

Valuation of accounts receivable and the allowance for bad or doubtful debts
The Group periodically assesses the value of its accounts receivable based on specific developments in its customer base, taking into account the expected credit loss. The allowance for bad or doubtful debts is formed on the grounds of this assessment. The actual outcome may diverge from the assumptions made in determining the allowances.

Accounting for pensions and other post-employment benefits
Post-employment benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of future benefit cost over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the Group.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, mortality rates, and future healthcare cost. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14), projected benefit obligations, funding requirements and defined benefit cost recognised in profit or loss incurred. For details on key assumptions and policies see note 18.

It should be noted that when discount rates decline or rates of compensation increase pension and post-employment benefit obligations will increase. Defined benefit cost recognised in profit or loss and post-employment cost also increase, when discount rates decline, since this rate is also used for the expected return on fund assets.

Return obligation liability and other provisions
A return obligation liability and/or a provision will be recognised in the balance sheet when the Group has a present legal or constructive obligation to a third party as a result of a past event and it is probable that an outflow of economic benefits will require settling the obligation.

Management must make estimates and assumptions as at the balance sheet date concerning the probability that a certain obligation will materialise as well as the amount that is likely to be paid. Future developments, such as changes in market circumstances, or changes in legislation and judicial decisions may cause the actual obligation to diverge from the provision. The Group is involved in legal disputes and proceedings. Management decides on a case-by-case basis whether a provision is necessary based on actual circumstances. This assessment comprises both a determination of the probability of a successful outcome of the legal action and the expected amount payable.

Determination of fair value
The Group uses available market information and appropriate valuation techniques to determine the fair values of financial instruments. However, judgment is required to interpret market data and to determine fair value. Management believes that the carrying value of financial assets and financial liabilities with a maturity of less than one year approximates their fair value. These financial assets and liabilities include cash and cash equivalents, trade accounts receivable and trade accounts payable. Details of the assumptions used and the results of sensitivity analyses recognising these assumptions are provided in note 5.

Financial Risk Management

Risk management organisation and fuel hedging policy
Market risk coordination and management is the responsibility of the Risk Management Committee (RMC), which is composed of the Chief Financial Officer and Senior Vice President Financial Operations of Air France-KLM and the Chief Financial Officers and Senior Vice Presidents Corporate Finance & Treasury of Air France and of KLM and the airline directors fuel purchasing. The RMC meets each quarter to review AIR FRANCE KLM reporting of the risks relating to the fuel price, the principal currency exchange rates and interest rates, and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument.

The aim is to reduce the exposure of AIR FRANCE KLM and, thus, to preserve budgeted margins. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the treasury and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. In-house procedures governing risk management prohibit speculation. Regular meetings are held between the fuel purchasing, treasury departments and Chief Financial Officers of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The treasury departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis. Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements. The instruments used are forwards, swaps and options.

The policy on fuel hedging is the responsibility of the fuel purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current financial year and the two following ones, is supplied to the executive managements. This mainly covers the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and the underlying used, average hedge levels, the resulting net prices and stress scenarios, as well as market commentary. Furthermore, a weekly AIR FRANCE KLM report consolidates the figures from the two companies relating to fuel hedging and to physical cost. The instruments used are swaps and options.

Financial Risk Management
The Group is exposed to the following financial risks:
1. Market risk;
2. Credit risk; and
3. Liquidity and solvency risk.

1. Market risk
The Group is exposed to market risks in the following areas:
a. Currency risk;
b. Interest rate risk; and
c. Fuel price risk.

a. Currency risk
Most of AIR FRANCE KLM revenues are generated in euros. However, because of its international activities, AIR FRANCE KLM incurs a foreign exchange risk. The principal exposure is to the US dollar, and then, to a lesser extent, to British pound sterling and the Japanese yen. Thus, any changes in the exchange rates for these currencies relative to the euro may have an impact on AIR FRANCE KLM's financial results.

With regard to the US dollar, since expenditures such as fuel, right-of-use leases or component cost exceed the level of revenue, AIR FRANCE KLM is a net buyer. This means that any significant appreciation in the US dollar against the euro could result in a negative impact on the Group's activity and financial results. Conversely, AIR FRANCE KLM is a net seller of the Japanese yen and of British pound sterling, the level of revenues in these currencies exceeding expenditure. As a result, any significant decline in these currencies relative to the euro could have a negative effect on the Group's activity and financial results. In order to reduce its currency exposure, AIR FRANCE KLM has adopted hedging strategies. Both KLM and Air France hedge progressively their net exposure over a rolling 24-month period.

Aircraft are purchased in US dollars, meaning that AIR FRANCE KLM is highly exposed to a rise in the dollar against the euro for its aeronautics investments. The hedging policy plans the progressive and systematic implementation of hedging between the date of the aircraft order and their delivery date.

Despite this active hedging policy, not all exchange rate risks are covered. AIR FRANCE KLM might then encounter difficulties in managing currency risks, which could have a negative impact on AIR FRANCE KLM business and financial results.

b. Interest rate risk
At both KLM and Air France, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates,

KLM and Air France have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. At the end of December 2020, KLM's net exposure to changes in market interest rates is neutral.

c. Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of AIR FRANCE KLM.

Following IFRS 9 the hedging strategy of the Group involves components of non-financial items (crude oil and gasoil are specified as components of jet fuel prices). These components are considered as separately identifiable and reliably measurable as required by IFRS 9.

Main characteristics of the hedge strategy:
- Hedge horizon: a maximum of two years rolling
- Maximum hedge percentage, to reach at the end of the current quarter:

Quarter underway: 60% of the volumes consumed;
Quarter 1 to quarter 3: 60% of the volumes consumed;
Quarter 4: 50% of the volumes consumed;
Quarter 5: 40% of the volumes consumed;
Quarter 6: 30% of the volumes consumed;
Quarter 7: 20% of the volumes consumed;
Quarter 8: 10% of the volumes consumed.
- Increment of maximum coverage ratios: 10% by quarter;
- Underlyings: Brent, Gas Oil and Jet Fuel;
- Hedging instruments: Swap, call, call spread, three ways, four ways and collar. These hedging instruments must be eligible hedging instruments in accordance with IFRS 9.

Due to the significant reduction in fuel consumption of 2020, the AIR FRANCE KLM Group was overhedged. Following this, KLM had to terminate a large portion of the fuel hedge relationships leading to a loss of EUR 240 million accounted for in note 29 "Cost of financial debt" as of December 31, 2020. As a response to this, the fuel hedging strategy will be adjusted. The key objective of the adjustment in hedging strategy is to reduce risk, especially in case of declining fuel prices.

2. Credit risk

Credit risks arise from various activities including investing and operational activities as well as hedging activities with regard to financial instruments. The risk is the loss that could arise if a counterpart were to default in the performance of its contractual obligations. The Group has established credit limits, based on geographical and counterparty risk, for its external parties, in order to mitigate the credit risk. These limits are determined on the basis of ratings from organisations such as Standard & Poor's and Moody's Investors Service.

As of December 31, 2020, KLM identified the following exposure to counterparty risk:

LT Rating (Standard & Poor's)	Total exposure in EUR millions
AAA	257
AA+	97
AA-	43
A+	247
A	436
Total	1,080

At December 31, 2020, the exposure consists of the fair market value of marketable securities, deposits and bonds.

3. Liquidity and solvency risk

Liquidity and solvency risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its short- and long-term obligations on time. All anticipated and potential cash flows are reviewed regularly. These include, amongst others, operational cash flows, dividends, debt and interest payments and capital expenditure. The objective is to have sufficient liquidity, including committed credit facilities, available that are adequate for the liquidity requirements for the short- and long-term. Reference is made to 'Going concern' paragraph in the Notes to the consolidated financial statements section

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

1. Property, plant and equipment

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost									
As at Jan. 1, 2020	4,717	2,607	7,325	693	413	199	1,305	653	9,283
Additions	241	133	374	59	15	52	126	188	688
Disposals	(58)	(255)	(313)	(1)	(3)	(26)	(30)	-	(343)
Other movements	(27)	68	40	-	(116)	115	(1)	(106)	(67)
As at Dec. 31, 2020	4,873	2,553	7,426	751	309	340	1,400	735	9,561
Accumulated depreciation									
As at Jan 1, 2020	2,102	1,030	3,131	362	295	133	791	-	3,922
Depreciation	216	204	420	32	12	25	69	-	489
Disposals	(44)	(246)	(290)	(1)	(3)	(25)	(29)	-	(319)
Other movements	(4)	73	70	1	(82)	82	1	-	71
As at Dec. 31, 2020	2,270	1,061	3,331	394	222	215	832	-	4,163
Net carrying amount									
As at Jan. 1, 2020	2,615	1,577	4,194	331	118	66	514	653	5,361
As at Dec. 31, 2020	2,603	1,492	4,095	357	87	125	568	735	5,398

As a consequence of management's decision to take measures limiting the effects of the COVID-19 crisis, it was decided to early phase-out the passenger and combi Boeing 747 aircraft as per April 2020. Thereupon an impairment of EUR 19 million was recorded, which is reflected in the other movements. The asset is related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and movements in provision and note 28 Alternative performance measures.

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost									
As at Jan. 1, 2019	4,284	2,468	6,753	676	458	197	1,331	518	8,602
Additions	589	401	990	47	26	29	102	143	1,235
Disposals	(81)	(337)	(418)	(31)	(67)	(27)	(125)	1	(542)
Other movements	(75)	75	-	1	(4)	-	(3)	(9)	(12)
As at Dec. 31, 2019	4,717	2,607	7,325	693	413	199	1,305	653	9,283
Accumulated depreciation									
As at Jan 1, 2019	1,950	995	2,945	361	340	145	846	-	3,791
Depreciation	204	235	439	32	27	9	69	-	508
Disposals	(53)	(332)	(385)	(31)	(66)	(27)	(124)	-	(509)
Other movements	1	132	132	-	(6)	6	-	-	132
As at Dec. 31, 2019	2,102	1,030	3,131	362	295	133	791	-	3,922
Net carrying amount									
As at Jan. 1, 2019	2,334	1,474	3,808	315	118	52	485	518	4,811
As at Dec. 31, 2019	2,615	1,577	4,194	331	118	66	514	653	5,361

Property, plant and equipment include assets which are held as security for mortgages and loans as follows:

As at December 31,	2020	2019
Aircraft	130	35
Land and buildings	129	116
Other property and equipment	41	15
Carrying amount	300	166

Borrowing cost capitalised during the year amounts to EUR 10 million (2019 EUR 13 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 2.6% (2019 2.7%).

Land and buildings include buildings located on land which has been leased on a long-term basis. The book value of these buildings at December 31, 2020 amounts to EUR 227 million (December 31, 2019 EUR 198 million).

2. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2020	1,151	643	111	123	2,028
New contracts	-	-	20	10	30
Renewal or extension options	60	(10)	8	7	65
Disposals	-	(8)	-	-	(8)
Reclassifications	-	99	1	11	111
Amortisation	(318)	(110)	(19)	(34)	(481)
Other movements	-	(1)	1	-	-
As at December 31, 2020	893	613	122	117	1,745

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2019	1,350	587	117	127	2,181
New contracts	85	-	6	39	130
Renewal or extension options	63	-	2	-	65
Disposals	-	-	-	-	-
Reclassifications	(20)	186	4	(10)	160
Amortisation	(327)	(130)	(19)	(33)	(509)
Other movements	-	-	1	-	1
As at December 31, 2019	1,151	643	111	123	2,028

Information related to lease debt is available in note 13.

As a consequence of management's decision to take measure limiting the effects of the COVID-19 crisis, it was decided to take out 2 leased Airbus A330-200 earlier out of the operation, notably in the fourth quarter of 2020. Thereupon a write-off of EUR 9 million was recognised in the right-of-use asset aircraft. The asset is related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and movements in provision and note 28 Alternative performance measures.

The table below indicates the rents resulting from lease and service contracts which are not capitalised:

As at December 31,	2020	2019
Variable rents	1	7
Short-term rents	43	87
Low value rents	3	3
Carrying amount	47	97

3. Intangible assets

	Goodwill	Software	Software under development	Total
Historical cost				
As at January 1, 2020	40	511	240	791
Additions	-	87	25	112
Disposals	-	(13)	(56)	(69)
Other movements	-	1	(2)	(1)
As at December 31, 2020	40	586	207	833
Accumulated amortisation and impairment				
As at January 1, 2020	30	252	-	282
Amortisation	-	81	-	81
Disposals	-	(12)	-	(12)
Other movements	-	7	-	7
As at December 31, 2020	30	328	-	358
Net carrying amount				
As at January 1, 2020	10	259	240	509
As at December 31, 2020	10	258	207	475
Historical cost				
As at January 1, 2019	40	490	177	707
Additions	-	-	153	153
Disposals	-	(33)	(16)	(49)
Other movements	-	54	(74)	(20)
As at December 31, 2019	40	511	240	791
Accumulated amortisation and impairment				
As at January 1, 2019	30	245	-	275
Amortisation	-	61	-	61
Disposals	-	(33)	-	(33)
Other movements	-	(21)	-	(21)
As at December 31, 2019	30	252	-	282
Net carrying amount				
As at January 1, 2019	10	245	177	432
As at December 31, 2019	10	259	240	509

Main part of the software and software under development relates to internally developed software. As at December 31, 2020, software additions mainly relate to commercial, operational and aircraft maintenance systems.

Following the COVID-19 crisis, the Company assessed the recoverable amount of intangible assets that may not be recoverable. Related to software and software under development an impairment of EUR 8 million was recorded. The asset is related to passenger activities within the network business segment. In the table above this amount is included in other movements and reference is made to note 27 Amortisation, depreciation, impairments and movements in provision and note 28 Alternative performance measures.

4. Investments accounted for using the equity method

As at December 31,	2020	2019
Associates	9	8
Jointly controlled entities	9	8
Carrying amount	18	16

Investments in associates

	2020	2019
Carrying amount as at January 1	8	5
Movements		
Investments	-	1
Share of profit after taxation	3	2
Other movements	(2)	-
Net movement	1	3
Carrying amount as at December 31	9	8

The share of profit/(loss) after taxation as at December 31 has been adjusted to reflect the estimated share of result of the associate for the year then ended.

On December 23, 2020, the Group sold its equity interest of 4.49% (December 31, 2019 4.49% interest, with a carrying amount of EUR 3 million) in Transavia France S.A.S. to Air France Finance S.A.S., for an amount of EUR 17 million. This price was based on a put option whereby Transavia C.V. was granted the right to sell to Air France S.A. its 4.49% equity interest in Transavia France S.A.S. in 2020 at a fixed price depending on the average normalised net results over 2018 and 2019 of Transavia France S.A.S. A gain of EUR 17 million has been recorded as result on disposal of an associate. Reference is made to note 27 Amortisation, depreciation, impairments and movements in provision and note 28 Alternative performance measures.

Jointly controlled entities

The Group's interest in its principal jointly controlled entity, Schiphol Logistics Park C.V., which is an unlisted company, can be summarised as follows:

As at December 31,	2020	2019
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	4	3
Current assets	13	22
Profit after taxation	-	17
Share of profit after taxation	-	9

The Group did not receive dividend in 2020 (2019 EUR 8 million) from Schiphol Logistics Park C.V.

5. Other (non-current) assets and liabilities

2020	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	13	19	(30)	(23)
Cash flow hedges	39	-	(52)	(17)
Items not qualifying for hedge accounting	2	-	(4)	(1)
Total exchange rate risk hedges	54	19	(86)	(41)
Interest rate risk				
Fair value hedges	-	-	-	-
Cash flow hedges	1	-	(7)	(12)
Items not qualifying for hedge accounting	-	2	-	(5)
Total interest rate risk hedges	1	2	(7)	(17)
Commodity risk hedges				
Cash flow hedges	23	-	(60)	(2)
Items not qualifying for hedge accounting	-	-	(2)	-
Total commodity risk hedges	23	-	(62)	(2)
Total derivative financial instruments	78	21	(155)	(60)
Others	-	154	(19)	(871)
Total as at December 31, 2020	78	175	(174)	(931)

2019	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	52	74	(28)	(25)
Cash flow hedges	59	13	(16)	(9)
Items not qualifying for hedge accounting	12	3	-	-
Total exchange rate risk hedges	123	90	(44)	(34)
Interest rate risk				
Fair value hedges	-	-	-	-
Cash flow hedges	-	-	(3)	(18)
Items not qualifying for hedge accounting	-	9	-	-
Total interest rate risk hedges	-	9	(3)	(18)
Commodity risk hedges				
Cash flow hedges	28	8	(38)	(6)
Total commodity risk hedges	28	8	(38)	(6)
Total derivative financial instruments	151	107	(85)	(58)
Others	-	116	-	(90)
Total as at December 31, 2019	151	223	(85)	(148)

Exposure to exchange rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

As at December 31, 2020 the types of derivatives used, their nominal amounts and fair values are as follows:

In millions of Euros	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Exchange rate risk hedges								
Fair value hedges								
Forward purchases								
USD	1,349	773	448	-	128	-	-	(30)
Forward sales								
USD	534	300	234	-	-	-	-	9
Total fair value hedges	1,883	1,073	682	-	128	-	-	(21)
Cash flow hedges								
Options								
CHF	-	-	-	-	-	-	-	-
GBP	32	32	-	-	-	-	-	-
Forward purchases								
USD	922	719	203	-	-	-	-	(66)
GBP	92	92	-	-	-	-	-	-
Forward sales								
CAD	-	-	-	-	-	-	-	-
GBP	165	115	50	-	-	-	-	(1)
JPY	-	-	-	-	-	-	-	-
SGD	-	-	-	-	-	-	-	-
USD	441	439	2	-	-	-	-	37
Other	-	-	-	-	-	-	-	-
Total cash flow hedges	1,652	1,397	255	-	-	-	-	(30)
Items not qualifying for hedge accounting								
Forward purchases								
GBP	45	45	-	-	-	-	-	-
JPY	25	25	-	-	-	-	-	-
USD	491	471	20	-	-	-	-	(4)
Forward sales								
USD	179	179	-	-	-	-	-	1
Other	-	-	-	-	-	-	-	-
Total items not qualifying for hedge accounting	740	720	20	-	-	-	-	(3)

The total fair value hedges of EUR 21 million negative relates to exchange rate hedging on future fleet purchases denominated in USD. Fair value adjustments included on the carrying amount of the hedge items amount to EUR 63 million and are recognised in the balance sheet in the line item property, plant and equipment. The related costs of hedging amount to EUR 31 million negative and are recorded in other comprehensive Income.

The total cash flow hedges of EUR 30 million negative relates to exchange rate hedging on operational exposures. The cash flow hedge reserve relating to the outstanding hedges amounts to EUR 30 million. An amount of EUR 18 million is included in the cash flow hedge reserve relating to hedges that are unwound in 2020.

Exposure to interest rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

	In local currency millions							In millions of Euros
As at December 31, 2020	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Fair value hedges								
Swaps	-	-	-	-	-	-	-	-
Total fair value hedges	-	-	-	-	-	-	-	-
Cash flow hedges								
Swaps	587	68	67	35	28	58	331	(18)
Total cash flow hedges	587	68	67	35	28	58	331	(18)
Items not qualifying for hedge accounting								
Swaps	99	21	18	12	10	11	27	(3)
Total items not qualifying for hedge accounting	99	21	18	12	10	11	27	(3)
Total interest rate risk derivatives	686	89	85	47	38	69	358	(21)

The total cash flow hedges of EUR 18 million negative relates to interest rate hedging on borrowings. The cash flow hedge reserve relating to the outstanding hedges amounts to EUR 11 million.

