Annual Report 2021

Royal Dutch Airlines

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Letter from the President

2021 once again made great demands in terms of flexibility and agility. It became a year of resilience as the pandemic continued to severely impact the world, our industry and our company. During the year, crisis management and recovery efforts were done in parallel. Continuously changing travel restrictions impacted our customers, operations and staff, who nonetheless continued to deliver the best customer experience. Cargo played again a vital role in the distribution of essential medical goods and vaccins. At the same time valuable work was done on further restructuring our company. Whilst the need and demand for flying will remain, we acknowledge the impact that our industry has on the planet. Therefore, we choose to take ownership for a further transformation towards sustainable aviation.

Pieter Elbers
CEO

2021 ...... a year of resilience

The year 2021 marked the second year of the COVID-19 pandemic which battered societies, the aviation industry and our company. Consequently, the year once again made great demands in terms of flexibility and agility from everyone at KLM. What started in February 2020 as a local outbreak, expected to last no more than a couple of months, turned into a lengthy global pandemic.

We began the year 2021 with renewed energy and optimism. I announced it as "*a year of hope*." We were looking forward to recovery, gradually lifting of travel restrictions and welcoming back our customers on board. However, the road to recovery proved even more bumpy and unpredictable. A year of hope quickly became a year of resilience.

As we did in 2020, we continued to work along the four quadrants of crisis management, recovery, banks & government and restructuring.

Hence, throughout the year, continuous crisis management and recovery and rebuilding efforts were done in parallel. Driven by the development of the pandemic, travel restrictions were periodically implemented and subsequently lifted. This impacted our operations and staff, who nonetheless continued to deliver the best customer experience.

"KLM was awarded the Diamond Award for Health Safety by APEX."

For this, we received international recognition. KLM was awarded the Diamond Award for Health Safety by APEX (the Airline Passengers Experience Organisation) for taking a proactive role in the safe resumption of global travel. Secondly, as part of a separate ranking KLM received the 'World Class Award' for best airline for passengers, providing international recognition achievements in the field of safety, sustainability and service. KLM is one of the only 7 airlines in the world recognised with this World Class Award. These awards indicate that we were able to maintain the highest standard of service to our customers, even when faced with the challenges of the pandemic. A testimonial to the great work of the people at KLM.

At the same time valuable work was done on further restructuring our company. Whilst the need and demand for flying will remain, we acknowledge the impact that our industry has on the planet. Therefore, we choose to take ownership for a further transformation towards sustainable aviation. Of course we work on sustainability for KLM, but we can't do it alone. Therefore we extent partnerships and collaboration with partners within and outside the aviation industry.

If we take a closer look on the developments throughout the year; our first quarter was tough. Fortunately, some travel restrictions were gradually lifted during the second quarter. This was reflected in increased bookings and higher passenger numbers, underlining that people do want to travel. The cautious recovery in the second quarter continued into the third quarter, as more countries opened. This enabled us to focus on what we do best: connect people, reunite families, strengthen business relationships and transport essential goods.

With these positive developments, during the third quarter we generated a positive operating result for the first time since the outbreak of the pandemic. The fourth quarter symbolised the difficult road towards recovery. Autumn holidays started well with solid traffic figures. Early November the United States opened up for vaccinated travellers from Europe, finally after more than 600 days. But then, unfortunately, towards the end of the year, we were put to the test again with the Omicron variant and another full lockdown in the Netherlands.

Despite the COVID-19 setbacks, we were energised by working on our sustainable future and focusing on the strategic challenges that lie ahead of us. We set a new horizon, a new ambition and a new perspective for KLM and defined the three cornerstones of our strategy. Firstly, it remains of paramount importance to run a great airline for our customers. Secondly, we will create technological advancement as an integral part of our strategy. And thirdly, we aim to further accelerate our sustainability efforts to transform into a net-positive company.

In relation to this we further enriched our KLM purpose, choosing to be the purposeful pioneers who create sustainable aviation. Continued fleet renewal remains key to this transformation towards a more sustainable airline. KLM's choice, announced in December, for the Airbus A320neo family is an important step in achieving our objectives in terms of sustainability, customer experience, comfort and efficiency. The renewed European fleet will produce 50 per cent less noise than the current generation of aircraft, and reduces both fuel consumption and CO_2 emissions by 15 per cent.

KLM's foundation for a sustainable post-pandemic future is strong. In order to strengthen our approach towards sustainability, in 2021, we took numerous tangible steps and initiatives. We decided to increase the use of Sustainable Aviation Fuel (SAF) to 0.5 per cent on all flights ex Amsterdam and herewith further develop the market for SAF. To take a step further in February, we made world's first flight on synthetic aircraft fuel. In October, we chose to embrace the Science Based Targets initiative, providing a scientifically substantiated path for our CO_2 reduction targets. With these steps we aim to drive for a broader systemic change within our industry. Also, together with European sector parties, we published in July Destination 2050. This plan shows how the European airline industry will reach net zero by 2050. At the International Air Transport Association (IATA) conference we, as airlines, collectively communicated to endorse Fly Net Zero by 2050. All these plans emphasise the necessity to work together to accelerate innovation for sustainable aviation.

From a financial perspective, 2021 was a significantly better year than 2020. We kept a continued focus on strict cost and cash management, we kept investments low and we generated higher revenues. Operating losses were reduced from EUR 1,154 million in 2020 to EUR 227 million in 2021. The last two quarters had a positive operating result, mitigating the losses of the first half of the year. In 2020 we received a financial support package from the Dutch government. That provided a firm fundament and much needed solid ground during the difficult times back then. From the EUR 3.4 billion support package we have drawn EUR 942 million in 2020 and in 2021 we did not have to draw any additional amounts. The Temporary Emergency Bridging Measure for Sustained Employment (NOW) support and postponement of labour tax payment continued in 2021. We are very grateful for this continued financial support of the government.

Another incredibly important accolade was given for our safety track record. Out of a total of 5,000 airlines globally, KLM was ranked safest airline in Europe and the second safest airline in the world by the JACDEC Safety Risk index.

At the same time we kept on building the future of KLM. With the implementation of the restructuring plan '*Van Meer naar Beter*' (Building Back Better), we are demonstrating that we are serious about becoming a financially healthy company again. The conditions set by the Dutch government for the loans provided, given the importance of KLM for the Dutch economy, are an integral part of the restructuring plan.

"Out of a total of 5,000 airlines globally, KLM was ranked the safest airline in Europe and second safest airline in the world."

I am grateful that throughout the year we could contribute to the recovery from the pandemic. Together with our Cargo colleagues from Air France, we transported more than 100 million vaccine doses to 65 destinations. Our aircraft and crew were welcomed and thanked for bringing hope.

Looking ahead, further recovery is to be expected. Borders are opening and the confidence in flying is growing again. Our customers can't wait to fly again.
So far, our recovery has been challenging, but encouraging. I am confident that KLM is in a position to seize the opportunities that arise. Aviation has a future. People have an intrinsic urge to travel as it enriches their lives with memorable experiences and allows them to connect to other people. Aviation is key to a globalised economy, supporting businesses and local communities. At the same time, flying contributes to climate change, providing both challenges and opportunities. Therefore, we are committed to work towards sustainable aviation, together with our colleagues at Air France and the AIR FRANCE KLM Group.

The conflict in Ukraine, is having a devastating impact on the country, its citizens and also our local team. The Ukrainian people are facing a humanitarian tragedy and they deserve our support. KLM, in conjunction with the AIR FRANCE KLM Group, is committed to mitigate the impact of this crisis, help where possible, and to ensure respect of the sanctions on Russia decided by the Western countries. We all hope for peace soon.

On January 13, 2022, KLM's Supervisory Board announced that, after close consultation with me, I will not enter into a third term as CEO of KLM after the expiration of my second term on May 1, 2023. This decision and timely announcement has enabled the Supervisory Board to start a thorough process in finding a successor. For me that implies that after 30 years at KLM and more than eight years of leadership as CEO of KLM, I will hand over the baton with full confidence. It goes without saying that I am committed to support KLM with this transition.

2021 showed all of us that we are more resourceful and resilient than we had ever thought. The achievements and efforts in all four business of our company, Passenger, Cargo, Engineering & Maintenance and Transavia our impressive against the background of the circumstances. With that, I am incredibly proud of our achievements that will serve as a solid base for the future. I would like to express my respect and deep gratitude to all KLM staff, whether in the air or on the ground. All colleagues in our offices and at our outstations around the world: you are the heart of KLM and worked hard to give our passengers a safe journey and a memorable experience. Thank you!

And important as well I want to express my gratitude towards our customers for the trust and confidence they put in KLM. Evenmore so in these difficult times. Those who travelled, experienced a different customer journey due to the pandemic. But they remained positive and they came back. For those, who did not fly yet, we hope to welcome you on board soon. It is the loyalty of all our customers that make our businesses, now and in the future.

Pieter Elbers
President & Chief Executive Officer

Key figures

REVENUES
6,065
5,120

TOTAL EXPENSES*
5,370
5,195

ADJUSTED EBITDA*
695
(75)

AMORTISATION, DEPRECIATION, IMPAIRMENT AND MOVEMENTS IN PROVISIONS*
(922)
(1,079)

LOSS
(1,258)
(1,546)

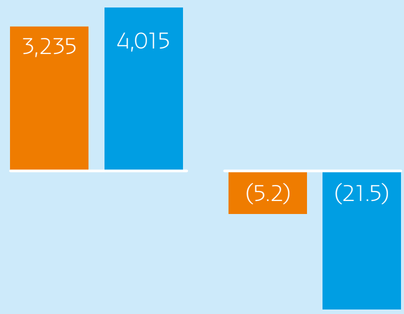
ADJUSTED INCOME FROM OPERATING ACTIVITIES*
(227)
(1,154)

AS A % OF REVENUES
(3.7)
(22.5)

EQUITY
(695)
(115)

AS A % OF TOTAL LONG-TERM LIABILITIES
(9)
(2)

EARNINGS PER ORDINARY SHARE
(EUR)
(26.90)
(33.05)



AVERAGE CAPITAL EMPLOYED

RETURN ON CAPITAL EMPLOYED (%)

NET DEBT/ADJUSTED EBITDA*
4.5
47.4

DIVIDEND PER ORDINARY SHARE
(EUR)
–
–

Financial position

CASH FLOW FROM OPERATING ACTIVITIES
1,200
(294)

CASH FLOW FROM INVESTING ACTIVITIES
(excluding (increase) / decrease in short-term deposits and commercial paper)
(481)
(681)

FREE CASH FLOW
719
(975)

ADJUSTED FREE CASH FLOW*
404
(1,354)

* 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

Passenger

TRAFFIC (in millions of revenue passenger-kilometers, RPK)	CAPACITY (in millions of available seat-kilometers, ASK)
40,912	82,452
33,873	64,842

PASSENGER LOAD FACTOR (%)	NUMBER OF PASSENGERS (x 1,000)
49.6	14,039
52.2	11,231

Cargo

TRAFFIC (in millions of revenue ton freight-kilometers, RTFK)	CAPACITY (in millions of available ton freight-kilometers, ATFK)
4,454	5,598
4,184	5,385

CARGO LOAD FACTOR (%)	WEIGHT OF CARGO CARRIED (in tons)
79.6	558,397
77.7	520,458

Average number FTEs of KLM Group staff

PERMANENT	TEMPORARY	EMPLOYED BY KLM	AGENCY STAFF	TOTAL KLM
25,820	787	26,607	837	27,444
28,368	1,600	29,968	772	30,740

FTEs KLM Group Staff

PER END FINANCIAL YEAR

27,564

27,833

Headcount KLM Group staff

PER END FINANCIAL YEAR

31,551

32,667

● 2021 ● 2020

In millions of Euros, unless stated otherwise

Financial performance

Erik Swelheim
CFO

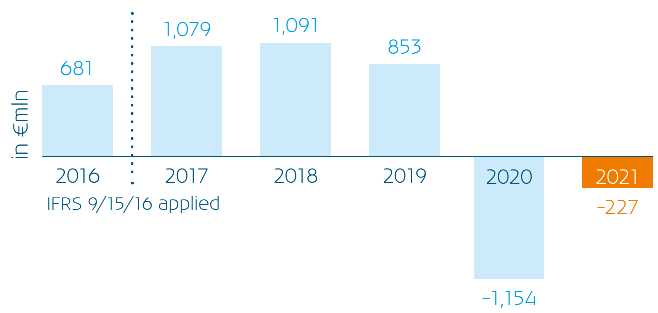
While the recovery proceeded slower than expected, KLM used the crisis to create a stronger financial fundament. Chief Financial Officer Erik Swelheim explains how KLM is preparing for a better future.

Reflecting on the year, Swelheim strikes a thoughtful yet determined tone. "This was an intense year, for the company, for all KLM staff and for me personally. Everybody worked hard and I know that I speak on behalf of my fellow board members that we are grateful for their flexibility and perseverance. Together, we initiated the recovery of KLM, which has been slower than we imagined because of ongoing COVID-19 challenges. The road to recovery is challenging and the industry has become more complex. The airline industry has to become more sustainable and KLM wants to play a leading role in this transformation. But we do believe that people will want to fly again and that gives us optimism and strength."

KLM has handled this uncertainty with a clear restructuring plan. One element of this is structurally lower cost, which will make KLM more efficient and competitive. Overall, we achieved a cost reduction of EUR 3 billion compared to 2019. This includes lower fuel and operational cost related to lower production but also EUR 1.3 billion in structural cost reductions in areas like labour, suppliers, maintenance, leasing, marketing and sales."

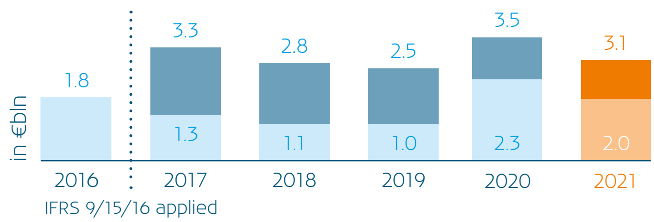
KLM significantly improved its liquidity position in 2021 without additional drawings on the financial support package concluded with the Dutch State and several banks in 2020. Investments of EUR 481 million in IT, aircraft maintenance and aircraft modifications are historically low compared to the years before. "Our free cash flow was positive for most quarters. As we did not have to use the additional credit lines that we negotiated last year, we still have EUR 2.5 billion available from the State and bank loans."

Adjusted income from operating activities



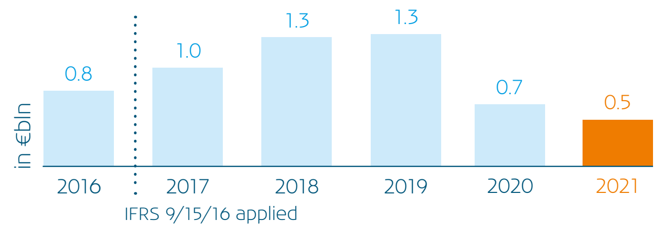
Net debt*

● ● Lease debt

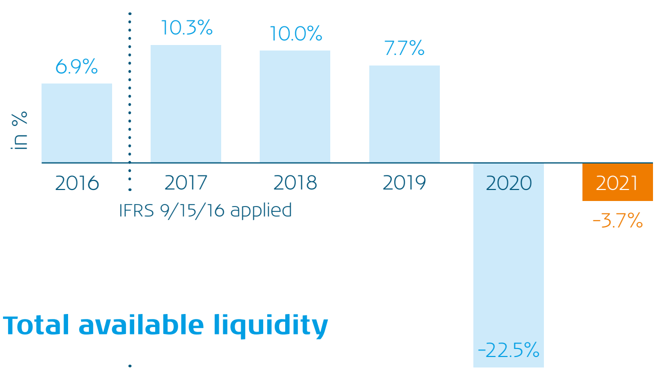


* Net debt does not include deferred wage tax and social securities payments of in total EUR 1.5 billion (2020: EUR 0.9 billion)

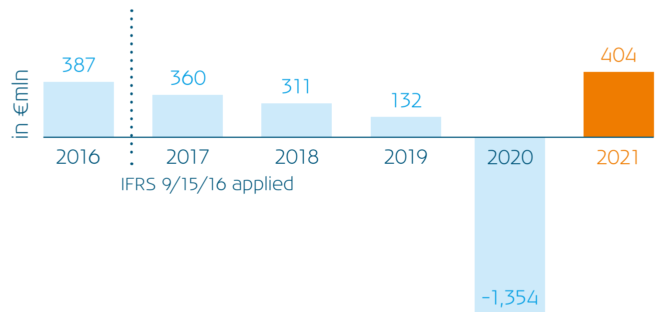
Investments



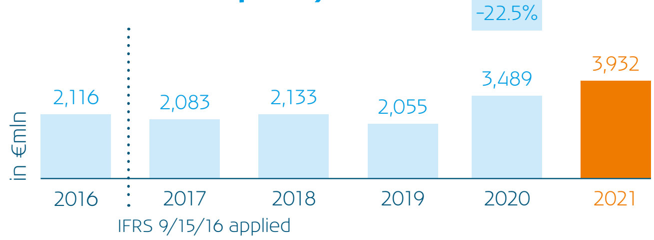
Operating margin



Adjusted free cash flow



Total available liquidity



All of this combined allowed KLM to compensate for another year with low revenues, which were EUR 6.1 billion in 2021 compared to EUR 5.1 billion in 2020. The overall adjusted income from operating activities amounted to a EUR 227 million loss in 2021 compared to a EUR 1,154 million operating loss in 2020 and a EUR 853 million adjusted income from operating activities in 2019. The operating margin improved from 22.5 per cent negative in 2020 to 3.7 per cent negative in 2021.

"KLM significantly improved its liquidity position in 2021."

KLM's net debt decreased from EUR 3,536 million end 2020 to EUR 3,135 million end 2021 and KLM's negative equity increased from EUR 115 million end 2020 to EUR 695 million end 2021. It is our priority to strengthen KLM's equity in the coming years. Besides our efforts to come back to pre-COVID-19 profit levels, we are investigating all options that increase our equity, including hybrid loans that quality as equity.

From a financial point of view, KLM's businesses did relatively well. The recovery of the passenger businesses was disappointing in the first half of the financial year but improved during the second half. Cargo grew on the back of high demand. Solid freight volumes, including vaccine transport, partly mitigated low revenues of the passenger business. Like last year, Engineering & Maintenance (E&M), had to deal with low demand for third-party work. Transavia benefitted from holiday traffic within Europe and performed well in the July to October period.

"The recovery meant that we were able to minimise our losses. Having said that, we acknowledge that without the support of the Dutch government we would have been in a different situation. Over the years 2020 and 2021, we received EUR 1.8 billion in NOW support and could defer payroll tax to the tune of EUR 1.5 billion. We are very grateful for this support and feel a deep obligation to repay our debt to the Netherlands."

Looking ahead, Swelheim says that the road to recovery remains challenging, with much depending on how business travellers will return and how the pandemic will impact the restrictions of each country. Yet, KLM has a clear path it wants to follow. "For 2022 and beyond we will focus on our investments in customers, sustainability and innovation. In addition, we will increase our financial buffers. The airline industry is cyclical and event driven. The pandemic is here now, but it will not be the last crisis to hit the industry."

Consolidated statement of profit or loss

In millions of Euros	2021	2020	Variance %
Revenues	6,065	5,120	18
External expenses	(3,702)	(3,455)	7
Employee compensation and benefit expenses*	(1,828)	(1,867)	(2)
Other income and expenses	160	127	26
Total expenses	**(5,370)**	**(5,195)**	**3**
Adjusted EBITDA*	**695**	**(75)**	
Amortisation, depreciation, impairments and movement in provisions*	(922)	(1,079)	(15)
Adjusted income from operating activities*	**(227)**	**(1,154)**	

* 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

Overall revenues increased with EUR 945 million to EUR 6,065 million in 2021. For all businesses revenues increased compared to 2020, except for the E&M business. Cargo activities in the Network business unit showed, after a good 2020, also a solid revenue increase in 2021, mainly driven by continued cargo capacity constraints. Total revenues increased by 18 per cent compared to 2020, which contained strong revenues in the first two months, until COVID-19 severely hit KLM's revenues in all businesses. 2021 revenues are still 55% below 2019, with less capacity and lower load factors.

Expenses

Production-related cost such as fuel, aircraft maintenance and airport fees, account for around 50 per cent of all costs, and move with the increase in the number of flights in 2021 compared to 2020. Strict cost measures were taken to structurally lower the cost.

NOW support from the Dutch government was EUR 771 million in 2021 compared to EUR 1,049 million in 2020. Also a reduction of staff count by more than 5,000 FTE towards the end of 2020 helped to lower the labour cost in 2021. Furthermore, a reduction of labour conditions was implemented as from October 2020 as part of the conditions imposed by the Dutch Government in relation to the loans. Renegotiated lower right of use lease contracts also helped to lower depreciation cost year on year.

Income from operating activities

In millions of Euros	2021	2020
Adjusted income from operating activities*	(227)	(1,154)
Total APM adjustments	(949)	(191)
Net cost of financial debt	(205)	(148)
Other financial income and expenses	(135)	(192)
Income before tax	(1.516)	(1,685)
Income tax expense	255	136
Share of results of equity shareholdings	3	3
(Loss) for the period	(1.258)	(1,546)

** See note 28 Alternative performance measures (APM) for the reconciliation to 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 2021 APM adjustments show an overall negative amount of EUR 949 million (2020: EUR 191 million negative). The definition of APMs was not adjusted in 2021.

The 2021 APM adjustments relate to the settlement of the KLM Ground staff pension plan for a total amount of EUR 938 million (non-cash EUR 875 million and cash EUR 63 million). Reference is made to note 18 Provisions for employee benefits. Other APM adjustments include voluntary leave plans and restructuring provisions expenses and the sale of assets of mainly Boeing 747 combi aircraft.

The 2020 APM adjustments mainly relate to voluntary leave plans and restructuring provisions in the Netherlands and abroad for an amount of EUR 228 million, partly offset by result on sale of assets of EUR 38 million.

Net cost of financial debt

Net cost of debt increased compared to 2020, mainly resulting from the full year interest impact of the direct Dutch State loan and Revolving credit facility, which were obtained in August 2020. This is being partly offset by the reduction of net debt (including lease debt related to IFRS 16) in 2021.

Other financial income and expenses

Other financial income and expenses were negatively impacted by currency exchange result mainly related to a negative 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 2020. In 2021, hedges were fully effective again and resulted in a gain of EUR 3 million.

Income tax

The 2021 income tax mainly relates to the deferred tax on the settlement of the KLM Ground staff pension asset during 2021. 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 at the end of 2020 and 2021. The Dutch corporate income tax rate will increase from 25 per cent until 2021 to 25.8 per cent as from 2022.

Cash flow statement

In millions of Euros	2021	2020
Net cash flow from operating activities	1.200	(294)
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)	(481)	(681)
Free cash flow	719	(975)
Payments on lease debt	(315)	(379)
Adjusted free cash flow *	404	(1,354)

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

In 2021 the operating cash flow from operating activities improved considerably. This mainly relates to a lower loss, including a non-cash settlement of the KLM Ground staff pension plan amounting to EUR 875 million. See the Alternative Performance Measures (APM) adjustments paragraph in this section. KLM also continued strict working capital management and was helped with deferred payments for wage tax and social securities, being one of the COVID-19 measures of the Dutch government to support Dutch companies. As from October 1, 2021 KLM started paying the actual monthly wage tax and social securities again. From October 2022 until October 2027, KLM will pay the deferred wage tax and social securities (of the years 2020 and 2021) amounting to EUR 1.5 billion.

Investing cash flow was reduced from EUR 681 million in 2020 to EUR 481 million in 2021. This decrease mainly relates to strict investing rules and delayed delivery of Boeing 787 aircraft resulting from production delays at Boeing.

Overall this resulted in a positive adjusted free cash flow of EUR 404 million in 2021 and lowered net debt to EUR 3,135 million at the end of 2021.

"We are grateful for the financial support and feel a deep obligation to repay our debts."

Equity

Equity decreased to EUR 695 million negative at year end 2021 (EUR 115 million negative end 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.

Restructuring

KLM has a proud tradition of more than 100 years. We have a strong brand, a culture of entrepreneurship, motivated staff and in-depth know-how. Over time, we have survived various upheavals by constantly adapting.

Our culture of innovation, pioneering spirit and Dutch entrepreneurship have always given us a distinct competitive advantage. KLM is an integral part of the Netherlands and our people are our brand. By doing business a little faster, a little better and more efficiently than competitors, KLM has been able to grow into a world-class player. As such, KLM contributes significantly to the Dutch economy, the Dutch labour market and the international network at Schiphol.

In 2014, KLM embarked on a new course under new leadership. Our vision was to 'become Europe's most customer-centric, innovative and efficient network carrier' and to achieve our ambitious transformation agenda. In 2015, KLM performed a strategic review, which provided a clear set of strategic choices, which remain valid up until today. We set our ambition and purpose, made strategic choices,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set priorities and monitored coherence through the transformation agenda. Execution was focused through the KLM Flight Plan.

Between 2015 and 2019, we worked on our customer centricity, our high-performance organisation and workforce, efficiency, innovation and sustainability. As a result, our financial results improved significantly. Our portfolio strategy around the network business (consisting of Passenger activity and Cargo activity), E&M and Transavia achieved well-balanced results with all businesses contributing in line with their size. In 2019, just before COVID-19 hit, we celebrated our 100th birthday confident we were fit for the future.

COVID-19 impact on KLM

In 2020, we entered the largest crisis in the history of KLM. To curb the pandemic, countries around the world took drastic measures, which included border closures, leading to a huge drop in international air traffic demand. KLM, like its peers, was hit hard. Overall, the 2020 results were the worst in our history. Turnover fell by 54 per cent from EUR 11 billion in 2019 to EUR 5 billion in 2020. Passenger numbers went down from 35 million in 2019 to 11 million in 2020.

Immediately at the start of the pandemic, we undertook far-reaching actions along four quadrants: crisis management, recovery, banks and government and restructuring. Work initially expected to be sequential was concurrent throughout 2021 due to the developments around travel restrictions, vaccinations, and health regulations. These are still a very significant part of our daily work.

Restructuring plan

In 2020, KLM launched a restructuring plan "*Van Meer naar Beter*" (*Building Back Better*), designed to prepare the company for the future. This plan will make KLM smaller, cheaper, more frugal, more agile, and more sustainable. It also serves as a solid foundation for our strategy execution for the coming years.

The crisis has shown us that our business model is still valid and valuable, but that we need to take far-reaching action to ensure future success. We have updated our strategic initiatives and translated them into 10 restructuring initiatives that we are currently executing. The Dutch government has endorsed the restructuring plan, a condition for receiving the Dutch State's support package. In 2021, we made the following progress on these initiatives:

Societal role and sustainability

We continued to embrace a stronger Dutch societal role, including supporting the Dutch economy and businesses by protecting the network to/from the Netherlands, protecting employment and providing opportunities for innovation and education. Furthermore, we decided to reinforce our leading position in sustainability and reconfirm our 2030 commitments as we realise that these will be conditional for the future of KLM. In 2021, together with AIR FRANCE KLM, we committed to the Science Based Targets initiative, which put group targets in line with what climate change science deems necessary to meet the goals of the Paris Agreement.

Customer proposition and portfolio choices

We have evaluated our proposition and portfolio and decided we want to continue to be a premium network carrier operating a hub-and-spoke model with connectivity as our core business. Together with our partners, we offer a global, long-haul network supported by a solid European feeder network, and a product focused on frequent leisure and business travellers.

We also decided to continue focusing on four core activities. First, our global passenger activity. Second, Cargo activity that fills available capacity in the belly to make optimal use of our aircraft. Third, E&M, which aims to optimise the utilisation of aircraft and those of third party customers. Finally, Transavia, which serves customers in the leisure segment.

Cost reduction

We reduced our expenditure budget for the financial years 2020 to 2025. Manageable cost were significantly reduced, labour cost went down and all government conditions as regards staff contribution were met. We will however continue to invest in product improvements, fleet modernisation, innovation, data & technology and a safe and healthy workplace, because we strongly believe that without these investments we cannot have a sustainable future.

Demand and production scenarios

Our restructuring plan is based on a slow recovery scenario for long-haul demand. In 2021, the average number of long-haul flights was six per cent below those estimates. The network was adjusted accordingly and based on updates of the COVID-19 maps. We managed to maintain our network almost at the 2019 level. The agility of our network enables us to continuously adapt to the circumstances. Given the uncertain outlook, we will continue to monitor and adjust as required.

Fleet adjustments and renewal

Fleet flexibility allows us to adjust to how demand recovers. That is why we will continue to modernise, and up-gauge our fleet. In December 2021, KLM announced that the Airbus A320neo family will be introduced as the new aircraft for the European network of KLM as well as Transavia. In February 2022, the related purchase agreements have been signed with Airbus. The further renewal of the fleet with a more efficient generation of aircraft is an essential part of KLM's strategy and restructuring plan.

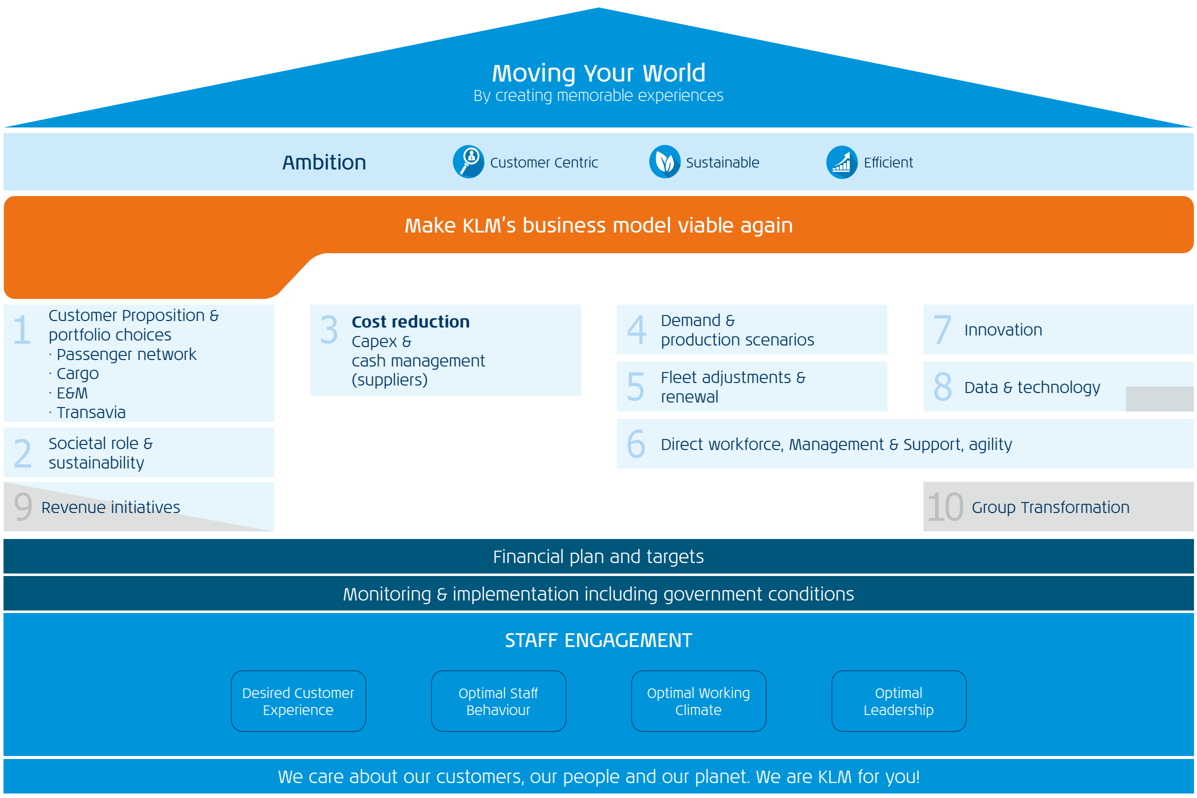
Direct workforce, management and support, agility

In 2021, we continued to lower cost and work towards a more flexible organisation. A total reduction of around 5,800 FTE was realised through the voluntary departure schemes, natural attrition, pensions and internal mobility. In 2020 and 2021, more than 1,000 employees got a new job within KLM through internal mobility. This has allowed us to keep the number of redundancies to a minimum and at the same time hire staff in departments that needed to scale up.

