# Annual Report 2019

Royal Dutch Airlines

KLM 100

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Registered under number 33014286 in the Trade Register
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# Table of contents


## Report of the Board of Managing Directors

04 Letter from the President
10 Key figures
12 The world we operate in
16 Review 2019: Celebrating the future
20 Financial results
26 Flight plan 2019
68 Risk Management and Control

## Board and Governance

92 Report of the Supervisory Board
100 Remuneration Policy and Report
104 Supervisory Board and Board of Managing Directors

## Financial Statements 2019

110 Consolidated financial statements
188 Company financial statements

## Other Information

Miscellaneous

# Letter from the President

## Preface

This annual report on the 2019 results cannot be read without considering the subsequent events after year-end closing. The worldwide spreading of COVID-19 has caused a global crisis in terms of health, a global crisis in terms of business and severe crises in many societies. As an airline we are amongst the earliest to be faced directly with the impact of this crisis. During the course of the first three months of 2020, the outbreak of COVID-19 has developed into a pandemic on an unprecedented scale, striking an equally unprecedented blow to the airline industry on a global level. As a consequence, the KLM Group is facing one of the largest crisis in its entire history.

It goes without saying that under normal circumstances it would have been a great pleasure to take the opportunity to share an overview of our ambitions and focus for 2020. Unfortunately, at the closing of the annual report, the crisis is still evolving, bringing many uncertainties, which makes it impossible to predict the scale of impact of the COVID-19 crisis on KLM and its future. KLM's ambitions and objectives for 2020 will be refocused with the utmost urgency on resiliently overcoming the COVID-19 crisis and on emerging in a position that will enable us to resume the intended pursuit of our strategic goals.

Pieter Elbers
CEO

When we formulated our ambition with the new KLM Executive Team in 2014, our goal was to ensure that KLM would be *"healthy and fit for the next 100 years"* when it would reach its centenary in 2019. After defining our ambition to become *Europe's most customer centric, innovative and efficient network carrier*, we re-determined our purpose in the KLM Compass and strengthened the execution of our strategy through our annual KLM Flight Plan from 2015 until 2019. I am proud to say that on the 7th of October 2019, the day KLM became the first airline in the industry to turn 100 years old, it is clear that because of the hard work of all KLM employees we have turned this ambition into reality. Because of the robust and mature state of our company, the theme of our KLM 100 celebrations "Celebrating the future", rings true. KLM is ready for its next century. Proud of its history, committed to its future!

The year 2019 marks the last year of our Perform 2020 program. Back in 2013 and 2014, our financial results were down, investments were laging behind and a general sense of discomfort was felt internally. Hence, from the third quarter of 2014, with a new Board of Managing Directors, we were at the crossroads of winning or losing. At the start of Perform 2020, in 2015, we did a strategic review and defined a clear set of strategic objectives, which are still valid today. The overall aim of creating structure and direction, was fourfold: (i) we needed to fund our investment agenda by lowering costs, (ii) our customer experience and appreciation needed to improve drastically, (iii) we needed to invest in our employees and organisation, to modernise the workforce, work processes and working tools and (iv) the overall financial position of the company needed to improve. In order to achieve these objectives, we captured our strategic choices in our Perform 2020 transformation program and ensured structural progress monitoring.

These past few years have been an incredible journey for everyone at KLM. We have made impressive progress on all of our objectives. Our investment levels have gone up, our customer appreciation has improved from mid-30's to above 40 (Network Promotor Score, NPS), productivity has increased, our employees are more satisfied than five years ago (Employee Promotor Score, EPS above 70) and working processes and -tools have been simplified and digitised. All of which has resulted in an increase of profit, a reduction of our debt and a strengthening our equity position. Because our financial position has improved we are able to better face economic headwinds and to share the profit among all KLM staff via a profit sharing scheme. We have achieved these changes over the course of five years because we have been persistent and not afraid to challenge ourselves. This fits with our history as aviation pioneers.

We have also delivered on most of our parameters in 2019. Due to Schiphol's capacity limitations, we could only grow by a very limited number of flights, yet we grew our destination portfolio. We were able to improve the quality of our operations and our product as well. We strengthened our commitment to sustainability tremendously with the launch of our global Fly Responsibly initiative, with the announcement of partnering in the development of a new sustainable aviation fuel plant in the Netherlands and with our support for the design of a radically different aircraft, Flying V. In parallel we maintained our position as a leader in digital customer- and employee processes and optimised our operational procedures with artificial intelligence supported tools.

Our four businesses have improved as well. We welcomed over 35 million customers on board of our KLM flights and 44 million within the KLM Group. We managed to expand our global network with six new destinations, took delivery of 10 new aircraft, improved our operational resilience on disrupted days and grew the number of alliances. Transavia and KLM Cityhopper have modernised their fleet and services. Engineering & Maintenance has professionalised with an increase of its commercial work for third parties and the KLM Cargo division ventured into new customer segments to create new opportunities for growth.

"KLM is ready for its next century. Proud of its history, committed to its future!"

Within AIR FRANCE KLM, progress was made in different areas. Air France has made impressive steps both in operational quality as well as customer appreciation and the management gained support of the unions, which will help Air France in its ambitious turn-around program. With AIR FRANCE KLM we have expanded our existing Joint venture-partnerships to China with China Eastern and to North America with Virgin Atlantic. These extended partnerships strengthen our AIR FRANCE KLM position in the global arena.

From the start of the COVID-19 crisis, the KLM Group has been monitoring its evolution by the hour and implemented measures to protect its passengers and staff, as well as to limit the impact of the virus on its profitability and to preserve its financial sustainability. In the course of the developments, decisions were necessary to reduce our flight schedule, currently by drastic proportions.

The KLM Group has already taken a number of strong measures to secure cash, save cost and postpone payments as well as all kind of other measures in order to meet ongoing commitments during the COVID-19 crisis. The initial investment plan has strongly been reduced and additional financing with bank institutions is arranged for. In addition, the KLM Group announced to cease the operation of its entire Boeing 747 passenger fleet as per end March 2020, in order to reduce capacity and achieve operational savings.

The KLM Group is in close contact with its stakeholders to secure continuation of its operations. The KLM Group is working together with AIR FRANCE KLM and Air France in conferring with the governments in the Netherlands and France to temporarily expand legal opportunities for additional financing, saving cash and postponing payments. Within the Netherlands, the government is demonstrating strong support and commitment to help KLM and other companies face the challenges. KLM is gratefully making use of the Dutch government's financial package that was announced mid-March.

It goes without saying that KLM follows all governmental guidance and instructions with regard to people interactions and meticulously adheres to the actual guidance and instructions.

At the end of a year we sometimes say: it has been an eventful year. This year has been a turbulent, yet spectacular year indeed. First of all I would like to express my gratitude towards our customers. It is the loyalty of the customers in our businesses, Passenger network, Cargo, our industrial customers at Engineering & Maintenance and Transavia passengers that has made KLM reach its centennial in sound health. Together with them we will navigate our flourishing company into a challenging future. In October we had the pleasure of celebrating KLM's 100th anniversary together in a fantastic way. In the hangar at Schiphol Oost, but essentially across the entire world. I would like to thank all KLM staff: for their commitment, their energy, for their blue heart and for everything that we have done together to make us healthy and fit for our 100th birthday, to be able to celebrate this exceptional milestone and to prepare KLM for its next 100 years.

Photo: LVNL

# "100 years Flying Dutchman.

**1919, October 7**

The Koninklijke Luchtvaart Maatschappij voor Nederland en Koloniën (KLM, the Royal Airline for The Netherlands and Colonies) is founded.

**1920, May 17**

KLM operates its first flight from London to Amsterdam, carrying two journalists and a stack of newspapers. KLM welcomes 345 passengers in 1920.

**1924**

With the transportation of the young stud bull Nico V, KLM marks the start of its long history in animal transport.

**1960, March 25**

KLM enters the *Jet Age* with the arrival of the Douglas DC-8, PH-DCA *Albert Plesman*. Jet-powered aircraft reduces flying time and the number of intermediate landings required.

**1967, April 28**

KLM's newly designed home base Schiphol Airport is taken into operation.

**1971, January 31**

KLM's first Boeing 747, PH-BUA *Mississippi*, touches down at Schiphol. The new arrival markes the start of the wide-body era. The Boeing 747 carries 353 passengers.

**1989, January**

KLM and Northwest Airlines starts up cooperation to jointly create a globe-spanning route network.

**1992**

KLM becomes the first airline on the European continent to introduce a loyalty program for frequent flyers, under the name *Flying Dutchman*.

**1993**

KLM carries more than 10 million passengers in one single year.

**2005, September**

AIR FRANCE KLM introduces its joint loyalty program for frequent flyers, *Flying Blue*.

**2008, March 30**

The Open Skies Treaty makes it possible to fly to any destination in the United States and vice versa.

**2008, June 2**

KLM issues its last paper ticket. From now on only e-tickets are issued.

**2010, April 14**

KLM introduces a new women's uniform, designed by Mart Visser. Dutch design marks KLM's Dutch roots.

**2011, June 30**

KLM operates its first scheduled service, partly powered by sustainable aviation fuel, to Paris. KLM's quest for alternatives to fossil fuel began in 2007.

**2015, November 14**

KLM welcomes its first Boeing 787-9 Dreamliner PH-BKA *Sunflower*, a ground-breaking aircraft in terms of design and materials used.

# Once a legend, now reality”.

**1930, September 25**

KLM starts operating its first scheduled services between Amsterdam and Batavia (now Jakarta), Indonesia.

**1934**

The legendary Douglas DC-3, PH-AJU *Uiver* (Stork) is the first full-metal aircraft to join the KLM fleet. The *Uiver* wins the London-Melbourne Race.

**1935**

KLM introduces cabin attendants on board. In previous years, the flight engineer took care of passengers, in addition to his operational duties.

**1946, May 21**

KLM becomes the first European airline to operate scheduled service between Amsterdam and New York, with the Douglas DC-4, PH-TAR *Rotterdam*.

**1958, April 1**

KLM introduces the Economy Class, a cheaper version of the Tourist Class, that was introduced in 1952, making flying accessible to more people.

**1959**

KLM carries more than one million passengers.

**1994**

KLM and Northwest Airlines introduces World Business Class, a new class intended for business travellers on intercontinental flights.

**1996, March 4**

KLM launches its first site on the internet. KLM.nl is initially used solely for information provision.

**1996, June 29**

KLM operates its first flight to Beijing, the first of many new destinations in China, served in cooperation with various Chinese airlines.

**2004, May 5**

The AIR FRANCE KLM Group is established, the leading group in terms of intercontinental traffic on departure from Europe.

**2004, September**

KLM and Northwest Airlines join SkyTeam, an international alliance of airlines.

**2005, September**

Thanks to its innovative sustainability policy, AIR FRANCE KLM is listed the number one on the Dow Jones Sustainability Index for the first time.

**2019, October 7**

KLM marks its centenary as the world’s oldest airline still operating under its original name. In 2019, KLM carries more than 35 million passengers.

# Key figures

**REVENUES**
11,075
10,889

**TOTAL EXPENSES**
9,132
8,769

**EBITDA**
1,943
2,120

**AMORTISATION, DEPRECIATION AND MOVEMENT IN PROVISIONS**
1,090
1,029


**PROFIT**
449
566

**INCOME FROM CURRENT OPERATIONS**
853
1,091

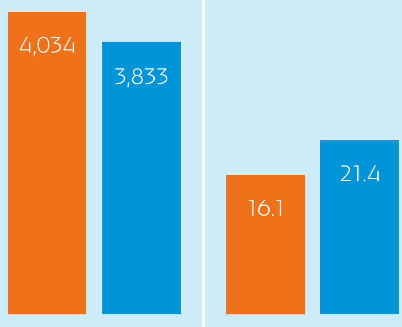
**AS A % OF REVENUES**

7.7
10.0

**EQUITY**
1,560
961

**AS A % OF TOTAL LONG-TERM LIABILITIES**
22
14

**EARNINGS PER ORDINARY SHARE** (EUR)
9.57
12.07




AVERAGE CAPITAL EMPLOYED

RETURN ON CAPITAL EMPLOYED (%)

**NET DEBT/EBITDA**
1.3
1.3

**DIVIDEND PER ORDINARY SHARE** (EUR)
0.415
0.395

## Financial position

**CASH FLOW FROM OPERATING ACTIVITIES**
1,835
2,007

**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)
(1,323)
(1,320)

**FREE CASH FLOW**
512
687

**ADJUSTED FREE CASH FLOW**
132
311

2019 2018
In millions of Euros, unless stated otherwise

## Passenger

**TRAFFIC** (in millions of revenue passenger-kilometers, RPK)
109,476
107,676

**CAPACITY** (in millions of available seat-kilometers, ASK)
122,452
120,815

**PASSENGER LOAD FACTOR** (%)
89.4
89.1

**NUMBER OF PASSENGERS** (x 1,000)
35,092
34,170

## Cargo


**TRAFFIC** (in millions of revenue ton freight-kilometers, RTFK)
4,678
4,849

**CAPACITY** (in millions of available ton freight-kilometers, ATFK)
7,253
7,239

**CARGO LOAD FACTOR** (%)
64.5
67.0

**WEIGHT OF CARGO CARRIED** (in tons)
599,320
620,458

## Average number FTEs of KLM Group staff

| PERMANENT | TEMPORARY | EMPLOYED BY KLM | AGENCY STAFF | TOTAL KLM |
|---|---|---|---|---|
| 28,615 | 1,957 | 30,572 | 2,454 | 33,026 |
| 27,934 | 1,886 | 29,820 | 2,592 | 32,412 |

## Headcount KLM Group staff

**PER END FINANCIAL YEAR**
36,549
35,410


# The world we operate in

KLM can not be seen without context of developments in the world we operate in. Also in 2019, economic and geopolitical events were determinative for the airline industry as a whole. European and local developments influenced KLM's level playing field on various topics.


## The economy

In 2019 global growth slightly slowed down compared to 2018. Advanced economies such as Europe, and the United States and smaller Asian economies remained quite stable and were not significantly impacted. The slowdown in growth has been more pronounced in emerging markets and developing economies like Brazil, China, India, Mexico and Russia.
Rising trade barriers and increasing geopolitical tensions had their impact on the economic growth. Trade tensions between the United States and China have lead to a geographically slowdown in manufacturing and global trade. Prolonged uncertainty surrounding trade policy has dampened investments and demand for capital goods. These trade barriers and increased geopolitical tensions, including Brexit-related risks, disrupted supply chains and hampered confidence, investment, and growth.

Increased technological development however, boosted the United States economy, which has its impact on other economies. The central banks have executed a clear and extensive monetary policy in order to maintain local economies healthy and to stimulate growth. Overall, the market consensus dominates that the trade tensions will end sooner than later.

The risks from climate change are playing out and will escalate in the future. With the adverse effects of climate change increasingly felt, the need for decisive action was more urgent in 2019.

## The airline industry

The airline industry has not significantly been affected by the stagnation in world trade. Passenger activities remained stable. Cargo activities slowed down. Passengers, governments and other stakeholders became more vocal about the contribution of the airline industry to sustainability. Cost pressures have been lower on the back of muted fuel prices but balancing revenue growth appears to be a challenge.

## Europe

### Brexit

During 2019 negotiations on the Brexit have continued. KLM had already prepared for all possible scenarios and monitored developments closely. The United Kingdom has officially left the European Union as per January 31, 2020. The United Kingdom remains a very important market for KLM and it is of paramount importance for both the Netherlands and the United Kingdom that the current smooth connectivity remains. During the transition period that has been agreed on and that will last until the end of 2020, the new aviation relationship between Europe and the United Kingdom will be negotiated. For KLM and the airline industry as a whole, it is crucial to agree on market access that will be based on reciprocity and to ensure a level playing field in terms of environmental, safety and economic regulation. Emphasis will be placed on minimising traffic disruptions, costs and the impact on passenger and cargo flows. KLM will contribute to discussions on the new aviation agreement. During the transition period KLM operations will be continued without any changes. In parallel, KLM is taking precautionary measures to ensure that its operations and services will continue as smooth as possible, regardless the results of the negotiations on the future aviation relationship between Europe and the United Kingdom.

Following the European elections in May 2019 and with the new European Commission in place, KLM remains a committed partner in shaping European policy. KLM actively supports the further implementation of the European Commission's 2015 Aviation Strategy as well as the progress on other key legislative files to make the European aviation industry more competitive, efficient and sustainable. KLM agrees with other European airlines that Europe needs to act on airport monopolies, high charges, taxation and inefficiencies in the aviation supply chain. KLM encourages the European Commission's efforts to promote a level playing field for aviation within and outside the EU.

A Single European Sky will make the European airline industry more sustainable. At present the European airspace is fragmented along European borders. This fragmentation is expensive and leads to unnecessary $CO_2$ emissions. Air traffic control could be organised better and more efficient. Staff shortages at local air navigation service providers lead to serious delays, causing extra fuel usage and thus extra $CO_2$ emissions. European Aviation will lower $CO_2$ emissions by 10 per cent and reduce costs by EUR 5 billion per year with the implementation of one Single European Sky that will facilitate more efficient routes. Within the context of sustainability the topic of Single European Sky should be a top priority on the European agenda and KLM will gladly contribute to preparations for a prompt implementation.

KLM also supports regulations that protect passenger rights. Customers are at the heart of KLM's business. Safety, punctuality and reliability are important to the company. In case of unforeseen events, KLM takes all measures necessary to minimise the inconvenience for passengers throughout the customer journey. Obviously, there is a strong relation between operational disruption and the service recovery cost. However, service recovery cost are also triggered by factors, such as changing customer claim behaviour and changes in regulations. Claim agents assist passengers in claiming compensation. Due to a significant growth of the number of claim agents, the number of claims as well as the number of claims that end up in court has grown substantially. In 2019 the total service recovery cost mounted to EUR 110 million of which EUR 54 million was spent on EU261 delay and cancellation compensation. This is an increase of 6 per cent compared to 2018. Furthermore, the interpretation of European regulations differ per jurisdiction. Uniform enforcement and interpretation of the revised regulation across Europe is essential and we call upon the European Commission to put the revision prominently on the agenda for 2020. KLM, meanwhile will continue to focus on reliable and timely operations as it wants to deliver the best services to its customers.

KLM believes that investments rather than taxation are key to more sustainable flying. KLM currently deals with different kinds of taxes on $CO_2$ emissions and noise pollution. In 2019 the European Trading System (ETS) for carbon compensation cost the KLM Group more than EUR 28 million. An airport surcharge for noisy aircraft was introduced in 2019. CORSIA, a global agreement to achieve carbon neutral growth in the aviation industry from 2020 onwards, will add to the ETS cost. These cost are forecasted to be a multiple of the ETS cost. An aviation tax imposed by the Dutch government from 2021 will cost the Dutch airline industry a further EUR 200 million a year. KLM believes it is essential that the revenues of any national and European aviation taxes are used to make aviation more sustainable.

## The Netherlands and Schiphol

For decades, the airline industry has been an important catalyst of economic growth and social welfare in the Netherlands. KLM is proud of its contribution to this. Our global network of 171 destinations allows the Netherlands to trade, invest, innovate and attract talent. And with 36,600 employees, KLM has become the country's second-largest private employer, meaning we contribute to the present wellbeing and future opportunities of many families. And together with Amsterdam Airport Schiphol (Schiphol), which remains Europe's third-largest airport in terms of passengers, KLM forms a vibrant ecosystem that employed 1,900 new KLM colleagues in 2019. This means future wealth and wellbeing of KLM and the Netherlands are inextricably intertwined.

Schiphol reached its ceiling of 500,000 flights per year in 2017. In 2019, this ceiling continued to limit our ability to grow the network. This may hinder new investments in the modernisation of fleet, in turn reducing our ability to fly more sustainably and offer a better product.

In 2019, KLM dealt with this limit by optimising operational processes and the global network, resulting in more passengers per flight. KLM opened promising destinations by sacrificing less profitable ones.

In July 2019 the Dutch Government announced the intention that Schiphol will be allowed to grow to a new ceiling of 540,000 flights per year. Political decisions will have to follow. Additional growth at Schiphol is contingent upon a reduction of noise levels around Schiphol. KLM is committed to working with all stakeholders to achieve this, in part by optimising flight routes. New routes will be designed together with Air Traffic Control. The sooner Air Traffic Control can confirm these new routes, the more stakeholders will benefit from it. KLM and other airlines at Schiphol have already invested more than EUR 750 million in noise insulations and compensation.

In order to define the Aviation Note 2020 - 2050 the Ministry of Infrastructure and Environment has organised sounding board sessions with relevant stakeholders from the airline branch, local residents and environmental organisations. During this process several scenarios for the development of the Dutch airline industry were developed. It is expected that the Ministry of Infrastructure and Environment will announce its preferred scenario early 2020.

Unfortunately, Lelystad Airport was not opened in 2019 even though the European Commission finally approved the Traffic Distribution Rules, and no regulatory obstacles remain.

## Schiphol infrastructure

Schiphol continues to improve and enlarge its infrastructure. Renovations of Terminal 1 continued in 2019. Following the example of Terminal 2, Terminal 1 will be enhanced with a mezzanine level that will provide 22 check-in desks and six security lanes, which will reduce congestion in the ground processes. Once Terminal 1 is finalised next year, Schiphol will commence with the construction of Terminal A, which is scheduled to take place between 2020 and 2026. In 2019, we also worked on relocating our catering and cargo activities to allow for the development of the A Pier and Terminal A.

In 2019, KLM's operations were impacted by constraints experienced at Schiphol, specifically runway maintenance, the introduction of a new Electronic Flight System at Air Traffic Control and the fuel outage. Throughout 2019 we engaged frequently with Schiphol and Air Traffic Control and worked towards a smoother, more integral approach to planning and executing major renovations. We hope that in 2020 and beyond, this will lead to fewer disruptions of our flights to and from Schiphol.

During 2019, KLM and Transavia continued to pay for and invest in the future growth of Schiphol. The KLM Group contributed EUR 180 million to security, EUR 65 million to Air Traffic Control and EUR 300 million to infrastructure. The latter is urgently needed, because Schiphol's infrastructure has been severely limited for some time now. Passengers continue to experience lengthy check-in processes due to a shortage of check-in desks. In the summer of 2019, KLM and partners once again had to handle 10 aircraft per day at a buffer instead of a gate. This negatively impacts the customer experience and connectivity. The newly built A Pier, which was supposed to be operational by the end of 2019, will be finalised by the end of 2020. This pier will provide for much-needed, extra wide body gate capacity. Until then, buffer handling remains unavoidable.


# Review 2019: celebrating the future

**In 2019, KLM made its operations more robust, improved its product and fleet, created new opportunities for employees and made pioneering investments in innovation and sustainability. Here, the Board of Managing Directors reflects on an upbeat 2019 and looks ahead to an ambitious agenda.**

"To win is to evolve and in 2019 we continued to do both," says a proud Chief Executive Officer Pieter Elbers. Having just celebrated KLM's 100th birthday, Elbers remarks that in a year of limited growth opportunities and operational challenges, KLM has shown exactly how fit it has become. "We are so much more agile and resilient than a few years ago. This puts us in a strong position to pioneer, to connect people and to create social and economic value."


Chief Financial Officer Erik Swelheim agrees that KLM has become stronger. "KLM has become a well-run and profitable company with sound financials. Our revenues were almost EUR 11.1 billion, our operating margin of 7.7 per cent and our operating income EUR 853 million. For the 8th year running we made investments from our internally generated operating cash flow, a total of EUR 1.3 billion. And the new collective labour agreements are good for the company as they bring long-term stability and a pay rise for employees," Swelheim says.

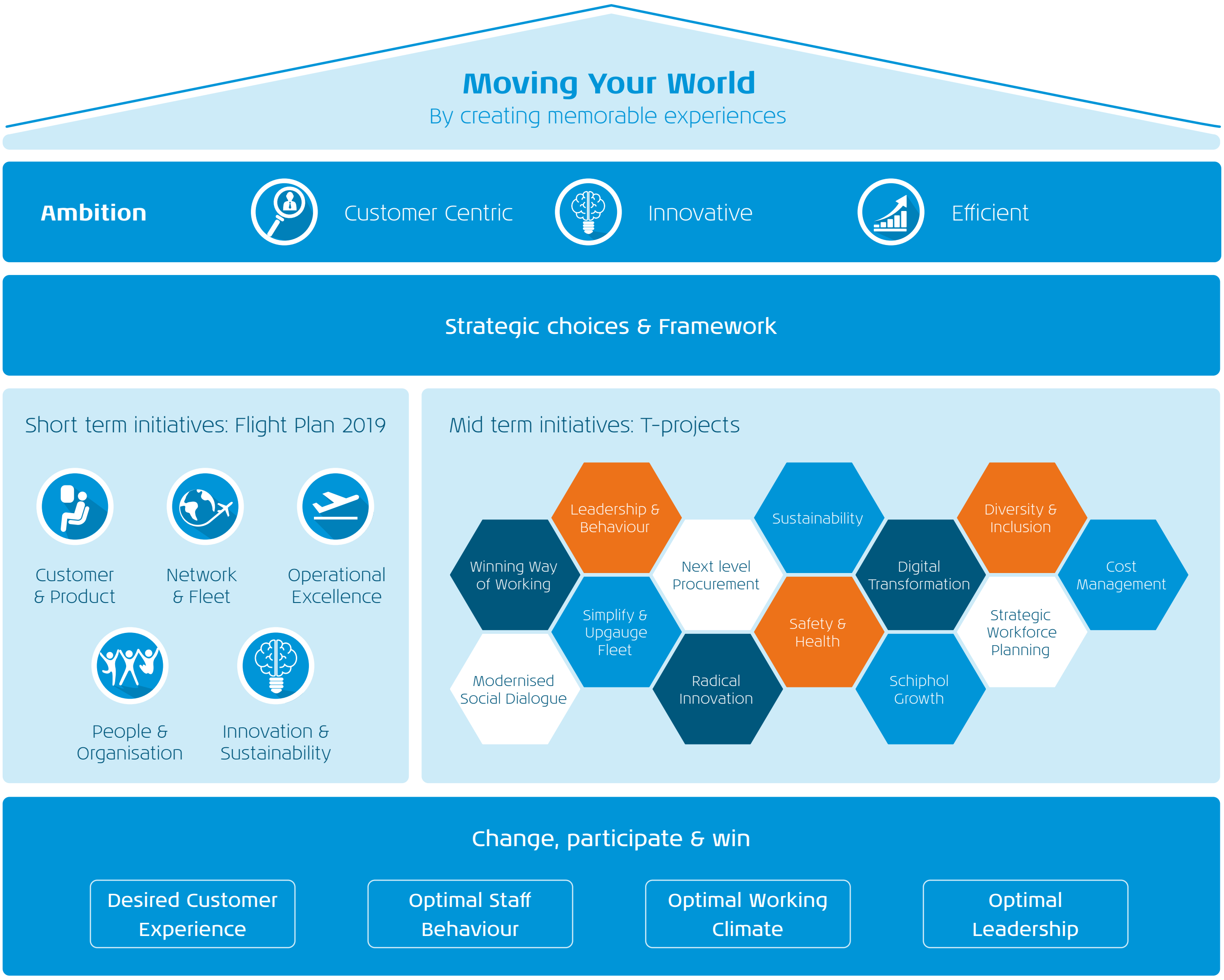
KLM's businesses did well. The number of KLM Group passengers grew from 43 million in 2018 to a record number of 44 million in 2019, with North America, South America and Asia showing growth. Engineering & Maintenance contributed more to KLM's results with a growing number of third-party contracts. Cargo grew its customer segments fresh and pharma and continued with digital innovation in spite of geopolitical tensions and economic headwind. Transavia improved its operating results compared to last year's already good performance. KLM Cityhopper improved its fleet availability and ordered 21 more fuel-efficient Embraer 195-E2 and purchase rights for a further 14 aircraft.

## Global alliances

Joint ventures and cooperation with partners help us to connect continents via hubs and onwards. "I am content that the extended partnership with Delta Air Lines, Air France and Virgin Atlantic across the North Atlantic was given regulatory approval early December and will come into effect in 2020," Elbers says. KLM's existing partnerships continue to evolve. Jet Airways ceased operations but KLM quickly adapted its schedule to compensate for the sudden loss of capacity on the important India routes. China is still continuously growing and fast developing, highlighted by the opening of New Beijing Daxing International Airport as a second Beijing hub. This impressive airport is ready for the future and increases the potential growth of our cooperation with Chinese partners.

## Customer centricity

Looking at KLM's operations, Chief Operating Officer René de Groot remarks on an eventful, yet positive year. "KLM's operational processes have become much more robust. This is the result of the more integrated approach towards operational decision-making that has been implemented over the past few years and the artificial intelligence-based tools developed in 2018 and 2019. These tools help our people to make better decisions more quickly. This results in fewer mistakes, lower costs and a pro-active approach towards our customers," De Groot says.




These improvements are clear when things do not go as planned. In 2019, Schiphol experienced operational disturbances as a result of the fuel supply, runways that were being renovated and Air Traffic Control updating its systems. This led to significant delays and cancellations causing higher non-performance costs. “But when external disturbances are taken out of the equation, our operational performance actually improved. KLM has learned to bounce back a lot quicker after disruptions. Today, we are able to rebook thousands of passengers in one hour and the day after a disturbance our schedule is back to normal. A few years ago it would have cost us days to get back to normal,” De Groot adds.

KLM’s product has essentially improved across the entire customer journey, also when starting from, or continuing to our network partners. This is partly due to KLM’s investments in product and fleet. KLM, for example, took delivery of four new Boeing 787-10s and upgraded the connectivity and inflight entertainment on intercontinental flights. Another customer highlight was the opening of the new KLM Crown Lounge, a house-shaped lounge that has become an architectural icon of Schiphol Airport.

“But it is also because of our focus on digital innovation in commerce and ground services and on removing seams between us and our partners. Increasingly we are becoming a more customer-centric organisation and it allows us to give our passengers the memorable experience we want for them,” De Groot explains.

## Limited growth

KLM’s path ahead was hampered by the fact that growth at Schiphol was not possible in 2019 and the Dutch Government did not yet decide to open Lelystad Airport. Already in 2017, Schiphol reached the ceiling of flight movements and unfortunately growth limitations will remain in place until 2020. Beyond that, there is a renewed prospect for onwards growth. In 2019, the Dutch Government decided that from 2020 onwards Schiphol can grow its flight movements in exchange for a reduction of noise pollution. “KLM needs growth to stay relevant and to create the space it needs to invest in its people, products and a modern fleet with a lower noise and carbon footprint. As such, growth is an indispensable part of making KLM and the wider aviation industry more sustainable,” Elbers argues.

In a bid to optimise the network, underperforming destinations were replaced with new and promising ones. "It's not special that we are doing this, but how we are doing it is, which is quickly and based on real-time data. Within our network, commercial and operational people work together closely, so that we can very rapidly adjust our schedule to make the best of what we have," De Groot explains.

## Sustainability

2019 was a major year for sustainability. KLM together with Air France returned to the number one position of the prestigious Dow Jones Sustainability Index and KLM launched Fly Responsibly, which is inspiring all aviation partners to speed up their sustainability efforts. All over the world this initiative has received positive feedback. KLM announced that it would participate in the world's first sustainable aviation fuel plant dedicated to aviation. "But we also continued to electrify our ground services equipment. These are ground-breaking steps," De Groot says proudly.

> "But we also continued to electrify our ground services equipment. These are ground-breaking steps,"

Swelheim adds that sustainability goes beyond mitigating KLM's environmental impact. "KLM strongly believes that a diverse and inclusive workforce has a positive impact on the performance and sustainability of our organisation. That is why KLM has made diversity and inclusion an integral part of the transformation agenda and a strategic topic of the Board of Managing Directors. Serious targets are set on gender diversity. A new leadership program has been implemented and several LGBTI initiatives were sponsored."

Pieter Elbers
CEO

René de Groot
COO

Erik Swelheim
CFO

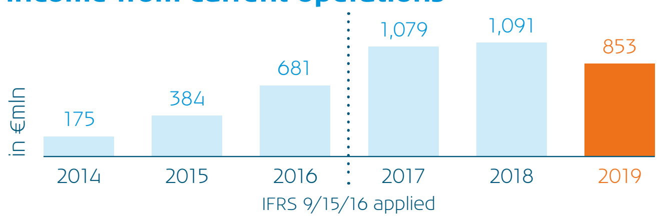
# Financial results

**KLM solidified its financial position in 2019 by achieving a good operating income and lowering its net debt level. Based on the 2019 results KLM would have been healthy enough to achieve sustainable growth and handle a potentially more challenging environment in 2020 and beyond, however now finds itself entirely refocused in combatting with the worldwide spread of COVID-19 in early 2020.**

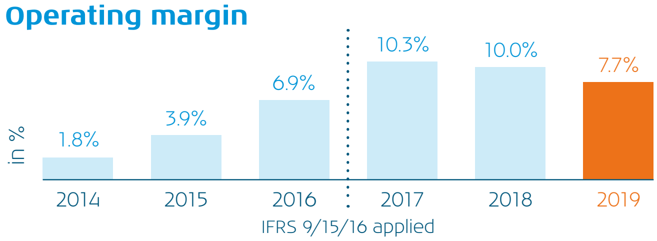
KLM revenues came in at EUR 11.1 billion, 1.7 per cent above last year's EUR 10.9 billion. Operating income was EUR 853 million, compared to EUR 1,091 million last year. The operating margin was effected by higher fuel costs and pressure on yields. It stood at 7.7 per cent (last year 10 per cent). Most of KLM's financial ratios were strengthened in 2019. Equity, rose to EUR 1,560 million and net debt was further decreased to EUR 2.5 billion. KLM is proud of these results, as they were achieved in a more challenging economic environment, especially in the world Cargo market.

In response to these increasing costs, KLM managed to achieve a slight increase in productivity and continued the work on a number of projects that will increase efficiency and/or lower cost. These include the optimisation of the real estate portfolio. Engineering & Maintenance for example has brought various activities under a single roof.

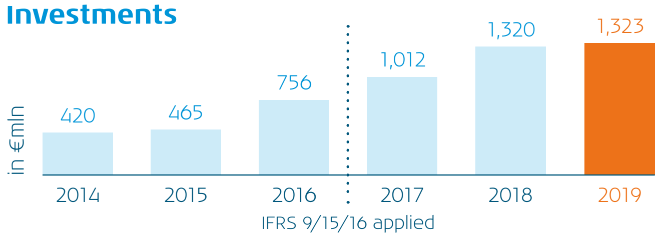
## Income from current operations



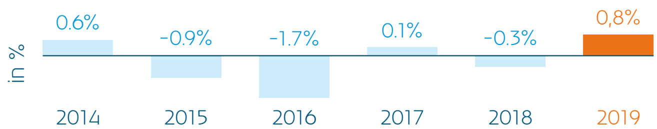

## Operating margin




## Investments

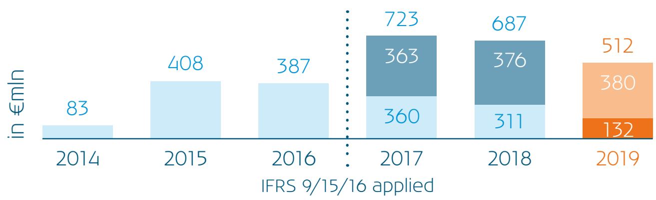



## Unit cost (excluding rox/fuel)



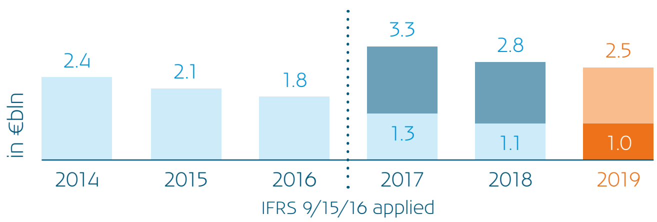

## Free cash flow

Lease debt redemption




## Net debt

Lease debt



With CS2.0, the Amsterdam Component Services operation, currently spread across three locations, will be centralised in Hangar 14. Procurement synergies contributed to cost savings.

Another key way for KLM to manage costs is to invest in fleet. For the 8th year in a row, KLM was able to finance investments from its own cash flow. KLM invested EUR 1.3 billion in 2019, slightly more than 2018, in its digital transformation and new fleet, which included four Boeing 787-10s. As part of KLM's efforts to fly more responsibly, these new aircraft produce significantly less $CO_2$ and noise, while they also require less fuel and maintenance.

The results of KLM's passenger activities are good when considering the more turbulent economic and geopolitical environment. Latin America experienced its share of challenges, while in Asia KLM was impacted by the temporary closure of the Pakistani airspace. Nevertheless, important parts of the network did well. Japan and India performance was good. North America remained strong with two new destinations, Las Vegas and Boston, and Africa also improved its results. Cargo contribution suffered from decreased demand and prices fell by 10 per cent on the back of slowing global economic growth and the ongoing trade war between China and the USA.

In addition, Transavia managed to improve its results in more challenging conditions, while all three of E&M's maintenance activities - engines, components and aircraft maintenance - contributed positively.

KLM concluded three new collective labour agreements for cockpit and cabin crew as well as ground staff. Valid till March 1, 2022, these agreements bring more stability and higher salaries for staff. The Finance organisation was strengthened in 2019. In KLM's multi-year process of becoming a High Performance Organisation, it streamlined financial responsibilities and tasks and defined its First Class Finance strategy, which puts more emphasis on performance management and data-driven decisions.

Since January 1, 2019 KLM has made the following two changes:

» In 2019, the IFRS Interpretations Committee (IFRIC) published a clarification of IFRS 15 concerning customer compensation for delays or cancellations. These obligations to compensate customers for delays or cancelled flights (as required by law) are to be recognised as revenue deducting. Previously the Group recognised these payments as cost in the Consolidated Statement of Profit or Loss. The comparative 2018 figures have been restated; and
» The KLM Group has implemented the component approach for Life Limited Parts (LLP's). This means that the related maintenance cost must be capitalised and amortised over the useful lives of the LLP's which are expressed as cycles. The Comparative 2018 figures have been restated.

KLM will continue its successful strategy. KLM will invest in its passengers, fleet and product, although our investment agenda is flexible and can be adjusted to changing results and adverse market conditions. Emphasis in 2020 lies entirely on overcoming the impact of the COVID-19 crisis and on emerging in a strong position to carry out our strategy as planned at the earliest opportunity.

## Consolidated statement of profit or loss

| In millions of Euros | 2019 | 2018 Restated | Variance % |
|---|---|---|---|
| Revenues | 11,075 | 10,889 | 2 |
| | | | |
| External expenses | (6,116) | (5,860) | 4 |
| Employee compensation and benefit expenses | (3,189) | (3,059) | 4 |
| Other income and expenses | 173 | 150 | 15 |
| Total expenses | (9,132) | (8,769) | 4 |
| | | | |
| EBITDA | 1,943 | 2,120 | (8) |
| Amortisation, depreciation and movement in provisions | (1,090) | (1,029) | 6 |
| Income from current operations | 853 | 1,091 | (22) |


## Revenues

Revenues were 1.7 per cent higher whereas traffic (revenue passenger kilometers) increased by 2.1 per cent and Cargo traffic decreased with 3.5 per cent. Capacity (in available seat kilometers) was 1.9 per cent higher than last year. Unit revenue remained stable (-1.3 per cent at constant exchange rates). Yield decreased 0.3 per cent (-1.5 per cent at constant exchange rates), while the load factor increased to 89.7 per cent (+0.3 per cent compared to 2018).

## Expenses

Total expenses (excluding aircraft operating lease cost and amortisation, depreciation and the movement in provisions) amounted to EUR 9,132 million, an increase of EUR 363 million compared to 2018. Unit cost (at constant exchange rates and fuel price) were 0.8 per cent above 2018.

## Fuel prices

Overall fuel cost increased EUR 190 million compared to 2018, with a 2.3 per cent higher jet fuel price after hedge in US dollar and a 5.3 per cent stronger US dollar. The hedge portfolio contributed with a positive payout of EUR 19 million in 2019. Fuel volume was 0.9 per cent higher than last year, whereby higher fuel efficiency from new, more fuel efficient, aircraft contribute positively to the results.

## Income from current operations

| In millions of Euros | 2019 | 2018 Restated |
|---|---|---|
| Income from current operations | 853 | 1,091 |
| Other non-current income and expenses | 22 | (13) |
| Net cost of financial debt | (148) | (177) |
| Other financial income and expenses | (127) | (138) |
| Income before tax | 600 | 763 |
| Income tax expense | (162) | (201) |
| Share of results of equity shareholdings | 11 | 4 |
| Profit for the period | 449 | 566 |

The net profit in financial year amounted to EUR 449 million compared to EUR 566 million for 2018.

## Other non-current income and expenses

The other non-current income and expenses, show a positive amount of EUR 22 million. This mainly relates to the sale of Boeing 747 engines and two Boeing 737-700s.

The 2018 other non-current income and expenses show a negative amount of EUR 13 million. This mainly relates to EUR 24 million for voluntary leave plans at KLM, partly offset by proceeds from the sale of the Jet Center activities and positive results from the sale of Boeing 747 engines.

## Net cost of financial debt

The net cost of financial debt was reduced from EUR 177 million to EUR 148 million, mainly as a result of the reduction of net debt (including lease debt related to IFRS 16) and lower interest rates.

## Other financial income and expenses

The expense of EUR 127 million in other financial income and expenses in 2019, mainly relates to the negative revaluation of KLM's debt in foreign currency, negative impact on US dollar, impact on maintenance and phase out provisions as well as undiscounting of these provisions.

## Income tax

The income tax expense mainly relates to the 25 per cent corporate income tax on pre-tax income. The corporate income tax in the Netherlands will decrease to 21.7 per cent in 2021. This upcoming change in corporate income tax rate resulted in a 2019 tax gain on temporary differences, which are expected not to materialise in 2020.

In 2019 the KLM Group used all its remaining tax losses carried forward in the Netherlands and consequently is in a current income tax payable position per year end 2019.

## Equity shareholdings

This mainly reflects the KLM share in the result of Schiphol Logistics Park and Transavia France.

## Cash flow statement

| In millions of Euros | 2019 | 2018 Restated |
|---|---|---|
| Net cash flow from operating activities | 1,835 | 2,007 |
| 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) | (1,323) | (1,320) |
| Free cash flow | 512 | 687 |
| Payments on lease debt | (380) | (376) |
| Adjusted free cash flow | 132 | 311 |

Operational cash flow reached EUR 1,835 million, composed of a cash flow from operating activities before working capital of EUR 1,798 million, and a positive working capital movement of EUR 37 million. The continuous focus on cash, resulted in an adjusted positive free cash flow (which is including the redemption of lease debt following the implementation of IFRS 16) of EUR 132 million (EUR 311 million in 2018) with investments of EUR 1.3 billion, similar to 2018.