Exposure to commodity risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the price risks related to its purchases of fuel.

The nominal amounts of the Group's commitments on the crude and refined oil markets as at December 31, 2020 are shown below:

	In USD millions							In millions of Euros
	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Commodity risk hedges								
Cash flow hedges								
Swaps	161	161	-	-	-	-	-	7
Options	533	518	15	-	-	-	-	(46)
Total cash flow hedges	694	679	15	-	-	-	-	(39)
Items not qualifying for hedge accounting								
Swaps	8	8	-	-	-	-	-	(2)
Options	-	-	-	-	-	-	-	-
Total items not qualifying for hedge accounting	8	8	-	-	-	-	-	(2)
Total commodity risk derivatives	702	687	15	-	-	-	-	(41)

The total cash flow hedges of EUR 39 million negative relates to commodity price risk hedging on fuel and carbon certificate purchases. The cash flow hedge reserve relating to the outstanding hedges amounts to EUR 32 million. The related costs of hedging amount to EUR 8 million positive and are recorded in other comprehensive income.

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2020, the breakdown of the Group's financial assets and derivative instruments, based on the three classification levels, is as follows:

	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
Shares	12	17	-	29
Assets at fair value through profit or loss				
Marketable securities	-	447	-	447
Deposits and marketable securities	-	115	-	115
Derivatives instruments (asset and liability)				
Currency exchange derivatives	-	(54)	-	(54)
Interest rate derivatives	-	(21)	-	(21)
Commodity derivatives	-	(59)	-	(59)

No significant changes in levels of hierarchy, or transfers between levels, have occurred in the reporting period.

For the explanation of the three classification levels, reference is made to "fair value hierarchy" paragraph in the accounting policies for the balance sheet section.

Sensitivity analysis

The sensitivity is calculated solely on the valuation of derivatives at the closing date of the period presented. The hypotheses used are coherent with those applied in the financial year ended as at December 31, 2020.

The impact on "reserves" corresponds to the sensitivity of effective fair value variations for instruments and is documented in the hedged cash flow (options intrinsic value, fair value of closed instruments). The impact on the "income for tax" corresponds to the sensitivity of ineffective fair value variations of hedged instruments (principally time value of options) and fair value variations of transactions instruments. For fuel, the downward and upward sensitivity are not symmetrical when taken into account the utilisation, in respect of the policy of optional hedged instruments in which the risk profile is not linear.

For further information reference is made to the Financial Risk Management paragraph in the text to the notes to the consolidated financial statements.

Fuel price sensitivity

The impact on "income before tax" and "reserves" of the variation of +/- USD 10 on a barrel of Brent is presented below:

	December 31, 2020		December 31, 2019	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Income before tax	3	(4)	-	-
Reserves	87	(92)	207	(208)

The fuel price sensitivity is only calculated on the valuation of derivatives at the closing date of each period presented.

Currency sensitivity

Values as of the closing date of all monetary assets and liabilities in other currencies are as follows:

	Monetary Assets		Monetary Liabilities	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
USD	467	649	414	445
JPY	25	-	188	164
CHF	-	-	347	345
GBP	-	43	-	-

The amounts of monetary assets and liabilities disclosed above do not include the effect of derivatives.

The impact on "change in value of financial instruments" and on "reserves" of the variation of a 10% weakening in exchange rates in absolute value relative to the Euro is presented below:

	USD		JPY		GBP	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Change in value of financial instruments	(5)	(19)	15	15	-	(4)
Reserves	(41)	(80)	-	1	8	40

The impact on "change in value of financial instruments on financial income and expenses" consists of:

» Change in value of monetary assets and liabilities (in accordance with IAS 21, including the effect of fair value and cash flow hedges);
» Changes in time value of currency exchange options (recognised in financial income);
» The changes in fair value of derivatives for which fair value hedges accounting is applied or no hedging accounting is applied.

The impact on "reserves" is explained by the change in exchange rates on changes in fair value of currency derivatives qualified for cash flow hedging, recognised in "reserves".

Interest rate sensitivity

The Group is exposed to the risk of changes in market interest rates. The variation of 100 basis points of interest rates would have an impact on income before tax of EUR nil million for 2020 (EUR nil million for 2019).

Others

The increase in the other non-current liabilities in 2020 mainly relates to deferred payments for wage tax and social securities. Following the COVID-19 crisis, the Dutch Government issued a number of measures to support Dutch companies, such as deferral of wage tax and social securities payments for the period between March 2020 and February 2021. As from April 1, 2021, the Group will pay the regular monthly wage tax and social securities and as from July 1, 2021 the related deferred payments over a period of 36 months. As per December 31, 2020 the related non-current deferred payments amount to EUR 764 million (December 31, 2019 nil million). This non-cash transaction is in line with IAS 7.43 included as an increase in other payables as part of the movement in working capital in the cash flow statement.

After December 31, 2020, the Dutch Government extended the payment terms from April 1, 2021 to July 1, 2021 for the regular monthly wage tax and social securities payments and from July 1, 2021 to as from October 1, 2021 for the related deferred payments.

6. Other financial assets

	Debt investments at amortised cost		At fair value through profit or loss		At fair value through OCI		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Carrying amount as at January 1	604	540	152	108	22	46	778	694
Movements								
Additions and loans granted	15	66	1	43	-	-	16	109
Loans and interest repaid	(59)	(16)	(7)	-	-	-	(66)	(16)
Interest accretion	12	-	-	-	-	-	12	-
Foreign currency translation differences	(39)	7	-	1	-	-	(39)	8
Other movements	(1)	7	(1)	-	7	(24)	5	(17)
Net movement	(72)	64	(7)	44	7	(24)	(72)	84
Carrying amount as at December 31	532	604	145	152	29	22	706	778

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, other loans and receivables	181	351	53	551
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	114	-	108	-
Other restricted deposits	-	-	-	-
Deposits on operating leased aircraft	-	25	-	33
Air France KLM S.A. shares	-	6	-	11
	114	31	108	44
At fair value through OCI				
Kenya Airways Ltd. shares	-	12	-	8
Other non-consolidated entities	-	17	-	14
	-	29	-	22
Carrying amount as at December 31	295	411	161	617

The Group's stake in Kenya Airways Ltd. is 7.76% as at December 31, 2020 (December 31, 2019 7.76%). The Group has no significant influence on Kenya Airways and due to its intention it is regarded as a financial asset at fair value through other comprehensive income under IFRS 9.

The carrying amounts of financial assets denominated in currencies other than the Euro are as follows:

As at December 31,	2020	2019
USD	368	324
Kenyan shilling	12	8
Total	380	332

The interest-bearing financial assets have fixed interest rates. The weighted average effective interest rates at the balance sheet date are as follows:

	December 31, 2020		December 31, 2019	
in %	EUR	USD	EUR	USD
Debt investments at amortised cost	0.2	2.6	0.1	2.0
At fair value through profit or loss	0.1	-	0.1	-

The triple A bonds and long-term deposits are held as a natural accounting hedge to mitigate the effect of foreign exchange movements relating to financial debt. Except as described below these securities are at the free disposal of the Company. Access to triple A bonds and long-term deposits, loans and receivables amounting to EUR 323 million (December 31, 2019 EUR 236 million) is restricted.

The maturities of debt investments are as follows:

As at December 31,	2020	2019
Debt investments at amortised cost		
Less than 1 year	178	52
Between 1 and 2 years	31	183
Between 2 and 3 years	55	29
Between 3 and 4 years	20	58
Between 4 and 5 years	29	21
Over 5 years	221	261
Total	534	604

The fair values of the financial assets are as follows:

As at December 31,	2020	2019
Debt investments at amortised cost		
Bonds, long-term deposits, loans and receivables	535	602
At fair value through profit or loss		
Restricted deposit EU Cargo claim	50	50
Restricted deposits	64	58
Deposits on operating leased aircraft	25	33
AIR FRANCE KLM S.A. shares	6	11
	145	152
At fair value through OCI		
Kenya Airways Ltd. shares	12	8
Other non-consolidated entities	17	14
	29	22
Total fair value	709	776

The fair values listed above have been determined as follows:

» Triple A bonds and long-term deposits: The fair values are based on the net present value of the anticipated future cash flows associated with these instruments;
» Deposits and commercial paper: The carrying amounts approximate fair value because of the short maturity of these deposits and commercial paper;
» Kenya Airways Ltd. shares: Quoted price as at close of business on December 31, 2020 and December 31, 2019;
» AIR FRANCE KLM S.A. shares: Quoted price as at close of business on December 31, 2020 and December 31, 2019;
» Other assets: The carrying amounts approximate fair value because of the short maturity of these instruments or, in the case of equity instruments that do not have a quoted price in an active market, the assets are carried at cost.

The contractual re-pricing dates of the Group's interest bearing assets are as follows:

As at December 31,	2020	2019
Less than 1 year	292	160
Between 1 and 2 years	31	183
Between 2 and 3 years	55	29
Between 3 and 4 years	20	58
Between 4 and 5 years	29	21
Over 5 years	221	257
Total interest bearing financial assets	648	708

7. Inventories

As at December 31,	2020	2019
Carrying amount		
Maintenance inventories	219	299
Allowance for obsolete inventories	(71)	(71)
Maintenance inventories - net	148	228
Other sundry inventories	32	70
Total	180	298

8. Trade and other receivables

As at December 31,	2020	2019
Trade receivables	430	696
Expected credit loss	(54)	(31)
Trade receivables - net	376	665
Amounts due from:		
- AIR FRANCE KLM group companies	56	85
- associates and jointly controlled entities	1	17
- maintenance contract customers	69	136
Taxes and social security premiums	19	47
Other receivables	246	114
Prepaid expenses	135	205
Total	902	1,269

	December 31, 2020	December 31, 2019
< 90 days	320	615
90-180 days	13	20
180-360 days	28	9
> 360 days	15	21
Total trade receivables	376	665

In the financial year EUR 25 million (December 31, 2019 EUR 3 million increase) increase of provision trade receivables has been recorded in other financial income and expenses in the consolidated statement of profit or loss. Main part of the increase of provision trade receivables relates to airline debtors in the maintenance business segment, which were, like KLM, severely impacted by COVID-19.

Maintenance contract cost incurred to date for contracts in progress at December 31, 2020 amounted to EUR 160 million (December 31, 2019 EUR 302 million).

Advances received for maintenance contracts in progress at December 31, 2020 amounted to EUR 72 million (December 31, 2019 EUR 102 million).

9. Cash and cash equivalents

As at December 31,	2020	2019
Cash at bank and in hand	35	48
Short-term deposits	447	649
Total	482	697

The effective interest rates on short-term deposits are in the range from -0.34% to 3.35% (2019 range -0.33% to 3.35%). The short-term deposits are invested in money market instruments or in liquid funds with daily access to cash.

The part of the cash and cash equivalents held in currencies other than the Euro is as follows:

As at December 31,	2020	2019
USD	7	14
GBP	2	2
Other currencies	12	12
Total	21	28

The fair value of cash and cash equivalents does not differ materially from the book value.

10. Share capital

Authorised share capital

No movements have occurred in the authorised share capital since April 1, 2004. The authorised share capital of the Company is summarised in the following table:

	Authorised		
	Par value per share (in EUR)	Number of shares	Amount in EUR 1,000
Priority shares	2.00	1,875	4
Ordinary shares	2.00	149,998,125	299,996
A Cumulative preference shares	2.00	37,500,000	75,000
B Preference shares	2.00	75,000,000	150,000
C Cumulative preference shares	2.00	18,750,000	37,500
Total authorised share capital			562,500

Issued share capital

No movements have occurred in the issued share capital since April 1, 2004. No shares are issued but not fully paid.

	Issued and fully paid			
	December 31, 2020		December 31, 2019	
	Number of shares	Amount in EUR 1,000	Number of shares	Amount in EUR 1,000
Included in equity				
Priority shares	1,312	3	1,312	3
Ordinary shares	46,809,699	93,619	46,809,699	93,619
		93,622		93,622
Included in financial liabilities				
A Cumulative preference shares	8,812,500	17,625	8,812,500	17,625
C Cumulative preference shares	7,050,000	14,100	7,050,000	14,100
		31,725		31,725
Total issued share capital		125,347		125,347

The rights, preferences and restrictions attaching to each class of shares are as follows:

Priority shares

All priority shares are held by AIR FRANCE KLM S.A. Independent rights attached to the priority shares include the power to determine or approve:

a. To set aside an amount of the profit established in order to establish or increase reserves (art. 32.1 Articles of Association (AoA));
b. Distribution of interim dividends, subject to the approval of the Supervisory Board (art. 32.4 AoA);
c. Distribution to holders of common shares out of one or more of the freely distributable reserves, subject to the approval of the Supervisory Board (art. 32.5 AoA);
d. Transfer of priority shares (art. 14.2 AoA).

Before submission to the General Meeting of Shareholders prior approval of the holder of the priority shares is required for:

a. Issuance of shares (art. 5.4 AoA);
b. Limitation of or exclusion from pre-emptive rights of the holders of other classes of shares (art. 5.4 AoA);
c. Repurchase of own shares (art. 10.2 AoA);
d. Alienation of own priority shares and C cumulative preference shares (art. 11.2 AoA);
e. Reduction of the issued share capital (art. 11.3 AoA);
f. Remuneration and conditions of employment of the Managing Directors (art. 17.4 AoA);
g. Amendments of the Articles of Association and/or dissolution of the Company (art. 41.1 AoA).

A Cumulative preference shares, B Preference shares, C Cumulative preference shares and Ordinary shares

Holders of preference and ordinary shares are entitled to attend and vote at shareholders meetings. Each share entitles the holder to one vote.

As at December 31, 2020 the State of the Netherlands held 3,708,615 A cumulative preference shares to which a voting right attaches of 5.9%. This has not changed since financial year 2006/07. For details of the right to dividend distributions attaching to each class of share see the section Other information.

11. Reserves

	Hedging reserve	Remeasurement of defined benefit pension	Translation reserve	Other reserve	Total
As at January 1, 2020	(31)	(781)	12	485	(315)
Gains/(losses) from cash-flow hedges	(8)	-	-	-	(8)
Exchange differences on translating foreign operations	-	-	1	-	1
Remeasurement of defined benefit pension plans	-	(182)	-	-	(182)
Transfer from retained earnings	-	-	-	(12)	(12)
Tax on items taken directly to or transferred from equity	2	73	-	-	75
As at December 31, 2020	(37)	(890)	13	473	(441)
As at January 1, 2019	(130)	(956)	13	422	(651)
Gains/(losses) from cash-flow hedges	131	-	-	-	131
Exchange differences on translating foreign operations	-	-	(1)	-	(1)
Remeasurement of defined benefit pension plans	-	141	-	-	141
Transfer from retained earnings	-	99	-	63	162
Tax on items taken directly to or transferred from equity	(32)	(65)	-	-	(97)
As at December 31, 2019	(31)	(781)	12	485	(315)

The volatility from the KLM pension plans has reduced significantly after the transfer of the cockpit crew and cabin crew to a collective defined contribution pension schemes in 2017. However, the volatility in the value of fuel derivatives and the remeasurement of the current defined benefit pension plans remains for the ground staff pension plan and other smaller defined benefit pension plans. The non-cash changes in pension obligations together with the level of plan assets linked to the changes in actuarial assumptions (such as the current very low discount rate) that need to be recognised in the Company's equity do not directly affect the statement of profit or loss.

Following the significant impact of COVID-19 the Company's equity became negative during 2020. Reference is made to the Going concern paragraph in the Notes to the consolidated financial statements section.

For an elucidation on the remaining volatility of defined pension plans and equity, reference is made to the paragraph Risks linked to the impact of external economic factors on equity and Risks linked to pension plans in the Risks and risk management section.

Remeasurement of defined benefit plans

Comprises all actuarial gains and losses related to the remeasurement of defined benefit plans.

The legal reserves consist of the following items:

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Fuel hedges

Following the COVID-19 impact the Group's fuel consumption became far less than the volume of fuel hedges outstanding as from the end of first quarter 2020. In accordance with IFRS the Group discontinued the fuel hedge relationship of these overhedges and released the market to market value of those hedges from other comprehensive income to the Consolidated statement of profit or loss. Reference is made to note 29 Cost of financial debt.

Currency hedges

Most of the aircraft lease contracts are denominated in US dollars. The Group designates the cash flows from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. This limits the volatility of the foreign exchange variation resulting from the currency related revaluation of its lease debt. The effective portion of the foreign exchange revaluation of the lease debt in US dollars at the closing date is recorded in "other comprehensive income". This amount is recycled in revenues when the hedged item is recognised. This also included the fair value changes in equity investments which are deemed to be business investments.

Because of COVID-19 US dollar revenues sharply decreased as from March 2020. As a consequence the Company temporarily stopped to record the foreign exchange revaluation of the lease debt on US dollars at the closing date in "other comprehensive income" but records those in foreign currency exchange gains/(losses) in the Consolidated statement of profit or loss. When the US dollar revenues will become sufficient again, the Company will start using the US dollar revenues as hedging instruments again.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the consolidated figures of non-Euro foreign subsidiaries, as well as from the translation of the Company's net investment in foreign associates and jointly controlled entities.

Other reserve

The other reserve relates to the amount in investments accounted for using the equity method and development cost incurred on computer software and prepayments thereon at the balance sheet date, as required by Article 365.2 of Book 2 of the Dutch Civil Code.

12. Financial debt

	December 31, 2020			December 31, 2019		
	Future minimum lease payment	Future finance charges	Total financial lease liabilities	Future minimum lease payment	Future finance charges	Total financial lease liabilities
Lease obligations						
Within 1 year	237	11	226	194	13	181
Total current	237	11	226	194	13	181
Between 1 and 2 years	122	12	110	219	11	208
Between 2 and 3 years	181	11	170	127	9	118
Between 3 and 4 years	124	11	113	157	7	150
Between 4 and 5 years	164	9	155	91	5	86
Over 5 years	605	24	581	577	9	568
Total non-current	1,196	67	1,129	1,171	41	1,130
Total	1,433	78	1,355	1,365	54	1,311

The financial debt relates exclusively to aircraft leasing, for which KLM has the option to purchase the aircraft at the amount specified in each contract once the lease expires. The lease agreements provide for either fixed or floating interest payments. Where the agreements are subject to a floating interest rate, this is normally the 3 or 6 month EURIBOR or the USD LIBOR rate. The average interest rate, without taking into account the impact of hedging (and the deferred benefits arising from sale and leaseback transactions) is 1.16% (average fixed rate 0.95%, average floating rate 1.47%). Taking into account the impact of hedging the average interest rate is 1.81% (average fixed rate 1.72%, average floating rate 2.17%). After hedging 77% of the outstanding lease liabilities have a fixed interest rate.

The carrying amount for the financial debt approximates the fair value as at December 31, 2020. The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments. For the lease liabilities restricted deposits are used as collateral. Reference is made to note 6 Other financial assets for the restricted deposits.