Innovation

Creating technological advancement is one of our strategic pillars. We are making maximum use of the KLM innovation ecosystem, including innovation hubs in the businesses, cross-divisional cooperation and knowledge exchanges with institutes such as the Delft University of Technology. We continue to explore new technologies such as Internet of Things and virtual reality, and cooperate with start-ups. The use of innovative digitisation tools in customer contacts, the use of virtual reality in trainings, the use of the cargo volume scanner and three-dimensional printing have already become common practice in our daily business.

"We reconfirmed the viability of KLM's hub-and-spoke system as business model for the future."



Data and technology

We seek to improve our data and technology effectiveness while continuing to operate with lower spend. We are re-organising IT activities, organising cross-functional platform teams and reducing continuity cost by moving to cheaper technology per use case. Best practices will be rolled out across KLM, bringing technology much closer to the business and increasing accountability and grip.

Revenue initiatives

Together with the AIR FRANCE KLM Group we focused on rebuilding passenger confidence in booking and traveling. Offering commercial flexibility in various ways to our passengers has been an important condition to speed up the bookings.

Group transformation

At AIR FRANCE KLM Group level, we have realised synergies in purchasing, the new sales organisation, the AIR FRANCE KLM Cargo customer service model and Next Gen Data Centers. We continue to explore other opportunities for efficient cooperation. These efficiency improvements within the AIR FRANCE KLM Group should also improve KLM's cost base.

Recalibrating our strategy

While navigating through the pandemic and executing all restructuring initiatives, we kept a watchful eye on the strategic challenges ahead. In 2021, as part of our strategic review, we re-assessed our business model and its relevance in a post COVID-19 world. In this assessment, we combined a traditional strategic approach with an exploratory one. As such we tried to sketch the context in which we will operate in 2030. We reconfirmed the viability of KLM's hub-and-spoke system as business model for the future. This model has been, is and will stay relevant for KLM and its partners.

In the years ahead, we will continue to execute our strategy and review the strategic priorities. In addition, we will address our financial situation, and in particular, our equity position, for which plans and scenarios are being worked out.

Over the last 18 months, existing trends have accelerated. Staff engagement, talent development and leadership were already relevant before COVID-19. The same goes for the personalisation and digitisation of the customer journey, innovation and the use of new technologies and data. Environmental and societal challenges are an imminent business reality rather than future scenarios.

Climate change is accelerating and at KLM, we feel a strong urge to contribute to the solution, both industry-wide with our peers as individually as an airline. We are aware that governments, communities and our passengers value sustainability as key to the future of mankind and that we need to act fast to secure it. In addition, we see economic reasons to speed the shift to sustainable aviation. The Dutch government, the EU and multi-national organisations have set ambitious reduction targets and the cost of reducing C02 emissions is rising rapidly. We have a longstanding strategy of sustainability and that is why in 2021, we strengthened the foundations for a transformational commitment to sustainability, by putting it at the core of our strategy, our culture, our business and our operations. We feel it is our duty to make aviation sustainable and we do believe that sustainability is a future license to operate.

"We feel it is our duty to make aviation sustainable."

Finally in 2021, we recalibrated our strategy around three themes. The first strategic theme is to run a great airline for our customers, which is all about safety, punctuality, reliability, personalisation, digitisation and product offering at an affordable price. The second strategic theme is to create technological advancement by catalysing research into the future of flying, innovating core airlines processes and strengthening our technological foundation. The third is to transform to a net-positive company, which entails having responsible fundamentals, driving change across the aviation industry and reducing our negative impact on the planet.

The world around us

Global developments

The year 2021 was just as turbulent as the one before it, with increased pressure on airlines to combat climate change and the pandemic. While the entire world was relieved to see vaccinations pick up pace, vaccination rates differed widely per country and the world's overall ability to tame the pandemic was less than expected. One of the main challenges for KLM was the sheer complexity and constantly changing nature of COVID-19 restrictions. In the second year of the pandemic, every country around the world maintained its own vaccination strategy, testing policy and quarantine/lockdown procedures, which could change at a moment's notice. We noticed that these measures were not always risk-driven and felt the lack of a global or even regional approach to restrictions. Fortunately, the European Union introduced a COVID-19 digital certificate, which helped to streamline national approaches. Still, European countries were free to add additional requirements, which they often did.

"The European Union introduced a COVID-19 digital certificate."

The pandemic shocked the aviation industry into a crisis with a length and depth never seen before. Earlier crises like the Gulf War in 1990, the terrorist attacks in 2001, SARS in 2003 and the financial crisis in 2009 lowered demand by 10 to 25 per cent for a year or less before recovering to pre-crisis levels. The pandemic differs from these crises because of its

global scale, the tremendous reduction of traffic industry-wide,
its length and the trajectory of its recovery.

The opening of borders of some countries heralded the beginning of our path to recovery, although the overall number of flights and passengers remained well below the 2019 peak. We are nevertheless pleased that the European Commission extended the slot relief rules that have been in place since 2020. These enabled us to respond more adequately to the rapidly changing market conditions.

Governments are quickly rolling out new rules and regulations that aim at the acceleration of the sustainable transformation. At COP26 in Glasgow, the United Nations climate change conference, the Dutch government signed a pledge that called on the aviation industry to bring its CO_2 emissions in line with international climate goals. IATA, representing the airlines worldwide, took a very important step by announcing its goal to reduce their emissions to zero by 2050, in order to meet the 1.5°C degree target outlined in the Paris Agreement. The EU, meanwhile, released ReFuelEU Aviation, which mandates fuel suppliers to include SAF in aviation fuel supplied at EU airports, up to 63 per cent in 2050.

Europe

In 2018, KLM was one of the main drivers behind the Dutch aviation industry plan '*Slim en Duurzaam* (Smart and Sustainable)' to achieve CO_2 reductions, develop new propulsion systems and promote rail connections as an alternative for short-haul flights. In 2021, a broad European coalition of airlines, airports, manufacturers and air service providers published the Destination 2050 report, which examines how the aviation sector can achieve net zero emissions by 2050. KLM was one of the initiators of Destination 2050 and was pleased to see that many of the measures mentioned in the report, were reflected in the Fit for 55 package that the European Commission presented in July 2021.

Fit for 55 aims to make Europe fit for a CO_2 reduction of 55 per cent by 2030 compared to 1990, paving the way towards Europe becoming the first climate-neutral continent in the world. Measures pertaining to the aviation industry include a strengthening of the European Emissions Trading System (EU ETS), a European blending obligation for SAF and a proposal for a tax on kerosene. We have responded positively to the proposals, but disagree with the tax on kerosene, as it does not support the sector to become more sustainable, especially as its proceeds are not spent on in-sector decarbonisation. This could put a break on investments in sustainability, which would undermine efforts to improve the quality of the environment. KLM has shared its views with the European Commission and the European Parliament through a comprehensive position paper.

KLM and other European airlines continue to advocate that Europe finally needs to realise a true Single European Sky, support the production and deployment of affordable and high-quality sustainable aviation fuels (SAF) and modernise air passenger rights. We hope and expect to see positive developments in 2022 in all of these areas.

> "Europe finally needs to realise a true Single European Sky."

In 2021, EU Regulation 261/2004 regarding air passenger rights continued to contribute towards confusion among passengers and airlines. Regulation 261/2004 was never intended for the number of cancellations and re-bookings caused by COVID-19. Lack of clarity in the regulations leads to numerous court cases, often forcing airlines to pay compensation for disruptions beyond their control. KLM and European sector partners are of the opinion that the EU should revise Regulation 261 to increase clarity for both passengers and airlines and to reduce cost to reasonable levels.

Five years after voting to leave the EU in a historic referendum, the United Kingdom formally did so, as the Brexit withdrawal agreement was ratified. The agreement contained sufficient safeguards regarding air traffic, which will not be materially impacted.

The Netherlands

In spite of achieving a relatively high vaccination rate, the Netherlands continued to battle with COVID-19, changing restrictions several times throughout the year. The economy began to recover from the 2020 recession, but inflation started to rise. In January 2021, the government stepped down and Parliamentary elections were held in March. Throughout most of the year, the outgoing government operated in a caretaker role. Therefore, decisions on the national Aviation Memorandum 2050, presented in December 2020, were postponed. In January 2022, a new government was sworn into office, promising a progressive agenda to deal with several major challenges. KLM is pleased that the government seeks to align with the Aviation Memorandum

2050. With that, the government will confirm the value of Schiphol for international connections, the business climate and employment. Furthermore, it underlines that Schiphol's hub function must be maintained.

Schiphol

KLM and Schiphol both had a tough year. The airport recorded 267,000 flight movements and 25.5 million passengers, respectively 46 per cent and 64 per cent less compared to 2019. KLM achieved 149,000 (minus 41 per cent) and 14 million passengers (minus 59 per cent). Together with Schiphol, we worked harmoniously to minimise the impact of the pandemic on our flight operations. In addition, being both members of the Sustainable Aviation Table, we worked on the broader sustainability challenge.

We also maintained focus on the expansion and modernisation of Schiphol in order to keep the airport competitive and ready for future growth. The A-platform was adjusted to accommodate the new Embraer 195-E2 and the first phase of the doubling taxiway Q project was completed. The reconstruction of the runway will increase airport safety and ease congestion. Schiphol continued to build new baggage handling facilities and renovate existing ones.

For the fourth year in a row, Schiphol increased its airport charges and is set to continue increasing them by a staggering 37 per cent between 2022 and 2024. Other airports, with conditions similar to Schiphol, will not increase their taxes or only moderately. Given the exceptional situation the airline industry is facing, we do not believe Schiphol's increase is reasonable and therefore we have logged a complaint with the Authority for Consumers and Market.

Both KLM and Schiphol remain confident the aviation industry will recover. Long-term, it is important that the industry will get a clear perspective on moderate growth scenarios, in return for conditions such as a reduction in noise levels. Moderate growth will allow KLM to continue its business as well to contribute to the prosperity of the Netherlands and improve the living conditions in the Schiphol area.

Sustainability

The pandemic brought clarity and conviction at every level of KLM that sustainability should be at the heart of everything we do at all times.

Like many other corporates that embraced sustainability as a pillar of their strategy, we did as well position our planet as an important stakeholder and are committed to reduce our impact on the climate and hence reduce our carbon emissions. At the same time, we also think of sustainability more broadly as doing what is right and adding value to our other stakeholders. By connecting people and catalysing economic activity, flying itself generates tremendous value. With a global network of around 160 destinations operated from our Schiphol hub, we also contribute to the prosperity of other nations.

We want to take care of the planet, for ourselves and for the generations that will follow. At the 2021 IATA conference all airlines collectively communicated to endorse Fly Net Zero by 2050. For an airline that exists for 102 years, this long-term perspective comes natural. As one of the largest private employers in the Netherlands, we offer many diverse employment opportunities in an international, often inspiring working environment. We want to ensure that people living around our home base at Schiphol experience a healthy living environment.

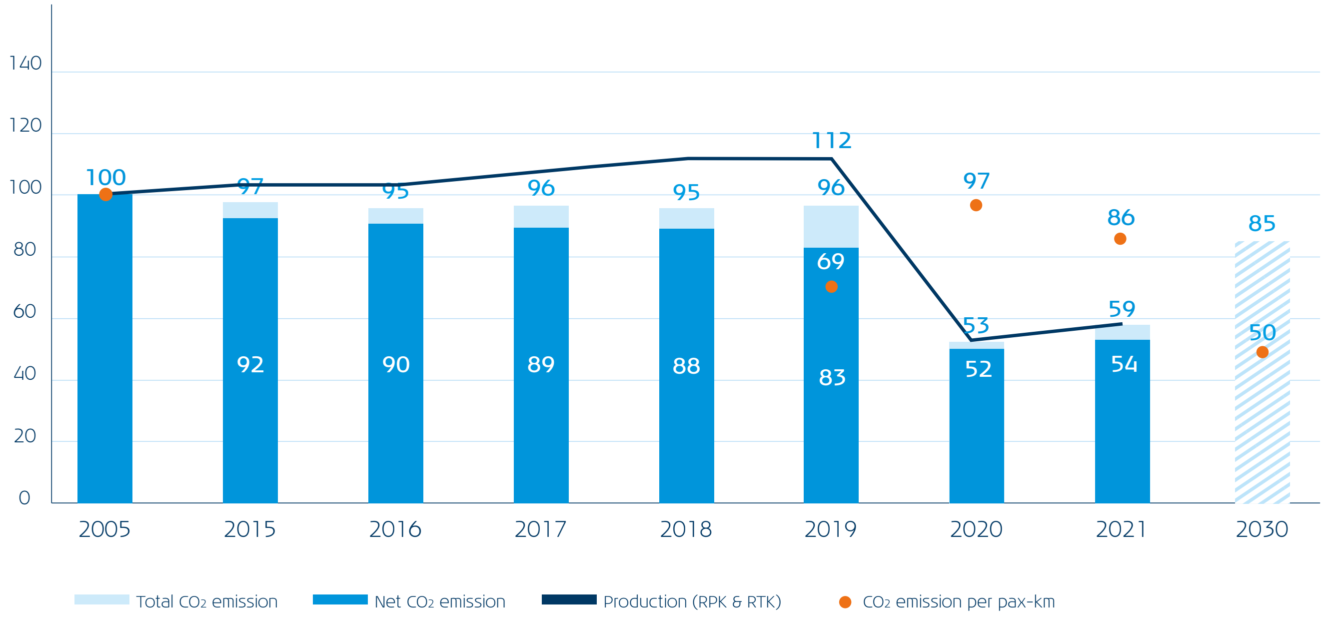
Climate change is central to our second centenary. Flying contributes to climate change and we want to be part of the solution. We have been working on making our businesses more sustainable for some years. We are investing in more sustainable aircraft, the electrification of ground equipment and catalysing the switch to SAF. We are encouraging our passengers and Cargo clients to offset their emissions. AIR FRANCE KLM has been in the top of the Down Jones Sustainability Index for the past 17 years.

However, also the little things count, so we will continue to do those as well. Whatever the scope of our actions, our people are eager to contribute to the development of a more sustainable airline industry.

In 2019, we had already reduced our total CO_2 emissions by an absolute 4 per cent and 31 per cent per passenger per kilometer compared to 2005. Our 2020 and 2021 production targets were significantly lower than pre COVID-19, which makes it hard to compare this year's CO_2 emission figures with other years and targets. Having said that, we managed to start working on more ambitious carbon reduction targets and to being more transparent about our results. We are doing that pro-actively, ahead of new regulations, top-down, to ensure an integrated approach across the company, and bottom-up, through staff-led initiatives that tap into their drive for sustainability. Our commitment is strong and clear: we will persevere in our pursuit to become more sustainable and achieve all our targets in this area.

KLM Group CO2 emissions have decreased steadily with a significant drop in 2020 and 2021 due to Covid-19

(index 2005 = 100)



In order to realise our sustainability ambitions, we are working on various result areas and these are the results that we achieved in 2021:

To be a sustainability leader in the airline industry

- KLM's Executive Team went on a learning journey around sustainability, which contributed towards a revitalised purpose, a sharpened strategy and a transformational commitment to sustainability. To objectify its ESG performance and improve strategy and practices, the AIR FRANCE KLM Group requested an independent ESG rating from Standard and Poor's (S&P), becoming the first airline group to be evaluated through a requested ESG rating. In 2021, S&P Global Ratings assigned an ESG rating of 64/100 to the AIR FRANCE KLM Group.
- Together with the AIR FRANCE KLM Group, KLM committed to Science Based Targets aiming to reach the climate goals of the Paris Agreement. From 2022, the Science Based Targets Initiative, which is a non-governmental organisation (NGO), will independently verify our targets and our performance against these targets.
- In 2021, AIR FRANCE KLM Group ranked 5 in the Dow Jones Sustainability Index. In addition, AIR FRANCE KLM Group was one of only two airlines listed on the Dow Jones Sustainability World Index. In 2021, KLM's environmental objectives have not led to the recognition of any impairment or accelerated depreciation of assets.

> "KLM committed to Science Based Targets."

Reduce our (absolute) emissions by 15 per cent and reduce 50 per cent CO_2 emission per passenger per kilometer in 2030 compared to 2005.

- The first seven Embraer 195-E2 aircraft were added to our fleet in 2021. This aircraft emits 31 per cent less CO_2 per seat and is 63 per cent quieter than its predecessor, the Embraer 190.
- Together with the Ministry for Infrastructure and Water Management and Shell, we made the world's first passenger flight, partly flown on sustainable produced synthetic kerosene, which was produced by Shell using water, CO_2 and renewable energy.
- We launched a SAF program for cargo customers, eight years after the launch of our KLM Corporate Biofuel Program (now called the Corporate SAF program).
- KLM has decided to levy a SAF surcharge on every outbound ticket from Amsterdam and sold in the Netherlands. As from January 1, 2022 KLM will blend 0.5 per cent SAF of its fuel usage on all flights departing from Amsterdam. Transavia will blend 1 per cent SAF on all outbound flights. These numbers will increase over the coming years.
- Together with partners in a consortium, we received funding from the Swedish government for the construction of a SAF production facility in Sweden. This plant is scheduled to become operational in 2026. In 2019, we already committed ourselves to being the launch customer of Europe's first and dedicated SAF plant that will be developed in the Netherlands.
- We conducted trials at Schiphol involving electric taxiing of aircraft to the gate. These trials will continue in 2022.
- We are contributing to a restructuring of the Dutch airspace, which will create more fuel-efficient landing and departure routes.

KLM commits to the environmental conditions on CO_2 emissions, SAF percentage and reduced number of night flights, associated with the financial support package from the Dutch government.

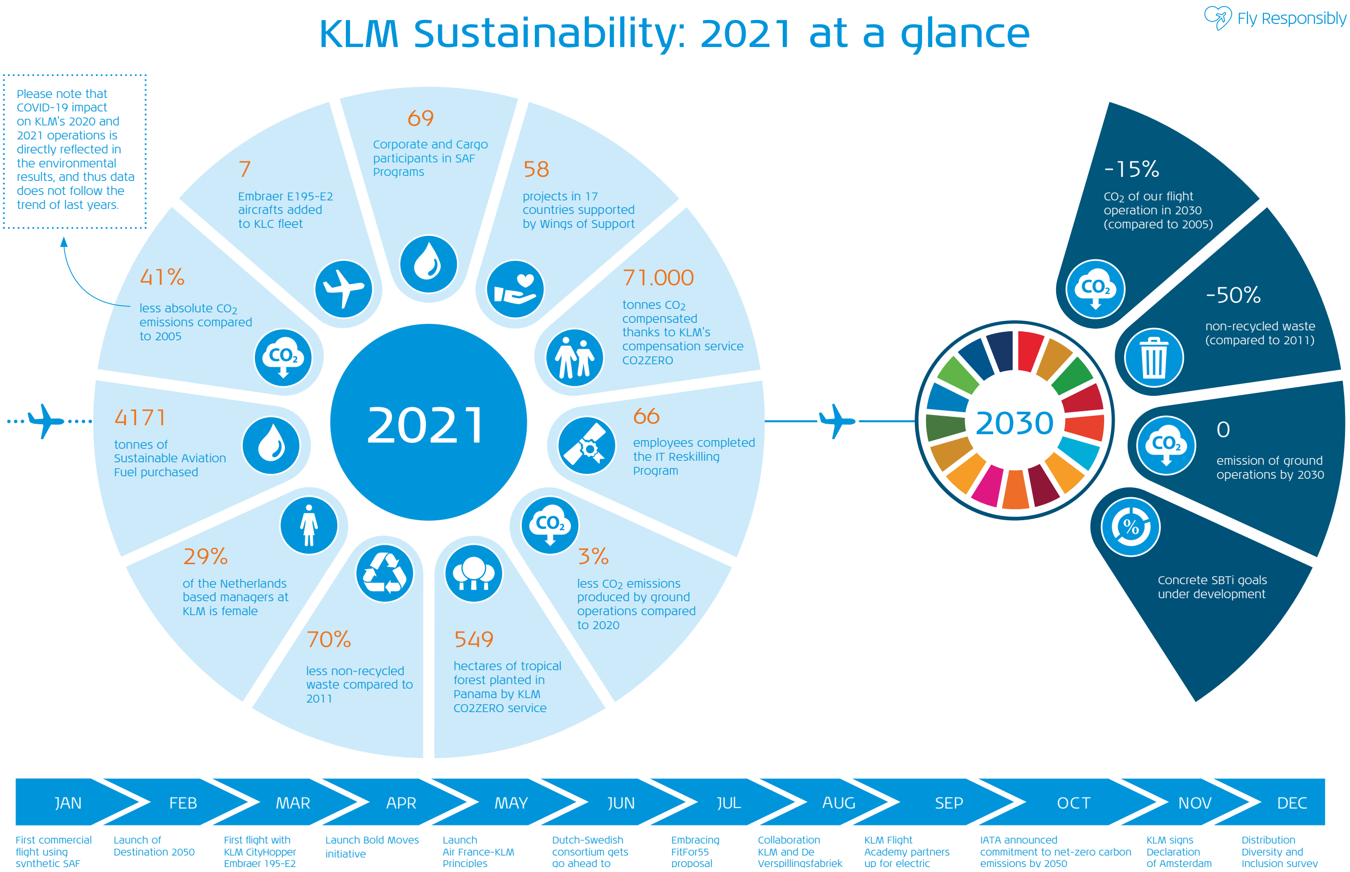
Reduce the emissions from our ground operations at Schiphol to zero in 2030

- We are well on our way to achieving this, for example by introducing electric baggage carts at Schiphol and investing in electric ground equipment.
- We installed almost 7,000 solar panels on the roof of our E&M hanger at Schiphol, which will generate 25 per cent of our daily ground operations-related consumption.

To be a sustainable and diverse employer

- Of the Netherlands based managers at KLM, 29 per cent is female. In terms of our commitment to have 30 per cent of executive management positions filled by women by 2025, we are now actually at 18 per cent.
- In 2021, a group of around 80 KLM employees from across the company formed Bold Moves, which aims to organise ground-breaking initiatives. It organised an employee sustainability event, which yielded exciting ideas. Ten initiatives were selected to be implemented.
- KLM has renewed for another three years its support for *Wings of Support*, an independent foundation through which KLM staff volunteers to help disadvantaged children abroad. Over the years, some 20,000 children have been supported.

KLM Sustainability: 2021 at a glance



- » Transavia took the initiative to encourage its staff and management to plant 5,000 trees around Schiphol.
- » Transavia celebrated the 25th anniversary of its Peter Pan Holiday Club, which has seen Transavia volunteers organise holidays for 1,200 chronically ill children since the start of this initiative.

Eligibility to the European taxonomy

The EU-taxonomy is a classification system, identifying which activities can be called sustainable or not or supporting market transparency on sustainable activities. It may play an important role in helping the EU scale up sustainable investment and implement the European green deal. The EU taxonomy provides companies, investors and policymakers with appropriate definitions and criteria to be met by economic activities to be considered environmentally sustainable. The Taxonomy Regulation was published in the Official Journal of the European Union on June 22, 2020 and entered into force on July 12, 2020, with a first application in the year ended December 31, 2021.

In 2021, as air transport and the maintenance of aircraft are not included in the climate delegated acts of the taxonomy, the share of eligible activities in the Group's turnover is nil. Globally, in compliance with the definition provided by the Taxonomy Regulation, below 5 per cent of the Group's capital expenditure and below 5 per cent of its operational expenses, are eligible to the taxonomy. These percentages are mainly driven by investments and costs related to Energy, Waste Management and Remediation, Transport, Construction and Real Estate activities, and Professional, Scientific and Technical activities.

Due to the absence of technologically and economically-feasible low-carbon alternatives in the aviation sector, and with the objective to meet our net zero emission commitment by 2050, aviation's contribution to fighting climate change and reducing emissions will have to be achieved by continuing to use kerosene in more fuel-efficient aircraft, progressively switching to SAF that are increasingly CO_2 neutral. As current aircraft technology does not support zero or low-emission flying and is unlikely to do so until the next decade, the decarbonisation of air transport will have to count on these transition activities. In this respect, the concept of sustainable aviation activity needs to be clarified as well as the key role of transition activities essential to achieving our goal of net zero emissions by 2050.

Look deeper into sustainable travel

KLM businesses

René de Groot
COO

"Our four businesses – Passenger activity, Cargo activity , E&M, and Transavia – performed relatively well under the circumstances, maximising our global network to connect people and capitalising on growing demand for cargo. We did our utmost to give our passengers a safe, healthy and memorable experience. Meanwhile, structural improvements in product, network, operations and alliances were implemented", Chief Operating Officer René de Groot explains.

At the end of a tumultuous year, De Groot is looking back, proud of how KLM has performed. "It's been a tough year for everyone. Our operating environment was changing day in, day out. Yet, through hard work and creativity, we continued to fly, always safe and cash-positive. I think that is an incredible achievement and I am glad that our efforts were appreciated by our passengers."

"Throughout the year KLM was able to operate a virtually complete network, although at lower frequencies. With this strategy, KLM spread the revenue risk of lockdowns and other COVID-19 measures in specific countries. Furthermore, to offer a stable and wide destination portfolio also helped to build confidence and loyalty among passenger and cargo customers.

KLM also developed digital products that allowed passengers to navigate the maze of COVID-19 restrictions and internally we set up cross-departmental COVID-19 teams that constantly monitored necessary adjustments to the network. Scaling up and down was not easy. Some 5,800 FTE left KLM in the last two years and this created bottlenecks at times when demand for flights increased sharply. "We had enough check-in staff and people to do catering and cleaning, but it was a challenge to get a sufficient number of people to load and unload our aircraft. In addition, the number of cabin crew was also a limitation at times. By the end of the year we even started recruiting for KLM and KLM Cityhopper cabin crew positions."

Asked about how KLM's businesses performed, De Groot says that while still below its 2019 peak, the Passenger activity showed signs of recovery as of the second half of the year. "Whenever restrictions were lifted, demand rebounded. Transavia, our leisure brand, benefitted from the recovery of leisure traffic as well as European traffic. Especially around the summer and autumn holidays Transavia performed well."

Cargo yet again made a valuable contribution to KLM's result. "With the global economy rebounding and fewer aircraft flying worldwide, Cargo benefited from high demand and healthy margins. This makes Cargo an important pillar of KLM. Engineering & Maintenance led important initiatives to increase KLM's overall fleet availability. It also contributed to the refurbishment of the European fleet and started the preparation of direct aisle seating on intercontinental flights as well as the introduction of Premium Comfort."

De Groot is also proud of improvements made to the safety organisation. "Safety is at the heart of everything we do. The fundament of our operations. We worked hard on next steps for KLM's Safety Management System and our Safety Management System was externally assessed as industry leading. Furthermore, KLM is well equipped to deal with a major accident or a contingency like a labour strike or cyber-attack. We decided to integrate our approach to multiple types of events and create a single crisis management organisation."

On a personal note, De Groot says that while sustainability has been an important part of KLM's operations for a long time, this year his personal conviction got stronger than ever. "More than ever, I feel the need and urgency to make aviation sustainable, not a little but all the way. We need to preserve our beautiful planet so a sustainable industry is the only option."

KLM took steps to embed sustainability in its business and operations. "People will always want to fly, but it is inevitable that the call for sustainable aviation will change the airline industry. We want to be an industry leader in the field of sustainability. I believe our future lies in SAF for long-haul flights, hybrid propulsion for medium-haul flights and electric propulsion for short-haul flights.

In 2021, we continued to build our Artificial Intelligence (AI) tooling, which is state of the art. In addition, we have implemented the first part of our Data & Technology reorganisation, spreading our previously centralized AI capabilities throughout the operation. These initiatives support us to increase the efficiency of processes and to lower non-performance cost.

Passenger activity

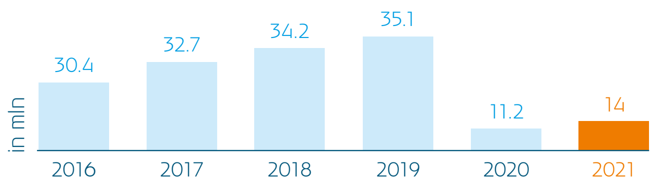
Customers

Our passengers experienced considerable discomfort and stress this year. Constantly changing rules around COVID-19 meant it was hard to figure out whether flying was possible, which tests were needed and how to deal with last-minute changes. In order to enable passengers to travel safely, healthy and comfortably, we took far-reaching measures.

We have analysed our entire customer journey and set the highest possible standard to ensure optimal health and hygiene for our customers, before, during and after their journey. We ensured people kept their distance where possible, wore masks where needed and rigorously checked health documents and QR codes. On board, we adapted

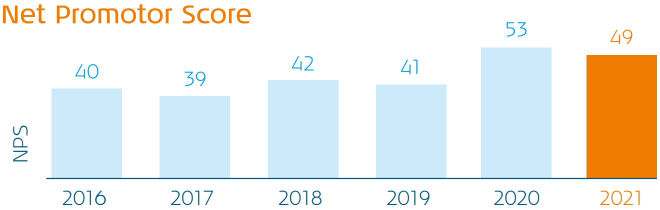
our procedures and catering to minimise contact and to maximise distance. Together with our nineteen SkyTeam partners, we created a united, global approach to hygiene. This year, despite the difficult circumstances, we were happy to welcome 14 million passengers on board, an increase of 3 million compared to the 11 million passengers in 2020 but still far below the 35 million passengers we welcomed in 2019.

Passenger numbers



Our Net Promotor Score ended at 49, which is lower than our score of 53 in 2020, but still a confirmation that despite the constantly changing circumstances, we offered our passengers value for money and a good service throughout their journey. Furthermore, customer research clearly indicates that once passengers have started flying again in a COVID-19 world, they have positive emotions about their flights with KLM and they do come back.

Net Promotor Score



KLM was awarded the Diamond Award Health Safety by the Airline Passengers Experience Association (APEX). This award is the most coveted in the industry. It makes KLM one of the leading airlines in the field of hygiene and health safety. Furthermore, based on customer ratings, APEX confirmed KLM's five-star status this year. The APEX five-star rating indicates that we maintained the highest standard of services throughout the customer journey, even when faced with the challenges of the pandemic. Lastly, KLM has been awarded the 2022 APEX World Class Award. This is a new APEX award and the highest category in its global awards for the airline industry. It represents exceptional recognition of achievements in the three areas safety & well-being, sustainability and service guest experience.

"We continued to improve our product and services during every step of the customer journey."

Throughout the year, we maintained the flexible booking conditions *(Book with confidence)* and we extended the relaxation of conditions of the Flying Blue program. We developed digital tools that empowered our passengers. *Where Can I Fly* is an interactive map, updated every single day, that shows where people can fly to and under what conditions. The Upload@Home app allows passengers on 69 destinations in 20 countries to upload all their COVID-19 documents before their flight, to have them checked and validated by our back office staff. This hybrid digital-human process gave passengers more confidence, but also lowered pressure on our ground staff, leading to lower cost and better service.

Certain things were not easy to handle. Increased booking flexibility and COVID-19 complexities led to a deluge of rebooking and refunds requests. Our customer service centers and processes were not prepared for these enormous volumes of complex service request, leading to delays in case handling. An efficient process for rebooking and refunds was implemented, resulting in an adequate and timely handling of re-bookings and refunds. We took counter-measures such as increasing the number of call center staff and we improved IT-processes, which helped to speed up the response rates and to increase the numbers of cases handled in the customer service centers.

Product

We continued to improve our product and services during every step of the customer journey, on the ground and in the air. Personalization of our product offering enables us to respond to customer needs. Digitisation of the contact moments within the overall customer journey allows the customers to take control over their journey and to prepare or change a flight, whenever needed.

In 2021, we worked on improvement of the catering product in the economy class on board of our intercontinental flights and first signs of customer appreciation became visible. On the ground, we introduced zone-boarding, facilitating a smoother boarding process allowing passengers to keep their distance. During the COVID-19 pandemic, we kept our lounges at Schiphol open, however with a reduced service offer. In 2021, we scaled up opening times of the lounges and the catering offer was extended to pre-COVID-19 levels. Together with Transavia, we improved the seamless service on codeshare flights.