The investing cash flow included EUR 719 million for fleet renewal and modifications (EUR 677 million in 2017) and fleet related investments amounted to EUR 372 million, including EUR 214 million for capitalised fleet maintenance. Other capital expenditure amounted to EUR 291 million, including EUR 156 million for capitalised software. Disposal of aircraft and other assets led to an income of EUR 58 million and mainly relates to sales of Boeing 747 engines and two Boeing 737-700s.

The financing cash flow was EUR 671 million negative. This includes refinancing of external loans of EUR 229 million and financing of aircraft EUR 262 million. Redemption of finance leases amounted to EUR 168 million, redemption of lease debt to EUR 380 million, redemption on existing loans to EUR 450 million (including EUR 83 million related to a Japanese yen subordinated perpetual loan), redemption of the last AIR FRANCE KLM loan to EUR 99 million and higher near cash to EUR 46 million. EUR 18 million dividend was paid to KLM shareholders and EUR 1 million to a minority interest shareholder of a KLM subsidiary.

## Equity

Equity increased to EUR 1,560 million at December 31, 2019, and includes the negative impact of the Life Limited Parts implementation amounting to EUR 45 million as per December 31, 2018, the 2018 dividend payout of EUR 18 million and the 2019 net result of EUR 449 million. It also includes the net positive movements in the remeasurement of defined benefit pension plans amounting to EUR 77 million, the positive net variance of the value of fuel derivatives amounting to EUR 104 million and the net negative variance of the value of interest and currency derivatives of EUR 5 million, all reported in "Other Comprehensive Income" in equity.

Including the subordinated perpetual loans and the preference shares, the near equity amounts to EUR 2,101 million at December 31, 2019 (EUR 1,564 million at December 31, 2018).

The equity level increased in 2019 and thus improved KLM's financial position. The volatility from the KLM pension plans has reduced significantly after the transfer of the cockpit crew and cabin crew pension fund to a collective defined contribution scheme in 2017. However, the volatility in the value of fuel derivatives and the remeasurement of the current defined benefit pension plans for the ground staff pension plan and other smaller defined benefit pension plans remains. 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 low discount rate) need to be recognised in the company's equity and do not directly affect the statement of profit or loss.

# Flight plan 2019

Each year, KLM translates its overall strategy and long-term goals into a Flight Plan. This comprises five pillars, being Customer & Product, Network & Fleet, Operations, People & Organisation and Innovation & Sustainability. For each of these pillars the actions and achievements are described including a case study, which tells the story behind one of KLM's achievements.

- Customer & Product
- Network & Fleet
- Operations
- People & Organisation
- Innovation & Sustainability


KLM

# Customer & Product

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

*"Opportunities don't happen, you create them."*

–

*Chris Grosser*

## Over the last few years, KLM has been on a journey from a product-orientated airline to a more customer-centric one. Increasingly, decision-making is based on passengers' needs, expectations and perceptions of value. This customer centricity is being aligned with KLM's operational and commercial processes, supported by strong data management and connected to KLM's growing range of digital services.

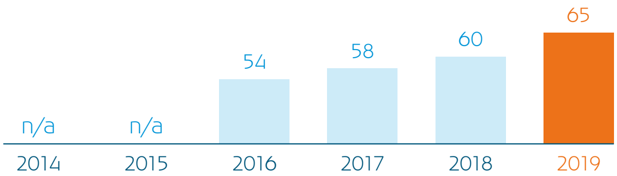
Digital services make it easier for passengers to take control of their own journey and to spend their time well. Frontline staff feels supported by digital tools to provide actual and accurate information to customers and thus deliver better care. For example, KLM introduced new location-based services at Schiphol, which show staff where passengers physically are in their customer journey and at what gates aircraft are to be boarded. As part of a complex proof of concept, KLM began testing biometric boarding on flights to and from the United States. These digital features in combination with offline solutions are key and facilitate passengers to make their journey faster, more comfortable and more efficient.

### Improving products and services

During their flight, customers expect a personalised and connected cabin, comfort in World Business Class and personal updates during their flight schedule. To meet these expectations, KLM upgraded its on board services.

The introduction of the four new Boeing 787-10s significantly contributes to the passenger appreciation. This new aircraft is equipped with Wi-Fi, new seats, privacy screens and direct-aisle access in World Business Class. KLM's customer experience team worked closely with technicians and the external supplier to develop a business class seat that is more comfortable, 25 kilograms lighter and easier to maintain. Investments in the World Business Class, such as the flat seat, renewed interiors and an improved food and drinks offering, resulted in a higher appreciation by customers. A new inflight entertainment system was rolled out that offers the passengers more control and more peace of mind.

## WBC NPS

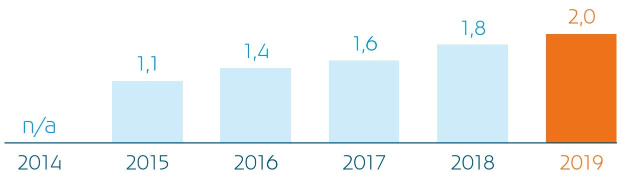



Customers expect an easy hand baggage experience, up to date information about the whereabouts of their baggage and an easy reclaim of baggage. In addition digital tools predict the number of hand baggage, which allow staff to anticipate flights that carry too much hand baggage and to inform passengers.

After two-and-a-half years of work, KLM proudly opened its flagship Crown Lounge at Schiphol. This 6,800 square meter architectonic beauty offers business class passengers from KLM and its partners an unforgettable experience across five themed zones. Visitors can check-in using their own device and pinpoint their location on a map, allowing hospitality staff to come to them.

KLM together with Air France further developed the Flying Blue program. The improvement is supported by serious investments and will evolve towards a lifestyle program. Flying Blue is meant to be clearer, simpler and more flexible and includes more features that can be offered to the customer. The changes have improved customer appreciation, and led to a 10 per cent boost in the number of worldwide members. Furthermore, the program reached a milestone of 2 million members in the Belgian and Dutch market.

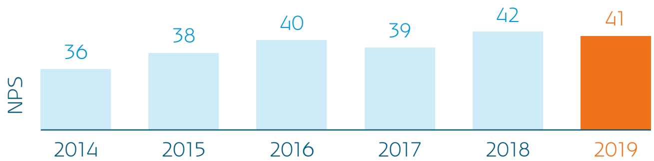
## Flying blue members BNL (per end of year)

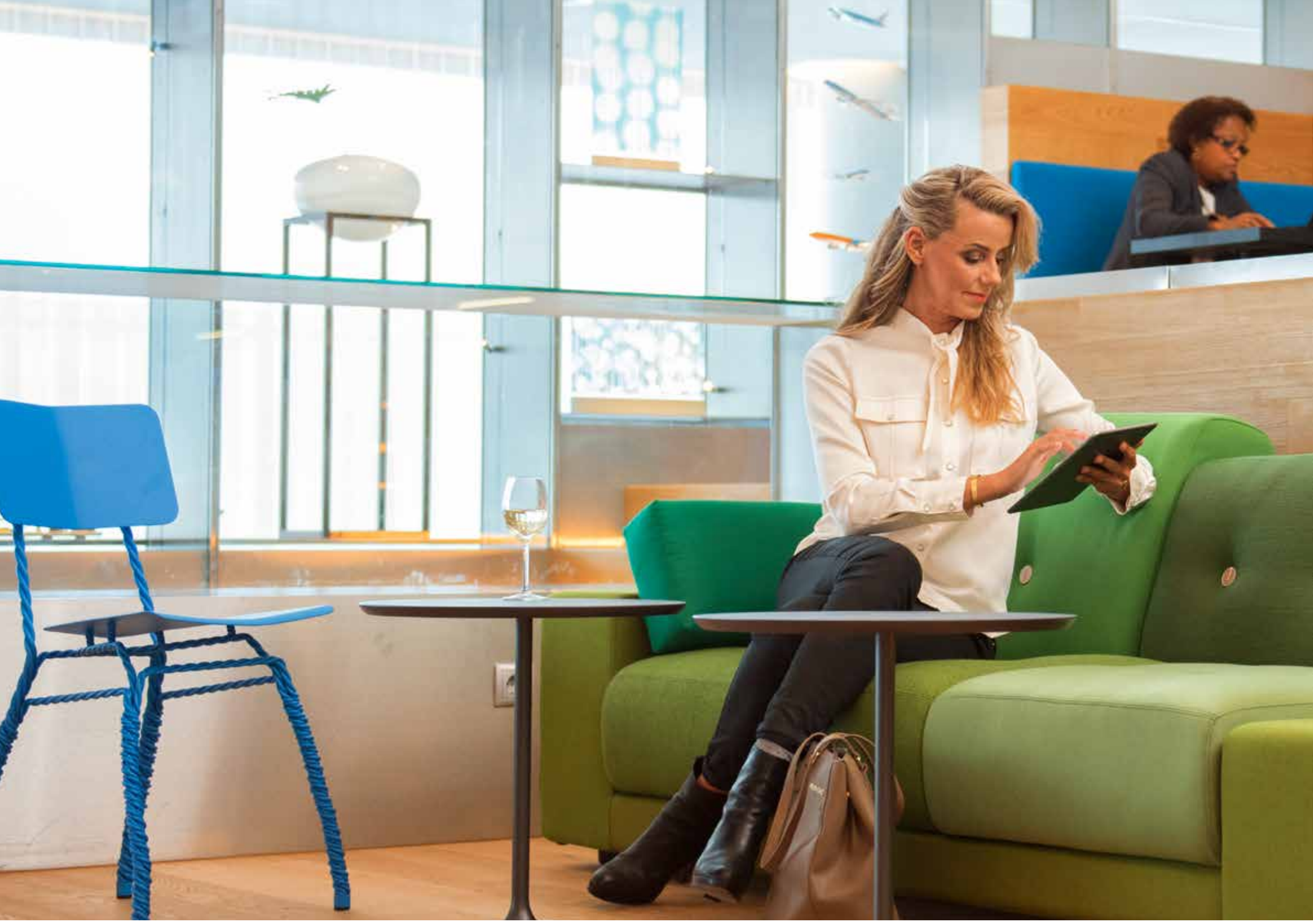



In 2019, more than in other years, KLM's operations experienced disruptions. In such an event, customers expect timely information, personalised solutions, easy recovery and a pleasant wait. To meet these needs, KLM continued to introduce a range of services, including artificial intelligence driven tools and social media features to provide the customer with their exact flight status and to support them in case their flight is delayed or cancelled. In 2019, KLM piloted a new rebooking tool, which can rebook a staggering 4,000 passengers across the entire network in an hour, complete with boarding passes and alerts. KLM also revamped the messages it sends in case of a disruption to provide passengers with clearer, more empathetic and personal language. This way, digital amplifies KLM's personal touch.

The operational disturbances had their impact on the Net Promotor Score (NPS), the key measure for passenger appreciation. Having steadily risen from 39 in 2015 to 42 in 2018, NPS dropped to 41 in 2019. There is a silver lining to this, which is that if the impact of the major events is left out, the NPS score actually would have stayed at 42, the same score as in 2018 and one of the highest scores of the European carriers. This shows that the fundaments of KLM's product and services are actually strong.

## Positive trend of Net Promotor Score



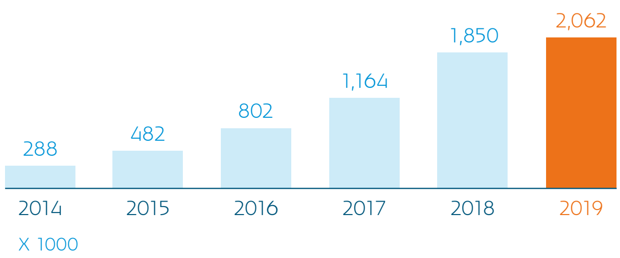


## Social media and voice

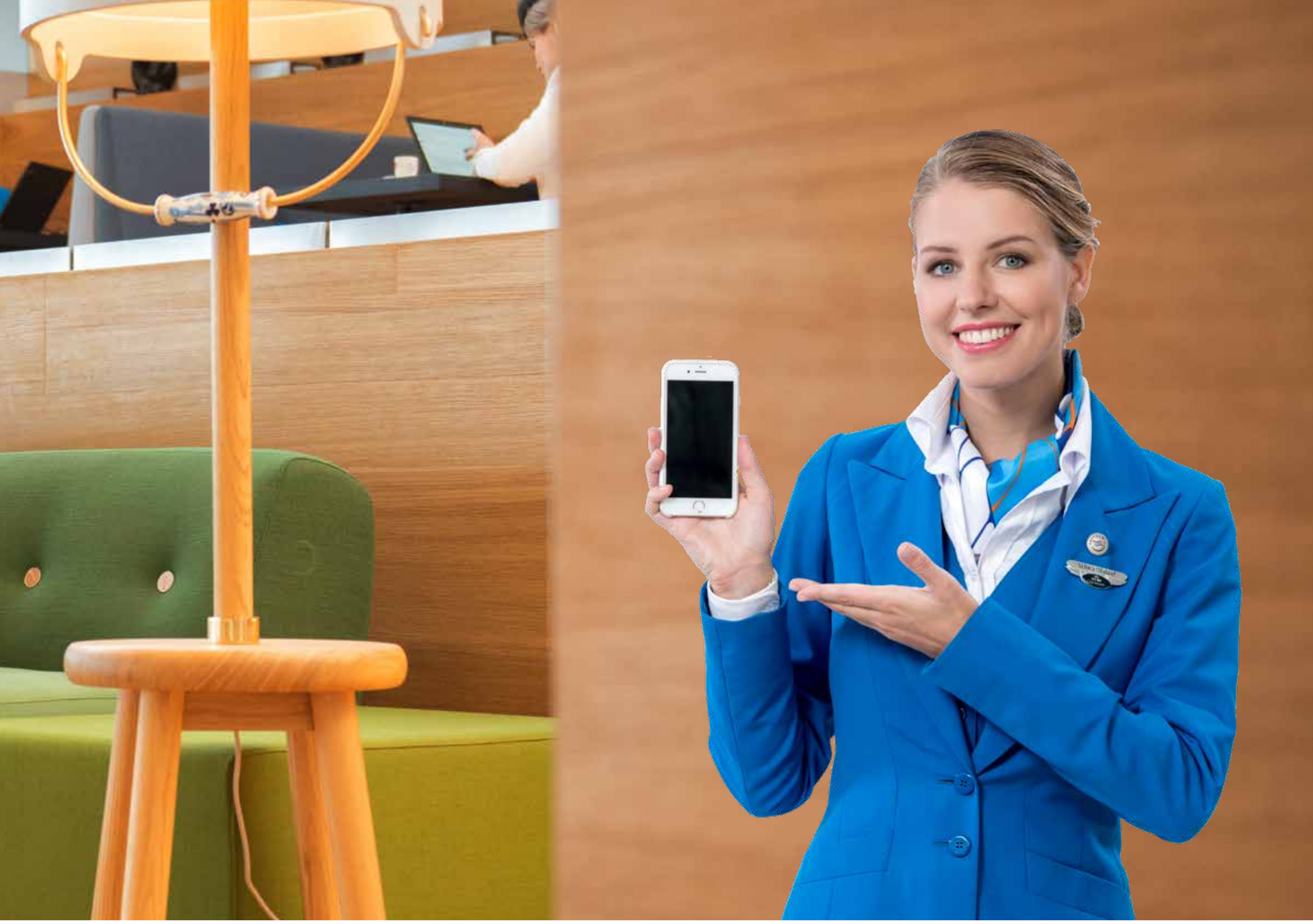
KLM, already a social media leader in the airline industry, gave its customers even more options. It added support for LINE, a popular social media platform in Japan, and introduced Family Updates, which allows KLM to send flight information to a WhatsApp group chat for family and friends. Artificial intelligence bots now routinely handle 50 per cent of the 35,000 social media cases received each week, leaving the agents more time for more complex cases and personalised services.

There were new experiments that enable customers to use voice commands to interact with KLM. This includes a voice-activated baggage assistant, a Dutch-language departure planner and the ability to receive travel recommendations. In addition, some 1,500 people made a booking from start to finish using their voice alone. For now these are small numbers, but working closely with partners Google and Amazon, KLM intends to be at the forefront of this potentially major development.

## Social media cases (answered questions/conversations)




In 2019, KLM began rolling out a new website, which is becoming an increasingly important sales distribution channel. A few years ago KLM relied more heavily on external partners like travel agencies. Now, one third of all its sales is generated through KLM's own e-commerce channels, which offer more differentiated products and branded fares. The new site is faster and offers more personalisation, while behind the scenes KLM and Air France worked on a unified backend. This makes the whole system more scalable and re-usable.



## Seamless experience

Around 30 per cent of KLM's passengers either arrive from or are handed over to a partner airline. This is a major increase compared to a few years ago and explains why KLM is increasingly working together with partners in its efforts to create a smooth customer journey. In 2019, KLM identified more than 200 so-called seams with Delta Air Lines only. These are perceived gaps in the customer journey where the expectations of passengers are not met when transferring between KLM and a partner airline.

KLM began tackling these seams with Delta Air Lines, KLM's main partner and key to the new transatlantic joint venture that will commence in 2020. Being first in the industry, passengers can now use KLM's own app to check in on a Delta flight and get a Delta boarding pass, and vice versa. Other seams include seat selection and having the Transportation Security Administration (TSA) pre-check symbol shown on boarding cards for eligible passengers that are travelling on KLM to the USA with an onward connection on Delta Air Lines. The KLM seams program is not limited to Delta Air Lines only. KLM works closely with Air France to solve seams with other important partners like Virgin Atlantic, GOL, China Eastern and Transavia. We even have a program for Air-rail transfers.

## Improving connectivity

To meet passenger expectations and to improve connectivity, KLM equipped more aircraft with Wi-Fi. In 2019, KLM took delivery of four Wi-Fi-enabled Boeing 787-10 and added Wi-Fi to five of its Boeing 777-200s and five of its Boeing 777-300s. By year end 2019, 53 per cent of the intercontinental fleet was connected, which will rise to 100 per cent in 2021. The new E195-E2 aircraft for KLM Cityhopper will also be equipped with Wi-Fi.


KLM
CARGO
CARGO
Martinair
www.martinair.com

## Cargo activity

The cargo industry experienced a challenging year. Geopolitical tensions, like the USA-China trade war and uncertainties around Brexit, led to a slowdown in the global economy and global trade. As a result, cargo demand started to slow down in the last months of 2018 and this trend continued throughout 2019. Industry-wide air cargo capacity growth, though moderate, was higher than demand growth, putting pressure on load factor and yield.

Cargo capacity remained stable in 2019 compared to 2018. The number of full freighters remained four. Following KLM's fleet renewal program, a number of Boeing 747 combi aircraft were phased out in 2019. Decreased capacity was compensated by a growth of available belly capacity on wide-body passenger aircraft.

Cargo aims to maximise its financial contribution by becoming our customers' preferred partner by delivering on promises in a transparent, easy-to-connect way, in a sustainable manner and at competitive prices. Digitisation is the main way to realise this ambition. In 2019, Cargo continued to renew its old backbone systems and implement digital tools that improve commercial and operational processes. New functionalities were added to MyCargo, an electronic customer platform that offers personalised service to small and medium-sized customers.

To optimise the use of belly capacity in a growing but volatile market, Cargo is developing growth segments like the small and medium-sized forwarders, and the product segments pharmaceuticals, cool chain products and e-commerce (mail and parcels). Cargo added a new climate-controlled room for shipments sensitive to temperature variations, and opened a new fenced area with camera control to serve our customers demanding strict security. Cargo also upgraded its automatic sorter system for mail bags, to handle the growing volume of express parcels. Safety and compliance remain key priorities in cargo operations, which is why Cargo added a new state-of-the-art digital tool that automatically checks the completeness and compliance of booking information.

As a proof of our competence in handling pharmaceutical shipments, Cargo received IATA's internationally-recognised Center of Excellence for Independent Validators in Pharmaceutical Logistics (CEIV Pharma) certification.

## Engineering & maintenance

It is the aim of Engineering & Maintenance (E&M) to be a significant player in the field of Maintenance, Repair and Overhaul (MRO). KLM E&M provides KLM and other airlines with competitive aircraft, engine, and component maintenance as well as engineering support. E&M contributes to KLM's financial results, generating revenues from a growing number of third-party contracts that focus on the latest products.

In 2019, E&M reduced the Boeing 737 A-check turnaround time to support fleet availability and it improved the Boeing 737 financial and operational performance. The number of engine shop visits was increased and the first LEAP X quick turn was executed. E&M finalised the cabin midlife upgrade for the entire wide body fleet, most recently, the Airbus A330.

Technical innovations played an important role. In order to decrease cost, E&M developed new repairs for parts, including 3D printing, plastic repairs, and additive manufacturing. A Boeing 777/787 engine training module was developed, using augmented and virtual reality. The first repair cost savings were reported by using predictive maintenance in its daily operations. In addition, E&M improved engagement and employee ownership through its ongoing cultural leadership program. A large number of new employees was welcomed.

## Transavia

In 2019, KLM's low-cost subsidiary improved its operating result, achieving EUR 84 million compared to EUR 78 million in 2018. In addition, the focus on low-cost ensured a stable cost development. The load factor was 91.8 per cent, equal to 2018. Transavia remains the number one low-cost carrier in the Netherlands in terms of capacity and is the second most preferred airline after KLM. Due to the COVID-19 crisis, Transavia decided to postpone the start-up of its in 2019 announced Brussels operations.

Transavia commenced the implementation of a sharpened strategy that is based on five fundaments. First, Customer Experience, which is about building long lasting relationships by focusing on self-service and personalization. Second, Retail & Distribution, which is about serving the customer the range of services he or she demands regardless where or how the customer makes his sales and bookings. Third, by focusing on People & Organisation, Transavia strives to be a value-driven organisation that continuously learns. The fourth fundament is based on Integrality, as a differentiator in designing and executing the operation. Finally, the roll-out of Transavia Ventures, which focuses on finding new revenue streams. Efforts in these five areas are complemented by Transavia's fleet strategy, which focuses on low-cost and sustainability. In line with the fleet investment plan, Transavia added two owned Boeing 737-800 aircraft to its fleet, which reduce both the carbon footprint and operational costs.


**Tim van Vlierden**
Customer Journey Manager

# Next level inflight entertainment

**A renewed inflight entertainment system offers not just more control and peace of mind, but connects passengers, crew and ground services across the customer journey.**

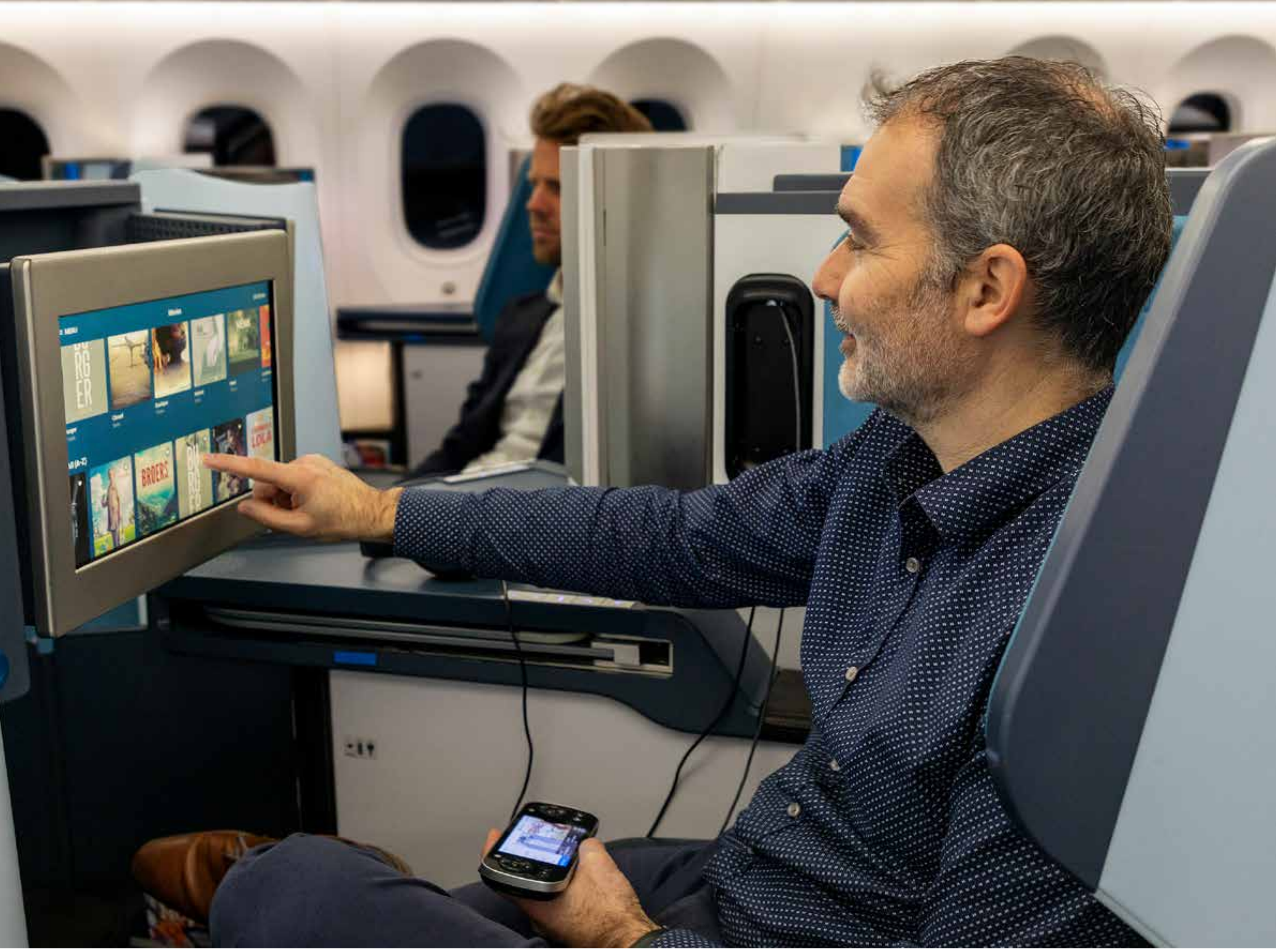
In an age where Netflix and HBO set the standard for the way in which people browse content, KLM's Inflight Entertainment (IFE) needed an upgrade. Tim van Vlierden, Customer Journey Manager within the Customer Experience Department, explains that it is important that we keep up with the standards our customers are used to back home. "KLM is known for innovation so after seven years we wanted to renew the user interface. Passengers indicated that in addition to the rich entertainment content, they wanted more travel information and services. On board Wi-Fi makes this possible."

Over the course of the year, Tim, together with KLM colleagues and a Finnish design company, worked on a minimalistic design with a dark colour scheme that is more comfortable on the eyes and less disturbing at night. "We took a customer-centric approach, showing prototypes to passengers and incorporating their feedback in new iterations."

But the revamp of the IFE is more than a redesign. Passengers increasingly expect more personalised and timely information about their journey and the growing number of aircrafts equipped with Wi-Fi will make this possible. "Where we used to provide on board entertainment only, now it is time to add real-time information and services to the seat back screen."

Passengers can now check on a timeline when and what they will eat and when drinks are served. This new timeline fulfills a long customer wish to receive more information of which food and beverage services are scheduled during the flight. A new survey tool provides hundreds of thousands customer feedback responses of the actual experience. This will give more detailed information than evaluations made after the flight when the passenger experience may have faded.

The new IFE is being rolled out on all intercontinental flights. In 2020, KLM will offer contextualised entertainment, which means the content will be tailored to the context of our passenger, like destination and makes suggestions based on previously watched content. Long-term, KLM wants to use data to provide individualised offerings and services, all in line with strict privacy regulations.



"We took a customer-centric approach, showing prototypes to passengers and incorporating their feedback in new iterations."


KLM
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# Network and fleet

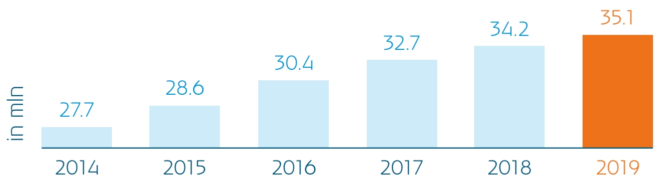
KLM improved the performance of its network by more quickly replacing underperforming destinations, working closely with Transavia and strengthening its global alliances. KLM also took delivery of more sustainable aircraft.

"Those who stay on course, win the journey"
–
Albert Plesman

While KLM until 2016 was able to increase the total number of destinations every year, capacity caps at Schiphol mean that absolute movement growth was impossible in 2019. That is why KLM focused on optimising the network. KLM started flights to six new destinations, them being Wroclaw (Poland), Naples (Italy), Boston (United States), Las Vegas (United States), Bangalore (India) and Liberia-Guanacaste (Costa Rica). In return underperforming destinations like Mauritius and Colombo (Sri Lanka) were closed. In the past, KLM would have allowed underperforming destinations more time to improve but now KLM quickly measures performance and adjusts the network.

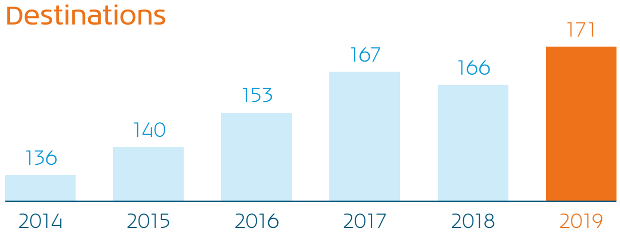
KLM in 2019 further optimised the usage of slots at Schiphol. Slot management is crucial, as every slot is valuable and needs to be used in the network most effectively. KLM announced the substitution of one of the five daily flights to Brussels with the high-speed Thalys train connection in the summer of 2020. More opportunities for substitution are being explored.

Rising number of KLM Passengers welcomed on board




Another example of how KLM optimises its network is on the direct flight to San Jose in Costa Rica. KLM concluded that, compared to the original business case, more flights from San Jose lead to a weather-related refuelling stop, which impacted both passengers as well as crew. By aligning commercial and operational processes, KLM was able to add Liberia, popular with tourists, and prevented any further unplanned refuelling. This increased the NPS, made the operations more robust and added new commercial opportunities.

Destinations



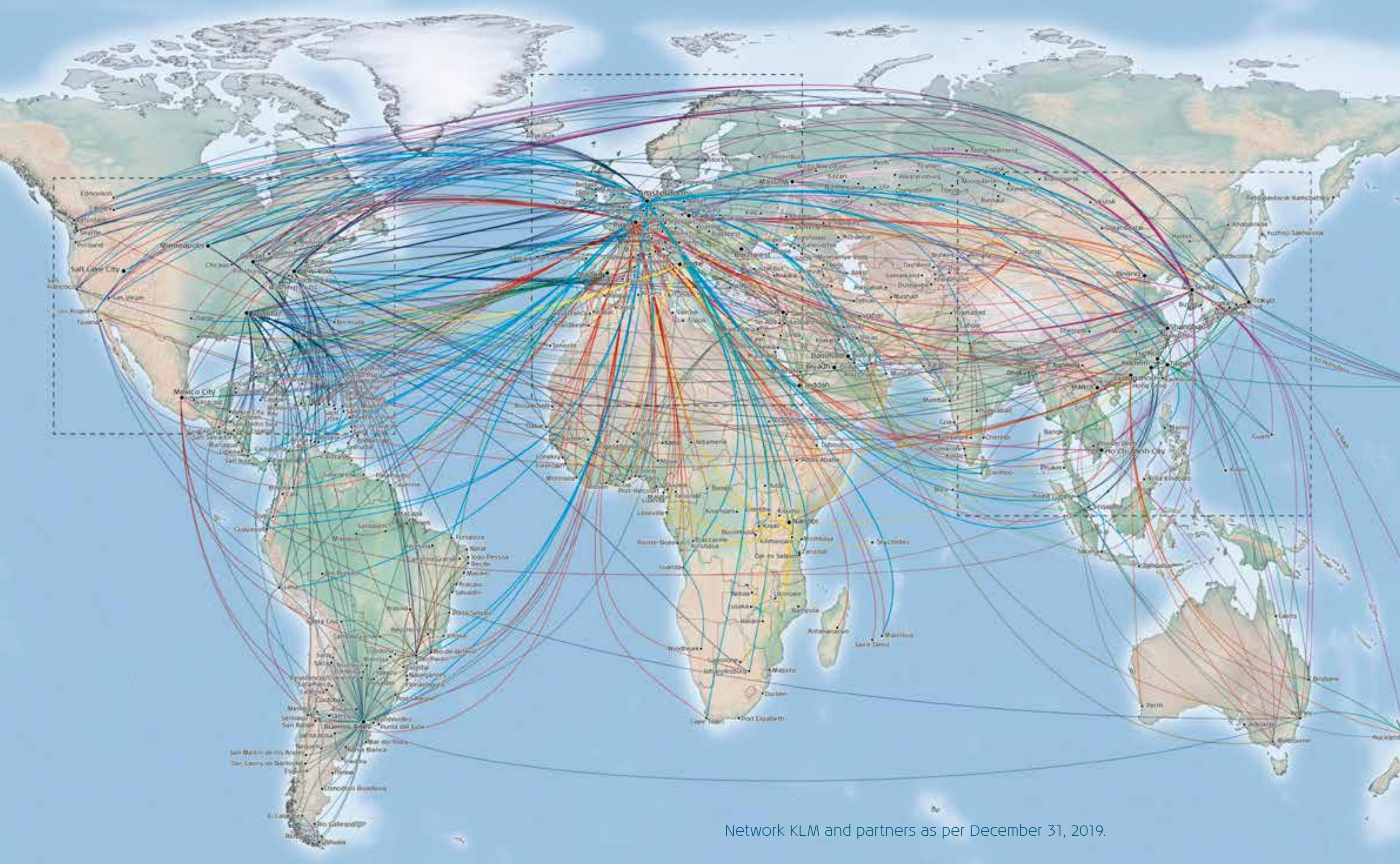

## Increased agility

When KLM's Indian partner Jet Airways ceased operations, KLM's network was also impacted. Jet Airways used to take thousands of passengers from Schiphol to India each day, with similar numbers returning to Schiphol and ongoing connections to the USA and Europe. Our first concern was for passengers which is why KLM quickly responded by increasing capacity on existing summer flights to Delhi and Mumbai. In the fall, Mumbai frequencies were increased from three to five weekly flights and in the winter Colombo was closed while Bangalore was opened and Mumbai was increased to a daily frequency. The speed at which KLM adjusted its schedule is a testimony to the company's increased agility.
State-of-the-art tools were critical in this process. Where KLM used to work manually when designing schedules, allocating slots to flights and optimising codeshares, these processes have now been automated. This happens 70 per cent faster, taking into account more commercial and operational data, and allowing KLM to compare up to 10 network scenarios. This not only yields better results, but also liberates precious time and attention. This can now be used to evaluate destinations, add more seasonality, have strategic conversations with partners and design faster turn-arounds. More optimisation opportunities using artificial intelligence have already been identified.

In 2019, KLM and Transavia, KLM's low-cost subsidiary, worked together on slot optimisation and network alignment. For example, with the Boeing 737-MAX still grounded worldwide, Transavia was unable to lease sufficient aircraft during the peak summer months. KLM was able to lease Transavia two Boeing 737s while still delivering its own network.

## Fleet

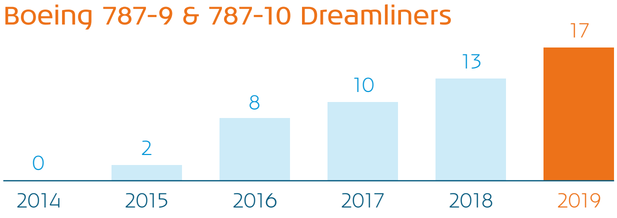
KLM in 2019 continued the fleet renewal program it began five years ago, which is crucial to its growth ambitions and plans to make the aviation industry more sustainable. Between 2015 and 2019 a total of 64 new aircraft, including those for KLM Cityhopper and Transavia, entered the fleet. The cabin upgrade program of in-service aircraft was continued. All 13 Airbus A330s are now retrofitted and boast new seats, inflight entertainment and new cabin interiors.



Network KLM and partners as per December 31, 2019.

Three Boeing 747s left the fleet in 2019. They were replaced by the Boeing 787-10, which is the stretched version of the Boeing 787-9 with 50 additional seats. The Boeing 787-10 produces around 50 per cent less noise and emits around 30 per cent less $CO_2$ per seat compared to the Boeing 747 aircraft. The new aircraft also require less maintenance, which allows KLM to increase aircraft utilisation. Meanwhile, the cabin of the new Boeing 787-10 offers better inflight entertainment, a quieter environment and better business class seating. KLM will receive an additional four 787-10s in 2020. In addition following the COVID-19 crisis, the Group ceased the operation of its entire Boeing 747 passenger and combi fleet as per end March 2020.

### Boeing 787-9 & 787-10 Dreamliners




Aircraft in the European fleet are being replaced with larger versions. KLM took delivery of four Boeing 737-800 aircraft and two Boeing 737-700 aircraft were sold. Transavia took delivery of two Boeing 737-800s. KLM also decided to replace part of its Embraer 190 fleet with the newer and larger E195-E2, placing an order for 21 leases and purchase rights for a further 14 aircraft. Once delivery starts first quarter of 2021, these aircraft will be used by KLM Cityhopper on its European destinations. The new E195-E2s are larger, allowing KLM to welcome more passengers. The E195-E2 also sports 30 per cent lower $CO_2$ emissions and fuel usage per passenger, and produces 40 per cent less noise than its predecessor. These noise improvements not only lead to more cabin comfort, but also have a smaller noise footprint during take-off and landing.

In 2019, the decision was taken to swap KLM Airbus A350 orders with Air France Boeing 787 orders. This will bring significant efficiencies for, amongst others, crew, maintenance and day-to-day operation, contributing to further cost reduction for KLM. Synergies as such emphasise the strength of the AIR FRANCE KLM group. The Cargo fleet remained unchanged at four aircraft. The total consolidated fleet, excluding the training aircraft, grew from 209 to 214 aircraft, of which 67 long-haul aircraft.

## Alliances

KLM together with Air France has a strong focus on partnerships, which strengthen the network and enable the expansion of its global range. Firstly, KLM participates in the transatlantic joint venture with Air France, Delta Air Lines and Alitalia. In May 2018, AIR FRANCE KLM signed definitive agreements paving the way for the expanded transatlantic joint venture with Air France, Delta Air Lines and Virgin Atlantic, called Blue Skies. This new joint venture got final approval from the US government and will now start in 2020.

As a result of the many successful US, Canada and Mexico operations, the transatlantic joint venture continues to achieve positive financial results, despite fierce competition and the expansion of low-cost entrants. This joint venture is the most intensive and most integrated joint venture that KLM is involved in.

Secondly, KLM participates in joint ventures with Kenya Airways, China Southern Airlines / Xiamen Airlines and China Eastern Airlines. The Kenya Airways joint venture is being redesigned and simplified for implementation in 2020. The joint ventures with our Chinese partners perform well and encompass cooperation on seven routes to and from greater China and almost 56 codeshare destinations. This makes Amsterdam the leading gateway from Europe to China. Despite the fact that China Southern Airlines left Sky Team in 2019, the partnership with China Southern Airlines and its subsidiary Xiamen Airlines continues to perform well. In addition, KLM and Air France have the intention to include Virgin Atlantic in their existing joint venture with China Eastern in 2020.

The first term of the partnership with GOL ended in May 2019 and thanks to the positive results this cooperation will be extended. Some 25 per cent of passengers who travel to Brazil make an onward connection with GOL and are offered 35 codeshare destinations. The customer experience and joint commercial contracting with GOL are being improved.

KLM plays an important role in the global SkyTeam Alliance and continuously explores new opportunities to strengthen its cooperation with SkyTeam partners, with a special focus on delivering a seamless travel experience, contributing to the expansion of the alliance and the continuous advancement of customer benefits across the SkyTeam global network.

| | | Average age in years | Owned | Finance leases* | Operating leases ** | Total |
|---|---|---|---|---|---|---|
| **Consolidated fleet as at December 31, 2019** | | | | | | |
| Boeing 787-10 | wide body | 0.2 | 3 | 1 | - | 4 |
| Boeing 787-9 | wide body | 3.0 | 3 | 1 | 9 | 13 |
| Boeing 747-400 PAX | wide body | 25.6 | 4 | - | - | 4 |
| Boeing 747-400 Combi | wide body | 21.3 | 4 | - | - | 4 |
| Boeing 777-300ER | wide body | 6.9 | 2 | 8 | 4 | 14 |
| Boeing 777-200ER | wide body | 14.9 | 9 | - | 6 | 15 |
| Airbus A330-300 | wide body | 7.1 | - | - | 5 | 5 |
| Airbus A330-200 | wide body | 12.3 | 6 | - | 2 | 8 |
| Total wide body | | 10.2 | 31 | 10 | 26 | 67 |
| | | | | | | |
| Boeing 747-400ER Freighter | wide body | 16.4 | 3 | - | - | 3 |
| Boeing 747-400BC Freighter | wide body | 29.5 | 1 | - | - | 1 |
| | | 19.7 | 4 | - | - | 4 |
| | | | | | | |
| Boeing 737-900 | narrow body | 17.8 | 2 | - | 3 | 5 |
| Boeing 737-800 | narrow body | 10.9 | 20 | 6 | 40 | 66 |
| Boeing 737-700 | narrow body | 11.4 | 3 | 5 | 15 | 23 |
| Total narrow body | | 11.4 | 25 | 11 | 58 | 94 |
| | | | | | | |
| Embraer 190 | regional | 8.1 | 4 | 13 | 15 | 32 |
| Embraer 175 | regional | 2.5 | 3 | 14 | - | 17 |
| Total regional | | 6.2 | 7 | 27 | 15 | 49 |
| | | | | | | |
| Training aircraft | | | 15 | - | - | 15 |
| | | | | | | |
| Total consolidated fleet | | 9.7 | 82 | 48 | 99 | 229 |

* 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

# Fleet composition

### Boeing 777-300ER/200ER

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

### Boeing 747-400 Passenger/Combi

| | | | |
|---|---|---|---|
| Number of aircraft | 4/4 | Max. freight (kg) | 35,000 |
| Cruising speed (km/h) | 920 | Maximum passengers | 408/268 |
| Range (km) | 11,500 | Total length (m) | 70.67 |
| Max. take-off weight (kg) | 390,100/396,900 | Wingspan (m) | 64.44 |
| | | Personal inflight entertainment | |

### 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 787-10/9 Dreamliner

| | | | |
|---|---|---|---|
| Number of aircraft | 4/13 | Maximum passengers | 344/294 |
| Cruising speed (km/h) | 920/920 | Total length (m) | 68.30/62.80 |
| Range (km) | 9,900/11,500 | Wingspan (m) | 60.10/60.10 |
| Max. take-off weight (kg) | 254,000/252,650 | Personal inflight entertainment/ Wi-Fi on board | |

### Airbus A330-300/200

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

### Boeing 737-900

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

### Boeing 737-800/700

| | | | |
|---|---|---|---|
| Number of aircraft KLM | 31/16 | Maximum passengers | 186/142 |
| Number of aircraft Transavia | 35/7 | Total length (m) | 39.47/33.62 |
| Cruising speed (km/h) | 820/802 | Wingspan (m) | 35.80/35.80 |
| Range (km) | 4,200/3,500 | | |
| Max. take-off weight (kg) | 73,700/65,317 | | |

### Embraer 190/175

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

**Arthur Dieffenthaler**
General Manager Eastern Africa

# Celebrating Africa with the new Boeing 787-10

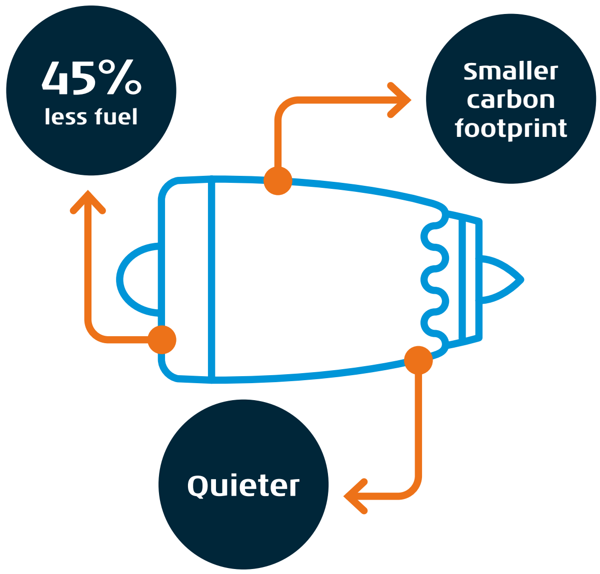
**KLM has deployed its brand-new Boeing 787-10 on the decades-old routes to Kenya and Tanzania. This more sustainable aircraft improves passenger comfort and strengthens economic ties with these two vibrant African nations.**

In the year that KLM celebrated its centenary, another milestone was achieved with less fanfare: in 2019 it was 50 years ago that KLM began operations to Tanzania and Kenya. No better way to celebrate this occasion then by having a new Boeing 787-10 fly these two trusted routes.