13. Lease debt

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	285	662	350	952
Lease Debt - Real estate	17	137	17	125
Lease Debt - Others	28	73	31	96
Accrued interest	4	-	6	-
Total	334	872	404	1,173

Change in lease debt:

	As at January 1, 2020	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2020
Lease Debt - Aircraft	1,302	69	(324)	(100)	-	947
Lease Debt - Real estate	142	29	(19)	-	2	154
Lease Debt - Others	128	16	(36)	(7)	-	101
Accrued interest	5	-	-	(1)	-	4
Total	1,577	114	(379)	(108)	2	1,206

	As at January 1, 2019	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2019
Lease Debt - Aircraft	1,497	127	(335)	7	6	1,302
Lease Debt - Real estate	152	12	(22)	-	-	142
Lease Debt - Others	120	40	(23)	-	(9)	128
Accrued interest	6	(1)	-	-	-	5
Total	1,775	178	(380)	7	(3)	1,577

The lease debt maturity breaks down as follows:

	2020	2019
Less than 1 year	407	488
Between 1 and 2 years	322	420
Between 2 and 3 years	246	333
Between 3 and 4 years	165	231
Between 4 and 5 years	110	130
Over 5 years	202	261
Total	1,452	1,863
Including:		
- Principal	1,206	1,577
- Interest	246	286

14. Other financial liabilities

	2020	2019
Carrying amount as at January 1	1,082	1,199
Additions and loans received	1,838	230
Loans repaid	(792)	(416)
Foreign currency translation differences	(12)	21
Other changes	1	48
Net movement	1,035	(117)
Carrying amount as at December 31	2,117	1,082

The other financial liabilities comprise:

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Revolving credit facility	-	663	-	-
Direct State loan	-	278	-	-
Subordinated perpetual loans	-	505	-	509
Other loans (secured/unsecured)	193	446	77	464
Total	193	1,924	77	1,005

Revolving credit facility and direct State loan

From the start of the COVID-19 crisis, the Group was aware it needed additional financing in the coming period to ensure that the Group can continue its activities and that its position is strengthened towards the future. This has been the subject of intensive discussions with the Dutch Government and banks.

After careful discussions with both the Dutch Government and banks, KLM has secured a financing package to ensure liquidity. This has been announced by the Dutch Government and KLM on June 26, 2020. The financing package and the conditions imposed by the Dutch Government in connection therewith have been approved by Dutch parliament and by the European Commission on July 13, 2020.

The financing package consists of:

» A 90% State guaranteed revolving credit facility of EUR 2.4 billion with a maturity of 5 years. The facility is granted by 11 banks, of which three Dutch banks and eight foreign banks. The EUR 665 million drawn under the previous revolving credit facility on March 19, 2020 has been redeemed on August 26, 2020 and on that date the same amount was drawn under the 90% State guaranteed revolving credit facility. The facility has an interest of EURIBOR (floored at zero) plus a margin of 1.35%. The cost of the associated Dutch Government guarantee equals to 0.50% in year 1, 1.00% in year 2 and 3 and 2.00% after year 3; and

» A direct State loan of EUR 1 billion 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. The loan, provided by the Dutch Government, will be subordinated to the revolving credit facility. On August 26, 2020, KLM received EUR 277 million of this loan.

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

On October 1, 2020, KLM submitted its restructuring plan to the Dutch Ministry of Finance. The presentation of this restructuring plan was a key condition in obtaining the aforementioned direct State loan and guarantees to the value of EUR 3.4 billion. The plan outlines how KLM intends to fulfil the conditions imposed by the Dutch Government. Substantively, the plan includes elements such as the reassessment of strategy, becoming more sustainable, the restored performance and competitiveness of the entire KLM Group, including a comprehensive restructuring plan, manageable cost improvements, financial considerations and how KLM staff will contribute by way of reduced employment conditions. In addition KLM has undertaken to suspend dividend payments to its shareholders until these two loans have been repaid in full.

On November 3, 2020 the Dutch Ministry of Finance approved the plan and KLM has the possibility to draw additional amounts under the financial support package in full. As per that date KLM can draw an additional amount of EUR 2,458 million under the financing package.

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

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

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

Subordinated perpetual loans

The subordinated perpetual loans are subordinated to all other existing and future KLM debts. The subordinations are equal in rank. Under certain circumstances, KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium.

As per August 28, 2019 KLM has reduced the principal amount of the Japanese Yen subordinated perpetual loan to JPY 20 billion (EUR 164 million) by repaying JPY 10 billion to the lender. As from this date a fixed JPY interest of 4.0% is applicable.

The Swiss Franc subordinated perpetual loans amounting to CHF 375 million, being EUR 347 million as at December 31, 2020 (December 31, 2019 EUR 345 million) are listed on the SWX Swiss Exchange, Zurich.

The remaining maturity of financial liabilities is as follows:

As at December 31,	2020	2019
Less than 1 year	193	77
Between 1 and 2 years	117	36
Between 2 and 3 years	50	160
Between 3 and 4 years	193	79
Between 4 and 5 years	744	154
Over 5 years	820	576
Total	2,117	1,082

The carrying amounts of financial liabilities denominated in currencies other than the Euro are as follows:

As at December 31,	2020	2019
CHF	347	345
JPY	158	164
Total	505	509

The fair values of financial liabilities are as follows:

As at December 31,	2020	2019
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Revolving credit facility	665	-
Direct State loan	277	-
Subordinated perpetual loans	413	457
Other loans (secured/unsecured)	642	506
Fair value	2,029	995

The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments.

The exposure of the Group's borrowing interest rate changes and the contractual re-pricing dates are as follows:

	<1 year	>1 and < 5 years	> 5 years	Total
As at December 31, 2020				
Total borrowings	1,544	40	537	2,121
	1,544	40	537	2,121
As at December 31, 2019				
Total borrowings	424	110	548	1,082
	424	110	548	1,082

The effective interest rates at the balance sheet date, excluding the effect of derivatives, are as follows:

	December 31, 2020		December 31, 2019	
in %	EUR	Other	EUR	Other
Cumulative preference shares	3.70	-	3.70	-
Revolving credit facility	3.95	-	3.95	-
Direct State loan	7.05	-	7.05	-
Subordinated perpetual loans	-	4.24	-	4.24
Other loans	2.75	-	1.35	-

The interest rates of the revolving credit facility, direct State loan, subordinated perpetual loans and other loans, taking into account the effect of derivatives, are as follows:

	Variable interest loans	Fixed interest loans	Average variable %-rate	Average fixed %-rate	Average %-rate
Revolving credit facility	663	-	3.95%	-	3.95%
Direct State loan	278	-	7.05%	-	7.05%
Subordinated perpetual loans	-	505	-	4.24%	4.24%
Other loans	458	183	3.55%	0.69%	3.99%

The variable interest rates are based on EURIBOR or the USD LIBOR rate.

The total financial liabilities are as follows:

	Note	As at December 31, 2020	2019
Finance lease obligations	12	226	181
Lease debt	13	334	404
Other financial liabilities	14	193	77
Total current		753	662
Finance lease obligations	12	1,129	1,130
Lease debt	13	872	1,173
Other financial liabilities	14	446	464
Revolving credit facility	14	663	-
Direct State loan	14	278	-
Perpetual subordinated loan stock in YEN	14	158	164
Perpetual subordinated loan stock in Swiss francs	14	347	345
Cumulative preference shares	14	32	32
Total non-current		3,925	3,308
Total		4,678	3,970

The total movements in financial liabilities are as follows:

	Note	As at January 1, 2020	New financial debt	Reimbursment of financial debt	Currency translation differences	Other	As at December 31, 2020
Finance lease obligations	12	1,311	264	(194)	(42)	16	1,355
Lease debt	13	1,577	29	(379)	(107)	86	1,206
Other financial liabilities	14	541	230	(127)	(9)	4	639
Revolving credit facility	14	-	1,330	(665)	-	(2)	663
Direct State loan	14	-	277	-	-	1	278
Perpetual subordinated loan stock	14	509	-	-	(4)	-	505
Cumulative preference shares	14	32	-	-	-	-	32
Total		3,970	2,130	(1,365)	(162)	105	4,678

15. Net debt

As at December 31,	2020	2019
Current and non-current financial debt	4,673	3,965
Financial debt	4,673	3,965
Cash and cash equivalents	482	697
Restricted deposits	119	117
Cross currency element of CCIR swaps	(8)	8
Near cash	544	618
Financial assets	1,137	1,440
Total net debt	3,536	2,525
	2020	2019
Carrying amount as at January 1	2,525	2,825
Adjusted free cash flow	1,354	(132)
Repayment lease debt	(379)	(380)
New lease debt	114	178
Other (including currency translation adjustment)	(78)	34
Net movement	1,011	(300)
Carrying amount as at December 31	3,536	2,525

16. Deferred income

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Advance ticket sales	922	-	1,293	-
Sale and leaseback transactions	1	4	1	7
Flying Blue frequent flyer program	69	247	79	214
Others	6	7	9	8
Total	998	258	1,382	229

Advance ticket sales corresponds to sold passenger tickets and freight airway bills which will be recognised in revenues at the date of transportation. The COVID-19 crisis and the lockdown of borders caused the Group to reduce capacity and cancel an important number of passenger flights. In that case, customers can either ask for a refund of the ticket or the issuance of a voucher. As per December 31, 2020, the advance ticket sales includes EUR 285 million of passenger tickets (fare and carried imposed charges) for which the date of transportation has passed and which are eligible to refund and EUR 351 million of vouchers that can be used for future flights.

17. Deferred/Current tax

The split between current income tax liabilities, deferred tax assets and net (offset) deferred tax liabilities and is as follows:

As at December 31,	2020	2019
Carrying amount as at January 1	145	(122)
Income statement expense	(136)	162
Tax (credited)/charged to equity	(75)	69
Reduction due to tax rate	-	29
Other movements	(11)	7
Net movement	(222)	267
Carrying amount as at December 31	(77)	145

The gross movement in the deferred/current tax liabilities is as follows:

As at December 31,	2020	2019
Current income tax liabilities Dutch tax fiscal unity	-	82
Deferred tax asset other tax jurisdictions	(27)	(21)
Deferred tax liability/(asset) Dutch tax fiscal unity	(50)	84
	(77)	63
Total	(77)	145

During 2019 the Group used all its remaining tax losses carry forwards in the Netherlands (December 31, 2018: EUR 0.2 billion). Consequently the Group had a current income tax payable position as per December 31, 2019. In 2020 no current income tax has been paid following a relief from the Dutch tax authorities, related to the COVID-19 impact as from March 2020. Companies which expected 2020 tax losses did not have to pay the 2019 current income tax payable, but could offset them with the expected 2020 tax losses.

Given the COVID-19 crisis the Group made significant taxable losses in 2020 and subsequently has significant tax losses carry forwards amounting to EUR 1,075 million as per December 31, 2020. Due to the high degree of uncertainty about the timing and degree of recovery and in line with IAS 12, no deferred tax asset for unused operating losses has been recognised as per December 31, 2020. KLM has an amount of EUR 270 million for unused operating losses not recognised as per December 31, 2020.

The amounts of deferred tax assets recognised in the KLM income tax fiscal unity in the Netherlands are included in the deferred tax asset line within non-current assets on the balance sheet. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Under income tax law in the Netherlands, the maximum future period for utilising tax losses carried forward is six years. As from January 1, 2022, this period is likely to become indefinite for tax losses. However, utilising tax losses carried forward is limited to 50% of taxable profits per year. Current income tax has to be paid over the other 50% of taxable profits per year. These changes are not substantially enacted as per December 31, 2020. In the United Kingdom, this period is indefinite.

The Group includes a fully consolidated Cell in Harlequin Insurance PCC Limited – Cell K16, St. Peter Port (Guernsey). Respective income from the Cell is also included in the taxable basis of KLM fiscal unity in the Netherlands.

End 2019 it was announced that the Dutch income tax would be lowered to 21.7% in 2021. The impact of this change was taken into account in the 2019 financial statements. Given the COVID-19 impact the Dutch tax authorities announced end 2020 that the Dutch income tax will remain at 25% in 2021. This has been taken into account in the 2020 financial statements.

The deferred tax liability/(asset) of the Dutch tax fiscal unity is built up as follows:

As at December 31,	2020	2019
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	-	-
Deferred tax assets to be recovered after more than 12 months	58	15
	58	15
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	-	-
Deferred tax liabilities to be settled over more than 12 months	8	99
	8	99
Net Deferred tax asset KLM income tax fiscal unity (offset)	(50)	84

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
2020					
Deductible interest expenses carried forward	-	10	-	-	10
Provisions for employee benefits	21	-	7	(1)	27
Other tangible fixed assets	18	11	-	-	29
Derivative financial instruments	(4)	-	21	-	17
Other	1	8	(19)	12	2
Total	36	29	9	11	85

	Restated carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Restated carrying amount as at December 31
Deferred tax assets					
2019					
Tax losses	75	(75)	-	-	-
Fleet assets	1	(1)	-	-	-
Provisions for employee benefits	25	-	(4)	-	21
Other tangible fixed assets	-	-	-	18	18
Derivative financial instruments	43	-	(47)	-	(4)
Other	8	(14)	14	(7)	1
Total	152	(90)	(37)	11	36

	Carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
2020					
Other tangible fixed assets	-	-	-	-	-
Pensions and benefits (asset)	99	(25)	(66)	-	8
Total	99	(25)	(66)	-	8

	Carrying amount as at January 1	Income statement charge/ (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
2019					
Other tangible fixed assets	(13)	(5)	-	18	-
Pensions and benefits (asset)	43	(5)	61	-	99
Total	30	(10)	61	18	99

The amounts of deferred tax assets recognised in the other tax jurisdictions (i.e. in the United Kingdom) and in Dutch subsidiaries not included in KLM income tax fiscal unity in the Netherlands are included in the deferred tax asset line within non-current assets on the balance sheet. Of the total amount involved, being EUR 27 million, EUR nil million is expected to be recovered in 12 months or less and EUR 3 million is expected to be recovered after more than 12 months. An amount of EUR 24 million related to taxes on remeasurement via other comprehensive income of defined benefit pension plans and will not be recycled through the statement of profit or loss.

The Group has tax loss carry forwards in the United Kingdom in the amount of EUR 8 million (December 31, 2019 EUR 9 million) as well as deductible temporary differences for which no deferred tax asset has been recognised, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised. The unrecognised deferred tax assets relating to temporary differences amount to EUR 26 million (December 31, 2019 EUR 24 million).

18. Provisions for employee benefits

As at December 31,	2020	2019
Pension and early-retirement obligations	313	273
Post-employment medical benefits	24	25
Other long-term employment benefits	105	112
Termination benefits	10	10
Total Liabilities	452	420
Less: Non-current portion		
Pension and early-retirement obligations	299	259
Post-employment medical benefits	23	24
Other long-term employment benefits	98	106
Termination benefits	9	9
Non-current portion	429	398
Current portion	23	22

As at December 31,	2020	2019
Assets		
Pension assets non-current portion	211	420
Total assets	211	420

Pension plans

The Company sponsors a number of pension plans for employees world-wide. As per December 31, 2020, the major defined benefit plans include KLM ground staff based in the Netherlands, the United Kingdom, Germany, Hong Kong, and Japan. These plans are funded through separate pension funds which are governed by independent boards and are subject to supervision of the local regulatory authorities.
In addition to these major plans there are various relatively insignificant defined benefit and defined contribution plans for employees located in- and outside the Netherlands.

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

Characteristics of ground staff plan

The pension plan relating to ground staff of the Company is a defined benefit plan based on the average salary with reversion to the spouse in case of death of the beneficiary. The retirement age as defined in the plan is 68 years. The average duration of the pension plan is 20 years.
The board of the pension fund is composed of members appointed by the employer, employees, pensioners and an external expert since September 1, 2018. The board is fully responsible for the execution of the plan. The Company can only control the financing agreement between the Company and the pension fund.

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 125% of the projected long-term commitment. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) applicable as per January 1, 2015. The impact of the nFTK among other things resulted in higher minimum required solvency levels. On the other hand, pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment.

If the coverage ratio is under the funding rules detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the threshold of 125% within 10 years and includes projected future return on investment. As a consequence, the existing recovery plan for the ground staff plan has been updated as per April 1, 2020.

If the threshold cannot be realised within 10 years additional contributions are payable by the Company and the employees. The amount of regular and additional employer contributions is not limited. The amount of possible additional employee contributions is limited to 2% of the pensionable contribution basis. A reduction of contribution is possible if the indexation of pensions is fully funded. Besides Dutch pension law, this reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the Dutch fiscal rules, among other things, a maximum pensionable salary of EUR 100,000 (as a result of indexation EUR 110,111 as per January 1, 2020) and lower future accrual rate are applicable since 2015.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions for the yearly pension accrual are limited to 22% of the pensionable base. The funds, fully dedicated to this Company, are mainly invested in bonds, equities and real estate.
The required funding of this pension plan also includes buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk. For example, to reduce the sensitivity to a decline of the interest rate, a substantial part of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Investment strategy

The board of the aforementioned ground staff plan, consults independent advisors as necessary to assist them with determining investment strategies consistent with the objectives of the fund. These strategies relate to the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns. The fund uses asset and liability management studies that generate future scenarios to determine their optimal asset mix and expected rates of return on assets.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plan invests a large proportion of its assets in equities which is believed to offer the best returns over the long-term commensurate with an acceptable level of risk. Also a proportion of assets is invested in property, bonds and cash. The management of most assets is outsourced to a private institution, Blue Sky Group, under a service contract.

Developments 2020

In 2020 the financial markets firstly showed a significant decrease following the COVID-19 crisis, but strongly increased in the second half of 2020, which overall resulted in increased plan assets with EUR 502 million. This was more than offset by a considerable decrease of the discount rate used to calculate the pension obligations from 1.15% to 0.75%, which results in a marked higher defined benefit obligations of EUR 750 million.

The funding ratio (based on the average 12 months rolling policy coverage), as set by the Dutch Central Bank, for the Ground staff pension fund is 97.9% at December 31, 2020 (December 31, 2019 108.2%).

As per year-end 2020 the ground staff pension fund is below the required coverage ratio and therefore has to issue an updated recovery plan before April 1, 2021. As a result of the 10 year rolling recovery plan no additional recovery payments are needed for 2020 nor for 2021.

Recognition of pension assets and liabilities in the balance sheet

The funds have together a liability totalling EUR 101 million as at December 31, 2020 (December 31, 2019 surplus EUR 147 million).

No limit (i.e. after the impact of IAS 19 and IFRIC 14 "The limit on a defined benefit asset, minimum funding requirements and their interaction" on IAS 19) on the net assets recognised in the balance sheet is applied since, based on the current financing agreement between the ground staff pension fund and the Company, future economic benefits are available in the form of a reduction in future contributions. These net assets recognised are not readily available for the Company.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase and mortality rates. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between the ground staff pension fund and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14).

Assumptions used for provisions for employee benefits

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Pension and early-retirement obligations	
	As at December 31,	
in %	2020	2019
Weighted average assumptions used to determine benefit obligations		
Discount rate for year-ended	0.79	1.18
Rate of compensation increase	1.03	1.30
Rate of price inflation	1.46	1.51
Weighted average assumptions used to determine net cost		
Discount rate for year-ended	1.18	1.89
Rate of compensation increase	1.30	1.16
Rate of price compensation	1.51	1.85

For the main ground staff pension plan, the 2020 Generation mortality tables (with certain plan specific adjustments) of the Dutch Actuarial Association were used.

The Company refines its calculations, by retaining the adequate flows, on the discount rate used for the service-cost calculation. In the Euro zone, this leads to the use of a discount rate of 0.10% higher for the service-cost calculation compared to the one used for the discount of the benefit obligation.