At times in which travel conditions per country may change on a daily basis, passengers expect us to inform them and to guide them. We built online information tools, provided resources and aligned communication to our customers. In order to reinstate KLM's brand awareness, we started an awareness campaign, which also introduced our continued ambition to become a sustainable airline.

For several years now, KLM and Air France have been combining their digital development resources and expertise to create a joint digital ecosystem. We continuously strive to provide our customers with a state-of-the-art digital experience. At the heart of this ecosystem is a common API framework that spans the entire customer journey. Significant progress was made in 2021 on the new website, where a unified architecture and technology set-up has been applied to both KLM's and Air France digital channels. In 2021, conversational and social media developments merged in order to migrate to a joint architecture and joint chatbots. For our customers, this means an equal digital customer experience on the website and in conversations on social media.

In the field of distribution in 2021, we stopped the private channel agreements for the leisure segment, which increased the adoption of the New Distribution Channel (NDC). We succeeded in connecting a few large agents on NDC. Furthermore, in 2021, we improved the functionalities of NDC.

Despite our difficult financial situation, we continued to make selective and necessary investments in our product. We completely renewed the interior of the Boeing 737-800. The first aircraft are already fitted with the new interior and we expect to complete the entire program in March 2022. We also started the refurbishment of 15 Embraer 190 aircraft. The new interiors are convenient for the passenger and good for the environment. The use of lighter chairs makes the aircraft interior around 700 kilos lighter, which safes tonnes of fuel as well as CO_2 emission per aircraft on a yearly basis.

We are nearing completion of the Wi-Fi roll-out on our intercontinental fleet and began the roll-out on our European fleet. In total 18 Boeing 737 aircraft will be equipped with Wi-Fi.

KLM Cityhopper welcomed the first seven of 25 new Embraers 195-E2. In addition, we began preparing for the introduction of Premium Comfort in 2022. This marks a major change to our product offering and will offer passengers a third choice in between Economy and World Business Class. We believe this will help us tap into a new market.

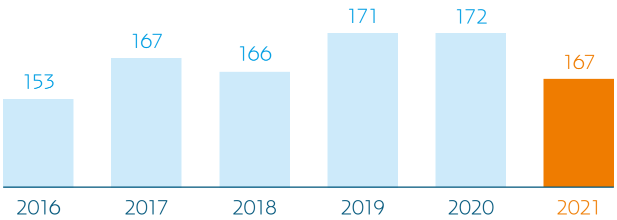
KLM Cityhopper, meanwhile, began to embrace predictive maintenance, which sees it use historic and real-time data per aircraft to developed scientific models. These enable us to predict when maintenance should occur and when parts need to be replaced, avoiding costly unplanned maintenance. This will lower maintenance cost and increase reliability and thus customer satisfaction.

Network

Before COVID-19, we operated around 160 destinations out of Amsterdam to 67 countries. Together with partners we operated 644 destinations to 136 countries. From a network perspective, 2021 was turbulent. The beginning of the year saw a huge setback due to the broad COVID-19 wave in Europe, causing a decline in already fragile passenger volumes. Recovery became visible in the second quarter of the year as we gradually scaled up the network.

Our strategy was to offer a large number of destinations at lower frequency and capacity levels and to monitor network performance to ensure it generated sufficient cash. This approach generated value for our passengers and cargo clients and reduced the revenue risk of countries suddenly closing their borders.

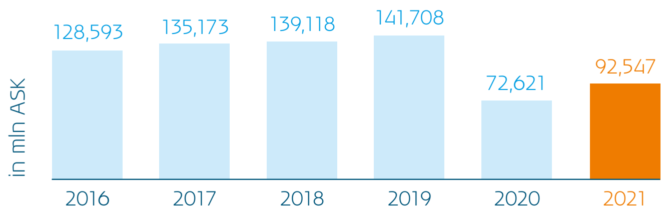
Destinations



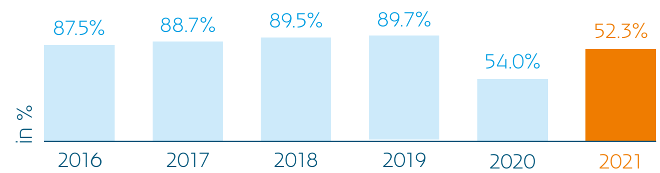
We achieved this flexibility because the transformation of our operations over the last few years has made us more agile. Because of governmental rules and regulations, our network had to be adapted frequently. When destinations had to be closed or downscaled, we were able to open new ones, such as Bridgetown (Barbados), Cairo (Egypt), Cancún (Mexico), Port of Spain (Trinidad), Poznan (Poland), Riyadh (Saudi Arabia), Zagreb (Croatia) and Zanzibar (Tanzania).

Within Europe, we utilised KLM Cityhopper's fleet of smaller aircraft to fly cost-effectively. KLM Cityhopper abandoned its regular winter and summer schedule and simply updated its network on a weekly basis. By the end of 2021, KLM Cityhopper's network had almost returned to pre-pandemic levels. KLM Cityhopper has proven to be a vital building block in our efforts of dealing with the COVID-19 crisis and building an agile but solid European network.

Capacity KLM Group



Load factor KLM Group



Our European operation was at its lowest point in February when it operated at 30 per cent of the 2019 capacity, but peaked at 90 per cent in August on the back of leisure travel. Load factors on European flights were relatively high with 76 per cent. Our intercontinental network was more stable with the network operating at 75 per cent of its capacity on average thanks to our hybrid cargo-passenger planes. Initially, the network did well in Africa, South America and the Caribbean. Later in the year, we welcomed the long-awaited opening of Canada and the US. Asia, China in particular, remained restricted.

Operations

Our operation was particularly challenging because our production varied significantly throughout the year and we had fewer ground and cabin staff owing to crisis-related downsizing. Especially towards the end of the year, due to sick leave and quarantine restrictions, we had to pull out all the stops to find sufficient ground and cabin staff. We expect this challenge to continue in 2022.

Our staff did an excellent job of delivering a good product and efficient operation. Staff at our Schiphol hub – from the check-in counter to the gate and baggage handling – faced more complex work and higher pressure, but managed to perform well. The same happened at our outstations worldwide, where almost 1,400 staff worked tirelessly to ensure passengers could travel to the Netherlands. Outstation staff ensured aircraft were extra cleaned, organised safe catering, and sometimes even organised access to COVID-19 tests for our passengers. Extra staff were hired to support passengers at outstations to fulfil travel requirements.

In 2021, we continued our journey towards operational excellence, an approach to operations that seeks to create value for passengers, safely, efficiently and effectively at the lowest integral cost. This process, which began in 2015, accelerated with the introduction of Artificial Intelligence (AI), machine learning and production models. These tools allow us to predict our operations and run them more flexibly and cost-efficiently. One of these AI-tools, Pathfinder, which helps to optimise the assignment of aircraft to flights, saves us EUR 6.6 million in non-performance cost and 5,000 tonnes of CO_2 each year.

In 2021, we embedded the cross-departmental COVID-19 teams, initially set up as crisis-teams, within the organisational governance. An assessment team continuously monitored the COVID-19 regulations and restrictions, while an implementation team focussed on the implementation of regulations and adjusting the networks. In 2022, these teams will merge and become an integral part of our regular operations.

Alliances

The pandemic has delayed discussions to enhance the Transatlantic Extended Joint Venture Partnership Blue Skies with additional partners. In light of an unpredictable market, we have agreed with our partners to review the financial terms related to our cooperation. As soon as travel restrictions are eased and borders reopen, we plan to step up our joint activities.

In 2021, we continued the joint ventures with our Chinese partners, China Eastern and China Southern Airlines/Xiamen Airlines. The financial settlement of both joint ventures was suspended given the unpredictable and unstable market. This also delayed a potential expansion of the partnerships in the China Eastern joint venture.

The set-up of a health testing facility at Schiphol in the departure terminal behind customs made traveling to China via Schiphol very attractive. The three Chinese carriers with whom we have joint venture partnerships continued their operation to Schiphol during 2021. This strengthened Schiphol Airport as the leading gateway from Europe to greater China and from greater China to Europe.

The joint venture between Kenya Airways and KLM ended in September 2021 because of changed market circumstances. It was transformed into a tactical codeshare cooperation. The Brazilian market is recovering, and also first signs of improvement are visible in the domestic market. Together with strategic partner GOL, we are re-establishing the seamless connectivity to all GOL operated routes in Brazil.

In Europe, we are working with Thalys on the development of a new combined and improved air-rail process to enable multi-modal transport. This would allow us to replace flights by trains in some specific markets, like Brussels, as part of our commitment to sustainability. As a member of the SkyTeam Alliance, we continued to develop a seamless travel experience across the combined network of all 19 partner airlines. After the bankruptcy of Alitalia in 2021, ITA Airways joined SkyTeam. KLM has implemented a codeshare cooperation with the new Italian carrier.

Cargo activity

The cargo industry is faced with exceptional circumstances. In the context of persistently limited wide-body belly capacity and significant disruptions in ocean shipping, airfreight demand grew approximately 10 per cent above the pre-COVID levels of 2019. This supply-demand imbalance has elevated load factors and yields. In 2021, Cargo operated approximately 1,350 full freighter flights and 1,850 cargo-only flights through Schiphol.
Cargo achieved this by combining its freighters and high-quality belly network, with good revenue management intelligence and investments in IT. In 2021, direct online bookings exceeded 60 per cent and direct online revenue almost reached 50 per cent. Increased demand for general cargo and premium products, such as Express and Pharma, played a vital role in rebuilding KLM's intercontinental network. Through smart and diligent network planning, we determined which (cargo) destinations to re-open, how many frequencies to add and which aircraft types to deploy.

We are proud that Cargo generated significant value for all our stakeholders worldwide. We ensured that supply chains kept functioning as the global economy began to recover and played a vital role in the delivery of medical supplies, including 65 million COVID-19 vaccines on KLM flights only. In 2021, we also partnered with UNICEF in the Humanitarian Airfreight Initiative, which brings COVID-19 vaccines and medical equipment to countries in need.

As we operate in an increasingly demanding industry, where customers have the option of choosing from a wide range of competitors, we need to further improve our cargo operations. Operational excellence is the driving force behind our roadmap towards quality and digital leadership in operations in the coming years. As part of KLM's wider restructuring, Cargo reduced its workforce by 15 per cent and introduced hybrid ways of working.

Cargo took steps to reduce its carbon footprint and to encourage the industry to do the same. Our newly launched Cargo SAF program generated interest from 32 shippers and freight forwarders from all continents. Under the program, participants will power a share of their flights with SAF, leading not just to more sustainable transport of goods but also encouraging the production and demand for this new

type of fuel.
After a freeze in 2020, we relaunched the programs that will replace the IT-legacy systems at our Amsterdam hub and around 60 outstations. The CargoPlan program mainly aims to build a single operation inventory in Accenture Freight and Logistics Software (AFLS), based on the latest IATA messaging standards. The CargoHandling program will replace Cargoal from the 1970s with iCargo from IBS, a market leader in the field of handling systems.

Within the context of IATA, we pushed for the adoption of one industry-wide modernized distribution tool. A cloud-based common data model for distribution and operation practices will bring tremendous value to our stakeholders.

Engineering & Maintenance (E&M)

E&M provides KLM and other airlines with aircraft, engine, component maintenance and engineering support. In response to COVID-19, most customers reduced the number of flights and focused on cash, resulting in lower demand for our services, but demand began to recover towards the end of 2021. We used the respite to our advantage, by upgrading our fleet, improve cost control and optimise processes. With fewer flights due to COVID-19 restrictions, we used the downtime of the Boeing 787 to upgrade some of its components, thereby increasing its reliability. We also added Wi-Fi and other cabin upgrades to the Boeing 737 fleet.

We piloted a new fleet availability program with our Boeing 787s in cooperation with Fleet Services, Network & Operations Control. This integrates our approach to fleet health, fleet utilisation and cost, resulting in an industry-leading utilisation of our Boeing 787 fleet at lower cost. Based on these positive results we will extend this fleet availability program to the other aircraft types.

Innovation and digital transformation are key to reducing cost and generating additional revenue. E&M, for example, has taken a smarter approach to the repair of expensive components and engines. Rather than replacing costly parts, we have found ways to repair existing ones, saving raw materials. This has already reduced the cost of a visit to the repair shop significantly. KLM E&M also began constructing a state-of-the-art logistic center in Hangar 14 with an automated handling area and warehouse. The Component Services 2.0 project is key for our customers and will be fully operational in 2022. E&M worked hard to ensure it attracts and retains talent, which is crucial to its ability to deliver complicated E&M services. In recent years, E&M implemented a teaming strategy that maximises staff engagement and creates a learning environment. In 2021, it also worked with higher education institutions in the Amsterdam area to create internships for talented technical students. E&M also became part of the internal Bold Moves movements.

Transavia

Celebrating its 55th anniversary, Transavia made a strong recovery and retained its position as the main low-cost carrier in the Netherlands. In general, the leisure market has recovered faster than the business market, retaining more capacity than airlines that also depend on intercontinental traffic.

Around summer and autumn, load factors were above 80 per cent of the pre-pandemic level, and the flown capacity in 2021 was 29 per cent higher than in 2020. Revenues per passenger were good, although passengers tended to book late, impacting the ability to predict occupancy. Passengers made good use of the Flex proposition we developed in response. Employee Engagement Scores returned to their 2019 level.

Transavia took the bold step of opening Bilbao and Fez as new destinations. For the 2022 season, we began selling tickets to an additional five new destinations: Bastia (France), Kayseri (Turkey), Ponta Delgada (Portugal), Milan-Bergamo (Italy) and Riga (Latvia). In 2022, Transavia plans to further roll-out operations from Brussels, with four more destinations to follow after the start with Innsbruck late 2021. To facilitate the operations, Transavia temporarily employed 155 cabin attendants from KLM.

Transavia aims to remain the number one low-cost carrier in the Netherlands, and to be an inspiring organisation for employees and passengers. To this end, a recovery plan has been drawn up with a sharpened business strategy, restructuring of the organisation and the implementation of cost reductions.

Transavia's strategy focuses on three domains. The first one is customer proposition and distribution. The second one is integral airline planning and the third is purpose, people and organisation. In 2021, our focus was on strengthening our foundation through simplification and integral cooperation, and cost reduction, with which we are on track.

In 2022, the recovery will be accelerated by diversifying the offering and sharpening the purpose. In addition, an integral approach will be taken to the design of the operations in order to adapt to the market more flexibly.

Transavia contributes to its own as well as KLM Group overall sustainability programs and is making important steps. Together with KLM, we are investing in the renewal of fleet and became a member of the innovation hub at Rotterdam The Hague Innovation Airport. Transavia, along with Dimple Aerospace and Delft University of Engineering was awarded subsidy by the Dutch Turbulence Taskforce to find ways to reduce turbulence, which leads to lower CO_2 emissions during a flight. Transavia is a long-standing partner of JINC, an NGO that develops the talents of disadvantaged youth.

"Celebrating its 55th anniversary, Transavia made a strong recovery."

uniforms over the years

Our fleet

In 2021, we continued to renew and rationalise our medium-haul and long-haul fleet. Our primary goal is to make our fleet more fuel efficient and quieter in order to reduce cost, emissions and our noise footprint.

KLM is engaged with future technology initiatives towards more sustainable aviation. We focus on initiatives for new energy sources, like sustainable fuel, as well as future aircraft designs, which contribute to a higher fuel efficiency, lower noise and lower carbon emissions. To be able to value each development, a better understanding is required about which technology will or could be available in the upcoming years for civil aviation.

Early 2021, KLM phased in two new Boeing 777-300ERs as part of the replacement of the Boeing 747-400. Because of production quality issues that emerged at Boeing in 2020. KLM could not take delivery of any of the seven Boeing 787-10 planned for delivery in 2021. Deliveries are now expected in 2022. Two Airbus A330-200s that were already taken out of service in 2020, were returned to their lessors in 2021 according to the fleet plan. In addition, one A330-300 has been taken out of service and will be returned to the lessor at the beginning of 2022.

Concerning the medium haul fleet the decision was taken in 2020 to accelerate the phase-out of the least efficient single aisle aircraft of the fleet, the Boeing 737-700, resulting in returning the first six leased Boeing 737-700s to their lessors in 2021. This is a temporary reduction of the medium haul fleet. In addition, KLM Cityhopper returned two Embraer

Fleet composition

Boeing 777-300ER/200ER

Number of aircraft	16/15	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	4/6	Maximum passengers	292/264
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)	233,000/230,000	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)	254,00/252,650	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	31/10	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-E2

Number of aircraft	7	Maximum passengers	132
Cruising speed (km/h)	876	Total length (m)	41,5
Range (km)	4,815	Wingspan (m)	35,12
Max. take-off weight (kg)	56,700		

Embraer 190/175

Number of aircraft	30/17	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		

E190s to their lessor and took delivery of the first seven Embraer E195-E2s. These new efficient aircraft will contribute to achieving KLM's sustainability objectives. Embraer 195-E2s are more fuel-efficient and have a lower noise footprint.

Before the summer, KLM and Transavia launched a request for proposal for the replacement of the Boeing 737NG fleet as part of a more comprehensive AIR FRANCE KLM tender. In December, KLM and Transavia signed a Memorandum of Understanding with Airbus for the delivery of new medium haul aircraft as from 2024. This will be a combination of Airbus A321neo and A320neo aircraft.

In February 2022, the related purchase agreements have been signed with Airbus.

Demonstrating its commitment to sustainable aviation, KLM took an option for fourteen electric eFlyers from Bye Aerospace for the KLM Flight Academy.

The Transavia fleet with the current Boeing 737-800 and Boeing 737-700 remained unchanged. The Cargo fleet with four full freighter aircraft also remained unchanged. In 2021, the total consolidated fleet remained the same at 202 aircraft.

Fleet composition klm group

		Average age in years	Owned ***	Finance leases*	Operating leases **/****	Total
Consolidated fleet as at December 31, 2021						
Boeing 777-300ER	wide body	7.9	4	8	4	16
Boeing 777-200ER	wide body	16.9	9	-	6	15
Boeing 787-10	wide body	2.2	2	3	-	5
Boeing 787-9	wide body	5.0	1	3	9	13
Airbus A330-300	wide body	8.9	-	-	4	4
Airbus A330-200	wide body	15.8	6	-	-	6
Total wide body		10.0	22	14	23	59
Boeing 747-400ER Freighter	wide body	18.4	3	-	-	3
Boeing 747-400BC Freighter	wide body	31.5	1	-	-	1
Total cargo		21.7	4	-	-	4
Boeing 737-900	narrow body	19.8	5	-	-	5
Boeing 737-800	narrow body	12.9	22	6	38	66
Boeing 737-700	narrow body	13.5	6	1	7	14
Total narrow body		13.4	33	7	45	85
Embraer 195	regional	0.5	-	-	7	7
Embraer 190	regional	10.0	12	5	13	30
Embraer 175	regional	4.5	3	14	-	17
Total regional		7.0	15	19	20	54
Training aircraft			16	-	-	16
Total consolidated fleet		10.9	90	40	88	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 1 Boeing 787-10 temporarily not in operation

**** Excluding 1 Airbus A330-300 and 1 Embraer 190 to be returned to lessors in 2022

Our people

We are unreservedly proud of and grateful to our people. They have shown determination, loyalty, creativity and resilience in the face of ongoing adversity. Each of them contributed personally so that KLM could fulfil the Dutch government's conditions for providing loans and guarantees. We are thankful for the cooperation with the Works Council and the unions, who worked closely with us to restructure the company.

The year 2021 was tough on our people. They worked under intense pressure and felt worried about their health, their job and the future of their company. Constantly changing COVID-19 restrictions made it stressful to operate flights and to offer passengers the service they expect. Furthermore, our people, who have proud and passionate blue hearts, found KLM more criticised by society. Overall, our people began to feel the strain. Our Employee Promotor Score dropped from 52 in 2020 to 32 in 2021.

> "The year 2021 was tough on our people."

1,000 colleagues guided
in finding new jobs at KLM

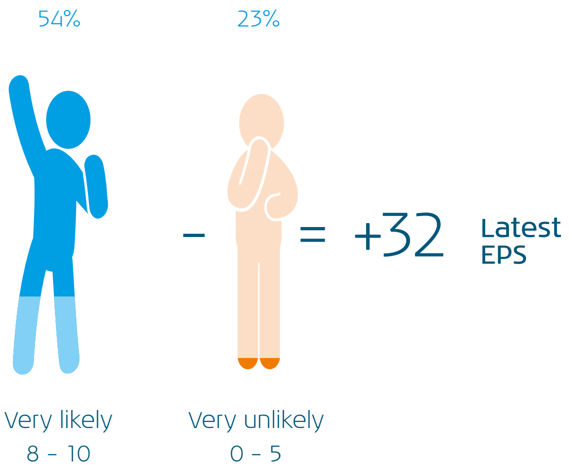
In 2021, all KLM employees made their first **employment conditions-based contribution**

Implementation of restructuring
in response to Covid-19

External recruitment
of IT and other specialists by KLM & KLM Cityhopper

careers.klm.com
new website has been launched

KLM EPS December 2021
Employee Promoter Score
How likely are you to recommend KLM as employer?



Social plan

In 2020, some 5,000 FTE left KLM and together with the unions, we made a social plan for them. In 2021, we said goodbye to another 800 FTE and took similar measures. This was a painful but inevitable way to restructure. We kept the number of forced redundancies to a minimum. Around 2,500 employees availed themselves of voluntary departure schemes. We helped some 1,000 people find work inside the organisation, by retraining them and coaching them. We seconded a number of cabin attendants to KLM Cityhopper and Transavia.

Mobility

We also created a central point for finding temporary outplacements for employees in departments where work was available. In 2020 and 2021, more than 1,700 employees volunteered to be temporarily assigned to another workplace, expressing their 'blue heart' and desire to do the best they could for KLM. Temporary assignments helped people to develop their skills and competences, but also filled gaps that might have otherwise required external hiring.

Wellbeing

In 2021, much of our focus was on ensuring everybody at KLM was healthy and safe. We provided opportunities for mental health care, stringently applied all COVID-19 safety and health regulations and enabled a hybrid way of working, in which digital meetings and office presence were balanced.

Developing our people

COVID-19 has shown that employees need to be flexible and continuously develop their talents. That is why we expanded our opportunities for professional development, with 5,000 online trainings compared to 800 in 2020. We noticed that it is harder to attract people in key areas like IT and data. To find the right people who will help us make KLM and the airline industry more sustainable, we revamped our careers website. We worked with a vocational school in Amsterdam to make students enthusiastic about a future in the airline industry and created 60 internships positions.

In spite of the current situation, young talents are finding their way to us. After an external vacancy freeze, we began to present ourselves once again in the labour market. We recognise the importance of retaining and developing talent and with that in mind began to prepare a new recruitment campaign for 2022.

During the year, it became evident that for both current and future staff, our attractiveness increasingly depends on how sustainable and diverse we are. This is something we genuinely care about, which makes sense given the fact that people from more than 74 nationalities work at KLM. In 2021, we signed the international Declaration of Amsterdam, which shows our commitment to strengthening LGBTIQ+ inclusion at work. Gender diversity is important to us, and we remain committed to ensuring that by 2025 at least 30 per cent of our leadership will be women. In 2021, we conducted a company-wide survey into diversity & inclusion, which will form the basis of further action.

In addition to top-down action, we have stimulated grassroots activities involving our staff. Around sustainability, for example, around 80 KLM employees formed the Bold Moves community, which organised events that generated bold ideas for making KLM more sustainable.

Safety

We want to be a leader in safety because we believe that safety is part of our license to operate and essential to our passengers, employees and the environment. That is why in recent years we have built a risk and performance-based Safety Management System (SMS). This enables risk and compliance-based decision-making on all levels within KLM and ensures optimal safety within our four connected safety domains: operational, occupational, and environmental safety, as well as operational security.

Since the introduction of SMS in 2014, the system has constantly been improved and is rated by external parties as world class.

In 2021, the Safety and Compliance organisation was strengthened by successfully integrating the previously separate safety and compliance organisations of KLM, KLM Cityhopper and E&M. In recent years, we have built on a more integrated approach to our operations in general, and now when it comes to safety and compliance, we all speak the same language. This allows us to do and learn more with the same number of people. The Dutch authorities and an external consultancy have very positively assessed the efficiency and effectiveness of our safety and compliance organisation, classifying it as 'high operating' and a maturity level above the aviation industry average. Further substantiating, this is the fact that the Jet Airliner Crash Data Evaluation Center (JACDEC) has named KLM the safest airline in Europe and the second safest in the world.

The safety culture within KLM and safety behaviour of all employees is an essential element to ensuring safety in our operation. We manage safety and compliance by learning from incidents in a Just Culture, meaning incidents can be reported and learned from without punishment and judgment. In addition, our people have adopted five safety principles, which are to work safely, stick to the rules, report unsafe situations, help, challenge each other, and be fit to work. In 2021, we embraced Organisational Behaviour Management as methodology next to our strong safety management system to improve the safety level of our company even further.

In 2021, COVID-19 continued to affect our approach to safety. A separate governance structure has been established to manage and be compliant with the enormous number of rules and regulations concerning health and travel restrictions from authorities and intergovernmental agencies.

In 2021, IATA shared the finalised results of the external IATA Operational Safety Audit (IOSA) that was conducted in November of 2020. As one of the few carriers worldwide, KLM made the choice to have a full onsite audit performed by Audit Organisation MBA. With an excellent result of zero findings, KLM's IOSA certificate is valid once again until March 2023. Both the environmental and energy (re-) certification audits on the ISO 14.001 and 50.001 norms, were successfully conducted. The governmental audit on KLM's safety management system performance received the highest possible score. In 2021, 78 safety investigations and 151 compliance audits were conducted. During the year, all organisational changes within KLM have been predictively assessed on the impact on safety and compliance risk to assure safe transitions.

KLM has integrated occupational safety into its safety management system to start a structural improvement of working conditions in such a way that the improvement and benefits will be secured. Being 5 years in this program, an evaluation of the results has started. Furthermore, a strategic absenteeism reduction plan was initiated, building on the results of the last five years.

To ensure constant improvement in 2022 we will take the next step in safety management analysis and monitoring methods.

"The safety culture within KLM and safety behaviour of all employees is an essential element to ensuring safety in our operation."

Overview of significant KLM participating interests

As at December 31, 2021

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

Traffic and capacity

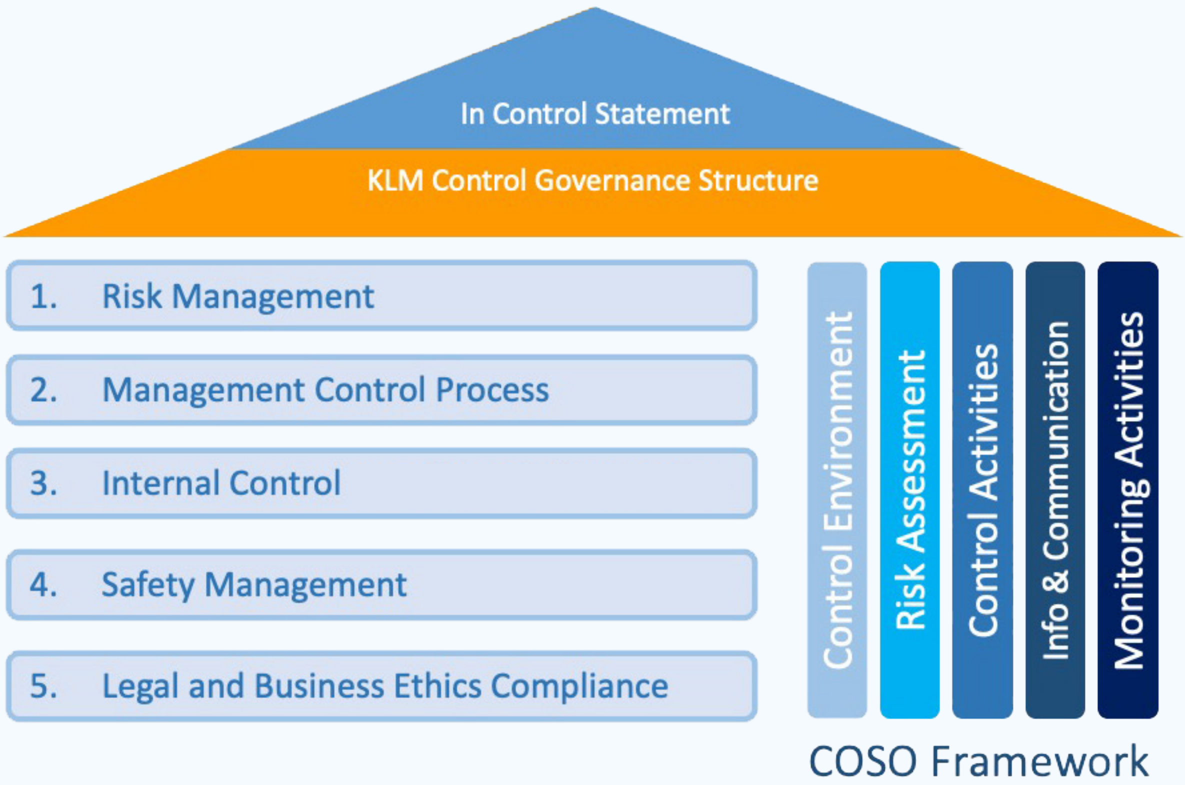
Passenger	Passenger kilometers			Seat kilometers			Load factor	
In millions	2021	2020	% Change	2021	2020	% Change	2021%	2020%
Route areas								
Europe & North Africa	9,686	6,804	42.4	14,164	10,450	35.5	68.4	65.1
North America	8,494	6,763	25.6	18,916	15,125	25.1	44.9	44.7
Central and South America	7,174	5,437	31.9	14,888	10,155	46.6	48.2	53.5
Asia	4,593	7,175	(36.0)	16,204	17,081	(5.1)	28.3	42.0
Africa and Middle East	6,391	4,823	32.5	11,976	7,840	52.8	53.4	61.5
Caribbean and Indian Ocean	4,574	2,871	59.3	6,304	4,191	50.4	72.6	68.5
Total	40,912	33,873	20.8	82,452	64,842	27.2	49.6	52.2

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2021	2020	% Change	2021	2020	% Change	2021%	2020%
Route areas								
Europe & North Africa	7	6	19.4	233	171	36.6	2.9	3.4
North America	956	782	22.3	1,184	1,037	14.2	80.7	75.4
Central and South America	1,430	1,332	7.3	1,760	1,682	4.6	81.3	79.2
Asia	1,059	1,205	(12.1)	994	1,280	(22.3)	106.5	94.1
Africa and Middle East	906	790	14.7	1,102	1,010	9.1	82.2	78.2
Caribbean and Indian Ocean	96	69	38.6	325	205	58.6	29.5	33.7
Total	4,454	4,184	6.4	5,598	5,385	4.0	79.6	77.7

Transavia	Passenger kilometers			Seat kilometers			Load factor	
In millions	2021	2020	% Change	2021	2020	% Change	2021%	2020%
Route areas								
Europe & North Africa	7,477	5,349	39.8	10,095	7,779	29.8	74.1	68.8
Total	7,477	5,349	39.8	10,095	7,779	29.8	74.1	68.8


ZOGEAR
CABIN ATTENDANT
KLM
Schiphol

Risk management and control



KLM's In Control Statement is the approach to voluntarily comply with the Dutch Governance Code 2016. The building blocks of the In Control Statement consist of the areas Risk management, Management Control Process, Internal Control, Safety management and Legal and Business Ethics Compliance as described in this paragraph. The foundations of KLM's Internal Control System are the ongoing performed activities throughout the year in the above-mentioned areas.

KLM applies the COSO (Committee of Sponsoring Organisation of the Treadway Commission) 2013 standards for internal control.

As with any control system, it is not possible to provide an absolute guarantee that risks will be eliminated. The In Control Statement is included in the chapter Board and Governance.

1. Risk management

KLM is exposed to general risks associated with the air transport industry and with airline operations and consequently has a system in place to identify, analyse, monitor, manage and control risks. A distinction is made between strategic, operational, compliance and financial risks. The financial risks are elaborated in the Financial Risk Management section and 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. Additionally, 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. More recently, the COVID-19 crisis has had a significant adverse impact on KLM's activities, financial position and results. 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 risk type:

- 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. The execution of the risk management process is supported by the strategic and operational risk mapping processes and have been established by all the relevant entities. Like previous year special attention is focussed on risks linked to COVID-19 and the way we act upon them. The Fraud Risk management process was also performed in 2021.
Twice per 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.