According to Arthur Dieffentahler, General Manager Eastern Africa, this pairing leads to an optimal balance of passenger demand, cargo space and operational costs. "Because it has a relatively small fuel tank, the Boeing 787 has a limited range but is light in weight. Considering passenger numbers and cargo flows and the Boeing 787 range, both Tanzania and Kenya are optimal destinations for this type of aircraft.

The Boeing 787-10 replaces the Boeing 777-200ER and Boeing 777-300ER used for Tanzania, which can now be used more optimally on other destinations. On the Kenya route, the Boeing 787 replaces the Boeing 747, which after 30 years of faithful service is being phased out. "The Boeing 787 uses up to 45% less fuel than the Boeing 747 and its carbon footprint is much smaller. It is also significantly quieter, which makes a difference on the night flights back to Amsterdam." Other comforts include Wi-Fi, a new inflight entertainment system, better air humidity and single-aisle seats in business class.

Passenger feedback has been positive. The NPS has increased on these two flights and there were even passengers who postponed their flights so they could fly on the new Boeing 787 instead of the old Boeing 747. Press coverage was broad and universally positive, acknowledging the importance of Kenya to KLM and the Netherlands.




Tanzania, home to the iconic Kilimanjaro, is a popular tourist destination, and flights to Dar es Salaam are often filled with safari goers and beach lovers from Europe and the USA. Kenya is popular with tourists as well, but Nairobi is also a regional powerhouse and the country is the world's third-largest exporter of cut flowers. With the Netherlands also a global leader in flowers, including logistics and greenhouse technology, the connection with Kenya is mutually beneficial.

"Cut flowers are delicate and have a limited shelf-life, so delays are particularly costly. Once in the Netherlands, the flowers are transported to auction houses, sold and then flown all over the world. "I am proud that KLM can catalyse the economies of both Kenya and the Netherlands this way," Dieffenthaler tells.

# Operations

The operational goal for 2019 was to ensure a stable network performance while preparing the operation for sustainable growth. Ongoing investments in integral-decision making and Artificial Intelligence (AI) have made KLM's operations more agile and robust. Safety, both operational and occupational, improved.

*"At the heart of difficulties lie opportunities."*

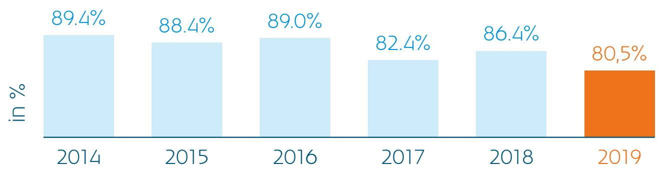
*–*

*Albert Einstein*

## Over the past few years, KLM has worked hard to further strengthen its operational performance. In part by implementing operational excellence as a strategy for operations, in part by implementing Artificial Intelligence (AI) tools. Operational excellence aims to deliver the customer promise safely, effectively and at the lowest integral cost. This integrated approach towards operations facilitates operational departments to work together smoothly, using the same processes and information.

KLM's intention in 2019 was to improve its operational performance compared to 2018. Unfortunately, KLM's operations were significantly impacted by a range of unforeseen events, most of which beyond KLM's control. These include the closing of Pakistani airspace from February to July, and the temporary loss of two wide body aircraft because of damage. At Schiphol, meanwhile, KLM experienced severe problems due to runway maintenance and the implementation of a new digital system at Air Traffic Control, resulting in a reduced airport capacity of 50 per cent, with a drop in arrival punctuality and 90 per cent more passengers missing their connections. Moreover, a fault in the fuel supply system at Schiphol disrupted many flights, and KLM ground services staff staged three minor work stoppages.

### On time performance (A15)




In reaction to the unforeseen events, KLM operations mitigated measures to limit the impact on operations and passengers as much as possible. As a consequence though, KLM was unable to meet its ambitious operational targets. However, some important improvements were made compared to the performance in 2018. The ground handling processes for intercontinental flights, both at Schiphol and the outstations improved. Furthermore, the number of cancellations of European flights was decreased.

The operational setbacks manifested at a time where growth is not possible at Schiphol, European airspace is severely congested and KLM's aircraft already have some of the world's highest utilisation. Despite the impact of disturbances, KLM operations shows signs of structural improvement and maturity. Operational performance on non-disturbed days was better than in 2018 and operations proved to be robust on days of disturbances. Operations appeared to be better equipped to handle unexpected events and disruptions and compared to earlier years, KLM recovers from disruptions more swiftly. The maturity of the operations confirms that operational excellence is more embedded in the organisation.

Innovation, specifically of processes, products and new technologies, was an important theme in 2019. Cooperation with world-class partners such as the Delft University of Technology, the Boston Consulting Group and the TIAS School for Business and Society facilitates the transformation of KLM operations towards a learning organisation that internalises the basic thoughts of operational excellence. While in 2018 KLM's innovation efforts focussed on implementation, in 2019 it emphasised on user adoption of new developed tools and continuous improvements.

## KLM Cityhopper

KLM Cityhopper, a wholly owned subsidiary of KLM with its own Air Operator Certificate, operates 52 per cent of KLM's European network. New Embraers were ordered to optimise KLM Cityhopper's Embraer fleet, the largest of Europe. A further improvement of the fleet availability was realised as well as a reduction of the required number of spare aircraft. As a result of the capacity increase Wroclaw (Poland) could be added to the network as a new destination for KLM and additional frequencies were added to the KLM Cityhopper schedule.

## Safety

KLM's Integrated Safety Management System (ISMS) integrates operational, occupational, environmental safety and operational security. Oversight on the compliance and safety of these topics is executed by the independently positioned Integrated Safety Services Organisation (ISSO) which reports to KLM's Board of Managing Directors. As in previous years, an external agency has identified KLM as one of Europe's leading companies in the area of safety and compliance. The agency noted KLM's good levels of assurance and holistic controls of those hazards identified within the operation, safety intelligence through data analysis and resilience to emergent risk.

In 2019, KLM continued its multi-year implementation of a document control management system to assure compliance with laws and regulations. In the spring of 2019, the ISO 14001 certificate was renewed based on the latest version of the standard and the ISO High Level Structure Management System protection standards.

A risk-based approach to both planning and execution of audits was implemented for International Stations audits by the ISSO. The risk based approach will be introduced to other areas in the future.

KLM improved occupational safety throughout the company. The number of occupational incidents, which result in lost workday cases, was reduced more than 25 per cent compared to previous years by improving the pro-active approach to reducing these occupational risks. This not only increases the safe environment in which work is done, it also reduces costs. Dedicated teams, that support businesses and divisions in assessing and addressing any occupational risk, were established in the last quarter of 2019. KLM also rolled out a new safety app to increase the insight in risks to be managed.

In close cooperation with Schiphol, Air Traffic Control the Netherlands and other partners, KLM has been one of the founding members of the Joint Sector Integral Safety Management System. Based on KLM's system this improves safety at and around the airport by proactively identifying and mitigating risks arising from interaction between the partners at Schiphol. Various safety improvements were implemented in 2019 and a roadmap has been made of improvements for the coming years. Assessing it in 2019, international experts have hailed this alliance as a remarkable achievement.

In addition to strengthening its safety processes, KLM continuously boosts its safety culture. This year KLM continued the just culture training, which was started in 2018 and aims for an environment in which mistakes can be safely reported and learnt from.

## The future

While growth at Schiphol will likely not be possible in 2020, KLM knows there is ample room for optimising its operations. KLM's operational goals for 2020 are to safeguard slots and to further improve operations. The latter however being subject to current priorities being directed towards all that is necessary to overcome the COVID-19 crisis and to resume operations to normal level at the earliest opportunity. This includes reducing costs related to non-performance, rolling out more AI-based tools and improving control of our European network. Another priority will be to build more buffers into our operations in order to better fulfill our promise to our customers even on disturbed days. We also seek to improve the turnaround time for the Boeing 737-900 used on European flights.

Jan Morren
Duty Manager Operations

# Conducting an orchestra in the sky

**In KLM's Operational Control Center (OCC), passionate people use artificial intelligence and more integrated decision-making to deliver a robust schedule.**

If blue is the heart of KLM's operations, then the OCC building at Schiphol is its brain. Like a conductor guiding an orchestra, the OCC manages 700 flights and 100,000 passengers a day. Every flight takes factors into consideration like cargo flows, maintenance requirements, ongoing connections and the work schedules of thousands of cabin and cockpit crew.

With Schiphol and international airspace severely congested, KLM's schedule is tight and even the smallest deviation can have a ripple effect. A foggy day means less runway capacity. A sick crew member causes a delayed departure. Mechanical problems can spell cancellations. But passengers have high expectations, cancellations cost a lot of money and every minute of effective airplane usage matters.

Dealing with this mind-boggling complexity is Jan Morren, one of the OCC Duty Manager Operations. Standing on an elevated platform at the OCC, he can see the 100 or so men and women in the OCC's main hall. Resembling NASA's famous launch center, it features concentric circles of desks and countless screens that show an array of flight paths, weather updates and other metrics. For such a high-pressure environment, the atmosphere is quiet and calm.

A lot has changed in the 35 years that Morren has been with KLM. "Ten years ago, we only thought about tomorrow's weather and assumed there was nothing we could do about it. We spent a lot of time fixing problems on the day of operations, and it could take days to rebook passengers manually and return to a normal schedule. People at the OCC would make decisions on the basis of their personal experience."

In recent years a quiet revolution has taken place. First because KLM began to implement a more integral approach to operational decision-making, which has aligned people, processes and systems. And second because of KLM's pioneering adaptation of Artificial Intelligence (AI). Using AI, KLM has built tools that can process vast amounts of data very quickly and learn from the collective decision-making of all OCC staff.

It is hard to underestimate the difference this makes. KLM now makes five-day weather scenarios and works closely with Schiphol and Air Traffic Control to plan runway capacity at Schiphol. KLM is able to pro-actively delay or cancel flights a day in advance, automatically rebook passengers and inform them clearly about their new itinerary. The same goes for responding to incidents on the day of operations, such as delays or mechanical problems.

"The result is a more robust operation, which recovers from disturbances by the end of the day or avoids problems altogether. We minimise the impact on passengers and inform them more quickly. And because we can now see the exact cost of every cancellation, we can make decisions with the least financial impact, while still taking care of our passengers."

The use of AI is in its infancy, but the future looks bright. "We are still building and optimising our tools, and there are new ones we are working on. They will never replace humans, but they do enhance KLM's ability to grow our network and make it even more robust."

## Traffic and capacity

| Passenger | Passenger kilometers | | | Seat kilometers | | | Load factor | |
|---|---|---|---|---|---|---|---|---|
| In millions | 2019 | 2018 | % Change | 2019 | 2018 | % Change | 2019 % | 2018 % |
| | | | | | | | | |
| **Route areas** | | | | | | | | |
| Europe & North Africa | 20,047 | 19,433 | 3.2 | 22,960 | 22,508 | 2.0 | 87.3 | 86.3 |
| North America | 23,666 | 23,045 | 2.7 | 26,474 | 25,795 | 2.6 | 89.4 | 89.3 |
| Central and South America | 15,989 | 15,939 | 0.3 | 17,798 | 17,645 | 0.9 | 89.8 | 90.3 |
| Asia | 28,625 | 27,668 | 3.5 | 31,398 | 30,318 | 3.6 | 91.2 | 91.3 |
| Africa | 11,545 | 11,698 | (1.3) | 12,935 | 13,243 | (2.3) | 89.3 | 88.3 |
| Middle East | 2,957 | 3,205 | (7.7) | 3,574 | 3,896 | (8.3) | 82.7 | 82.3 |
| Caribbean and Indian Ocean | 6,645 | 6,688 | (0.6) | 7,313 | 7,410 | (1.3) | 90.9 | 90.3 |
| | | | | | | | | |
| Total | 109,476 | 107,676 | 1.7 | 122,452 | 120,815 | 1.4 | 89.4 | 89.1 |

| Cargo | Traffic | | | Capacity | | | Load factor | |
|---|---|---|---|---|---|---|---|---|
| In million cargo ton-km | 2019 | 2018 | % Change | 2019 | 2018 | % Change | 2019 % | 2018 % |
| | | | | | | | | |
| **Route areas** | | | | | | | | |
| Europe & North Africa | 11 | 13 | (17.0) | 366 | 377 | (3.0) | 3.0 | 3.4 |
| North America | 994 | 1,019 | (2.5) | 1,675 | 1,640 | 2.1 | 59.3 | 62.1 |
| Central and South America | 1,251 | 1,316 | (5.0) | 1,876 | 1,851 | 1.3 | 66.7 | 71.1 |
| Asia | 1,454 | 1,504 | (3.4) | 1,767 | 1,745 | 1.3 | 82.3 | 86.2 |
| Africa | 752 | 767 | (2.0) | 1,101 | 1,125 | (2.2) | 68.3 | 68.2 |
| Middle East | 127 | 125 | 1.8 | 180 | 201 | (10.4) | 70.7 | 62.2 |
| Caribbean and Indian Ocean | 90 | 105 | (13.9) | 289 | 300 | (3.6) | 31.3 | 35.0 |
| | | | | | | | | |
| Total | 4,678 | 4,849 | (3.5) | 7,253 | 7,239 | 0.2 | 64.5 | 67.0 |

| Transavia | Passenger kilometers | | | Seat kilometers | | | Load factor | |
|---|---|---|---|---|---|---|---|---|
| In millions | 2019 | 2018 | % Change | 2019 | 2018 | % Change | 2019 % | 2018 % |
| | | | | | | | | |
| **Route areas** | | | | | | | | |
| Europe & North Africa | 17,670 | 16,803 | 5.2 | 19,256 | 18,303 | 5.2 | 91.8 | 91.8 |
| | | | | | | | | |
| Total | 17,670 | 16,803 | 5.2 | 19,256 | 18,303 | 5.2 | 91.8 | 91.8 |

## Overview of significant KLM participating interests

As at December 31, 2019

| 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)

### Associate

Transavia France S.A.S. .......... 4

### Financial asset

Kenya Airways Ltd. .......... 8


13

# People and Organisation

KLM celebrated the future of its staff with responsible salary increases, leadership development, a focus on diversity and inclusion and support for career planning. With talent being scarce and KLM's growth ambitions tangible, the work has begun to create a sustainable workforce that can flourish for years.

*"I believe that small actions, multiplied by many people, can make a genuine difference in the world."*

*– Dan Barry*


**When KLM embarked on its Perform 2020 transformation process in 2015, the pulse of the organisation felt different.**
**A restructuring was needed to secure the survival of the airline, costs had to be cut, salaries were frozen and productivity targets were sharpened. In 2019, as KLM celebrated its centenary, the turnaround of the world's oldest airline is self-evident.**

This year, KLM has aimed to empower employees to be 'the best of themselves' by creating an optimal, engaged, diverse and inclusive workforce that can execute the company's strategy and which acts in line with the KLM Compass. KLM negotiated three new collective labour agreements with pilots, cabin crew and ground services staff, which will deliver an 8.5 per cent salary increase for ground staff and 7 per cent salary increase for pilots and cabin. The profit sharing scheme for ground staff was adjusted. The collective labour agreement for ground staff includes more employability options for staff older than 60, a reduction in work pressure and a flexpool of multi-skilled ground staff. The collective labour agreement for cockpit has been simplified and modernised and includes new arrangements for young pilots that start their career at the Flight Academy. The collective labour agreements have a duration period of 33 months until early 2022. They will provide stability which will give us the time and attention to focus on various important themes.

KLM launched a Health Portal, which gives employees the ability to create a healthier lifestyle, and introduced MyJourney, a portal with talent- and career scans, for cabin crew. KLM also rolled out Strategic Workforce Planning, which sees managers and employees look 5 to 10 years into the future to determine the kind of workforce that is needed in light of demographic changes and the rise of technologies like artificial intelligence.

KLM's focus on sustainability has been extended from environmental goals to including culture and staff.
As the second-largest private employer in the Netherlands, KLM feels responsibility for being an excellent employer. Sustainable employment has become an important theme, particularly in the area of Ground Services, where physically-demanding labour is common, absenteeism is relatively high and career prospects of some groups of employees, tend to be limited.

One of the things that will support this is KLM's strengthened focus on leadership, an element of the KLM Compass. In 2019, all executives joined an assessment designed to identify development opportunities. In addition, KLM launched a company-wide leadership development program, because leadership is a skill that can be learnt and should be maintained.

Talent remains scarce, particularly in IT and technical areas. In the years to come KLM will invest more in maintaining its position as a leading employment brand. In order to be a sustainable employer, KLM championed gender equality and inclusivity. Almost all 2019 gender targets were met and new targets for 2025 are being defined for all management levels. A new Female Leadership Program was launched and in March, the CEO signed Talent to the Top, a manifesto that aims to increase the number of women in management positions. Furthermore, the management teams of all the divisions are being trained to build more diverse teams, while Recruitment and Learning & Talent Managers have been trained to make talent management and recruitment processes more inclusive.

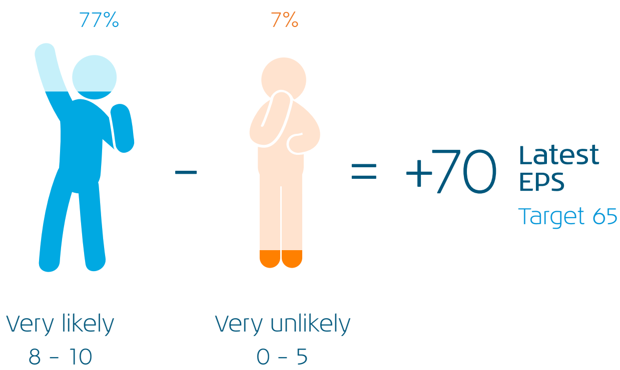
Meanwhile, recruiters and talent managers were trained by an external company to be more gender sensitive and to recruit more with gender in mind. KLM celebrated the diversity by supporting members of the LGBTI community. KLM hosted the annual Workplace Pride Conference, a non-profit organisation dedicated to improve the working conditions of LGBTI employees worldwide. Over the Rainbow, the KLM LGBTI community set up in 2010, was professionalised, and on Coming Out Day a Cross the Line session was held. The CEO of KLM and the EVP HR & Industrial Relations joined a session with employees that was meant to emphasise the importance of diversity and inclusion.

All of this has made KLM a more attractive employer. The Employee Promotor Score, the key indicator for employee engagement satisfaction, rose from 61 in 2018 to 70 in 2019 and KLM was awarded most attractive employer based on the annual Randstad Employer Brand Research. Intermediair awarded KLM most attractive employer for highly-educated people.

The HR organisation itself took significant steps forward in the area of HR data and analytics. It rolled out SAP Analytics Cloud in Ground Services and Engineering & Maintenance, enabling managers and employees to use HR insights. It improved its digital forms and began to unite a previously scattered learning landscape. It began to modernise its approach to absenteeism, by working closely with KLM Health Services, the company's in-house healthcare specialist in the area of work and travel. Employees are encouraged to take responsibility for their health and return to work after having dealt with health issues.

### KLM EPS November 2019
### Employee Promoter Score

How likely are you to recommend KLM as employer?



# Training the future of ground services

KLM has invested in a new facility and curriculum for the hundreds of Ground Services staff its trains each year. This offers a more inspiriting and hands-on environment and encourages life-long learning.

The almost 6,000 men and women of Ground Services play a vital role in the delivery of a great customer journey and profitable product. At Schiphol they help passengers check in and transfer, while behind the scenes they handle baggage, load and unload cargo and handle specialised equipment.

In 2019, the training of these employees was taken to a whole new level with the opening of a new training facility just outside of Schiphol. With the smell of fresh paint still in the air, several trainers enthusiastically tell about the changes.

"We used to train Ground Services staff in the live environment of Schiphol. Surrounded by noisy aircraft and actual passengers waiting to check-in, the pressure on new recruits was high. By moving outside of Schiphol, we were able to create a more relaxed and effective learning environment."

To achieve this, KLM has partnered with ROC Amsterdam, a regional provider of intermediate vocational training. KLM provided the equipment and the learning curriculum, while the ROC provided their building, which features lounge-inspired classrooms and walls covered in floor-to-ceiling pictures of KLM staff.

In the courtyard, students can practice using power stows and conveyor belt loaders, or crawl into a segment of an Embraer or Boeing 737 to tie down cargo. There is also an indoor hall complete with conveyor belts, suitcases and electric vehicles.

More modern types of technology are also used. Virtual Reality gives students a more realistic learning experience of the full baggage and apron process, while others are taught how to check in people in an immersive video room that projects videos on all four walls.


These investments were made to ensure the curriculum is more suited to the learning styles of the people generally attracted to Ground Services. "They prefer more tactile and experiential learning to theory, and so that's what we give them."

"They prefer more tactile and experiential learning to theory, and so that's what we give them."

The trainers, meanwhile, are Ground Services veterans who still regularly work in the operations. They continuously update the teaching methodology and curriculum to adapt to an ever-changing world.

Mixing theory with practice, the apron trainers take nine days to give people the basic skills with which they can begin to work at Schiphol. There they apply what they have learnt on small aircraft and learn from their more senior team leaders, and gradually move their way up to larger aircraft.

While the immediate goal is to teach people how to become a baggage handler or check-in desk staff, KLM is keen to increase people's long-term opportunities and adaptability. "Life-long employment is no longer the norm, but we do believe in life-long learning. That is why we encourage people to continue their formal education and why we pay for some people to get their truck driver's license."

The trainers say that KLM has ambitious plans for the future. "We want to retain more people after the training process and offer them even more opportunities for growth, for example by encouraging exchanges between the baggage basement and the platform."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some help?
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# Innovation & sustainability

Innovation and sustainability have become powerful forces shaping the future of KLM, the industry and the world. In 2019 KLM and its partners took pioneering steps in Artificial Intelligence (AI), sustainable aviation fuel production and radical plane design, whose impact will be felt for decades to come.

*"The art of life is a constant readjustment to our surroundings."*

–

*Kakuzo Okakura*

AI, machine learning and advanced optimisation, is part of KLM's approach to innovation. It allows computer systems to take in vast amounts of data and learn from it, for example by identifying problems or solutions better or faster than humans can. This makes AI a perfect tool for dealing with the complexity of KLM's operations, which needs to take into account flights, passengers, crew, ground staff, schedules, and financial metrics. AI is helping KLM to make better choices and to predict, in real-time, the impact of each decision on the rest of the system.


In 2018, KLM began to develop AI-based tools that help employees make faster and better decisions in case of disruptions, so that the impact on passengers and costs are minimised. Tools like Sentry and Align have been implemented. Respectively, these minimise the impact of disruptions with Boeing 737s on the day of operations and increase the robustness and profitability of our operations by aligning all the departments involved in the design of our network. In addition, KLM began using a minimum viable product of Terra to optimise the use of ground resources on the day of operations, and the OPR rebooking tool, which can rebook four thousand passengers in an hour.

The results of these tools on the customer experience and non-performance costs is profound. KLM has 25 per cent fewer cancellations in disturbed days and 40 per cent more passengers who make their connections. The day after a disturbance the schedule often returns to normal, something that used to take days. KLM has developed these tools with the Boston Consulting Group and now they are also commercially available to aviation partners. Currently Delta, GOL and several other airlines are using KLM's AI-tools to optimise their networks and operational performance. KLM can genuinely claim to be an AI-leader in the aviation industry.

## Kickstart artificial intelligence

KLM's belief in and commitment to AI extends beyond the confines of the organisation. In 2019, KLM partnered with Ahold, NS, Philips, ING and Booking.com to launch Kickstart AI. This alliance will boost the AI-ecosystem in the Netherlands by accelerating and promoting the development of AI-technology and nurturing AI talent. This will add educational capacity, foster the development of the AI-community and strengthen the position of The Netherlands as a global AI-hub.

Kickstart AI has three goals. First, to organise so-called super challenges, which will mobilise AI talent to tackle challenges in the area of health and mobility. Second, by funding the appointment of 25 assistant professors in the field of AI. And finally, to set-up a free English and Dutch-language course in AI, which will hopefully attract 170,000 sign-ups by 2020.

## Customer-centricity

Design thinking is a second pillar of KLM's approach to innovation. This approach has proven to be useful for solving complex problems, by re-framing the problem in human terms, collectively generating solutions, and prototyping and testing them in the real world. As part of an alliance with the Delft University of Technology, some 600 industrial design students have worked at KLM in the 2017 to 2019 period. These students looked at processes around the hub, inflight services and the digital journey. This has given employees a common innovation language and more deeply embedded customer-centricity.


The latter ties in well with KLM's trademark empathetic approach of people. Innovation in 2019 focused on fostering a dialogue between employees and between passengers and crew, for example through the new Meal Service catering app. This makes it easier for crew to more personally discuss meal options with business class passengers, who in turn get more choices and control over their dining experience. Meal choices are saved and taken into account by crew on future flights.

KLM introduced an app for employees to report safety issues. Before this, people would have gone to their desk and fill in complicated forms on their computers, but now they can do it on the spot with their mobile device. This takes half the time, enables employees to upload pictures and determines the precise location. The result is a smoother process that has already led to more reports being submitted.

As part of its innovation efforts, KLM in recent years has supported pilots, cabin crew and airport staff with iPads. In 2019, ground staff working in Schiphol's baggage basement were also given iPads, and there are now 18,000 devices on 30,000 employees. These devices serve as a platform for a rapidly growing range of apps, which KLM is capable of developing in-house. In addition to this and artificial intelligence mentioned earlier, KLM has developed expertise in areas like virtual reality, the internet of things and 3D scanning. In 2019, KLM worked with several partners to develop a highly-detailed digital twin of Schiphol, which makes it easier to simulate the impact of changes at the airport.

Ultimately, digitisation is a means to an end. Employees are reporting that their work has become more efficient and that they can pay more attention to passengers than to paperwork. Gate agents make fewer last-minute decisions and it has become easier to avoid or respond to mistakes. Overall, the whole process feels more stable and relaxed.

## Sustainability

In 2019, KLM together with Air France, returned to the top of the Airlines category of the authoritative Down Jones Sustainability Index, after being first 13 years in a row and second last year. This achievement is the culmination of more than a decade of ground-breaking work in the area of sustainability, which stems from KLM's deep-rooted belief it has a responsibility towards its customers, employees, our home base in the Netherlands and the world beyond.

With climate change increasingly palpable and society demanding urgent action, KLM feels called upon to maintain and expand its position of a leading sustainable airline. KLM has formulated an ambitious, and comprehensive sustainability strategy with clear targets and timelines. One of our chief goals is to reduce our 2030 carbon footprint in absolute terms by 15 per cent compared to 2015 and to achieve a 50 per cent per passenger reduction in $CO_2$ emissions. Another outcome of our sustainability ambition is the 2019 launch of the global Fly Responsibly commitment.

An integral part of KLM's strategy is to work with partners outside KLM and to fully engage passengers. In 2018, KLM and partners launched Smart and Sustainable, an ambitious plan with activities planned by all partners involved in seven areas. In 2019, the first initiatives were launched. For example, KLM and SkyNRG announced the construction of the world's first sustainable aviation fuel plant dedicated to the airline industry. The plant in the north of the Netherlands will produce 100,000 tons of fuel per year. KLM has contracted 75 per cent of this for the coming decade. Once operational in 2023, the plant will use regional waste streams and sustainable aviation fuel will be transported to Schiphol by boat.

KLM believes in sustainable aviation fuel because it has an 80% lower carbon footprint than kerosine. KLM has been using sustainable aviation fuel since 2009, but because supply is severely limited, KLM can only add it to a small number of flights. Sustainable aviation fuel is also three times more expensive than kerosine. KLM has, however, pioneered a corporate sustainable aviation fuel program, whose members absorb the price difference and increase demand for sustainable aviation fuel. In 2019, the program welcomed Microsoft and SHV Energy as its latest member, bringing the total to 14.

KLM has taken other actions to reduce the carbon footprint of its flights. It is investing in new, more efficient aircraft with lower fuel consumption and lower noise footprints. This ties in well with Schiphol's decision in 2019 to introduce airport charges that are higher for noisier and more polluting aircraft. In addition, KLM is working with aviation partners to design more fuel-efficient flight routes and take-off and landing procedures. KLM continued to enable its passengers to offset their carbon emissions through the C02ZERO program. In 2019, some 175,000 passengers compensated a total of 88,000 tons of $CO_2$, equivalent to 680 hectares of tropical forest or 749,000 trees.

Other aspects of KLM's operations are being thoroughly reviewed for their contribution to the company's sustainability goals. Inflight services continued to reduce the weight of its product, for example through lighter meal trays. In December 2019 KLM Inflight Services piloted its Closed Loop initiative on its Vancouver flights. The closed loop aims to work with recycled catering supplies. KLM is the first airline in the world to trial the recycling of different catering items within a closed-loop system. Other recycling efforts were sped up by ensuring plastic is recycled as filament for the 3D printers used by Engineering & Maintenance. At Schiphol, KLM continued with the electrification of its Ground Services equipment, with 60 per cent of equipment electric compared to 49 per cent in 2018. KLM's ambition is to have zero emissions from ground operations by 2030. In 2019, KLM took a major step towards the ambition by switching to green electricity. These initiatives have resulted in a $CO_2$ reduction of 50 per cent from ground operations compared to 2018.

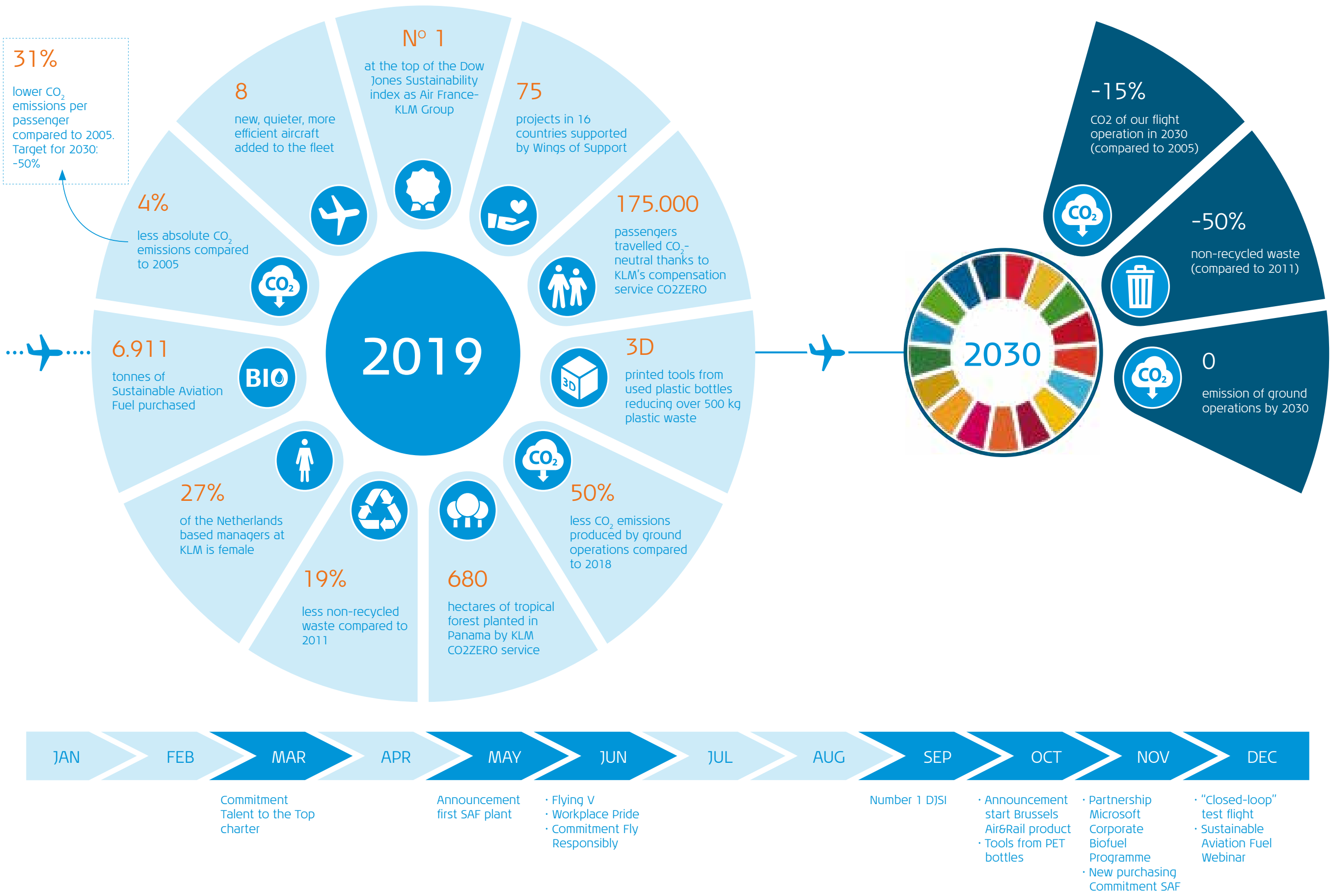
## Flying V

Another milestone in 2019 was the announcement that KLM is investing in the development of a radical new aircraft called the Flying V. The Delft University of Technology is working on the design, which incorporates the cabin, fuel tanks and cargo hold into v-shaped wings. This configuration has the same passengers and cargo capacity as an Airbus A350, one of the world's most advanced aircraft, but a 20 per cent smaller carbon footprint. With aircraft design essentially unchanged for decades, KLM could help pave the way for a new chapter in aviation history.

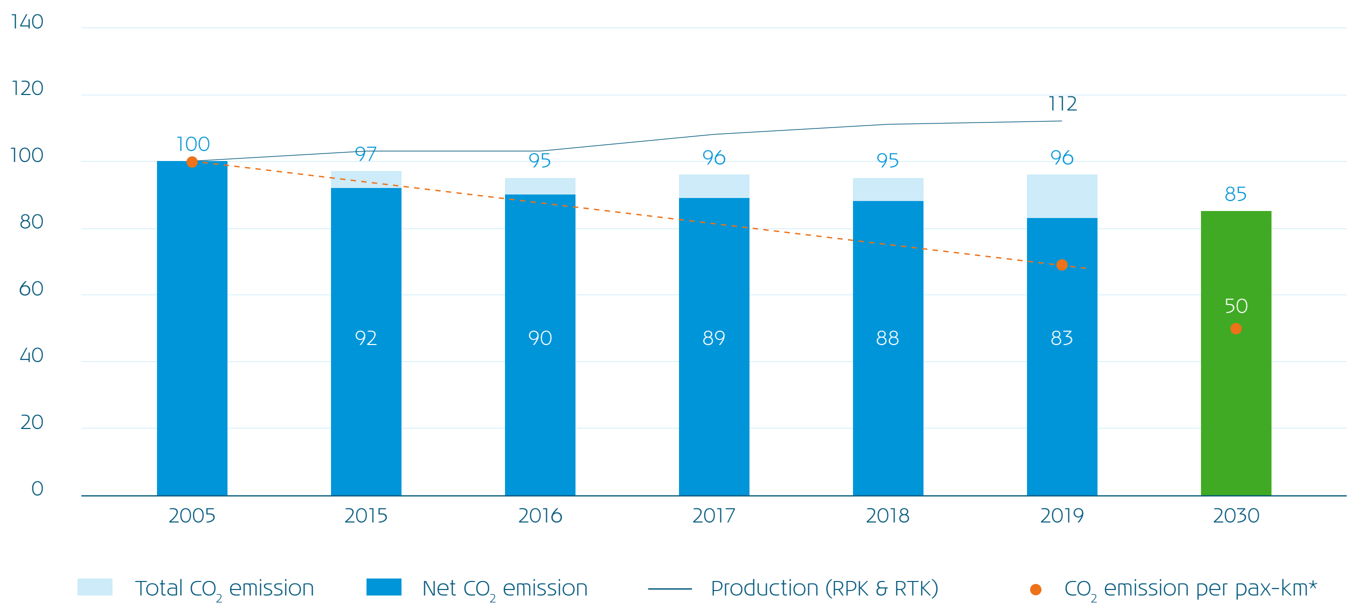
KLM believes that trains are a more sustainable alternative to air travel up to a distance of 700 kilometers. In 2019, KLM decided to replace one of its five daily flights from Brussels to Amsterdam, which feeds passengers into the network, with capacity on the high-speed Thalys as of March 2020. KLM, Thalys and Dutch National Rail have developed a combined Air&Rail ticket, which will be marketed by the KLM.com website and travel agents. These partners will also work with Schiphol to improve baggage handling and other services, and there will be a special Air&Rail check-in desk at the airport.

At KLM, sustainability is about more than reducing our carbon footprint. KLM operates from a holistic view that includes the responsibility for its employees, meaning that KLM feels obligated to enable employees to have fulfilling careers, healthy lives and a safe and inspiring workplace.

# KLM Sustainability: 2019 at a glance




## KLM Group $CO_2$ emissions have decreased with 4% since 2005 while production is growing (index 2005=100)



**Remona van der Zon**
Manager Sustainability and Reporting

# Call to action: fly responsibly

**Fly Responsibly encapsulates KLM's ambition, sense of urgency and realisation that the aviation industry can only be transformed when all stakeholders work together.**

It all started with a prominently placed, full-page and full-colour message in 100 newspapers around the world, each in their own language. In a text that captures the wonder of aviation as well as its responsibility to mitigate its impact, KLM called on everyone to get involved in the journey towards a more sustainable aviation industry.

A daring move, but one that comes at a time of a rising urgency about our climate. Remona van der Zon, the Sustainability and Reporting Manager who worked on the campaign, explains that this is not a public relations ploy but a promise, rallying cry, and invitation all rolled into one.

"KLM will continue to look for ways to minimise our environmental impact and increase our social impact. But we don't have all the answers and we don't know all the steps. We believe everyone with a stake in the aviation industry, including passengers and suppliers, needs to get involved."

The newspaper ad was complemented with an online campaign and a website that provides an overview of carbon lowering actions. The Fly Responsibly initiative has clearly resonated, inside and outside of KLM. "People were talking about this for weeks and it inspired countless articles. In the second half of 2019, we noticed other airlines talking about their approach to sustainability. Perhaps we lit a fire in the industry!"


In some quarters, though, the response was more neutral. Some people, rightly, feel that the proof of the pudding is in the eating. Remona agrees and says "KLM is trying to lead by example, for example by participating in a major sustainable aviation fuel plant and supporting the development of a new aircraft design. But KLM also believes that when it comes to sustainability, cooperation between airlines is key."

"Cooperation between airlines is key."

"KLM is sharing the underlying mechanics of its successful carbon offsetting program with others, including the integration in our online booking tool. And we organised the first of several webinars to share the secrets of our successful corporate sustainable aviation fuel program, including issues like pricing. We hope this will help other airlines to build their own program and invite their customers to participate."

The Fly Responsibly initiative was a momentous step for KLM, a "coming out in the area of sustainability" as Remona puts it. "We had critical discussion in the run up to the campaign. What did we want to say and did we have a right to say it? Eventually we felt we did, the Board approved it and we ran with it. I think it's an incredibly cool thing to do."


# Risk management and control


The KLM In Control Statement is the KLM approach to voluntarily apply to the Dutch Corporate Governance Code 2016. The purpose of the Code is to facilitate – with or in relation to other laws and regulations – a sound and transparent system of checks and balances and, to that end, to regulate relations between the Board of Managing Directors, the Supervisory Board and the Shareholders.

Compliance with the Code contributes to confidence in good and responsible management of companies and their contribution into society. Building blocks of the In Control Statement are the next two paragraphs on Risks and Risk Management and on Control and Monitoring. The In Control Statement can be found in the Board and Governance paragraph.

# Risks and risk management

KLM is exposed to general risks associated with the air transport industry and with airline operations, and consequently has a system to identify, analyse, monitor, manage and control risks. A distinction is made between strategic, operational, compliance and financial risks. Strategic risks are related to KLM's strategic choices, operational risks are related to operational activities, compliance risks are related to applicable laws and regulations, and financial risks are related to financial markets and market developments. The financial risks are also elaborated upon in the Financial Risk Management section in the notes included in the consolidated financial statements.

Overall risks of AIR FRANCE KLM are explained in the relevant parts of the AIR FRANCE KLM financial disclosure reporting. These risks can also have an impact on KLM's brand, reputation, profitability, liquidity and access to capital markets.