	Pension and early-retirement obligations	
As at December 31,	2020	2019
Present value of wholly or partly funded obligations	10,819	10,069
Fair value of plan assets	(10,718)	(10,216)
Net liability/(asset) relating pension and other post-retirement obligations	101	(147)

	Pension and early-retirement obligations	
As at December 31,	2020	2019
Amounts in the balance sheet		
Liabilities	313	273
Assets	(211)	(420)

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Pension and early-retirement obligations	
	2020	2019
Carrying amount as at January 1	10,069	8,816
Current service cost	229	191
Interest expense	118	165
Past service cost (curtailment)	(16)	-
Actuarial losses/(gains) demographic assumptions	(141)	(12)
Actuarial losses/(gains) financial assumptions	725	1,068
Actuarial losses/(gains) experience adjustments	86	20
Benefits paid from plan/company	(218)	(207)
Exchange rate changes	(33)	28
Net movement	750	1,253
Carrying amount as at December 31	10,819	10,069

Following the KLM voluntary leave plan the number of active KLM Ground staff participants decreased by some 1,450 employees. Since this is a substantial change a curtailment, resulting in lower funded obligations, of EUR 16 million has been recorded and released to the profit or loss account. Reference is made to note 25 Employee compensation and benefit expenses and note 28 Alternative performance measures.

The movements in the fair value of assets of the wholly or partially funded pension plans in the year can be summarised as follows:

	2020	2019
Fair value as at January 1	10,216	8,865
Interest income	120	168
Return on plan assets excluding interest income	490	1,218
Employer contributions	104	112
Member contributions	23	32
Benefits paid from plan / company	(210)	(200)
Exchange rate changes	(25)	21
Net movement	502	1,351
Fair value as at December 31	10,718	10,216

The experience adjustments are as follows:

	2020	2019
Benefit obligation	86	20
Plan asset	490	1,218

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the discount rate is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2020	2019
0.25% increase in the discount rate		
Impact on service cost	(16)	(16)
Impact on defined benefit obligation	(533)	(496)
0.25% decrease in the discount rate		
Impact on service cost	19	18
Impact on defined benefit obligation	612	569

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the salary increase is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2020	2019
0.25% increase in the salary increase		
Impact on service cost	3	3
Impact on defined benefit obligation	36	30
0.25% decrease in the salary increase		
Impact on service cost	(3)	(3)
Impact on defined benefit obligation	(32)	(28)

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the pension increase rate is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2020	2019
0.25% increase in the pension increase rate		
Impact on service cost	16	15
Impact on defined benefit obligation	548	513
0.25% decrease in the pension increase rate		
Impact on service cost	(14)	(15)
Impact on defined benefit obligation	(512)	(514)

The major categories of assets as a percentage of the total pension plan assets are as follows:

in %	As at December 31, 2020	2019
Debt securities	50	48
Real estate	9	9
Equity securities	40	42

Debt securities are primarily composed of listed government bonds, equally split between inflation linked and fixed interest, at least rated BBB, and invested in Europe, the United States of America and emerging countries. Real estate is primarily invested in Europe and the United States of America and equally split between listed and unlisted. Equity securities are mainly listed and invested in Europe, the United States of America and emerging countries.

Post-employment medical benefits

This provision relates to the obligation the Company has to contribute to the cost of employees' medical insurance after retirement in the United States of America and Canada.

As at December 31,	Post-employment medical benefits 2020	2019
Present value of unfunded obligations	24	25
Net liability/(asset) relating pension and other post-retirement obligations	24	25

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Post-employment medical benefits 2020	2019
Carrying amount as at January 1	25	27
Interest expense	1	1
Actuarial losses/(gains) demographic assumptions	-	(1)
Actuarial losses/(gains) financial assumptions	2	2
Actuarial losses/(gains) experience adjustments	-	(2)
Past service cost	-	(1)
Benefits paid from plan/company	(2)	(2)
Exchange rate changes	(2)	1
Net movement	(1)	(2)
Carrying amount as at December 31	24	25

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

in %	Post-employment medical benefits As at December 31, 2020	2019
Weighted average assumptions used to determine benefit obligations		
Discount rate for year	2.75	3.10
Weighted average assumptions used to determine net cost		
Discount rate for year	3.10	4.45
Medical cost trend rate assumptions used to determine net cost *		
Immediate trend rate Pre 65	6.50	2.70
Immediate trend rate Post 65	6.50	2.70
Ultimate trend rate	3.70	3.90
Year that the rate reaches ultimate trend rate	2074	2099

* The rates shown are the weighted averages for the United States of America and Canada

Other long-term employee benefits

	2020	2019
Jubilee benefits	68	76
Other benefits	37	36
Total carrying amount	105	112
Less: Non-current portion		
Jubilee benefits	63	71
Other benefits	35	35
Non-current portion	98	106
Current portion	7	6

The provision for jubilee benefits covers bonuses payable to employees when they attain 25 and 40 years of service. The provision for other benefits relates to existing retirement entitlements.

Termination benefits

	2020	2019
Redundancy benefits		
Non-current portion	9	9
Current portion	1	1
Total carrying amount	10	10

Termination benefits relate to a provision for projected dismissal benefits (also called severance or termination indemnities) to current employees in case they voluntary choose to leave the Company.

19. Return obligation liability and other provisions

			Other provisions			
	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Legal and civil litigations	Restructuring and voluntary leave	Other	Total
As at January 1, 2020	366	1,106	154	-	40	1,666
Additions and increases	13	(4)	2	229	22	262
Unused amounts reversed	(6)	-	(1)	(1)	-	(8)
Used during year	-	-	-	(174)	(28)	(202)
New / Changes in lease contracts	(4)	(20)	-	-	15	(9)
Foreign currency translation differences	(25)	(77)	-	-	(1)	(103)
Accretion impact	16	48	-	-	(1)	63
Other changes	(15)	(79)	(1)	12	-	(83)
As at December 31, 2020	345	974	154	66	47	1,586
Current/non-current portion						
Non-current portion	232	820	152	-	15	1,219
Current portion	113	154	2	66	32	367
Carrying amount as at December 31, 2020	345	974	154	66	47	1,586

			Other provisions			
	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Legal and civil litigations	Restructuring and voluntary leave	Other	Total
As at January 1, 2019	273	1,018	148	-	39	1,478
Additions and increases	8	(4)	5	-	31	40
Unused amounts reversed	-	-	-	-	-	-
Used during year	-	-	-	-	(29)	(29)
New / Changes in lease contracts	58	20	1	-	(1)	78
Foreign currency translation differences	7	14	-	-	-	21
Accretion impact	20	57	-	-	-	77
Other changes	-	1	-	-	-	1
As at December 31, 2019	366	1,106	154	-	40	1,666
Current/non-current portion						
Non-current portion	297	1,043	1	-	2	1,343
Current portion	69	63	153	-	38	323
Carrying amount as at December 31, 2019	366	1,106	154	-	40	1,666

Return obligation and maintenance liabilities on leased aircraft

The movements in return obligation and maintenance liabilities (escalation 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 right-of-use assets. Effects of accretion and foreign exchange translation of return obligation liabilities recorded in local currencies are recognised in "Other financial income and expenses" (see note 26).

The discount rate used to calculate these restitution liabilities relating to leased aircraft, determined on the basis of a short-term risk-free rate increased by a spread on risky debt (used for companies with high financial leverage), is 3.4 per cent as of December 31, 2020 versus 4.5 per cent as of December 31, 2019.

Other provisions

Legal and civil litigations

The provision as at December 31, 2020 mainly relates to the Cargo anti-trust investigations in Europe for KLM and Martinair, anti-trust investigations in Switzerland and other Cargo related claims. For more details, reference is made to note 22 Contingent assets and liabilities.

Restructuring and voluntary leave

Following the COVID-19 crisis, the Group entered into a number of voluntary leave plans and restructuring plans in the Netherlands and abroad. All plans have been discussed and agreed with the respective Works Councils and/or unions.
The provision as at December 31, 2020 relates to voluntary leave plans and restructuring plans for which a constructive obligation exists and will lead to a cash out in 2021. For the 2020 cost of these plans reference is made to note 25 Employee compensation and benefit expenses and note 28 Alternative performance measures.

Other

Other provisions include provisions for onerous contracts (third party maintenance contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it), onerous leases of aircraft and site restoration cost for land and buildings under long-term lease agreements.

20. Trade and other payables

As at December 31,	2020	2019
Trade payables	577	934
Amounts due to AIR FRANCE KLM Group companies	66	117
Taxes and social security premiums	224	333
Other payables	538	638
Accrued liabilities	80	123
Total	1,485	2,145

Other payables include an amount of EUR 91 million per December 31, 2020, which relates to the 2019 profit share for employees. Given COVID-19 and the related agreed reduced employment conditions with all unions, this amount has not been paid out in 2020. Part of this profit share, EUR 37 million, is expected to be paid out in 2021 or upon departure of employees from the Group.

An amount of EUR 54 million, of this profit share is interpreted as a negative short-term employee benefit. Management concluded that the aforementioned approach best reflects the economic substance of the agreement with the unions. The amount should remain on the balance sheet as per December 31, 2020, and will be released, to the 2021 consolidated statement of profit or loss.

21. Commitments

As at December 31, 2020, KLM has commitments for previously placed orders amounting to EUR 1,474 million (December 31, 2019 EUR 1,311 million). EUR 1,379 million of this amount (December 31, 2019 EUR 1,189 million) relates to future owned and new right-of-use aircraft of which EUR 436 million is due in 2021. In the amount for new right-of-use aircraft EUR 92 million relates to future interest.

The balance of the commitments as at December 31, 2020 amounting to EUR 95 million (December 31, 2019 EUR 122 million) is related to property, plant and equipment.

As at December 31, 2020 prepayments on aircraft orders have been made, amounting to EUR 541 million (December 31, 2019 EUR 506 million).

22. Contingent assets and liabilities

Contingent liabilities

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.

Antitrust investigations and civil litigation

a. Actions instigated by the EU Commission and several competition authorities in other jurisdictions for alleged cartel activity in air cargo transport.

Air France, KLM and Martinair 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 airfreight industry.

As of December 31, 2016, most of these investigations and related public proceedings have been concluded, with the following exceptions:
On March 17, 2017, the European Commission announced that it would fine eleven airlines, including KLM, Martinair and Air France, for practices in the air cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006. This new decision follows the initial decision of the Commission of November 9, 2010. This decision, issued to the same airlines for the same alleged practices, was annulled on formal grounds by the General Court of the European Commission in December 2015.

The new fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million and is slightly lower than the initial fine imposed in 2010. On 29 May 2017, KLM submitted its appeal to the General Court of the EU. The appeal is still pending. While the decision is under appeal, there is no obligation to pay the imposed fines, but accrued interest is added as from June 2017.

In Switzerland, Air France and KLM are challenging a decision imposing a EUR 3.2 million fine before the relevant court. Taking into account the part thereof that external counsel assesses to be for the account of KLM, a provision of EUR 0.8 million was recorded.
As of December 31, 2020, the total amount of provisions in connection with antitrust cases amounts to EUR 150.9 million (including accrued interest).

b. Related civil lawsuits

Following the initiation of various investigations by competition authorities in 2006 and the EU Commission decision in 2010, several collective and individual actions were brought by forwarders and airfreight shippers in civil courts against KLM, Air France and Martinair, and the other airlines in several jurisdictions.

The only civil lawsuits still pending are in the Netherlands and Norway and the latter procedure is stayed. The claimants, shippers and freight forwarders, are claiming from the defendants Air France, KLM and/or Martinair and other airlines, damages to compensate alleged higher prices as a consequence of the alleged anticompetitive behaviour from the defendants. Air France, KLM and/or Martinair as main defendants have initiated contribution proceedings against other airlines.

c. Civil actions relating to the Passenger activity

Litigations concerning anti-trust laws

Canada

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

d. Other

US Department of Justice investigation related to United States Postal Services

In March 2016, the US Department of Justice (DOJ) informed KLM and Air France 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. KLM and Air France are cooperating with the DOJ investigation.

Case brought against KLM by (former) Martinair pilots

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 judgment of the court of appeal lacked sufficient motivation and referred the case to another court of appeal. Proceedings at this court - that will have to reconsider certain arguments that were brought forward by the airline pilots - are pending.

Other

The Company and certain of its subsidiaries are involved as defendant in litigation relating to competition issues, commercial transactions and labour relations. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that, with the exception of the matters discussed before, the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

Site cleaning up cost

The Group owns a number of Cargo and Maintenance buildings situated on various parcels of land which are the subject of long lease agreements.

At the expiry of each of these agreements the Company has the following options:

1. To demolish the buildings and clean up the land prior to return to the lessor;
2. To transfer ownership of the building to the lessor; or
3. To extend the lease of the land.

No decision has been taken regarding the future of any of the buildings standing on leased land. Therefore, it cannot be determined whether it is probable that site cleaning up cost will be incurred and to what extent. Accordingly, no provision for such cost has been established.

Guarantees
Bank guarantees and corporate guarantees given by the Company on behalf of the Company, subsidiaries, unconsolidated companies and third parties, amount to EUR 49 million as at December 31, 2020 (December 31, 2019 EUR 85 million).

Section 403 guarantees
General guarantees as defined in Book 2, Section 403 of the Dutch Civil Code have been issued by the Company on behalf of several subsidiaries in the Netherlands. The liabilities of these companies to third parties and unconsolidated companies amount to EUR 589 million as at December 31, 2020 (December 31, 2019 EUR 662 million).

Contingent assets

Other Litigation
The Company and certain of its subsidiaries are involved as plaintiff in litigation relating to commercial transactions and tax disputes. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such claims, either individually or on a combined basis, will not have a material favourable effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

23. Revenues

	2020	2019
Services rendered		
Passenger transport	2,518	7,952
Cargo transport	1,535	1,171
Network	4,053	9,123
Maintenance contracts	712	941
Leisure	335	986
Other services	20	25
Total revenues	5,120	11,075

24. External expenses

	2020	2019
Aircraft fuel	1,072	2,286
Chartering costs	164	185
Landing fees and route charges	432	783
Catering	73	215
Handling charges and other operating costs	292	576
Aircraft maintenance costs	738	882
Commercial and distribution costs	172	463
Insurance	24	24
Rentals and maintenance of housing	129	130
Sub-contracting	140	212
Other external expenses	219	360
Total external expenses	3,455	6,116

In aircraft fuel expenses an amount of EUR 173 million negative (2019 EUR 19 million positive) is included which was transferred from OCI to the consolidated statement of profit or loss. Following the COVID-19 impact the Group's fuel consumption became far less than the volume of fuel hedges outstanding as from the end of first quarter 2020. In accordance with IFRS the Group discontinued the fuel hedge relationship of these overhedges and released the market to market value of those hedges from other comprehensive income in equity to the Consolidated statement of profit or loss. Reference is made to note 29 Cost of financial debt.

25. Employee compensation and benefit expenses

	2020	2019
Wages and salaries	2,245	2,418
NOW subsidy	(1,049)	-
Social security premiums other than for state pension plans	264	263
Voluntary leave and restructuring plans	228	(2)
Share-based remuneration	1	(1)
Hired personnel	73	216
Pension and early-retirement plan costs	332	271
Curtailment pension plans	(16)	-
Post-employment medical benefit costs	1	2
Other long-term employee benefit costs	-	20
Total employee compensation and benefit expenses	2,079	3,187

Following the COVID-19 crisis, the Group applied for the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW) as installed by the Dutch Government. The 2020 NOW compensation amounts to EUR 1,049 million for the period March until December 2020. Given the ongoing COVID-19 crisis, NOW compensation is, under specific conditions, also applicable for the first half year 2021. Depending on result developments in the first half year 2021, the Group will apply for the prolonged NOW compensation.

For the voluntary leave and restructuring plans and curtailment pension plans, reference is made to note 28 Alternative performance measures.

Pension and early-retirement plan cost comprises:

	2020	2019
Defined benefit plans	203	161
Defined contribution plans	129	110
Total	332	271

Defined benefit plans and early-retirement plan cost comprises:

	2020	2019
Current service cost	198	155
Interest expense	118	166
Interest income	(120)	(169)
Administration cost	7	9
Total	203	161

In the financial year 2020 the defined benefit cost recognised in profit or loss for the major defined benefit plans recognised in the statement of profit or loss amounted to EUR 203 million (2019 EUR 161 million) and the total contributions paid by the Group amounted to EUR 69 million (2019 EUR 148 million). The contributions paid in the financial year 2020 include additional deficit funding for the Dutch KLM plans amounting to EUR nil million (2019 EUR nil million) and in the United Kingdom amounting to EUR 11 million (2019 EUR 10 million).

The Group's projected defined benefit plans and early retirement plan cost for 2021 amount to EUR 201 million. The Group's expected cash contributions for these plans amount to EUR 152 million.

Post-employment medical benefits cost comprises:

	2020	2019
Interest cost	1	-
Losses/(gains) arising from plan amendments	-	(1)
Total	1	(1)

Other long-term employee benefits comprise:

	2020	2019
Current service cost	6	5
Interest cost	-	1
Immediate recognition of (gains)/losses	(6)	14
Other	-	-
Total	-	20

Number of full-time equivalent employees:

	2020	2019
Average for year		
Flight deck crew	3,573	3,492
Cabin crew	8,188	8,497
Ground staff	18,207	18,583
Total	29,968	30,572

	2020	2019
Average for year		
The Netherlands	26,866	27,293
Outside the Netherlands	3,102	3,279
Total	29,968	30,572

As at December 31,	2020	2019
Flight deck crew	3,476	3,614
Cabin crew	7,164	8,214
Ground staff	16,650	18,888
Total	27,290	30,716

26. Other income and expenses

	2020	2019
Capitalised production	129	224
Operating currency hedging recycling	49	33
Other expenses	(51)	(84)
Other income and expenses	127	173

27. Amortisation, depreciation, impairments and movements in provision

	2020	2019
Intangible assets	81	61
Flight equipment	420	440
Other property and equipment	69	69
Right-of-use assets	479	506
Sale of assets	(46)	(20)
Impairment of fixed assets	25	-
Movements in provision	30	14
Total amortisation, depreciation and movements in provision	1,058	1,070

For sale of assets and impairment of fixed assets, reference is made to note 28 Alternative performance measures.

28. Alternative performance measures (APMs)

As at December 31,	Note	2020	2019
Income from operating activities		(1,345)	875
Amortisation, depreciation, impairment and movement in provisions	27	1,058	1,070
EBITDA		(287)	1,945
APM adjustments to EBITDA:			
Voluntary leave and restructuring plans	25	(228)	2
Curtailment pension plans	25	16	-
Total APM adjustments to EBITDA		(212)	2
Adjusted EBITDA		(75)	1,943
Income from operating activities		(1,345)	875
APM adjustments to income from operating activities:			
Total APM adjustments to EBITDA		(212)	2
Result of sale of assets	27	46	20
Impairment of fixed assets	27	(25)	-
Total APM adjustments		(191)	22
Adjusted income from operating activities		(1,154)	853

For a description of APMs reference is made to the Alternative performance measures section in the Notes to the consolidated financial statements.

The 2020 APM adjustments show an overall negative amount of EUR 191 million (2019: EUR 22 million positive). As a result of the COVID-19 crisis a number of measures and actions have been taken. The definition of APM was not adjusted due to the impact of COVID-19.

The 2020 APM adjustments to EBITDA relate to voluntary leave plans in the Netherlands and abroad amounting to EUR 203 million, restructuring provisions in the Netherlands and abroad amounting to EUR 25 million and a curtailment related to the Ground staff plan in the Netherlands amounting to a release of EUR 16 million.

The 2020 APM adjustments to income from operating activities relate to result on sale of assets (mainly Boeing 747 passenger and combi aircraft/engines, results on purchase of former right-of-use Boeing 737 aircraft and sale of emission trade rights) amounting to EUR 38 million, the disposal of the associate Transavia France S.A.S. amounting to EUR 17 million and right-of-use assets write-off of 2 Airbus 330-200 aircraft, which were taken out of operation, amounting to EUR 9 million. Impairments relate to passenger and combi Boeing 747 aircraft in April amounting to EUR 19 million, impairment of intangible assets in use or under development amounting to EUR 8 million and a reversal of an impairment of engines of EUR 2 million.