1.1 Strategic risks

Competition from other transport operators and passenger demand

Risk: On its short and medium haul flights to and from the Netherlands, KLM competes with alternative means of transportation. Furthermore, KLM faces competition from low-cost airlines for European point-to-point traffic. Emerging from the COVID-19 pandemic, low-cost airlines are adopting an aggressive growth model. KLM expects pressure on airfares in Europe to continue due to this competition from low-cost airlines. On its long-haul flights, KLM competes with a multitude of airlines. Non-EU airlines operate under different regulatory and state aid regimes that allow them to compete successfully in the global market and with lower cost bases. Furthermore, after emerging from the COVID-19 pandemic, the existing capacity of Middle Eastern carriers and the accelerating growth of Turkish and Chinese carriers will further increase the imbalance between supply and demand to and from the East and South East Asia.
Passenger demand increased during the year 2021 but further growth, especially the Corporate/Business demand, depends among others on the level of future COVID-19 measures and the behaviour of (Corporate) customers.
The outcome, also due to COVID-19, can differ per continent, with respect to demand, the business/economy class mix and competition positioning.

Mitigating action(s): Network, Sales and Revenue management are involved to mitigate the risks. This includes relevant joint ventures and partnerships, flexibility in network, balancing market share and pricing, adaption of Frequent Flyer programs and corporate contracts (eg. SAF contracts).

Cargo market

Risk: The year 2021 was a good year for the air cargo markets in general and in particular KLM with high yields and load factors. Downward pressure on yield and loadfactor is expected once the world airline operations further increase capacity again or improved availability of alternative means of cargo transportation.

Mitigating action (s): KLM addresses the Cargo risks by further enhancing the connection to the customer and adding value, supported by digital solutions and structural reductions of unit costs.

Oil price

Risk: 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 profitability. Furthermore, any change in the US Dollar/Euro exchange rate also results in volatility in the fuel expenses.

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.

Terrorist attacks, geopolitical instability and epidemics

Risk: Any terrorist attack or threat of attack, geopolitical instability, armed conflict or epidemic may have a negative effect on KLM's business. This would directly result in a decrease in demand and an increase of operational, insurance and security cost. During the first months of 2020, the COVID-19 outbreak evolved into a pandemic of unprecedented magnitude, with a severely negative impact on all air traffic around the world. Despite the ongoing pandemic, KLM scaled up operations. Furthermore, KLM has started operations to several new destinations. A number of these destinations are associated with security-related challenges. In general, geopolitical instability has increased worldwide, which raises security concerns.

The crisis in Ukraine and the subsequent sanctions imposed by the US and EU (and in return by Russia) impact KLM's activity. To date, KLM announced, until further notice, the suspension of services to/from and overflight of Ukraine (as from February 12, 2022) and Russia (as from February 26, 2022). The prohibition of overflying has consequences for KLM's routes of flights to China, Japan and South Korea, and required changes to KLM's network. However, the main impact for KLM is the risk incurred due to higher fuel prices. Impact for other areas of KLM's activities are limited. KLM, in cooperation with AIR FRANCE KLM, is committed to mitigate the impact of these risks and to ensure its compliance with applicable sanction regimes as imposed. However, uncertainty regarding the outcome of the conflict does not currently enable us to anticipate precisely the total impact on KLM's activities.

Mitigating action(s): KLM has a Safety Management System, contingency plans and procedures in place that enable the company to adapt quickly to the changing environment 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 evaluated regularly and adapted to reflect changes in the 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.

Loss of airport slots or lack of access to flight slots

Risk: 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 set out 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. Furthermore, the current number of allowed Aircraft Traffic Movements at Schiphol is under discussion linked to the environmental permit.

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. At the start of the COVID-19 crisis, the EU Council of Ministers decided on an exemption to the 80/20 utilisation rule. After the first exemption, which started on March 1, 2020, several extensions were decided by the EU Council, which will last till at least October 30, 2022.

Consumer compensation regulations

Risk: Passenger rights in the European Union are defined by regulation EU 261/2004, which is applicable to all KLM flights departing from or to the EU. The European Court of Justice has extended its applicability to marketing and codeshare in specific circumstances. The regulation creates large burdens on airlines in case of major events, specifically in relation to passenger rights (compensation, care and assistance and rebooking). Interpretation differs per EU jurisdiction and the European Commission published a proposal to amend the regulation issue in March 2013. The amendment however has been held off, as review is being postponed by the Council of the EU. Another issue are the claim agents who assist passengers in claiming compensation from airlines. Other applicable laws exist outside of the EU, which could give rise to regulatory conflicts. Due to the COVID-19 crisis, the number of EU 261 compensation claims has decreased, however KLM is now being confronted with a new risk posed in light of the crisis. This relates to passengers' right to receive a refund of their ticket, within seven days (after cancellation by the airline). Almost all National Enforcement Bodies (NEBs) within the EU – and many within other jurisdictions based on their regulations – have expressed their intent to enforce these rules by way of penalties. However, there is also a risk that these NEBs enforce differently per Member State.

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. There is continuous monitoring and advocacy for more balanced regulation, both on airline and consumer side.

Competition, customer and financing risks E&M

Risk: The growing power of original equipment manufacturers (OEMs) and maintenance and repair operation services providers (MROs) increases market competition, cost pressure and entry barriers for KLM. Long term contract margins are under pressure due to excessive monopolistic costs, affecting overall business profitability. OEMs protect their intellectual property with expensive license agreements, with only a limited number of licenses to be sold in the market. Some OEMs' products are in a completely closed model, with the OEMs in full control of the market.

A significant loss of current and future turnover may occur, due to deferred or partial payments by customers resulting from COVID-19 (due to Chapter 11 or bankruptcy of customers). Higher costs are associated with the Boeing 787, due to reliability issues. Finally, a shortage exists of materials and components in all units, due to parts shortage and to supply chain problems.

Mitigating action(s): Using the benefits of being an airline controlled MRO to control future maintenance costs (up to 25 years). The risk is further mitigated by increasing buying power, negotiating power and economies of scale, by adding third party customers to KLM's own airline volumes. To further improve market leverage, E&M develops partnerships and negotiates long term contracts with OEMs and original aircraft manufacturers (OAMs). Airline Fleet Campaigns are used to enable entrance to new platforms. KLM has negotiated price escalations, remedies, concessions and license agreements during the medium haul fleet tender.

To mitigate financing risks, a cost reduction initiative is implemented to increase profitability and strengthen the economy and performance of the component supply chain. Insourcing of repairs is accelerated and supply chain strategies are improved, by increasing repair versus replace and by the usage of used serviceable material (USM) instead of new materials. To mitigate the risk of not being able to collect from debtors, E&M actively follows up on payment plans and performs frequent debtor calls. Finally, an assessment has been done on the impact and likelihood of unavailability of materials and components with suppliers.

Risks linked to the environment

Risk: There is increasing public pressure on the airline industry to address their environmental impact. KLM has a responsibility towards its customers, employees, and its home base in the Netherlands and the world beyond. The air transport industry must 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), ReFuelEU, the EU Emission Trading Scheme and CORSIA.

Mitigating action(s): KLM has formulated a comprehensive strategy to become more sustainable with clear targets and timelines. One of our most important 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. In 2021, KLM also committed to Science Based Targets to put its ambitions in line with the goals of the Paris Agreement. 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 carried and improved operating procedures;
- » Scaling up the use of sustainable aviation fuel (SAF);
- » 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 the relevant 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 ('*Luchtvaartnota*') sets out a vision including related policy covering 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, notably regarding noise pollution and obligations for the airlines to ensure compliance of their operations.

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 further subject to the Emission Trading Scheme (EU ETS), implemented by the European Commission and covering emissions from flights within Europe. CORSIA, the global climate agreement for international aviation, came into effect in 2021. It is still uncertain how EU ETS will be aligned with the global ICAO system. 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 forward to limit the price volatility.

Risks linked to labour cost

Risk: In 2020, as a consequence of the COVID-19 pandemic, KLM and all unions had to renegotiate the Collective Labour Agreements (CLAs) for ground staff, cockpit crew and cabin crew in line with government conditions. The duration of these CLAs is until March 2022 for cockpit and until January 2023 for cabin and ground. New CLAs have to be made with the unions in 2022 with unknown outcome, starting with cockpit crew in the first quarter of 2022.

Mitigating action(s): KLM fosters social dialogue and employee agreements among other things in order to prevent the emergence of a conflict. No immediate labour disruptions/ industrial actions are to be expected, but we closely monitor developments.

1.2 Operational risks

Operational integrity

Risk: Operational integrity is one of the essential conditions for success in the airline industry. Airline operations are sensitive to disruptions because delays reduce the quality of the network and are costly. Air transport depends, among 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 cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.). Due to COVID-19, there is a risk of closure of destinations or airports and/or decreasing passenger safety trust.

Mitigating action(s): KLM has taken a number of operational initiatives to safeguard its operational integrity, in order to keep delivering 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.

Safety and security and airline accident risk

Risk: 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.

Mitigating action(s): KLM builds upon the best safety and security practices through a Safety Management System (SMS), a working environment of continuous learning, improvement and independently positioned oversight of the four safety domains: operational, occupational, environmental safety and operational security. The pandemic has 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.

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 with validity until March 2023.

IT risks and cybercrime

Risk: 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 the organisation. The Cybercrime program, approved by the AIR FRANCE KLM Group Executive Committee, covers the prevention and detection procedures such as cyber threat surveillance, evaluations of information system security and tests to pinpoint any information system incursions via the internet. The 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.

Based on the investigation reports by specialised external parties and an internal audit, following a cyber-incident which occurred at KLM IT infrastructure in December 2020, a dedicated program is executed, including specific actions to further strengthen IT security measures.

Mitigating action(s): Tools and services have been introduced to prevent and respond to cyberattacks. The secure functioning of IT systems is continuously monitored and 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 and that they stay reasonably safe by integrating cybersecurity into business contingency, investing in qualified staff and investing 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. 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. Furthermore, an e-learning module Cyber and Me has been made available to all employees.

Risks linked to availability of production staff and labour disruptions

Risk: Availability of production staff due to e.g. absenteeism and shortages on the labour market. Any strike or cause for work to be stopped could have a negative impact on KLM's activity and financial results.

Mitigating action(s): Multiple initiatives within KLM and with suppliers to increase availability of staff. KLM fosters social dialogue and employee agreements among other things in order to prevent the emergence of a conflict.

Risks linked to the use and cost levels of third-party services

Risk: 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, such as aircraft handling, maintenance, catering and fuel supply companies. 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 KLM's activity and financial results. Additionally, KLM could suffer reputational damage in case a supplier violates a sustainability principle. KLM must further comply with trade sanctions applied by various countries. Incorrectly applying these policies can result in financial or other penalties. KLM is confronted with pressure on services provided by suppliers and prices linked to the COVID-19 crisis, disruptions in the supply chain and current inflation levels resulting e.g. in rising airport charges and airport charges from Air Navigation Service Provider.

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 supply of goods and services, 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 followed on an ongoing basis. Additionally, business continuity plans have been developed to ensure the long-term viability of all commercial and operational activities. 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. In order to comply with trade sanctions policies KLM has included in its supplier registration process a screening of suppliers on possible trade sanctions.

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. It has also 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 2021, KLM paid USD 4.3 million (2020: USD 5 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.

Airspace restrictions

Risk: A risk exists of major airspace restriction due to local or global changes and consequences like terrorism, war, turmoil, epidemics, environmental or natural disasters and various unexpected air traffic control delays, resulting in additional cost, CO_2 emissions and longer block-times due to circumflying unstable areas.

Mitigating action(s): The KLM Flight Safety and Security Board (KFSSB) monitors conflict zones on an ongoing basis and aims to minimise the impact for the KLM operations, while maintaining the required safety and security level. Several other mitigating actions are coordinated with the International Air Transport Association (IATA). Contingency Teams (policy, operational and planning) and a contingency masterplan are also in place.

COVID-19 Measures impacting operations

Risk: 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, impacting the entire operation. This includes items such as health forms, crew temperature checks, aircraft cleaning and disinfection, crew vaccination requirements and various European Union Aviation Safety Agency (EASA) directives.

Mitigating action(s): KLM continuously monitors restrictions of various countries, adapting schedules and route planning accordingly. KLM has a vaccination and testing protocol in place, strongly encouraging its crew to vaccinate.

1.3 Compliance risks

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

Risk: On July 14, the European Commission presented its Green Deal Fit for 55, which contains EU climate proposals that will have a direct and decisive impact on the future of aviation in Europe. It concerns a strengthening of the EU Emission Trading System for aviation, including the proposed phase out of free allowances, a proposal for an EU Sustainable Aviation Fuels (SAF) mandate and the proposed introduction of an EU kerosene tax. These proposals are the start of a two- to three-year process of negotiations with the Council (27 EU Member States) and the European Parliament before the EU plans for decarbonising aviation towards 2050 are final. Moreover, implementation of a Single European Sky is still one of the European Commission's key priorities. The airline industry also closely follows the possible upcoming revisions of passenger rights regulations, the airport charges directive and the slots regulation. On a national level, the Dutch government drafted a new air transport policy ('Luchtvaartnota') for the period 2020-2050, which aims to strengthen the mainport function of Schiphol and which 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 will therefore be allowed to continue to grow in exchange for less nuisance to the surroundings of Schiphol. The 'Luchtvaartnota' still has to be passed by the Dutch parliament. Further, it is still uncertain when, and under which conditions, the government will open Lelystad Airport.

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 impact our industry. 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, Airlines for Europe (A4E), BusinessEurope, BARIN and VNO-NCW, regarding changes in European and national regulations.

Risks linked to commitments made by KLM and Air France to the European Commission

Risk: For the European Commission to approve 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 these commitments should not have a material impact on the activities of KLM and Air France.

Mitigating action(s): The honouring of the commitments is closely monitored and the related information dialogue with the European Commission is ongoing.

Legal risks and arbitration procedures

Risk: 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 defended and external counsel is appointed. Where applicable, provisions are included in the consolidated financial statements 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.

GDPR compliance

Risk: 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 annual turnover.

Mitigating action(s): As per 2019, a governance structure has been implemented, in which privacy has been the responsibility of the business, with support from the Corporate Privacy Office. KLM staff is considered to be the first line of defence against any non-compliance risk. Training and awareness were and will remain key to further bolstering our defences, especially now that a lot of people are new in their privacy governance role as a result of the restructuring program. KLM must be able to demonstrate compliance and, to that aim, maintaining and processing registers of Data Protection Impact Assessments (DPIA), which are mandatory by law. A check on the quality and completeness of these registers shall be performed in 2022 in order to get an even better understanding of the compliance of personal data processing, the risks involved and the security measures taken.

Following the Schrems II court case, Data Transfer Impact Assessment must be performed for data transfers to outside the European Economic Area to countries without an EU adequacy decision, in order to determine whether additional security measures must be implemented. This may be costly and, in those instances where there are no adequate security measures available, data flows may need to be suspended or even terminated. A dedicated project team facilitates the business representatives performing these new DTIAs.

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

Risk: KLM and its subsidiaries have been exposed to investigations by authorities alleging breaches of antitrust legislation and subsequent civil claims. Following the annulment on formal grounds of the initial decision of 2010, the European Commission (EC) adopted a new decision on March 17, 2017 and fined the same 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. The fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million. KLM and Martinair appealed this new decision. The General Court of the EU rendered judgment on March 30, 2022 and dismissed the appeals of KLM and Martinair. KLM and Martinair will appeal the judgment. While the decision is under appeal, there is no obligation to pay the imposed fines. Reference is made to note 23 "Contingent Assets and Liabilities" of the consolidated financial statements.

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

Customs, trade sanctions and export controls

Risk: Possible trade compliance (customs, export and trade sanctions) violations still exist, although several mitigation actions resulting from the export and customs compliance programs have been executed and consequently procedures have been implemented. Main remaining risk is in the unlicensed exports of controlled items, in irregularities resulting from incorrect customs procedures and in the possibility of non-compliance with continuously changing international trade sanctions.

Mitigating action(s): KLM has finalised implementation of the Export Compliance programs at E&M and Cargo. In May 2019 a trade compliance program was started by KLM, which has resulted in the Corporate Trade Compliance Policy. This policy describes governance, responsibilities, process and procedures in relation to customs and export compliance and trade sanctions within KLM.

1.4 Financial risks

Financing Risks

Risk: Among others, KLM finances its capital requirements via secured financing, through bilateral unsecured loans with banks and through financial support package with banks and the Dutch state, mainly using its aircraft as collateral. 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 KLM's activities and financial results.

Mitigating action(s): KLM has set up a Risk Management Committee to manage the financial risks and keep those risks within predetermined limits. In addition to financing risks, KLM is exposed to market 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.

Risks related to transfer pricing

Risk: Transactions between KLM and Air France are subject to transfer pricing. Incomplete recording of all relevant transactions or incorrect settlement might lead to non-compliance with tax legislation.

Mitigating action(s): Strong monitoring and mitigating controls are operational to ensure compliance with tax legislation, such as an AIR FRANCE KLM guideline and monitoring of the arms-length character of the cross-border intercompany transactions.

"Strong monitoring and mitigating controls are operational."

Risks related to pension plans

Risk: KLM's main commitments in terms of defined benefit schemes as per December 31, 2020 was the KLM ground staff pension plan based in the Netherlands. End of May 2021 a new pension agreement was agreed and finalised and the modified pension plan qualifies as a defined contribution plan. As a result the related pension asset was derecognised in 2021. Reference is made to note 18 Provisions for Employee Benefits and note 28 APMs in the consolidated financial statements.

Mitigating action(s): The KLM ground staff pension plan created an accounting volatility in KLM's equity. With the new pension agreement, this accounting volatility has been significantly de-risked in 2021. KLM still has some defined benefits schemes in the Netherlands and abroad, but the risks related to these plans are less material. For more information reference is made to note 18 Provisions for Employee Benefits and note 28 APM's in the consolidated financial statements.

Risks linked to the impact of external economic factors on equity

Risk: KLM's equity became volatile, following the implementation of the revised IAS 19 for pensions, as of January 1, 2013. Besides the results for the year (related to the 2020 and 2021 net losses) and 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 de-risking of the KLM ground staff pension plan in 2021, the non-cash impact of "Other Comprehensive Income", decreased significantly, but remains for some smaller defined benefit schemes. Please refer to note 10 Share Capital and note 11 Other reserves in the consolidated financial statements for more information.

Mitigating action(s): KLM needs to strengthen its balance sheet and equity. Given the 2020 and 2021 net losses, the equity position is negative at December 31, 2021. The potential non-cash changes in re-measurements of defined benefit plans, decreased significantly in 2021 but still exists and changes in fair value of cash flow hedges will remain volatile. Reference is made to the assessment of 'going concern' in the notes to the consolidated statements.

Insurance Risks

Risk: KLM's business activities and related processes involve a myriad of major and minor risks.

Mitigating action(s): Many of these risks are mitigated by measures, such as contingency plans, back-up facilities or mandatory insurance. The remaining risks are accepted or insured against. Further, 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 aircraft, other business risks are also controlled in the PCC. 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.

KLM has organised its operation in such a manner to anticipate on the 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 as described in the following chapters.

2. Management control process

2.1 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, 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 regular review meetings. 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.

2.2 Planning and 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 KLM and Air France;
- The Corporate five-year plan which translates KLM's vision into growth and investment. The corporate budget for the next financial year is fully embedded in the first year of the corporate five-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 2022 budget, which is included in the five-year plan, has been approved before the start of the financial year 2022; and
- The regular review meetings on a business level, where the performance of the businesses is evaluated (and updated) in the context of the budget.

2.3 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.

2.4 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 on a bi-annual basis to the Audit Committee, focusing on the variances between actuals versus budget and forecast, explaining incidental results recorded during the month and the variances in the full year forecast.

3. Internal Control

3.1 Internal Control

KLM has a system of internal control in order to provide reasonable comfort regarding reliability of accounting and financial information and to comply with 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. The AIR FRANCE KLM Internal Control Charter outlines the methodology to assess its effective implementation and functioning of financial internal controls. An important part of the Internal Control activities is to oversee the annual testing of the entity level controls, testing of the operational effectiveness of the transaction level controls 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. Based on information from the DoR and the Internal Control reporting during the year, at year-end an Internal Control memo is prepared and 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 further improved. This makes KLM more confident it will exert more robust control over its financial reporting.

Internal Control Charter

The AIR FRANCE KLM Internal Control Charter outlines the methodology 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.

3.2 Internal Audit

KLM has an independent Internal Audit Function (IAF) 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. Its overall assessment is positive.

The IAF aims to add value to the KLM Group and improve its operations by bringing a systematic and disciplined approach to evaluating and strengthening the effectiveness of decision making, risk management, internal control and governance processes.

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, the KLM Executive Team and the KLM Board of Managing Directors. An annual audit plan, covering the main processes and risks, 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 risk assessments and consulting engagements.

Engagements carried out are summarised in a report presenting the conclusions, a grading and highlighting findings, risks and related recommendations. The follow- up by business management is required and monitored.

The KLM Internal Audit department reports the bi-annually outcome of the audits to the Board of Managing Directors and to the Audit Committee of the KLM Supervisory Board.

Internal Audit Charter

To provide the internal auditors with an adequate base, a KLM Group Internal Audit Charter is in place.

This 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, the AIR FRANCE KLM Group Internal Audit Charter and the Dutch Corporate Governance Code.

4. Safety management

4.1 Safety Organisation and Governance

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 Integrated Systems Board (ISB) and the Safety Action Groups (SAGs).

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:
- Monitor 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 Systems Board

The ISB is a strategic meeting and is chaired by the Accountable Manager (Chief Operating Officer). The ISB sets policies, procedures and methods with respect to the Safety Management System (SMS). Its objective is the continuous development of the SMS for KLM, KLM E&M and KLM Cityhopper and to ensure the effectiveness of KLM's SMS processes, procedures and methods with respect to safety and compliance monitoring. The ISB 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. 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 Safety & Compliance Organisation (SCO) 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 Safety & Compliance Manager (SCM) within the (decentral) line organisation is responsible for the implementation of KLM's safety policy and related culture. Each SCM has a direct line and access to the highest responsible manager in the division or business unit.

Safety & Compliance Monitoring

The SCO is a centralised independent department, responsible for monitoring, measuring, policy and advice regarding operational, occupational and environmental safety & compliance and operational security.

4.2 Safety manual and references

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 SMS 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;
- Environment: ISO 14001; a 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.

5. Legal and Business Ethics Compliance

5.1 Compliance and Business Ethics Organisation

The Compliance and Business Ethics Framework, which has been adopted by the Board of Managing Directors and the Supervisory Board, ensures staff is capable of adhering to rules of conduct, internal procedures and relevant laws and regulations. Several expert functions, including the Compliance Officer, the Privacy Officer, the Corporate Legal Counsels and the Trade Compliance Officer, manage (parts of) the Compliance & Business Ethics 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 Compliance & Business Ethics Framework, excluding all operational safety, occupational safety, environmental safety and operational security compliance matters. The Compliance Committee will (i) specifically monitor the adherence by all concerned 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 applicable laws and regulations. The KLM Compliance Charter was released by the Board of Managing Directors and has subsequently been adopted by the Supervisory Board. The charter applies to all employees and regular temporary employees. Its purpose is to inform them regarding 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 Corporate Compliance Monitor is discussed with the Supervisory Board twice a year.

5.2 Compliance and Business Ethics Framework

The KLM Compliance & Business Ethics Framework ensures staff are capable of adhering to rules of conduct, internal procedures and relevant laws and regulations.

KLM Compliance Charter

The KLM Compliance Charter applies to all employees and regular temporary workforce. The charter informs 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.

Social rights and ethics charter

The KLM Group has published a Social Rights and 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: safety, business integrity, social responsibility and reporting. KLM has also implemented a Code of Ethics intended principally for employees in finance positions.

Anti-Fraud policy

An Anti-Fraud Policy is in place at KLM and includes 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 and antitrust

The AIR FRANCE KLM Anti-Bribery Manual and the AIR FRANCE KLM Gift & Hospitality Policy affirm KLM's commitment to conducting its business with loyalty, fairness, transparency and integrity, and in the strict respect of anti-corruption laws wherever it or its 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 Competition Law Compliance Manual targets employees who are or may become involved with competition law in the course of their professional duty. Compliance training sessions are organised to create awareness with regards to, among others, corruption and antitrust and a new competition law compliance e-learning was launched in 2021.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Board and governance

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

As part of an international group, 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 2020.

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.

"The Supervisory Board discusses KLM Group's strategy and approves major management decisions."

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, 2021, 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 State 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 State 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, 2021, 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.

In light of the EUR 3.4 billion financial support package provided in 2020, the Dutch government appointed a State Agent who is responsible for monitoring the execution of KLM's restructuring plan and its compliance with the other conditions under the financing agreements and the framework agreement. 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

While retaining overall responsibility, the Supervisory Board has three committees to which it has assigned some of its tasks: 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, 2021, 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 2, 2022. 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 (crisis related) 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. The KLM Works Council met representatives of the Board of Managing Directors on nine occasions.

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. The European Works Council held two plenary meetings and five Select Committee meetings.

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, 2021, one third of the members of the Supervisory Board was female. The Supervisory Board consists of four board members with Dutch nationality, four board members with French nationality and one board member with Canadian nationality.

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. Within this context, KLM is implementing the Dutch Gender Balance Act which entered into force on January 1, 2022. Pursuant to this Gender Balance Act, large NVs and BVs, such as KLM, must set an appropriate and ambitious target figure to promote gender diversity on its Board of Managing Directors and Supervisory Board as well as in certain categories of managerial functions. KLM is convinced that this Act will support the further optimisation of its diversity policy.

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 and management. The document clarifies rules and standards that are to be complied with and sets out expected behaviour. The document also serves as an umbrella for all available corporate 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 Whistle-blower policy.

Designated individuals are required to complete training on antitrust and competition laws, anti-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 submits the Corporate Compliance Monitor to the KLM Board of Managing Directors and the Supervisory Board bi-annually.

KLM had deployed an organisation dedicated to compliance and business ethics. Designated expert functions at corporate and business level 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 public 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 to 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.

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 pandemic continued to severely impact the world, our industry and our company. We maintained our approach to work along the four quadrants of crisis management, recovery, banks & governments and restructuring. Financial results continued to be negatively impacted by the pandemic in 2021, but revenues and operational results improved compared to 2020. Positive operating cashflows were generated and we did not have to draw additional amounts of the available State aid package in 2021, also supported by the extension of the wage tax deferral and the additional NOW subsidy. Timing and extent of further recovery will depend on the course of the COVID-19 pandemic and the impact of the Ukraine conflict.

During 2021, extra activities have been performed on risk management including IT security, safety management, internal control and compliance. Overall, the outcomes and progress give reasonable comfort despite the ongoing transformation. Further improvements are envisaged in 2022. In accordance with previous paragraphs on risk management and control, in addition to the going concern statement, all currently known circumstances taken into consideration, the Board of Managing Directors states to the best of its knowledge that:

- The Annual Report 2021 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 2021 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 Notes to the financial statements, a material uncertainty exists that may cast significant doubt on KLM's ability to continue as a going concern as a result of the uncertainty of the strengthening of the solvency position and timing and extent of further recovery despite the encouraging second half of 2021. Notwithstanding this material uncertainty, management believes, based on the current near cash position, the available credit lines facilities, the expected continued willingness of the Dutch State and bank syndicate to support KLM, the positive operating result in the second half of 2021 and the financial forecasts, that KLM will be able to continue to fulfil its financial obligations for at least twelve months. Therefore the financial statements have been prepared on the going concern assumption.

Report of the Supervisory Board

The Supervisory Board is entrusted with supervising and advising the Board of Managing Directors and overseeing the general course of KLM's businesses.
In addition, the Supervisory Board provides support to the Board of Managing Directors on the development of KLM's strategy for realising long-term value creation.
The Supervisory Board performs its tasks as defined by 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 interest of KLM, its businesses and all of its internal and external stakeholders.

Supervisory Board meetings

During 2021, the Supervisory Board held five regular and four extraordinary meetings. In addition, during the monthly Restructuring Progress Meetings, the Chairman of the Supervisory Board, the Audit Committee, the State Agent and the Board of Managing Directors discussed the execution of KLM's restructuring plan. Furthermore, the Supervisory Board convened for a two-day strategy meeting in order to deliberate in-depth on key strategic themes and strategic challenges ahead.

The Supervisory Board meetings were organised in accordance with the COVID-19 related government measures that were in force at those times. As a result, only the two-day strategy meeting was held as in person. The remainder of the meetings were held by means of a video call. Despite these challenges, the meetings of the Supervisory Board featured transparent and in-depth discussions.

Throughout 2021, the Supervisory Board focused on numerous business matters for which its consent was required. The agendas of the Supervisory Board meetings were hallmarked by the ongoing challenges caused by the COVID-19 crisis. The crisis plan established in 2020 (focusing on crisis management, banks & government, recovery trajectory and restructuring plan) therefore retained its relevance and functioned as an overarching framework for the updates provided to the Supervisory Board.

The Board of Managing Directors kept the Supervisory Board also well informed on any matters of importance that arose between the meetings. In addition, the Chairman of the Supervisory Board and the President & Chief Executive Officer engaged in direct dialogue on the progress of actual topics. At the same time, the Chairman of the Audit Committee had close contact with the Chief Financial Officer on financial topics. Executive sessions were arranged so that the Supervisory Board could also discuss topics in the absence of the Board of Managing Directors.

The Supervisory Board members showed maximum flexibility and availability when a call upon their supervision and advice role was made. They performed their tasks with the utmost diligence and reserved adequate time to perform these tasks. Except for a limited number of occasions, and for valid reasons, the Supervisory Board attended all meetings in 2021. The average attendance of the Supervisory Board meetings was 94.4 per cent.

Long-term value creation

Between 2015 and 2019, KLM made significant steps to realise its purpose and ambition of being a leading European network carrier in customer centricity, sustainability and efficiency. The successful implementation of this ambition provided KLM a relatively strong starting position to deal with the impact of the COVID-19 crisis.

In 2021, the Supervisory Board was extensively involved in the process of reviewing and assessing key strategic themes against the background of post COVID-19 reality. While KLM's business model remains valid and valuable, the environmental and societal challenges have shown that further significant steps will be needed for the transformation to sustainable aviation. Therefore, parallel to navigating through the COVID-19 crisis and executing the restructuring plan, KLM must keep its eyes open for the strategic challenges ahead. During a two-days strategy meeting, the Supervisory Board fully focused on sharpening the strategic challenges and crafting the next steps in response to these challenges. Throughout the year the Supervisory Board was well engaged in the Board of Managing Directors' process of development of KLM's strategy for realising long-term value creation. In addition, during the Restructuring Progress meetings (see chapter Board & Governance) the Board of Managing Directors updates the Chairman of the Supervisory Board, the Audit Committee and the State Agent on the execution of KLM's restructuring plan.

"The Supervisory Board supported the Board of Managing Directors' efforts to maintain a strong network."

Highlights 2021

The Board of Managing Directors extensively reported on the unpredictable evolution of the pandemic and the measures imposed by governments worldwide. The Supervisory Board fully supported the Board of Managing Directors' efforts to adjust to this rapidly changing environment. The implementation of the EU Digital COVID-19 Certificate has proved that for a sustainable recovery a coordinated approach between the countries is inevitable. The Supervisory Board supported the Board of Managing Directors' efforts to encourage governments to establish uniform travel measures.

COVID-19 measures have affected customers experience before, during and after their travel. Throughout 2021, the Supervisory Board was kept abreast of measures taken to optimise the customer's experience. The Board of Managing Directors also reported on the (further) implementation of Premium Comfort, Direct Aisle for Business Class and cabin layout optimisation. These investments are in line with KLM's strategy to prepare its business for the post COVID-19 era.