### Risk profile

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

### Risk appetite

The risk appetite of KLM differs per type of risks:

» Strategic risk: with an ambition 'to become Europe's most customer-centric, innovative and efficient network carrier' taking and accepting strategic risks is inevitable;
» Operational risk: KLM operations are diverse. KLM accepts zero risks in the field of flight safety and operational safety, other operational risks are considered in view of the (daily) business;
» Compliance risk: KLM is averse to risks that could jeopardise compliance with applicable external laws, and internal rules and regulations; and
» Financial risk: KLM is averse to risks that could endanger the integrity of finance and reporting.

### Risk management process

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

Twice a year, KLM divisions, departments and Group entities update their decentralised operational risk report that contains an outline of risks, the probability these risks will occur, the potential financial impact and mitigating actions taken or proposed. Risks are discussed within the management teams owning the risks. Both specific decentralised risks to each entity and transversal risks affecting the whole Group are the subject of reporting. In 2019, the risk management process has been expanded with a Fraud Risk Report, an annual report based on assessments performed by KLM businesses.

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

## Strategic risks – risks relating to the air transport activity

### Risks linked to competition from other air and rail transport operators

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

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

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

Mitigating action(s): To respond to the competition from other airlines or railway networks, KLM constantly adapts its network strategy, capacity and commercial offers. Furthermore, KLM seeks opportunities in mutually reinforcing airline partnerships (codeshares, joint ventures and alliances) and other partnerships. KLM regularly discusses with the Dutch and European authorities the need to establish and maintain a fair competitive landscape.

### Risks linked to the Air Cargo market

The air cargo market is facing structural excess capacity on a relevant number of routes. Trade tensions, political uncertainties, weakened consumer confidence and moderate demand growth result in a slowdown in volumes and lower cargo unit revenues.

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

### Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on KLM's activities and financial results. Periods of economic crisis affect demand for leisure and business travel. Furthermore, during such periods, KLM may have to take delivery of new aircraft or be unable to sell aircraft not in use under acceptable financial conditions.

Mitigating action(s): KLM monitors demand closely to be able to adjust capacity while reinforcing the flexibility of the fleet via operational leases.

### Risks linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter months, leading to a higher cost base in the winter.

Mitigating action(s): To reduce seasonality cost KLM uses flexible networking planning, temporary personnel during peaks and projects and seasonal maintenance.

### Risks linked to the oil price

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

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

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

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

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

Especially when COVID-19 evolved to its currently known magnitude in 2020, KLM has responded flexibly by reducing its flight schedule as destinations were closed for incoming flights and organising its management under fast changing circumstances to full crisis mode, aimed at immediate cash saving while continuing to meet its unavoidable ongoing commitments in order to overcome the crisis and restore business activity as and when the opportunity arises.

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

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

Mitigating action(s): Given the 80/20 utilisation rule applying to each pair of airport slots for the duration of the season concerned, KLM manages this risk at a preventive and operational level. Schiphol has reached the maximum capacity, agreed in the 2008 Alders Agreement, therefore access to new airport slots will be limited. Given the COVID-19 crisis the EU Council of Ministers decided on March 26, 2020 on an exemption of the 80/20 utilisation rule between March 1 and October 24, 2020.

### Risks linked to the passenger compensation regulations

Passenger rights in the European Union are defined by European regulations. One of them (EU 261/2004) applies to all flights, departing from an airport located in a Member State of the European Union or flying to the EU if it concerns an EU carrier. More recent judgements of the European Court of Justice however have extended the applicability to marketing carriers of flights departing from the EU even if not the marketing carrier, but its codeshare partner experienced a delay.
Regulation 261/2004 establishes common rules for compensation, uniform enforcement and assistance on denied boarding or substantial delay in embarkation, flight cancellation or seat class downgrading. However, the interpretation of this regulation differs per jurisdiction. The European Commission therefore published a proposal to amend the regulation issue in March 2013. The proposal is still under review by the Council of the European Union. The timetable for this regulation to become effective is unclear as the Gibraltar issue is currently blocking any review of this proposal. It is expected that the counsel will start negotiations on this review again in 2020. After this issue has been solved, agreement must be reached at European Parliament, Commission and Council level, which will take time. Another issue is the emergence of claim agents who assist passengers in claiming compensation from airlines. Due to the spectacular growth of the number of claim agencies, the number of claims for compensation ending up in court has grown substantially.

Outside the European Union, air passenger rights apply, but sometimes conflict with other passenger rights. This can lead to regulatory conflicts.

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.

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

Aircraft, engine manufacturers and aircraft component manufacturers are rapidly expanding their after-sales departments to offer customers increasingly integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to maintenance providers seeking to exercise its business activity on certain products. Ultimately, if it were to result in reduced competition in the aviation maintenance market, this trend could have a material adverse impact on airline maintenance costs.

This trend is escalating, especially with the arrival of new aircraft such as the Embraer 190/175 aircraft or Boeing 787 aircraft. The ability to maintain balanced competitive conditions is a priority objective for commercial activity in maintenance and to contain the Group's maintenance costs.

Mitigating action(s): KLM discusses OEM license agreements and is actively developing scenarios for further discussions with manufacturers.

### Risks linked to the environment

There is increasing public pressure on global and local flight pollution generated by the airline industry. The air transport industry has to manage its impact on the environment and is subject to numerous environmental laws and regulations, such as 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 emission trading, introducing taxes on air transport companies and obligations for them to ensure compliance of its operations.

Mitigating action(s): KLM is best in class in fuel efficiency and reducing emissions and has the ambition to go beyond the target, set by the International Civil Aviation Organisation (ICAO). KLM is continuously working towards a net $CO_2$ reduction. In order to realise the ambition to reduce the absolute $CO_2$ emission by 15 per cent in 2030 compared to 2005 levels, 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;
- » Active engagements in sustainable aviation fuels for international aviation. Together with SkyNRG and corporate customers KLM supports research, development and creation of a market for sustainable aviation fuels; and
- » Support of research on alternative transport modes and aircraft design, and developing low carbon alernatives for the KLM network;
- » Cooperation with the relevant national, European and international authorities, e.g. on optimisation of traffic control and by creating effective marked-based solutions to manage the climate impact of the airline industry.

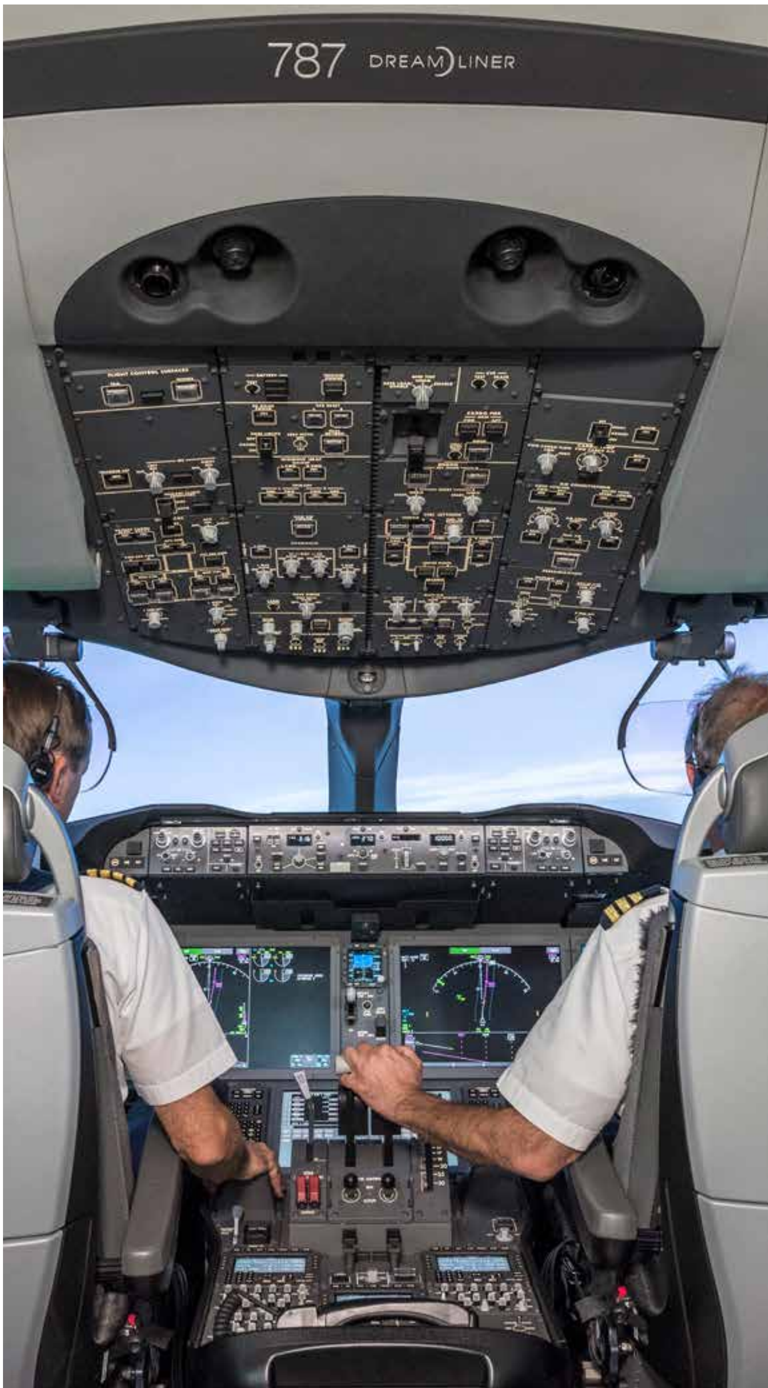
The Dutch Aviation Act has a separate chapter relating to Schiphol including environmental regulations covering local emissions, noise and security. The Alders Agreement on minimising noise pollution is supported with an active dialogue in the 'Omgevingsraad Schiphol'. Due to growth at Schiphol over the last years, dialogue has intensified to minimise noise pollution and to safeguard connectivity in KLM's network within the agreed operational restrictions.

Mitigating action(s): For KLM flight operations and all relevant ground activities in the Netherlands, compliance with environmental rules and regulations and improving environmental performance is ensured by the externally verified Environmental Management system according to ISO 14001.

KLM is subject to the Emission Trading Scheme (EU ETS)[1] implemented by the European Commission, covering global emissions from flights within Europe. In November 2017, the EU decided to extend the current intra EU scope of EU ETS until 2023. In 2010, the global airline industry agreed to stabilise emissions from 2020. In 2016, ICAO concluded the global climate agreement CORSIA for international aviation, in which 81 countries will voluntary participate in the first stage, covering more than 75 per cent of the global routes from international aviation. It is still uncertain how EU ETS will be aligned with the proposed global ICAO measure.

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

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



# Operational risks – risks related to the operations of KLM

## Operational integrity

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

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

## Airline accident risk

Air transport is 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.
As accident risk is inherent to air transport, each AOC holder is required to adopt a predictive and pro-active approach, which forms an integral part of KLM's Integrated Safety Management System (ISMS). 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 have defined and comply with the IATA Operational Safety Audit certification (IOSA).
Both KLM and KLM Cityhopper have had their certificate renewed in 2019, the next renewal audit is planned for 2020 and their certificates will be renewed in March 2021. Martinair and Transavia hold a valid certificate and will perform their next renewal audit in 2021.

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

## Safety and security

Safety and security are fundamental elements of KLM operations and essential to our customers, our employees, our environment and therefore KLM's future. KLM is committed to continuously improving safety and security in order to reach and maintain the highest level of safety and security.

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

## IT risks and cybercrime

The IT and telecommunications systems are of vital importance to day-to-day operations. They comprise the IT applications in the operating centers that are used through the networking of tens of thousands of different devices. The number of cloud providers, and thus dependency, is increasing, as well as virtualization 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 have diverse origins from both inside and outside of the company. The materialisation of one of these risks could have an impact on KLM's activity, reputation, revenues and costs, and thus its results.
The Cybercrime program, approved by the AIR FRANCE KLM Group Executive Committee, covers the prevention and detection procedures such as cyber threat surveillance, evaluations of information system security and tests to pinpoint any information system incursions via the internet. Threats and number of attacks are increasing.

Mitigating action(s): The secure functioning of the IT systems is monitored on a permanent basis. Dedicated help centers and redundant networks guarantee the availability and accessibility of data and IT to stay reasonably safe by integrating cyber security into business contingency,- investing in qualified new/existing staff AIR FRANCE KLM cyber insurance program.

The AIR FRANCE KLM's IT division implemented security rules aimed at reducing the risks linked to new technologies, particularly mobile data terminals. 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 all comply with rules in line with international standards.

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

Data security is a priority, especially the protection of data of a personal nature pursuant to the laws and regulations requiring its strict confidentiality. New EU legislation, the General Data Protection Regulation (GDPR), has become effective in May 2018. This legislation calls for pro-active control over all personal data processing, embedding accountability, transparency and data subjects rights into the organisation. Non-compliance may lead to penalties as high as four per cent of the annual turn-over.

Mitigating action(s):
KLM's Executive Team is formally responsible for privacy compliance. In 2019 additional measures were taken to further strengthen the privacy compliance structure, like a proper meeting structure for the internal stakeholders, additional training and introduction of a control framework. Privacy is to stay and will require continued support, in view of additional requirements as data protection authorities become more active in the enforcement of privacy compliance. As one of the additional measures to meet the new reality, the Privacy Office will be restructured. More focus is needed to improve controls on IT security, also in relationship to GDPR.

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

Mitigating action(s): To protect itself against this risk, the AIR FRANCE KLM deploys substantial resources aimed at ensuring business continuity, data protection, the security of personal information pursuant to the law, and the safeguarding of at-risk tangible and intangible assets.

## Risks linked to labour disruptions

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

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

## Risks linked to labour cost

In 2019 KLM and all unions agreed on Collective Labour Agreements (CLAs) for all three categories: ground staff, cockpit crew and cabin crew. The duration of these CLAs is 33 months (until March 1, 2022), giving social relations a basic stability. No labour disruptions / industrial actions are to be expected.

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

## Risks linked to the use of third-party services

KLM's activities depend in part on services provided by third parties, such as air traffic controllers, airport authorities and public security officers. KLM also uses suppliers, which it does not directly control, like aircraft handling companies, general sales agents, aircraft maintenance companies 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 the Group's activity and financial results. KLM uses sales representatives in certain countries to help generate maintenance business with third party customers. Non-compliance with rules and regulations by a sales representative could have a negative impact on the Group's activity and financial results.

Mitigating action(s): In order to secure supplies of goods and services, the contracts signed with third parties include, whenever possible, clauses for service, continuity and responsibility. A supplier relation management program has been developed with a growing number of strategic suppliers. Also business continuity plans are developed by the Group's different operating entities to ensure the long-term viability of all commercial and operational activities.

KLM has implemented specific policies to ensure compliance with anti-bribery and corruption laws and regulations for sales representatives that are used by KLM in certain countries to help generate maintenance business with third party customers. KLM monitors compliance with such policies and executes background checks and implemented specific information protocols to ensure compliance with laws and regulations including periodic reporting to the Board of Managing Directors and the Supervisory Board. In 2019 KLM paid EUR 9.6 million (2018: EUR 9.5 million) to sales representatives. During the first half year of 2019 updated policies and controls around sales representatives were implemented and during 2019 no new sales representatives were contracted. New contracts will comply with the updated policies. During a transition period the current contracts will be renewed in accordance with the new policies unless they are terminated.

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

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

Air transport activities are highly regulated, particularly with regard to the allocation of traffic rights, time slots and conditions relating to operations like safety standards and security, aircraft noise, $CO_2$ and NOx emissions and airport access. Institutions such as the European Commission or the national authorities decide on regulations that may restrict airlines and are liable to have a significant organisational and/or financial impact.

Implementation of a Single European Sky is still one of the European Commission's key priorities. The airline industry also closely follows the implementation of the European Aviation Safety Agency (EASA) basic regulation, the unfair pricing practices regulation and the passenger rights regulation.

On a national level, the Dutch Government is drafting 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 within the context of the Alders Agreement, meaning that further growth at Schiphol is possible after 2020.

However, growth possibilities at Schiphol are limited due to maximised Air Traffic Movements. It is unclear what future growth possibilities will being when they will be activated. Moreover 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 burden our industry.

KLM, in close coordination with Air France, actively defends its position towards the European institutions and the Dutch government, both directly and through industry bodies such as IATA, the trade body Airlines for Europe (A4E) and BARIN, regarding changes in European and national regulations. Volume growth is achieved by changing aircraft type and lower EU frequencies to use their slot for ICA destinations.

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

KLM and its subsidiaries have been exposed to investigations by authorities alleging breaches of antitrust legislation and subsequent civil claims.

On March 17, 2017, the European Commission announced that it would fine eleven airlines, including KLM, Martinair and Air France, for practices in the Air Cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006.

This new decision follows the initial decision of the Commission of November 9, 2010. This decision, issued to the same airlines for the same alleged practices, was annulled on formal grounds by the General Court of the European Union in December 2015. The new fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million. On May 29, 2017, KLM submitted its appeal to the General Court of the EU and oral hearings have been held in July 2019. While the decision is under appeal, there is no obligation to pay the imposed fines. Reference is made to note 23 "Contingent assets and liabilities" of the consolidated financial statements.

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

### Risks linked to the regulatory authorities' inquiry into commercial cooperation agreements between carriers (alliances)

In 2012, the European Commission started an investigation whether or not the transatlantic joint venture between KLM, Air France, Alitalia and Delta Air Lines is compatible with EU antitrust legislation. Commitments have been offered by the parties on certain routes, which the European Commission agreed with in May 2015.

Mitigating action(s): The joint venture is fully approved for 10 years. The joint venture was granted antitrust immunity (ATI) from the US Department of Transport (DOT) in 2008. In 2020, the existing joint venture between Air France, KLM, Delta Air Lines and Alitalia and the existing joint venture between Delta Air Lines and Virgin Atlantic will be further combined within a single global joint venture between AIR FRANCE, KLM, Delta Air Lines and Virgin Atlantic as announced in July 2017. Air France, KLM, Delta Air Lines and Virgin Atlantic received ATI on November 21st, 2019 from the DOT. This joint venture will enable AIR FRANCE and KLM to extend the partnership over a 15-year period.

### Risks linked to commitments made by KLM and Air France to the european commission

For the European Commission to clear the merger between KLM and Air France, a certain number of commitments had to be made, notably with regard to the possibility of making landing and take-off slots available to competitors at certain airports. The fulfillment of the 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 proceedings

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

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

## Financial risks - risks related to integrity of finance and reporting

### Financing risks

KLM finances amongst other things its capital requirements via secured financing - using aircraft as collateral - and via bilateral unsecured loans with banks.
The value of unencumbered assets has risen since a number of new aircraft that came into service has not been financed. On top of that, KLM has a sizable standby facility (RCF) with twelve international banks. A portion of KLM's financing consists of perpetual debt that does not have a repayment obligation.
Any long-term obstacle to KLM's ability to raise capital could reduce the borrowing capability and any difficulty in securing financing under acceptable conditions could have a negative impact on the AIR FRANCE KLM and KLM's activities and financial results.

Mitigating action(s): AIR FRANCE KLM and KLM have set up a Risk Management Committee to manage the financial risks and keep those risks within predetermined guidelines, as described in the part Financial Risk Management.
In addition to financing risks, AIR FRANCE KLM and KLM are exposed to market risks and credit risks.

These risks and mitigating actions are set out in the section "Financial risk management" in the notes attached to the consolidated financial statements.

### Transfer pricing

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

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

### Risks linked to pension plans

KLM's main commitments in terms of defined benefit schemes as per December 31, 2019 is the KLM ground staff pension plan based in the Netherlands.
Both the fiscal rules for accruing pensions and the financial assessment framework (part of the Pension Act) in the Netherlands changed as per January 2015. On the one hand this has resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan. This also mitigates the short-term risk that in case of shortages, based on existing or future financing agreements, KLM could be required to make additional cash payments.
Under IAS 19 the KLM Group is exposed to changes in external financial parameters (e.g. discount rate, future inflation rate), which could lead to annual fluctuations in the statement of profit or loss and KLM's equity with no impact on cash. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions will be recognised in KLM's equity and will never be taken against profit and loss. The current calculations lead to the KLM ground staff pension plan figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the defined benefit obligations. In the consolidated financial statements, the potential volatility is explained in the "Accounting policies for the balance sheet - Provisions for employee benefits" and in note 19 Provisions for employee benefits of the consolidated financial statements.
The sensitivity of the defined benefit cost recognised in profit and loss and the defined benefit obligation to variation to the change in discount rate, salary increase and pension rate are presented in note 19 of the consolidated financial statements.

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

### Risks linked to the impact of external economic factors on equity

KLM's equity has become volatile, following the implementation of the revised IAS 19 for pensions, as of January 1, 2013. Besides the results for the year and 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. 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. Results are improving and net debt is lowering. The non-cash changes in remeasurements of defined benefit plans and changes in fair value of cash flow hedges will, however, remain volatile. Following the new defined contribution pension contracts for KLM cabin and cockpit crew concluded in 2017, the non-cash remeasurements in "Other Comprehensive Income" lowered significantly, but is still applicable to the KLM ground staff plan.
For an elucidation on the volatility of defined pension plans, and actions to reduce the volatility, please refer to the paragraph Risks linked to pension plans in this Risks and risk management section.
In addition reference is made to the assessment of 'going concern' in this Risks and risk management section.

### Insurance

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

### Insurance coverage

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

In addition to aircrafts, other business risks are also controlled in the PCC.
Lastly, within the framework of its risk management and financing policy, KLM maintains a number of policies to protect its industrial sites and activities ancillary to air transportation.

## Assessment of going concern

Since 2016, KLM provides a more extensive elaboration on the going concern analyses performed by the company. These analyses include the most important economic, financial and business risks (many of them described in this chapter), the uncertainties in relation to them and their potential impact on the financial robustness and going concern basis of the company.

In this context, scenario and sensitivity analyses have been performed in the course of 2019 and various time horizons have been considered and such analysis included trend and scenarios related to shifting of customers' demands, global tensions and trade wars, volatility of fuel prices and the outbreak of a global virus, like COVID-19. The analyses have been shared and discussed with the Audit Committee and the conclusions were shared with the Supervisory Board of KLM.

Several important observations following from these analyses are:

- In general, KLM's financial risk profile has improved compared to 2018 due to a combination of developments and achievements;
- Equity position has further strengthened compared to 2018;
- Overall gross as well as net debt are significant lower than at the end of 2018; the current macro-economic situation remained favourably;
- Strong fuel price fluctuations remain an important risk factor for KLM, also due to the fact that there is generally a delay in any impact on air transport prices. Also, the correlation between fuel price development and air transport price development may fluctuate over time, depending on many factors underlying the ever-changing supply-demand balance. AIR FRANCE KLM has a policy in place to manage these risks that is set out in the section "Financial Risk Management" in the notes attached to the consolidated financial statements. In 2019, the fuel price was lower compared to 2018, but this decrease in fuel cost was more than offset by the negative impact of less positive fuel hedges and stronger US dollar;
- In the financial sensitivity analyses performed, KLM has assessed the flexibility in executing committed as well as uncommitted (fleet) investments and the funding capacity. This flexibility proves to be an important element to mitigate risks on financial continuity in longer periods of strong and unexpected downturns;
- KLM has ensured that the scenario and financial sensitivity analyses were based on an up-to-date business plan that has been built up from realistic business and financial parameters;
- KLM aims at mitigating its financial risks as much as possible to compensate for the relatively high business risks, which were identified in our analyses and are inherent to our airline business and the different underlying business activities. This conservative approach includes clear and stringent risk management policies in order to mitigate fuel price, currency and interest, refinancing, counterparty and liquidity risks; and
- KLM's approach to mitigate the liquidity risk is based on maintaining sufficient liquidity in the form of daily available cash and cash equivalents as well as a committed standby revolving credit facility.

The notes to the financial statements include an identified subsequent events and going concern section for the COVID-19 outbreak, evolving into a worldwide spread in the first three months of 2020.

From the start of the COVID-19 crisis, the KLM Group has been monitoring its evolution by the hour and implemented measures to protect its passengers and staff, as well as to limit the impact of the virus on its profitability and to preserve its financial sustainability. In the course of the developments, decisions were necessary to reduce our flight schedule, currently by drastic proportions.

The KLM Group has already taken a number of strong measures and continues to closely monitor and evaluate further developments. Our actions include, amongst others, secure cash, save cost, reassessing capital expenditures, identifying additional financing opportunities, delaying payment of the employee's profit sharing scheme and of variable income for part of the employee's, application for the 'Temporary Emergency Bridging Measure for Sustained Employment' (NOW), delaying internal projects in order to meet ongoing commitments during the COVID-19 crisis.

Based on our current best estimates KLM developed a scenario analysis and projected the related cash flows. The current projections include the following main assumptions: (i) the actual flight operations will be a fraction of planned operations for the coming three months with gradual recovery to normal traffic levels previously projected; (ii) as a liquidity shortage is projected in the course of the third quarter of 2020, we assume we will be successful in obtaining sufficient additional long term debt financing to cover, at a minimum, our forecasted 12 months of substantial cash flow needs; (iii) we will be successful in significantly reducing our cost base and participate in, and obtain support from, the government, based on initiatives such as NOW and tax relief payments; and (iv) decisions to extend payment terms for suppliers and to effectively manage our customers refund requests and other creditors.

Whilst the impact is material in the coming months and, at this time a clear determination and evaluation of all possible scenario's, of the full impact for the next 12 months as of the signing date of this Annual Report, cannot be made, and therefore a material uncertainty exists in relation to the financial impact of the COVID-19 crisis and outcome of the process to obtain additional funding. Consequently, this may cause significant doubt on the KLM Group's ability to continue as a going concern.

However, these financial statements have been prepared on the going concern assumption. Based on our available liquidity, including full utilisation of the revolving facility of EUR 665 million which was received on March 19, 2020, whereby the related debt covenants may trigger mandatory repayment in December 2020 requiring a waiver or re-negotiations with the related financial institutions, the ongoing negotiations and successful closure of the anticipated additional debt funding and our current cash flow projections, management believes that KLM will be able to continue to fulfill its financial obligations and as such continue on going concern basis.

# Control and monitoring

The foundations of KLM's Internal Control System are the regularly performed processes in the areas of Risk Management, Safety Management, (Internal) Control Management, Compliance and Fraud and the Management Control cycle.
KLM uses the COSO (Committee of Sponsoring Organisation of the Treadway Commission) 2013 standards for internal control. According to these standards, internal control is a process, defined and implemented by the executives, businesses and employees to provide a reasonable level of comfort regarding:

» Reliability of accounting and financial information;
» Compliance with the applicable laws and regulations; and
» Performance and optimisation of operations.

KLM has organised its operations in such a manner to anticipate on these aforementioned risks and minimise exposure. To that end KLM has dedicated departments or functions to manage and control the risks in daily activities, in line with the risk groups, as defined in the chapter on Risks and Risk Management.
In addition, to the control organisation, additional comfort and/or mitigation is given by the departments of Internal Audit, Legal and Insurances.

As with any control system, it is not possible to provide an absolute guarantee that risks will be totally eliminated.

## Risk management

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

## Safety management

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

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

### Safety review board

The Safety Review Board (SRB) is a strategic meeting chaired by the Accountable Manager (Chief Operating Officer) that deals with high-level issues. Its objective is continuous improvement of KLM's safety and compliance. The SRB sets strategic safety objectives, establishes the safety policies, decides on KLM wide safety improving initiatives and provides the platform to:

» Monitors the integrated safety and compliance performance against safety policies and objectives; and
» Ensure appropriate resources are allocated to achieve the established safety and compliance performance.

### Integrated safety management system board

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

### Safety action group

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

### Safety & compliance execution

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

## Safety & compliance monitoring

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

## Legal & business ethics compliance organisation

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

The Compliance Committee's primary role is to support KLM's Board of Managing Directors and the Executive Team on compliance matters under the scope of the Legal & Business Ethics Compliance Framework, excluding all operational safety, occupational safety, environmental safety and operational security compliance matters.
The Compliance Committee will (i) specifically monitor the adherence 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 is released by the Board of Managing Directors and subsequently adopted by the Supervisory Board. Its target audience are all employees and regular temporary employees. Its purpose is to inform the target audience 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 compliance monitor is discussed with the Supervisory Board.

### KLM anti-fraud policy

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

## Control management

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

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

Within the businesses and at corporate level Internal Control Coordinators are appointed to monitor the internal control activities. An important part of the Internal Control Coordinator's activities is to oversee the annual testing of the entity level controls, testing of the operational

effectiveness of the transaction level controls in the financial disclosure processes and testing of the IT general controls that are relevant for the financial disclosure processes. The results of the testing are also one of the cornerstones for signing the Document of Representation (DoR) by the business executives and business controllers. The Corporate Control AO/IC Team is responsible for the governance and principles of internal control as well as the communication towards Internal Control Coordinators. Next, the Corporate Control AO/IC Team reports on the result of the internal control testing to Financial Management and performs quality reviews to monitor the application of internal control principles by the business. Business management and their Internal Control Coordinators are responsible for executing an annual risk assessment to determine e.g. changes in their scoped processes, additional or changed (IT) systems, the impact of open issues from testing and/or the Management Letter issued by the external auditors. The appropriate execution of controls as well as the validation of this execution is also the responsibility of business management.
On pre-defined dates during the year the Internal Control Coordinators have to report the progress of testing and detected issues to the Corporate Control AO/IC Team. Based on these business reports, an overall KLM Group Internal Control Monitor is maintained, published and shared with Financial Management.

The use of a DoR is incorporated in the internal reporting procedures. It requires the business executives and business controllers in the KLM Group to confirm at the end of the financial year the reliability of the figures they submit and their control procedures and to report detected issues that could not be repaired before year end. It also underlines their responsibility for transparent accounting procedures, adequate risk management and the establishment and operating of an adequate internal control framework.
Based on received information from the businesses in the DoR and the Internal Control reporting during the year, at year end an Internal Control memo is prepared which is shared with the Board of Managing Directors and the Audit Committee. This memo contains a summary of the tested controls, detected issues (solved issues and open) and an overall opinion on the effectiveness of the control management process.
The monitoring activities which require comprehensive identification and documentation of risks and related controls should become more mature. An improvement plan is designed and implementation started.

## Management control cycle

KLM's organisation is based on the network business, in which both passenger and cargo activities are combined, engineering and maintenance business, leisure business and central staff functions and the subsidiaries controlled by KLM.
The KLM budget and three-year plan process is fully aligned with AIR FRANCE KLM. This alignment is 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 almost the entire business of KLM.

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

### Planning & control process

This process is based on the following three structural procedures:

- Group Strategic Framework which is updated annually in May in close cooperation with Air France and AIR FRANCE KLM;
- Corporate three-year plan which translates this vision in terms of growth and investment. The corporate budget for the next financial year is fully embedded in the first year of the corporate three-year plan. The budget is drawn up on an entity level and consolidated at company level. As mentioned before, this process is fully aligned in AIR FRANCE KLM. The corporate three-year plan, including budget 2020, has been prepared and approved before the start of the financial year 2020 (December 2019);
- Tactical Planning Meetings (TPMs) held quarterly on a business level, where the performance of the businesses is evaluated (and updated) in the context of the budget.

### Accounting process and establishment of accounts

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

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

### Management reporting process

The Corporate Control Department coordinates the company's reporting process. At the beginning of the month, an estimate is prepared in a bottom-up process by the businesses and most significant subsidiaries based on the planned network activity information available of the previous month. Once the accounting result is known, the Corporate Control Department produces a monthly management report listing the main activity data, staff numbers and accounting and financial data. Also each month, the Corporate Control Department examines and analyses with the businesses and main subsidiaries the economic performances for the month and evaluates the results for the coming months up to the end of the current financial year.

The Corporate Controller reports monthly to the KLM Board of Managing Directors and KLM Executive Team and on a bi-annual basis to the Audit Committee, focusing on the variances between actual year and budget/forecast, explaining incidental results recorded during the month and the variances in the full year forecast.

## Support functions

### Internal audit

KLM has an independent Internal Audit Function (IAF) to strengthen the internal controls. The presence and activities of an IAF provides a powerful element to assure proper risk management, governance and internal control.
The IAF has been subject to a regular external quality assessment by the Dutch and French affiliates of the worldwide Institute of Internal Auditors. The overall opinion is positive.
The IAF aims to add value to the KLM Group and improve its operations by bringing a systematic, disciplined approach to evaluating and strengthening the effectiveness of decision making, risk management, internal control and governance processes. The IAF objectively reviews the accuracy and reliability of the KLM Group's internal controls in general and related processes in particular. Management will be pro-actively advised on required improvements.

The IAF conducts audits at KLM and AIR FRANCE KLM level at request of the AIR FRANCE KLM and KLM Audit Committees, the AIR FRANCE KLM Group Executive Committee and KLM Executive Team, and the KLM Board of Managing Directors. These audits are conducted by the internal auditors from KLM, who are also operating jointly with the Air France internal audit team. An annual audit plan is presented to the Boards and Executive Committees and approved by the Audit Committees.
The IAF performs operational audits, information and communication technologies or electronic data processing audits, compliance audits, post audits, fraud investigations & fraud risk assessments and consulting engagements. Engagements carried out are summarised in a report presenting the conclusions and highlighting findings, risks and related recommendations. For audits, a four points grading scale is used to express the impact of the findings and the level of action required from either local management or the Board of Managing Directors. The follow up by business management is required and monitored within a desired timeframe depending on risk impact and reasonable corrective action period.
The KLM Internal Audit department reports the outcome of the audits to the Board of Managing Directors quarterly and twice a year to the Audit Committee of the KLM Supervisory Board.

### Insurance department

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

### Legal department

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

# Reference standards

## Charters and manuals

### Integrated safety management manual

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

### External frames of reference:

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

## 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: compliance with laws and regulations, conflicts of interest, confidentiality, the safeguarding of assets, environmental protection, Corporate Social Responsibility and intellectual property. KLM has also implemented a code of ethics intended principally for employees in finance positions.

## Legal & business ethics compliance framework

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

## Anti-Fraud policy

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

## Manual to prevent the risks of corruption

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

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

## Internal control charter

The AIR FRANCE KLM Internal Control Charter sets out the components of the internal control framework and outlines the methodology adopted to guarantee its effective implementation and functioning. It also reaffirms the involvement in the prevention and control of the risks associated with the KLM Group's activities.

## Internal audit charter

To provide the internal auditors with an adequate base, a KLM Group Internal Audit Charter is in place. The charter is revised and tailored to changing needs and is signed in December 2019 by the President and Chief Executive Officer of KLM, the Chairman of the KLM Audit Committee and the Vice President Internal Audit. It is in line with the Dutch Corporate Governance Code.
The KLM Group Internal Audit Charter establishes the framework of the Internal Audit Function and contains the guidelines to which it adheres regarding:

- » Internal Audit mission and objective, scope of work and types of work;
- » Accountability, independence and relationship to other assurance functions;
- » Authority and ethics; and
- » Applicable standards.

The KLM Group Internal Audit Charter is in line with the governance structure regarding the Internal Control Function, and the AIR FRANCE KLM Group Internal Audit Charter.


# Board and governance

Koninklijke Luchtvaart Maatschappij N.V. ("KLM") is a non-listed, limited liability company incorporated under Dutch law. Supervision and management of KLM are structured in accordance with the two-tier model, meaning a Board of Managing Directors supervised by a Supervisory Board. KLM has been subjected to the mitigated structure regime (as per Dutch company law, Book 2 Dutch Civil Code) for large companies since May 2007.


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 policy in comparison with financial year 2018.

## Shareholding structure

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

AIR FRANCE KLM holds:

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

On December 31, 2019, 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, will become void and the share represented by the bearer share certificate shall be acquired by KLM for no consideration. KLM shareholders who still have not handed in their bearer share certificates on January 1, 2026, will lose any entitlement to exchange their bearer share certificates for a registered replacement share. For this purpose, a shareholder may contact the Company.

### AIR FRANCE KLM

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

Following the discussions on AIR FRANCE KLM's governance structure early 2019, a CEO Committee has been established. This committee is responsible for determining the strategic orientations for all of the Group's airline companies and operational entities. The CEO Committee consists of the AIR FRANCE KLM CEO, the KLM CEO, the Air France CEO and the AIR FRANCE KLM CFO. The CEO Committee is chaired by the AIR FRANCE KLM CEO.

Besides the CEO Committee, AIR FRANCE KLM has a Group Executive Committee which consists of the AIR FRANCE KLM CEO, the KLM CEO, the Air France CEO, the AIR FRANCE KLM CFO and AIR FRANCE KLM Group Executive Vice Presidents.

## 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 fulfill 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, 2019, 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 a 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.

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

## Committees

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

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

## Board of managing directors

Pursuant to the Articles of Association, the Board of Managing Directors shall consist of at least three Managing Directors. On December 31, 2019, 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 casted 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 April 23, 2020. In addition to the Annual General Meeting of Shareholders, a General Meeting of Shareholders may be convened by the Board of Managing Directors, the

President & Chief Executive Officer, the Supervisory Board, three Supervisory Board members or the Meeting of Priority Shareholders, each of which has equal power to do so.

## Staff participation

The Board of Managing Directors, represented by the President & Chief Executive Officer, meets with the company's Works Council on a regular basis. During these meetings, a number of topics is discussed, such as the developments within AIR FRANCE KLM and the company's strategy and financial results. Also the topic of conduct and culture within KLM is addressed. The KLM Works Council has 25 members. The KLM Works Council met representatives of the Board of Managing Directors on 9 occasions in financial year 2019.

At AIR FRANCE KLM level a European Works Council has been installed to jointly represent KLM and Air France. This council focuses on cross businesses subjects between Air France and KLM. The European Works Council held two plenary meetings and one extra plenary meeting in financial year 2019.

## 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, 2019, one third of the directors of the Supervisory Board was female. The Supervisory Board consists of five French board members and four Dutch board members.
Within the framework of the company's diversity policy, the aim is also to increase the number of women in executive positions through promotion. To implement the policy that promotes a diverse workforce (with a focus on gender), the sessions on diversity started in 2018 have been continued in 2019, where employees of different departments expressed their thoughts and suggestions on this topic.

## Compliance & business ethics

The KLM Legal & Business Ethics Compliance 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 the third parties that KLM deals with in its day-to-day business.

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

Designated individuals are required to complete e-learning and/or in person training on antitrust and competition laws, anti-bribery and corruption law, export 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's monitors the effectiveness of the KLM Legal & Business Ethics Compliance program. The KLM Compliance Committee meets at least quarterly and submits a 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. The Compliance & Business Ethics Director and designated expert functions are tasked with pursuing the implementation of the compliance programs within KLM.

## Dutch corporate governance code

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

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

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

## Conflict of interest

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

During the financial year 2019, no conflicts of interest were reported.

## Internal regulations

The regulations adopted in respect of the Supervisory Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Board of Managing Directors are reviewed on a regular basis. The Supervisory Board Regulations, the profile with the Code of Conduct for the members 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

During the last three years the financial ratios of KLM improved due to good results, contributing to the financial health of KLM. In 2019 the financial health of KLM, the level of safety and the legal exposure stabilised on a satisfying level. In 2019, all internal control framework processes were assessed and areas of improvement were identified, such as the need for continued business management attention for compliance, for improved controls on IT security and for continuing improvement of the internal control over financial reporting. In accordance with previous paragraphs on Risks and Risk Management and on Control and Monitoring, in addition to the Going Concern statement in Risks and Risk Management, all currently known circumstances taken into consideration, the Board of Managing Directors states to the best of its knowledge that:

- The Annual Report 2019 provides sufficient insights into potential material weaknesses 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 2019 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
- Based on the current state of affairs and taken into account the current COVID-19 crisis, the financial statements have been prepared on the going concern assumption. Based on our available liquidity, including full utilisation of the revolving facility of EUR 665 million which was received on March 19, 2020, whereby the related debt covenants may trigger mandatory repayment in December 2020 requiring a waiver or re-negotiations with the related financial institutions, the ongoing negotiations and successful closure of the anticipated additional debt funding and our current cash flow projections, management believes that KLM will be able to continue to fulfill its financial obligations and as such continue on going concern basis.


# Report of the Supervisory Board


## Duties and powers

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

## Supervisory Board meetings

During 2019, the Supervisory Board held six meetings according to its predetermined schedule. Because of operational disturbances at Schiphol, the Supervisory Board held its July meeting via a conference call. The meetings in February, April, July and October concentrated on KLM's (quarterly, semi-annual and annual) financial results. The Supervisory Board meeting of May was fully dedicated to KLM's strategy and the execution thereof. One meeting was dedicated to discussing KLM's three-year plan (budget, investment plan and financial plan) and the Internal Audit Plan.

In addition to the regular meeting schedule, the Supervisory Board also met in January to discuss the topic of governance. In January and February, three conference calls were furthermore held to discuss the developments in the CEO reappointment process.

The Supervisory Board performed its duties in close cooperation with the Board of Managing Directors, which attended all meetings of the Supervisory Board. Members from the Executive Team, senior finance executives, and the external auditors were frequently invited to the Supervisory Board meetings. All regular Supervisory Board meetings were followed by an Executive Session – meetings of the Supervisory Board without the presence of members of the

Board of Managing Directors, except for the President & CEO. All Supervisory Board members reserved adequate time to perform their tasks. All but one Supervisory Board member attended all of the meetings. The average attendance of the Supervisory Board meetings was 98 per cent.

## Long-term value creation

Since redefining its strategy in 2015, KLM has made important steps to reach its objective of becoming Europe's most customer-centric, innovative and efficient network carrier. The strategic choices have been paying off and KLM has reached its 100th anniversary in good health.
In 2019, KLM has evolved its strategic focus and has formulated new initiatives in order to adapt itself to the rapidly changing outside world. This has translated into a carefully shifted approach from 'not losing' to 'how to win'.
During the annual strategy meeting, the Supervisory Board and the Board of Managing Directors reassessed KLM's strategy against the background of industry trends and the social debate on aviation, which has led to a Supervisory Board challenging the Board of Managing Directors' rationale behind the strategic choices. In this regard, the Supervisory Board also encouraged the Board of Managing Directors to consider new business models for the shorter and longer term.
In line with the above, both during the strategy meeting as well as the regular meetings, deep dives on passenger business, the future of E&M, ecosystem development and sustainability took place. An important focus area for the Supervisory Board was how to create a more agile company, which anticipates on the demands of its customers and operations.
The Supervisory Board is well engaged in the Board of Managing Director's process of formulating and reshaping the strategy for realising long-term value creation. Both during the annual strategy meeting and during the quarterly meetings, the Board of Managing Directors rendered account to the Supervisory Board on the progress and execution of the strategy.

## Highlights 2019

The Supervisory Board intensively reviewed, discussed and approved a number of topics concerning KLM and its businesses. This paragraph outlines the highlights of the Supervisory Board meetings in 2019.