The 2019 APM adjustments show a positive amount of EUR 22 million. This mainly relates a release of a voluntary leave plan in the Netherlands amounting to EUR 2 million and the sale of Boeing 747 engines and 2 Boeing 737-700's amounting to EUR 20 million.

29. Cost of financial debt

	2020	2019
Cost of financial debt		
Loans from third parties	53	41
Interest on financial debt	14	32
Interest on lease debt	92	110
Other interest expenses	5	(11)
Total gross cost of financial debt	164	172
Income from cash and cash equivalents		
Finance income	16	24
Total income from cash and cash equivalents	16	24
Net cost of financial debt	148	148

	2020	2019
Foreign currency exchange gains/(losses)	(13)	5
Fair value gains/(losses)	(110)	(52)
Other Financial income and expenses	(69)	(80)
Total other financial income and expenses	(192)	(127)

The fair value results recorded in the financial year mainly consist of the unrealised revaluation of other balance sheet items amounting to EUR 124 million positive (2019: EUR 49 million negative), the ineffective/time value portion of fuel, interest rate and foreign currency exchange derivatives for EUR 6 million positive (2019: EUR 3 million negative), revaluation of Air France KLM S.A. shares for 5 million negative (2019: EUR nil million) and the COVID-19 related fuel overhedge amounting to EUR 240 million negative (2019: nil million).

The latter relates to the COVID-19 impact on the Group's fuel consumption that became far less than the volume of fuel hedges outstanding as from the end of first quarter 2020. In accordance with IFRS the Group discontinued the fuel hedge relationship of these overhedges and released the market to market value of those hedges from other comprehensive income in equity to cost of financial debt. Reference is made to note 11 Reserves.

Other financial income and expenses includes additions of EUR 65 million (2019: EUR 77 million) to (maintenance) provisions resulting from the discounting effect in provision calculations.

30. Income tax expense/benefit

	2020	2019
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	(54)	80
Current tax (income)/expense	(82)	82
Total tax (income)/expenses	(136)	162

The applicable average tax rate in the Netherlands for the financial year 2020 is 25% (2019: 25%).

End 2019 it was announced that the Dutch income tax will be lowered to 21.7% in 2021.
Given the COVID-19 impact the Dutch tax authorities announced end 2020 that the Dutch income tax will remain at 25% in 2021. The impact of these changes related to the specific years are presented in the line "Reduction tax rate" in below table.

The average effective tax rate is reconciled to the applicable tax rate in the Netherlands as follows:

in %	2020	2019
Applicable average tax rate in The Netherlands	25.0	25.0
Impact of:		
Non-deductible expenses	(1.1)	3.2
Reduction tax rate	(0.3)	(1.1)
Differences in foreign tax rate changes	-	(0.1)
Provision deferred tax asset	(15.4)	-
Effective tax rate	8.2	27.0

31. Share-based payments

Phantom shares

The movement in the number of phantom performance shares granted is as follows:

	2020	2019
As at January 1	513,202	548,468
Granted	215,422	97,348
Forfeited	(4,532)	8,068
Exercised	(43,398)	(140,682)
As at December 31	680,694	513,202

The date of expiry of the phantom shares is as follows:

	2020	2019
Phantom shares expiry date		
April 1, 2020	-	40,743
April 1, 2021	81,678	83,328
April 1, 2022	118,578	121,878
April 1, 2023	116,975	120,067
April 1, 2024	148,045	147,186
April 1, 2025	215,418	-
Carrying number	680,694	513,202

The phantom shares generate an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of the shares. The number of vested phantom shares depends on the following criteria: AIR FRANCE KLM total shareholders return (30%), KLM Group Return on Capital Employed (40%) and AIR FRANCE KLM position in the Dow Jones Sustainability Index (30%). The maximum number of phantom shares that may be granted to an individual employee in any year is related to their job grade.

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. Phantom shares are forfeited when employees leave the Company's employment.

Under the Long-Term Incentive plan 2015, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2016. The first tranche has vested for 108.6% per April 2016. The second tranche has vested for 116.0% per April 2017. The third tranche has vested for 114.0% in April 2018. It is noted that the total number of Phantom Performance shares vested over the three years cannot exceed the amount of Phantom Performance Shares granted (maximum 100%). The 2015 plan has an intrinsic value of EUR 0.4 million as at December 31, 2020.

Under the Long-Term Incentive plan 2016, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2017. The first tranche has vested for 116.0% per April 2017. The second tranche has vested for 114.0% per April 2018. The third tranche has vested for 74.8% in April 2019. It is noted that the total number of Phantom Performance shares vested over the three years cannot exceed the amount of Phantom Performance Shares granted (maximum 100%). The 2016 plan has an intrinsic value of EUR 0.6 million as at December 31, 2020.

Under the Long-Term Incentive plan 2017, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2018. The first tranche has vested for 114.0% per April 2018. The second tranche has vested for 74.8% per April 2019. The third tranche has vested for 102.1% in April 2020. The 2017 plan has an intrinsic value of EUR 0.6 million as at December 31, 2020.

Under the Long-Term Incentive plan 2018, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2019. The first tranche has vested for 74.8% per April 2019. The second tranche has vested for 102.1% in April 2020. The third tranche is still conditionally awarded.

Under the Long-Term Incentive plan 2019, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2020. The first tranche has vested for 102.1% per April 2020. The second and third tranche are still conditionally awarded.

Under the Long-Term Incentive plan 2020, no grantings have taken place for the year 2020.

32. Supervisory Board remuneration

	2020			2019		
(Amounts in EUR)	As Super-visory Board member	As Committee member	Total	As Super-visory Board member	As Committee member	Total
C.C. 't Hart	37,542	1,000	38,542	37,433	2,000	39,433
P.C. Calavia (until April 23, 2020)	8,244	-	8,244	26,500	-	26,500
F. Enaud	23,408	1,000	24,408	26,500	2,000	28,500
M.T.H. de Gaay Fortman	23,408	1,500	24,908	26,500	4,000	30,500
J.C. de Jager (as from April 25, 2019)	23,408	2,600	26,008	18,991	2,000	20,991
C. Nibourel (as from April 23, 2020)	15,164	-	15,164	-	-	-
F. Pellerin	23,408	2,600	26,008	26,500	2,000	28,500
J. Peyrelevade (until April 25, 2019)	-	-	-	8,465	2,000	10,465
P.F. Riolacci	23,408	5,200	28,608	26,500	4,000	30,500
A.J.M. Roobeek (until April 25, 2019)	-	-	-	8,465	1,000	9,465
B. Smith (as from April 25, 2019)	-	-	-	-	-	-
H.N.J. Smits (until April 25, 2019)	-	-	-	13,576	1,000	14,576
B.J. Vos (as from April 25, 2019)	23,408	-	23,408	18,991	-	18,991
Total	201,398	13,900	215,298	238,421	20,000	258,421

Mr. C.C. 't Hart is KLM Supervisory Board Chairman since the Annual General Meeting (AGM) in April 2019.

Due to COVID-19 and its significant impact on the Company, the Supervisory Board voluntarily reduced its base remuneration by 20% as from June 2020 until and including December 2020.
For further information on the remuneration policy relating to Supervisory Board members, see the Remuneration Policy and Report in the Board and Governance section. The remuneration paid to the Supervisory Board is not linked to the Company's results.

Other transactions with Supervisory Board members

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Supervisory Board.

33. Board of Managing Directors remuneration

The execution of the remuneration policy is affected by the conditions imposed by the State in connection with the financial support package. Therefore, the existing KLM remuneration policy has not been applied in 2020 with respect to the variable income (both short-term and long-term incentive).

Due to COVID-19 and its significant impact on the Company, the Board of Managing Directors had already decided and communicated in April 2020 to refrain from their variable income over 2020. In July, in the context of the State supported aid package, conditions were set on no granting of variable income as long as the loan has not been repaid.

The effects for 2020 are as follows:

	CEO	COO/CFO
Overall reduction/pay cut (actual 2020 vs 2019)	-45%	-34~-38%
Base salary	-20% in 2nd half year	no change
Short-term incentive 2020	No	No
Long-term incentive 2020 (PPS)	NIL granting	NIL granting
Long term specific AF/KL shares	NIL granting	Not applicable

Total remuneration (base salary, short- and long-term incentive plan and pensions)

(amounts in EUR)	2020	2019	%
P.J.Th. Elbers	722,818	1,322,953	-45%
R.M. de Groot	494,829	754,217	-34%
E.R. Swelheim	474,870	764,753	-38%
Total	1,692,517	2,841,923	-40%

Base salary

Mr. Elbers voluntarily reduced his base salary of EUR 600,000 by 20% as from June 2020 until and including December 2020. The base salaries of the Board of Managing Directors have not been increased.

As a general remark, the base salaries of the Board of Managing Directors remain significantly below the median of the applicable market benchmark as well as below that of previous KLM CEOs in the case of Mr. Elbers.

(amounts in EUR)	2020	2019
P.J.Th. Elbers	535,185	585,000
R.M. de Groot	390,000	390,000
E.R. Swelheim	390,000	390,000
Total	1,315,185	1,365,000

Short-term incentive plan

Due to the unfolding COVID-19 crisis, the Board of Managing Directors voluntarily waived any short-term incentive for 2020.

	2020	2019
(amounts in EUR)	Short-term incentive plan	Short-term incentive plan
P.J.Th. Elbers	0	342,000
R.M. de Groot	0	159,120
E.R. Swelheim	0	154,050
Total	0	655,170

Other allowances and benefits in kind

In addition to the base salary, the members of the Board of Managing Directors were entitled to other allowances and benefits including a company car and customary plans such as disability insurance, telephone cost and a fixed monthly allowance of EUR 440 for business expenses not otherwise reimbursed.

Pensions

As per the remuneration policy the total pension benefits for the Board of Managing Directors, like for other KLM employees with a salary above the fiscal regime of EUR 110,111 (2020), consists of two parts: 1) pension cost and 2) pension allowance.

Annual variations based on the pension calculations provided for by the KLM Ground pension fund.

Pension cost (post-employment benefit)

(amounts in EUR)	2020	2019
P.J.Th. Elbers	20,417	25,593
R.M. de Groot	22,404	23,261
E.R. Swelheim	16,247	15,117
Total	59,068	63,971

Pension allowance (short-term benefit)

Given the Dutch fiscal rules the members of the Board of Managing Directors receive a pension allowance for the pensionable salary above EUR 110,111 (2020). This gross pension allowance can, after wage tax, either be used to participate in the KLM net pension savings scheme (defined contribution plan) or paid out as net allowance. This is a similar allowance scheme as applies for all other employees at KLM with a salary above the mentioned fiscal rule pensionable salary threshold.

(amounts in EUR)	2020	2019
P.J.Th. Elbers	162,841	149,381
R.M. de Groot	100,134	97,676
E.R. Swelheim	113,866	111,061
Total	376,841	358,118

External Supervisory Board memberships

According to the remuneration policy the Board of Managing Directors may retain payments they receive from other remunerated positions with a maximum number of 2 positions per Managing Director. The amount ceded to the Company amounts to EUR 13,500 (December 31, 2019 EUR 15,000) and includes a remunerated position in connection with Supervisory Board membership in Transavia.

Other transactions with members of the Board of Managing Directors

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Board of Managing Directors.

Long-term incentive plan

No grantings have taken place for the year 2020 for both the KLM LTI scheme (all three board members) and the AFKL SLTI scheme (CEO).

In general, as an incentive to make a longer-term commitment to the Company, phantom shares are granted to members of the Board of Managing Directors on the basis of their reaching agreed personal performance targets. Subject to restrictions relating to the prevention of insider-trading, (phantom) shares may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding (phantom) shares are forfeited.

Under the AIR FRANCE KLM specific long-term incentive (SLTI) plan, the KLM CEO is entitled to a number of AIR FRANCE KLM shares. The shares granted in 2018 and 2019 under this SLTI will vest after three years if the predetermined SLTI plan criteria are met. The evaluation and subsequent vesting will only take place after three years, hence in 2022.

As part of past and pre-COVID-19 obligations, members of the Board of Managing Directors still have the following existing positions with respect to the phantom shares granted over the years 2015-2019 under the KLM LTI plan (as mentioned, no granting took place for 2020).

Possible payment to the Board of Managing directors related to the exercise of pre-COVID vested phantom shares has been suspended.

The members of the Board of Managing Directors have the following positions with respect to the phantom shares granted under the KLM long-term incentive plan at December 31, 2020:

(Amounts in EUR)	Number of phantom shares granted	Expiry date	Number of phantom shares forfeited	Number of phantom shares exercised	Average share price at exercise	Number of phantom shares conditional	Number of phantom shares vested	Total outstanding as at December 31, 2020
P.J.Th. Elbers								
2015	10,000	April 1, 2021	-	-	-	-	10,000	10,000
2016	10,000	April 1, 2022	-	-	-	-	10,000	10,000
2017	10,000	April 1, 2023	303	-	-	-	9,697	9,697
2018	21,354	April 1, 2024	1,645	-	-	7,118	12,591	19,709
2019	46,875	April 1, 2025	-	-	-	30,922	15,953	46,875
2020	nil		-	-	-	-	-	-
	98,229		1,948	-		38,040	58,241	96,281
R.M. de Groot								
2015	6,000	April 1, 2021	-	-	-	-	6,000	6,000
2016	6,000	April 1, 2022	-	-	-	-	6,000	6,000
2017	6,000	April 1, 2023	182	-	-	-	5,818	5,818
2018	11,688	April 1, 2024	900	-	-	3,896	6,892	10,788
2019	24,375	April 1, 2025	-	-	-	16,079	8,296	24,375
2020	nil		-	-	-	-	-	-
	54,063		1,082	-		19,975	33,006	52,981
E.R. Swelheim								
2014	6,000	April 1, 2020	104	5,896	5.25	-	-	-
2015	6,000	April 1, 2021	-	-	-	-	6,000	6,000
2016	6,000	April 1, 2022	-	-	-	-	6,000	6,000
2017	6,000	April 1, 2023	182	-	-	-	5,818	5,818
2018	11,688	April 1, 2024	900	-	-	3,896	6,892	10,788
2019	24,375	April 1, 2025	-	-	-	16,079	8,296	24,375
2020	nil		-	-	-	-	-	-
	60,063		1,186	5,896		19,975	33,006	52,981
Total	212,355		4,216	5,896		77,990	124,253	202,243

Cost of phantom shares is based on IFRS accounting standards and does not reflect the value of the phantom shares at the vesting date.

Granted and vested phantom shares are recorded in April following the year it relates to and as such added to the total outstanding of the following year. The addition of phantom shares compared to last year relates to the achievements of 2019 targets.

Cost in 2020 of the committed 2019 phantom shares and AIR FRANCE KLM SLTI plan, for Mr. Elbers are EUR 905 negative (2019: EUR 215,699), relate to achievement of 2019 targets and an annual technical revaluation, at December 31, 2020 of the phantom shares portfolio and AIR FRANCE KLM shares following the 2020 decrease of the AIR FRANCE KLM share price.

Cost in 2020 of the 2019 committed phantom shares, for Mr. de Groot are EUR 22,989 negative (2019: EUR 78,880) and for Mr. Swelheim EUR 50,523 negative (2019: EUR 89,245), relate to achievement of 2019 targets and a technical revaluation of the phantom shares portfolio following the 2020 decrease of the AIR FRANCE KLM share price.

As at December 31, 2020 Mr. Elbers, Mr. de Groot, and Mr. Swelheim had no interest in AIR FRANCE KLM S.A.

34. Related party transactions

The Group has interests in various associates in which it has either significant influence in but not control or joint control over operating and financial policy.

In February 2019 the State of the Netherlands acquired a 14.0% stake in the Group's ultimate parent company, AIR FRANCE KLM S.A. As a result the State of the Netherlands and Royal Schiphol Group, being a State-owned entity, are regarded as related parties as from 2019.

As part of its business operations, The Group enters into transactions with related parties which are negotiated at commercial conditions and prices and are not more favourable than those which would have been negotiated with third parties on an arm's length basis.

Transactions conducted with the Dutch State are limited to normal economic transactions, taxation and other administrative relationships, with the exception of items specifically disclosed in this note. Normal economic transactions mainly relate to air transport and are entered into under the same commercial and market terms that apply to non-related parties. The Dutch Government is a shareholder in KLM N.V. (reference is made to Note 10).
In addition, in financial year 2020 the Group applied for the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW) as installed by the Dutch Government (reference is made to Note 25), made use of the possibility to delay payment of labor taxes (reference is made to Note 5) and received a financing package in 2020 (reference is made to Note 14 Other financial liabilities).

The transactions with Royal Schiphol Group relate to land and property rental agreements and airport and passenger related fees. In addition Royal Schiphol Group collects airport fees on their behalf.

The following transactions were carried out with related parties:

	2020	2019
Sales of goods and services		
AIR FRANCE KLM Group companies	204	197
Associates	-	-
Other related parties	25	67
Purchases of goods and services		
AIR FRANCE KLM Group companies	277	349
Associates	-	-
Other related parties	96	242

For details of the year-end balances of amounts due to and from related parties see notes 8 and 20.
In 2020 no dividends have been received from jointly controlled entities interests (see note 4).
In 2020 the Group sold its equity interest in Transavia France S.A.S. to related party Air France Finance S.A.S. Reference is made to note 4 Investments accounted for using the equity method.

In 2019 KLM and Air France concluded a swap of part of their outstanding wide body fleet orders with the aim to simplify the management of their own fleet (creation of synergies and costs reductions). In the 2021-2023 timeframe six Boeing 787's, previously allocated to Air France, will enter the KLM fleet and seven Airbus A350's, previously allocated to KLM, will enter the Air France fleet.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors, see note 31 to 33. For information relating to transactions with pension funds for the Group's employees see note 18.

35. Primary segment reporting

2020	Network	Maintenance	Leisure	Other	Eliminations	Total
Revenues						
Revenues External	4,053	712	335	20	-	5,120
Revenues Internal	240	554	-	127	(921)	-
Total revenue	**4,293**	**1,266**	**335**	**147**	**(921)**	**5,120**
EBITDA	(184)	107	(35)	37	-	(75)
APM adjustments to EBITDA*	(178)	(39)	(4)	9	-	(212)
Income from current activities	(1,005)	(38)	(124)	13	-	(1,154)
APM adjustments to income from operating activities*	(174)	(37)	11	9	-	(191)
Financial income and expenses						(340)
Income tax expense						136
Share of results of equity shareholdings						3
(Loss) for the year						(1,546)
Amortisation, depreciation and movements in provision	(821)	(145)	(89)	(24)	-	(1,079)
Other financial income and expenses	(146)	16	(43)	(19)	-	(192)
Assets						
Intangible assets	213	246	16	-	-	475
Flight equipment	3,741	588	389	-	-	4,718
Other property, plant and equipment	364	313	3	-	-	680
Right-of-use assets	1,321	109	315	-	-	1,745
Trade receivables	295	(21)	6	(11)	-	269
Other assets	503	412	100	1,545	-	2,560
Total assets	6,437	1,647	829	1,534	-	10,447
Liabilities						
Deferred revenues on sales	1,185	72	71	-	-	1,328
Other liabilities	5,450	245	715	2,824	-	9,234
Total liabilities	6,437	317	786	2,824	-	10,562

2019	Network	Maintenance	Leisure	Other	Eliminations	Total
Revenues						
Revenues External	9,123	941	986	25	-	11,075
Revenues Internal	131	749	2	216	(1,098)	-
Total revenue	**9,254**	**1,690**	**988**	**241**	**(1,098)**	**11,075**
EBITDA	1,545	165	204	29		1,943
APM adjustments to EBITDA*	2	-	-	-	-	2
Income from current activities	683	80	84	6	-	853
APM adjustments to income from operating activities*	20	-	-	-	-	20
Financial Income and expenses						(275)
Income tax expense						(162)
Share of results of equity shareholdings						11
Profit for the year						449
Amortisation, depreciation and movements in provision	(862)	(85)	(120)	(23)	-	(1,090)
Other financial income and expenses	(87)	2	(18)	(24)	-	(127)
Assets						
Intangible assets	183	74	17	235	-	509
Flight equipment	3,640	642	430	(5)	-	4,707
Other property, plant and equipment	158	99	3	394	-	654
Right-of-use assets	1,499	98	324	107	-	2,028
Trade receivables	473	(11)	26	(4)	-	484
Other assets	572	687	333	1,797	-	3,389
Total assets	6,525	1,589	1,133	2,524	-	11,771
Liabilities						
Deferred revenues on sales	1,469	114	142	-	-	1,725
Other liabilities	5,244	302	837	2,103	-	8,486
Total liabilities	6,713	416	979	2,103	-	10,211

* See note 28 Alternative performance measures (APM) for the reconciliation to adjusted EBITDA and adjusted income from operating activities. Also see the Alternative performance measures section in the Notes to the Consolidated financial statements

The intangible assets, flight equipment, other property, plant and equipment, right-of-use assets and allocated working capital have been tested for impairment as disclosed in the Impairment of assets section in the Accounting policies for the balance sheet in the Notes to the consolidated financial statements.