The Supervisory Board recognises that KLM's employees have to continuously adapt to new challenges posed by the pandemic. In the course of 2021, the Supervisory Board regularly discussed the wellbeing of KLM's employees and actions to mitigate the effects of the pandemic on them. Various meetings covered succession planning and employee satisfaction. The impact of the employee contributions required by the Dutch government was also discussed on a regular basis during the Supervisory Board meetings. The Supervisory Board fully supports the actions to retain existing employees and to attract new staff, both of which are essential for KLM's future.

The unpredictable spread of the virus and related government measures, heavily impacted KLM's network and operational performance. During multiple meetings in 2021, the Board of Managing Directors regularly reported on these matters. The Supervisory Board supported the Board of Managing Directors' efforts to maintain a strong network, because it enables KLM to swiftly adjust to new developments and opportunities.

To restore KLM's liquidity position that deteriorated due to the COVID-19 crisis, a support package of EUR 3.4 billion was provided by the Dutch government to KLM in 2020. Within the framework of this support package, a Restructuring Plan (with a five-year horizon) was made. Throughout 2021, the Supervisory Board deliberated in depth on the execution of this plan. The Supervisory Board urged the Board of Managing Directors to keep assessing the feasibility of structural cost savings. Parallel to the Supervisory Board meetings, the execution of the Restructuring Plan is being monitored during the Restructuring Progress Meetings. The State Agent (see chapter Board & Governance) has a standing invitation to attend the Supervisory Board, the Audit Committee as well as the Restructuring Progress meetings.

From the second quarter of 2021, the Supervisory Board deliberated in depth on the outcome of the The Hague Court of Appeal's ruling regarding the transfer of employment contracts of (former) Martinair pilots to KLM. The Board of Managing Directors regularly updated the Supervisory Board on the implementation of the court case. The Supervisory Board underscored the importance of ensuring operational safety (including the mood on the work floor), minimising operational and financial impact and to work on legally sustainable solutions.

During the regular Supervisory Board meetings, the Chief Executive Officer of AIR FRANCE KLM (also a member of the KLM Supervisory Board) updated on the developments at AIR

FRANCE KLM Group and Air France. The Supervisory Board underscores that close cooperation within the AIR FRANCE KLM Group is a prerequisite to emerge stronger from the crisis and to meet the challenges ahead.

The COVID-19 pandemic has brought a new dimension to the political and public discussion on the transformation to sustainable aviation. The Supervisory Board fully supports the Board of Managing Directors' efforts to reinforce KLM's leading position in sustainability. The Supervisory Board also took note of the European Commission's Fit for 55 package, established to ensure that the European Union meets its climate goals. The Supervisory Board welcomes the measures in this package, but also emphasises that the level playing field should be ensured. Furthermore, given KLM's societal role and responsibilities, the Supervisory Board endorsed KLM's significant efforts to transport COVID-19 vaccines and medical supplies throughout the world.

"The Supervisory Board took note of the European Commission's Fit for 55 package."

During the year, the Supervisory Board closely monitored KLM's short and longer-term fleet development strategy. As regards the medium haul fleet, the Board of Managing Directors intensively involved the Supervisory Board on the replacement of current Boeing 737NG fleet by the Airbus A320neo and A321neo family. The Supervisory Board underlines this significant step, given its contribution to KLM's sustainability ambitions, customer experience and cost efficiency. Regarding the long-haul fleet, the Supervisory Board welcomed the suspension of the EU/US import tariffs, which saved KLM a significant amount of import tariffs on the delivery of two Boeing 777-300ER aircraft in 2021.
At the end 2021, the Supervisory Board discussed the budget for financial year 2022. Following in-depth discussions on the recovery scenarios and necessary flexibilities, the Supervisory Board approved the final budget for 2022.

Other topics discussed during the financial year, some of which are recurring, were the competitive landscape, fuel hedging strategy and the relations and discussions with the Works Council.

Financial topics

The uncertainty caused by the COVID-19 crisis continued to severely affect KLM's financial recovery in 2021. Within this COVID-19 reality, the Supervisory Board critically monitored the progress on the budget as well as the annual plan on a frequent basis. As border restrictions imposed by the governments immediately affected the production scenarios, the Supervisory Board urged the Board of Managing Directors to closely review and adapt the recovery forecasts in light of new developments.

Within the framework of the Restructuring Plan, the Supervisory Board closely monitored the financial targets. Also thanks to the availability of the Dutch government supported loan package, KLM maintained a solid cash position, but the equity position has further deteriorated in 2021. The Supervisory Board regularly discussed the various scenarios to strengthen KLM's balance sheet. Discussions between the Dutch state, AIR FRANCE KLM and KLM have not yet led to a satisfactory outcome.

The Supervisory Board acknowledges that the company's financial situation required immediate reductions to the initial investment levels. However, at the same time, the Supervisory Board emphasised that the longer-term investments in sustainable aviation and innovation should be maintained.

The Supervisory Board acknowledges that the forecasts and analysis on financial recovery depend on how the crisis evolves. The year 2021 has shown that sustainable recovery mainly depends on the structural loosening of border restrictions.

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 in the organisation and enables prompt interaction between the Board of Managing Directors, the Audit Committee and the Supervisory Board.

During financial year 2021, the Supervisory Board was regularly updated on KLM's strategic, financial, operational health and compliance risks. The Supervisory Board discussed with the Board of Managing Directors the biggest risks and the shift of these risks during the crisis.
With the advancement of cyber risks deriving from ongoing digitalisation, cyber security in 2021 was also a significant topic on the agenda of the Supervisory Board. The Supervisory Board reviewed and challenged the Board

of Managing Directors' actions to enhance KLM's data protection and cyber security.

Compliance and business ethics

Within the KLM's Legal & Business Ethics Compliance Framework and the Compliance Charter, the Supervisory Board monitored KLM's compliance with rules and regulations. In order to align the timing with the internal audit activity report, the reporting cycle has been changed from April/October to February/July. During the February and July meeting, the Supervisory Board was updated on the main compliance activities. The Supervisory Board was informed that the strengthening of the Privacy Office and related restructuring have been put on hold due to COVID-19. Furthermore, the Board reported on the implementation of the speak up policy. KLM has committed itself to follow the principles and best practice provisions of the Corporate Governance Code.

Evaluation

In accordance with the Dutch Corporate Governance Code and its own regulations, the Supervisory Board conducted a self-assessment early 2021. To facilitate the self-assessment, a questionnaire was sent to all individual Supervisory Board members. In addition, the Chairman of the Supervisory Board held individual interviews with the Supervisory Board members as well as the members of the Board of Managing Directors. The feedback from the questionnaire and interviews was discussed during the Supervisory Board meeting of May 2021.

Overall, the Supervisory Board was positive about its own functioning and its relationship with the Board of Managing Directors. The Supervisory Board members also appreciate the openness and constructive cooperation within the Board. As a result, there was no need for substantial measures. However, to further optimise its functioning the Board agreed to implement some suggestions.

Induction program

For each new member of the Supervisory Board a tailor-made induction program is being prepared. During the multiple-day program, new Board members meet the members of the Board of Managing Directors and visit KLM's premises in Amstelveen as well as 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 her appointment, a multi-day induction program for Mrs. Oudeman has been prepared. Furthermore, a program with physical meetings was prepared for Mr. Nibourel in addition to the virtual induction program organised in 2020. All physical visits have taken place in accordance with the applicable governmental measures related to COVID-19.

Composition of the Supervisory Board

Effective as of the end of the Annual General Meeting of Shareholders of 2021, Mrs. De Gaay Fortman stepped down as Supervisory Board member of KLM. Upon recommendation of KLM's Works Council, Mrs. Oudeman was appointed as Supervisory Board member for a first term of four years.

The KLM Supervisory Board expressed its gratitude to Mrs. De Gaay Fortman for her valuable contributions to the company, the Board and Works Council.

The current appointment term of Mrs. Pellerin and Mr. 't Hart will end as per the closure of the Annual General Meeting of Shareholders in May 2022. For the position of Mrs. Pellerin, AIR FRANCE KLM has the right to propose a candidate. For the position of Mr. 't Hart, the KLM Works Council has the enhanced right to recommend a candidate.
See chapter 'Supervisory Board and Board of Managing Directors' for the composition of the Supervisory Board.

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 in July 2016. Mr. Smith, in his capacity as Chief Executive Officer of AIR FRANCE KLM, is not considered independent.

Composition of the Board of Managing Directors

The Board of Managing Directors consists of three members, Mr. Elbers, Chief Executive Officer, Mr. Swelheim, Chief Financial Officer, and Mr. De Groot, Chief Operating Officer. No changes materialised in the composition of the Board of Managing Directors during the year 2021.

In view of the expiration of Mr. Swelheim's term in the function of Managing Director and Chief Financial Officer as per the Annual General Meeting of May 2022, the Supervisory Board will propose his reappointment for a new term of two years, thereby expressing its confidence and support. A request for advice has been submitted to KLM's Works Council.

On January 13, 2022, the KLM Supervisory Board has, after close consultation with Mr. Elbers, announced that Mr. Elbers will not be proposed for appointment for a third term as President and Chief Executive Officer after the expiration of his second term as per the Annual General Meeting of 2023. This has enabled the Supervisory Board to start a thorough process for a successor in a timely manner. On March 31, 2022, the Supervisory Board has announced that it intends to nominate Marjan Rintel as the new President and Chief Executive Officer of KLM effective July 1, 2022. A request for advice has been submitted to KLM's Works Council.

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 monitors 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 2021, the Audit Committee held three regular meetings and one extraordinary meeting. All meetings were held by means of a video call due to COVID-19 restrictions. All members of the Audit Committee attended all of the meetings. Furthermore, the Chief Financial Officer, the Vice President Internal Audit, the Senior Vice President Corporate Controller and the external auditors also attended all Audit Committee meetings. Senior managers and other experts within KLM were invited to the Audit Committee's December meeting. The State Agent, responsible for monitoring the execution of the Restructuring Plan, has a standing invitation to attend the Audit Committee meetings.

The meeting held in February 2021, primarily focused on KLM's financial results for 2020. Furthermore, the Audit Committee discussed the KLM Group operational risk report, internal audit activity report for the July-December 2020 period and KLM's fuel hedging policy.

In March 2021, the Audit Committee organised an extraordinary meeting to discuss the KPMG/Deloitte 2020 statutory audit report. During this meeting, the Audit Committee also discussed the evolvement of KLM's liquidity and equity position.

During the July 2021 meeting, the Audit Committee discussed KLM's first half-year results. Particular attention was paid to cost reductions. Also, covenants related to the EUR 3.4 billion Dutch State financial support package and the EBITDA development were discussed during this meeting. Furthermore, the KPMG/Deloitte audit fee proposal for financial year 2021 was discussed and approved by the Audit Committee.

The meeting held in December 2021, was dedicated to the financing & financial risk plan for 2022. The Audit Committee also discussed the recapitalisation scenarios. Discussions between the Dutch state, AIR FRANCE KLM and KLM have not yet led to a satisfactory outcome. Furthermore, the 2021 management letter of the external auditors was discussed.

During the February 2022 meeting, KLM's financial results for 2021 were discussed. Furthermore, the summary of the internal audit activity report for the period July - December 2021 as well as the KLM Group Operational Risk report were discussed during this meeting. During the April 2022 meeting KLM's Annual report and the KPMG/Deloitte statutory audit report were discussed.

Remuneration Committee

The Remuneration Committee prepares a clear 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. In addition, 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. The Remuneration Committee convened for two meetings in 2021. All members attended both meetings.

Due to the retirement of Mrs. De Gaay Fortman, the composition of the Remuneration Committee was amended during financial year 2021. The Remuneration Committee consists of Mr. Enaud, Mr. 't Hart and Mrs. Oudeman. Mrs. Oudeman chairs the Remuneration Committee.
Further information can be found in the Remuneration Policy and Report chapter of this annual report.

Nomination Committee

The Nomination Committee drafts 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.

Due to the retirement of Mrs. De Gaay Fortman, the composition of the Nomination Committee was amended during financial year 2021. The Nomination Committee consists of Mr. Enaud, Mr. 't Hart and Mrs. Oudeman. Mr. 't Hart chairs the Nomination Committee.
The Nomination Committee met on two occasions during the financial year and all members attended. During these meetings, 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 financial year 2021, no distribution of dividends to any class of share shall be made.

Apart from this, the Dutch State 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 2021

The Supervisory Board hereby presents the annual report and the financial statements for financial year 2021. 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 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 financial year 2021.

Closing remarks

The Supervisory Board reflects on a year in which the challenges posed by COVID-19 have continued to affect KLM's customers and employees. Despite the exceptional circumstances, all employees at KLM keep showing extraordinary efforts to weather the crisis. The Supervisory Board is aware of the personal impact and the consequences of the restructuring on the entire KLM organisation and its employees worldwide.

On behalf of the Board, I hereby would like to express my gratitude to the Board of Managing Directors, the Executive Team and all colleagues around the world for their dedication and resilience to KLM's customers and its stakeholders.

Cees 't Hart
Chairman

Remuneration report and policy

The financial year 2021 was the second consecutive year dominated by COVID-19. Therefore, as was the case in 2020, and in light of the extraordinary circumstances as well as the conditions attached to the State financial support package, also in 2021 the execution of KLM's regular remuneration policy has not been applied. It will not be applied for as long as the support package has not been repaid.

Similar to 2020, this chapter will first deal with the explanation of the actual remuneration in 2021, which is based on the conditions imposed by the Dutch government. The regular existing remuneration policy, applicable for the Board of Managing Directors, is included after this explanation.

Total remuneration in 2021

In the context of the State financial support package, the government imposed certain conditions (among 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 2021 is as follows:

	CEO	COO / CFO
Base salary	no change	no change
Short-term incentive 2021	NO	NO
Long-term incentive 2021 (PPS)	NIL granting	NIL granting
Long-term specific AFKL shares 2021	NIL granting	n.a.
Overall reduction/pay cut	-47%	-34%
Actual 2021 versus 2019		

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 2021 is as below. The actual reduction/pay cut of 47% for the CEO and 34% for the COO and CFO meet the *"at least 20% reduction"* (versus 2019) condition set by the Dutch government.

(amounts in EUR)	2021 (reduction compared to 2019)	2020 (reduction compared to 2019)	2019
P.J.Th. Elbers	705,142 -47%	722,818 -45%	1,322,953
R.M. de Groot	494,041 -34%	494,829 -34%	754,217
E.R. Swelheim	508,116 -34%	474,870 -38%	764,753
Total	1,707,299 -40%	1,692,517 -40%	2,841,923

The increase of Mr. Swelheim's total remuneration is due to higher pension cost (age related) and a less negative revaluation of phantom shares compared to 2020.
Further details of the remuneration received by the individual members of the Board of Managing Directors are provided in note 33 of the financial statements

2. Base salary

Pursuant to KLM's remuneration policy and taking into account external reference data as well as requirements and responsibilities of the Managing Directors' position, base salaries are in in principle set at around the median of the market level. However, and as a general remark, the current base salaries of the Board of Managing Directors remain significantly below this median as well as below that of previous KLM CEOs in the case of Mr. Elbers.

The base salaries of the Managing Directors remain unchanged compared to December 2019. In 2021, Mr. Elbers' base salary was EUR 600,000. The base salaries of Messrs. Swelheim and De Groot are EUR 390,000.

3. Short-term incentive plan

As per the conditions attached to the State financial support package, no payment has been made in 2021 under KLM's short-term incentive plan.

4. Long-term incentive plan

As per the conditions attached to the State financial support package, no phantom shares have been granted in 2021 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 2021.

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 8.1 for the 2021 financial year, which is in line with pay ratio of 2020 (7.6) and 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. KLM will continue to monitor and disclose the development of this ratio.

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: no variable income was awarded or paid in 2021

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 policy has not been applied in 2021 with respect to the variable income (both short term - and long term incentive). For the sake of completeness, a summary of the policy, 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 proposed by the Supervisory Board to the General Meeting of Shareholders and, in accordance with the Articles of Association, adopted by this meeting.

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.

"In line with the Dutch Corporate Governance Code, internal pay ratios are an important input."

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 components:

1. Base salary (which is set at around the median of the market, taking into account external reference data as well as requirements and responsibilities of the Managing Directors' position);
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 a 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 112,189 (2021). 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 112,189, 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, severance pay in the event of dismissal has been capped 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 for the Supervisory Board

Remuneration 2021

In response to the COVID-19 crisis, the Supervisory Board members voluntarily agreed to reduce their remuneration by 20 percent for the second half of 2020. The Supervisory Board has decided to continue this voluntary exceptional reduction for 2021. As a consequence, the fixed fee for the Chairman amounted to EUR 34,000 and for the other members to EUR 21,200.

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 per December 31, 2021)

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 Talan, Visiativ, ABMI and Erium, Managing Partner of Towerbrook and Omnes Capital, President of ANSA Former Group CEO Sopra Steria Group
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	Chairman of Association de Garantie des Salaires, Chairman of Greater Paris Investment Agency, Chairman of INSA-Lyon (Engineer School) , Chairman of ESSCA (Management School), Board Member of SMILE, President OneUp Former CEO Accenture France Benelux
Marjan Oudeman**	1958	Dutch	2021 (first) 2021 - 2025	Member of the Boards of UPM-Kymmene Corporation, NLMK, SHV Holdings N.V., Solvay SA, Chairman of the Supervisory Board of ARC CBBC Former President of the Executive Board of Utrecht University Former member of the Board of Statoil ASA/Equinor ASA
Fleur Pellerin ***	1973	French	2018 / (first) 2018-2022	CEO Korelya Capital, Korelya Consulting and Korelya Fondateurs/ Board member of Schneider Electric, board member of Devialet, board member of Talan, board member of Ledger, Board member of Stanhope, Board member of Gaumont, President of Canneseries Festival
Pierre François Riolacci ***	1966	French	2016 (second) 2020 - 2024	EVP Finance, CSR, Procurement of Engie Former CEO Europe of ISS World Services Former Group CFO of ISS World Services Former CFO of AIR FRANCE KLM, Former CFO of Veolia
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, 2021 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, 2021)

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

2021 Financial Statements

KLM Royal Dutch Airlines Consolidated balance sheet

In millions of Euros		December 31, 2021	December 31, 2020
Before proposed appropriation of the result for the year	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	1	5,095	5,398
Right-of-use assets	2	1,630	1,745
Intangible assets	3	512	475
Investments accounted for using the equity method	4	17	18
Other non-current assets	5	154	175
Other financial assets	6	570	411
Deferred tax assets	17	122	77
Pension assets	18	-	211
		8,100	8,510
Current assets			
Other current assets	5	230	78
Other financial assets	6	162	295
Inventories	7	220	180
Trade and other receivables	8	1,094	902
Cash and cash equivalents	9	819	482
		2,525	1,937
TOTAL ASSETS		10,625	10,447
EQUITY			
Capital and reserves			
Share capital	10	94	94
Share premium		474	474
Reserves	11	426	(441)
Retained earnings		(433)	1,303
Result for the year		(1,259)	(1,547)
Total attributable to Company's equity holders		(698)	(117)
Non-controlling interests		3	2
Total equity		(695)	(115)
LIABILITIES			
Non-current liabilities			
Financial debt	12	1,305	1,129
Lease debt	13	879	872
Other non-current liabilities	5	1,520	931
Other financial liabilities	14	1,840	1,924
Deferred income	16	259	258
Provisions for employee benefits	18	372	429
Return obligation liability and other provisions	19	1,263	1,219
		7,438	6,762
Current liabilities			
Trade and other payables	20	1,794	1,485
Financial debt	12	155	226
Lease debt	13	288	334
Other current liabilities	5	31	174
Other financial liabilities	14	188	193
Deferred income	16	1,081	998
Provisions for employee benefits	18	27	23
Return obligation liability and other provisions	19	318	367
		3,882	3,800
Total liabilities		11,320	10,562
TOTAL EQUITY AND LIABILITIES		10,625	10,447

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	2021	2020
Revenues	23	6,065	5,120
Expenses			
External expenses	24	(3,702)	(3,455)
Employee compensation and benefit expenses *	25/28	(2,792)	(2,079)
Other income and expenses	26	160	127
Total expenses		(6,334)	(5,407)
EBITDA*	28	(269)	(287)
Amortisation, depreciation, impairment and provisions *	27/28	(907)	(1,058)
Income from operating activities*	28	(1,176)	(1,345)
Cost of financial debt	29	(219)	(164)
Income from cash and cash equivalents	29	14	16
Net cost of financial debt		(205)	(148)
Other financial income and expenses	29	(135)	(192)
Income before tax		(1,516)	(1,685)
Income tax income/(expense)	30	255	136
Net income after tax		(1,261)	(1,549)
Share of results of equity accounted investees		3	3
(Loss) for the year		(1,258)	(1,546)
Attributable to:			
Equity holders of the Company		(1,259)	(1,547)
Non-controlling interests		1	1
		(1,258)	(1,546)
Net (loss) attributable to equity holders of the Company		(1,259)	(1,547)
Dividend on priority shares		-	-
Net (loss) available for holders of ordinary shares		(1,259)	(1,547)
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) per share (in EUR)		(26.90)	(33.05)
Diluted (loss) per share (in EUR)		(26.90)	(33.05)
* See note 28 Alternative performance measures (APM) for the reconciliation to adjusted EBITDA of EUR 695 million positive (2020: EUR 75 million negative) and adjusted income from operating activities of EUR 227 million negative (2020: EUR 1,154 million negative). Also see the Alternative performance measures section in the Notes to the consolidated financial statements			
Income from operating activities*	28	(1,176)	(1,345)
Total APM adjustments income from operating activities	28	949	191
Adjusted income from operating activities (as per AIR FRANCE KLM Group reporting)	28	(227)	(1,154)

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	2021	2020
(Loss) for the year	(1,258)	(1,546)
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	(127)	375
Change in fair value transferred to profit or loss	289	(391)
Exchange differences on translation foreign operations	(1)	1
Tax on items of comprehensive income that will be reclassified to profit or loss	(42)	11
Total of comprehensive income that will be reclassified to profit or loss	119	(4)
Remeasurement of defined benefit pension plans	729	(182)
Fair value of equity instruments revalued through OCI	3	8
Tax on items of comprehensive income that will not be reclassified to profit or loss	(173)	73
Total of comprehensive income that will not be reclassified to profit or loss	559	(101)
Total of other comprehensive income after tax	678	(105)
Recognised income and expenses	(580)	(1,651)
- Equity holders of the company	(581)	(1,652)
- 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, 2021	94	474	(441)	1,303	(1,547)	(117)	2	(115)
Transfer to retained earnings	-	-	-	(1,547)	1,547	-	-	-
Net gain/(loss) from cash flow hedges	-	-	162	-	-	162	-	162
Fair value of equity instruments revalued through OCI	-	-	3	-	-	3	-	3
Exchange differences on translation foreign operations	-	-	(1)	-	-	(1)	-	(1)
Remeasurement of defined benefit pension plans	-	-	729	-	-	729	-	729
Transfer to/ (from) retained earnings	-	-	189	(189)	-	-	-	-
Deferred tax on items taken directly to or transferred from equity	-	-	(215)	-	-	(215)	-	(215)
Net income/(expense) recognised directly in equity	-	-	867	(1,736)	1,547	678	-	678
(Loss) for the year	-	-	-	-	(1,259)	(1,259)	1	(1,258)
Movement recognised income/(expenses)	-	-	867	(1,736)	288	(581)	1	(580)
Dividends paid	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-
As at December 31, 2021	94	474	426	(433)	(1,259)	(698)	3	(695)

	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 to/ (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)
Movement 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)

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	2021	2020
(Loss) for the year		(1,258)	(1,546)
Adjustments for:			
Depreciation, amortisation and impairment	27	942	1,049
Changes in provisions	27	(21)	30
Results of equity shareholdings		(3)	(3)
Results on sale of equity accounted investments		-	(16)
Changes in pension assets		28	54
Changes in deferred tax	30	(255)	(54)
Other changes **		1,033	(27)
Net cash flow from operating activities before changes in working capital		**466**	**(513)**
Changes in:			
(Increase) / decrease in inventories		(48)	103
(Increase) / decrease in trade receivables		(79)	333
Increase / (decrease) in trade payables		198	(306)
(Increase) / decrease in other receivables and other payables		663	89
Change in working capital requirement		**734**	**219**
Net cash flow from operating activities		**1,200**	**(294)**
Purchase of intangible fixed assets	3	(132)	(111)
Purchase of aircraft	1	(332)	(557)
Proceeds on disposal of aircraft		15	31
Purchase of other tangible fixed assets	1	(49)	(98)
Proceeds on disposal of other (in-)tangible fixed assets		17	54
Proceeds on sale of equity accountend investees		4	17
Dividends received		1	-
Proceeds on short-term deposits and commercial paper		(12)	(6)
Net cash flow used in investing activities		**(488)**	**(670)**
Proceeds from long-term debt		577	2,092
Repayment on long-term debt		(679)	(986)
Payments on lease debt		(315)	(379)
Proceeds from long-term receivables		(161)	(16)
Repayment on long-term receivables		195	64
Dividend paid		(1)	(19)
Net cash flow used in financing activities		**(384)**	**756**
Effect of exchange rates on cash and cash equivalents		9	(6)
Change in cash and cash equivalents		**337**	**(214)**
Cash and cash equivalents at beginning of period		482	696
Cash and cash equivalents at end of period *	9	819	482
Change in cash and cash equivalents		**337**	**(214)**
Interest paid (flow included in operating activities)		(188)	(136)
Interest received (flow included in operating activities)		3	4

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 1,474 million as at December 31, 2021 (December 31, 2020 EUR 1,031 million)

** Other changes 2021 of EUR 1,033 million, mainly includes the non-cash settlement of the KLM Ground staff plan of EUR 875 million. Reference is made to note 28 Alternative performance measures

In millions of Euros	2021	2020
Net cash flow from operating activities	1,200	(294)
Net cash flow used in investing activities (excluding investments in and proceeds on sale of equity accountend investees, dividends received and purchase of short-term deposits and commercial paper)	(481)	(681)
Free cash flow	**719**	**(975)**
Payments on lease debt	(315)	(379)
Adjusted free cash flow*	**404**	**(1,354)**

* See the Alternative performance measures section in the Notes to the consolidated financial statements

Financial Statements financial year 2021

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 April 7, 2022 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on May 2, 2022.

Going concern

Developments

Since the beginning of 2020, the worldwide spread of COVID-19 has had a major impact on air traffic around the world and consequently also on KLM. The very stringent conditions on the global travel adopted by many countries as of March 2020 resulted in a drastic reduction in air traffic in 2020. In the first half of 2021, new measures have been put in place by the Dutch government to slow the spread of the virus and travel restrictions have been tightened globally following the emergence of new variants of the virus, again limiting air traffic.

However, the second half of 2021 was marked by a strong recovery of traffic in summer and during the Christmas holiday period thanks to the gradual reopening of borders. Capacity in the third and fourth quarters of 2021 stood at a respective 74 per cent and 76 per cent relative to its level in the third and fourth quarters of 2019 (pre-COVID-19).

As a result of the ongoing increase of traffic in the second half of 2021 and aforementioned measures, KLM significantly improved its adjusted income from operating activities from EUR 1.2 billion negative in 2020 to EUR 0.2 billion negative in 2021. Both years include NOW support, respectively EUR 1.0 billion in 2020 and EUR 0.8 billion in 2021.

In addition KLM managed to improve its adjusted free cash flow from EUR 1.4 billion negative in 2020 to EUR 0.4 billion positive in 2021. As a result also KLM's net debt decreased from EUR 3.5 billion end 2020 to EUR 3.1 billion end 2021, which excludes the deferral of wage taxes of EUR 1.5 billion as per year-end 2021 (EUR 0.9 billion as per December 31, 2020).

At the end of 2021 the deployment of the vaccination allowed the further ease of travel restrictions across the world and negligible impact of the Omicron variant the traffic has been maintained. Also in the first months of 2022 we see an ongoing recovery of traffic. Performance in 2022 and the timing and extent of recovery will depend on the further course of the COVID-19 pandemic and the economic impact of the Russia/Ukraine conflict.

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, among others, a reduction of the capacity offered by the network, limiting leased aircraft extension options, strong reduction of the workforce, other cost savings measures, reassessing of capital expenditures and cash preservation measures.

KLM continuously reassesses capital expenditures, cost saving initiatives and internal projects enabling KLM to control costs expenditures despite the increase in capacity in 2021. Certain measures include deferred or reversed entitlements of the employee's profit sharing scheme, salary measures and arrangements made with suppliers about improved payment terms. During 2020 and 2021, around 5,800 FTE left the Company through voluntary departure plans and discontinuation of temporary contracts.

By October 2020, KLM finished 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 per cent of the EUR 2.4 billion RCF. The restructuring plan includes financial and non-financial conditions. The non-financial conditions include, among others, a reduction of at least 15 per cent of manageable costs, reduction of labour conditions for all staff and to meet certain sustainability goals. The financial covenants include a 12 month rolling interest coverage ratio and a ratio of consolidated unsecured assets to consolidated unsecured net debt. The restructuring plan was approved by the Dutch State on November 3, 2020, ensuring the EUR 3.4 billion financing package. For 2020 and 2021 all cost reduction targets as well as the financial covenants have been met.

Concerning the non-financial conditions, as part of the restructuring plan, related to the State aid between the Dutch State, KLM and AIR FRANCE KLM, early 2022, the Dutch State agent assessed that KLM does not comply with the non-financial covenant regarding termination of facilitation of possible tax avoidance by employees. KLM is currently discussing this topic with the Dutch State agent to arrive at an acceptable solution.

As per December 31, 2021, KLM has drawn EUR 942 million of the State Loan / RCF and EUR 2,458 million is available for future liquidity requirements. In 2021 no additional drawings have been made. Together with the near cash position of EUR 1.5 billion (reference is made to the footnote in the Consolidated cash flow statement), the available liquidity by December 31, 2021, is close to EUR 4.0 billion.

In addition, during 2020 and 2021 KLM was granted around EUR 1.8 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 1.5 billion to be repaid as from October 2022 over a period of 60 months. As from October 2021 KLM continued to pay the regular monthly wage tax and social securities.

Liquidity

Despite the high level of liquidity by the end of 2021, special attention is given in the 2022 budget and recent developments to the inherent risks relating to the uncertainties for the long- and short-term liquidity. This in relation to the available undrawn credit line of EUR 2,458 million from the State Loan / RCF, applicable conditions and covenants in the State Loan / RCF and due to the fact that there is an increased working capital requirement.

The short term liquidity risk is related to the covenants included in the State Loan / RCF and have been measured for the first time at the end of September 2021 and subsequently every quarter. The September 30, 2021 and the December 31, 2021 covenants were met and the 2022 budget projects that no covenants will be breached. According to the five-year forecast plan, used for KLM's mid-term planning and forecasting, also the covenants in 2023 will not be breached.

The long-term liquidity risks consist of not being able to finance future fleet investments, which is part of our restructuring plan, due to the unsustainable solvency position as per December 31, 2021. Discussions between the Dutch state, AIR FRANCE KLM and KLM have not yet led to a satisfactory outcome. Therefore there is an uncertainty over the strengthening of the solvency position.

Scenario modelling

Throughout 2021, KLM has periodically prepared financial scenarios that were updated with the assessed financial impact of information about customer demand, travel restrictions, releases imposed by governments and development of the COVID-19 virus worldwide. These scenarios were shared with the KLM Supervisory Board and the Dutch State. To date the Dutch State has continued its support to Dutch companies by extending measures like NOW when "lockdown" measures and travel restrictions were extended.

In December 2021, KLM presented its budget for 2022 to the KLM Supervisory Board. In determining the appropriate basis of preparation of the financial statements for the year ended December 31, 2021, KLM's Board of Managing Directors and Supervisory Board are required to consider whether the Group can continue its operations for at least, but not limited to, the coming 12 month period after the date of signing of these financial statements.

The budget for 2022 assumes, after the increase of traffic in the second half year 2021, a further increase of passenger revenues as from April 2022 and presumed lower restrictions for reopening of the Asia-Pacific region in the second half of 2022. In addition, it is assumed that KLM will be successful in reducing the manageable cost, as a result of cost control and employee benefit reductions.

Based on the 2022 budget it is expected that KLM has sufficient liquidity, mainly driven by the following factors:

» a high level of variable 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 additional new financing of aircraft delivered from manufacturers; and
» other measures available to management, e.g. FTE reductions.