During the year, the Supervisory Board monitored KLM's short and longer-term fleet development strategy. KLM will - over time - operate one single long-haul unit with Boeing 777 and 787 aircraft. In that context, it agreed on a swap of its Airbus 350 order with the Boeing 787 order of Air France. Regarding the short and medium haul fleet, KLM decided to replace its current E190 fleet with bigger, more environmental-friendly and more efficient E195-E2 aircraft. The Supervisory Board fully supported these steps due to their contribution to KLM's ambitions and challenges regarding sustainability, evolving passenger demands, (cost) efficiency and growth.

During the first months of 2019, the Supervisory Board was closely involved in the discussions regarding the reappointment of Mr. Elbers as Chief Executive Officer of KLM and the governance of AIR FRANCE KLM.
The Supervisory Board intensively contributed to the discussions where it emphasised the importance of Mr. Elbers' reappointment and the establishment of a clearer governance structure within AIR FRANCE KLM.
The Supervisory Board unanimously endorsed Mr. Elbers' reappointment. The Supervisory Board is convinced that with the reappointment of both Mr. Elbers and Mr. De Groot as well as the appointment of the new Supervisory Board members Mr. De Jager, Mr. Smith and Mrs. Vos, the company can focus on the strategic challenges that lie ahead.

The Supervisory Board also took note of and discussed the entry of the State of the Netherlands into the capital of AIR FRANCE KLM, a transaction executed in February.
With the entry into the capital, the Supervisory Board is convinced that the interests of the Dutch State and KLM are further preserved at AIR FRANCE KLM level. The Supervisory Board also remains informed on the developments of the discussions between the French and Dutch State in respect of the future governance.

During the second half of 2019, the Supervisory Board monitored the intensive negotiations towards new collective labor agreements (CLA) for cabin, ground and cockpit. In this regard, the Supervisory Board advised the Board of Managing Directors to keep continuing the constructive dialogues with the unions while taking into account the developments within KLM and the industry.
New CLAs, with a lead time of 33 months, were concluded during the second half of the year. The cabin CLA was the last to be concluded, just before Christmas.

Throughout the year, the Supervisory Board was frequently informed about the initiatives regarding the ambition to become the leading sustainable airline. During multiple meetings, the Supervisory Board challenged the Board of Managing Director's initiatives in the light of the shifting public opinion on aviation. With the launch of Fly Responsibly, its support and commitments regarding the development of a more fuel-efficient aircraft called "Flying V" and the first European biofuel factory, KLM has again shown its pioneering role. As sustainability is a prerequisite for KLM's future growth, the Supervisory Board supported these projects and encouraged the Board of Managing Directors to keep inventing its own initiatives.

In October 2019, the Supervisory Board joined the festive celebrations for KLM's 100th anniversary. During the celebrations, the Supervisory Board members met with KLM's business partners, KLM's customers and politicians. It was warm to notice the feelings of immense pride and respect of KLM's employees towards the company.

Underscoring the importance of Schiphol, KLM's home base and most important partner, the Supervisory Board, together with the Board of Managing Directors, met with the Supervisory Board and Board of Managing Directors of Schiphol to exchange views on topics relevant for both parties.

The Board of Managing Directors periodically informed the Supervisory Board on the developments concerning the competitive landscape. The Supervisory Board intensively observed the bankruptcies of multiple airlines, including KLM's joint venture partner Jet Airways. In that context, the Supervisory Board discussed the consequences and possible opportunities for KLM's intercontinental and European network.

During each quarterly meeting, the Supervisory Board has been informed about KLM's operational performance. Throughout the year, KLM faced various operational constraints due to a variety of reasons such as the fuel outage at Schiphol in July 2019. This inevitably affected the customer's experience and Net Promotor Score. The Supervisory Board supported the Board of Managing Directors' active approach to mitigate the consequences for KLM's customers.

Within the framework of growth discussions, the Board of Managing Directors informed the Supervisory Board on the political landscape and its efforts to emphasise the importance of moderate growth of aviation for KLM and the Dutch economy. The Supervisory Board understands the Dutch government's stance that the industry should earn its growth by contributing to the quality of the living environment. At the same time, the Supervisory Board endorses the necessity of moderate growth for KLM in order to be able to continue the investments and reduce noise pollution and $CO_2$ emissions. Therefore, the Supervisory Board supports the Board of Managing Directors efforts to obtain clarity on the future for Dutch aviation.

Other topics discussed during the financial year, some of which are recurring, were KLM's safety performance, digital innovations for customer experience and Blue Base. In addition, the Board of Managing Directors frequently updated the Supervisory Board on KLM's actions in the field of diversity. Furthermore, the Supervisory Board was informed about the relations and discussions with the Works Council. In keeping with previous years, members of the Supervisory Board took turns to attend meetings of the Works Council. Preceding the December meeting, the Supervisory Board enjoyed the annual lunch together with the Works Council, members of the Executive Team and the Board of Managing Directors.

### Subsequent events COVID-19

The Supervisory Board has been informed several times by the Board of Managing Directors on the response to the crisis as well as its financial impact on the Company. The Board remains closely informed and involved by the Board of Managing Directors on all actions that are needed to secure the Company's future and has noted that the 2020 financial results will be severely impacted by the COVID-19 crisis.

### Financial topics

During the financial year 2019, the Supervisory Board discussed the progress on the budget as well as the annual plan on a frequent basis. Quarterly reports and figures were discussed during the regular meetings. Despite the geopolitical and economic developments, KLM managed to continue the positive trend that started in 2016. At the same time, the Supervisory Board is aware that KLM operates in a highly competitive market, which had a clear effect on multiple airlines. Hence, the Supervisory Board fully supported the Board's measures to reduce the unit cost. In that regard, the Supervisory Board regularly discussed KLM's fuel hedging policy and the consequences of the new CLAs on unit cost.
The Supervisory Board agrees with the Board of Managing Directors that further and higher investments are necessary in order to remain competitive and to improve its business. In that context, the Supervisory Board intensely discussed with the Board of Managing Directors the appropriate investment levels for the renewal of aircraft, the on-board product, digitisation and equipment. To be able to fund these investments, KLM needs the opportunity to grow its businesses.
The portfolio of KLM's subsidiaries were assessed throughout the year and the Board of Managing Directors informed the Supervisory Board on the developments in that regard.

### Risk management

The Supervisory Board paid close attention to the topic of risk management, as risk is inherent to the airline industry.

KLM's Audit Committee takes responsibility for monitoring the adequacy of KLM's risk control system and prepares discussions in the Supervisory Board. During financial year 2019, the Supervisory Board was regularly updated on KLM's strategic, financial and operational risks as well as compliance risks. During the updates on the topic of risk management, the Supervisory Board reviewed and discussed the assessments of the Board of Managing Directors of the adequacy and effectiveness of the risk management and control system. KLM's internal audit function is firmly positioned within the organisation and creates conditions for an effective interaction between the Board of Managing Directors, the Supervisory Board and the Audit Committee.

On several occasions, the Supervisory Board discussed with the Board of Managing Directors the developments regarding cyber security and GDPR, thereby stressing the significant risks associated with cyberattacks and the need to continue the focus on technical and procedural measures to ensure continued adequate data protection.

## Compliance & business ethics

Within the company's Legal & Business Ethics Compliance Framework and the Compliance Charter, the Supervisory Board monitored KLM's compliance with rules and regulations. During the April meeting and the October meeting, the Supervisory Board was updated on the main compliance activities. In that regard, the Supervisory Board was informed about several initiatives including the planned implementation of an updated 'reporting procedure', which facilitates easier reporting of suspicions of misconduct. In addition, the Supervisory Board noted that fraud risk assessments have led to measures in some divisions such as the monitoring-tooling.

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, the Supervisory Board conducted a self-assessment. The results of this assessment were discussed at its executive session early 2019. The results confirmed that the Supervisory Board is satisfied with the contribution of its individual board members, the performance of its committees and its functioning as a board. The individual board members were positive about the openness and constructive cooperation within the Supervisory Board and with the Board of Managing Directors. As a result, there was no need for substantial measures. However, the Supervisory Board implemented suggestions to further improve its performance.

## Induction program

For each new member of the Supervisory Board a tailor-made induction program is being prepared. During the multiple-day induction program, new Board members visited KLM's headquarters in Amstelveen as well as its locations at Schiphol to develop deeper knowledge of KLM and its businesses. Meetings on general financial, social and legal affairs, sustainability, human resources, governance, relationship with the Works Council and the responsibilities of the Supervisory Board members are fixed components of the induction program. Depending on the individual role and needs of the new board member, in-depth sessions with the senior management of the relevant departments are incorporated in the induction program.

Following their appointments, multi-day induction programs for Mr. De Jager and Mrs. Vos have been prepared.

## Composition of the Supervisory Board

Effective as of the end of the Annual General Meeting of Shareholders of 2019, Mr. Peyrelevade, Mrs. Roobeek and Mr. Smits stepped down as Supervisory Board member of KLM. During that same meeting, Mr. De Jager, Mr. Smith and Mrs. Vos have been appointed as Supervisory Board members for a first term of four years. KLM's Works Council has recommended the appointment of Mrs. Vos. The appointment of Mr. Smith was upon the recommendation of AIR FRANCE KLM. Mr. 't Hart succeeded Mr. Smits in his role as Chairman of the Supervisory Board of KLM.

On behalf of the KLM Supervisory Board, I wish to express my gratitude to Mr. Smits, Mr. Peyrelevade and Mrs. Roobeek for their valuable contributions during their many years of service. A special word of thanks to Mr. Smits for his excellent leadership of the Board.

As announced in last year's annual report, Messrs. Calavia, Enaud and Riolacci are due to retire by rotation at the end of the closure of the Annual General Meeting of 2020. For both Mr. Enaud and Mr. Riolacci, their first term will expire. Mr. Calavia will step down as Supervisory Board member as his second term will expire. For the positions of all three members, AIR FRANCE KLM has the right to recommend a candidate. Both Mr. Enaud and Riolacci are available for reappointment.

## Independence

The Supervisory Board considers all but three of its members to be independent in the sense of the Dutch Corporate Governance Code. Both Mr. Calavia and Mr. Riolacci in their capacity of former Chief Financial Officers of AIR FRANCE KLM are not considered independent. Mr. Calavia resigned as Chief Financial Officer of AIR FRANCE KLM as per the end of January 2014. Mr. Riolacci resigned as Chief Financial Officer of AIR FRANCE KLM as per July 2016.

Furthermore, Mr. Smith, in its capacity as Chief Executive Officer of AIR FRANCE KLM, is not considered as independent.

## Composition of the Board of Managing Directors

The Board of Managing Directors consists of three members, Mr. Elbers, President & Chief Executive Officer, Mr. De Groot, Chief Operating Officer, and Mr. Swelheim, Chief Financial Officer. With the reappointment of Messrs. Elbers and De Groot for a new term of four years as per the Annual General Meeting of Shareholders of 2019, the composition of the Board of Managing Directors did not change in 2019.

## Committees

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

### Audit Committee

The Audit Committee is charged with the responsibility to monitor KLM's financial-accounting process, the efficiency of the internal control management, 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. Due to the retirement of Mr. Peyrelevade and Mrs. Roobeek and the fact that Mr. 't Hart has become the Chairman of the Supervisory Board, the composition of the Audit Committee was amended during financial year 2019. The new Audit Committee consists of Mr. De Jager, Mrs. Pellerin and Mr. Riolacci. The Audit Committee is chaired by Mr. Riolacci.

In 2019, the Audit Committee met on three occasions of which one via conference call (the July meeting). All members of the committee attended the Audit Committee meetings. Furthermore, the Chief Financial Officer, the external auditors, the Vice President Internal Audit and the Senior Vice President Corporate Controller, also attended the meetings. Senior managers and other experts within KLM were invited to the extra Audit Committee meeting. The Audit Committee's February 2019 meeting, focused primarily on KLM's financial results for 2018. The Audit Committee discussed the internal audit plan for 2019 from internal audit, the internal audit activity report for the period July - December 2018, risk management, the assessment of existing risks and the adherence of KLM to laws and regulations governing financial and regularly reporting. In addition, the Audit Committee discussed the report of the external auditor regarding financial year 2018 as well as the performance of the external auditors and the dividend proposal.
During the July meeting, the new members of the Audit Committee discussed their expectations as regards the functioning of the Audit Committee. In that regard, it has been agreed to increase the number of meetings from two to three during the financial year. In this meeting, the Audit Committee discussed and agreed on the external audit plan 2019 as presented by the external auditors KPMG and Deloitte. Also, the summary of the internal audit activity report for the period January-June 2019 was discussed.
The third meeting, held in December 2019, was primarily dedicated to in-depth discussions in the field of treasury, audits and hedging policies. Also the internal audit plan for 2020, as presented by the internal auditor, was discussed during this meeting.

During the February 2020 meeting, KLM's financial results for 2019 as well as the external KPMG/Deloitte audit report and the performance of the external auditors were discussed. Furthermore, the external auditors elucidated on the management letter 2019. Also, the summary of the internal audit activity report for the period July-December 2019 was discussed during this meeting.

In accordance with previous years, the Audit Committee met the external auditors without the members of the Board of Managing Directors present, to discuss the closing procedures and the state of affairs during the financial year. The Chairman of the Audit Committee held separate sessions with the Chief Financial Officer and the Vice President Internal Audit.
The Chairman of the Audit Committee reports to the Supervisory Board about the deliberations and findings on the main topics during the meetings of the Supervisory Board.

### Remuneration Committee

The Remuneration Committee is charged with the responsibility to prepare a clear and understandable proposal for the remuneration policy, the remuneration of the individual members of the Board of Managing Directors and to make proposals for the remuneration of the individual members of the Supervisory Board.
Due to the retirement of Mr. Smits, the composition of the Remuneration Committee was amended during the financial year 2019. The Remuneration Committee consists of Mrs. De Gaay Fortman, Mr. Enaud and Mr. 't Hart. Mrs. De Gaay Fortman chairs the Remuneration Committee.

The Remuneration Committee met on one occasion during the financial year and held one conference call. All members attended the meeting and the call. In order to align with the AIR FRANCE KLM policy and also with what is customary based on the relevant benchmarks, the Remuneration Committee prepared amendments to KLM's Remuneration Policy. The Committee also evaluated the performance of the members of the Board of Managing Directors against the collective and individual targets set for the financial year. The Supervisory Board subsequently established the variable remuneration based on the recommendations of the Remuneration Committee. Further information can be found in the Remuneration Policy and Report section of this annual report.

### Nomination Committee

The Nomination Committee is charged with the responsibility to draft selection criteria and appointment procedures for Supervisory Board members and Board of Managing Directors members, to assess the size and composition of the Boards and the functioning of individual board members, to draft a plan for succession and to make proposals for (re)appointments and to prepare the decision-making process for the Supervisory Board.
Due to the retirement of Mr. Smits, the composition of the Nomination Committee was amended during financial year 2019. The Nomination Committee consists of Mrs. De Gaay Fortman, Mr. Enaud and Mr. 't Hart. Mr. 't Hart chairs the Nomination Committee.
The Nomination Committee met on one occasion during the financial year and all members attended. During the meeting, the composition of both the Supervisory board and the Board of Managing Directors, including succession planning, was discussed.
The meetings of both the Remuneration Committee and the Nomination Committee were partly attended by the President & Chief Executive Officer and the company secretary.

## 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.

After having consulted both Boards and under the condition that the financial statements 2019 would be adopted by the Annual General Meeting of Shareholders on April 23, 2020, the Meeting of Priority Shareholders, after due consideration of KLM's 2019 results, the financial situation of the company, its balance sheet and net debt/EBITDA ratio, specific required investment levels for the upcoming years, as well as uncertainties as regards revenue development and fuel prices and the competition that remains fierce, decided to add an amount of EUR 429,025,181 of the disclosed profit to the reserves.

In accordance with further provisions of Article 32, payments to holders of priority shares and holders of A and C cumulative preference shares will require an amount of EUR 1,173,759.

As a consequence of the foregoing, there will be EUR 19,426,025 or EUR 0.415 per common share available for distribution to the shareholders.

## Financial statements 2019

The Supervisory Board hereby presents the annual report and the financial statements for financial year 2019. The financial statements have been audited by KPMG Accountants N.V. and Deloitte Accountants B.V.
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 as issued by KPMG and Deloitte can be found in the Other Information section of the financial statements. The Supervisory Board is satisfied that the annual report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of KLM Group's affairs and the Supervisory Board's supervision thereof in the financial year 2019.

## Closing remarks

The Supervisory Board looks back with pride on the year in which KLM has reached its 100th anniversary in very good health and fit for the future. Meanwhile, times have changed rapidly due to the COVID-19 crisis. The airline industry is hit very hard and KLM is not an exception.

The Supervisory Board understands the difficult situation the company is in, and its management and employees are in. On behalf of the Board, I hereby wish to express my appreciation and respect for the Board of Managing Directors, the Executive Team and all colleagues at KLM, who have to weather this unprecedented storm and demonstrate their resilience and flexibility. Therefore, a special word of thank you for your continued support, effort and engagement to KLM and its customers around the world, even in these challenging times.

Amstelveen, April 8, 2020
Cees 't Hart
Chairman


KLM

# Remuneration policy and report

## Remuneration policy for the Board of Managing Directors

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 formulated and proposed by the Supervisory Board and, in accordance with the Articles of Association, adopted by the General Meeting of Shareholders. Each year, the Remuneration Committee evaluates whether there is reason to change the remuneration policy itself, and discusses, within the framework of the policy, the actual remuneration for the members of the Board of Managing Directors. The Remuneration Committee aims to develop a remuneration policy that contributes to the realisation of KLM's strategy and long-term goals within the context of AIR FRANCE KLM.

The following factors are considered within the evaluation: (i) developments in the remuneration of AIR FRANCE KLM's directors, whereby external benchmark data regarding directors' remuneration (reference group is large Dutch companies) are also taken into account and (ii) inflation and developments in KLM's collective labour agreements.

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.

Following its extensive evaluation, the Supervisory Board submitted an amendment of the remuneration policy in respect of the long-term incentive plan of the Board of Managing Directors to the General Meeting of Shareholders. The General Meeting of Shareholders has adopted the amendment during its annual meeting in April 2019.
The long-term incentive plan is one of the three basic components of the remuneration package of the members of the Board of Managing Directors. With the amendment to the long-term incentive plan, as adopted, the remuneration policy has been aligned with the remuneration policy of AIR FRANCE KLM and with what is customary at the benchmark. The amendment, effective 2019, is outlined in paragraph 'Long term incentive plan' of this chapter.

### 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. The remuneration package includes, in addition to a base salary, a short-term incentive in cash relating to the (financial and non-financial) performance in the financial year as reported and a long-term incentive in the form of phantom shares and, for the CEO, partially also in AIR FRANCE KLM shares, relating to certain pre-determined financial and non-financial targets with a longer-term focus.

When determining the remuneration package, the Remuneration Committee takes into consideration an appropriate ratio between the variable and fixed remuneration. In this context, the Remuneration Committee also takes note of the views of the Board of Managing Directors regarding the structure and level of their individual remuneration.

## Structure

The remuneration package for the members of KLM's Board of Managing Directors consists of three basic components:

1. Base salary;
2. Short-term incentive in cash related to performance in the past financial year; and
3. Long-term incentive in the form of phantom shares, and, 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.

## 1. Base salary

Pursuant to the remuneration policy, the amount of the base salary is related to the requirements and responsibilities pertaining to the function of the relevant member of the Board of Managing Directors. The Remuneration Committee determines an appropriate level for the base salary with the aid of external reference data issued by independent remuneration experts and also takes into account the base salaries for directors at AIR FRANCE KLM level. The remuneration policy prescribes that the job grade is determined on the basis of KLM's size, the complexity of the activities, the national and international environment in which KLM operates and the specific responsibilities relating to the position. On the basis of this job grade, a base salary level is set at around the median of the market level. This salary level then serves as the maximum achievable base salary for the respective Managing Director. Managing Directors may retain payments they receive from other remunerated positions (such as membership of a supervisory board or similar body) with the maximum number of remunerated positions set at two per Managing Director. Acceptance of such position requires the prior approval of the Supervisory Board. Any payment in connection with Supervisory Board memberships with KLM Group companies or with other airline companies remains due to KLM. Members of the Board of Managing Directors are furthermore entitled to make use of travel facilities comparable to the travel facilities as described in the travel regulations for KLM employees.

## 2. Short-term incentive plan

The purpose of the short-term incentive plan is to reward members of the Board of Managing Directors for achieving pre-agreed and measurable targets relating to performance in the past financial year. The short-term incentive is paid in cash as a percentage of base salary. The criteria on which the short-term incentive plan is based, are: (i) financial targets relating to KLM (25%), (ii) financial targets relating to AIR FRANCE KLM (25%) and (iii) individual targets (50%). The maximum pay-out percentage is connected to the position of the Board member. Depending on the performance level achieved, the pay-out percentages are as follows:

For the CEO position:
The maximum percentage that can be paid out in case of an 'excellent' score is 100%;

» In case of an 'at target' score for each of the three short-term incentive targets, this percentage is 70%; and
» In case of a 'below a set limit' score (target less than 80% achieved), no payment is made.

For the Managing Director position:
The maximum percentage that can be paid out in case of an 'excellent' score is 60%;

» In case of an 'at target' score for each of the three short-term incentive targets, this percentage is 40%; and
» In case of a 'below a set limit' score (target less than 80% achieved), no payment is made.

The Remuneration Committee evaluates the agreed targets each year and proposes new targets. The CEO and other Board members are asked to provide input for their evaluation. Both the evaluation and the proposals are submitted to the Supervisory Board for approval. In establishing both the policy and actual remuneration for individual members of the Board of Managing Directors, the Remuneration Committee analyses the possible outcomes of the intended new short-term incentive target setting (in case of a change to the policy) and the agreed short-term incentive pay-out percentage. The Committee will relate such outcomes against the results of KLM as a whole.
The Remuneration Committee may use its discretionary powers in case the evaluation of the short-term incentive targets would produce an unfair result due to extraordinary circumstances by adjusting the pay-out downwards or upwards. Together with its proposal to the Supervisory Board, the Remuneration Committee will provide an explanation for using its discretionary powers.

## 3. Long-term incentive plan

Members of the Board of Managing Directors participate in KLM's long-term incentive (LTI) plan, which is in the form of phantom shares.

For the KLM CEO, also an AIR FRANCE KLM specific LTI (SLTI) plan applies. The KLM LTI plan as well as the AIR FRANCE KLM SLTI plan encourage members of the Board of Managing Directors to achieve long-term profitable growth for KLM and AIR FRANCE KLM.

The KLM LTI (phantom performance shares) plan provides for the conditional award of an amount in cash that, at the time of selling of the performance shares, is equal to the number of phantom shares that have vested during the performance period and are offered for the AIR FRANCE KLM share price at the time of sale.

As stated earlier in this chapter, in 2019 the General Meeting of Shareholders has adopted amendments to the remuneration policy in respect of the long-term incentive plan.
Part of these amendments are related to the introduction of an AIR FRANCE KLM SLTI plan for the KLM CEO. Next to that, the number of (phantom) performance shares (which was maximum 10,000 shares for the CEO and maximum 6,000 shares for the Managing Directors) is replaced by the formula that the number of phantom shares is based on a percentage of the base salary.

With the amendment the number of (phantom) shares that will conditionally be granted to the KLM CEO under the KLM LTI plan amounts to a maximum of 37.5 per cent of his base salary. The number of (phantom) shares that will be conditionally granted to the (2) Managing Directors amounts to a maximum of 30 per cent of the base salary.

The granted shares under the KLM LTI plan will vest in three years, provided certain predetermined performance criteria are met. The vested shares may then be sold after three years from the granting date during a period of two years.

The performance criteria for the KLM LTI plan are:
(a) AIR FRANCE KLM total shareholders' return (30%);
(b) AIR FRANCE KLM Return on Capital Employed (40%); and
(c) AIR FRANCE KLM position in the Dow Jones Sustainability Index, sector transport (30%).

Furthermore, under the AIR FRANCE KLM SLTI plan, the KLM CEO is entitled to AIR FRANCE KLM shares worth up to a maximum of 37.5 percent of his base salary. The shares granted under this AIR FRANCE KLM SLTI plan will vest after three years if the predetermined AIR FRANCE KLM SLTI plan criteria are met. These criteria are i) relative financial performance of AIR FRANCE KLM compared to its most important European peers (80 percent) and ii) sustainability objectives (20 percent). For the other 37.5 percent of the 75 percent, the KLM performance criteria as stated above are applicable.

## 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 107,593 (2019). 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 107,593, 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:

- Pieter Elbers' employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2023;
- Erik Swelheim's employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2022; and
- René de Groot's employment contract contains a fixed term clause for a period of four years until the Annual General Meeting of 2023.

## Severance pay

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

## Remuneration of the Board of Managing Directors in financial year 2019

### 1. Base salary

The base salaries of the individual Managing Directors has been set at EUR 600,000 (2018: EUR 520,000) for Pieter Elbers, EUR 390,000 (2018: EUR 335,000) for Erik Swelheim and EUR 390,000 (2018: EUR 345,000) for René de Groot.

The base salary of the Board of Managing Directors remains significantly below the median of the applicable market benchmark as well as below that of previous KLM CEOs in the case of Mr. Elbers.

The base salaries for the individual Managing Directors will not be increased in 2020.
Details of the base salary received by the individual members of the Board of Managing Directors are presented in note 34 of the financial statements.

### 2. Short-term incentive plan

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2019 in accordance with the remuneration policy and its proposal has subsequently been endorsed by the Supervisory Board. The evaluation led to the following pay-outs under the short-term incentive plan for financial year 2019: 57% (out of 100% maximum) of the base salary for Pieter Elbers, 39.5% (out of 60% maximum) for Erik Swelheim and 40.8% (out of 60% maximum) for René de Groot.

Due to the COVID-19 crisis, the Board of Managing Directors has decided to postpone the payment of their short-term incentive income to October 2020.

For 2019, the Board of Managing Directors did not receive any payments under the company-wide profit sharing scheme that is applicable to all KLM employees. Details of the amounts involved are included in note 34 of the financial statements.

### 3. Long-term incentive plan

Pursuant to the amended long-term incentive plan, the following number of phantom shares were conditionally granted to the Managing Directors on April 1, 2019:

| | |
|---|---|
| Mr. Elbers | : 21,354 phantom shares and 21,354 AIR FRANCE KLM shares (under the AIR FRANCE KLM SLTI plan) |
| Mr. Swelheim | : 11,688 phantom shares |
| Mr. De Groot | : 11,688 phantom shares |

At its February 2020 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the long-term incentive plan. In respect of financial year 2019, targets were partially met. Therefore the first (one-third) increment of the 2020 phantom shares series, the second (one-third) increment of the 2019 phantom shares series and the third (one-third) increment of the 2018 phantom shares series will vest for 102.1%. These phantom shares will be unconditionally awarded in April 2020 to the members of the Board of Managing Directors.

Pursuant to the AIR FRANCE KLM SLTI plan, as applicable for the KLM CEO, the evaluation and subsequent vesting will only take place after three years, hence in 2022.

### 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 11.7% for the 2019 financial year, which is 0.5 lower than the pay ratio for 2018 and well below the ratios at peer companies in the Netherlands.. Annual total compensation for both include variable income and pension benefits. The development of this ratio will be monitored and disclosed going forward.

### Loans and advances

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

### Remuneration policy for the Supervisory Board

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 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.

### Remuneration of the Supervisory Board members in financial year 2019

The remuneration for the Supervisory Board is as follows. The fixed fee payable for services amounts to EUR 42,500 for the Chairman, EUR 34,500 for the Vice-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 and EUR 1,000 for the other members of the Audit Committee. The fee per meeting of the Remuneration Committee and the Nomination Committee attended amounts to EUR 1,500 for the Chairman and EUR 1,000 for the other members of the Remuneration Committee and the Nomination Committee. Members of the Supervisory Board are furthermore entitled to make use of travel facilities described in the travel regulations for KLM employees. Details on the remuneration received by individual members of the Supervisory Board are presented in note 33 of the financial statements.

# Supervisory Board and Board of Managing Directors

## Supervisory Board (situation as at December 31, 2019)

| 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 | President & CEO Carlsberg Group/ Former CEO of Royal Friesland Campina Former SVP Marketing Operations Unilever Europe |
| Philippe Calavia *** | 1948 | French | 2012/(second) 2016 - 2020 | Senior advisor Accuracy/ Director to Servair Former CFO of AIR FRANCE KLM, former CFO of Air France, former deputy CEO of Natixis |
| François Enaud *** | 1959 | French | 2016 (first) 2016 - 2020 | President & CEO FE Development / board member of Linkbynet, ABMI, Ayesa and Aston Finance, Chairman of Shadline and DejaMobile, Operating Partner of Towerbrook, Keensight and Omnes Capital, Former Group CEO Sopra Steria Group |
| Marry de Gaay Fortman ** | 1965 | Dutch | 2017 / (first) 2017-2021 | Partner at Houthoff/ Member Supervisory Board De Nederlandsche Bank, Chair Topvrouwen.nl, various board memberships in the cultural sector |
| Jan-Kees de Jager | 1969 | Dutch | 2019/(first) 2019-2023 | Chairperson Economic Board South Holland, Member of the Board of The American European Community Association (Netherlands)/ CFO and member of Board of Managing Directors of Royal KPN N.V., former managing partner and CEO of ISM eCompany |
| Fleur Pellerin *** | 1973 | French | 2018 / (first) 2018-2022 | CEO of Korelya Consulting and Korelya Capital/ Board member of Naver France, board member of Schneider Electric, board member of Devialet, board member of Talan, board member of Ledger, board member of Reworld Media, board member of France Digitale, President of Canneseries Festival |
| Pierre-François Riolacci *** | 1966 | French | 2016 (first) 2016 - 2020 | Group CFO of ISS World Services A/S/ Former CFO of AIR FRANCE KLM Former CFO of Veolia Environnement, former Director of Finance at Veolia Environnement |
| Benjamin Smith *** | 1971 | British, Canadian, Australian | 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 Supervisory Board of General Employers' Association (AWVN) and member of the General Board of Confederation of Netherlands Industry and Employers (VNO-NCW) Former CHRO of Royal KPN N.V. |

* Only memberships of Supervisory Boards and functions with large companies on December 31, 2019 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, 2019)

| 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 |


100 years Flying Dutchman,
once a legend, now reality.



KLM


100
KLM
years


KLM


KLM


100
KLM
years


Een eeuw KLM
KLM


KLM
THANK


100
KLM
years

# 2019 Financial Statements

# KLM Royal Dutch Airlines Consolidated balance sheet

| In millions of Euros | Note | December 31, 2019 | December 31, 2018 Restated | January 1, 2018 Restated |
|---|---|---|---|---|
| Before proposed appropriation of the result for the year | | | | |
| | | | | |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 1 | 5,361 | 4,811 | 4,287 |
| Right-of-use assets | 2 | 2,028 | 2,181 | 2,468 |
| Intangible assets | 3 | 509 | 432 | 394 |
| Investments accounted for using the equity method | 4 | 16 | 20 | 23 |
| Other non-current assets | 5 | 223 | 224 | 186 |
| Other financial assets | 6 | 617 | 616 | 404 |
| Deferred tax assets | 18 | 21 | 122 | 197 |
| Pension assets | 19 | 420 | 331 | 590 |
| | | 9,195 | 8,737 | 8,549 |
| **Current assets** | | | | |
| Other current assets | 5 | 151 | 135 | 228 |
| Other financial assets | 6 | 161 | 78 | 170 |
| Inventories | 7 | 298 | 235 | 177 |
| Trade and other receivables | 8 | 1,269 | 1,277 | 1,228 |
| Cash and cash equivalents | 9 | 697 | 874 | 1,058 |
| | | 2,576 | 2,599 | 2,861 |
| | | | | |
| TOTAL ASSETS | | 11,771 | 11,336 | 11,410 |
| | | | | |
| **EQUITY** | | | | |
| **Capital and reserves** | | | | |
| Share capital | 10 | 94 | 94 | 94 |
| Share premium | | 474 | 474 | 474 |
| Reserves | 11 | (315) | (651) | (304) |
| Retained earnings | | 858 | 478 | 1,016 |
| Result for the year | | 448 | 565 | (498) |
| Total attributable to Company's equity holders | | 1,559 | 960 | 782 |
| Non-controlling interests | | 1 | 1 | 1 |
| Total equity | | 1,560 | 961 | 783 |
| | | | | |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Loans from parent company | 12 | - | - | 198 |
| Financial debt | 13 | 1,130 | 1,038 | 1,181 |
| Lease debt | 14 | 1,173 | 1,401 | 1,592 |
| Other non-current liabilities | 5 | 148 | 228 | 216 |
| Other financial liabilities | 15 | 1,005 | 1,189 | 1,113 |
| Deferred income | 17 | 229 | 205 | 207 |
| Deferred tax liabilities | 18 | 84 | - | - |
| Provisions for employee benefits | 19 | 398 | 386 | 423 |
| Return obligation liability and other provisions | 20 | 1,343 | 1,292 | 1,367 |
| | | 5,510 | 5,739 | 6,297 |
| **Current liabilities** | | | | |
| Trade and other payables | 21 | 2,145 | 2,240 | 2,175 |
| Loans from parent company | 12 | - | 99 | - |
| Financial debt | 13 | 181 | 232 | 355 |
| Lease debt | 14 | 404 | 374 | 353 |
| Other current liabilities | 5 | 85 | 168 | 112 |
| Other financial liabilities | 15 | 77 | 10 | 33 |
| Deferred income | 17 | 1,382 | 1,301 | 1,168 |
| Current tax liabilities | 18 | 82 | - | - |
| Provisions for employee benefits | 19 | 22 | 26 | 100 |
| Return obligation liability and other provisions | 20 | 323 | 186 | 34 |
| | | 4,701 | 4,636 | 4,330 |
| | | | | |
| Total liabilities | | 10,211 | 10,375 | 10,627 |
| | | | | |
| TOTAL EQUITY AND LIABILITIES | | 11,771 | 11,336 | 11,410 |

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 | 2019 | 2018 Restated |
|---|---|---|---|
| Revenues | 24 | 11,075 | 10,889 |
| **Expenses** | | | |
| External expenses | 25 | (6,116) | (5,860) |
| Employee compensation and benefit expenses | 26 | (3,189) | (3,059) |
| Other income and expenses | 27 | 173 | 150 |
| Total expenses | | (9,132) | (8,769) |
| **EBITDA** | | 1,943 | 2,120 |
| Amortisation, depreciation and movements in provisions | 28 | (1,090) | (1,029) |
| Income from current operations | | 853 | 1,091 |
| Other non-current income and expenses | 29 | 22 | (13) |
| Income from operating activities | | 875 | 1,078 |
| Cost of financial debt | 30 | (172) | (195) |
| Income from cash and cash equivalents | 30 | 24 | 18 |
| Net cost of financial debt | | (148) | (177) |
| Other financial income and expenses | 30 | (127) | (138) |
| Income before tax | | 600 | 763 |
| Income tax expense | 31 | (162) | (201) |
| Net income after tax | | 438 | 562 |
| Share of results of equity shareholdings | | 11 | 4 |
| Profit for the year | | 449 | 566 |
| **Attributable to:** | | | |
| Equity holders of the Company | | 448 | 565 |
| Non-controlling interests | | 1 | 1 |
| | | 449 | 566 |
| Net profit attributable to equity holders of the Company | | 448 | 565 |
| Dividend on priority shares | | - | - |
| Net profit available for holders of ordinary shares | | 448 | 565 |
| 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 |
| Profit per share (in EUR) | | 9.57 | 12.07 |
| Diluted profit per share (in EUR) | | 9.57 | 12.07 |

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 | 2019 | 2018 Restated |
|---|---|---|
| Profit for the year | 449 | 566 |
| | | |
| **Cash flow hedges** | | |
| Effective portion of changes in fair value of cash flow hedges recognised directly in equity | (27) | (246) |
| Change in fair value transferred to profit or loss | 182 | (39) |
| | | |
| Exchange differences on translation foreign operations | (2) | 1 |
| | | |
| Tax on items of comprehensive income that will be reclassified to profit or loss | (41) | 71 |
| | | |
| **Total of comprehensive income that will be reclassified to profit or loss** | **112** | **(213)** |
| | | |
| Remeasurement of defined benefit pension plans | 142 | (209) |
| | | |
| Fair value of equity instruments revalued through OCI | (24) | (27) |
| | | |
| Tax on items of comprehensive income that will not be reclassified to profit or loss | (65) | 56 |
| | | |
| **Total of comprehensive income that will not be reclassified to profit or loss** | **53** | **(180)** |
| | | |
| **Total of other comprehensive income after tax** | **165** | **(393)** |
| | | |
| **Recognised income and expenses** | **614** | **173** |
| - Equity holders of the company | 613 | 172 |
| - 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

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

| In millions of Euros | Share capital | Share premium | Reserves | Retained earnings | Result for the year | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Attributable to Company's equity holders | | | | | | | |
| As at January 1, 2018 | 94 | 474 | (304) | 1,054 | (498) | 820 | 1 | 821 |
| First application of component approach for Life Limited parts | - | - | - | (38) | - | (38) | - | (38) |
| As at January 1, 2018 Restated | 94 | 474 | (304) | 1,016 | (498) | 782 | 1 | 783 |
| Prospective first application of IFRS 9 | - | - | 6 | - | - | 6 | - | 6 |
| | 94 | 474 | (298) | 1,016 | (498) | 788 | 1 | 789 |
| Transfer to retained earnings | - | - | - | (498) | 498 | - | - | - |
| Net gain/(loss) from cash flow hedges | - | - | (285) | - | - | (285) | - | (285) |
| Fair value of equity instruments revalued through OCI | - | - | (27) | - | - | (27) | - | (27) |
| Exchange differences on translation foreign operations | - | - | 1 | - | - | 1 | - | 1 |
| Remeasurement of defined benefit pension plans | - | - | (209) | - | - | (209) | - | (209) |
| Transfer from retained earnings | - | - | 40 | (40) | - | - | - | - |
| Deferred tax on items taken directly to or transferred from equity | - | - | 127 | - | - | 127 | - | 127 |
| Net income/(expense) recognised directly in equity | - | - | (353) | (538) | 498 | (393) | - | (393) |
| Profit for the year | - | - | - | - | 565 | 565 | 1 | 566 |
| Total recognised income/(expenses) | - | - | (353) | (538) | 1,063 | 172 | 1 | 173 |
| Dividends paid | - | - | - | - | - | - | (1) | (1) |
| As at December 31, 2018 Restated | 94 | 474 | (651) | 478 | 565 | 960 | 1 | 961 |

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 | 2019 | 2018 Restated |
|---|---|---|---|
| Profit for the year | | 449 | 566 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 28 | 1,076 | 1,029 |
| Changes in provisions | 28 | 14 | - |
| Results of equity shareholdings | | (11) | (4) |
| Changes in pension assets | | 81 | (34) |
| Changes in deferred tax | 31 | 80 | 201 |
| Other changes | | 109 | 38 |
| **Net cash flow from operating activities before changes in working capital** | | **1,798** | **1,796** |
| | | | |
| **Changes in:** | | | |
| (Increase) / decrease in inventories | | (18) | (16) |
| (Increase) / decrease in trade receivables | | 57 | 18 |
| Increase / (decrease) in trade payables | | (96) | 9 |
| (Increase) / decrease in other receivables and other payables | | 94 | 200 |
| **Change in working capital requirement** | | **37** | **211** |
| | | | |
| **Net cash flow from operating activities** | | **1,835** | **2,007** |
| | | | |
| Purchase of intangible fixed assets | 3 | (156) | (109) |
| Purchase of aircraft | 1 | (1,091) | (1,131) |
| Proceeds on disposal of aircraft | | 46 | 17 |
| Purchase of other tangible fixed assets | 1 | (135) | (103) |
| Proceeds on disposal of other (in-)tangible fixed assets | | 13 | 6 |
| Investments in equity shareholdings | | (1) | - |
| Proceeds on sale of equity shareholdings | | 10 | 4 |
| Dividends received | | 8 | 5 |
| Purchase of short-term deposits and commercial paper | | (37) | - |
| **Net cash flow used in investing activities** | | **(1,343)** | **(1,311)** |
| | | | |
| Proceeds from long-term debt | | 491 | 175 |
| Repayment on long-term debt | | (717) | (560) |
| Payments on lease debt | | (380) | (376) |
| Proceeds from long-term receivables | | (62) | (167) |
| Repayment on long-term receivables | | 16 | 47 |
| Dividend paid | | (19) | (1) |
| **Net cash flow used in financing activities** | | **(671)** | **(882)** |
| | | | |
| Effect of exchange rates on cash and cash equivalents | | 1 | 2 |
| **Change in cash and cash equivalents** | | **(178)** | **(184)** |
| | | | |
| Cash and cash equivalents at beginning of period | | 874 | 1,058 |
| Cash and cash equivalents at end of period * | 9 | 696 | 874 |
| **Change in cash and cash equivalents** | | **(178)** | **(184)** |
| | | | |
| Interest paid (flow included in operating activities) | | (182) | (190) |
| Interest received (flow included in operating activities) | | 13 | 9 |

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 amount to EUR 1,390 million as at December 31, 2019 (December 31, 2018 EUR 1,468 million)

| In millions of Euros | 2019 | 2018 Restated |
|---|---|---|
| | | |
| Net cash flow from operating activities | 1,835 | 2,007 |
| 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) | (1,323) | (1,320) |
| | | |
| **Free cash flow** | **512** | **687** |
| Payments on lease debt | (380) | (376) |
| **Adjusted free cash flow** | **132** | **311** |

# Financial Statements financial year 2019

## 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 8, 2020 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 23, 2020.

## Subsequent events and going concern

### COVID-19 impact and uncertainties

The worldwide spreading of COVID-19 in the first quarter of 2020 has had and continues to have a major impact on air traffic around the world. Many countries have taken increasingly stringent measures in an attempt to slow the expansion rate of the epidemic. Some countries have imposed constraints on the movement of travellers from the Netherlands or, more broadly from Europe. Consequently, air traffic to most of KLM's destinations will be significantly reduced for a period of time to some 20 to 10 per cent of normal traffic levels. KLM's financial performance for at least 2020 will be affected severely by a loss of revenue, sales of tickets and significant negative cash flows to an extent and for a duration that are currently uncertain.

As at the date of this Annual Report, the crisis is still evolving, bringing many uncertainties, which makes it impossible to predict the scale of impact of the COVID-19 crisis on KLM and its future including our operations, financial performance and liquidity. Various scenarios are possible with no consensus on how the recovery will actually evolve, when the direct impact will end and how the economy will recover.