36. Secondary segment reporting

Revenues by destination 2020	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	788	171	305	704	428	2,396
Other passenger revenues	40	6	15	37	24	122
Total passenger revenues	828	177	320	741	452	2,518
Scheduled cargo	11	21	242	671	383	1,328
Other cargo revenues	2	3	38	104	60	207
Total cargo revenues	13	24	280	775	443	1,535
Total network revenues	841	201	600	1,516	895	4,053
Maintenance	712	-	-	-	-	712
Other revenues	355	-	-	-	-	355
Total maintenance and other	1,067	-	-	-	-	1,067
Total revenues by destination	1,908	201	600	1,516	895	5,120

Revenues by destination 2019	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	2,547	393	918	2,338	1,534	7,730
Other passenger revenues	72	11	27	68	43	221
Total passenger revenues	2,619	404	945	2,406	1,577	7,951
Scheduled cargo	9	21	196	473	285	984
Other cargo revenues	2	4	37	90	54	187
Total cargo revenues	11	25	233	563	339	1,171
Total network revenues	2,630	429	1,178	2,969	1,916	9,122
Maintenance	941	-	-	-	-	941
Other revenues	1,012	-	-	-	-	1,012
Total maintenance and other	1,953	-	-	-	-	1,953
Total revenues by destination	4,583	429	1,178	2,969	1,916	11,075

Geographical analysis of assets: the major revenue-earning asset of the Group is the fleet, the majority of which are registered in the Netherlands. Since the Group's fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

37. Subsidiaries

The following is a list of the Company's significant subsidiaries as at December 31, 2020:

Name	Country of incorporation	Ownership interest in %	Proportion of voting power held in %
Transavia Airlines C.V.	the Netherlands	100	100
Martinair Holland N.V.	the Netherlands	100	100
KLM Cityhopper B.V.	the Netherlands	100	100
KLM Cityhopper UK Ltd.	United Kingdom	100	100
KLM UK Engineering Ltd.	United Kingdom	100	100
European Pneumatic Component Overhaul & Repair B.V.	the Netherlands	100	100
KLM Catering Services Schiphol B.V.	the Netherlands	100	100
KLM Flight Academy B.V.	the Netherlands	100	100
KLM Health Services B.V.	the Netherlands	100	100
KLM Equipment Services B.V.	the Netherlands	100	100
Cygnific B.V.	the Netherlands	100	100

The full list of the Company's subsidiaries, associates, jointly controlled entities and non-controlling interests has been, in line with Section 379 and Section 414 of Book 2 of the Dutch Civil Code, filed at the Chamber of Commerce together with this Annual Report.

KLM Royal Dutch Airlines Company balance sheet

In millions of Euros	Note	December 31, 2020	December 31, 2019
Before proposed appropriation of the result for the year			
ASSETS			
Non-current assets			
Property, plant and equipment	38	4,443	4,328
Right-of-use assets	39	1,310	1,561
Intangible assets		454	486
Investments accounted for using the equity method	40	422	560
Other non-current assets	5	180	231
Other financial assets	41	281	429
Deferred tax assets	50	20	-
Pension assets	18	211	420
		7,321	8,015
Current assets			
Other current assets	5	100	158
Other financial assets	41	163	100
Inventories		127	243
Trade and other receivables	42	1,244	1,686
Cash and cash equivalents	43	120	186
		1,754	2,373
Total assets		9,075	10,388
EQUITY			
Capital and reserves			
Share capital	44	94	94
Share premium		474	474
Reserves	44	(441)	(315)
Retained earnings		1,303	858
Result for the year		(1,547)	448
Total attributable to Company's equity holders		(117)	1,559
LIABILITIES			
Non-current liabilities			
Financial debt	46	764	648
Lease debt	47	706	946
Other non-current liabilities	5	839	150
Other financial liabilities	48	1,911	918
Deferred income	49	258	228
Deferred tax liabilities	50	-	92
Return obligation liability and other provisions	51	1,109	1,176
		5,587	4,158
Current liabilities			
Trade and other payables	52	1,737	2,480
Loans from subsidiaries	45	-	32
Financial debt	46	123	96
Lease debt	47	255	321
Other current liabilities	5	178	113
Other financial liabilities	48	119	73
Deferred income	49	926	1,240
Current tax liabilities	50	-	59
Return obligation liability and other provisions	51	267	257
		3,605	4,671
Total liabilities		9,192	8,829
Total equity and liabilities		9,075	10,388

The accompanying notes are an integral part of these Company financial statements

KLM Royal Dutch Airlines Company statement of profit or loss

In millions of Euros	2020	2019
(Loss)/Profit from investments accounted for using equity method after taxation	(80)	98
(Loss)/Profit of KLM N.V. after taxation	(1,467)	350
(Loss)/Profit for the year after taxation	(1,547)	448

The accompanying notes are an integral part of these Company financial statements

Notes to the Company financial statements

General
The Company financial statements are part of the 2020 financial statements of KLM Royal Dutch Airlines (the "Company").

Going concern
Regarding going concern as at the date of this Annual Report reference is made to the Going concern paragraph in the Notes to the consolidated financial statements.

Subsequent events
Regarding subsequent events as at the date of this Annual Report reference is made to the Subsequent events paragraph in the Notes to the consolidated financial statements.

Significant accounting policies
The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Principles for the measurement of assets and liabilities and the determination of the result
In determining the principles to be used for the recognition and measurement of assets and liabilities and the determination of the result for its separate financial statements, the Company makes use of the option provided in Section 362 (8) of Book 2 of the Dutch Civil Code. This section permits companies to apply the same principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements as those applied for the consolidated EU-IFRS financial statements.

The Company makes use of the option provided in Section 402 of Book 2 of the Dutch Civil Code. This section permits companies to present a condensed company statement of profit or loss given that the Company's financial information is consolidated in the Consolidated financial statements of the ultimate parent company AIR FRANCE KLM S.A.

Subsidiaries are accounted for using the equity method and investments accounted for using the equity method, over which significant influence is exercised, are stated on that basis. The share in the result of these investments comprises the share of the Company in the result of these investments. Results on transactions, where the transfer of assets and liabilities between the Company and its investments and mutually between these investments themselves, are not incorporated insofar as they can be deemed to be unrealised.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).
For notes and/or details, which are not explained in the notes to the Company financial statements reference is made to the notes and/or details of the Consolidated financial statements.

38. Property, plant and equipment

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost									
As at Jan. 1, 2020	3,827	2,099	5,926	636	321	155	1,112	649	7,687
Additions	241	131	372	58	10	49	117	147	636
Disposals	(33)	(247)	(280)	(1)	(3)	(26)	(30)	-	(310)
Other movements	(28)	70	42	-	(114)	115	1	(72)	(29)
As at Dec. 31, 2020	4,007	2,053	6,060	693	214	293	1,200	724	7,984
Accumulated depreciation and impairment									
As at Jan. 1, 2020	1,857	850	2,707	326	225	101	652	-	3,359
Depreciation	171	166	337	30	8	22	60	-	397
Disposals	(24)	(240)	(264)	(1)	(3)	(25)	(29)	-	(293)
Other movements	(3)	78	75	-	(79)	82	3	-	78
As at Dec. 31, 2020	2,001	854	2,855	355	151	180	686	-	3,541
Net carrying amount									
As at Jan. 1, 2020	1,970	1,249	3,219	310	96	54	460	649	4,328
As at Dec. 31, 2020	2,006	1,199	3,205	338	63	113	514	724	4,443

As a consequence of management's decision to take measures limiting the effects of the COVID-19 crisis, it was decided to early phase-out the passenger and combi Boeing 747 aircraft as per April 2020. Thereupon an impairment of EUR 19 million was recorded, which is reflected in the other movements. The asset is related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and movements in provision and note 28 Alternative performance measures.

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total Restated
Historical cost									
As at Jan. 1, 2019	3,442	1,989	5,431	624	363	164	1,151	522	7,104
Additions	541	366	907	43	24	17	84	61	1,052
Disposals	(79)	(333)	(412)	(31)	(66)	(26)	(123)	-	(535)
Other movements	(77)	77	-	-	-	-	-	66	66
As at Dec. 31, 2019	3,827	2,099	5,926	636	321	155	1,112	649	7,687
Accumulated depreciation and impairment									
As at Jan. 1, 2019	1,750	857	2,607	327	270	120	717	-	3,324
Depreciation	159	189	348	30	23	7	60	-	408
Disposals	(51)	(329)	(380)	(31)	(66)	(26)	(123)	-	(503)
Other movements	(1)	133	132	-	(2)	-	(2)	-	130
As at Dec. 31, 2019	1,857	850	2,707	326	225	101	652	-	3,359
Net carrying amount									
As at Jan. 1, 2019	1,692	1,132	2,824	297	93	44	434	522	3,780
As at Dec. 31, 2019	1,970	1,249	3,219	310	96	54	460	649	4,328

The assets include assets which are held as security for mortgages and loans as follows:

As at December 31,	2020	2019
Aircraft	130	31
Land and buildings	129	116
Other property and equipment	41	15
Carrying amount	300	162

Borrowing cost capitalised during the year amounted to EUR 10 million (2019 EUR 13 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 2.6 % (2019: 2.7%).

Land and buildings include buildings located on land which has been leased on a long-term basis. The book value of these buildings as at December 31, 2020 was EUR 227 (December 31, 2019 EUR 198 million).

39. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2020	908	431	102	120	1,561
New contracts	-	-	19	9	28
Renewal or extension options	37	(1)	(1)	7	42
Reclassifications	-	54	1	11	66
Amortisation	(245)	(93)	(15)	(33)	(386)
Other movements	-	(1)	-	-	(1)
As at December 31, 2020	700	390	106	114	1,310
Net value					
As at January 1, 2019	1,051	412	107	123	1,693
New contracts	85	-	4	38	127
Renewal or extension options	47	-	2	-	49
Disposals	-	-	-	-	-
Reclassifications	(21)	122	3	-	104
Amortisation	(254)	(103)	(14)	(32)	(403)
Other movements	-	-	-	(9)	(9)
As at December 31, 2019	908	431	102	120	1,561

Information related to lease debt is available in note 47.

As a consequence of management's decision to take measure limiting the effects of the COVID-19 crisis, it was decided to take out 2 leased Airbus A330-200 earlier out of the operation, notably in the fourth quarter of 2020. Thereupon a write-off of EUR 9 million was recognised in the right-of-use asset aircraft. The asset is related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and movements in provision and note 28 Alternative performance measures.

The table below indicates the rents resulting from lease and service contracts which are not capitalised:

As at December 31,	2020	2019
Variable rents	3	10
Short-term rents	43	87
Low value rents	2	3
Carrying amount	**48**	**100**

40. Investments accounted for using the equity method

As at December 31,	2020	2019
Subsidiaries	404	544
Associates	9	8
Jointly controlled entities	9	8
Carrying amount	422	560

	2020	2019
Subsidiaries		
Carrying amount as at January 1	544	439
Movements		
Investments	-	-
Share of profit/(loss) after taxation	(79)	90
OCI movement	(55)	25
Dividends received	-	(6)
Foreign currency translation differences	1	(1)
Other movements	(7)	(3)
Net movement	(140)	105
Carrying amount as at December 31	404	544

For details of the Group's investments in subsidiaries see note 37 to the consolidated financial statements. For details of the Group's investments in associates and jointly controlled entities see note 4 to the consolidated financial statements.

41. Other financial assets

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, other loans and receivables	113	233	50	378
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	50	-	50	-
Deposits on operating leased aircraft	-	15	-	18
AIR FRANCE KLM S.A. shares	-	6	-	11
	50	21	50	29
At fair value through OCI				
Kenya Airways Ltd. Shares	-	12	-	8
Other non-consolidated entities	-	15	-	14
	-	27	-	22
Carrying amount	163	281	100	429

For details about the Company's stake in Kenya Airways see note 6.

42. Trade and other receivables

As at December 31,	2020	2019
Trade receivables	406	638
Expected credit loss	(51)	(28)
Trade receivables - net	355	610
Amounts due from:		
- subsidiaries	483	584
- AIR FRANCE KLM group companies	50	84
- associates and jointly controlled entities	2	5
- maintenance contract customers	63	131
Taxes and social security premiums	14	41
Other receivables	213	102
Prepaid expenses	64	129
Total	1,244	1,686

Maintenance contract cost incurred to date for contracts in progress at December 31, 2020 amounted to EUR 147 million (December 31, 2019 EUR 276 million). Advances received for maintenance contracts in progress at December 31, 2020 amounted to EUR 50 million (December 31, 2019 EUR 81 million). The maturity of trade and other receivables is within one year.

43. Cash and cash equivalents

As at December 31,	2020	2019
Cash at bank and in hand	20	30
Short-term deposits	100	156
Total	120	186

The effective interest rates on short-term deposits are in the range from -0.34% to 3.35% (2019 range -0.33% to 3.35%). The short-term deposits are invested in money market instruments or in liquid funds with daily access to cash.

44. Share capital and other reserves

For details of the Company's share capital and movements in other reserves see note 10 and 11 to the consolidated financial statements. For details of the Company's equity see the consolidated statement of changes in equity.

The Company has other reserves relating to hedging, remeasurement of defined benefit plans, translation and other legal reserves. Reference is made to note 11.

45. Loans from subsidiaries

As at December 31,	2020	2019
Non-current portion	-	-
Current portion	-	32
Carrying amount	-	32

46. Financial debt

As at December 31,	2020	2019
Non-current portion	764	648
Current portion	123	96
Carrying amount	887	744

47. Lease debt

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	211	514	273	735
Lease Debt - Real estate	14	121	14	117
Lease Debt - Others	26	71	29	94
Accrued Interest	4	-	5	-
Total	255	706	321	946

Change in lease debt:

	As at January 1, 2020	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2020
Lease Debt - Aircraft	1,008	43	(248)	(78)	-	725
Lease Debt - Real estate	131	19	(15)	-	-	135
Lease Debt - Others	123	16	(35)	(7)	-	97
Accrued interest	5	-	-	-	(1)	4
Total	1,267	78	(298)	(85)	(1)	961

	As at January 1, 2019	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2019
Lease Debt - Aircraft	1,147	111	(255)	-	5	1,008
Lease Debt - Real estate	138	9	(16)	-	-	131
Lease Debt - Others	115	38	(21)	-	(9)	123
Accrued interest	5	-	-	-	-	5
Total	1,405	158	(292)	-	(4)	1,267

The lease debt maturity breaks down as follows:

	2020	2019
Less than 1 year	316	394
Between 1 and 2 years	259	350
Between 2 and 3 years	201	280
Between 3 and 4 years	129	190
Between 4 and 5 years	86	94
Over 5 years	184	218
Total	1,175	1,526
Including:		
- Principal	961	1,267
- Interest	214	259

48. Other financial liabilities

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Revolving credit facility	-	663	-	-
Direct State loan	-	278	-	-
Subordinated perpetual loans	-	505	-	509
Other loans (secured/unsecured)	119	433	73	377
Total	119	1,911	73	918

For details about the other financial liabilities see note 14.

49. Deferred income

	December 31, 2020		December 31, 2019	
	Current	Non-current	Current	Non-current
Advance ticket sales	850	-	1,151	-
Sale and leaseback transactions	1	4	1	5
Flying Blue frequent flyer program	69	247	79	214
Others	6	7	9	9
Total	926	258	1,240	228

Advance ticket sales corresponds to sold passenger tickets and freight airway bills which will be recognised in revenues at the date of transportation. The COVID-19 crisis and the lockdown of borders caused the KLM to reduce capacity and cancel an important number of passenger flights. In that case, customers can either ask for a refund of the ticket or the issuance of a voucher. As per December 31, 2020, the advance ticket sales includes EUR 243 million of passenger tickets (fare and carried imposed charges) for which the date of transportation has passed and which are eligible to refund and EUR 322 million of vouchers that can be used for future flights.

50. Deferred/Current tax

The gross movement in the deferred income tax account is as follows:

	2020	2019
Carrying amount as at January 1	92	(9)
Movements:		
Income statement expense	(49)	74
Tax (credited)/charged to equity	(67)	65
Reduction due to tax rate	-	29
Other movements	4	(67)
Net movement	(112)	101
Carrying amount as at December 31	(20)	92
Current income tax liabilities	-	59
Tax (assets) / liabilities as at December 31	(20)	151

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

As at December 31,	2020	2019
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	-	-
Deferred tax assets to be settled after 12 months	56	14
	56	14
Deferred tax liabilities:		
Deferred tax liabilities to be settled in 12 months or less	-	-
Deferred tax liabilities to be settled after 12 months	36	106
	36	106
Carrying amount	(20)	92

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at January 1	Income statement (charge) /credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets					
2020					
Tax losses	-	-	-	-	-
Non-deductable interest	-	10	-	-	10
Other tangible fixed assets	18	11	-	-	29
Derivative financial instruments	(4)	-	21	-	17
Other	-	19	(19)	-	-
Total	14	40	2	-	56

	Carrying amount as at January 1	Income statement (charge) /credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets					
2019					
Tax losses	52	(83)	-	31	-
Provisions for employee benefits	14	-	-	(14)	-
Financial lease obligations	1	-	-	(1)	-
Other tangible fixed assets	-	6	-	12	18
Derivative financial instruments	41	-	(47)	2	(4)
Other	40	7	14	(61)	-
Total	148	(70)	(33)	(31)	14

	Carrying amount as at January 1	Income statement (charge)/credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2020					
Pensions & benefits (asset)	106	(25)	(65)	20	36
Other	-	16	–	(16)	-
Total	106	(9)	(65)	4	36

	Carrying amount as at January 1	Income statement (charge)/credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2019					
Other tangible fixed assets	(12)	-	-	12	-
Pensions & benefits (asset)	114	4	61	(73)	106
Other	37	-	-	(37)	-
Total	139	4	61	(98)	106

Tax fiscal unity

The Company, together with other subsidiaries in the Netherlands, has entered into a fiscal unity for the purpose of filing consolidated corporation tax and VAT returns. As a result, every legal entity in this tax group is jointly and severally liable for the tax debts of all the legal entities forming the group.