It's too early to assess the full effect of the conflict in Ukraine on KLM. The direct effect of not flying to and over Russia is limited, however longer term effects on for example fuel prices and travel behavior are still uncertain.

Sensitivity test

As the timing and extent of the recovery of passenger demand and possible change in travel behavior is uncertain, KLM modelled a scenario assuming a decrease of 10 per cent of activity in 2022 compared to the 2022 budget, to assess whether there is sufficient 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 production related costs, KLM would have enough liquidity and financing facilities to continue its operation.

Further actions can be:

» further optimisation and reduction of the network and the capacity in order to only operate flights that have a positive incremental impact in terms of operating cash flow;
» deferral or limitation of capital expenditure or asset disposals;
» systematic refinancing of new aircraft delivered during the period;
» further significant restructuring; and
» additional costs reductions.

Based on the sensitivity no covenants will be breached in this scenario. Nevertheless, in the event that this scenario transpires, if for example further increase of passenger revenues as from April 2022 and the presumed reopening of the Asia-Pacific region in the second half of 2022 further recovery does not occur, a breach of covenants may occur. As a consequence the State Loan/RCF may be payable on demand. If KLM wants to maintain its current strong liquidity position, 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

Although the recovery in the second half of 2021 is encouraging the timing and extent of recovery in combination with the uncertainty of the strengthening of the solvency position, a material uncertainty exists that may cast significant doubt on KLM's ability to continue as a going concern. Notwithstanding this material uncertainty, management believes, given the financial forecasts, near cash position of EUR 1.5 billion and the available credit lines facilities of EUR 2.5 billion (in total EUR 4.0 billion) at the end of 2021, and the expected continued willingness of the Dutch State and bank syndicate to support KLM, that KLM will be able to continue to fulfil its financial obligations for at least 12 months and as such continue on a going concern basis. Therefore, these financial statements have been prepared on the going concern assumption.

Subsequent events

Ukraine crisis

The crisis in Ukraine and the subsequent sanctions imposed by the US and EU (and in return by Russia) impact KLM's activity and has created uncertainty regarding the development of the world economy, the airline industry, AIR FRANCE KLM and KLM Group. The present situation is uncertain, which makes it difficult to assess the possible impact.

Airbus order

On December 16, 2021, the AIR FRANCE KLM Group announced the decision to place a firm order for 100 Airbus A320neo family aircraft – alongside purchase rights for 60 additional aircraft, to renew the fleets of KLM and Transavia Netherlands. The order covers Airbus A320neo and Airbus A321neo aircraft and has for KLM Group a potential expected cash outflow between EUR 80 million and EUR 100 million in 2022. Benefiting from the latest technological innovations, the A320neo family aircraft offer the best performance in their category for the network needs of the Group's airlines. Compared to previous generation aircraft, they offer a unit cost reduction of more than 10%, as well as a 15% reduction in fuel consumption and CO_2 emissions. Their noise footprint is also 50% lower.

End February 2022 the purchase agreements for these 100 Airbus A320neo family aircraft have been signed between Airbus and KLM N.V., Transavia Netherlands and Transavia France. The distribution of the number of aircraft over the three airlines will be announced at a later stage.

Antitrust investigations

Appeal against the European Commission's decision in the air cargo sector has been rejected. Reference is made to note 22 Contingent assets and liabilities.

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, 2021. 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 2021 financial statements

» Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial instruments: Disclosures" and IFRS 16 "Leases". From January 1, 2021, the Group has applied the amendments to IFRS 9, IFRS 7 and IFRS 16 in connection with "Phase 2" of the interest rate benchmark (from January 1, 2020, "Phase 1" has been applied). These amendments stipulate in particular the accounting treatment to be applied when an old benchmark interest rate is replaced by a new benchmark in a given contract, as well as the impact of this change on hedging relationships affected by the IBOR reform. The Group has little exposure to the indices affected by the reform. The application of these amendments has no significant impact on the Group's financial statements as of December 31, 2021.

» With regard to the disappearance of the USD LIBOR rates, scheduled for June 2023, the Group does not anticipate any particular risk relating to the transition to the new reference index and which will concern its debt and derivative contracts.

» Amendments to IFRS 16 "Leases". This amendment extends the simplification whereby lessees can account for lease relief related to the COVID-19 as if it were not a contract amendment. This is tantamount to recognising the impact of the rent relief in the profit or loss for the period and not to smoothing it over the remaining term of the contract. The application of this amendment has no impact on the Group's financial statements as of December 31, 2021.

» IFRS IC decision on IAS 19 "Employee Benefits". This IFRS IC decision deals with the methods for allocating over time the expense related to defined benefit plans that meet the following three conditions:
» The definitive acquisition of the benefits is conditional on the presence in the company at the time of retirement;
» The amount of the benefits depends on the length of service; and
» The amount of the benefits is capped at a number of consecutive years of service in the company.

» For these schemes, the rights must be spread in a linear manner, no longer over the entire career of the employee in the company, but, for each employee, over the last years of his or her career which gave rise to the acquisition of new rights. The application of this IFRS IC decision is accounted for as a change in accounting policy with application from the opening date of the first comparative period presented in the first-time adoption financial statements, i.e. from 1 January 2020. The application of this IFRS IC decision has no impact on the Group's financial statements as of December 31, 2021.

» IFRS IC decision on "Configuration or customisation costs in a cloud computing arrangement". This IFRS IC decision aims to clarify whether an intangible asset should be recognised in accordance with IAS 38 in respect of these software configuration and customisation costs. If this is not the case, the IFRS IC decision indicates the other accounting principles that should be applied to account for these costs. Cloud migration projects are underway within the Group. As at 31 December 2021, no applications have been migrated to the cloud. The application of this IFRS IC decision has no impact on the Group's financial statements as of December 31, 2021.

IFRS standards which are applicable on a mandatory basis to the 2022 financial statements

Amendments for which the impact assessment is underway within the Group.

» 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.

Amendments for which implementation will not result in significant impacts.

» Amendments to IAS 16 "Property, Plant and Equipment" (effective for accounting periods as of January 1, 2022). These amendments aim at standardising the accounting method for the proceeds and costs while an item of property, plant or equipment is in the testing phase.

» 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% 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.

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

» Amendments to IAS 1 "Presentation of financial statements" (effective for the accounting periods as of January 1, 2023). These amendments clarify the classification of current or non-current liabilities and aim to promote a consistent approach to this classification.

» Amendments to IAS 1 "Presentation of financial statements" (effective for the accounting periods as of January 1, 2023). These amendments aim to identify the disclosures about accounting policies that are useful to users of financial statements. The main change is to provide information about 'significant' accounting policies rather than 'major' accounting policies.

» Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (effective for the accounting periods as of January 1, 2023). These amendments aim to facilitate the distinction between accounting policies and accounting estimates. However, they focus exclusively on accounting estimates, now defined as "monetary amounts in the financial statements that are subject to measurement uncertainty".

» Amendments to IAS 12 "Income taxes" (effective for the accounting periods as of January 1, 2023). These amendments aim in particular to generalise the recognition of deferred tax on leases.

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, Impairment and provisions): by extracting the main line of the statement of profit or loss which does not involve cash disbursement ("Amortisation, depreciation, impairments and provisions") 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 and other highly liquid investments (such as Triple A bonds, long-term deposits and commercial paper) with an original maturity between 3 and 12 months.

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

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

	Balance Sheet December 31, 2021 EUR	Average in Statement of profit or loss 2021 EUR	Balance Sheet December 31, 2020 EUR
1 US dollar (USD)	0.88	0.84	0.81
1 Pound sterling (GBP)	1.19	1.16	1.11
1 Swiss franc (CHF)	0.97	0.92	0.93
100 Japanese yen (JPY)	0.77	0.77	0.79
100 Kenya shilling (KES)	0.76	0.74	0.71

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.

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 and other ancillary revenues. 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 assets.

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 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 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.

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, net of any discounts granted. 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 statistical rates on tickets issued and unused. These rates are regularly updated and adjusted for non-recurring and specific events that may have an impact on passengers' behaviour. The events of the COVID-19 outbreak and the impacts thereof on the Group's air transportation operations, have led the Group to make a temporary reassessment of the assumptions underlying the applied ticket breakage.

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 generally 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. NOW 1, 2 and 3.1 in 2020 and NOW 3.2, 3.3, 4 and 5 in 2021, 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 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). The Group applied for NOW 6 in the first quarter of 2022.

In 2021 the required separate audit for NOW 1 has been finalised and filed at the Dutch Employee Insurance Agency (UWV). The Group aims to finalise and file all other NOWs in 2022.

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 payments

Phantom shares
The Group has cash-settled long-term incentive plans in which it grants to certain 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.

Going concern

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

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 and for 2021 in a significantly improved, but still negative, loss of adjusted income from operating activities. 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, 2021.

Revenues (network, leisure and maintenance), costs and investments forecasts are based on reasonable hypothesis and are management's best estimates. They are subject to 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 ongoing recovery of operations as from the second half year 2021.

With reference to the going concern paragraph, the five-year forecast plan reflect the ongoing recovery arising from COVID-19 and take into account a further recovery as from the second quarter 2022 onwards.

The discount rate used for the test corresponds to the Group's average weighted average cost of capital (WACC) before and after tax. This stood at 8.7% before tax and 6.45% after tax as at December 31, 2021 (December 31, 2020 8.7% before tax and 6.5% after tax).

Moreover, cash flow projections used in the impairment tests are based on the 2022 Budget and five-year forecast plan, presented by the Board of Managing Directors to the Supervisory Board in December 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, 2021 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.

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 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. The RMC meets each quarter to review internal reporting of the risks relating to the fuel and carbon price, the principal currency exchange rates and interest rates, and to decide on the hedging to be implemented: targets for hedging ratios, the rolling periods for 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 profit margins. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the treasury and fuel departments within each airline, 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, treasury departments and Chief Financial Officers of KLM and Air France 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, among 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 execution of fuel and carbon hedging is the responsibility of the airlines fuel 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, the underlying used, average hedge levels, the resulting net prices and stress scenarios and 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, options and combinations of both.

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, and thus also 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 expenditures. 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 fleet and fleet related investments. The hedging policy prescribes the progressive and systematic implementation of currency 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 currency risks, which could have a negative impact on AIR FRANCE KLM business and financial results.

For the currency sensitivity analysis reference is made to note 5 "Other (non-current) assets and liabilities".

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 use swap strategies to convert a significant proportion of their floating-rate debt into fixed rates.

c. Fuel & carbon price risk

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

Following IFRS 9 the fuel 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.

Due to the significant reduction in fuel consumption of 2020 and 2021, the AIR FRANCE KLM was overhedged. Following this, KLM recorded a loss of EUR 240 million in 2020 and a gain of EUR 3 million in the first quarter of 2021 (refer to note 29 "Cost of financial debt"). As a response to this, the fuel hedging strategy is adjusted in the first quarter of 2021. The key objective of the adjustment in hedging strategy is to reduce risk, especially in case of declining fuel prices.

Main characteristics of the adjusted hedge strategy:

- Hedge horizon: a maximum of four quarters rolling;
- Maximum hedge percentage, to reach at the end of the current quarter:
  Quarter underway: 70% of the volumes consumed;
  Quarter 1: 70% of the volumes consumed;
  Quarter 2: 55% of the volumes consumed;
  Quarter 3: 40% of the volumes consumed;
  Quarter 4: 25% of the volumes consumed.
- Increment of maximum coverage ratios: 15% 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.

For the fuel price sensitivity analysis reference is made to note 5 "Other (non-current) assets and liabilities".

The carbon exposure is related to the EU, UK and Swiss ETS. The price exposure is managed by hedging with carbon forwards to two years ahead:

- Year underway: 100% of the expected carbon emission;
- Year 1: 100% of the expected carbon emission;
- Year 2: 25-50% of the expected carbon emission.

The hedge relationship for carbon exposure is assessed as effective per December, 31, 2021.

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, 2021, KLM identified the following exposure to counterparty risk:

LT Rating (Standard & Poor's)	Total exposure in EUR millions
AAA	329
AA+	107
AA-	153
A+	470
A	360
Total	1,419

At December 31, 2021, 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, among other, operational cash flows, capital expenditures and financing cash flows. 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. KLM has sufficient undrawn standby facilities available to manage liquidity risk. Furthermore, KLM has unencumbered fleet assets available for financing. Reference is made to 'Going concern' paragraph in the Notes to the consolidated financial statements section.

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, 2021	4,873	2,553	7,426	751	309	340	1,400	735	9,561
Additions	43	224	267	5	9	15	29	77	373
Disposals	(73)	(192)	(265)	(25)	(31)	(14)	(70)	-	(335)
Other movements	55	9	64	29	1	-	30	(307)	(213)
As at Dec. 31, 2021	4,898	2,594	7,492	760	288	341	1,389	505	9,386
Accumulated depreciation									
As at Jan 1, 2021	2,270	1,061	3,331	394	222	215	832	-	4,163
Depreciation	222	189	411	35	12	24	71	-	482
Disposals	(67)	(191)	(258)	(20)	(31)	(14)	(65)	-	(323)
Other movements	(95)	62	(33)	1	1	-	2	-	(31)
As at Dec. 31, 2021	2,330	1,121	3,451	410	204	225	840	-	4,291
Net carrying amount									
As at Jan. 1, 2021	2,603	1,492	4,095	357	87	125	568	735	5,398
As at Dec. 31, 2021	2,568	1,473	4,041	350	84	116	549	505	5,095

	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

In 2020 an impairment of EUR 19 million was recorded, following the COVID-19 related early phase-out the passenger and combi Boeing 747 aircraft, which is reflected in other movements. These assets are related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and provisions and note 28 Alternative performance measures.

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

As at December 31,	2021	2020
Aircraft	121	130
Land and buildings	132	129
Other property and equipment	43	41
Carrying amount	296	300

Borrowing cost capitalised during the year amounts to EUR 9 million (2020 EUR 10 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.1% (2020 2.6%).

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, 2021 amounts to EUR 227 million (December 31, 2020 EUR 227 million).

2. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2021	893	613	122	117	1,745
New contracts	102	49	12	13	176
Renewal or extension options	64	11	4	9	88
Disposals	-	(63)	-	(5)	(68)
Reclassifications	(1)	77	-	(5)	71
Amortisation	(245)	(88)	(18)	(31)	(382)
Other movements	-	-	-	-	-
As at December 31, 2021	813	599	120	98	1,630

	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

Information related to lease debt is available in note 13.

In the fourth quarter of 2020 management decided to limit the effect of COVID-19 and took 2 leased Airbus A330-200 out of operation. A write-off of EUR 9 million was recognised in the right-of-use asset aircraft in 2020. The asset is related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and provisions and note 28 Alternative performance measures.

The table below indicates the rents resulting from lease and service contracts which are not capitalised:

	2021	2020
Variable rents	3	1
Short-term rents	26	43
Low value rents	2	3
Carrying amount	31	47

3. Intangible assets

	Goodwill	Software	Software under development	Other	Total
Historical cost					
As at January 1, 2021	40	586	197	10	833
Additions	5	73	-	62	140
Disposals	-	(13)	(7)	(16)	(36)
Other movements	2	4	-	-	6
As at December 31, 2021	47	650	190	56	943
Accumulated amortisation and impairment					
As at January 1, 2021	30	328	-	-	358
Amortisation	-	82	-	-	82
Disposals	-	(13)	-	-	(13)
Other movements	1	3	-	-	4
As at December 31, 2021	31	400	-	-	431
Net carrying amount					
As at January 1, 2021	10	258	197	10	475
As at December 31, 2021	16	250	190	56	512
Historical cost					
As at January 1, 2020	40	511	225	15	791
Additions	-	87	(22)	47	112
Disposals	-	(13)	(4)	(52)	(69)
Other movements	-	1	(2)	-	(1)
As at December 31, 2020	40	586	197	10	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	225	15	509
As at December 31, 2020	10	258	197	10	475

Main part of the software and software under development relates to internally developed software. As at December 31, 2021, software additions mainly relate to commercial, operational and aircraft maintenance systems.

Other relates to Emission Trading Scheme (ETS) quotas purchased on the market, which are accounted as intangible assets at acquisition cost. These intangible assets are not amortised.

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 in 2020. 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 provisions and note 28 Alternative performance measures. No impairment has been identified and recognised in 2021.

4. Investments accounted for using the equity method

As at December 31,	2021	2020
Associates	9	9
Jointly controlled entities	8	9
Carrying amount	17	18

Investments in associates

	2021	2020
Carrying amount as at January 1	9	8
Movements		
Investments	-	-
Share of profit after taxation	3	3
Other movements	(3)	(2)
Net movement	-	1
Carrying amount as at December 31	9	9

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% in Transavia France S.A.S. to Air France Finance S.A.S., for an amount of EUR 17 million. A gain of EUR 17 million has been recorded as result on disposal of an associate in 2020. Reference is made to note 27 Amortisation, depreciation, impairments and provisions 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,	2021	2020
Country of incorporation	-	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	5	4
Current assets	11	13
Profit after taxation	-	-
Share of profit after taxation	-	-

The Group did not receive dividend in 2021 and 2020 from Schiphol Logistics Park C.V.

5. Other (non-current) assets and liabilities

2021	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	46	4	(13)	-
Cash flow hedges	21	19	(9)	(1)
Items not qualifying for hedge accounting	5	-	-	-
Total exchange rate risk hedges	72	23	(22)	(1)
Interest rate risk				
Fair value hedges	-	-	-	-
Cash flow hedges	3	8	(3)	(2)
Items not qualifying for hedge accounting	-	3	-	-
Total interest rate risk hedges	3	11	(3)	(2)
Commodity risk hedges				
Cash flow hedges	140	2	(5)	-
Items not qualifying for hedge accounting	-	-	-	-
Total commodity risk hedges	140	2	(5)	-
Total derivative financial instruments	215	36	(30)	(3)
Others	15	118	(1)	(1,517)
Total as at December 31, 2021	230	154	(31)	(1,520)

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)

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, 2021 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	1,382	1,102	109	171	-	-	-	49
Forward sales								
USD	555	555	-	-	-	-	-	(12)
Total fair value hedges	1,937	1,657	109	171	-	-	-	37
Cash flow hedges								
Options								
CHF	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-
Forward purchases								
USD	1,084	636	448	-	-	-	-	37
GBP	46	46	-	-	-	-	-	-
Forward sales								
CAD	-	-	-	-	-	-	-	-
GBP	165	133	32	-	-	-	-	(7)
JPY	-	-	-	-	-	-	-	-
SGD	-	-	-	-	-	-	-	-
USD	82	82	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total cash flow hedges	1,377	897	480	-	-	-	-	30
Items not qualifying for hedge accounting								
Forward purchases								
GBP	25	25	-	-	-	-	-	-
JPY	103	97	6	-	-	-	-	5
USD	-	-	-	-	-	-	-	-
Forward sales								
USD	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total items not qualifying for hedge accounting	128	122	6	-	-	-	-	5
Total exchange rate risk derivatives	3,442	2,675	595	171	-	-	-	72

The total fair value hedges of EUR 37 million positive 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 6 million negative and are recognised in the balance sheet in the line item property, plant and equipment. The related costs of hedging amount to EUR 18 million negative and are recorded in other comprehensive Income.

The total cash flow hedges of EUR 30 million positive 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 4 million is included in the cash flow hedge reserve relating to hedges that are unwound in 2021 (2020: EUR 18 million).

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, 2021	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
Interest rate risk hedges								
Fair value hedges								
Swaps	-	-	-	-	-	-	-	-
Total fair value hedges	-	-	-	-	-	-	-	-
Cash flow hedges								
Swaps	740	302	190	207	31	4	6	6
Total cash flow hedges	740	302	190	207	31	4	6	6
Items not qualifying for hedge accounting								
Swaps	71	16	11	11	21	12	-	3
Total items not qualifying for hedge accounting	71	16	11	11	21	12	-	3
Total interest rate risk derivatives	811	318	201	218	52	16	6	9

The total cash flow hedges of EUR 6 million positive relates to interest rate hedging on borrowings. The cash flow hedge reserve relating to the outstanding hedges amounts to EUR 6 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, 2021 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	460	452	8	-	-	-	-	86
Options	915	915	-	-	-	-	-	51
Total cash flow hedges	1,375	1,367	8	-	-	-	-	137
Items not qualifying for hedge accounting								
Swaps	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
Total items not qualifying for hedge accounting	-	-	-	-	-	-	-	-
Total commodity risk derivatives	1,375	1,367	8	-	-	-	-	137

The total cash flow hedges of EUR 137 million positive 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 125 million. The related costs of hedging amount to EUR 5 million positive and are recorded in other comprehensive income.

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2021, 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	13	18	-	31
Assets at fair value through profit or loss				
Marketable securities	-	763	-	763
Deposits and marketable securities	-	126	-	126
Derivatives instruments (asset and liability)				
Currency exchange derivatives	-	72	-	72
Interest rate derivatives	-	9	-	9
Commodity derivatives	-	151	-	151

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, 2021.

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 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, 2021		December 31, 2020	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Income before tax	-	-	3	(4)
Reserves	93	(88)	87	(92)

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, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
USD	511	467	429	414
JPY	-	25	183	188
CHF	-	-	363	347
GBP	-	-	-	-

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, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Change in value of financial instruments	(7)	(5)	17	15	-	-
Reserves	(95)	(41)	-	-	15	8

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 2021 (EUR nil million for 2020).

Others

The increase in the other non-current liabilities in 2021 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 October 2021. As from October 1, 2021, the Group pays the regular monthly wage tax and social securities and as from October 1, 2022, the Group will repay the related deferred payments over a period of 60 months. As per December 31, 2021 the related non-current deferred payments amount to EUR 1,398 million (December 31, 2020 EUR 764 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.

6. Other financial assets

	Debt investments at amortised cost		At fair value through profit or loss		At fair value through OCI		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Carrying amount as at January 1	532	604	145	152	29	22	706	778
Movements								
Additions and loans granted	164	15	11	1	-	-	175	16
Loans and interest repaid	(195)	(59)	-	(7)	-	-	(195)	(66)
Interest accretion	12	12	-	-	-	-	12	12
Foreign currency translation differences	34	(39)	-	-	-	-	34	(39)
Other movements	(4)	(1)	2	(1)	2	7	-	5
Net movement	11	(72)	13	(7)	2	7	26	(72)
Carrying amount as at December 31	543	532	158	145	31	29	732	706

	December 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, other loans and receivables	32	511	181	351
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	126	-	114	-
Other restricted deposits	-	-	-	-
Deposits on operating leased aircraft	4	24	-	25
Air France KLM S.A. shares	-	4	-	6
	130	28	114	31
At fair value through OCI				
Kenya Airways Ltd. shares	-	13	-	12
Other non-consolidated entities	-	18	-	17
	-	31	-	29
Carrying amount as at December 31	162	570	295	411

The Group's stake in Kenya Airways Ltd. is 7.76% as at December 31, 2021 (December 31, 2020 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,	2021	2020
USD	511	368
Kenyan shilling	13	12
Total	524	380

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, 2021		December 31, 2020	
in %	EUR	USD	EUR	USD
Debt investments at amortised cost	0.1	1.9	0.2	2.6
At fair value through profit or loss	-	-	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 229 million (December 31, 2020 EUR 323 million) is restricted.

The maturities of debt investments are as follows:

As at December 31,	2021	2020
Debt investments at amortised cost		
Less than 1 year	31	178
Between 1 and 2 years	61	31
Between 2 and 3 years	148	55
Between 3 and 4 years	31	20
Between 4 and 5 years	67	29
Over 5 years	209	221
Total	547	534

The fair values of the financial assets are as follows:

As at December 31,	2021	2020
Debt investments at amortised cost		
Bonds, long-term deposits, loans and receivables	548	535
At fair value through profit or loss		
Restricted deposit EU Cargo claim	51	50
Restricted deposits	75	64
Deposits on operating leased aircraft	28	25
AIR FRANCE KLM S.A. shares	4	6
	158	145
At fair value through OCI		
Kenya Airways Ltd. shares	13	12
Other non-consolidated entities	18	17
	31	29
Total fair value	737	709

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, 2021 and December 31, 2020;
- AIR FRANCE KLM S.A. shares: Quoted price as at close of business on December 31, 2021 and December 31, 2020;
- 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,	2021	2020
Less than 1 year	157	292
Between 1 and 2 years	61	31
Between 2 and 3 years	148	55
Between 3 and 4 years	32	20
Between 4 and 5 years	67	29
Over 5 years	209	221
Total interest bearing financial assets	674	648

7. Inventories

As at December 31,	2021	2020
Carrying amount		
Maintenance inventories	209	219
Allowance for obsolete inventories	(82)	(71)
Maintenance inventories - net	127	148
Other sundry inventories	93	32
Total	220	180

8. Trade and other receivables

As at December 31,	2021	2020
Trade receivables	538	430
Expected credit loss	(68)	(54)
Trade receivables - net	470	376
Amounts due from:		
- AIR FRANCE KLM group companies	92	56
- associates and jointly controlled entities	1	1
- maintenance contract customers	48	69
Taxes and social security premiums	24	19
Other receivables	278	246
Prepaid expenses	181	135
Total	1,094	902

	December 31, 2021	December 31, 2020
< 90 days	381	320
90-180 days	33	13
180-360 days	7	28
> 360 days	49	15
Total trade receivables	470	376

In 2021 an EUR 14 million increase (December 31, 2020 EUR 25 million 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 2020 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, 2021 amounted to EUR 47 million (December 31, 2020 EUR 160 million).

Advances received for maintenance contracts in progress at December 31, 2021 amounted to EUR 137 million (December 31, 2020 EUR 72 million).

9. Cash and cash equivalents

As at December 31,	2021	2020
Cash at bank and in hand	56	35
Short-term deposits	763	447
Total	819	482

The effective interest rates on short-term deposits are in the range from -0.65% to 3.35% (2020 range -0.34% 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,	2021	2020
USD	11	7
GBP	4	2
Other currencies	14	12
Total	29	21

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 that are not fully paid.

	Issued and fully paid			
	December 31, 2021		December 31, 2020	
	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, 2021 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, 2021	(37)	(890)	13	473	(441)
Gains/(losses) from cash-flow hedges	165	-	-	-	165
Exchange differences on translating foreign operations	-	-	(1)	-	(1)
Remeasurement of defined benefit pension plans	-	729	-	-	729
Transfer to/ (from) retained earnings	-	205	-	(16)	189
Tax on items taken directly to or transferred from equity	(42)	(173)	-	-	(215)
As at December 31, 2021	86	(129)	12	457	426
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 to/ (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)

The volatility from the main KLM pension plans has reduced significantly after the transfer to a collective defined contribution pension schemes for cockpit crew and cabin crew in 2017 and ground staff in 2021. For the later, reference is made to note 18 Provisions for employee benefits. However, the volatility in the value of fuel derivatives and the remeasurement of current defined benefit pension plans remains for other smaller KLM Group 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.

For an elucidation on the remaining volatility of smaller KLM Group 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.

Following the significant impact of COVID-19 on both 2020 and 2021 the Company's equity is negative end 2021. Reference is made to the Going concern paragraph in the Notes to the consolidated financial statements 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 in 2020. In the first months of 2021 a small income related to afore-mentioned overhedges was recorded in the Consolidated statement of profit or loss. For the remaining part of 2021 no overhedges were applicable. 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. As from July 2021 the US dollar revenues increased again and consequently the Company started to use 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 development cost incurred on computer software and prepayments thereon amounting to EUR 440 million as at December 31, 2021 (December 31, 2020 EUR 455 million) and investments accounted for using the equity method amounting to EUR 17 million as at December 31, 2021 (December 31, 2020 EUR 18 million) as required by Article 365.2 of Book 2 of the Dutch Civil Code.

12. Financial debt

	December 31, 2021			December 31, 2020		
	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	167	12	155	237	11	226
Total current	167	12	155	237	11	226
Between 1 and 2 years	210	15	195	122	12	110
Between 2 and 3 years	185	15	170	181	11	170
Between 3 and 4 years	195	12	183	124	11	113
Between 4 and 5 years	234	8	226	164	9	155
Over 5 years	548	17	531	605	24	581
Total non-current	1,372	67	1,305	1,196	67	1,129
Total	1,539	79	1,460	1,433	78	1,355

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 1.38% (average fixed rate 1.52%, average floating rate 1.46%). Taking into account the impact of hedging the average interest rate is 1.48% (average fixed rate 1.80%, average floating rate 1.17%). After hedging 80% 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, 2021. 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, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	241	672	285	662
Lease Debt - Real estate	15	137	17	137
Lease Debt - Others	27	70	28	73
Accrued interest	5	-	4	-
Total	288	879	334	872

Change in lease debt:

	As at January 1, 2021	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2021
Lease Debt - Aircraft	947	167	(268)	70	(3)	913
Lease Debt - Real estate	154	16	(18)	-	-	152
Lease Debt - Others	101	21	(29)	6	(2)	97
Accrued interest	4	-	-	-	1	5
Total	1,206	204	(315)	76	(4)	1,167

	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

The lease debt maturity breaks down as follows:

	2021	2020
Less than 1 year	352	407
Between 1 and 2 years	259	322
Between 2 and 3 years	208	246
Between 3 and 4 years	161	165
Between 4 and 5 years	134	110
Over 5 years	298	202
Total	1,412	1,452
Including:		
- Principal	1,167	1,206
- Interest	245	246

14. Other financial liabilities

	2021	2020
Carrying amount as at January 1	2,117	1,082
Additions and loans received	291	1,838
Loans repaid	(432)	(792)
Foreign currency translation differences	21	(12)
Other changes	31	1
Net movement	(89)	1,035
Carrying amount as at December 31	2,028	2,117

The other financial liabilities comprise:

	December 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Revolving credit facility	-	682	-	663
Direct State loan	-	279	-	278
Subordinated perpetual loans	-	516	-	505
Other loans (secured/unsecured)	188	331	193	446
Total	188	1,840	193	1,924

The remaining maturity of financial liabilities is as follows:

As at December 31,	2021	2020
Less than 1 year	188	193
Between 1 and 2 years	44	117
Between 2 and 3 years	178	50
Between 3 and 4 years	775	193
Between 4 and 5 years	250	744
Over 5 years	593	820
Total	2,028	2,117

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 afore-mentioned 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, 2021 KLM has drawn in total EUR 942 million (the afore-mentioned EUR 665 million under the revolving credit facility and the afore-mentioned 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% for the revolving credit facility and 7.05% 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). As per December 31, 2021 the revolving credit facility has a remaining contractual maturity of 4 years and the direct State loan has a remaining contractual maturity of 4.5 years. With that, the loans are not due for settlement in the coming 12 months after balance sheet date. Furthermore, a quarterly, 12 months rolling, covenant testing is required as from September 2021. The covenants include a required interest coverage ratio and a required ratio of Consolidated Unsecured Assets to Consolidated Unsecured Net Debt. Per September 30, 2021 and December 31, 2021 the covenants were met. As from March 31, 2022 the required interest coverage ratio will be 2.5 under the revolving credit facility and 1.67 under the direct State loan. The applicable ratio of Consolidated Unsecured Assets to Consolidated Unsecured Net Debt remains constant and is set not to be between 0 and 1 under the revolving credit facility. Under the direct State loan the applicable ratio of Consolidated Unsecured Assets to Consolidated Unsecured Net Debt also remains constant and shall not be between 0 and 0.67. It is expected that KLM will continue to meet the financial and non- financial covenants going forward.

The classification of loans as current or non-current as described IAS 1 is amended, with an effective date as from January 1, 2023 (but not yet adopted by the European Union). 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. In the hypothetical test per balance sheet date, as at December 2021 KLM is meeting the covenant requirements that are applicable for December 2022 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 363 million as at December 31, 2021 (December 31, 2020 EUR 347 million) are listed on the SWX Swiss Exchange, Zurich.

The carrying amounts of financial liabilities denominated in currencies other than the Euro are as follows:

As at December 31,	2021	2020
CHF	363	347
JPY	153	158
Total	516	505

Other loans

On December 31, 2021, KLM has a portfolio of other loans amounting to EUR 519 million (December 31, 2020 EUR 639 million). Other loans mainly consist of unsecured bilateral loans and mortgage loans. Other loans either carry a fixed interest rate or a floating interest rate based on EURIBOR or USD LIBOR. The outstanding other loans on December 31, 2021 have a maximum remaining maturity of 4 years.