## Our scenario

From the start of the COVID-19 crisis, the KLM Group has been monitoring its evolution by the hour and implemented measures to protect its passengers and staff, as well as to limit the impact of the virus on its profitability and to preserve its financial sustainability. In the course of the developments, decisions were necessary to reduce our flight schedule, currently by drastic proportions.

The KLM Group has already taken a number of strong measures and continues to closely monitor and evaluate further developments. Our actions include, amongst others, secure cash, save cost, reassessing capital expenditures, identifying additional financing opportunities, delaying payment of the employee's profit sharing scheme and of variable income for part of the employee's, application for the 'Temporary Emergency Bridging Measure for Sustained Employment' (NOW), delaying internal projects in order to meet ongoing commitments during the COVID-19 crisis.

Based on our current best estimates KLM developed a scenario analysis and projected the related cash flows. The current projections include the following main assumptions: (i) the actual flight operations will be a fraction of planned operations for the coming three months with gradual recovery to normal traffic levels previously projected; (ii) as a liquidity shortage is projected in the course of the third quarter of 2020, we assume we will be successful in obtaining sufficient additional long term debt financing to cover, at a minimum, our forecasted 12 months of substantial cash flow needs; (iii) we will be successful in significantly reducing our cost base and participate in, and obtain support from, the government, based on initiatives such as NOW and tax relief payments; and (iv) decisions to extend payment terms for suppliers and to effectively manage our customers refund requests and other creditors.

## Process to obtain additional funding needs

Within the Netherlands, the government is demonstrating strong support and commitment to help KLM and other companies to face the challenges. We started the process (in conjunction with AIR FRANCE KLM) of negotiating debt funding from financial institutions, with guarantees from the Dutch government, and direct debt and/or equity funding by the Dutch government, under the European Commission's temporary framework for state aid, recently put in place, to ensure adequate liquidity levels and balance sheet for the coming two years.
At this stage it is unclear what the additional funding terms and conditions will be, if and when the funding will be approved by the financial institutions, Dutch government and the European Commission and whether it will be sufficient for all possible scenarios. Further debt and/or equity funding may be required at a later stage and therefore we are in ongoing conversations with AIR FRANCE KLM and the Dutch government.

## Uncertainties and going concern assumption

Whilst the impact is material in the coming months and, at this time a clear determination and evaluation of all possible scenario's, of the full impact for the next 12 months as of the signing date of this Annual Report, cannot be made, and therefore a material uncertainty exists in relation to the financial impact of the COVID-19 crisis and outcome of the process to obtain additional funding. Consequently, this may cause significant doubt on the KLM Group's ability to continue as a going concern.

However, these financial statements have been prepared on the going concern assumption. Based on our available liquidity, including full utilisation of the revolving facility of EUR 665 million which was received on March 19, 2020, whereby the related debt covenants may trigger mandatory repayment in December 2020 requiring a waiver or re-negotiations with the related financial institutions, the ongoing negotiations and successful closure of the anticipated additional debt funding and our current cash flow projections, management believes that KLM will be able to continue to fulfill its financial obligations and as such continue on going concern basis.

## 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, 2019. 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.

## Restatement of 2018 financial statements

Since January 1, 2019, the Company and its subsidiaries (the "Group") have applied the two following changes:

» Customer compensation

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

» Component approach for Life Limited Parts

A Life Limited Part (LLP) is defined as a major engine part whose failure would jeopardise the engine's operation. Consequently, as a precaution, engine manufacturers define limited useful lives in cycles beyond which the LLP's must be replaced.

The cost of a complete set of LLP's is significant and their useful life (depending on the parts) range from 3,500 to 40,000 cycles (a cycle corresponds to one take-off and landing).

Internal IT developments and data analytics have enabled the Group to improve its ability to track LLP's more precisely. As a result as of January 1, 2019, The Group has been able to implement the component approach for these parts. This means that their maintenance costs must be capitalised and amortised over the useful life of the LLP's, which is expressed in cycles.

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

For comparison purposes, the consolidated financial statements as of December 31, 2018 have been restated. The restated balance sheet as of January 1, 2018 is also presented. The impacted line items in the consolidated financial statements for these two changes are summarised hereafter:

## Impact on the Consolidated balance sheet

| In millions of Euros<br>Balance sheet December 31, 2018 | Published | Customer Compensation | LLP Compensation | Restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Property, plant and equipment | 4,775 | - | 36 | 4,811 |
| Right-of-use assets | 2,008 | - | 173 | 2,181 |
| Investments accounted for using the equity method | 21 | - | (1) | 20 |
| Deferred tax assets | 107 | - | 15 | 122 |
| Trade and other receivables | 1,274 | - | 3 | 1,277 |
| | | | | |
| **EQUITY** | 1,006 | - | (45) | 961 |
| **LIABILITIES** | | | | |
| Return obligation liability and other provisions (non-current) | 1,005 | - | 287 | 1,292 |
| Trade and other payables | 2,235 | 8 | (3) | 2,240 |
| Return obligation liability and other provisions (current) | 207 | (8) | (13) | 186 |

| In millions of Euros<br>Balans sheet January 1, 2018 | Published | Customer Compensation | LLP Compensation | Restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Property, plant and equipment | 4,272 | - | 15 | 4,287 |
| Right-of-use assets | 2,250 | - | 218 | 2,468 |
| Investments accounted for using the equity method | 23 | - | - | 23 |
| Deferred tax assets | 185 | - | 12 | 197 |
| Trade and other receivables | 1,228 | - | - | 1,228 |
| | | | | |
| **EQUITY** | 821 | - | (38) | 783 |
| **LIABILITIES** | | | | |
| Return obligation liability and other provisions (non-current) | 1,064 | - | 303 | 1,367 |
| Trade and other payables | 2,182 | - | (7) | 2,175 |
| Return obligation liability and other provisions (current) | 47 | - | (13) | 34 |

## Impact on the Consolidated statement of profit or loss

| In millions of Euros<br>Period from January 1, 2018 to December 31, 2018 | 2018 Published | Customer Compensation | LLP Compensation | 2018 Restated |
|---|---|---|---|---|
| Revenues | 10,955 | (66) | - | 10,889 |
| External expenses | (5,920) | 58 | 2 | (5,860) |
| Employee compensation and benefit expenses | (3,059) | - | - | (3,059) |
| Other income and expenses | 129 | - | 21 | 150 |
| Total expenses | (8,850) | 58 | 23 | (8,769) |
| | | | | |
| **EBITDA** | 2,105 | (8) | 23 | 2,120 |
| Amortisation, depreciation and movements in provisions | (1,032) | 8 | (5) | (1,029) |
| Income from current operations | 1,073 | - | 18 | 1,091 |
| Other non-current income and expenses | (13) | - | - | (13) |
| Income from operating activities | 1,060 | - | 18 | 1,078 |
| Cost of financial debt | (195) | - | - | (195) |
| Income from cash and cash equivalents | 18 | - | - | 18 |
| Net cost of financial debt | (177) | - | - | (177) |
| Other financial income and expenses | (111) | - | (27) | (138) |
| Income before tax | 772 | - | (9) | 763 |
| Income tax benefit/(expense) | (203) | - | 2 | (201) |
| Net income after tax | 569 | - | (7) | 562 |
| Share of results of equity shareholdings | 4 | - | - | 4 |
| Profit for the year | 573 | - | (7) | 566 |
| | | | | |
| Profit per share (in EUR) | 12.22 | - | - | 12.07 |
| Diluted profit per share (in EUR) | 12.22 | - | - | 12.07 |

## Impact on the Consolidated statement of profit or loss and other comprehensive income

| In millions of Euros<br>Period from January 1, 2018 to December 31, 2018 | 2018 Published | Customer Compensation | LLP Compensation | 2018 Restated |
|---|---|---|---|---|
| Profit for the year | 573 | - | (7) | 566 |
| | | | | |
| Cash flow hedges | | | | |
| Effective portion of changes in fair value of cash flow hedges recognised directly in equity | (246) | - | - | (246) |
| Change in fair value transferred to profit or loss | (39) | - | - | (39) |
| Exchange differences on translation foreign operations | 1 | - | - | 1 |
| Tax on items of comprehensive income that will be reclassified to profit or loss | 71 | - | - | 71 |
| | | | | |
| Total of comprehensive income that will be reclassified to profit or loss | (213) | - | - | (213) |
| | | | | |
| Remeasurement of defined benefit pension plans | (209) | - | - | (209) |
| Fair value of equity instruments revalued through OCI | (27) | - | - | (27) |
| Tax on items of comprehensive income that will not be reclassified to profit or loss | 56 | - | - | 56 |
| | | | | |
| Total of comprehensive income that will not be reclassified to profit or loss | (180) | - | - | (180) |
| | | | | |
| Total of other comprehensive after tax | (393) | - | - | (393) |
| | | | | |
| Recognised income and expenses | 180 | - | (7) | 173 |
| - Equity holders of the company | 179 | - | (7) | 172 |
| - Non-controlling interests | 1 | - | - | 1 |

## Impact on the Consolidated cash flow statement

| In millions of Euros<br>Period from January 1, 2018 to December 31, 2018 | 2018<br>Published | Customer<br>Compensation | LLP<br>Compensation | 2018<br>Restated |
|---|---|---|---|---|
| Profit for the year | 573 | - | (7) | 566 |
| Depreciation and amortisation | 1,003 | - | 26 | 1,029 |
| Changes in provisions | 29 | (8) | (21) | - |
| Changes in deferred tax | 203 | - | (3) | 200 |
| Other changes | 11 | - | 28 | 39 |
| **Net cash flow from operating activities before changes in working capital** | **1,781** | **(8)** | **23** | **1,796** |
| | | | | |
| (Increase) / decrease in other receivables and other payables | 182 | 8 | 10 | 200 |
| **Change in working capital requirement** | **205** | **8** | **(2)** | **211** |
| | | | | |
| **Net cash flow from operating activities** | **1,986** | **-** | **21** | **2,007** |
| | | | | |
| Purchase of aircraft | (1,110) | - | (21) | (1,131) |
| **Net cash flow used in investing activities** | **(1,290)** | **-** | **(21)** | **(1,311)** |
| | | | | |
| **Net cash flow used in financing activities** | **(882)** | **-** | **-** | **(882)** |
| | | | | |
| Effect of exchange rates on cash and cash equivalents | 2 | - | - | 2 |
| | | | | |
| Change in cash and cash equivalents | (184) | - | - | (184) |
| | | | | |
| Cash and cash equivalents at beginning of period | 1,058 | - | - | 1,058 |
| Cash and cash equivalents at end of period | 874 | - | - | 874 |
| | | | | |
| Change in cash and cash equivalents | (184) | - | - | (184) |

## IFRS standards which are applicable on a mandatory basis to the 2019 financial statements

The Group opted for early adoption of IFRS 16 "Leases" in its 2018 financial statements (as per January 1, 2018). For the specific transition effects as per January 1, 2018 reference is made to the 2018 financial statements.

- Amendment to IFRS 9 "Financial Instruments". This amendment deals with prepayment features with negative compensations. The Group applied by anticipation this amendment, alongside with the implementation of IFRS 9;
- IFRIC 23 "Uncertainty over Income Tax Treatments". This interpretation applies to any situation of uncertainty concerning the acceptability of a tax treatment that relates to income taxes, as regards tax law. Fiscal treatments applied by the Group in terms of income taxes during the period do not relate to significant amounts;
- Amendment to IAS 28 "Long-term Interests in an Associate or Joint-Venture". This amendment relates to "other interests" in associates or joint ventures to which the equity method is not applied;
- Amendment to IAS 19 "Employee Benefits". This amendment concerns the consequences of a plan amendment, curtailment or settlement for the current service cost and the net interest;
- Amendment to IAS 12 "Income Taxes". This amendment clarifies that the tax effects resulting from dividend payments on financial instruments classified as equity have to be recognised in net income, regardless of how the tax arises, and at the date of the recognition of the dividend liability;
- Amendment to IFRS 11 "Joint Arrangements". This amendment clarifies how a company accounts for obtaining control (or joint control) of a business that is a joint operation if the company already holds an interest in that business; and
- Amendment to IAS 23 "Borrowing Costs". This amendment clarifies which borrowing costs are eligible for capitalisation.

These amendment and interpretations did not have a significant impact on the Group's financial statements as of December 31, 2019.

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

- Amendment to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors". These amendments clarify and align the definition of 'material'.

The Group believes that these amendments will have no material impact on the financial statements.

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

- Amendment to IFRS 3 "Business Combinations", effective for the accounting periods as of January 1, 2020. This amendment clarifies the definition of a business;
- Amendments to IFRS 9 "Financial instruments and IFRS 7 "Financial instruments: Disclosures", effective for the accounting periods as of January 1, 2020. These amendments are designed to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks (IBOR's). They modify certain hedge accounting requirements. In this context the Group pays increased attention regarding the arrangements defined for new financing. The Group does not opt for the early adoption of this amendment on the Group's financial statements as of December 31, 2019. IBOR's continue to be used as reference rates for financial markets and the valuation of financial instruments with maturities that exceed the expected end date of these IBOR's. The Group believes the current market structure supports the continuation of the hedge accounting as of December 31, 2019.

## 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.

## 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 38 of the consolidated financial statements.

## Foreign currency

### Functional and presentation currency

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

## Transactions and balances

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

## Group companies

The financial statements of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate;
- The statement of profit or loss and the cash flow statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting translation differences are recognised as a separate component of equity.

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

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

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

## 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.

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

| | Balance Sheet December 31, 2019 EUR | Average in Statement of profit or loss 2019 EUR | Balance Sheet December 31, 2018 EUR |
|---|---|---|---|
| 1 US dollar (USD) | 0.89 | 0.89 | 0.87 |
| 1 Pound sterling (GBP) | 1.18 | 1.14 | 1.12 |
| 1 Swiss franc (CHF) | 0.92 | 0.90 | 0.89 |
| 100 Japanese yen (JPY) | 0.82 | 0.82 | 0.79 |
| 100 Kenya shilling (KES) | 0.86 | 0.85 | 0.84 |

## 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 inflight sales. 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.

## Distinction between income from current operations and income from operating activities

The Group considers it relevant to the understanding of its financial performance to present on the face of the statement of profit or loss a subtotal within the income from operating activities. This subtotal, named "Income from current operations", excludes those elements that have less predictive value due to their nature, frequency and/or materiality. Such elements are as follows:

» Sales of aircraft equipment and disposals of other assets;
» Income from the disposal of subsidiaries and affiliates;
» Restructuring costs when they are significant;
» Significant and infrequent elements such as the recognition of badwill in the statement of profit or loss, the recording of an impairment loss on goodwill and significant provisions for litigation.

## Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interests, Taxes, Depreciation, Amortisation and movements in provision): by extracting the main line of the statement of profit or loss which does not involve cash disbursement ("Amortisation, depreciation and movements in provision") from income from current operations, EBITDA provides a simple indicator of the Group's cash generation on operational activities.

Operating 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.

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

Near cash: corresponds to financial assets that can be transferred to cash on short notice. Includes bonds, long-term deposits and commercial paper with an original maturity of 3-12 months.

# 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, 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.

Financing arrangements with the following 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 ("OEM"); 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.

## 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 on "Return obligation liability on leased aircraft".

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

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

Most of the aircraft lease contracts are denominated in US dollars. The Group put in place a cash flow from these lease contracts as hedged item in cash flow hedges with US dollars revenues as hedging instruments. 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.

### » 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 main 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, 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

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 business and software to the business unit 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 (cash-generating units (CGUs)), which correspond to the Group's Business segments.

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

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

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

## Financial instruments: Recognition and measurement of financial assets and liabilities

### Valuation of trade receivables and non-current financial assets

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

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

Purchases and sales of financial assets are booked for as of the transaction date.

### Investments accounted for using the equity method

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

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

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

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

### Investments in equity securities

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

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

## Derivative financial instruments and hedge accounting

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

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

## Recognition of fair value gains and losses

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

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

## Categories of hedging transactions

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

Forward currency contracts and options are used to hedge exposure to exchange rate movements. The Group also uses interest rate swaps to manage its exposure to interest rate risk. Finally, the exposure to fuel price risks is covered by swaps or options on jet fuel and fuel related indices such as Gasoil and Brent. The risk related to ETS is hedged by forwards.
Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging relationships are documented as required by IFRS 9 "Financial Instruments".

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

Hedging transactions fall into two categories:
**1.** Fair value hedges; and
**2.** Cash flow hedges.

## 1. Fair value hedges

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

## 2. Cash flow hedges

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

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

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

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

## Hedge effectiveness testing

At inception of the hedge and on an on-going basis at each reporting date or on a significant change in circumstances (whichever comes first), the following elements will be assessed:
» Economic relationship: hedge ratio should be aligned with Group guidelines.

In case of a significant change in circumstances the following elements will be assessed:
» Credit risk: change in credit risk of the hedging instrument or the hedge item must not be of such magnitude that it dominates the value change that results from the

economic hedge relationship; and
- Need for rebalancing.

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

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

### Fair value hierarchy

Based on the requirements of IFRS 7, the fair values of financial assets and liabilities are classified following a scale that reflects the nature of the market data used to make the valuations. This scale has three levels of fair value:
- Level 1: Fair value calculated from the exchange rate/price quoted on the active market for identical instruments;
- Level 2: Fair value calculated from valuation techniques based on observable data such as active prices or similar liabilities or scopes quoted on the active market; or
- Level 3: Fair value from valuation techniques which rely completely or in part on non-observable data such as prices on an inactive market or the valuation on a multiple basis for non-quoted securities.

### Financial assets

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

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

### Cash and cash equivalents

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

### Financial liabilities

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

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

### Inventories

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

## Deferred income

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

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

### Flying Blue frequent flyer program
KLM and Air France have a common frequent flyer program "Flying Blue". This program allows members to acquire "miles" as they fly on KLM, Air France or with other partner companies. These miles entitle members to a variety of benefits such as free flights with the two companies.

The probability of air miles being converted into award tickets is estimated using a statistical method. The value of air miles is estimated based on the deferred income approach, based on its fair value. This estimate takes into consideration the conditions of the use of free tickets and other awards.

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

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

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

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

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

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

## Provisions for employee benefits

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

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

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

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

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

### Other long-term employment benefits

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

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

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

### Termination benefits

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

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

### Return obligation liability on leased aircraft

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

### Overhaul and restoration works

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

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

### Airframe and engine potentials reconstitution

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

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

### Other provisions

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

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

### Emission Trading Scheme

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

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

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

These intangible assets are not amortised.

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

# Accounting policies for the statement of profit or loss

## Revenues

### Network

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

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

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

Legally enforced compensations to passenger after irregularities in the fulfillment 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.

### Gains/losses on disposals of property, plant and equipment
The gain on disposal of an item of property, plant and equipment is the difference between the net disposal proceeds and the carrying amount of the item. Gains/losses on disposal are netted.

### Reversal of impairment losses on financial assets
This item represents increases in the carrying amounts of financial assets arising from reversals of previously recognised impairment losses. The amount of the reversal does not exceed the carrying amount of the assets that would have been determined had no impairment losses been recognised in prior years.

### Other income and expense items

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

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

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

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

### Share-based

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

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

# Cash flow statement

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

# Accounting estimates and judgments

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

### Key sources of estimation uncertainty
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the corresponding actual results.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Impairment of assets

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

### 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 over the coming 12 months. The allowance for bad or doubtful debts is formed on the grounds of this assessment. The actual outcome may diverge from the assumptions made in determining the allowances.

### Accounting for pensions and other post-employment benefits

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

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, mortality rates, and future healthcare cost. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14), projected benefit obligations, funding requirements and defined benefit cost recognised in profit or loss incurred. For details on key assumptions and policies see note 19.

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

### Return obligation liability and other provisions

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

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

### Determination of fair value

The Group uses available market information and appropriate valuation techniques to determine the fair values of financial instruments. However, judgment is required to interpret market data and to determine fair value. Management believes that the carrying value of financial assets and financial liabilities with a maturity of less than one year approximates their fair value.

These financial assets and liabilities include cash and cash equivalents, trade accounts receivable and trade accounts payable. Details of the assumptions used and the results of sensitivity analyses recognising these assumptions are provided in note 5.

# Financial Risk Management

## Risk management organisation and fuel hedging policy

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officer and the Chief Financial Officer of KLM, the Chief Executive Officer and the Chief Financial Officer of Air France and the Chief Financial Officer of AIR FRANCE KLM. The RMC meets each quarter to review AIR FRANCE KLM reporting of the risks relating to the fuel price, the principal currency exchange rates and interest rates, and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument.

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

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

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

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

## Financial Risk Management

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

### 1. Market risk

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

### a. Currency risk

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

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

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

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

### b. Interest rate risk

At both KLM and Air France, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, KLM and Air France have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. At the end of December 2019, KLM's net exposure to changes in market interest rates is neutral.

### c. Fuel price risk

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

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

Main characteristics of the hedge strategy:

» Hedge horizon: 2 years.

» Minimum hedge percentage:

Quarter underway to quarter 3: 60% of the volumes consumed;
Quarter 4: 50% of the volumes consumed;
Quarter 5: 40% of the volumes consumed;
Quarter 6: 30% of the volumes consumed;
Quarter 7: 20% of the volumes consumed; and
Quarter 8: 10% of the volumes consumed.

» The following components have been identified for risk management and (hedge) accounting purposes: Brent, gasoil crack and jet differential.

» Underlying: Brent, gasoil and jet.

At least 25% of volumes consumed during the two first quarters of the program (excluding the quarter underway) must be hedged in average distillates (jet fuel and gasoil).

» Instruments: Swap, call, call spread, three ways, four ways and collar.

## 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, 2019, KLM identified the following exposure to counterparty risk:

| LT Rating (Standard & Poor's) | Total exposure in EUR millions |
|---|---:|
| AAA | 401 |
| AA+ | 103 |
| AA- | 149 |
| A+ | 187 |
| A | 502 |
| Total | 1,342 |

At December 31, 2019, 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 things, operational cash flows, dividends, debt and interest payments and capital expenditure. The objective is to have sufficient liquidity, including committed credit facilities, available that are adequate for the liquidity requirements for the short- and long-term.

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

## 1. Property, plant and equipment

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

| | Flight equipment | | | Other property and equipment | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Owned aircraft | Other flight equipment | Total | Land and buildings | Equipment and fittings | Other property and equipment | Total | Pre-payments | Total Restated |
| **Historical cost** | | | | | | | | | |
| As at Jan. 1, 2018 Restated | 3,891 | 2,175 | 6,066 | 660 | 443 | 190 | 1,293 | 486 | 7,845 |
| Additions | 604 | 428 | 1,032 | 27 | 27 | 11 | 65 | 127 | 1,224 |
| Disposals | (211) | (226) | (437) | (12) | (12) | (4) | (28) | - | (465) |
| Other movements | - | 92 | 92 | 1 | - | - | 1 | (95) | (2) |
| As at Dec. 31, 2018 | 4,284 | 2,469 | 6,753 | 676 | 458 | 197 | 1,331 | 518 | 8,602 |
| | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | |
| As at Jan. 1, 2018 Restated | 1,815 | 938 | 2,753 | 338 | 327 | 140 | 805 | - | 3,558 |
| Depreciation | 204 | 236 | 440 | 34 | 26 | 9 | 69 | - | 509 |
| Disposals | (206) | (223) | (429) | (11) | (11) | (4) | (26) | - | (455) |
| Other movements | 137 | 44 | 181 | - | (2) | - | (2) | - | 179 |
| As at Dec. 31, 2018 | 1,950 | 995 | 2,945 | 361 | 340 | 145 | 846 | - | 3,791 |
| | | | | | | | | | |
| **Net carrying amount restated** | | | | | | | | | |
| As at Jan. 1, 2018 | 2,076 | 1,237 | 3,313 | 322 | 116 | 50 | 488 | 486 | 4,287 |
| As at Dec. 31, 2018 | 2,334 | 1,474 | 3,808 | 315 | 118 | 52 | 485 | 518 | 4,811 |

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

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Aircraft | 35 | 44 |
| Land and buildings | 116 | 114 |
| Other property and equipment | 15 | 17 |
| Carrying amount | 166 | 175 |

Borrowing cost capitalised during the year amounts to EUR 13 million (2018 EUR 7 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 2.7% (2018 2.7%).

Land and buildings include buildings located on land which has been leased on a long-term basis. The book value of these buildings at December 31, 2019 amounts to EUR 198 million (December 31, 2018 EUR 190 million).

## 2. Right-of-use assets

| | Aircraft | Maintenance | Land & Real Estate | Others | Total |
|---|---|---|---|---|---|
| Net value | | | | | |
| As at January 1, 2019 | 1,350 | 587 | 117 | 127 | 2,181 |
| New contracts | 85 | - | 6 | 39 | 130 |
| Renewal or extension options | 63 | - | 2 | - | 65 |
| Reclassifications | (20) | 186 | 4 | (10) | 160 |
| Amortisation | (327) | (130) | (19) | (33) | (509) |
| Other movements | - | - | 1 | - | 1 |
| As at December 31, 2019 | 1,151 | 643 | 111 | 123 | 2,028 |

| | Aircraft | Maintenance | Land & Real Estate | Others | Total |
|---|---|---|---|---|---|
| Net value | | | | | |
| As at January 1, 2018 Restated | 1,605 | 634 | 95 | 134 | 2,468 |
| New contracts | - | - | 40 | 20 | 60 |
| Renewal or extension options | 70 | - | (1) | 1 | 70 |
| Disposals | (1) | - | - | - | (1) |
| Reclassifications | (2) | 63 | 6 | (4) | 63 |
| Amortisation | (322) | (96) | (21) | (24) | (463) |
| Other movements | - | (14) | (2) | - | (16) |
| As at December 31, 2018 | 1,350 | 587 | 117 | 127 | 2,181 |

Information related to lease debt is available in note 14.

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

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Variable rents | 7 | 12 |
| Short-term rents | 87 | 86 |
| Low value rents | 3 | 3 |
| Carrying amount | 97 | 101 |

## 3. Intangible assets

| | Goodwill | Software | Software under development | Total |
|---|---|---|---|---|
| Historical cost | | | | |
| As at January 1, 2019 | 40 | 490 | 177 | 707 |
| Additions | - | - | 153 | 153 |
| Disposals | - | (33) | (16) | (49) |
| Other movements | - | 54 | (74) | (20) |
| As at December 31, 2019 | 40 | 511 | 240 | 791 |
| | | | | |
| Accumulated amortisation and impairment | | | | |
| As at January 1, 2019 | 30 | 245 | - | 275 |
| Amortisation | - | 61 | - | 61 |
| Disposals | - | (33) | - | (33) |
| Other movements | - | (21) | - | (21) |
| As at December 31, 2019 | 30 | 252 | - | 282 |
| | | | | |
| Net carrying amount | | | | |
| As at January 1, 2019 | 10 | 245 | 177 | 432 |
| As at December 31, 2019 | 10 | 259 | 240 | 509 |
| | | | | |
| Historical cost | | | | |
| As at January 1, 2018 | 39 | 435 | 142 | 616 |
| Additions | 1 | 33 | 79 | 113 |
| Disposals | - | (9) | (13) | (22) |
| Other movements | - | 31 | (31) | - |
| As at December 31, 2018 | 40 | 490 | 177 | 707 |
| | | | | |
| Accumulated amortisation and impairment | | | | |
| As at January 1, 2018 | 29 | 193 | - | 222 |
| Amortisation | 1 | 61 | - | 62 |
| Disposals | - | (9) | - | (9) |
| Other movements | - | - | - | - |
| As at December 31, 2018 | 30 | 245 | - | 275 |
| | | | | |
| Net carrying amount | | | | |
| As at January 1, 2018 | 10 | 242 | 142 | 394 |
| As at December 31, 2018 | 10 | 245 | 177 | 432 |

As at December 31, 2019, software additions mainly relate to commercial, operational and aircraft maintenance systems.

The estimated useful life of a number of software systems has been reviewed and increased from 15 years to 20 years as of January 1, 2019. This decreases the 2019 intangible assets amortisation cost with approximately EUR 12 million compared to 2018.

## 4. Investments accounted for using the equity method

| As at December 31, | 2019 | 2018 Restated |
|---|---|---|
| Associates | 8 | 5 |
| Jointly controlled entities | 8 | 15 |
| Carrying amount | 16 | 20 |

### Investments in associates

| | 2019 | 2018 Restated |
|---|---|---|
| Carrying amount as at January 1 | 5 | 4 |
| | | |
| Movements | | |
| Investments | 1 | 1 |
| Share of profit after taxation | 2 | 1 |
| Dividends received | - | - |
| Foreign currency translation differences | - | - |
| Other movements | - | (1) |
| Net movement | 3 | 1 |
| Carrying amount as at December 31 | 8 | 5 |

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.

The Group's interest in its main associate Transavia France S.A.S. can be summarised as follows:

| As at December 31, | 2019 | 2018 Restated |
|---|---|---|
| Country of incorporation | France | France |
| | | |
| Percentage of interest held | 4.49% | 4.49% |
| | | |
| Assets | 1,201 | 1,067 |
| Liabilities | 1,144 | 996 |
| Revenues | 766 | 708 |
| Profit/(loss) after taxation | 9 | 6 |
| Share of profit / (loss) after taxation | 0 | 0 |

Transavia France S.A.S. (Transavia France) was an associate controlled by Air France (60%) and Transavia Airlines C.V. (40%) (Transavia). Transavia France had a negative equity and therefore both shareholders decided on a capital increase by Air France in November 2017. The Group decided not to participate in this capital increase. As a result the Transavia interest in Transavia France decreased from 40% to 4.49%. Despite this it is concluded that the significant influence prior to the capital increase has not changed significantly after the transaction. As a result the Group continues equity accounting for its 4.49% interest in Transavia France.

The carrying amount of the 4.49% stake in Transavia France is EUR 3 million (2018 EUR 3 million) as at December 31, 2019.

In addition in November 2017 both shareholders agreed a put option whereby Transavia was granted the right to sell to Air France its 4.49% shareholding in Transavia France in 2020 at a fixed price depending on the average actual net results in 2018-2019 of Transavia France. Based on an assessment and sensitivity tests Transavia concluded that this option is currently out of the money and therefore the interest is valued at nil as per December 31, 2019.

## 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, | 2019 | 2018 |
|---|---|---|
| Country of incorporation | The Netherlands | The Netherlands |
| | | |
| Percentage of interest held | 53% | 53% |
| Percentage of voting right | 45% | 45% |
| | | |
| Non-current assets | 3 | 25 |
| Current assets | 22 | 11 |
| Profit after taxation | 17 | 6 |
| | | |
| Share of profit after taxation | 9 | 3 |

The Group received a dividend of EUR 8 million in 2019 (2018 EUR 4 million) from Schiphol Logistics Park C.V.

## 5. Other (non-current) assets and liabilities

| 2019 | ASSETS Current | ASSETS Non-current | LIABILITIES Current | LIABILITIES Non-current |
|---|---|---|---|---|
| Exchange rate risk | | | | |
| Fair value hedges | 52 | 74 | (28) | (25) |
| Cash flow hedges | 59 | 13 | (16) | (9) |
| Items not qualifying for hedge accounting | 12 | 3 | - | - |
| Total exchange rate risk hedges | 123 | 90 | (44) | (34) |
| Interest rate risk | | | | |
| Fair value hedges | - | - | - | - |
| Cash flow hedges | - | - | (3) | (18) |
| Items not qualifying for hedge accounting | - | 9 | - | - |
| Total interest rate risk hedges | - | 9 | (3) | (18) |
| Commodity risk hedges | | | | |
| Cash flow hedges | 28 | 8 | (38) | (6) |
| Total commodity risk hedges | 28 | 8 | (38) | (6) |
| Total derivative financial instruments | 151 | 107 | (85) | (58) |
| Others | - | 116 | - | (90) |
| Total as at December 31, 2019 | 151 | 223 | (85) | (148) |

| 2018 | ASSETS Current | ASSETS Non-current | LIABILITIES Current | LIABILITIES Non-current |
|---|---|---|---|---|
| Exchange rate risk | | | | |
| Fair value hedges | 30 | 69 | (7) | (30) |
| Cash flow hedges | 23 | 30 | (11) | - |
| Items not qualifying for hedge accounting | 8 | 8 | - | - |
| Total exchange rate risk hedges | 61 | 107 | (18) | (30) |
| Interest rate risk | | | | |
| Fair value hedges | - | - | - | - |
| Cash flow hedges | - | - | (1) | (23) |
| Items not qualifying for hedge accounting | - | 10 | - | (2) |
| Total interest rate risk hedges | - | 10 | (1) | (25) |
| Commodity risk hedges | | | | |
| Cash flow hedges | 74 | 30 | (149) | (100) |
| Total commodity risk hedges | 74 | 30 | (149) | (100) |
| Total derivative financial instruments | 135 | 147 | (168) | (155) |
| Others | - | 77 | - | (73) |
| Total as at December 31, 2018 | 135 | 224 | (168) | (228) |

## 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, 2019 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 | 2,185 | 987 | 608 | 506 | 32 | 52 | - | 124 |
| | | | | | | | | |
| Forward sales | | | | | | | | |
| USD | 1,078 | 337 | 356 | 283 | 40 | 62 | - | (51) |
| | | | | | | | | |
| Total fair value hedges | 3,263 | 1,324 | 964 | 789 | 72 | 114 | - | 73 |
| | | | | | | | | |
| Cash flow hedges | | | | | | | | |
| | | | | | | | | |
| Options | | | | | | | | |
| CHF | 41 | 41 | - | - | - | - | - | - |
| GBP | 51 | 19 | 32 | - | - | - | - | (2) |
| | | | | | | | | |
| Forward purchases | | | | | | | | |
| USD | 986 | 569 | 413 | 4 | - | - | - | 70 |
| GBP | 8 | 8 | - | - | - | - | - | 2 |
| | | | | | | | | |
| Forward sales | | | | | | | | |
| CAD | 31 | 31 | - | - | - | - | - | - |
| GBP | 403 | 247 | 153 | 3 | - | - | - | (20) |
| JPY | 12 | 12 | - | - | - | - | - | - |
| SGD | 10 | 10 | - | - | - | - | - | - |
| USD | 177 | 97 | 80 | - | - | - | - | (3) |
| Other | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| Total cash flow hedges | 1,719 | 1,034 | 678 | 7 | - | - | - | 47 |
| | | | | | | | | |
| Items not qualifying for hedge accounting | | | | | | | | |
| | | | | | | | | |
| Forward purchases | | | | | | | | |
| USD | 153 | 109 | 44 | - | - | - | - | 15 |
| | | | | | | | | |
| Forward sales | | | | | | | | |
| USD | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| Other | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| Total items not qualifying for hedge accounting | 153 | 109 | 44 | - | - | - | - | 15 |
| Total exchange rate risk derivatives | 5,135 | 2,467 | 1,686 | 796 | 72 | 114 | - | 135 |

The total fair value hedges of EUR 73 million 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 36 million and are recognised in the balance sheet in the line item property, plant and equipment. The related costs of hedging amount to EUR 36 million and are recorded in other comprehensive Income.

## 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, 2019 | 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 | 289 | 8 | 54 | 52 | 24 | 43 | 108 | (21) |
| Total cash flow hedges | 289 | 8 | 54 | 52 | 24 | 43 | 108 | (21) |
| Items not qualifying for hedge accounting | | | | | | | | |
| Swaps | 125 | - | 9 | - | 24 | - | 92 | 9 |
| Total items not qualifying for hedge accounting | 125 | - | 9 | - | 24 | - | 92 | 9 |
| Total interest rate risk derivatives | 414 | 8 | 63 | 52 | 48 | 43 | 200 | (12) |

## 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, 2019 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 | 315 | 250 | 65 | - | - | - | - | (11) |
| Options | 1,710 | 1,145 | 565 | - | - | - | - | 3 |
| Total cash flow hedges | 2,025 | 1,395 | 630 | - | - | - | - | (8) |
| Total commodity risk derivatives | 2,025 | 1,395 | 630 | - | - | - | - | (8) |

### Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2019, 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 | 8 | 14 | 1 | 23 |
| | | | | |
| **Assets at fair value through profit or loss** | | | | |
| Marketable securities | 137 | 513 | - | 650 |
| Deposits and marketable securities | - | 108 | - | 108 |
| | | | | |
| **Derivatives instruments (asset and liability)** | | | | |
| Currency exchange derivatives | - | 135 | - | 135 |
| Interest rate derivatives | - | (12) | - | (12) |
| Commodity derivatives | - | (8) | - | (8) |

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, 2019.

The impact on "reserves" corresponds to the sensitivity of effective fair value variations for instruments and is documented in the hedged cash flow (options intrinsic value, fair value of closed instruments). The impact on the "income for tax" corresponds to the sensitivity of ineffective fair value variations of hedged instruments (principally time value of options) and fair value variations of transactions instruments. For fuel, the downward and upward sensitivity are not symmetrical when taken into account the utilisation, in respect of the policy of optional hedged instruments in which the risk profile is not linear.

For further information reference is made to the Financial Risk Management paragraph in the text to the notes to the consolidated financial statements.

### Fuel price sensitivity

The impact on "income before tax" and "reserves" of the variation of +/- USD 10 on a barrel of Brent is presented below:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Increase of 10 USD | Decrease of 10 USD | Increase of 10 USD | Decrease of 10 USD |
| | | | | |
| Reserves | 207 | (208) | 215 | (217) |

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, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 |
| USD | 649 | 684 | 445 | 346 |
| JPY | - | - | 164 | 245 |
| CHF | - | - | 345 | 333 |
| GBP | 43 | - | - | - |

The amounts of monetary assets and liabilities disclosed above do not include the effect of derivatives.

The impact on "change in value of financial instruments" and on "reserves" of the variation of a 10% weakening in exchange rates in absolute value relative to the Euro is presented below:

| | USD | | JPY | | GBP | |
|---|---|---|---|---|---|---|
| | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 |
| Change in value of financial instruments | (19) | (31) | 15 | 21 | (4) | (5) |
| Reserves | (80) | (108) | 1 | 3 | 40 | 29 |

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 2019 (EUR nil million for 2018).

## 6. Other financial assets

| | Debt investments at amortised cost | | At fair value through profit or loss | | At fair value through OCI | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Carrying amount as at January 1 | 540 | 394 | 108 | 112 | 46 | 74 | 694 | 580 |
| | | | | | | | | |
| Movements | | | | | | | | |
| Additions and loans granted | 66 | 170 | 43 | - | - | - | 109 | 170 |
| Loans and interest repaid | (16) | (45) | - | (1) | - | - | (16) | (46) |
| Interest accretion | - | 8 | - | - | - | - | - | 8 |
| Foreign currency translation differences | 7 | 16 | 1 | (3) | - | - | 8 | 13 |
| Other movements | 7 | (3) | - | - | (24) | (28) | (17) | (31) |
| | | | | | | | | |
| Net movement | 64 | 146 | 44 | (4) | (24) | (28) | 84 | 114 |
| Carrying amount as at December 31 | 604 | 540 | 152 | 108 | 22 | 46 | 778 | 694 |

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Debt investments at amortised cost | | | | |
| Bonds, long-term deposits, other loans and receivables | 53 | 551 | 7 | 533 |
| | | | | |
| At fair value through profit or loss | | | | |
| Deposits and commercial paper with original maturity 3-12 months | 108 | - | 70 | - |
| Other restricted deposits | - | - | 1 | - |
| Deposits on operating leased aircraft | - | 33 | - | 26 |
| Air France KLM S.A. shares | - | 11 | - | 11 |
| | 108 | 44 | 71 | 37 |
| At fair value through OCI | | | | |
| Kenya Airways Ltd. shares | - | 8 | - | 33 |
| Other non-consolidated entities | - | 14 | - | 13 |
| | - | 22 | - | 46 |
| Carrying amount as at December 31 | 161 | 617 | 78 | 616 |

The Group's stake in Kenya Airways Ltd. is 7.76% as at December 31, 2019 (December 31, 2018 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, | 2019 | 2018 |
|---|---|---|
| USD | 324 | 408 |
| Kenyan shilling | 8 | 33 |
| Total | 332 | 441 |

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, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| in % | EUR | USD | EUR | USD |
| Debt investments at amortised cost | 0.1 | 2.0 | 0.1 | 2.7 |
| At fair value through profit or loss | 0.1 | - | 0.1 | - |

The triple A bonds and long-term deposits are held as a natural accounting hedge to mitigate the effect of foreign exchange movements relating to financial debt. Except as described below these securities are at the free disposal of the Company. Access to triple A bonds and long-term deposits, loans and receivables amounting to EUR 236 million (December 31, 2018 EUR 197 million) is restricted.

The maturities of debt investments are as follows:

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Debt investments at amortised cost | | |
| Less than 1 year | 52 | 7 |
| Between 1 and 2 years | 183 | 50 |
| Between 2 and 3 years | 29 | 179 |
| Between 3 and 4 years | 58 | 28 |
| Between 4 and 5 years | 21 | 56 |
| Over 5 years | 261 | 220 |
| Total | 604 | 540 |

The fair values of the financial assets are as follows:

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Debt investments at amortised cost | | |
| Bonds, long-term deposits, loans and receivables | 602 | 540 |
| | | |
| At fair value through profit or loss | | |
| Restricted deposit EU Cargo claim | 50 | 50 |
| Restricted deposits | 58 | 20 |
| Deposits on operating leased aircraft | 33 | 26 |
| AIR FRANCE KLM S.A. shares | 11 | 11 |
| | 152 | 107 |
| At fair value through OCI | | |
| Kenya Airways Ltd. shares | 8 | 33 |
| Other non-consolidated entities | 14 | 13 |
| | 22 | 46 |
| Total fair value | 776 | 693 |

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, 2019 and December 31, 2018;
- AIR FRANCE KLM S.A. shares: Quoted price as at close of business on December 31, 2019 and December 31, 2018;
- 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, | 2019 | 2018 |
|---|---|---|
| Less than 1 year | 160 | 77 |
| Between 1 and 2 years | 183 | 50 |
| Between 2 and 3 years | 29 | 179 |
| Between 3 and 4 years | 58 | 28 |
| Between 4 and 5 years | 21 | 56 |
| Over 5 years | 257 | 219 |
| Total interest bearing financial assets | 708 | 609 |

## 7. Inventories

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Carrying amount | | |
| Maintenance inventories | 299 | 247 |
| Allowance for obsolete inventories | (71) | (67) |
| Maintenance inventories - net | 228 | 180 |
| | | |
| Other sundry inventories | 70 | 55 |
| Total | 298 | 235 |

## 8. Trade and other receivables

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Trade receivables | 515 | 622 |
| Reserve trade receivables | (31) | (27) |
| Trade receivables - net | 484 | 595 |
| | | |
| Amounts due from: | | |
| - AIR FRANCE KLM group companies | 85 | 85 |
| - associates and jointly controlled entities | 17 | 3 |
| - maintenance contract customers | 317 | 270 |
| Taxes and social security premiums | 47 | 54 |
| Other receivables | 114 | 90 |
| Prepaid expenses | 205 | 180 |
| Total | 1,269 | 1,277 |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| < 90 days | 477 | 588 |
| 90-180 days | 3 | 2 |
| 180-360 days | 1 | 2 |
| > 360 days | 3 | 3 |
| Total trade receivables | 484 | 595 |

In the financial year EUR 3 million (December 31, 2018 EUR 13 million increase) increase of provision trade receivables has been recorded in other income and expenses in the consolidated statement of profit or loss.