51. Return obligation liability and other provisions

			Other Provisions				
	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Employee Benefit	Legal Issues	Restructuring and voluntary leave	Other	Total
As at January 1, 2020	59	1,012	191	137	-	34	1,433
Additional provisions and increases in existing provisions	11	(4)	3	2	219	21	252
Unused amounts reversed	-	-	-	(1)	-	-	(1)
Used during year	-	-	(13)	-	(174)	(22)	(209)
New / Changes in lease contracts	(9)	(16)	-	-	-	-	(25)
Foreign currency translation differences	(2)	(69)	(5)	-	-	-	(76)
Accretion impact	2	44	-	-	-	-	46
Other changes	(5)	(80)	17	-	10	14	(44)
As at December 31, 2020	56	887	193	138	55	47	1,376
Current/non-current portion							
Non-current portion	45	744	169	136	-	15	1,109
Current portion	11	143	24	2	55	32	267
As at December 31, 2020	56	887	193	138	55	47	1,376

			Other Provisions				
	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Employee Benefit	Legal Issues	Restructuring and voluntary leave	Other	Total
As at January 1, 2019	(38)	976	178	131	-	35	1,282
Additional provisions and increases in existing provisions	6	(4)	26	4	-	25	57
Unused amounts reversed	-	-	-	-	-	-	-
Used during year	-	-	(14)	-	-	(26)	(40)
New / Changes in lease contracts	87	(26)	-	-	-	-	61
Foreign currency translation differences	3	13	3	-	-	-	19
Accretion impact	2	53	-	-	-	-	55
Other changes	(1)	-	(2)	2	-	-	(1)
As at December 31, 2019	59	1,012	191	137	-	34	1,433
Current/non-current portion							
Non-current portion	55	949	169	1	-	2	1,176
Current portion	4	63	22	136	-	32	257
As at December 31, 2019	**59**	**1,012**	**191**	**137**	**-**	**34**	**1,433**

For details about the Return obligation liability and other provisions see note 19.

52. Trade and other payables

As at December 31,	2020	2019
Trade payables	508	865
Amounts due to subsidiaries	461	606
Amounts due to AIR FRANCE KLM Group companies	65	110
Taxes and social security premiums	200	288
Employee related liabilities	322	401
Accrued liabilities	127	160
Other payables	54	50
Total	1,737	2,480

Other notes

For information relating to contingency assets and liabilities, including guarantees, see note 22.

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 31 to 33.

Amstelveen, March 31, 2021

The Board of Managing Directors

Pieter J.Th. Elbers
René M. de Groot
Erik R. Swelheim

The Supervisory Board

Cees C. 't Hart
François Enaud
Marry de Gaay Fortman
Jan Kees de Jager
Christian Nibourel
Fleur Pellerin
Pierre-François Riolacci
Benjamin Smith
Janine Vos

Other information

Independent Auditors' Report

To: the General Meeting of Shareholders and the Supervisory Board of KLM Royal Dutch Airlines ('Koninklijke Luchtvaart Maatschappij N.V.')

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

In our opinion:

» the accompanying consolidated financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2020 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

» the accompanying company financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2020 of KLM Royal Dutch Airlines ('KLM' or 'the Company') based in Amstelveen. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1. the consolidated balance sheet as at December 31, 2020;
2. the following consolidated statements for December 31, 2020: profit or loss, profit or loss and other comprehensive income and changes in equity and the consolidated cash flow statement; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as December 31, 2020;
2. the company profit or loss account for December 31, 2020; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of KLM in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).
We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the going concern paragraphs in the notes to the consolidated and company financial statements, which indicate that KLM is severely impacted by the COVID-19 crisis and the stringent measures taken by many countries which have a major impact on air traffic around the world. The main uncertainties relate to the timing and extent of the recovery of the operations as a result of the COVID-19 crisis and the willingness of the Dutch state and bank consortium to continue to fund the operations, both in the short and longer term. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The appropriateness of the going concern assumption depends on management's assessment of the future economic environment and KLM's prospects and performance. Our procedures to assess the appropriateness of management's assessment primarily consisted of:

» challenging and evaluating the aforementioned management's assessment of the Company's ability to continue as a going concern and to continue its operations for at least the next 12 months from when the financial statements where authorised for issue and inquire management on the longer term funding requirements thereafter;

» obtaining an understanding how management's assessment, including the forecast information, was compiled and compare previous periods' forecasts to actual results and assess whether management has a record of preparing accurate predictions;

» assessing the cash flow projections with the budget 2021 and forecast 5-year plan and evaluating the scenarios and challenge the underlying data and assumptions, among others by comparing it to external industry data, such as from IATA, used in the forecast information;

» discussion with management to evaluate its plans for future actions to assess whether management's plans are feasible given the circumstances and inspect the supporting documentation to substantiate management's future actions;

» confirming the existence and validity of the financing facility in order to obtain or maintain financial support from the bank consortium and Dutch State, including the assessment of the relevant covenants included in the financing facility;

» obtaining and inspecting reports of regulatory bodies relating to restricting air traffic;

» analysing and assessing KLM's latest available interim financial information and identify subsequent events which may impact on the accuracy of the forecast.

Furthermore, we have evaluated the situation and uncertainties as described in the aforementioned disclosure and consider the disclosure to be adequate. However, an audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the impact of the COVID-19 crisis.

Audit approach

Summary

Materiality	
– Materiality of EUR 45 million	
- Revenue as benchmark	
Group audit	
- 85% of revenue	
- 91% of total assets	
Key audit matters	
– Valuation of non-current assets	
– Recognition of deferred tax asset for unused tax losses	
– Improperly shifting of revenue from passenger activity	
– Provision for litigation and contingent liabilities	
– Recognition and measurement of government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program	
Opinion	
- Unqualified	
- Material uncertainty related to going concern	

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 45 million (2019: EUR 60 million). The materiality is determined with reference to revenue. We consider revenue as the most appropriate benchmark because of the volatility of the profit before tax. Materiality significantly decreased compared to last year due to the impact of the COVID-19 crisis on the revenue of KLM. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 2.25 million (2019: EUR 3 million) which are identified during the audit, and are not adjusted in the financial statements, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

KLM heads a group of components and has as its principal business segments: network activities, which include air transport of passengers and cargo, aircraft maintenance, leisure, and other activities linked to air transport. The financial information of this group is included in the financial statements of KLM.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the component auditors working under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components.

In view of measurements taken due to the COVID-19 crisis by the Dutch government, KLM and the audit firms, the audit was primarily performed remotely. We considered changes to the planned audit approach to evaluate audit evidence and the component auditors' communications and the adequacy of their work. Due to limited ability to arrange in-person meetings with management and the component auditors, we have increased the use of alternative methods of communication with them, including through virtual meetings, exchange of emails and additional written instructions to components. In addition, we have requested the component auditors to provide us with access to audit workpapers to perform evaluations of selected component auditors' documentation.

Our group audit mainly focused on significant components that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements. We have considered in this respect, amongst others, KLM's business volatility and its internal and external environment.

We have:
» performed audit procedures ourselves in respect of areas such as going concern, assessment of the valuation of non-current assets, the group consolidation, financial statements disclosures and topics related to litigations and claims, the group's income tax position, intangible assets, property, plant and equipment and external expenses;
» selected 8 components (2019: 9 components) to perform audits for group reporting purposes on a complete set of financial information as well as 7 components (2019: 6 components) to perform audit procedures for group reporting purposes on selected account balances.

The group audit team provided detailed instructions to all component auditors who were part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. For all components in scope of the group audit, we held both physical and virtual meetings with the auditors of the components. During these meetings the audit approach, the findings and observations reported to the group audit team were discussed in more detail. Also, file reviews were performed for most of these components; and
» performed analytical procedures on components not in scope for audit procedures to validate our assessment that there are no significant risks of material misstatement within these components.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

The audit coverage as stated in the section summary can be specified as follows:

Revenue

75%
Audit of the complete reporting package

10%
Audit of specific items

Total assets

75%
Audit of the complete reporting package

16%
Audit of specific items

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:
» to identify and assess the risks of material misstatement of the financial statements due to fraud;
» to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
» to respond appropriately to fraud or suspected fraud identified during the audit.
» With respect to non-compliance with laws and regulations:
» to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
» to obtain a high (but not absolute) level of assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Board of Managing Directors, with oversight by the Supervisory Board. We refer to the chapter Risk management and control of the annual report where the Board of Managing Directors included its risk assessment.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to fraudulent financial reporting, misappropriation of assets and bribery and corruption. We, together with a forensic specialist, we evaluated the risk assessment of the Board of Managing Directors as part of our evaluation of fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to KLM and we inquired the Board of Managing Directors and Supervisory Board as to whether the entity is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities.

The potential effect of the identified laws and regulations on the financial statements varies considerably.

KLM is subject to laws and regulations that directly affect the financial statements, including taxation and financial reporting. We assessed the compliance with these laws and regulations to the extent material for the related financial statements, as part of our procedures on the related financial statement items and therefore no additional audit response is necessary.

In addition, KLM is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation.

Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to the Company's ability to continue its business, or to avoid material penalties and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to (i) inquiry of the Board of Managing Directors, the Supervisory Board and others within KLM as to whether the Company is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We identified the following areas as those most likely to have such an indirect effect: Trade sanctions and export controls sanctions regulation, Anti-bribery and corruption regulation, Anti-competition regulation and Data Privacy regulation.

In accordance with the auditing standard we evaluated the following fraud and non-compliance risks that are relevant to our audit, including the relevant presumed risks:
» revenue recognition of passenger activity, in relation to cut-off (a presumed fraud risk)
» management override of controls (a presumed fraud risk)
» litigation risk due to non-compliance

We communicated the identified risks of fraud and non-compliance with laws and regulations throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit. This included communication from the group audit team to component auditors of relevant risks of fraud and/or non-compliance with laws and regulations identified at group level.

In our audit, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matter related to the provision for litigation and contingent liabilities, that is an example of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

We communicated our risk assessment and audit response to management and the Audit Committee of the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our response

We performed the following audit procedures (not limited) to respond to the assessed risks:
» We evaluated the design and the implementation of internal controls that mitigate fraud risks. In case of internal control deficiencies, where we considered there would be opportunity for fraud, we performed supplemental detailed risk-based testing.
» We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by KLM, including retrospective reviews of prior year's

estimates. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information.

» We tested the appropriateness of high-risk journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
» We obtained an understanding based on inquiries and inspection of minutes of relevant meetings, for example of the Fraud Management Table, and reports of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Company and the internal control that management has established to mitigate these risks.
» Assessment of matters reported on KLM's incident register, which includes whistleblowing reports, and results of management's investigation of such matters.
» With respect to the risk of fraud in revenue recognition we refer to the key audit matter improperly shifting of revenue from passenger activity.
» With respect to the risk of bribery and corruption across various countries, we evaluated KLM's controls and procedures such as due diligence procedures on third parties. We considered the possibility of fraudulent or corrupt payments made through third parties including agents and conducted detailed testing on third-party vendors in high-risk jurisdictions.
» We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures.
» We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.
» We considered the effect of actual, suspected or identified risk of non-compliance as part of our procedures on the related financial statement items.
» We obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Our procedures to address identified risks of fraud and related to non-compliance with laws and regulations resulted in key audit matters. We refer to the key audit matters related to revenue recognition of passenger activity and the provision for litigation and contingent liabilities.

We do note that our audit is not primarily designed to detect fraud and non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. Because of the characteristics of fraud, particularly when it involves sophisticated and carefully organised schemes to conceal it, such as forgery, intentional omissions, misrepresentation and collusion, an unavoidable risk remains that we may not detect all fraud during our audit.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In comparison to prior year we identified three new key audit matters closely related to the financial impact of COVID-19 crisis on the operations of KLM. These are the valuation of non-current assets, recognition of deferred tax asset for unused operating losses and the recognition of government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW').

We refer to the paragraph with regard to the material uncertainty related to going concern as that matter, by its nature, is also considered a key audit matter.

Valuation of non-current assets

Description

As described in the going concern paragraphs in the notes to the consolidated and company financial statements, KLM is severely impacted by the COVID-19 crisis and the stringent measures taken by many countries which has a major impact on air traffic around the world and a severe impact on the operations of KLM. The adverse effects on the Company from this event is considered an indication that assets may be impaired.

In accordance with IAS 36 "Impairment of Assets", non-current assets are tested for impairment if there is an indication of impairment. Assets that cannot be directly linked to independent cash flows are grouped together into Cash Generating Units (CGU) to perform the impairment test.

In the accounting policy for impairment of assets KLM concluded that the CGUs correspond to the Group's business segments - Network, Maintenance, Leisure and Other airline activities - which represent the smallest independent groups of assets whose use generates identifiable cash inflows.

The value in use is determined based on forward-looking assumptions, including the calculation of discounted cash flows, the discount rate and growth rates reflecting assumptions relating to mid- and long-term business development. A key assumption and uncertainty relates to the timing and extent of the recovery of the operations as a result of the COVID-19 crisis.

We considered the valuation of those non-current assets that are tested for impairment at the CGU level to be a key audit matter due to the high degree of judgement and estimation required by Management to determine the recoverable amount of its non-current assets given the current economic uncertainty as a consequence of the COVID-19 crisis and the anticipated timing and extent of the recovery of the airline industry.

Our response

Our procedures primarily consisted of:

» evaluating the design and implementation of the internal control relating to the impairment test over the CGU;
» assessing whether the methodology used by KLM complies with relevant accounting standards (IAS 36) and is consistently applied;
» reconciling the book value of the non-current assets of each CGU with the accounting records;
» verifying the cash flow projections with the budget 2021 and forecast 5-year plan and evaluating the scenarios and challenging the underlying data and assumptions, amongst others by comparing it to internal analysis and external industry data projecting the industry recovery;
» assessing, with the involvement of a valuation specialist, the assumptions underlying the discount rate such as risk-free rate, industry gearing, financing spread and specific risk premium;
» assessing, with the involvement of a valuation specialist, KLM's impairment assessment by verifying arithmetic accuracy and re-performing sensitivity calculations based on WACC, perpetual growth rate and long-term profitability; and
» calculating the pro-forma enterprise value from the KLM market capitalization to corroborate the impairment test based on value in use.

We assessed the adequacy of the disclosure in the note impairment of assets in the section accounting estimates and uncertainties in the notes to the consolidated financial statements.

Our observation

The primary uncertainty in the impairment assessment is related to the assumptions applied for the forecasted cashflows that are dependent on the timing and extent of the recovery of the airline industry.

Based on our procedures performed we consider management's key assumptions and estimates reasonable, and we determined that the disclosure in the note impairment of assets in the section accounting estimates and uncertainties in the notes to the consolidated financial statements is adequate.

Recognition of deferred tax asset for unused tax losses

Description

As a result of the COVID-19 crisis KLM recorded taxable losses amounting to EUR 1,075 million in 2020. Deferred tax assets relating to tax losses carry forwards are only recognised if the Company has deferred tax liabilities against which they can be offset or if their recovery is probable. As disclosed in note 17 to the consolidated financial statements, KLM did not recognise the unused taxable losses due to the high degree of uncertainty about the timing and recovery.

The recognition of deferred tax asset for unused tax losses was significant to our audit considering the recognition of the deferred tax asset includes a significant estimate about the extent that it is probable that taxable profit will be available in the foreseeable future.

Our response

Our audit approach consisted of examining the compliance of KLM's approach with IAS 12 and evaluating the recognition threshold of the deferred tax asset for unused tax losses by evaluating the probability of continued further losses based on the forecast of KLM.
We assessed the appropriateness of the methodology adopted by KLM to identify existing tax loss carry forwards that will be utilised. To determine the recognition threshold of the deferred tax asset for unused tax losses, we assessed the forecasting process by:

» evaluating of the design and implementation of controls that we considered the most relevant in determining the recognition of the deferred tax asset for unused tax losses;
» examining the procedure for preparing the last taxable income forecasts used as a basis for estimates;
» assessing the use of the appropriate substantially enacted Dutch tax law as per the end of the financial year;
» comparing income forecasts for prior years with actual results;

- comparing the assumptions used by KLM to prepare taxable income forecasts with the ones adopted for non-current asset impairment tests; and
- challenging the degree of the probability of the available future taxable profit taking into consideration the high degree of uncertainty about the timing and extent of the recovery of KLM's operations from the COVID-19 crisis.
- We assessed the adequacy of the disclosure in note 17 to the consolidated financial statements.

Our observation
We consider the estimates and management's judgement applied for the recognition of deferred tax asset for unused tax losses to be reasonable and determined that the related disclosure (note 17) is adequate.

Improperly shifting of revenue from passenger activity

Description
Revenue from passenger activity decreased with EUR 5,434 million to EUR 2,518 million in 2020 primarily as a result of the negative impact on traveling due to the COVID-19 crisis. The revenue related to passenger activity is recognised when the transportation service is provided in accordance with IFRS 15. As the current financial year is already a year with low level of operating activities and significant losses, management may have the incentive to shift revenue to the next financial year in order to present better results.

We considered revenue recognition from passenger activity to be a key audit matter as management may have the intention to improperly shift revenue to the next financial year via manual journal entries in the last period of the year. This resulted in a risk that revenue is understated.

Our response
Our procedures primarily consisted of:
- evaluation of the design and implementation of controls that we considered the most relevant in determining the appropriate timing of revenue recognition;
- inquiring several individuals involved in the financial reporting process whether there have been any instances of overrides of controls through recording of journal entries or other adjustments;
- analysing the completeness of manual revenue journal entries by comparing it to the nature and extent of the manual journal entries in last year; and
- assessing the appropriateness of high-risk manual revenue journal entries in December 2020 and January 2021, primarily focusing on the possibility of improper shifting of revenue from December to January.

We assessed the appropriateness of disclosures in note 16 and 23 to the consolidated financial statements.

Our observation
The results of our procedures performed regarding improper shifting of revenue from passenger activity through manual journal entries are satisfactory and the related disclosures (note 16 and 23) are adequate.

Provision for litigation and contingent liabilities

Description
KLM is involved in several governmental, judicial or arbitration procedures and litigations, particularly concerning anti-trust laws. With regard to the possible non-compliance with anti-trust laws KLM recognised a provision for the Cargo anti-trust claim (Cargo claim) as disclosed in note 22. KLM's positions taken are inherently based on the use of assumptions and judgements, specifically relating to the timing of the expected decision of the appeal to the General Court of the European Union.

We considered the non-current classification of the litigation provision and the related disclosure to be a key audit matter due to the uncertainty surrounding the timing of the outcome of current procedures, potentially material nature of the impact of any changes and the degree of estimates and judgement required.

Our response
Our audit procedures included, amongst others,
- obtaining and understanding of management's process for the identification, evaluation and disclosure of claims, proceedings and investigations;
- evaluating of the design and implementation of controls that we considered the most relevant in determining the appropriate classification of the Cargo claim;
- assessing of management's use of external counsel;
- the recording and continuous re-assessment of the related (contingent) liabilities and provisions and disclosures, in accordance with EU-IFRS;
- inquiring with both legal and financial staff in respect of claims, proceedings and investigations;
- inspecting relevant documentation such as the overview of legal proceedings, the minutes of the Audit Committee, the Supervisory Board and the Executive Committee; and
- obtaining legal confirmation letters from a selection of external legal counsel, also to corroborate management's assessment of the legal proceedings.

Furthermore, we challenged the estimates and assumptions applied by KLM in determining the need to recognise a provision, the amount and classification. We specifically obtained a representation from management on the long-term classification of the Cargo claim.