The fair values of financial liabilities are as follows:

As at December 31,	2021	2020
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Revolving credit facility	665	665
Direct State loan	277	277
Subordinated perpetual loans	434	413
Other loans (secured/unsecured)	539	642
Fair value	1,947	2,029

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, 2021				
Total borrowings	1,411	23	594	2,028
	1,411	23	594	2,028
As at December 31, 2020				
Total borrowings	1,544	40	533	2,117
	1,544	40	533	2,117

The effective interest rates at the balance sheet date, excluding the effect of derivatives, are as follows:

	December 31, 2021		December 31, 2020	
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	3.17	-	2.75	-

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	682	-	3.95%	-	3.95%
Direct State loan	279	-	7.05%	-	7.05%
Subordinated perpetual loans	-	516	-	4.24%	4.24%
Other loans	394	125	3.01%	4.20%	3.30%

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, 2021	2020
Finance lease obligations	12	155	226
Lease debt	13	288	334
Other financial liabilities	14	188	193
Total current		**631**	**753**
Finance lease obligations	12	1,305	1,129
Lease debt	13	879	872
Other financial liabilities	14	331	446
Revolving credit facility	14	682	663
Direct State loan	14	279	278
Perpetual subordinated loan stock in YEN	14	153	158
Perpetual subordinated loan stock in Swiss francs	14	363	347
Cumulative preference shares	14	32	32
Total non-current		**4,024**	**3,925**
Total		**4,655**	**4,678**

The total movements in financial liabilities are as follows:

	Note	As at January 1, 2021	New financial debt	Reimburs-ment of financial debt	Currency translation differences	Other	As at December 31, 2021
Finance lease obligations	12	1,355	285	(246)	50	16	1,460
Lease debt	13	1,206	204	(315)	76	(4)	1,167
Other financial liabilities	14	639	291	(433)	10	12	519
Revolving credit facility	14	663	-	-	-	19	682
Direct State loan	14	278	-	-	-	1	279
Perpetual subordinated loan stock	14	505	-	-	11	-	516
Cumulative preference shares	14	32	-	-	-	-	32
Total		**4,678**	**780**	**(994)**	**147**	**44**	**4,655**

15. Net debt

As at December 31,	2021	2020
Current and non-current financial debt	4,644	4,673
Financial debt	4,644	4,673
Cash and cash equivalents	819	482
Restricted deposits	130	119
Cross currency element of CCIR swaps	4	(8)
Near cash *	556	544
Financial assets	1,509	1,137
Total net debt	3,135	3,536

	2021	2020
Carrying amount as at January 1	3,536	2,525
Adjusted free cash flow	(404)	1,354
Repayment lease debt	(315)	(379)
New lease debt	204	114
Other (including currency translation adjustment)	114	(78)
Net movement	(401)	1,011
Carrying amount as at December 31	3,135	3,536

* See the Alternative performance measures section in the Notes to the consolidated financial statements.

Total net debt does not include the non-current and current deferred wage tax and social securities payments of in total EUR 1,471 million (December 31, 2020 EUR 917 million). Reference is made to the "Others" paragraph in note 5 Other (non-current) assets and liabilities.

16. Deferred income

	December 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Advance ticket sales	1,019	-	922	-
Sale and leaseback transactions	2	3	1	4
Flying Blue frequent flyer program	54	251	69	247
Others	6	5	6	7
Total	1,081	259	998	258

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 at December 31, 2021, main part of the refunds have been paid back to customers and main part of the vouchers have been used. As at December 31, 2021, the advance ticket sales includes EUR 90 million of passenger tickets (fare and carried imposed charges) (December 31, 2020 EUR 285 million) for which the date of transportation has passed and which are eligible to refund and EUR 165 million (December 31, 2020 EUR 351 million) of vouchers that can be used for future flights.

17. Deferred tax assets

The split between current income tax liabilities, deferred tax assets and net (offset) deferred tax liabilities is as follows:

As at December 31,	2021	2020
Carrying amount as at January 1	(77)	145
Income statement expense	(255)	(136)
Tax (credited)/charged to equity	215	(75)
Other movements	(5)	(11)
Net movement	(45)	(222)
Carrying amount as at December 31	(122)	(77)

The gross movement in the deferred/current tax liabilities is as follows:

As at December 31,	2021	2020
Deferred tax asset other tax jurisdictions	(24)	(27)
Deferred tax liability/(asset) Dutch tax fiscal unity	(98)	(50)
Total	(122)	(77)

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 2021 and subsequently has significant tax losses carry forwards amounting to EUR 1,651 million as per December 31, 2021 (December 31, 2020 EUR 1,075 million). Due to the 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, 2021. KLM has an amount of EUR 426 million for unused operating losses not recognised as per December 31, 2021 (December 31, 2020 EUR 270 million).

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.

As from January 1, 2022, the maximum future period for utilising tax losses carried forward is indefinite under income tax law in the Netherlands for the KLM income tax fiscal unity. 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. In the United Kingdom, the maximum future period for utilising tax losses carried forward is indefinite.

As per December 31, 2021 the KLM income tax fiscal unity in the Netherlands has a deferred tax asset relating to deductible interest expense carried forward with an indefinite period, amounting to EUR 57 million (December 31, 2020 EUR 10 million).

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 the KLM income tax fiscal unity in the Netherlands.

End 2021 it was announced that the Dutch income tax will increase from 25.0% in 2021 to 25.8% as from 2022. The impact of this change was taken into account in the 2021 financial statements.

The deferred tax liability/(asset) of the Dutch tax fiscal unity is built up as follows:

As at December 31,	2021	2020
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	137	58
	137	58
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	39	8
	39	8
Net Deferred tax asset KLM income tax fiscal unity (offset)	(98)	(50)

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					
2021					
Deductible interest expenses carried forward	10	47	-	-	57
Provisions for employee benefits	27	-	(3)	-	24
Other tangible fixed assets	29	6	-	-	35
Derivative financial instruments	17	-	(56)	39	-
Pensions and benefits	-	-	-	42	42
Other	2	(16)	13	4	3
Total	85	37	(46)	85	161

	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					
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

	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					
2021					
Derivative financial instruments	-	-	-	39	39
Pensions and benefits	8	(218)	168	42	-
Total	8	(218)	168	81	39

	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					
Pensions and benefits (asset)	99	(25)	(66)	-	8
Total	99	(25)	(66)	-	8

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 24 million, EUR nil million is expected to be recovered in 12 months or less and EUR 6 million is expected to be recovered after more than 12 months. An amount of EUR 18 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 9 million (December 31, 2020 EUR 8 million) as well as deductible temporary differences in the amount of EUR 36 million (December 31, 2020 EUR 26 million) 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.

18. Provisions for employee benefits

As at December 31,	2021	2020
Pension and early-retirement obligations	255	313
Post-employment medical benefits	26	24
Other long-term employment benefits	108	105
Termination benefits	10	10
Total Liabilities	**399**	**452**
Less: Non-current portion		
Pension and early-retirement obligations	240	299
Post-employment medical benefits	24	23
Other long-term employment benefits	99	98
Termination benefits	9	9
Non-current portion	**372**	**429**
Current portion	**27**	**23**

As at December 31,	2021	2020
Assets		
Pension assets non-current portion	-	211
Total assets	**-**	**211**

Pension plans

As already stipulated in the 2020 Annual Report, KLM and KLM ground unions agreed on a protocol to arrive at a future proof pension agreement in December 2020. At the end of May 2021, all conditions, such as, the approval of the Board of the KLM Ground pension fund and the modified plan qualifying as a defined contribution scheme (collective defined contribution) under IFRS, were met and derecognition of the related pension asset took place.
The pension asset, based on specific actuarial assumptions for the Ground staff plan as at end May 2021, amounted to EUR 875 million and has been recorded, as a non-cash settlement expense. In addition a cash settlement expense contribution, for pension premium savings since 2014, of EUR 49 million was paid to the Ground staff plan in 2021. Lastly it was agreed that KLM will pay additional employer premiums as from January 1, 2021 going forward. The related amount for the period January through May 2021 is EUR 14 million and has been recorded as a cash settlement expense and paid to the Ground staff plan in 2021. In total a settlement expense of EUR 938 million (non-cash EUR 875 million and cash EUR 63 million) has been recorded. Reference is made to note 25 Employee compensation and benefit expenses and note 28 Alternative performance measures.

The modified pension plans for KLM cabin crew, KLM cockpit crew and KLM Ground staff are a significant de-risking for the Group's risk profile and reduction of volatility in the balance sheet and avoid the Company to be potentially forced to make substantial additional pension payments.

The Company sponsors a number of pension plans for employees world-wide. As per December 31, 2021, the major defined benefit plans include 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.

Developments 2021

The afore-mentioned settlement of the Ground staff plan resulted in a significant decrease of plan assets amounting to EUR 10,608 million and EUR 9,670 million of funded obligations. The balance of EUR 938 million is recorded as a settlement expense as elucidated earlier in this note.

In 2021 the financial markets showed a significant increase. Overall this resulted in increased plan assets with EUR 60 million, from EUR 474 million (excluding the KLM Ground staff plan plan assets) end 2020 to EUR 534 million end 2021. The pension obligations almost remained the same from EUR 786 million (excluding the KLM Ground staff plan pension obligations) to EUR 789 million end 2021.

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 %	2021	2020
Weighted average assumptions used to determine benefit obligations		
Discount rate for year-ended	1.56	0.79
Rate of compensation increase	2.27	1.03
Rate of price inflation	3.24	1.46
Weighted average assumptions used to determine net cost		
Discount rate for year-ended	0.79	1.18
Rate of compensation increase	1.03	1.30
Rate of price compensation	1.46	1.51

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.

Recognition of pension assets and liabilities in the balance sheet

The funds have together a liability totalling EUR 255 million as at December 31, 2021 (December 31, 2020 a liability of EUR 313 million, excluding EUR 211 million related to the Ground staff plan pension asset).

	Pension and early-retirement obligations	
As at December 31,	2021	2020
Present value of wholly or partly funded obligations	789	10,819
Fair value of plan assets	(534)	(10,718)
Net liability relating pension and other post-retirement obligations	**255**	**101**

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Pension and early-retirement obligations	
	2021	2020
Carrying amount as at January 1	10,819	10,069
Current service cost	107	229
Interest expense	41	118
Settlements/curtailments	(9,670)	(16)
Actuarial losses/(gains) demographic assumptions	(13)	(141)
Actuarial losses/(gains) financial assumptions	(414)	725
Actuarial losses/(gains) experience adjustments	(12)	86
Benefits paid from plan/company	(113)	(218)
Exchange rate changes	44	(33)
Net movement	(10,030)	750
Carrying amount as at December 31	789	10,819

The movements in the fair value of assets of the wholly or partially funded pension plans in the year can be summarised as follows:

	2021	2020
Fair value as at January 1	10,718	10,216
Interest income	39	120
Return on plan assets excluding interest income	291	490
Employer contributions	146	104
Member contributions	16	23
Settlements/curtailments	(10,608)	-
Benefits paid from plan / company	(101)	(210)
Exchange rate changes	33	(25)
Net movement	(10,184)	502
Fair value as at December 31	534	10,718

The afore-mentioned balance of settlements amounts to EUR 938 million in 2021. This includes EUR 875 million of non-cash and EUR 63 million of cash settlement expenses as elucidated earlier in this note. Reference is also made to note 25 Employee compensation and benefit expenses and note 28 Alternative performance measures.

The experience adjustments are as follows:

	2021	2020
Benefit obligation	(12)	86
Plan asset	291	490

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, 2021	2020
0.25% increase in the discount rate		
Impact on service cost	(1)	(16)
Impact on defined benefit obligation	(33)	(533)
0.25% decrease in the discount rate		
Impact on service cost	1	19
Impact on defined benefit obligation	37	612

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, 2021	2020
0.25% increase in the salary increase		
Impact on service cost	-	3
Impact on defined benefit obligation	5	36
0.25% decrease in the salary increase		
Impact on service cost	-	(3)
Impact on defined benefit obligation	(5)	(32)

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, 2021	2020
0.25% increase in the pension increase rate		
Impact on service cost	-	16
Impact on defined benefit obligation	18	548
0.25% decrease in the pension increase rate		
Impact on service cost	-	(14)
Impact on defined benefit obligation	(21)	(512)

The major categories of assets as a percentage of the total pension plan assets are as follows:

in %	As at December 31, 2021	2020
Debt securities	21	50
Real estate	6	9
Equity securities	48	40

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.

	Post-employment medical benefits	
As at December 31,	2021	2020
Present value of unfunded obligations	26	24
Net liability/(asset) relating pension and other post-retirement obligations	26	24

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Post-employment medical benefits	
	2021	2020
Carrying amount as at January 1	24	25
Interest expense	1	1
Actuarial losses/(gains) financial assumptions	(1)	2
Actuarial losses/(gains) experience adjustments	1	-
Benefits paid from plan/company	(2)	(2)
Exchange rate changes	3	(2)
Net movement	2	(1)
Net movement	2	(1)
Carrying amount as at December 31	26	24

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Post-employment medical benefits As at December 31,	
in %	2021	2020
Weighted average assumptions used to determine benefit obligations		
Discount rate for year	2.80	2.75
Weighted average assumptions used to determine net cost		
Discount rate for year	2.75	3.10
Medical cost trend rate assumptions used to determine net cost *		
Immediate trend rate Pre 65	2.30	6.50
Immediate trend rate Post 65	2.30	6.50
Ultimate trend rate	3.60	3.70
Year that the rate reaches ultimate trend rate	2074	2074

* The rates shown are the weighted averages for the United States of America and Canada

Other long-term employee benefits

	2021	2020
Jubilee benefits	65	68
Other benefits	43	37
Total carrying amount	108	105
Less: Non-current portion		
Jubilee benefits	62	63
Other benefits	37	35
Non-current portion	99	98
Current portion	9	7

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

	2021	2020
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, 2021	345	974	154	66	47	1,586
Additions and increases	8	(4)	24	6	16	50
Unused amounts reversed	-	-	(1)	(3)	(9)	(13)
Used during year	(7)	(33)	(1)	(59)	(21)	(121)
New / Changes in lease contracts	(277)	221	-	-	-	(56)
Foreign currency translation differences	1	89	-	-	1	91
Accretion impact	-	43	-	-	-	43
Other changes	-	-	-	-	1	1
As at December 31, 2021	70	1,290	176	10	35	1,581
Current/non-current portion						
Non-current portion	55	1,039	164	-	5	1,263
Current portion	15	251	12	10	30	318
Carrying amount as at December 31, 2021	70	1,290	176	10	35	1,581

			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

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 29).

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 3.6% as of December 31, 2021 versus 3.4% as of December 31, 2020.

Other provisions

Legal and civil litigations

The provision as at December 31, 2021 mainly relates to the Cargo anti-trust investigations in Europe for KLM and Martinair, anti-trust investigations in Switzerland, other Cargo related claims and a court case brought against KLM by (former) Martinair pilots. 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 in 2020. Main part of the provision as at December 31, 2020 has led to a cash out in 2021.
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. In the course of 2021 KLM decided to withdraw this additional restructuring plan.

In 2021 only small additional expenses related to the 2020 plans have been recorded. The provision as at December 31, 2021 fully relates to the remaining expected cash out for the 2020 restructuring plans in 2022. 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,	2021	2020
Trade payables	771	577
Amounts due to AIR FRANCE KLM Group companies	105	66
Taxes and social security premiums	332	224
Other payables	460	538
Accrued liabilities	126	80
Total	1,794	1,485

21. Commitments

As at December 31, 2021, KLM has commitments for previously placed orders amounting to EUR 1,376 million (December 31, 2020 EUR 1,474 million). EUR 1,226 million of this amount (December 31, 2020 EUR 1,379 million) relates to future owned and new right-of-use aircraft of which EUR 431 million is due in 2022. In the amount for new right-of-use aircraft EUR 80 million relates to future interest.

The balance of the commitments as at December 31, 2021 amounting to EUR 150 million (December 31, 2020 EUR 95 million) is related to property, plant and equipment.

As at December 31, 2021 prepayments on aircraft have been made, amounting to EUR 442 million (December 31, 2020 EUR 560 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 General Court of the EU rendered judgment on March 30, 2022 and dismissed the appeal of KLM and Martinair. KLM and Martinair will appeal the judgment. 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, 2021, the total amount of provisions in connection with antitrust cases amounts to EUR 153 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 a number of (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.

After several court cases the supreme court ruled that the judgment of the court of appeal lacked sufficient motivation and referred the case to another court of appeal in November 2019. On June 8, 2021 the Dutch court ruled against KLM in the case of former Martinair pilots. The pilots have become employed by KLM per January 1, 2014 and KLM is obliged to offer the pilots to be reinstated in their former position at Martinair. KLM is executing the court ruling and thus has offered the former Martinair pilots a renewed employment. Furthermore, the court has ruled that KLM is due to pay any damages caused by not correctly adhering to the laws of 'transfer of undertaking'. KLM is investigating the judgment and related impact and decided to record a legal provision of EUR 22 million in 2021.

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 54 million as at December 31, 2021 (December 31, 2020 EUR 49 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 514 million as at December 31, 2021 (December 31, 2020 EUR 589 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

	2021	2020
Services rendered		
Passenger transport	3,109	2,518
Cargo transport	1,980	1,535
Network	5,089	4,053
Maintenance contracts	471	712
Leisure	484	335
Other services	21	20
Total revenues	6,065	5,120

24. External expenses

	2021	2020
Aircraft fuel	1,185	1,072
Chartering costs	263	164
Landing fees and route charges	496	432
Catering	92	73
Handling charges and other operating costs	352	292
Aircraft maintenance costs	615	738
Commercial and distribution costs	196	172
Insurance	24	24
Rentals and maintenance of housing	139	129
Sub-contracting	150	140
Other external expenses	190	219
Total external expenses	3,702	3,455

Aircraft fuel expenses include an amount of EUR 110 million positive (2020 EUR 173 million negative), which was transferred from other comprehensive income to the consolidated statement of profit or loss. The 2020 amount relates to the COVID-19 impact on the Group's fuel consumption, which became far less than the volume of fuel hedges outstanding as from the end of the first quarter of 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. Aircraft fuel expenses include a net amount of EUR 1 million (2020 EUR 1 million) related to fuel delivered to SkyTeam partners at Schiphol. The net amount consists of EUR 80 million cost (2020 EUR 66 million) and EUR 79 million income (2020 EUR 65 million).

25. Employee compensation and benefit expenses

	2021	2020
Wages and salaries	1,977	2,245
NOW subsidy	(771)	(1,049)
Social security premiums other than for state pension plans	216	264
Voluntary leave and restructuring plans	4	228
Legal provision	22	-
Share-based remuneration	-	1
Hired personnel	77	73
Pension and early-retirement plan costs	316	332
Settlements/curtailments pension plans	938	(16)
Post-employment medical benefit costs	1	1
Other long-term employee benefit costs	12	-
Total employee compensation and benefit expenses	2,792	2,079

Following the COVID-19 crisis, the Group applied for the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW) as introduced by the Dutch Government. The 2021 NOW compensation amounts to EUR 771 million for the period January until December 2021. The 2020 NOW compensation amounts to EUR 1,049 million for the period March until December 2020.

For the voluntary leave, legal provision and restructuring plans and settlements/curtailments of pension plans, reference is made to note 28 Alternative performance measures.

Pension and early-retirement plan cost comprises:

	2021	2020
Defined benefit plans	93	203
Defined contribution plans	223	129
Total	316	332

Defined benefit plans and early-retirement plan cost comprises:

	2021	2020
Current service cost	86	198
Interest expense	41	118
Interest income	(39)	(120)
Administration cost	5	7
Total	93	203

In the financial year 2021 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 93 million (2020 EUR 203 million) and the total contributions paid by the Group amounted to EUR 83 million (2020 EUR 69 million), excluding EUR 63 million cash settlement related to the KLM Ground staff plan. Reference is made to note 18 Provisions for employee benefits. The contributions paid in the financial year 2021 include additional deficit funding for the Dutch KLM plans amounting to EUR nil million (2020 EUR nil million) and in the United Kingdom amounting to EUR 12 million (2020 EUR 11 million).

The Group's projected defined benefit plans and early retirement plan cost for 2022 amount to EUR 27 million. The Group's expected cash contributions for these plans amount to EUR 15 million.

Post-employment medical benefits cost comprises:

	2021	2020
Interest cost	1	1
Total	1	1

Other long-term employee benefits comprise:

	2021	2020
Current service cost	5	6
Interest cost	-	-
Immediate recognition of (gains)/losses	7	(6)
Other	-	-
Total	12	-

Number of full-time equivalent employees:

	2021	2020
Average for year		
Flight deck crew	3,427	3,573
Cabin crew	7,089	8,188
Ground staff	16,091	18,207
Total	**26,607**	**29,968**

	2021	2020
Average for year		
The Netherlands	23,705	26,866
Outside the Netherlands	2,902	3,102
Total	**26,607**	**29,968**

As at December 31,	2021	2020
Flight deck crew	3,392	3,476
Cabin crew	6,795	7,164
Ground staff	16,089	16,650
Total	**26,276**	**27,290**

26. Other income and expenses

	2021	2020
Capitalised production	213	129
Operating currency hedging recycling	14	49
Other income	(67)	(51)
Other income and expenses	**160**	**127**

27. Amortisation, depreciation, impairments and movements in provision

	2021	2020
Amortisation of intangible assets	82	81
Depreciation of flight equipment	411	420
Depreciation of other property and equipment	70	69
Amortisation of right-of-use assets	380	479
Sale of assets	(15)	(46)
Impairment of fixed assets	-	25
Movements in provision	(21)	30
Total	**907**	**1,058**

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	2021	2020
Income from operating activities		(1,176)	(1,345)
Amortisation, depreciation, impairment and movement in provisions	27	907	1,058
EBITDA		(269)	(287)
APM adjustments to EBITDA:	Note		
Voluntary leave and restructuring plans	25	4	228
Settlement pension plans	25	938	(16)
Legal provision	25	22	-
Total APM adjustments to EBITDA		964	212
Adjusted EBITDA		695	(75)
Income from operating activities		(1,176)	(1,345)
APM adjustments to income from operating activities:	Note		
Total APM adjustments to EBITDA		964	212
Result of sale of assets	27	(15)	(46)
Impairment of fixed assets	27	-	25
Total APM adjustments		949	191
Adjusted income from operating activities		(227)	(1,154)

For a description of APMs reference is made to the Alternative performance measures section in the Notes to the consolidated financial statements.

The 2021 APM adjustments show an overall negative amount of EUR 949 million (2020: EUR 191 million negative). The definition of APMs was not adjusted in 2021.

The 2021 APM adjustments to EBITDA relate to the settlement of the KLM Ground staff pension plan for a total amount of EUR 938 million (non-cash EUR 875 million and cash EUR 63 million). Reference is made to note 18 Provisions for employee benefits. In addition a legal provision of EUR 22 million related to a case brought against KLM by (former) Martinair pilots. Reference is made to note 19 Return obligations liability and other provisions and note 22 Contingent assets and liabilities. And finally EUR 4 million relates to 2021 voluntary leave plans and restructuring provisions expenses.

The 2021 APM adjustments to income from operating activities relate to result on sale of assets (mainly the last Boeing 747 combi aircraft) amounting to EUR 15 million.

The 2020 APM adjustments show a negative amount of EUR 191 million. As a result of the COVID-19 crisis a number of measures and actions have been taken. In summary the 2020 APM adjustments to EBITDA relate to the 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.

In summary the 2020 APM adjustments to income from operating activities relate to the 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 in April relate to passenger and combi Boeing 747 aircraft 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.

29. Cost of financial debt

	2021	2020
Cost of financial debt		
Loans from third parties	82	53
Interest on financial debt	18	14
Interest on lease debt	86	92
Other interest expenses	33	5
Total gross cost of financial debt	**219**	**164**
Income from cash and cash equivalents		
Finance income	(14)	(16)
Total income from cash and cash equivalents	**(14)**	**(16)**
Net cost of financial debt	**205**	**148**

	2021	2020
Foreign currency exchange gains/(losses)	43	(13)
Fair value gains/(losses)	(133)	(110)
Other Financial income and expenses	(45)	(69)
Total other financial income and expenses	**(135)**	**(192)**

The fair value results recorded in the financial year mainly consist of the unrealised revaluation of other balance sheet items amounting to EUR 133 million negative (2020: EUR 124 million positive), the ineffective/time value portion of fuel, interest rate and foreign currency exchange derivatives for EUR 2 million negative (2020: EUR 6 million positive), revaluation of AIR FRANCE KLM S.A. shares for 2 million negative (2020: EUR 5 million negative) and the COVID-19 related fuel overhedge amounting to EUR 3 million positive (2020: 240 million negative, with reference to note 11 Reserves).

Other financial income and expenses includes additions of EUR 43 million (2020: EUR 65 million) to (maintenance) provisions resulting from the discounting effect in provision calculations.

30. Income tax expense/benefit

	2021	2020
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	(255)	(54)
Current tax (income)/expense	-	(82)
Total tax (income)/expenses	**(255)**	**(136)**

The applicable average tax rate in the Netherlands for the financial year 2021 is 25% (2020: 25%).

End 2021 it was announced that the Dutch income tax will increase to 25.8% as from 2022. The impact of these changes related to the specific years are presented in the line "Increase tax rate" in below table.

The average effective tax rate is reconciled to the applicable tax rate in the Netherlands as follows:

in %	2021	2020
Applicable average tax rate in The Netherlands	**25.0**	**25.0**
Impact of:		
Non-deductible expenses	(1.3)	(1.1)
Increase/Reduction tax rate	0.1	(0.3)
Provision deferred tax asset	(6.9)	(15.4)
Effective tax rate	**16.9**	**8.2**

31. Share-based payments

Phantom shares

The movement in the number of phantom performance shares granted is as follows:

	2021	2020
As at January 1	680,694	513,202
Granted	98,955	215,422
Forfeited	(1,650)	(4,532)
Conditional	(297,919)	-
Exercised	(80,082)	(43,398)
As at December 31	399,998	680,694

The date of expiry of the phantom shares is as follows:

		2021	2020
Grant related to financial year	Phantom shares expiry date		
2015	April 1, 2021	22,000	81,678
2016	April 1, 2022	107,253	118,578
2017	April 1, 2023	107,155	116,975
2018	April 1, 2024	92,154	148,045
2019	April 1, 2025	71,436	215,418
	Carrying number	399,998	680,694

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 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 number of Phantom Performance Shares granted (maximum 100%). The 2016 plan has an intrinsic value of EUR 0.1 million as at December 31, 2021.

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 0.4 million as at December 31, 2021.

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 relates to the 2020 financial results and have, with reference to the State financial support package conditions and the applicable NOW regulations, not been vested. The 2018 plan has an intrinsic value of EUR 0.4 million as at December 31, 2021.

Under the Long-Term Incentive plan 2019 (pertaining to the financial year 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 respectively relate to the 2020 and 2021 financial results and have, with reference to the State financial support package conditions and the applicable NOW regulations, not been vested. The 2019 plan has an intrinsic value of EUR 0.3 million as at December 31, 2021.

Under the Long-Term Incentive plans 2020 and 2021, no grantings have taken place for the years 2020 and 2021, due to the same the State financial support package conditions and applicable NOW regulations.

32. Supervisory Board remuneration

	2021			2020		
(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	34,000	2,400	36,400	37,542	1,000	38,542
P.C. Calavia (until April 23, 2020)				8,244	-	8,244
F. Enaud	21,200	2,400	23,600	23,408	1,000	24,408
M.T.H. de Gaay Fortman (until May 4, 2021)	7,238	1,200	8,438	23,408	1,500	24,908
J.C. de Jager	21,200	2,400	23,600	23,408	2,600	26,008
C. Nibourel (as from April 23, 2020)	21,200	-	21,200	15,164	-	15,164
M.J. Oudeman (as from May 4, 2021)	13,963	2,400	16,363			
F. Pellerin	21,200	2,400	23,600	23,408	2,600	26,008
P.F. Riolacci	21,200	4,800	26,000	23,408	5,200	28,608
B. Smith	-	-	-	-	-	-
B.J. Vos	21,200	-	21,200	23,408	-	23,408
Total	182,401	18,000	200,401	201,398	13,900	215,298

Mr. C.C. 't Hart is KLM Supervisory Board Chairman since the AGM in April 2019.

Due to COVID-19 and its significant impact on the Company, the Supervisory Board voluntarily reduced, like for the period June until and including December 2020, its 2021 remuneration by 20% compared to the 2019 base remuneration. 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 and 2021 with respect to the variable income (both short-term and long-term incentive). For the government conditions with respect to remuneration, the year 2019 serves as a reference year. For this reason also the 2019 comparative figures are included.

The effects for 2021 are as follows:

	CEO	COO/CFO
Overall reduction/pay cut (actual 2021 vs 2019)	-47%	-34%
Base salary	No change	No change
Short-term incentive 2021	No	No
Long-term incentive 2021 (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)	2021	2020	2019	2021 versus 2019 in %
P.J.Th. Elbers	705,142	722,818	1,322,953	-47%
R.M. de Groot	494,041	494,829	754,217	-34%
E.R. Swelheim	508,116	474,870	764,753	-34%
Total	1,707,299	1,692,517	2,841,923	40%

Base salary

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)	2021	2020	2019
P.J.Th. Elbers	600,000	535,185	585,000
R.M. de Groot	390,000	390,000	390,000
E.R. Swelheim	390,000	390,000	390,000
Total	1,380,000	1,315,185	1,365,000

Base salaries of Board members were kept stable at the level of December 2019. In 2020, in addition to the government conditions, given the exceptional situation, Mr. Elbers decided to voluntarily cut his fixed salary temporarily by 20 percent for the 2nd half of 2020.

Short-term incentive plan

Due to the unfolding COVID-19 crisis, the Board of Managing Directors voluntarily waived any short-term incentive for 2020. In 2021 the short-term incentive plan was nil.

	2021	2020	2019
(amounts in EUR)	Short-term incentive plan	Short-term incentive plan	Short-term incentive plan
P.J.Th. Elbers	0	0	342,000
R.M. de Groot	0	0	159,120
E.R. Swelheim	0	0	154,050
Total	0	0	655,170

The 2019 short-term incentive plan amounts have not been paid out yet.

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 112,189 (2021), consists of two parts: 1) pension cost and 2) pension allowance.

Annual variations are based on the pension calculations provided for by the KLM Ground pension fund. These annual variations in costs have been included.

Pension cost (post-employment benefit)

(amounts in EUR)	2021	2020	2019
P.J.Th. Elbers	29,878	20,417	25,593
R.M. de Groot	30,375	22,404	23,261
E.R. Swelheim	30,375	16,247	15,117
Total	90,628	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 112,189 (2021). 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)	2021	2020	2019
P.J.Th. Elbers	167,445	162,841	149,381
R.M. de Groot	102,777	100,134	97,676
E.R. Swelheim	116,852	113,866	111,061
Total	387,074	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 15,000 (December 31, 2020 EUR 13,500) 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 and vestings have taken place for the years that relate to the performance of financial year 2020 and 2021 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.

Possible payment to the Board of Managing directors related to the exercise of pre-COVID vested phantom shares has been suspended. The phantom shares grant related to the financial year 2015 have not been forfeited nor paid out. These vested phantom shares have been frozen at the March 31, 2021 AIR FRANCE KLM shareprice.