Maintenance contract cost incurred to date for contracts in progress at December 31, 2019 amounted to EUR 302 million (December 31, 2018 EUR 318 million).

Advances received for maintenance contracts in progress at December 31, 2019 amounted to EUR 102 million (December 31, 2018 EUR 95 million).

## 9. Cash and cash equivalents

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Cash at bank and in hand | 48 | 95 |
| Short-term deposits | 649 | 779 |
| Total | 697 | 874 |

The effective interest rates on short-term deposits are in the range from -0.33% to 3.35% (2018 range -0.48% 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, | 2019 | 2018 |
|---|---|---|
| USD | 14 | 28 |
| GBP | 2 | 1 |
| Other currencies | 12 | 13 |
| Total | 28 | 42 |

The fair value of cash and cash equivalents does not differ materially from the book value.

## 10. Share capital

### Authorised share capital

No movements have occurred in the authorised share capital since April 1, 2004. The authorised share capital of the Company is summarised in the following table:

| | Authorised | | |
|---|---|---|---|
| | Par value per share (in EUR) | Number of shares | Amount in EUR 1,000 |
| Priority shares | 2.00 | 1,875 | 4 |
| Ordinary shares | 2.00 | 149,998,125 | 299,996 |
| A Cumulative preference shares | 2.00 | 37,500,000 | 75,000 |
| B Preference shares | 2.00 | 75,000,000 | 150,000 |
| C Cumulative preference shares | 2.00 | 18,750,000 | 37,500 |
| Total authorised share capital | | | 562,500 |

### Issued share capital

No movements have occurred in the issued share capital since April 1, 2004. No shares are issued but not fully paid.

| | Issued and fully paid | | | |
|---|---|---|---|---|
| | December 31, 2019 | | December 31, 2018 | |
| | 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, 2019 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, 2019 | (130) | (956) | 13 | 422 | (651) |
| | | | | | |
| Gains/(losses) from cash-flow hedges | 131 | - | - | - | 131 |
| Exchange differences on translating foreign operations | - | - | (1) | - | (1) |
| Remeasurement of defined benefit pension plans | - | 141 | - | - | 141 |
| Transfer from retained earnings | - | 99 | - | 63 | 162 |
| Tax on items taken directly to or transferred from equity | (32) | (65) | - | - | (97) |
| As at December 31, 2019 | (31) | (781) | 12 | 485 | (315) |
| | | | | | |
| As at January 1, 2018 | 98 | (796) | 12 | 382 | (304) |
| | | | | | |
| Prospective application of IFRS 9 | 6 | - | - | - | 6 |
| | | | | | |
| As at January 1, 2018 Restated | 104 | (796) | 12 | 382 | (298) |
| | | | | | |
| Gains/(losses) from cash-flow hedges | (312) | - | - | - | (312) |
| Exchange differences on translating foreign operations | - | - | 1 | - | 1 |
| Remeasurement of defined benefit pension plans | - | (209) | - | - | (209) |
| Transfer from retained earnings | - | - | - | 40 | 40 |
| Tax on items taken directly to or transferred from equity | 78 | 49 | - | - | 127 |
| As at December 31, 2018 Restated | (130) | (956) | 13 | 422 | (651) |

The volatility from the KLM pension plans have reduced significantly after the transfer of the cockpit crew and cabin crew to a collective defined contribution pension schemes in 2017. However, the volatility in the value of fuel derivatives and the remeasurement of the current defined benefit pension plans remains for the ground staff pension plan and other smaller defined benefit pension plans. The non-cash changes in pension obligations together with the level of plan assets linked to the changes in actuarial assumptions (such as the current very low discount rate) that need to be recognised in the Company's equity do not directly affect the statement of profit or loss.

In the event that the Company's equity would become negative, the Company foresees no immediate issues given that its operational cash flow is strong enough and that this accounting situation has no consequences on the Company's operations and liabilities. Reference is made to the assessment of 'going concern' in the Risks and risk management section.

For an elucidation on the remaining volatility of defined pension plans, 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.

### 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.

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.

#### Remeasurement of defined benefit plans

Comprises all actuarial gains and losses related to the remeasurement of defined benefit plans.

#### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the consolidated figures of non-Euro foreign subsidiaries, as well as from the translation of the Company's net investment in foreign associates and jointly controlled entities.

#### Other reserve

The other reserve relates to the amount of development cost incurred on computer software and prepayments thereon at the balance sheet date, as required by Article 365.2 of Book 2 of the Dutch Civil Code.

## 12. Loans from parent company

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| AIR FRANCE KLM S.A. | - | - | 99 | - |
| Total | - | - | 99 | - |

### Loans from parent company – Current

On March 28, 2013, AIR FRANCE KLM S.A. issued a convertible bond of a principal amount of EUR 550 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to the Company by means of an intercompany loan facility, dated June 7, 2013, a total amount of EUR 198 million. This intercompany loan facility remained in place, despite the fact that the related bond has converted into equity in the course of 2017. In 2019 the Company repaid last part of the loan facility, which is not any longer available to the Company as at December 31, 2019.

## 13. Financial debt

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | 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 | 194 | 13 | 181 | 246 | 14 | 232 |
| Total current | 194 | 13 | 181 | 246 | 14 | 232 |
| | | | | | | |
| Between 1 and 2 years | 219 | 11 | 208 | 181 | 12 | 169 |
| Between 2 and 3 years | 127 | 9 | 118 | 211 | 9 | 202 |
| Between 3 and 4 years | 157 | 7 | 150 | 115 | 7 | 108 |
| Between 4 and 5 years | 91 | 5 | 86 | 143 | 6 | 137 |
| Over 5 years | 577 | 9 | 568 | 431 | 9 | 422 |
| Total non-current | 1,171 | 41 | 1,130 | 1,081 | 43 | 1,038 |
| Total | 1,365 | 54 | 1,311 | 1,327 | 57 | 1,270 |

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 1.59% (average fixed rate 1.87%, average floating rate 1.22%). Taking into account the impact of hedging the average interest rate is 1.91% (average fixed rate 1.95%, average floating rate 1.67%). After hedging 85% 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, 2019. 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.

## 14. Lease debt

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Lease Debt - Aircraft | 350 | 952 | 338 | 1,160 |
| Lease Debt - Real estate | 17 | 125 | 22 | 130 |
| Lease Debt - Others | 31 | 96 | 9 | 110 |
| Accrued interest | 6 | - | 5 | 1 |
| Total | 404 | 1,173 | 374 | 1,401 |

Change in lease debt:

| | As at January 1, 2019 | New contracts and renewals of contracts | Payment of lease debt | Currency translation adjustment | Other | As at December 31, 2019 |
|---|---|---|---|---|---|---|
| Lease Debt - Aircraft | 1,497 | 127 | (335) | 7 | 6 | 1,302 |
| Lease Debt - Real estate | 152 | 12 | (22) | - | - | 142 |
| Lease Debt - Others | 120 | 40 | (23) | - | (9) | 128 |
| Accrued interest | 6 | (1) | - | - | - | 5 |
| Total | 1,775 | 178 | (380) | 7 | (3) | 1,577 |

| | As at January 1, 2018 | New contracts and renewals of contracts | Payment of lease debt | Currency translation adjustment | Other | As at December 31, 2018 |
|---|---|---|---|---|---|---|
| Lease Debt - Aircraft | 1,681 | 70 | (320) | 70 | (4) | 1,497 |
| Lease Debt - Real estate | 135 | 38 | (24) | - | 3 | 152 |
| Lease Debt - Others | 129 | 22 | (32) | 5 | (4) | 120 |
| Accrued interest | - | - | - | - | 6 | 6 |
| Total | 1,945 | 130 | (376) | 75 | 1 | 1,775 |

The lease debt maturity breaks down as follows:

| | 2019 | 2018 |
|---|---|---|
| Less than 1 year | 488 | 475 |
| Between 1 and 2 years | 420 | 426 |
| Between 2 and 3 years | 333 | 359 |
| Between 3 and 4 years | 231 | 291 |
| Between 4 and 5 years | 130 | 202 |
| Over 5 years | 261 | 321 |
| Total | 1,863 | 2,074 |
| Including: | | |
| - Principal | 1,577 | 1,775 |
| - Interest | 286 | 299 |

## 15. Other financial liabilities

| | 2019 | 2018 |
|---|---|---|
| Carrying amount as at January 1 | 1,199 | 1,146 |
| | | |
| Additions and loans received | 230 | 63 |
| Loans repaid | (416) | (37) |
| Foreign currency translation differences | 21 | 27 |
| Other changes | 48 | - |
| Net movement | (117) | 53 |
| Carrying amount as at December 31 | 1,082 | 1,199 |

The other financial liabilities comprise:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| A Cumulative preference shares | - | 18 | - | 18 |
| C Cumulative preference shares | - | 14 | - | 14 |
| Subordinated perpetual loans | - | 509 | - | 572 |
| Other loans (secured/unsecured) | 77 | 464 | 10 | 585 |
| Total | 77 | 1,005 | 10 | 1,189 |

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 EUR 345 million as at December 31, 2019 (December 31, 2018 EUR 333 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Less than 1 year | 77 | 10 |
| Between 1 and 2 years | 36 | 147 |
| Between 2 and 3 years | 160 | 227 |
| Between 3 and 4 years | 79 | 205 |
| Between 4 and 5 years | 154 | - |
| Over 5 years | 576 | 610 |
| Total | 1,082 | 1,199 |

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

| As at December 31, | 2019 | 2018 |
|---|---|---|
| CHF | 345 | 333 |
| JPY | 164 | 239 |
| Total | 509 | 572 |

The fair values of financial liabilities are as follows:

| As at December 31, | 2019 | 2018 |
|---|---|---|
| A Cumulative preference shares | 18 | 18 |
| C Cumulative preference shares | 14 | 14 |
| Subordinated perpetual loans | 457 | 527 |
| Other loans (secured/unsecured) | 506 | 597 |
| Fair value | 995 | 1,156 |

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, 2019 | | | | |
| Total borrowings | 424 | 110 | 548 | 1,082 |
| | 424 | 110 | 548 | 1,082 |
| | | | | |
| As at December 31, 2018 | | | | |
| Total borrowings | 533 | 64 | 603 | 1,200 |
| Effect of interest rate swaps | (63) | - | 63 | - |
| | 470 | 64 | 666 | 1,200 |

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

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| in % | EUR | Other | EUR | Other |
| Cumulative preference shares | 3.70 | - | 3.70 | - |
| Subordinated perpetual loans | - | 4.24 | - | 4.73 |
| Other loans | 1.35 | - | 1.58 | - |

The interest rates of the 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 |
|---|---|---|---|---|---|
| Subordinated perpetual loans | - | 509 | 0.00% | 4.69% | 4.69% |
| Other loans | 424 | 110 | 1.17% | 1.40% | 1.22% |

The variable interest rates are based on EURIBOR or the USD LIBOR rate.

In April 2019, the EUR 665 million Revolving Credit Facility, with 12 international banks, originally agreed for a period of 5 years, was extended with an additional year using an extension option. The Revolving Credit Facility is now available until May 2024, plus a remaining one year extension option. No amounts were drawn in 2019 or 2018.

The total financial liabilities are as follows:

| | | As at December 31, | |
|---|---|---|---|
| | Note | 2019 | 2018 |
| Loans from parent company | 12 | - | 99 |
| Finance lease obligations | 13 | 181 | 232 |
| Lease debt | 14 | 404 | 374 |
| Other financial liabilities | 15 | 77 | 10 |
| **Total current** | | **662** | **715** |
| | | | |
| Loans from parent company | 12 | - | - |
| Finance lease obligations | 13 | 1,130 | 1,038 |
| Lease debt | 14 | 1,173 | 1,401 |
| Other financial liabilities | 15 | 464 | 585 |
| Perpetual subordinated loan stock in YEN | 15 | 164 | 239 |
| Perpetual subordinated loan stock in Swiss francs | 15 | 345 | 333 |
| Cumulative preference shares | 15 | 32 | 32 |
| **Total non-current** | | **3,308** | **3,628** |
| **Total** | | **3,970** | **4,343** |

The total movements in financial liabilities are as follows:

| | Note | As at January 1, 2019 | New financial debt | Reimburs-ment of financial debt | Currency translation differences | Other | As at December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Loans from parent company | 12 | 99 | - | (99) | - | - | - |
| Finance lease obligations | 13 | 1,270 | 271 | (196) | 7 | (41) | 1,311 |
| Lease debt | 14 | 1,775 | 178 | (380) | 7 | (3) | 1,577 |
| Other financial liabilities | 15 | 595 | 220 | (333) | - | 58 | 540 |
| Perpetual subordinated loan stock | 15 | 572 | - | (83) | 21 | - | 510 |
| Cumulative preference shares | 15 | 32 | - | - | - | - | 32 |
| **Total** | | **4,343** | **669** | **(1,091)** | **35** | **14** | **3,970** |

## 16. Net debt

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Current and non-current financial debt | 3,965 | 4,337 |
| Financial debt | 3,965 | 4,337 |
| | | |
| Cash and cash equivalents | 697 | 874 |
| Restricted deposits | 117 | 82 |
| Cross currency element of CCIR swaps | 8 | 8 |
| Near cash | 618 | 548 |
| Financial assets | 1,440 | 1,512 |
| Total net debt | 2,525 | 2,825 |

| | 2019 | 2018 |
|---|---|---|
| Carrying amount as at January 1 | 2,825 | 3,280 |
| | | |
| Adjusted free cash flow | (132) | (311) |
| Repayment lease debt | (380) | (376) |
| New lease debt | 178 | 130 |
| Other (including currency translation adjustment) | 34 | 102 |
| Net movement | (300) | (455) |
| Carrying amount as at December 31 | 2,525 | 2,825 |

## 17. Deferred income

| | December 31, 2019 | | December 31, 2018 Restated | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Advance ticket sales | 1,293 | - | 1,177 | - |
| Sale and leaseback transactions | 1 | 7 | 1 | 8 |
| Flying Blue frequent flyer program | 79 | 214 | 102 | 187 |
| Others | 9 | 8 | 21 | 10 |
| Total | 1,382 | 229 | 1,301 | 205 |

## 18. Deferred/Current tax

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

| As at December 31, | 2019 | 2018 Restated |
|---|---|---|
| | | |
| Current income tax liabilities Dutch tax fiscal unity | 82 | - |
| | | |
| Deferred tax asset other tax jurisdictions | (21) | (25) |
| Deferred tax liability/(asset) Dutch tax fiscal unity | 84 | (97) |
| | 63 | (122) |
| Total | 145 | (122) |

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

| | 2019 | 2018 Restated |
|---|---|---|
| Carrying amount as at January 1 | (122) | (197) |
| | | |
| Income statement expense | 162 | 201 |
| Tax (credited)/charged to equity | 69 | (127) |
| Reduction due to tax rate | 29 | - |
| Other movements | 7 | 1 |
| Net movement | 267 | 75 |
| Carrying amount as at December 31 | 145 | (122) |

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 has a current income tax payable position as per December 31, 2019. In 2019 no current income tax has been paid as the Group became tax payable towards the end of the financial year.

The Dutch income tax will be lowered to 21.7% in 2021. The impact of this change is taken into account in the 2019 financial statements.

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 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 21 million, EUR nil million is expected to be recovered in 12 months or less and EUR 4 million is expected to be recovered after more than 12 months. An amount of EUR 17 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 deferred tax liability/(asset) of the Dutch tax fiscal unity is built up as follows:

| As at December 31, | 2019 | 2018 Restated |
|---|---|---|
| Deferred tax assets | | |
| Deferred tax assets to be recovered in 12 months or less | - | 75 |
| Deferred tax assets to be recovered after more than 12 months | 15 | 42 |
| | 15 | 117 |
| | | |
| Deferred tax liabilities | | |
| Deferred tax liabilities to be settled in 12 months or less | - | 2 |
| Deferred tax liabilities to be settled over more than 12 months | 99 | 18 |
| | 99 | 20 |
| Net Deferred tax asset KLM income tax fiscal unity (offset) | 84 | (97) |

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 | | | | | |
| | | | | | |
| 2019 | | | | | |
| Tax losses | 75 | (75) | - | - | - |
| Fleet assets | 1 | (1) | - | - | - |
| Provisions for employee benefits | 25 | - | (4) | - | 21 |
| Other tangible fixed assets | - | - | - | 18 | 18 |
| Derivative financial instruments | 43 | - | (47) | - | (4) |
| Other | 8 | (14) | 14 | (7) | 1 |
| Total | 152 | (90) | (37) | 11 | 36 |

| | 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 | | | | | |
| | | | | | |
| 2018 Restated | | | | | |
| Tax losses | 265 | (187) | - | (3) | 75 |
| Fleet assets | 1 | - | - | - | 1 |
| Provisions for employee benefits | 39 | - | (6) | (8) | 25 |
| Derivative financial instruments | (22) | - | 75 | (10) | 43 |
| Other | (4) | - | - | 12 | 8 |
| Total | 279 | (187) | 69 | (9) | 152 |

| | Carrying amount as at January 1 | Income statement charge/ (credit) | Tax (charged) / credited to equity | Other | Carrying amount as at December 31 |
|---|---|---|---|---|---|
| Deferred tax liabilities | | | | | |
| | | | | | |
| 2019 | | | | | |
| Other tangible fixed assets | (13) | (5) | - | 18 | - |
| Pensions and benefits (asset) | 43 | (5) | 61 | - | 99 |
| Total | 30 | (10) | 61 | 18 | 99 |

| | 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 | | | | | |
| | | | | | |
| 2018 | | | | | |
| Other tangible fixed assets | (10) | (3) | - | - | (13) |
| Pensions and benefits (asset) | 92 | 17 | (58) | (8) | 43 |
| Total | 82 | 14 | (58) | (8) | 30 |

Under income tax law in The Netherlands, the maximum future period for utilising tax losses carried forward is nine years. In the United Kingdom, this period is indefinite.

The Group has tax loss carry forwards in the United Kingdom in the amount of EUR 9 million (December 31, 2018 EUR 9 million) as well as deductible temporary differences for which no deferred tax asset has been recognised, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised. The unrecognised deferred tax assets relating to temporary differences amount to EUR 24 million (December 31, 2018 EUR 18 million).

## 19. Provisions for employee benefits

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Pension and early-retirement obligations | 273 | 281 |
| Post-employment medical benefits | 25 | 27 |
| Other long-term employment benefits | 112 | 95 |
| Termination benefits | 10 | 9 |
| Total Liabilities | 420 | 412 |
| | | |
| Less: Non-current portion | | |
| Pension and early-retirement obligations | 259 | 263 |
| Post-employment medical benefits | 24 | 25 |
| Other long-term employment benefits | 106 | 90 |
| Termination benefits | 9 | 8 |
| Non-current portion | 398 | 386 |
| Current portion | 22 | 26 |

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Assets | | |
| Pension assets non-current portion | 420 | 331 |
| Total assets | 420 | 331 |

### Pension plans

The Company sponsors a number of pension plans for employees world-wide. As per December 31, 2019, the major defined benefit plans include KLM ground staff based in The Netherlands, the United Kingdom, Germany, Hong Kong, and Japan. These plans are funded through separate pension funds which are governed by independent boards and are subject to supervision of the local regulatory authorities.
In addition to these major plans there are various relatively insignificant defined benefit and defined contribution plans for employees located in- and outside The Netherlands.

In 2017 the pension plans for KLM cabin crew and KLM cockpit crew were modified to defined contribution plans (collective defined contribution), which resulted in 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.

### Characteristics of ground staff plan

The pension plan relating to ground staff of the Company is a defined benefit plan based on the average salary with reversion to the spouse in case of death of the beneficiary. The retirement age as defined in the plan is 68 years. The average duration of the pension plan is 20 years.
The board of the pension fund is composed of members appointed by the employer, employees, pensioners and an external expert since September 1, 2018. The board is fully responsible for the execution of the plan. The Company can only control the financing agreement between the Company and the pension fund.

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 125% of the projected long-term commitment. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) applicable as per January 1, 2015.
The impact of the nFTK among other things resulted in higher minimum required solvency levels. On the other hand, pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment.

If the coverage ratio is under the funding rules detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the threshold of 125% within 10 years and includes projected future return on investment. As a consequence, the existing recovery plan for the ground staff plan has been updated as per April 1, 2019.

If the threshold cannot be realised within 10 years additional contributions are payable by the Company and the employees. The amount of regular and additional employer contributions is not limited. The amount of possible additional employee contributions is limited to 2% of the pensionable contribution basis. A reduction of contribution is possible if the indexation of pensions is fully funded. Besides Dutch pension law, this reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the Dutch fiscal rules, among other things, a maximum pensionable salary of EUR 100,000 (as a result of indexation EUR 107,593 as per January 1, 2019) and lower future accrual rate are applicable since 2015.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions for the yearly pension accrual are limited to 22% of the pensionable base. The funds, fully dedicated to the Company, are mainly invested in bonds, equities and real estate.
The required funding of this pension plan also includes buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk. For example, to reduce the sensitivity to a decline of the interest rate, a substantial part of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

### Investment strategy

The board of the aforementioned ground staff plan, consults independent advisors as necessary to assist them with determining investment strategies consistent with the objectives of the fund. These strategies relate to the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns. The fund uses asset and liability management studies that generate future scenarios to determine their optimal asset mix and expected rates of return on assets.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plan invests a large proportion of its assets in equities which is believed to offer the best returns over the long-term commensurate with an acceptable level of risk. Also a proportion of assets is invested in property, bonds and cash. The management of most assets is outsourced to a private institution, Blue Sky Group, under a service contract.

### Developments 2019

In 2019 the financial markets resulted in significantly increased plan assets with EUR 1,351 million. This was almost offset by a considerable decrease of the discount rate used to calculate the pension obligations from 1.85% to 1.15%, which results in a marked higher defined benefit obligations of EUR 1,253 million.

The funding ratio (based on the average 12 months rolling policy coverage), as set by the Dutch Central Bank, is as follows as at December 31, 2019 (and as at December 31, 2018):

» Ground staff pension fund 108.2% (December 31, 2018: 116.6%).

As per year-end 2019 the ground staff pension fund is below the required coverage ratio and therefore has to issue an updated recovery plan before April 1, 2020. As a result of the 10 year rolling recovery plan no additional recovery payments are needed for 2019 nor for 2020.

### Recognition of pension assets and liabilities in the balance sheet

The funds have together a surplus totalling EUR 147 million as at December 31, 2019 (December 31, 2018 surplus EUR 49 million).

No limit (i.e. after the impact of IAS 19 and IFRIC 14 "The limit on a defined benefit asset, minimum funding requirements and their interaction" on IAS 19) on the net assets recognised in the balance sheet is applied since, based on the current financing agreement between the ground staff pension fund and the Company, future economic benefits are available in the form of a reduction in future contributions. These net assets recognised are not readily available for the Company.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase and mortality rates. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between the ground staff pension fund and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14).

## Assumptions used for provisions for employee benefits

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

| | Pension and early-retirement obligations | |
|---|---|---|
| | As at December 31, | |
| in % | 2019 | 2018 |
| **Weighted average assumptions used to determine benefit obligations** | | |
| Discount rate for year ended | 1.18 | 1.83 |
| Rate of compensation increase | 1.30 | 1.60 |
| Rate of price inflation | 1.51 | 1.83 |
| | | |
| **Weighted average assumptions used to determine net cost** | | |
| Discount rate for year ended | 1.89 | 1.82 |
| Rate of compensation increase | 1.16 | 1.20 |
| Rate of price compensation | 1.85 | 1.86 |

For the main ground staff pension plan, the 2019 Generation mortality tables (with certain plan specific adjustments) of the Dutch Actuarial Association were used.

The Company refines its calculations, by retaining the adequate flows, on the discount rate used for the service-cost calculation. In the Euro zone, this leads to the use of a discount rate of 0.15% higher for the service-cost calculation compared to the one used for the discount of the benefit obligation.

| | Pension and early-retirement obligations | |
|---|---|---|
| As at December 31, | 2019 | 2018 |
| Present value of wholly or partly funded obligations | 10,069 | 8,816 |
| Fair value of plan assets | (10,216) | (8,865) |
| **Net liability/(asset) relating pension and other post-retirement obligations** | **(147)** | **(49)** |

| | Pension and early-retirement obligations | |
|---|---|---|
| As at December 31, | 2019 | 2018 |
| **Amounts in the balance sheet** | | |
| Liabilities | 273 | 281 |
| Assets | (420) | (331) |

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

| | Pension and early-retirement obligations | |
|---|---|---|
| | 2019 | 2018 |
| Carrying amount as at January 1 | 8,816 | 8,843 |
| | | |
| Current service cost | 191 | 187 |
| Interest expense | 165 | 167 |
| Past service cost | - | 3 |
| Actuarial losses/(gains) demographic assumptions | (12) | (108) |
| Actuarial losses/(gains) financial assumptions | 1,068 | 37 |
| Actuarial losses/(gains) experience adjustments | 20 | (39) |
| Benefits paid from plan/company | (207) | (271) |
| Exchange rate changes | 28 | (3) |
| Net movement | 1,253 | (27) |
| Carrying amount as at December 31 | 10,069 | 8,816 |

The 2018 past service cost fully relates to UK GMP. The EUR 3 million past service cost has been recorded in "Other non-current income and expenses" in the Consolidated statement of profit or loss.

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

| | 2019 | 2018 |
|---|---|---|
| Fair value as at January 1 | 8,865 | 9,053 |
| | | |
| Interest income | 168 | 174 |
| Return on plan assets excluding interest income | 1,218 | (339) |
| Employer contributions | 112 | 97 |
| Member contributions | 32 | 65 |
| Benefits paid from plan / company | (200) | (190) |
| Other | - | 8 |
| Exchange rate changes | 21 | (3) |
| Net movement | 1,351 | (188) |
| Fair value as at December 31 | 10,216 | 8,865 |

The experience adjustments are as follows:

| | 2019 | 2018 |
|---|---|---|
| Benefit obligation | 20 | (39) |
| Plan asset | 1,218 | (339) |

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the discount rate is:

| | Sensitivity of the assumptions for the year ended December 31, | |
|---|---|---|
| In millions of Euros | 2019 | 2018 |
| 0.25% increase in the discount rate | | |
| Impact on service cost | (16) | (12) |
| Impact on defined benefit obligation | (496) | (404) |
| | | |
| 0.25% decrease in the discount rate | | |
| Impact on service cost | 18 | 13 |
| Impact on defined benefit obligation | 569 | 463 |

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the salary increase is:

| | Sensitivity of the assumptions for the year ended December 31, | |
|---|---|---|
| In millions of Euros | 2019 | 2018 |
| 0.25% increase in the salary increase | | |
| Impact on service cost | 3 | 2 |
| Impact on defined benefit obligation | 30 | 25 |
| | | |
| 0.25% decrease in the salary increase | | |
| Impact on service cost | (3) | (2) |
| Impact on defined benefit obligation | (28) | (22) |

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:

| | Sensitivity of the assumptions for the year ended December 31, | |
|---|---|---|
| In millions of Euros | 2019 | 2018 |
| 0.25% increase in the pension increase rate | | |
| Impact on service cost | 15 | 11 |
| Impact on defined benefit obligation | 513 | 418 |
| | | |
| 0.25% decrease in the pension increase rate | | |
| Impact on service cost | (15) | (8) |
| Impact on defined benefit obligation | (514) | (316) |

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

| | As at December 31, | |
|---|---|---|
| in % | 2019 | 2018 |
| Debt securities | 48 | 52 |
| Real estate | 9 | 10 |
| Equity securities | 42 | 38 |

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, | 2019 | 2018 |
| Present value of unfunded obligations | 25 | 27 |
| | | |
| **Net liability/(asset) relating pension and other post-retirement obligations** | **25** | **27** |

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

| | Post-employment medical benefits | |
|---|---|---|
| | 2019 | 2018 |
| **Carrying amount as at January 1** | **27** | **32** |
| | | |
| Interest expense | 1 | 1 |
| Actuarial losses/(gains) demographic assumptions | (1) | - |
| Actuarial losses/(gains) financial assumptions | 2 | (4) |
| Actuarial losses/(gains) experience adjustments | (2) | (2) |
| Past service cost | (1) | - |
| Benefits paid from plan/company | (2) | (2) |
| Exchange rate changes | 1 | 2 |
| **Net movement** | **(2)** | **(5)** |
| **Carrying amount as at December 31** | **25** | **27** |

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 % | 2019 | 2018 |
| **Weighted average assumptions used to determine benefit obligations** | | |
| Discount rate for year | 3.10 | 4.45 |
| | | |
| **Weighted average assumptions used to determine net cost** | | |
| Discount rate for year | 4.45 | 3.65 |
| | | |
| **Medical cost trend rate assumptions used to determine net cost *** | | |
| Immediate trend rate Pre 65 | 2.70 | 2.20 |
| Immediate trend rate Post 65 | 2.70 | 2.20 |
| Ultimate trend rate | 3.90 | 3.70 |
| Year that the rate reaches ultimate trend rate | 2099 | 2099 |

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

### Other long-term employee benefits

| | 2019 | 2018 |
|---|---|---|
| Jubilee benefits | 76 | 67 |
| Other benefits | 36 | 28 |
| Total carrying amount | 112 | 95 |
| | | |
| Less: Non-current portion | | |
| Jubilee benefits | 71 | 62 |
| Other benefits | 35 | 28 |
| Non-current portion | 106 | 90 |
| Current portion | 6 | 5 |

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

| | 2019 | 2018 |
|---|---|---|
| Redundancy benefits | | |
| Non-current portion | 9 | 8 |
| Current portion | 1 | 1 |
| Total carrying amount | 10 | 9 |

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.

## 20. Return obligation liability and other provisions

| | | | Other provisions | | |
|---|---|---|---|---|---|
| | Return obligation liability on leased aircraft | Maintenance liability on leased aircraft | Legal and civil litigations | Other | Total |
| As at January 1, 2019 | 273 | 1,018 | 148 | 39 | 1,478 |
| | | | | | |
| Additions and increases | 8 | (4) | 5 | 31 | 40 |
| Used during year | - | - | - | (29) | (29) |
| New / Changes in lease contracts | 58 | 20 | 1 | (1) | 78 |
| Foreign currency translation differences | 7 | 14 | - | - | 21 |
| Accretion impact | 20 | 57 | - | - | 77 |
| Other changes | - | 1 | - | - | 1 |
| | | | | | |
| As at December 31, 2019 | 366 | 1,106 | 154 | 40 | 1,666 |
| | | | | | |
| Current/non-current portion | | | | | |
| Non-current portion | 297 | 1,043 | 1 | 2 | 1,343 |
| Current portion | 69 | 63 | 153 | 38 | 323 |
| Carrying amount as at December 31, 2019 | 366 | 1,106 | 154 | 40 | 1,666 |

| | Return obligation liability on leased aircraft | Maintenance liability on leased aircraft | Other provisions | | Total |
|---|---|---|---|---|---|
| | | | Legal and civil litigations | Other | |
| As at January 1, 2018 Restated | 64 | 1,155 | 154 | 28 | 1,401 |
| | | | | | |
| Additions and increases | 15 | - | 7 | 32 | 54 |
| Unused amounts reversed | - | (13) | (1) | (1) | (15) |
| Used during year | (12) | (6) | (12) | (21) | (51) |
| New / Changes in lease contracts | 2 | - | - | 1 | 3 |
| Foreign currency translation differences | 18 | 31 | - | - | 49 |
| Accretion impact | 11 | 43 | - | - | 54 |
| Other changes | 175 | (192) | - | - | (17) |
| | | | | | |
| As at December 31, 2018 | 273 | 1,018 | 148 | 39 | 1,478 |
| | | | | | |
| Current/non-current portion | | | | | |
| Non-current portion | 269 | 1,020 | 1 | 2 | 1,292 |
| Current portion | 4 | (2) | 147 | 37 | 186 |
| Carrying amount as at December 31, 2018 Restated | 273 | 1,018 | 148 | 39 | 1,478 |

### 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 30).

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 4.5 per cent as of December 31, 2019 versus 6.0 per cent as of December 31, 2018.

### Other provisions

### Legal and civil litigations

The provision as at December 31, 2019 relates to the Cargo anti-trust investigations in Europe for KLM and Martinair, anti-trust investigations in Switzerland and other Cargo related claims. For more details, reference is made to note 23 Contingent assets and liabilities.

### Other

Other provisions include provisions for voluntary leave plans, onerous leases of aircraft and site restoration cost for land and buildings under long-term lease agreements.

## 21. Trade and other payables

| As at December 31, | 2019 | 2018 Restated |
|---|---|---|
| Trade payables | 934 | 1,008 |
| Amounts due to AIR FRANCE KLM Group companies | 117 | 126 |
| Taxes and social security premiums | 333 | 316 |
| Other payables | 638 | 682 |
| Accrued liabilities | 123 | 108 |
| Total | 2,145 | 2,240 |

## 22. Commitments

As at December 31, 2019, KLM has commitments for previously placed orders amounting to EUR 1,311 million (December 31, 2018 EUR 1,898 million). EUR 1,189 million of this amount relates to aircraft (December 31, 2018 EUR 1,827 million) of which EUR 653 million is due in 2020. The balance of the commitments as at December 31, 2019 amounting to EUR 122 million (December 31, 2018 EUR 71 million) is related to Property, plant and equipment. As at December 31, 2019 prepayments on aircraft orders have been made, amounting to EUR 506 million (December 31, 2018 EUR 394 million).

## 23. Contingent assets and liabilities

### Contingent liabilities

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

### Antitrust investigations and civil litigation

### a. Actions instigated by the EU Commission and several competition authorities in other jurisdictions for alleged cartel activity in air cargo transport.

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

As of December 31, 2016, most of these investigations and related public proceedings have been concluded, with the following exceptions:
On March 17, 2017, the European Commission announced that it would fine eleven airlines, including KLM, Martinair and Air France, for practices in the air cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006. This new decision follows the initial decision of the Commission of November 9, 2010. This decision, issued to the same airlines for the same alleged practices, was annulled on formal grounds by the General Court of the European Commission in December 2015.

The new fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million and is slightly lower than the initial fine imposed in 2010. On 29 May 2017, KLM submitted its appeal to the General Court of the EU. The appeal is still pending. While the decision is under appeal, there is no obligation to pay the imposed fines, but accrued interest is added as from June 2017.

In Switzerland, Air France and KLM are challenging a decision imposing a EUR 3.2 million fine before the relevant court. Taking into account the part thereof that external counsel assesses to be for the account of KLM, a provision of EUR 0.8 million was recorded.
As of December 31, 2019, the total amount of provisions in connection with antitrust cases amounts to EUR 148.8 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.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices as a consequence of the alleged anticompetitive behaviours.
Air France, KLM and/or Martinair remain defendants, either as main defendants or as third party interveners brought in these cases by other main defendants under "contribution proceedings". Where Air France, KLM and/or Martinair are main defendants, they have initiated contribution proceedings against other airlines.

### c. Civil actions relating to the Passenger activity

#### Litigations concerning anti-trust laws

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

### d. Other

#### US Department of Justice investigation related to United States Postal Services

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

#### Case brought against KLM by (former) Martinair pilots

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

#### 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 85 million as at December 31, 2019 (December 31, 2018 EUR 79 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 662 million as at December 31, 2019 (December 31, 2018 EUR 713 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.

## 24. Revenues

| | 2019 | 2018 Restated |
|---|---|---|
| Services rendered | | |
| Passenger transport | 7,952 | 7,766 |
| Cargo transport | 1,171 | 1,284 |
| Network | 9,123 | 9,050 |
| Maintenance contracts | 941 | 910 |
| Charter and low cost business | 986 | 901 |
| Other services | 25 | 28 |
| Total revenues | 11,075 | 10,889 |

## 25. External expenses

| | 2019 | 2018 Restated |
|---|---|---|
| Aircraft fuel | 2,286 | 2,096 |
| Chartering costs | 185 | 184 |
| Landing fees and route charges | 783 | 775 |
| Catering | 215 | 210 |
| Handling charges and other operating costs | 576 | 546 |
| Aircraft maintenance costs | 882 | 947 |
| Commercial and distribution costs | 463 | 420 |
| Insurance | 24 | 20 |
| Rentals and maintenance of housing | 130 | 132 |
| Sub-contracting | 212 | 183 |
| Other external expenses | 360 | 347 |
| Total external expenses | 6,116 | 5,860 |

In aircraft fuel expenses an amount of EUR 19 million positive (2018 EUR 262 million positive) is included which was transferred from OCI to the consolidated statement of profit or loss.

## 26. Employee compensation and benefit expenses

| | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 2,418 | 2,384 |
| Social security premiums other than for state pension plans | 263 | 249 |
| Share-based remuneration | (1) | (1) |
| Hired personnel | 216 | 207 |
| Pension and early-retirement plan costs | 271 | 216 |
| Post-employment medical benefit costs | 2 | 1 |
| Other long-term employee benefit costs | 20 | 3 |
| Total employee compensation and benefit expenses | 3,189 | 3,059 |

Pension and early-retirement plan cost comprises:

| | 2019 | 2018 |
|---|---|---|
| Defined benefit plans | 161 | 116 |
| Defined contribution plans | 110 | 100 |
| Total | 271 | 216 |

Defined benefit plans and early-retirement plan cost comprises:

| | 2019 | 2018 |
|---|---|---|
| Current service cost | 155 | 115 |
| Interest expense | 166 | 168 |
| Interest income | (169) | (174) |
| Administration cost | 9 | 7 |
| Total | 161 | 116 |

In the financial year 2019 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 161 million (2018 EUR 116 million) and the total contributions paid by the Group amounted to EUR 148 million (2018 EUR 97 million). The contributions paid in the financial year 2019 include additional deficit funding for the Dutch KLM plans amounting to EUR nil million (2018 EUR nil million) and in the United Kingdom amounting to EUR 10 million (2018 EUR 10 million).

The Group's projected defined benefit plans and early retirement plan cost for 2019 amount to EUR 200 million. The Group's expected cash contributions for these plans amount to EUR 132 million.

Post-employment medical benefits cost comprises:

| | 2019 | 2018 |
|---|---|---|
| Interest cost | - | 1 |
| Losses/(gains) arising from plan amendments | (1) | - |
| Total | (1) | 1 |

Other long-term employee benefits comprise:

| | 2019 | 2018 |
|---|---|---|
| Current service cost | 5 | 5 |
| Interest cost | 1 | 1 |
| Immediate recognition of (gains)/losses | 14 | 3 |
| Other | - | (6) |
| Total | 20 | 3 |

Number of full-time equivalent employees:

| | 2019 | 2018 |
|---|---|---|
| Average for year | | |
| Flight deck crew | 3,492 | 3,276 |
| Cabin crew | 8,497 | 8,403 |
| Ground staff | 18,583 | 18,141 |
| Total | 30,572 | 29,820 |

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Flight deck crew | 3,614 | 3,353 |
| Cabin crew | 8,214 | 8,034 |
| Ground staff | 18,888 | 18,255 |
| Total | 30,716 | 29,642 |

## 27. Other income and expenses

| | 2019 | 2018 Restated |
|---|---|---|
| Capitalised production | 224 | 235 |
| Operating currency hedging recycling | 33 | (6) |
| Other expenses | (84) | (79) |
| Other income and expenses | 173 | 150 |

## 28. Amortisation, depreciation and movements in provision

| | 2019 | 2018 Restated |
|---|---|---|
| Intangible assets | 61 | 61 |
| Flight equipment | 440 | 439 |
| Other property and equipment | 69 | 69 |
| Right-of-use assets | 506 | 460 |
| Movements in provision | 14 | - |
| Total amortisation, depreciation and movements in provision | 1,090 | 1,029 |

The estimated useful life of a number of software systems has been reviewed and increased from 15 years to 20 years as of January 1, 2019. This decreases the 2019 intangible assets amortisation cost with approximately EUR 12 million compared to 2018.

## 29. Other non-current income and expenses

The other non-current income and expenses show a positive amount of EUR 22 million. This mainly relates to the sale of Boeing 747 engines and 2 Boeing 737-700's.

The 2018 other non-current income and expenses show a negative amount of EUR 13 million. This mainly relates to EUR 24 million for voluntary leave plans at KLM, partly offset by proceeds from the sale of the Jet Center activities and positive results from the sale of Boeing 747 engines.

## 30. Cost of financial debt

| | 2019 | 2018 Restated |
|---|---|---|
| Cost of financial debt | | |
| Loans from third parties | 41 | 44 |
| Interest on financial debt | 32 | 30 |
| Interest on lease debt | 110 | 120 |
| Other interest expenses | (11) | 1 |
| Total gross cost of financial debt | 172 | 195 |
| | | |
| Income from cash and cash equivalents | | |
| Finance income | 24 | 18 |
| Total income from cash and cash equivalents | 24 | 18 |
| Net cost of financial debt | 148 | 177 |

| | 2019 | 2018 Restated |
|---|---|---|
| Foreign currency exchange gains/(losses) | 5 | 27 |
| Fair value gains/(losses) | (52) | (110) |
| Other Financial income and expenses | (80) | (55) |
| Total other financial income and expenses | (127) | (138) |

The fair value results recorded in the financial year mainly consist of the unrealised revaluation of other balance sheet items amounts to EUR 49 million negative (2018: EUR 91 million negative), the ineffective/time value portion of fuel, interest rate and foreign currency exchange derivatives for EUR 3 million negative (2018: EUR 1 million negative) and revaluation of Air France KLM S.A. shares for nil million (2018: EUR 5 million negative).

Other financial income and expenses includes additions of EUR 77 million (2018: EUR 39 million) to (maintenance) provisions resulting from the discounting effect in provision calculations.

## 31. Income tax expense/benefit

| | 2019 | 2018 Restated |
|---|---|---|
| Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses | 80 | 201 |
| Current tax expense | 82 | - |
| Total tax (income)/expenses | 162 | 201 |

The applicable average tax rate in The Netherlands for the financial year 2019 is 25% (2018 25%).

The Dutch income tax will be lowered to 21.7% in 2021. The impact of this change is presented in the line "Reduction tax rate" in below table.