Based on these items, we assessed the estimates and positions adopted by KLM. We also assessed the appropriateness of the disclosures in note 22 to the consolidated financial statements including for those claims for which a provision could not be reasonably estimated.

Our observation
We consider the estimates and management's judgement applied for the litigation provision and contingent liabilities to be reasonable and determined that the related disclosure (note 22) is in accordance with EU-IFRS.

Recognition and measurement of government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program

Description
As described in note 25 of the financial statements KLM applied for government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program and recognised an amount of EUR 1,049 million in 2020. As disclosed in the accounting policies these government grants are deducted from the related expense in the statement of profit or loss, as the threshold of reasonable assurance that KLM will comply with all conditions attached to the government grant are met.

The recognition and measurement of the government grant was significant to our audit due to the financial impact, the one-off nature of the NOW grant program and its social relevance.

Our response
We inspected the NOW regulations issued by the Dutch government and other underlying documents to gain an understanding of the relevant terms and conditions related to the government grant program.

Our audit procedures included, amongst others, assessment of management's evaluation and representation over the recognition of the government grants in the statement of profit or loss. We assessed the appropriateness of the applied definition of a NOW-group, the revenue decrease under the NOW regulations and compliance with other terms and conditions.

With involvement of component auditors in the Netherlands and France, our additional NOW related audit procedures over the revenue, including its decrease, and employee expenses included, amongst others:
- reconciling and evaluating the revenue in the NOW reference and measurement periods;
- performed cut-off procedures by inspection of a sample of documents to verify the completeness of the revenue in the measurement periods and considering the results of our standard audit procedures over revenue for the whole year;
- reconciling the wages to be included in the final NOW applications to the payroll administration and verifying the correct application of NOW reductions resulting from lowering wages or dismissals;
- reconciling the received government grants from the NOW program to supporting documentation such as external information and bank statements;
- obtaining KLM's assessment of compliance to the key NOW requirements and verifying compliance with key aspects such as dividend payment, bonuses and NOW consolidation group; and
- challenging the reasonable assurance assumption required to recognise the government grants in the statement of profit or loss as defined by IAS 20.

The scope of above procedures is less than the scope of those to be performed in connection with the audit of the outstanding NOW applications for final settlement. We assessed the adequacy of the presentation and disclosures in note 25 to the consolidated financial statements.

Our observation
The results of our procedures performed regarding recognition and measurement of the government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') in the financial statements were satisfactory and we determined that the related disclosure (note 25) is adequate.

Report on the other information included in the annual report
In addition to the financial statements and our auditors' report thereon, the annual report contains other information.
Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Managing Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement
KLM engaged us, Deloitte Accountants B.V. and KPMG Accountants N.V., to perform a joint audit. We were re-engaged by the General Meeting of Shareholders as auditors of KLM on April 23, 2020 for the audit of the year 2020. We have operated as statutory auditors since the financial year 2005 / 2006.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Managing Directors and the Supervisory Board for the financial statements
The Board of Managing Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Managing Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Managing Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Managing Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Managing Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Managing Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description forms part of our auditor's report.

Amstelveen / Amsterdam, March 31, 2021

KPMG Accountants N.V.

E.H.W. Weusten RA

Deloitte Accountants B.V.

M.J. van der Vegte RA

Appendix: Description of our responsibilities for the audit of the financial statements

Appendix

Description of our responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managing Directors;
- concluding on the appropriateness of the Board of Managing Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Provisions of the articles of association on the distribution of profit

Unofficial translation of article 32 of the articles of association of klm royal dutch airlines

1. Out of the profit established in the adopted financial statements, an amount may first be set aside by the meeting of Priority Shareholders in order to establish or increase reserves. The meeting of Priority Shareholders shall only do so after consultation of the Board of Managing Directors and the Supervisory Board.

2. So far as possible and permitted by applicable statute, the remainder of the profit shall be distributed as follows:
   a. the holders of priority shares shall receive first the statutory interest percentage prevailing on the last day of financial year concerned, with a maximum of 5% of the paid up amount per priority share; if and to the extent that the profit is not sufficient to make the full aforementioned distribution on the priority shares, in subsequent years a distribution to the holders of priority shares shall first be made to recompense this shortfall entirely before the following paragraph may be given effect;
   b. next the holders of cumulative preference shares A shall receive 6% of the par value of their cumulative preference shares A or - in the case of not fully paid-up shares - of the obligatory amount paid thereon; in the event and to the extent the profit is not sufficient to fully make the aforementioned distribution on the cumulative preference shares A, the deficiency shall, to the extent possible and permitted by applicable statute, be distributed out of the freely distributable reserves with the exception of the share premium reserves; in the event and to the extent that the aforementioned distribution on the cumulative preference shares A can also not be made out of such reserves, there shall in the following years first be made a distribution to the holders of cumulative preference shares A to the effect that such shortfall is fully recovered before effect is given to what is provided hereinafter in this paragraph 2;
   c. next the holders of preference shares B shall receive 5% of the par value of their preference shares B or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon;
   d. next the holders of preference shares B shall receive ½% of the par value of their shares or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon for each per cent of the ratio (expressed as a percentage) of the profit to the operating revenues mentioned in the adopted consolidated profit and loss account, with the understanding that this dividend percentage shall not be in excess of 5% of the nominal amount of the issued common shares;
   e. subsequently, on each cumulative preference share C of a series a dividend shall be paid which is equal to a percentage of the amount which has been paid up on the share, calculated by taking the arithmetic average of the effective yield on the government loans to be described below under letter (f), as published in the Officiële Prijscourant of Euronext Amsterdam N.V. for the last five (5) stock exchange days prior to the day on which a cumulative preference share C of the series in question was issued for the first time, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of Priority Shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series;
   f. government loans mentioned under the letter (e) of this paragraph shall be deemed to mean the government loans to the debit of the State of the Netherlands with a (remaining) life of seven to eight years. If the effective yield on these government loans has not been published in the Officiële Prijscourant of Euronext Amsterdam N.V., as the time of the calculation of the dividend percentage, then the government loans referred to under the letter (e) shall be deemed to be the government loans to the debit of the State of the Netherlands with a (remaining) life which is as close as possible to a (remaining) life of seven to eight years, the effective yield of which has been published in the Officiële Prijscourant of Euronext Amsterdam N.V. at the time of the calculation of the dividend percentage as stated above, on the proviso that the maximum (remaining) life is eight years;
   g. on the date on which the cumulative preference shares C of the series in question have been outstanding for eight years, for the first time, and thereafter every subsequent eight years, the dividend percentage of cumulative preference shares C of the series in question will be adjusted to the effective yield of the government loans referred to in the preceding subparagraphs which is valid at that time, calculated in the manner as described in the foregoing, but on the proviso that the average referred to shall be calculated over the last five (5) exchange days prior to the day as of which the dividend percentage shall be adjusted, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of Priority Shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series. If the dividend percentage is adjusted in the course of a financial year, then for the calculation of the dividend over that financial year, the percentage which applied before the adjustment shall apply up to the day of adjustment, and as from that day, the adjusted percentage;
   h. if and to the extent that profits are not sufficient to make full payment of the dividend on the cumulative preference shares C referred to in this paragraph, the shortfall will be paid and charged to the reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. If and to the extent that the payment referred to in this paragraph cannot be charged to the reserves, then a payment will be made from the profits to the holders of cumulative preference shares C such that the shortfall is fully paid up before the provisions stated in the following letters of the paragraph are applied. For the application of the provisions stated under this present letter (h), the holders of the various series of cumulative preference shares C shall receive equal treatment. No further payment shall be made on the cumulative preference shares C than those determined in this Article, in Article 11 paragraph 6 and in Article 42; interim payments made in accordance with the provisions of paragraph 4 of this Article for a financial year will be deducted from the payments made pursuant to this paragraph;
   i. if, in the financial year for which the payment referred to above takes place, the amount paid in on the cumulative preference shares C of a certain series has been reduced, the payment will be reduced by an amount equal to the aforementioned percentage of the amount of the reduction calculated from the time of the reduction;
   j. if the profits over a financial year have been established and in that financial year one or more cumulative preference shares C have been withdrawn with repayment, then those who were listed in the registry referred to in Article 9 as holders of those cumulative preference shares C at the time of such withdrawal shall have an inalienable right to payment of profits as described hereinafter. The profits which are to be paid (if possible) to such a holder of cumulative preference shares-C shall be equal to the amount of the payment to which such a holder would be entitled to the grounds of the provisions of this paragraph if, at the time at which profits were determined, he were still a holder of the aforementioned cumulative preference shares C calculated in proportion to the duration of the period during which he was a holder of those cumulative preference shares C in said financial year, from which payment shall be deducted the amount of the payment which was made pursuant to the provisions of Article 32;
   k. if, in the course of a given financial year, issuance of cumulative preference shares C has taken place, then for that financial year the dividend on the shares in questions will be decreased in proportion to the time passed until the first day of issuance; and
   l. the remainder will be received by the holders of common shares in proportion to the par value of their common shares to the extent the general meeting of shareholders does not make further appropriations for reserves in addition to any reserves established pursuant to paragraph 1 of this Article.

3. On the recommendation of the Board of Managing Directors and after approval of such recommendation by the Supervisory Board and the meeting of Priority Shareholders, the general meeting of shareholders may decide that payments to shareholders shall be wholly or partly effected by issuing shares of the same type of capital stock of the company as the type of the shares to which these payments relate. .

4. As far as possible and subject to the approval of the Supervisory Board, the meeting of Priority Shareholders may resolve to distribute one or more interim dividends against the expected dividend, provided that an interim statement of assets and liabilities demonstrates that the company meets the requirements of Article 105, paragraph 2 Book 2 of the Dutch Civil Code. This interim statement of assets and liabilities shall be drawn up, signed and made public according to the specifications contained in paragraph 4 of the statutory provision mentioned above.

5. Subject to the approval of the Supervisory Board, the meeting of Priority Shareholders may, to the extent possible and permitted by law, resolve to make a distribution to the holders of common shares out of one or more of the freely distributable reserves with the exception of the share premium reserves.

6. Subject to the approval of the Supervisory Board, the meeting of Priority Shareholders may, to the extent possible and permitted by applicable statute, decide to make, as an advance payment on the distribution referred to in paragraph 2 of this Article, distributions out of the freely distributable reserves, with the exception of the share premium reserves.

7. No other distributions than the distributions provided for in this Article and in Article 42 are made on the priority shares and preference shares.

Appropriation of profit and distribution to shareholders

In the absence of a net profit 2020, no distribution of dividends to any class of share shall be made. The net loss for 2020 amounting to EUR 1,547,324,000 will be transferred to retained earnings.

Miscellaneous

Five-year review

(in millions of EUR, unless stated otherwise)		2020	2019	2018 Restated*	2017 Restated**	2016
Consolidated statement of profit or loss						
Passenger		2,518	7,952	7,766	7,496	7,114
Cargo		1,535	1,171	1,284	1,211	1,123
Other revenues		1,067	1,952	1,839	1,723	1,563
Revenues		5,120	11,075	10,889	10,430	9,800
Expenses	***	(5,195)	(9,132)	(8,769)	(8,366)	(8,197)
Aircraft operating lease costs						(414)
Adjusted EBITDA	***	(75)	1,943	2,120	2,064	1,189
Amortisation, depreciation, impairment and movement in provisions		(1,079)	(1,090)	(1,029)	(985)	(508)
Adjusted income from current activities	***	(1,154)	853	1,091	1,079	681
Total APM adjustments	***	(191)	22	(13)	(1,849)	3
Income from operating activities		(1,345)	875	1,078	(770)	684
Financial income and expenses		(340)	(275)	(315)	91	(99)
Pre-tax income		(1,685)	600	763	(679)	585
Income tax expenses		136	(162)	(201)	171	(69)
Net result after taxation of consolidated companies		(1,549)	438	562	(508)	516
Share of results of equity shareholdings		3	11	4	11	3
Profit/(loss) for the year		(1,546)	449	566	(497)	519
Consolidated balance sheet						
Current assets		1,937	2,576	2,599	2,861	2,617
Non-current assets		8,510	9,195	8,737	8,304	6,411
Total assets		10,447	11,771	11,336	11,165	9,028
Current liabilities		3,800	4,701	4,636	4,350	3,737
Non-current liabilities		6,762	5,510	5,739	5,994	4,303
Group equity		(115)	1,560	961	821	988
Total equity and liabilities		10,447	11,771	11,336	11,165	9,028

* 2018 restated following implementation of Customer compensation and Component approach for Life Limited Parts in 2019
** 2017 restated following implementation of IFRS 9, 15 and 16 in 2018
*** See note 28 Alternative performance measures (APM) for the reconciliation to adjusted EBITDA and adjusted income from operating activities for the financial years 2020 and 2019. Also see the Alternative performance measures section in the Notes to the Consolidated financial statements

(in millions of EUR, unless stated otherwise)		2020	2019	2018 Restated*	2017 Restated**	2016
Key financial figures (KLM Group)						
Result for the year as percentage of revenues		(30.2)	4.1	5.2	(4.8)	5.3
Earnings per ordinary share (EUR)		(33.05)	9.57	12.07	(10.64)	11.03
Result for the year plus depreciation						1,034
Capital expenditures (net)		(681)	(1,323)	(1,320)	(1,012)	(755)
Adjusted net debt/ adjusted EBITDAR ratio						2.9
Net debt/adjusted EBITDA ratio		47.4	1.3	1.3	1.6	
Dividend per ordinary share (EUR)		-	0.415	0.395	-	0.36
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		26,866	27,293	26,601	26,179	26,073
Outside the Netherlands		3,102	3,279	3,219	3,219	3,929
Employed by KLM		**29,968**	**30,572**	**29,820**	**29,398**	**30,002**
Total agency staff		772	2,454	2,592	2,274	1,874
Total KLM Group		30,740	33,026	32,412	31,672	31,876
Traffic (KLM Company)						
Passenger kilometers	***	33,873	109,476	107,676	103,487	97,737
Revenue ton freight kilometers	***	3,020	3,583	3,696	3,727	3,722
Passenger load factor (%)		52.2	89.4	89.1	88.4	87.2
Cargo load factor (%)		77.7	61.9	64.4	63.3	64.5
Number of passengers (x 1,000)		11,231	35,092	34,170	32,689	30,399
Weight of cargo carried (kilograms)	***	371	453	466	471	479
Average distance flown per passenger (in kilometers)		3,016	3,120	3,151	3,166	3,215
Capacity (KLM Company)						
Available seat kilometers	***	64,842	122,452	120,815	117,066	112,065
Available ton freight kilometers	***	3,882	5,811	5,758	5,883	5,772
Kilometers flown	***	271	471	462	451	433
Blockhours (x 1,000)		390	706	689	674	644
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.1	7.1	7.0	7.0	7.0
Cargo (per RTK)		31.8	21.0	22.5	21.7	21.6
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		20,787	21,146	20,670	20,409	20,476
Outside the Netherlands		2,277	2,421	2,431	2,397	2,444
Employed by KLM		23,064	23,567	23,101	22,806	22,920

* 2018 restated following implementation of Customer compensation and Component approach for Life Limited Parts in 2019
** 2017 restated following implementation of IFRS 9, 15 and 16 in 2018
*** in millions

Glossary of terms and definitions

Adjusted EBITDA
EBITDA adjusted for alternative performance measures (APMs) not defined by IFRS.

Adjusted free cash flow
Free cash flow minus redemption payments on lease debt.

Adjusted income from operating activities
Income from operating activities adjusted for alternative performance measures (APMs) not defined by IFRS.

Alternative performance measures (APMs)
The Group considers it relevant to the understanding of its financial performance to use certain alternative performance measures (APMs) not defined by IFRS. These APMs should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. APMs do not have standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. See the Alternative performance measures section in the Notes to the Consolidated financial statements and note 28 Alternative performance measures in the Consolidated financial statements.

Available Ton Freight Kilometer (ATFK)
One metric ton (1,000 kilograms) cargo capacity flown a distance of one kilometer.

Available Seat Kilometer (ASK)
One aircraft seat flown a distance of one kilometer.

Cargo load factor
Total Revenue Ton Freight Kilometers (RTFK) expressed as a percentage of the total Available Ton Freight Kilometers (ATFK).

Average capital employed
The sum of property, plant and equipment, right-of-use assets, intangible assets, investments accounted for using the equity method, other financial assets (excluding shares, marketable securities and financial deposits), minus related provisions (excluding for pensions, cargo litigation and restructuring) and working capital (excluding market value of derivatives). The capital employed for the year is obtained by taking the quarterly average of the capital employed. Before implementation of IFRS 16 (financial years up to and including 2016) the average capital employed included the aircraft under operating leases (based on seven times the amount of operating leases for the year).

Codesharing
Service offered by KLM and another airline using the KL code and the code of the other airline.

Earnings per ordinary share
The profit or loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding.

EBITDA
The earnings before interests, taxes, depreciation, amortisation, impairment and movements in provisions. EBITDA provides a simple indicator of the cash generation during the year.

Free cash flow
This corresponds to the cash available after investments in (prepayments in) aircraft, other tangible fixed assets and intangible fixed assets less the proceeds of disposals.

Net debt
The sum of current and non-current financial liabilities, current and non-current loans from parent company, current and non-current finance lease obligations, current and non-current lease debt, less cash and cash equivalents, short-term deposits and commercial paper and held-to-maturity financial assets.

Passenger load factor
Total Revenue Passenger Kilometers (RPK) expressed as a percentage of the total Available Seat Kilometers (ASK).

Revenue Ton Freight Kilometer (RTFK)
One metric ton (1,000 kilograms) of cargo flown a distance of one kilometer.

Revenue Passenger Kilometer (RPK)
One passenger flown a distance of one kilometer.

Return on capital employed
The sum of income from current operations minus dividends received, the share of results in equity shareholdings and after taxation divided by the average capital employed. Before implementation of IFRS 16 (financial years up to and including 2016) the sum of income from current operations was also adjusted for the portion corresponding to financial charges in operating leases (34%).

WARNING ABOUT FORWARD-LOOKING STATEMENTS

This annual report contains, and KLM and its representatives may make, forward-looking statements, either orally or in writing, about KLM and its business. Forward-looking statements generally can be identified by the use of terms such as 'ambition', 'may', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or similar terms. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate management's beliefs, and assumptions made by management about future events. Any such statement is qualified by reference to the following cautionary statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including:

- The airline pricing environment;
- Competitive pressure among companies in our industry;
- An economic downturn;
- Political unrest throughout the world;
- Changes in the cost of fuel or the exchange rate of the euro to the US dollar and other currencies;
- Governmental and regulatory actions and political conditions, including actions or decisions by courts and regulators or changes in applicable laws or regulations (or their interpretations), including laws and regulations governing the structure of the combination, the right to service current and future markets and laws and regulations pertaining to the formation and operation of airline alliances;
- Developments affecting labour relations;
- The outcome of any material litigation;
- Future demand for air travel;
- Future load factors and yields;
- Industrial actions or strikes by KLM employees, Air France employees or employees of our suppliers or airports;
- Developments affecting our airline partners;
- The effects of terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics (such as the current COVID-19 crisis), hostilities or war, including the adverse impact on general economic conditions, demand for travel, the cost of security and the cost and availability of aviation insurance coverage and war risk coverage;
- The effects of natural disasters and extreme weather conditions;
- Changing relationships with customers, suppliers and strategic partners; and
- Developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the documents we file with or furnish to relevant agencies, could cause actual outcomes and results to differ materially from those that have been or may be projected by or on behalf of us. We caution that the foregoing list of important factors is not exhaustive. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained our filings. We do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.