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, 2021:

Grant related to financial year	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, 2021
P.J.Th. Elbers								
2015	10,000		-	-		-	10,000	10,000
2016	10,000	01-apr-22	-	-		-	10,000	10,000
2017	10,000	01-apr-23	303	-		-	9,697	9,697
2018	21,354	01-apr-24	1,645	-		7,118	12,591	19,709
2019	46,875	01-apr-25	-	-		30,922	15,953	46,875
2020	nil		-	-		-	-	-
2021	nil		-	-		-	-	-
	98,229		1,948	-		38,040	58,241	96,281
R.M. de Groot								
2015	6,000		-	-		-	6,000	6,000
2016	6,000	01-apr-22	-	-		-	6,000	6,000
2017	6,000	01-apr-23	182	-		-	5,818	5,818
2018	11,688	01-apr-24	900	-		3,896	6,892	10,788
2019	24,375	01-apr-25	-	-		16,079	8,296	24,375
2020	nil		-	-		-	-	-
2021	nil		-	-		-	-	-
	54,063		1,082	-		19,975	33,006	52,981
E.R. Swelheim								
2015	6,000		-	-		-	6,000	6,000
2016	6,000	01-apr-22	-	-		-	6,000	6,000
2017	6,000	01-apr-23	182	-		-	5,818	5,818
2018	11,688	01-apr-24	900	-		3,896	6,892	10,788
2019	24,375	01-apr-25	-	-		16,079	8,296	24,375
2020	nil		-	-		-	-	-
2021	nil		-	-		-	-	-
	54,063		1,082	-		19,975	33,006	52,981
Total	206,355		4,112	-		77,990	124,253	202,243

As mentioned, no granting and/or vesting took place over the performance of financial year 2020 and 2021, with reference to the applicable NOW regulations. All phantom shares relate to achievements until and including 2019 targets.

Cost of phantom shares is based on IFRS accounting standards and does not reflect the value of the phantom shares at the vesting date.

Cost in 2021 of the vested phantom shares and AIR FRANCE KLM SLTI plan, for Mr. Elbers of EUR 97,461 negative (2020: EUR 905 negative), relate to an annual technical revaluation of the phantom shares portfolio and AIR FRANCE KLM shares following the 2021 decrease of the AIR FRANCE KLM share price. Furthermore no cash payments relating to the phantom shares and AIR FRANCE KLM SLTI plan occurred in 2021.

Cost in 2021 of the vested phantom shares, for Mr. de Groot of EUR 34,391 negative (2020: EUR 22,989 negative) and for Mr. Swelheim EUR 34,391 negative (2020: EUR 50,523 negative), relate to an annual technical revaluation of the phantom shares portfolio following the 2021 decrease of the AIR FRANCE KLM share price. Furthermore no cash payments relating to the phantom shares occurred in 2021.

As at December 31, 2021 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 and 2021 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 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:

	2021	2020
Sales of goods and services		
AIR FRANCE KLM Group companies	233	211
Associates	-	-
Other related parties	22	25
Purchases of goods and services		
AIR FRANCE KLM Group companies	341	277
Associates	-	-
Other related parties	138	96

For details of the year-end balances of amounts due to and from related parties see notes 8 and 20. In 2020 and 2021 no dividends have been received from jointly controlled entities interests (see note 4).
In December 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.

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

2021	Network	Maintenance	Leisure	Other	Eliminations	Total
Revenues						
Revenues External	5,089	471	484	21	-	6,065
Revenues Internal	161	620	-	139	(920)	-
Total revenue	**5,250**	**1,091**	**484**	**160**	**(920)**	**6,065**
Adjusted EBITDA*	437	146	67	45	-	695
APM adjustments to EBITDA*	(697)	(269)	1	1	-	(964)
Adjusted income from operating activities*	(270)	51	(30)	22	-	(227)
APM adjustments to income from operating activities*	(682)	(269)	1	1	-	(949)
Financial Income and expenses						(340)
Income tax expense						255
Share of results of equity accounted investees						3
(Loss) for the year						(1,258)
Amortisation, depreciation and movements in provision	(692)	(95)	(97)	(23)	-	(907)
Other financial income and expenses	(109)	(5)	(30)	9	-	(135)
Assets						
Intangible assets	251	239	16	6	-	512
Flight equipment	3,518	592	367	-	-	4,477
Other property, plant and equipment	316	290	3	9	-	618
Right-of-use assets	1,265	93	269	3	-	1,630
Trade receivables	377	(30)	13	4	-	364
Other assets	2,390	472	63	99	-	3,024
Total assets	8,117	1,656	731	121	-	10,625
Additions to fixed assets	625	99	42	9	-	775
Liabilities						
Deferred revenues on sales	1,245	137	95	-	-	1,477
Other liabilities	8,240	570	944	89	-	9,843
Total liabilities	9,485	707	1,039	89	-	11,320

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**
Adjusted EBITDA*	(184)	107	(35)	37	-	(75)
APM adjustments to EBITDA*	(178)	(39)	(4)	9	-	(212)
Adjusted income from operating 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 accounted investees						3
(Loss) for the year						**(1,546)**
Amortisation, depreciation and movements in provision	(819)	(143)	(72)	(24)	-	(1,058)
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**
Additions to fixed assets	697	91	37	60	-	885
Liabilities						
Deferred revenues on sales	1,185	72	71	-	-	1,328
Other liabilities	5,450	245	715	2,824	-	9,234
Total liabilities	**6,635**	**317**	**786**	**2,824**	**-**	**10,562**

* 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 2021	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,082	267	380	887	380	2,996
Other passenger revenues	41	10	14	34	14	113
Total passenger revenues	1,123	277	394	921	394	3,109
Scheduled cargo	14	30	303	911	401	1,659
Other cargo revenues	3	6	59	176	77	321
Total cargo revenues	17	36	362	1,087	478	1,980
Total network revenues	1,140	313	756	2,008	872	5,089
Maintenance	471	-	-	-	-	471
Other revenues	505	-	-	-	-	505
Total maintenance and other	976	-	-	-	-	976
Total revenues by destination	2,116	313	756	2,008	872	6,065

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

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, 2021:

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, 2021	December 31, 2020
Before proposed appropriation of the result for the year			
ASSETS			
Non-current assets			
Property, plant and equipment	38	4,177	4,443
Right-of-use assets	39	1,153	1,310
Intangible assets		479	454
Investments accounted for using the equity method	40	544	422
Other non-current assets	5	156	180
Other financial assets	41	452	281
Deferred tax assets	49	70	20
Pension assets	18	-	211
		7,031	7,321
Current assets			
Other current assets	5	230	100
Other financial assets	41	51	163
Inventories		171	127
Trade and other receivables	42	1,643	1,244
Cash and cash equivalents	43	214	120
		2,309	1,754
TOTAL ASSETS		9,340	9,075
EQUITY			
Capital and reserves			
Share capital	44	94	94
Share premium		474	474
Reserves	44	426	(441)
Retained earnings		(433)	1,303
Result for the year		(1,259)	(1,547)
Total attributable to Company's equity holders		(698)	(117)
LIABILITIES			
Non-current liabilities			
Financial debt	45	960	764
Lease debt	46	695	706
Other non-current liabilities	5	1,352	839
Other financial liabilities	47	1,829	1,911
Deferred income	48	259	258
Return obligation liability and other provisions	50	1,100	1,109
		6,195	5,587
Current liabilities			
Trade and other payables	51	2,097	1,737
Financial debt	45	100	123
Lease debt	46	212	255
Other current liabilities	5	88	178
Other financial liabilities	47	185	119
Deferred income	48	986	926
Return obligation liability and other provisions	50	175	267
		3,843	3,605
Total liabilities		10,038	9,192
TOTAL EQUITY AND LIABILITIES		9,340	9,075

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	2021	2020
(Loss)/Profit from investments accounted for using equity method after taxation	13	(80)
(Loss)/Profit of KLM N.V. after taxation	(1,272)	(1,467)
(Loss)/Profit for the year after taxation	(1,259)	(1,547)

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 2021 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, 2021	4,007	2,053	6,060	693	214	293	1,200	724	7,984
Additions	43	175	218	29	7	13	49	32	299
Disposals	(73)	(179)	(252)	(7)	-	(6)	(13)	-	(265)
Other movements	54	8	62	2	-	-	2	(265)	(201)
As at Dec. 31, 2021	4,031	2,057	6,088	717	221	300	1,238	491	7,817
Accumulated depreciation and impairment									
As at Jan. 1, 2021	2,001	854	2,855	355	151	180	686	-	3,541
Depreciation	177	148	325	32	9	22	63	-	388
Disposals	(67)	(179)	(246)	(7)	-	(6)	(13)	-	(259)
Other movements	(94)	63	(31)	1	-	-	1	-	(30)
As at Dec. 31, 2021	2,017	886	2,903	381	160	196	737	-	3,640
Net carrying amount									
As at Jan. 1, 2021	2,006	1,199	3,205	338	63	113	514	724	4,443
As at Dec. 31, 2021	2,014	1,171	3,185	336	61	104	501	491	4,177

	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

In 2020 an impairment of EUR 19 million was recorded, following the COVID-19 related early phase-out the passenger and combi Boeing 747 aircraft, which is reflected in other movements. These assets are related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and provisions and note 28 Alternative performance measures.

The assets include assets which are held as security for mortgages and loans as follows:

As at December 31,	2021	2020
Aircraft	121	130
Land and buildings	132	129
Other property and equipment	43	41
Carrying amount	296	300

Borrowing cost capitalised during the year amounted to EUR 9 million (2020 EUR 10 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.1% (2020: 2.6%).

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, 2021 was EUR 227 million (December 31, 2020 EUR 227 million).

39. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2021	**700**	**390**	**106**	**114**	**1,310**
New contracts	-	-	2	12	14
Renewal or extension options	95	(8)	-	9	96
Disposals	-	(55)	-	(5)	(60)
Reclassifications	(1)	79	-	(5)	73
Amortisation	(181)	(55)	(14)	(30)	(280)
As at December 31, 2021	**613**	**351**	**94**	**95**	**1,153**
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**

Information related to lease debt is available in note 46.

In the fourth quarter of 2020 management decided to limit the effect of COVID-19 and took 2 leased Airbus A330-200 out of operation. A write-off of EUR 9 million was recognised in the right-of-use asset aircraft in 2020. The asset is related to passenger activities within the network business segment. Reference is made to note 27 Amortisation, depreciation, impairments and provisions and note 28 Alternative performance measures.

The table below indicates the rents resulting from lease and service contracts which are not capitalised:

	2021	2020
Variable rents	5	3
Short-term rents	26	43
Low value rents	2	2
Carrying amount	**33**	**48**

40. Investments accounted for using the equity method

As at December 31,	2021	2020
Subsidiaries	527	404
Associates	9	9
Jointly controlled entities	8	9
Carrying amount	544	422

	2021	2020
Subsidiaries		
Carrying amount as at January 1	404	544
Movements		
Investments	-	-
Share of profit/(loss) after taxation	14	(79)
OCI movement	107	(55)
Dividends received	-	-
Foreign currency translation differences	(2)	1
Other movements	4	(7)
Net movement	123	(140)
Carrying amount as at December 31	527	404

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, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, other loans and receivables	1	404	113	233
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	-	15
AIR FRANCE KLM S.A. shares	-	4	-	6
	50	19	50	21
At fair value through OCI				
Kenya Airways Ltd. Shares	-	13	-	12
Other non-consolidated entities	-	16	-	15
	-	29	-	27
Carrying amount	51	452	163	281

For details about the Company's stake in Kenya Airways see note 6.

42. Trade and other receivables

As at December 31,	2021	2020
Trade receivables	500	406
Expected credit loss	(64)	(51)
Trade receivables - net	436	355
Amounts due from:		
- subsidiaries	695	483
- AIR FRANCE KLM group companies	85	50
- associates and jointly controlled entities	1	2
- maintenance contract customers	42	63
Taxes and social security premiums	18	14
Other receivables	236	213
Prepaid expenses	130	64
Total	1,643	1,244

Maintenance contract cost incurred to date for contracts in progress at December 31, 2021 amounted to EUR 29 million (December 31, 2020 EUR 147 million). Advances received for maintenance contracts in progress at December 31, 2021 amounted to EUR 106 million (December 31, 2020 EUR 50 million). The maturity of trade and other receivables is within one year.

43. Cash and cash equivalents

As at December 31,	2021	2020
Cash at bank and in hand	33	20
Short-term deposits	181	100
Total	214	120

The effective interest rates on short-term deposits are in the range from -0.65% to 3.35% (2020 range -0.34% 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. Financial debt

As at December 31,	2021	2020
Non-current portion	960	764
Current portion	100	123
Carrying amount	1,060	887

46. Lease debt

	December 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	170	516	211	514
Lease Debt - Real estate	13	110	14	121
Lease Debt - Others	25	69	26	71
Accrued Interest	4	-	4	-
Total	212	695	255	706

Change in lease debt:

	As at January 1, 2021	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2021
Lease Debt - Aircraft	725	95	(189)	55	-	686
Lease Debt - Real estate	135	3	(15)	-	-	123
Lease Debt - Others	97	19	(28)	6	-	94
Accrued interest	4	-	-	-	-	4
Total	961	117	(232)	61	-	907

	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

The lease debt maturity breaks down as follows:

	2021	2020
Less than 1 year	268	316
Between 1 and 2 years	207	259
Between 2 and 3 years	173	201
Between 3 and 4 years	142	129
Between 4 and 5 years	116	86
Over 5 years	220	184
Total	1,126	1,175
Including:		
- Principal	907	961
- Interest	219	214

47. Other financial liabilities

	December 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Revolving credit facility	-	682	-	663
Direct State loan	-	279	-	278
Subordinated perpetual loans	-	516	-	505
Other loans (secured/unsecured)	185	320	119	433
Total	185	1,829	119	1,911

For details about the other financial liabilities see note 14.

48. Deferred income

	December 31, 2021		December 31, 2020	
	Current	Non-current	Current	Non-current
Advance ticket sales	924	-	850	-
Sale and leaseback transactions	2	3	1	4
Flying Blue frequent flyer program	54	251	69	247
Others	6	5	6	7
Total	986	259	926	258

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, 2021, the advance ticket sales includes EUR 90 million of passenger tickets (fare and carried imposed charges) (December 31, 2020 EUR 243 million) for which the date of transportation has passed and which are eligible to refund and EUR 157 million (December 31, 2020 EUR 322 million) of vouchers that can be used for future flights.

49. Deferred tax assets

The gross movement in the deferred income tax account is as follows:

	2021	2020
Carrying amount as at January 1	(20)	92
Movements:		
Income statement expense	(260)	(49)
Tax (credited)/charged to equity	212	(67)
Reduction due to tax rate	(1)	-
Other movements	(1)	4
Net movement	(50)	(112)
Carrying amount as at December 31	(70)	(20)
Current income tax liabilities	-	-
Tax (assets) as at December 31	(70)	(20)

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,	2021	2020
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	-	-
Deferred tax assets to be settled after 12 months	109	56
	109	56
Deferred tax liabilities:		
Deferred tax liabilities to be settled in 12 months or less	-	-
Deferred tax liabilities to be settled after 12 months	39	36
	39	36
Carrying amount	(70)	(20)

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					
2021					
Pension asset	-	-	-	9	9
Non-deductable interest	10	47	-	-	57
Other tangible fixed assets	29	6	-	-	35
Derivative financial instruments	17	-	(56)	39	-
Other	-	(10)	13	5	8
Total	56	43	(43)	53	109

	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					
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 liabilities					
2021					
Pensions & benefits (asset)	36	(217)	170	11	-
Derivative financial instruments	-	-	-	39	39
Total	36	(217)	170	50	39

	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
Derivative financial instruments	-	16	-	(16)	-
Total	106	(9)	(65)	4	36

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.

50. 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, 2021	56	887	193	138	55	47	1,376
Additional provisions and increases in existing provisions	3	(3)	17	24	6	17	64
Unused amounts reversed	-	-	-	(1)	-	(9)	(10)
Used during year	(6)	(29)	(21)	(1)	(52)	(22)	(131)
New / Changes in lease contracts	(4)	(97)	-	-	-	-	(101)
Foreign currency translation differences	1	59	5	-	-	-	65
Accretion impact	-	29	-	-	-	-	29
Other changes	-	-	(6)	-	1	(12)	(17)
As at December 31, 2021	50	846	188	160	10	21	1,275
Current/non-current portion							
Non-current portion	43	754	150	148	-	5	1,100
Current portion	7	92	38	12	10	16	175
As at December 31, 2021	50	846	188	160	10	21	1,275

			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

For details about the Return obligation liability and other provisions see note 19.

51. Trade and other payables

As at December 31,	2021	2020
Trade payables	668	508
Amounts due to subsidiaries	599	461
Amounts due to AIR FRANCE KLM Group companies	102	65
Taxes and social security premiums	286	200
Employee related liabilities	205	322
Accrued liabilities	152	127
Other payables	85	54
Total	2,097	1,737

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, April 7, 2022

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
Jan Kees de Jager
Christian Nibourel
Marjan Oudeman
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 2021 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, 2021 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, 2021 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 2021 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, 2021;
2. the following consolidated statements for December 31, 2021: profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows; 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 at December 31, 2021;
2. the Company statement of profit or loss for December 31, 2021; 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 '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).

Our audit procedures were determined in the context of our audit of the financial statements as a whole. Our observations in respect of going concern, fraud and non-compliance with laws and regulations and the key audit matters should be viewed in that context and not as separate opinions or conclusions.

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 paragraph in the notes to the consolidated and company financial statements, which indicate that the main uncertainties relate to the timing and extent of recovery of KLM's operations and the strengthening of KLM's solvency position. The combination of these conditions indicate the existence of a material uncertainty that may cast significant doubt on the KLM's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In order to determine that there is no situation of inevitable discontinuity and conclude on the adequacy of the going concern related disclosure, we have performed, inter alia, the following procedures:

» 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 2022 and forecast five-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;
» challenging and evaluating the aforementioned management's assessment of KLM'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 were authorised for issue and inquire management on the strengthening of the solvency position;
» 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 the Dutch State agent;
» analysing and assessing KLM's latest available interim financial information and identify subsequent events, including the potential impact from the Ukraine / Russia conflict.

Furthermore, we have evaluated the situation and uncertainties as described in the aforementioned disclosure and consider the disclosure to be adequate.

Audit approach

Summary

Materiality
– Materiality of EUR 45 million
– 0.7% of total revenues
Group audit
– Audit coverage of 92% of total assets
– Audit coverage of 98% of total revenues
Going concern and Fraud/Noclar
– Going concern: Material uncertainty identified
– Fraud & Non-compliance with laws and regulations (Noclar): we identified management override of controls and revenue recognition in passenger and cargo transport, laid down in the audit standards, as the presumed fraud risks. In addition we identified the classification and disclosure of the EU cargo claim as litigation due to non-compliance risk.
Key audit matters
– Fraudulent revenue recognition in passenger and cargo transport due to fictitious revenue
– Provision for litigation and contingent liabilities relating to the EU Cargo claim
– Recognition of government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program
– Derecognition of ground staff pension plan
Opinion
- Unqualified
- Material uncertainty related to going concern

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 45 million (2020: EUR 45 million). The materiality is determined with reference to revenue, of which it represents 0.7% (2020: 0.9%). We consider revenue as the most appropriate benchmark because of the volatility of result before tax. 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 identified during our audit in excess of EUR 2.25 million (2020: EUR 2.25 million) 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. 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 Company, 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, among 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 (2020: 8 components) to perform audits for group reporting purposes on a complete set of financial information as well as 7 components (2020: 7 components) to perform audit procedures for group reporting purposes on selected account balances and classes of transactions;

  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, closing meetings were attended and file reviews were performed for most of these components.

We performed analytical procedures on components not in scope for audit procedures to validate our assessment that there are no 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 about the financial statements.

The audit coverage as stated in the section summary can be further specified as follows:

Total revenues

Audit of the complete reporting package	Audit of specific items
87%	11%

Total assets

Audit of the complete reporting package	Audit of specific items
71%	21%

Audit response to the risk of fraud and non-compliance with laws and regulations

In chapter 4 and 5 of the Risk Management and Control section of the Report of the Board of Managing Directors, the Board of Managing Directors describes its procedures in respect of the risk of fraud and non-compliance with laws and regulations and the Supervisory Board reflects on this.

As part of our audit, we have gained insights into KLM and its business environment, and assessed the design and implementation of KLM's risk management in relation to fraud and non-compliance. Our procedures included, among other things, assessing KLM's code of conduct, whistleblowing procedures, incidents register and its procedures to investigate indications of possible fraud and non-compliance. Furthermore, we performed relevant inquiries with the Board of Managing Directors, those charged with governance and other relevant functions, such as Internal Audit and KLM's Legal and Compliance Counsel. As part of our audit procedures, we:

- » assessed other positions held by members of the Board of Managing Directors and/or other employees and paid special attention to procedures and governance/compliance in view of possible conflicts of interest;
- » assessed, together with our forensics specialists, KLM's fraud and non-compliance evaluation and incorporated relevant risks of material misstatements in our audit approach;
- » evaluated indications of possible fraud and non-compliance;
- » evaluated correspondence with supervisory authorities and regulators as well as legal confirmation letters.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to KLM and identified the following areas as those most likely to have a material effect on the financial statements:

- » competition law (reflecting the Company's involvement in a number of ongoing investigations by national competition authorities); and
- » employment law (reflecting the Company's significant and geographically diverse work force).

Based on the above and on the auditing standards, we identified the following fraud and non-compliance risks that are relevant to our audit, including the relevant presumed risks laid down in the auditing standards, and responded as follows:

Management override of controls (a presumed risk)

Risk:

- » Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Responses:

- » We evaluated the design and the implementation of internal controls that mitigate fraud risks with respect to journal entries.
- » We performed data analyses on high-risk journal entries and evaluated key estimates and judgments for bias by management, such as estimates relating to unearned passenger revenues, impairment testing of non-current assets, accounting for retirement and other post-employment benefits and the provision for litigation and contingent liabilities, including retrospective reviews of prior year's estimates. Where we identified instances of unexpected journal entries or other risks through our procedures, we performed additional audit procedures to address each identified risk, including evaluating the business rationale of the transactions. These procedures also included testing of transactions back to source information.
- » We incorporated elements of unpredictability in our audit, including revising our selection criteria in our data analyses of high-risk journal entries.
- » We evaluated whether the selection and application of accounting policies by KLM, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.

Revenue recognition (a presumed risk)

Risk:

- » Fraudulent revenue recognition in passenger and cargo transport due to fictitious revenue.

Response:

- » Our procedures to address the identified risk of fraudulent revenue recognition in passenger and cargo transport resulted in a key audit matter. We refer to the key audit matters for our responses and our observations thereon.

Litigation risk due to non-compliance

Risk:

- » Classification and disclosure of the EU cargo claim.

Response:

- » Our procedures to address the identified risk related to the classification and disclosure of the EU cargo claim resulted in a key audit matter. We refer to the key audit matters for our responses and our observations thereon.

We communicated our risk assessment, audit responses and results to the Board of Managing Directors and the Audit Committee of the Supervisory Board.

Our audit procedures did not reveal indications and/or reasonable suspicion of fraud and non-compliance that are considered material for our audit.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Audit Committee of the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

Compared to last year the key audit matters with respect to valuation of non-current assets and recognition of deferred tax asset for unused tax losses are not included, as these were specifically related to events that occurred financial year 2020. Furthermore, the risk related to fraudulent revenue recognition due to fictitious revenue was extended to include cargo transport revenues given its significance. The key audit matter with respect to the derecognition of the ground staff pension plan has been added, because the transaction occurred in 2021 and its significance to the financial statements.

Fraudulent revenue recognition in passenger and cargo transport due to fictitious revenue

Description

Revenue from passenger transport increased from EUR 2,518 million to EUR 3,109 million in 2021 as result of the recovery of passenger travelling due to the relaxation of COVID-19 related measures during the financial year. Revenue from cargo transport for the year increased from EUR 1,535 to EUR 1,980 million in 2021 as a result of the shortage in air cargo capacity combined with a worldwide increase in demand.

The revenue related to passenger and cargo transport is recognised when the transportation service is provided in accordance with IFRS 15. As the current financial year is a year with recovery of operating activities and financial results, management may have the incentive to overstate revenues of the current financial year in order to present better results.

We considered fraudulent revenue recognition to be a key audit matter as there may be a tendency to improperly shift revenue via manual journal entries in the last period of the year. This resulted in a risk that revenue is overstated.

Our response

Our procedures primarily consisted of:

» evaluation of the design and implementation of controls around passenger and cargo revenues 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;
» assessing whether revenue was recognised in the appropriate period, for selected sales transactions recognised around year-end we inspected passenger tickets, airway-bills and flight information;
» reviewing accounting estimates for biases that could result in a material misstatement due to fraud related to the issued but unused passenger tickets;
» analysing the existence 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 2021 and January 2022, primarily focusing on the possibility of improper shifting of revenue from January 2022 to December 2021.

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 fraudulent revenue recognition in passenger and cargo activities due to fictitious revenue 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 to the consolidated financial statements. KLM's positions taken are inherently based on the use of assumptions and judgments, specifically relating to the timing of the expected decision of the appeal to the General Court of the European Union and the timing of the final appeal possibilities by KLM.

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 judgment required.

Our response

Our audit procedures included, among 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 a legal confirmation letter from KLM's external legal counsel, also to corroborate management's assessment of the legal proceedings.

Furthermore, we challenged the data and assumptions applied by KLM in determining the need to recognise a provision, its 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 judgment 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 and EUR 771 million in 2021. 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, among others, assessment of management's evaluation and representation over the recognition of the government grants in the statement of profit or loss. In 2021, we continued to assess 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 the 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, among others:
- reconciling and evaluating the revenue in the NOW reference and measurement periods;
- performed procedures to verify the accuracy and completeness of the revenue in the measurement periods and considering the results of our standard audit procedures over revenue for the entire financial 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, share based payments, 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.

Derecognition Ground staff pension plan

Description

KLM has a number of retirement and other long-term benefit plans for its employees with specific characteristics, most of which were in the Netherlands and in the UK. KLM's main commitment in terms of defined benefit schemes was the KLM ground staff pension plan based in the Netherlands.

In 2021 the accounting classification of the amended pension scheme for KLM's ground staff as defined contribution plan and the derecognition of the net pension asset required significant management judgment.
We considered the measurement and the correct accounting classification of KLM's ground staff pension plan to be a key audit matter due to the financial impact and the sensitivity of measurement results to the assumptions adopted.

Our response

We obtained an understanding of management's process for the accounting treatment of the new pension agreement. We assessed the classification of the new pension agreement as defined contribution. With the involvement of our actuarial experts, we assessed whether KLM, under the new pension agreement, bears actuarial and financial risks. In particular by assessing:

- whether the contribution from KLM to the pension fund is fixed;
- the conditionality of the accrual of pension benefits on the contribution paid into the fund;
- whether the accrued pension entitlements are fully conditional and whether all further legal and constructive obligations for KLM of the benefits under the new pension agreement are eliminated;
- whether all the risks as a result of the new pension agreement are clearly communicated and explained to the (former) employees.

We also assessed, with the involvement of our actuarial experts, the accounting treatment of the plan amendment based on IAS 19 as per May 31, 2021 Our procedures include the assessment of:

- the reasonableness of the roll-forward method from January 1, 2021 to May 31, 2021 used for the calculation of the settlement impact;
- the measurement of the pension plan assets as per May 31, 2021;
- the appropriateness of the discount rate, inflation rate and salary increase assumptions used to update the defined benefit obligation at settlement date; and
- the accurateness of the additional paid pension premium and other one-off contributions which were included in the pension fund.

In addition, we evaluated the appropriateness of the disclosures in Note 18 to the consolidated financial statements.

Our observation

We concur with the classification of the KLM's ground staff pension plan as defined contribution plan following the amendment of the pension agreement as per June 2021.
We consider management's key assumptions and estimates relating to the derecognition at settlement date, to be within the acceptable range, and determined that KLM's disclosure (Note 18) is in accordance with EU-IFRS.

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 for the Report of the Managing Directors and other information.

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 May 4, 2021 for the audit of the year 2021, and have operated as statutory auditors ever since financial year 2005 / 2006.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

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 the Board of Managing Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In that respect the Board of Managing Directors, under supervision of the Supervisory Board, is responsible for the prevention and detection of fraud and non-compliance with laws and regulations, including determining measures to resolve the consequences of it and to prevent recurrence.

As part of the preparation of the financial statements, the Board of Managing Directors is responsible for assessing KLM'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 KLM'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 appendix this auditors' report. This description forms part of our auditors' report.

Amstelveen / Amsterdam, April 7, 2022

KPMG Accountants N.V.

E.H.W. Weusten RA

Deloitte Accountants B.V.

V.E.M. Vos-Dekker 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 judgment 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 KLM'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 KLM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 ultimately 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. In this respect we also submit an additional report to the Audit Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditors' report.

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 auditors' 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.

Miscellaneous

Five-year review

(in millions of EUR, unless stated otherwise)		2021	2020	2019	2018 Restated*	2017 Restated**
Consolidated statement of profit or loss						
Passenger		3,109	2,518	7,952	7,766	7,496
Cargo		1,980	1,535	1,171	1,284	1,211
Other revenues		976	1,067	1,952	1,839	1,723
Revenues		6,065	5,120	11,075	10,889	10,430
Expenses	***	(5,370)	(5,195)	(9,132)	(8,769)	(8,366)
Adjusted EBITDA	***	695	(75)	1,943	2,120	2,064
Amortisation, depreciation, impairment and movement in provisions		(922)	(1,079)	(1,090)	(1,029)	(985)
Adjusted income from current activities	***	(277)	(1,154)	853	1,091	1,079
Total APM adjustments	***	(949)	(191)	22	(13)	(1,849)
Income from operating activities		(1,176)	(1,345)	875	1,078	(770)
Financial income and expenses		(340)	(340)	(275)	(315)	91
Pre-tax income		(1,516)	(1,685)	600	763	(679)
Income tax expenses		255	136	(162)	(201)	171
Net result after taxation of consolidated companies		(1,261)	(1,549)	438	562	(508)
Share of results of equity shareholdings		3	3	11	4	11
Profit/(loss) for the year		(1,258)	(1,546)	449	566	(497)
Consolidated balance sheet						
Current assets		2,525	1,937	2,576	2,599	2,861
Non-current assets		8,100	8,510	9,195	8,737	8,304
Total assets		**10,625**	**10,447**	**11,771**	**11,336**	**11,165**
Current liabilities		3,882	3,800	4,701	4,636	4,350
Non-current liabilities		7,438	6,762	5,510	5,739	5,994
Group equity		(695)	(115)	1,560	961	821
Total equity and liabilities		**10,625**	**10,447**	**11,771**	**11,336**	**11,165**

* 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 2021, 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)		2021	2020	2019	2018 Restated*	2017 Restated**
Key financial figures (KLM Group)						
Result for the year as percentage of revenues		(20.7)	(30.2)	4.1	5.2	(4.8)
Earnings per ordinary share (EUR)		(26.90)	(33.05)	9.57	12.07	(10.64)
Capital expenditures (net)		(481)	(681)	(1,323)	(1,320)	(1,012)
Net debt/adjusted EBITDA ratio		4.5	47.4	1.3	1.3	1.6
Dividend per ordinary share (EUR)		-	-	0.415	0.395	-
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		23,705	26,866	27,293	26,601	26,179
Outside the Netherlands		2,902	3,102	3,279	3,219	3,219
Employed by KLM		**26,607**	**29,968**	**30,572**	**29,820**	**29,398**
Total agency staff		837	772	2,454	2,592	2,274
Total KLM Group		27,444	30,740	33,026	32,412	31,672
Traffic (KLM Company)						
Passenger kilometers	***	40,912	33,873	109,476	107,676	103,487
Revenue ton freight kilometers	***	3,333	3,020	3,583	3,696	3,727
Passenger load factor (%)		49.6	52.2	89.4	89.1	88.4
Cargo load factor (%)		79.6	77.7	61.9	64.4	63.3
Number of passengers (x 1,000)		14,039	11,231	35,092	34,170	32,689
Weight of cargo carried (kilograms)	***	412	371	453	466	471
Average distance flown per passenger (in kilometers)		2,914	3,016	3,120	3,151	3,166
Capacity (KLM Company)						
Available seat kilometers	***	82,452	64,842	122,452	120,815	117,066
Available ton freight kilometers	***	4,155	3,882	5,811	5,758	5,883
Kilometers flown	***	322	271	471	462	451
Blockhours (x 1,000)		465	390	706	689	674
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.3	7.1	7.1	7.0	7.0
Cargo (per RTK)		37.3	31.8	21.0	22.5	21.7
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		18,036	20,787	21,146	20,670	20,409
Outside the Netherlands		2,037	2,277	2,421	2,431	2,397
Employed by KLM		20,073	23,064	23,567	23,101	22,806

* 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

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 2021, no distribution of dividends to any class of share shall be made. The net loss for 2021 amounting to EUR 1,257,947,000 will be transferred to retained earnings.

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.