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

| in % | 2019 | 2018 |
|---|---|---|
| Applicable average tax rate in The Netherlands | 25.0 | 25.0 |
| Impact of: | | |
| Non-deductible expenses | 3.2 | 1.2 |
| Reduction tax rate | (1.1) | - |
| Differences in foreign tax rate changes | (0.1) | - |
| Effective tax rate | 27.0 | 26.2 |

## 32. Share-based payments

### Phantom shares

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

| | 2019 | 2018 |
|---|---|---|
| As at January 1 | 548,468 | 527,273 |
| Granted | 97,348 | 152,130 |
| Forfeited | 8,068 | (34,321) |
| Exercised | (140,682) | (96,614) |
| As at December 31 | 513,202 | 548,468 |

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

| | 2019 | 2018 |
|---|---|---|
| Phantom shares expiry date | | |
| | | |
| April 1, 2019 | - | 41,123 |
| April 1, 2020 | 40,743 | 103,552 |
| April 1, 2021 | 83,328 | 126,350 |
| April 1, 2022 | 121,878 | 142,396 |
| April 1, 2023 | 120,067 | 135,047 |
| April 1, 2024 | 147,186 | - |
| Carrying number | 513,202 | 548,468 |

The phantom shares generate an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of the shares. The number of vested phantom shares depends on the following criteria: AIR FRANCE KLM total shareholders return (30%), KLM Group Return on Capital Employed (40%) and AIR FRANCE KLM position in the Dow Jones Sustainability Index (30%). The maximum number of phantom shares that may be granted to an individual employee in any year is related to their job grade.

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. Phantom shares are forfeited when employees leave the Company's employment.

Under the Long-Term Incentive plan 2015, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2015. The first tranche has vested for 70.2% per April 2015. The second tranche has vested for 108.6% in April 2016. The third tranche has vested for 116.0% in April 2017. The 2015 plan has an intrinsic value of EUR 0.4 million as at December 31, 2019.

Under the Long-Term Incentive plan 2016, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2016. The first tranche has vested for 108.6% per April 2016. The second tranche has vested for 116.0% per April 2017. The third tranche has vested for 114.0% in April 2018. It is noted that the total number of Phantom Performance shares vested over the three years cannot exceed the amount of Phantom Performance Shares granted (maximum 100%). The 2016 plan has an intrinsic value of EUR 0.8 million as at December 31, 2019.

Under the Long-Term Incentive plan 2017, 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. Note that the total number of Phantom Performance shares vested over the three years cannot exceed the amount of Phantom Performance Shares granted. The 2017 plan has an intrinsic value of EUR 1.2 million as at December 31, 2019.

Under the Long-Term Incentive plan 2018, 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 is still conditionally awarded.

Under the Long-Term Incentive plan 2019, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2019. The first tranche has vested for 74.8% per April 2019. The second and third tranche are still conditionally awarded.

## 33. Supervisory Board remuneration

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| (Amounts in EUR) | As Super-visory Board member | As Committee member | Total | As Super-visory Board member | As Committee member | Total |
| C.C. 't Hart | 37,433 | 2,000 | 39,433 | 26,500 | 2,000 | 28,500 |
| P.C. Calavia | 26,500 | - | 26,500 | 26,500 | - | 26,500 |
| A. Dautry (until April 26, 2018) | - | - | - | 8,465 | - | 8,465 |
| F. Enaud | 26,500 | 2,000 | 28,500 | 26,500 | 3,000 | 29,500 |
| M.T.H. de Gaay Fortman | 26,500 | 4,000 | 30,500 | 26,500 | 4,000 | 30,500 |
| J.C. de Jager (as from April 25, 2019) | 18,991 | 2,000 | 20,991 | - | - | - |
| F. Pellerin (as from April 26, 2018) | 26,500 | 2,000 | 28,500 | 15,943 | - | 15,943 |
| J. Peyrelevade (until April 25, 2019) | 8,465 | 2,000 | 10,465 | 26,500 | 4,000 | 30,500 |
| P.F. Riolacci | 26,500 | 4,000 | 30,500 | 26,500 | - | 26,500 |
| A.J.M. Roobeek (until April 25, 2019) | 8,465 | 1,000 | 9,465 | 26,500 | 2,000 | 28,500 |
| B. Smith (as from April 25, 2019) | - | - | - | - | - | - |
| H.N.J. Smits (until April 25, 2019) | 13,576 | 1,000 | 14,576 | 42,500 | 3,000 | 45,500 |
| B.J. Vos (as from April 25, 2019) | 18,991 | - | 18,991 | - | - | - |
| Total | 238,421 | 20,000 | 258,421 | 252,408 | 18,000 | 270,408 |

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.

## 34. Board of Managing Directors remuneration

### Base salary

| (amounts in EUR) | 2019 | 2018 |
|---|---|---|
| P.J.Th. Elbers | 585,000 | 520,000 |
| R.M. de Groot | 390,000 | 345,000 |
| E.R. Swelheim | 390,000 | 335,000 |
| Total | 1,365,000 | 1,200,000 |

The base salary of the Board of Managing Directors remains significantly below the median of the applicable market benchmark as well as below that of previous KLM CEOs in the case of Mr. Elbers.

It has been decided that, the base salaries for the individual Managing Directors will not be increased in 2020.

### Short-term incentive plan

| | 2019 | 2018 |
|---|---|---|
| (amounts in EUR) | Short-term incentive plan | Short-term incentive plan |
| P.J.Th. Elbers | 342,000 | 383,600 |
| R.M. de Groot | 159,120 | 146,970 |
| E.R. Swelheim | 154,050 | 142,710 |
| Total | 655,170 | 673,280 |

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2019 in accordance with the remuneration policy and its proposal has subsequently been endorsed by the Supervisory Board.

Due to the COVID-19 crisis and short-term cash preserverance focus, the Board of Managing Directors has decided to postpone the actual payment of their short-term incentive plan to October 2020.

Moreover it is noted that for 2019 and 2018, the Board of Managing Directors did not receive any payments under the Company-wide profit sharing scheme that is applicable to all other KLM employees.

For a description of the short-term incentive plan, we refer to the Remuneration Policy and Report in the Board and Governance Section.

### 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

### Pension cost (post-employment benefit)

| (amounts in EUR) | 2019 | 2018 |
|---|---|---|
| P.J.Th. Elbers | 25,593 | 28,606 |
| R.M. de Groot | 23,261 | 25,135 |
| E.R. Swelheim | 15,117 | 18,472 |
| Total | 63,971 | 72,213 |

### Pension allowance (short-term benefit)

| (amounts in EUR) | 2019 | 2018 |
|---|---|---|
| P.J.Th. Elbers | 149,381 | 129,104 |
| R.M. de Groot | 97,676 | 80,578 |
| E.R. Swelheim | 111,061 | 87,447 |
| Total | 358,118 | 297,129 |

Given the Dutch fiscal rules, as described above, the members of the Board of Managing Directors receive a pension allowance for the pensionable salary above EUR 107,593 (2019). 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.

### 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, 2018 EUR 15,000) and includes remunerated position in connection with directorships 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.

### Total remuneration (base salary, short-term incentive plan and pensions)

| (amounts in EUR) | 2019 | 2018 |
|---|---|---|
| P.J.Th. Elbers | 1,107,254 | 1,066,590 |
| R.M. de Groot | 675,337 | 602,963 |
| E.R. Swelheim | 675,508 | 588,909 |
| Total | 2,458,099 | 2,258,462 |

## Long-term incentive plan

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.

In April 2019, the General Meeting of Shareholders has adopted amendments to the remuneration policy in respect of the long-term incentive plan and of an AIR FRANCE KLM specific long-term incentive (SLTI) plan for the KLM CEO as per the AIR FRANCE KLM Remuneration Committee decision and to ensure compliance and consistency. For a description of these long-term incentive plans, we refer to the Remuneration Policy and Report in the Board and Governance Section

The current and former 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, 2019:

| (Amounts in EUR) | Number of phantom shares granted | Expiry date | Number of phantom shares forfeited | Number of phantom shares exercised | Average share price at exercise | Number of phantom shares conditional | Number of phantom shares vested | Total outstanding as at December 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| P.J.Th. Elbers | | | | | | | | |
| April, 2015 | 10,000 | April 1, 2020 | 174 | 9,826 | 11.51 | - | 9,826 | - |
| April, 2016 | 10,000 | April 1, 2021 | - | - | | - | 10,000 | 10,000 |
| April, 2017 | 10,000 | April 1, 2022 | - | - | | - | 10,000 | 10,000 |
| April, 2018 | 10,000 | April 1, 2023 | 373 | - | | 3,333 | 6,294 | 9,627 |
| April, 2019 | 21,354 | April 1, 2024 | 1,794 | - | | 14,236 | 5,324 | 19,560 |
| | 61,354 | | 2,341 | 9,826 | | 17,569 | 41,444 | 49,187 |
| R.M. de Groot | | | | | | | | |
| April, 2016 | 6,000 | April 1, 2021 | - | - | | - | 6,000 | 6,000 |
| April, 2017 | 6,000 | April 1, 2022 | - | - | | - | 6,000 | 6,000 |
| April, 2018 | 6,000 | April 1, 2023 | 224 | - | | 2,000 | 3,776 | 5,776 |
| April, 2019 | 11,688 | April 1, 2024 | 982 | - | | 7,792 | 2,914 | 10,706 |
| | 29,688 | | 1,206 | - | | 9,792 | 18,690 | 28,482 |
| E.R. Swelheim | | | | | | | | |
| April, 2014 | 4,500 | April 1, 2019 | 672 | 3,828 | 11.51 | - | 3,828 | - |
| April, 2015 | 6,000 | April 1, 2020 | 104 | - | | - | 5,896 | 5,896 |
| April, 2016 | 6,000 | April 1, 2021 | - | - | | - | 6,000 | 6,000 |
| April, 2017 | 6,000 | April 1, 2022 | - | - | | - | 6,000 | 6,000 |
| April, 2018 | 6,000 | April 1, 2023 | 224 | - | | 2,000 | 3,776 | 5,776 |
| April, 2019 | 11,688 | April 1, 2024 | 982 | - | | 7,792 | 2,914 | 10,706 |
| | 40,188 | | 1,982 | 3,828 | | 9,792 | 28,414 | 34,378 |
| Total | 131,230 | | 5,529 | 13,654 | | 37,153 | 88,548 | 112,047 |

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

The 2019 phantom shares cost for the current Board of Managing Directors members is for Mr. Elbers EUR 157,092 (2018: EUR 16,222 negative), of which EUR 28,747 relates to the technical revaluation of the phantom shares portfolio following the 2019 increase of the AIR FRANCE KLM share price from EUR 9.48 as per December 31, 2018 to EUR 9.92 per December 31, 2019. For Mr. de Groot the cost is EUR 78,880 (2018: EUR 13,310), of which EUR 5,280 relates to the technical revaluation of the portfolio and for Mr. Swelheim EUR 89,245 (2018: EUR 25,991 negative), of which EUR 15,645 relates to the technical revaluation of the portfolio.

Under the AIR FRANCE KLM SLTI plan, the KLM CEO is entitled to 21,354 AIR FRANCE KLM shares as per year-end 2019. The shares granted 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 at December 31, 2019 Mr. Elbers, Mr. de Groot, and Mr. Swelheim had no interest in AIR FRANCE KLM S.A.

The 2019 remuneration, including phantom shares cost, of the Board of Managing Directors amounts to EUR 2,841,923. For Mr. Elbers the remuneration amounts to EUR 1,322,953 and includes the estimated cost of the new AIR FRANCE KLM SLTI plan. For Mr. De Groot this amounts to EUR 754,217 and for Mr. Swelheim EUR 764,753.

## 35. 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 normal business, The Group enters into transactions with these 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.
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 behalf of the State of The Netherlands.

The following transactions were carried out with related parties:

| | 2019 | 2018 |
|---|---|---|
| **Sales of goods and services** | | |
| AIR FRANCE KLM Group companies | 197 | 199 |
| Associates | - | - |
| Other related parties | 67 | 71 |
| | | |
| **Purchases of goods and services** | | |
| AIR FRANCE KLM Group companies | 349 | 383 |
| Associates | - | - |
| Other related parties | 242 | 34 |

For details of the year-end balances of amounts due to and from related parties see notes 8 and 21. In 2019 the Group repaid the last part of the AIR FRANCE KLM loan facility (see note 12). No loans were granted to or received from related parties during 2019 and 2018. In addition dividends have been received from jointly controlled entities interests (see note 4).

In 2019 KLM and Air France concluded a swap of part of their outstanding wide body fleet orders with the aim to simplify the management of their own fleet (creation of synergies and costs reductions). In the 2021-2023 timeframe six Boeing 787's, previously allocated to Air France, will enter the KLM fleet and seven Airbus A350's, previously allocated to KLM, will enter the Air France fleet.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors, see note 32 to 34. For information relating to transactions with pension funds for the Group's employees see note 19.

## 36. Primary segment reporting

| 2019 | Network | Maintenance | Leisure | Other | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Revenues External | 9,123 | 941 | 986 | 25 | | 11,075 |
| Revenues Internal | 131 | 749 | 2 | 216 | (1,098) | - |
| **Total revenue** | **9,254** | **1,690** | **988** | **241** | **(1,098)** | **11,075** |
| EBITDA | 1,545 | 165 | 204 | 29 | | 1,943 |
| Income from current operations | 683 | 80 | 84 | 6 | | 853 |
| | | | | | | |
| Other non-current income and expenses | | | | | | 22 |
| Financial Income and expenses | | | | | | (275) |
| Income tax expense | | | | | | (162) |
| Share of results of equity shareholdings | | | | | | 11 |
| **Profit for the year** | | | | | | **449** |
| | | | | | | |
| Amortisation, depreciation and movements in provision | (862) | (85) | (120) | (23) | - | (1,090) |
| Other financial income and expenses | (87) | 2 | (18) | (24) | - | (127) |
| | | | | | | |
| **Assets** | | | | | | |
| Intangible assets | 183 | 74 | 17 | 235 | - | 509 |
| Flight equipment | 3,640 | 642 | 430 | (5) | - | 4,707 |
| Other property, plant and equipment | 158 | 99 | 3 | 394 | - | 654 |
| Right-of-use assets | 1,499 | 98 | 324 | 107 | - | 2,028 |
| Trade receivables | 473 | (11) | 26 | (4) | - | 484 |
| Other assets | 572 | 687 | 333 | 1,797 | - | 3,389 |
| **Total assets** | **6,525** | **1,589** | **1,133** | **2,524** | **-** | **11,771** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Deferred revenues on sales | 1,469 | 114 | 142 | - | - | 1,725 |
| Other liabilities | 5,244 | 302 | 837 | 2,103 | - | 8,486 |
| **Total liabilities** | **6,713** | **416** | **979** | **2,103** | **-** | **10,211** |

| 2018 Restated | Network | Maintenance | Leisure | Other | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Revenues External | 9,050 | 910 | 901 | 28 | - | 10,889 |
| Revenues Internal | 134 | 781 | 7 | 210 | (1,132) | - |
| **Total revenue** | **9,184** | **1,691** | **908** | **238** | **(1,132)** | **10,889** |
| EBITDA | 1,764 | 134 | 197 | 25 | - | 2,120 |
| Income from current operations | 947 | 62 | 78 | 4 | - | 1,091 |
| | | | | | | |
| Other non-current income and expenses | | | | | | (13) |
| Financial Income and expenses | | | | | | (315) |
| Income tax expense | | | | | | (201) |
| Share of results of equity shareholdings | | | | | | 4 |
| **Profit for the year** | | | | | | **566** |
| | | | | | | |
| Amortisation, depreciation and movements in provision | (816) | (72) | (119) | (22) | - | (1,029) |
| Other financial income and expenses | (89) | (6) | (20) | (23) | - | (138) |
| | | | | | | |
| **Assets** | | | | | | |
| Intangible assets | 178 | 53 | 19 | 182 | - | 432 |
| Flight equipment | 3,266 | 563 | 387 | (19) | - | 4,197 |
| Other property, plant and equipment | 129 | 112 | 4 | 369 | - | 614 |
| Right-of-use assets | 1,613 | 107 | 345 | 116 | - | 2,181 |
| Trade receivables | 564 | (1) | 32 | - | - | 595 |
| Other assets | 428 | 635 | 286 | 1,968 | - | 3,317 |
| **Total assets** | **6,178** | **1,469** | **1,073** | **2,616** | **-** | **11,336** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Deferred revenues on sales | 1,393 | 107 | 113 | - | - | 1,613 |
| Other liabilities | 5,401 | 1,225 | 839 | 1,298 | - | 8,763 |
| **Total liabilities** | **6,794** | **1,332** | **952** | **1,298** | **-** | **10,376** |

## 37. Secondary segment reporting

| Revenues by destination 2019 | Europe, North Africa | Caribbean, Indian Ocean | Africa, Middle East | Americas Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 2,547 | 393 | 918 | 2,338 | 1,534 | 7,730 |
| Other passenger revenues | 72 | 11 | 27 | 68 | 43 | 221 |
| Total passenger revenues | 2,619 | 404 | 945 | 2,406 | 1,577 | 7,951 |
| Scheduled cargo | 9 | 21 | 196 | 473 | 285 | 984 |
| Other cargo revenues | 2 | 4 | 37 | 90 | 54 | 187 |
| Total cargo revenues | 11 | 25 | 233 | 563 | 339 | 1,171 |
| Total network revenues | 2,630 | 429 | 1,178 | 2,969 | 1,916 | 9,122 |
| Maintenance | 941 | | | | | 941 |
| Other revenues | 1,012 | - | - | - | - | 1,012 |
| Total maintenance and other | 1,953 | - | - | - | - | 1,953 |
| Total revenues by destination | 4,583 | 429 | 1,178 | 2,969 | 1,916 | 11,075 |

| Revenues by destination 2018 Restated | Europe, North Africa | Caribbean, Indian Ocean | Africa, Middle East | Americas Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 2,459 | 388 | 923 | 2,304 | 1,455 | 7,529 |
| Other passenger revenues | 76 | 12 | 31 | 70 | 48 | 237 |
| Total passenger revenues | 2,535 | 400 | 954 | 2,374 | 1,503 | 7,766 |
| Scheduled cargo | 11 | 23 | 204 | 537 | 316 | 1,091 |
| Other cargo revenues | 2 | 4 | 36 | 95 | 56 | 193 |
| Total cargo revenues | 13 | 27 | 240 | 632 | 372 | 1,284 |
| Total network revenues | 2,548 | 427 | 1,194 | 3,006 | 1,875 | 9,050 |
| Maintenance | 910 | - | - | - | - | 910 |
| Other revenues | 929 | - | - | - | - | 929 |
| Total maintenance and other | 1,839 | - | - | - | - | 1,839 |
| Total revenues by destination | 4,387 | 427 | 1,194 | 3,006 | 1,875 | 10,889 |

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.

## 38. Subsidiaries

The following is a list of the Company's significant subsidiaries as at December 31, 2019:

| 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, 2019 | December 31, 2018 Restated |
|---|---|---|---|
| Before proposed appropriation of the result for the year | | | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 39 | 4,328 | 3,780 |
| Right-of-use assets | 40 | 1,561 | 1,693 |
| Intangible assets | | 486 | 407 |
| Investments accounted for using the equity method | 41 | 560 | 459 |
| Other non-current assets | 5 | 231 | 239 |
| Other financial assets | 42 | 429 | 449 |
| Deferred tax assets | 52 | - | 9 |
| Pension assets | 19 | 420 | 331 |
| | | 8,015 | 7,367 |
| **Current assets** | | | |
| Other current assets | 5 | 158 | 159 |
| Other financial assets | 42 | 100 | 56 |
| Inventories | | 243 | 189 |
| Trade and other receivables | 43 | 1,686 | 1,790 |
| Cash and cash equivalents | 44 | 186 | 242 |
| | | 2,373 | 2,436 |
| TOTAL ASSETS | | 10,388 | 9,803 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 45 | 94 | 94 |
| Share premium | | 474 | 474 |
| Reserves | 45 | (315) | (651) |
| Retained earnings | | 858 | 478 |
| Result for the year | | 448 | 565 |
| Total attributable to Company's equity holders | | 1,559 | 960 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Loans from subsidiaries | 47 | - | 19 |
| Financial debt | 48 | 648 | 483 |
| Lease debt | 49 | 946 | 1,114 |
| Other non-current liabilities | 5 | 150 | 240 |
| Other financial liabilities | 50 | 918 | 1,100 |
| Deferred income | 51 | 228 | 204 |
| Deferred tax liabilities | 52 | 92 | - |
| Return obligation liability and other provisions | 53 | 1,176 | 1,096 |
| | | 4,158 | 4,256 |
| **Current liabilities** | | | |
| Trade and other payables | 54 | 2,480 | 2,424 |
| Loans from parent company | 46 | - | 99 |
| Loans from subsidiaries | 47 | 32 | 33 |
| Financial debt | 48 | 96 | 164 |
| Lease debt | 49 | 321 | 291 |
| Other current liabilities | 5 | 113 | 197 |
| Other financial liabilities | 50 | 73 | 7 |
| Deferred income | 51 | 1,240 | 1,186 |
| Current tax liabilities | 52 | 59 | - |
| Return obligation liability and other provisions | 53 | 257 | 186 |
| | | 4,671 | 4,587 |
| Total liabilities | | 8,829 | 8,843 |

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 | 2019 | 2018 Restated |
|---|---|---|
| Profit / (loss) from investments accounted for using equity method after taxation | 98 | 80 |
| Profit / (loss) of KLM N.V. after taxation | 350 | 485 |
| Income for the year after taxation | 448 | 565 |

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 2019 financial statements of KLM Royal Dutch Airlines (the "Company").

### Subsequent events and going concern
Regarding subsequent events and going concern as at the date of this Annual Report reference is made to the Subsequent events and going concern note 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.

## 39. 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, 2019 Restated | 3,442 | 1,989 | 5,431 | 624 | 363 | 164 | 1,151 | 522 | 7,104 |
| Additions | 541 | 366 | 907 | 43 | 24 | 17 | 84 | 61 | 1,052 |
| Disposals | (79) | (333) | (412) | (31) | (66) | (26) | (123) | - | (535) |
| Other movements | (77) | 77 | - | - | - | - | - | 66 | 66 |
| As at Dec. 31, 2019 | 3,827 | 2,099 | 5,926 | 636 | 321 | 155 | 1,112 | 649 | 7,687 |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| As at Jan. 1, 2019 | 1,750 | 857 | 2,607 | 327 | 270 | 120 | 717 | - | 3,324 |
| Depreciation | 159 | 189 | 348 | 30 | 23 | 7 | 60 | - | 408 |
| Disposals | (51) | (329) | (380) | (31) | (66) | (26) | (123) | - | (503) |
| Other movements | (1) | 133 | 132 | - | (2) | - | (2) | - | 130 |
| As at Dec. 31, 2019 | 1,857 | 850 | 2,707 | 326 | 225 | 101 | 652 | - | 3,359 |
| **Net carrying amount** | | | | | | | | | |
| As at Jan. 1, 2019 Restated | 1,692 | 1,132 | 2,824 | 297 | 93 | 44 | 434 | 522 | 3,780 |
| As at Dec. 31, 2019 | 1,970 | 1,249 | 3,219 | 310 | 96 | 54 | 460 | 649 | 4,328 |

| | Flight equipment | | | Other property and equipment | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Owned aircraft | Other flight equipment | Total | Land and buildings | Equipment and fittings | Other property and equipment | Total | Pre-payments | Total Restated |
| **Historical cost** | | | | | | | | | |
| As at Jan. 1, 2018 | 3,180 | 1,797 | 4,977 | 605 | 349 | 157 | 1,111 | 419 | 6,507 |
| Additions | 450 | 311 | 761 | 27 | 20 | 10 | 57 | 105 | 923 |
| Disposals | (188) | (212) | (400) | (8) | (6) | (3) | (17) | - | (417) |
| Other movements | - | 93 | 93 | - | - | - | - | (2) | 91 |
| As at Dec. 31, 2018 | 3,442 | 1,989 | 5,431 | 624 | 363 | 164 | 1,151 | 522 | 7,104 |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| As at Jan. 1, 2018 | 1,640 | 832 | 2,472 | 303 | 255 | 116 | 674 | - | 3,146 |
| Depreciation | 162 | 193 | 355 | 32 | 23 | 7 | 62 | - | 417 |
| Disposals | (188) | (211) | (399) | (8) | (6) | (3) | (17) | - | (416) |
| Other movements | 136 | 43 | 179 | - | (2) | - | (2) | - | 177 |
| As at Dec. 31, 2018 | 1,750 | 857 | 2,607 | 327 | 270 | 120 | 717 | - | 3,324 |
| **Net carrying amount** | | | | | | | | | |
| As at Jan. 1, 2018 | 1,540 | 965 | 2,505 | 302 | 94 | 41 | 437 | 419 | 3,361 |
| As at Dec. 31, 2018 | 1,692 | 1,132 | 2,824 | 297 | 93 | 44 | 434 | 522 | 3,780 |

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

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Aircraft | 31 | 44 |
| Land and buildings | 116 | 114 |
| Other property and equipment | 15 | 17 |
| Carrying amount | 162 | 175 |

Borrowing cost capitalised during the year amounted to EUR 13 million (2018 EUR 7 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 2.7 % (2018: 2.7%).

Land and buildings include buildings located on land which has been leased on a long-term basis. The book value of these buildings as at December 31, 2019 was EUR 198 million (December 31, 2018 EUR 190 million).

## 40. Right-of-use assets

| | Aircraft | Maintenance | Land & Real Estate | Others | Total |
|---|---|---|---|---|---|
| **Net value** | | | | | |
| As at January 1, 2019 | 1,051 | 412 | 107 | 123 | 1,693 |
| New contracts | 85 | - | 4 | 38 | 127 |
| Renewal or extension options | 47 | - | 2 | - | 49 |
| Reclassifications | (21) | 122 | 3 | - | 104 |
| Amortisation | (254) | (103) | (14) | (32) | (403) |
| Other movements | - | - | - | (9) | (9) |
| As at December 31, 2019 | 908 | 431 | 102 | 120 | 1,561 |
| **Net value** | | | | | |
| As at January 1, 2018 Restated | 1,251 | 394 | 86 | 126 | 1,857 |
| New contracts | - | - | 40 | 19 | 59 |
| Renewal or extension options | 47 | - | - | - | 47 |
| Disposals | (1) | - | - | - | (1) |
| Reclassifications | 1 | 86 | (2) | 1 | 86 |
| Amortisation | (248) | (68) | (17) | (23) | (356) |
| Other movements | 1 | - | - | - | 1 |
| As at December 31, 2018 | 1,051 | 412 | 107 | 123 | 1,693 |

Information related to lease debt is available in note 49.

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

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Variable rents | 10 | 13 |
| Short-term rents | 87 | 83 |
| Low value rents | 3 | 3 |
| Carrying amount | 100 | 99 |

## 41. Investments accounted for using the equity method

| As at December 31, | 2019 | 2018 Restated |
|---|---|---|
| Subsidiaries | 544 | 439 |
| Associates | 8 | 5 |
| Jointly controlled entities | 8 | 15 |
| Carrying amount | 560 | 459 |

| | 2019 | 2018 Restated |
|---|---|---|
| Subsidiaries | | |
| | | |
| Carrying amount as at January 1 | 439 | 358 |
| | | |
| Movements | | |
| Investments | - | - |
| Share of profit/(loss) after taxation | 90 | 79 |
| OCI movement | 25 | 10 |
| Dividends received | (6) | (5) |
| Foreign currency translation differences | (1) | 1 |
| Other movements | (3) | (4) |
| Net movement | 105 | 81 |
| Carrying amount as at December 31 | 544 | 439 |

For details of the Group's investments in subsidiaries see note 38 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.

## 42. Other financial assets

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Debt investments at amortised cost | | | | |
| Bonds, long-term deposits, other loans and receivables | 50 | 378 | 5 | 377 |
| | | | | |
| At fair value through profit or loss | | | | |
| Deposits and commercial paper with original maturity 3-12 months | 50 | - | 50 | - |
| Other restricted deposits | - | - | 1 | - |
| Deposits on operating leased aircraft | - | 18 | - | 16 |
| AIR FRANCE KLM S.A. shares | - | 11 | - | 11 |
| | 50 | 29 | 51 | 27 |
| At fair value through OCI | | | | |
| Kenya Airways Ltd. Shares | - | 8 | - | 33 |
| Other non-consolidated entities | - | 14 | - | 12 |
| | - | 22 | - | 45 |
| Carrying amount | 100 | 429 | 56 | 449 |

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

## 43. Trade and other receivables

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Trade receivables | 457 | 549 |
| Reserve trade receivables | (28) | (23) |
| Trade receivables - net | 429 | 526 |
| | | |
| **Amounts due from:** | | |
| - subsidiaries | 584 | 667 |
| - AIR FRANCE KLM group companies | 84 | 76 |
| - associates and jointly controlled entities | 5 | 3 |
| - maintenance contract customers | 312 | 264 |
| Taxes and social security premiums | 41 | 48 |
| Other receivables | 102 | 81 |
| Prepaid expenses | 129 | 125 |
| Total | 1,686 | 1,790 |

Maintenance contract cost incurred to date for contracts in progress at December 31, 2019 amounted to EUR 276 million (December 31, 2018 EUR 283 million). Advances received for maintenance contracts in progress at December 31, 2019 amounted to EUR 81 million (December 31, 2018 EUR 95 million). The maturity of trade and other receivables is within one year.

## 44. Cash and cash equivalents

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Cash at bank and in hand | 30 | 72 |
| Short-term deposits | 156 | 170 |
| Total | 186 | 242 |

The effective interest rates on short-term deposits are in the range from -0.33 % to 3.35 % (2018 range -0.48% to 3.35%). The short-term deposits are invested in money market instruments or in liquid funds with daily access to cash.

## 45. 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.

## 46. Loans from parent company

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Non-current portion | - | - |
| Current portion | - | 99 |
| Carrying amount | - | 99 |

For the loans with AIR FRANCE KLM reference is made to note 12.

## 47. Loans from subsidiaries

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Non-current portion | - | 19 |
| Current portion | 32 | 33 |
| Carrying amount | 32 | 52 |

## 48. Financial debt

| As at December 31, | 2019 | 2018 |
|---|---|---|
| Non-current portion | 648 | 483 |
| Current portion | 96 | 164 |
| Carrying amount | 744 | 647 |

## 49. Lease debt

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Lease Debt - Aircraft | 273 | 735 | 262 | 886 |
| Lease Debt - Real estate | 14 | 117 | 17 | 120 |
| Lease Debt - Others | 29 | 94 | 7 | 108 |
| Accrued Interest | 5 | - | 5 | - |
| Total | 321 | 946 | 291 | 1,114 |

Change in lease debt:

| | As at January 1, 2019 | New contracts and renewals of contracts | Payment of lease debt | Currency translation adjustment | Other | As at December 31, 2019 |
|---|---|---|---|---|---|---|
| Lease Debt - Aircraft | 1,147 | 111 | (255) | - | 5 | 1,008 |
| Lease Debt - Real estate | 138 | 9 | (16) | - | - | 131 |
| Lease Debt - Others | 115 | 38 | (21) | - | (9) | 123 |
| Interests | 5 | - | - | - | - | 5 |
| Total | 1,405 | 158 | (292) | - | (4) | 1,267 |

| | As at January 1, 2018 | New contracts and renewals of contracts | Payment of lease debt | Currency translation adjustment | Other | As at December 31, 2018 |
|---|---|---|---|---|---|---|
| Lease Debt - Aircraft | 1,293 | 48 | (244) | 53 | (3) | 1,147 |
| Lease Debt - Real estate | 116 | 38 | (19) | - | 3 | 138 |
| Lease Debt - Others | 125 | 20 | (31) | 5 | (4) | 115 |
| Interests | - | - | - | 1 | 4 | 5 |
| Total | 1,534 | 106 | (294) | 59 | - | 1,405 |

The lease debt maturity breaks down as follows:

| | 2019 | 2018 |
|---|---|---|
| Less than 1 year | 394 | 369 |
| Between 1 and 2 years | 350 | 338 |
| Between 2 and 3 years | 280 | 294 |
| Between 3 and 4 years | 190 | 242 |
| Between 4 and 5 years | 94 | 163 |
| Over 5 years | 218 | 243 |
| Total | 1,526 | 1,649 |
| Including: | | |
| - Principal | 1,267 | 1,405 |
| - Interest | 259 | 244 |

## 50. Other financial liabilities

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| A Cumulative preference shares | - | 18 | - | 18 |
| B Cumulative preference shares | - | 14 | - | 14 |
| Subordinated perpetual loans | - | 509 | - | 571 |
| Other loans (secured/unsecured) | 73 | 377 | 7 | 497 |
| Total | 73 | 918 | 7 | 1,100 |

## 51. Deferred income

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Advance ticket sales | 1,151 | - | 1,064 | - |
| Sale and leaseback transactions | 1 | 5 | 1 | 6 |
| Flying Blue frequent flyer program | 79 | 214 | 102 | 187 |
| Others | 9 | 9 | 19 | 11 |
| Total | 1,240 | 228 | 1,186 | 204 |

## 52. Deferred/Current tax

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

| | 2019 | 2018 Restated |
|---|---|---|
| Carrying amount as at January 1 | (9) | (72) |
| | | |
| Movements: | | |
| Income statement expense | 74 | 171 |
| Tax (credited)/charged to equity | 65 | (135) |
| Reduction due to tax rate | 29 | - |
| Other movements | (67) | 27 |
| Net movement | 101 | 63 |
| Deferred tax liabilities/(assets) as at December 31 | 92 | (9) |
| | | |
| Current income tax liabilities | 59 | - |
| Tax liabilities/(assets) as at December 31 | 151 | (9) |

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, | 2019 | 2018 Restated |
|---|---|---|
| Deferred tax assets: | | |
| Deferred tax assets to be settled in 12 months or less | - | 52 |
| Deferred tax assets to be settled after 12 months | 14 | 96 |
| | 14 | 148 |
| | | |
| Deferred tax liabilities: | | |
| Deferred tax liabilities to be settled in 12 months or less | - | 3 |
| Deferred tax liabilities to be settled after 12 months | 106 | 136 |
| | 106 | 139 |
| Carriying amount | 92 | (9) |

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 | | | | | |
| 2019 | | | | | |
| | | | | | |
| Tax losses | 52 | (83) | - | 31 | - |
| Provisions for employee benefits | 14 | - | - | (14) | - |
| Financial lease obligations | 1 | - | - | (1) | - |
| Other tangible fixed assets | - | 6 | - | 12 | 18 |
| Derivative financial instruments | 41 | - | (47) | 2 | (4) |
| Other | 40 | 7 | 14 | (61) | - |
| Total | 148 | (70) | (33) | (31) | 14 |

| | Carrying amount as at January 1 | Income statement (charge) /credit | Tax charged/ (credited) to equity | Other movements | Carrying amount as at December 31 |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| 2018 Restated | | | | | |
| | | | | | |
| Tax losses | 236 | (157) | - | (27) | 52 |
| Provisions for employee benefits | 14 | - | - | - | 14 |
| Financial lease obligations | 1 | - | - | - | 1 |
| Derivative financial instruments | (25) | - | 77 | (11) | 41 |
| Other | 29 | - | - | 11 | 40 |
| Total | 255 | (157) | 77 | (27) | 148 |

| | Carrying amount as at January 1 | Income statement (charge)/credit | Tax charged/ (credited) to equity | Other movements | Carrying amount as at December 31 |
|---|---|---|---|---|---|
| Deferred tax liabilities | | | | | |
| 2019 | | | | | |
| | | | | | |
| Other tangible fixed assets | (12) | - | - | 12 | - |
| Pensions & benefits (asset) | 114 | 4 | 61 | (73) | 106 |
| Other | 37 | - | - | (37) | - |
| Total | 139 | 4 | 61 | (98) | 106 |

| | 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 | | | | | |
| 2018 Restated | | | | | |
| | | | | | |
| Other tangible fixed assets | (9) | (3) | - | - | (12) |
| Pensions & benefits (asset) | 155 | 17 | (58) | - | 114 |
| Other | 37 | - | - | - | 37 |
| Total | 183 | 14 | (58) | - | 139 |

## 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.

## 53. Return obligation liability and other provisions

| | Return obligation liability on leased aircraft | Maintenance liability on leased aircraft | Other Provisions | | | |
|---|---|---|---|---|---|---|
| | | | Employee Benefit | Legal Issues | Other | Total |
| As at January 1, 2019 | (38) | 976 | 178 | 131 | 35 | 1,282 |
| | | | | | | |
| Additional provisions and increases in existing provisions | 6 | (4) | 26 | 4 | 25 | 57 |
| Unused amounts reversed | - | - | - | - | - | - |
| Used during year | - | - | (14) | - | (26) | (40) |
| New / Changes in lease contracts | 87 | (26) | - | - | - | 61 |
| Foreign currency translation differences | 3 | 13 | 3 | - | - | 19 |
| Accretion impact | 2 | 53 | - | - | - | 55 |
| Other changes | (1) | - | (2) | 2 | - | (1) |
| As at December 31, 2019 | 59 | 1,012 | 191 | 137 | 34 | 1,433 |
| | | | | | | |
| **Current/non-current portion** | | | | | | |
| Non-current portion | 55 | 949 | 169 | 1 | 2 | 1,176 |
| Current portion | 4 | 63 | 22 | 136 | 32 | 257 |
| As at December 31, 2019 | 59 | 1,012 | 191 | 137 | 34 | 1,433 |

| | Return obligation liability on leased aircraft | Maintenance liability on leased aircraft | Other Provisons | | | |
|---|---|---|---|---|---|---|
| | | | Employee Benefit | Legal Issues | Other | Total |
| As at January 1, 2018 Restated | (48) | 926 | 271 | 135 | 25 | 1,309 |
| | | | | | | |
| Additional provisions and increases in existing provisions | 23 | (23) | 14 | 3 | 28 | 45 |
| Unused amounts reversed | - | - | - | - | (1) | (1) |
| Used during year | (17) | - | (94) | (7) | (17) | (135) |
| Foreign currency translation differences | 8 | 25 | 2 | - | - | 35 |
| Accretion impact | 7 | 31 | - | - | - | 38 |
| Other changes | (11) | 17 | (15) | - | - | (9) |
| As at December 31, 2018 | (38) | 976 | 178 | 131 | 35 | 1,282 |
| | | | | | | |
| **Current/non-current portion** | | | | | | |
| Non-current portion | (31) | 972 | 152 | 1 | 2 | 1,096 |
| Current portion | (7) | 4 | 26 | 130 | 33 | 186 |
| As at December 31, 2018 | (38) | 976 | 178 | 131 | 35 | 1,282 |

## 54. Trade and other payables

| As at December 31, | 2019 | 2018 Restated |
|---|---|---|
| Trade payables | 865 | 925 |
| Amounts due to subsidiaries | 606 | 456 |
| Amounts due to AIR FRANCE KLM Group companies | 110 | 119 |
| Taxes and social security premiums | 288 | 276 |
| Employee related liabilities | 401 | 453 |
| Accrued liabilities | 160 | 148 |
| Other payables | 50 | 47 |
| Total | 2,480 | 2,424 |

## Other notes

For information relating to contingency assets and liabilities, including guarantees, see note 23.

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 32 to 34.

Amstelveen, April 8, 2020

**The Board of Managing Directors**

Pieter J.Th. Elbers
René M. de Groot
Erik R. Swelheim

**The Supervisory Board**

Cees C. 't Hart
Philippe C. Calavia
François Enaud
Marry de Gaay Fortman
Jan Kees de Jager
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 2019 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, 2019 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, 2019 and of its result for 2019 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 2019 of KLM Royal Dutch Airlines ('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, 2019;
2. the following consolidated statements for 2019: the statements of 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 December 31, 2019;
2. the company statement of profit of loss for 2019; 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 Royal Dutch Airlines in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).
We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Material uncertainty related to going concern*

We draw attention to the subsequent events and going concern paragraphs in the notes to the consolidated and company financial statements which indicate that the Company is severely impacted by the worldwide spreading of COVID-19 and the stringent measures taken by many countries which has major impact on air traffic around the world. The main uncertainties relate to the financial impact of the COVID-19 crisis and outcome of the process to obtain additional funding. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The appropriateness of the going concern assumption depends on management's assessment of the future economic environment and the company's future prospects and performance. Our procedures to assess the appropriateness of management's assessment primarily consisted of:

- challenge and evaluation of the aforementioned management's assessment;
- discussion with management to evaluate its plans for future actions and whether management's plans are feasible in the circumstances;
- evaluation of management's cash flow forecast, including the underlying data and assumptions, as a basis for the

requested debt funding from financial institutions and the Dutch Government;
- obtaining and inspecting reports of regulatory bodies relating to restricting air traffic and application of vouchers for cancelled flights;
- corroboration with and evaluating statements made by representatives of certain financial institutions and government officials;
- analysing and assessing the Company's latest available interim financial information.

Furthermore, we have evaluated the situation and uncertainties as described in the aforementioned disclosure and consider the disclosure to be adequate. However, an audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the impact of COVID-19.

## Audit approach

### Summary

| |
|---|
| **Materiality** |
| - Materiality of EUR 60 million |
| - 0.5% of revenue |
| **Group audit** |
| - 96% of revenue |
| - 96% of total assets |
| **Key audit matters** |
| - Revenue recognition for issued but unused passenger tickets |
| - Provisions for litigation and contingent liabilities |
| **Opinion** |
| - Unqualified |

### Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 60 million (2018: EUR 50 million). The materiality is primarily determined with reference to revenue (0.5%). We consider revenue as the most appropriate benchmark because of the volatility of the profit 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 in excess of EUR 3 million which are identified during the audit, 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 Royal Dutch Airlines is the head of 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 any other activities linked to air transport. The financial information of this group is included in the financial statements of KLM Royal Dutch Airlines.

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.

Our group audit mainly focused on the components that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements. We have considered in this respect, amongst others, the Company's business volatility and its internal and external environment.

We have:
- performed audit procedures ourselves in respect of areas such as the group consolidation, financial statements disclosures and topics related to litigations and claims, the group's tax position, intangible assets, property, plant and equipment and external expenses;
- selected 9 components (2018: 9 components) to perform audits for group reporting purposes on a complete set of financial information as well as 6 components (2018: 6 components) to perform audit procedures for group reporting purposes on selected account balances. The group audit team provided detailed instructions to all component auditors who were part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. For all components in scope of the group audit, we held physical meetings with the auditors of the components. During these visits the audit approach, the findings and observations reported to the group audit team were discussed in more detail. Also file reviews were performed for most of these components; and
- performed analytical procedures on components not in scope for audit procedures to validate our assessment that there are no significant risks of material misstatement within these components.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

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

**Total revenues**

| | |
|---|---|
| 96% Audit of the complete reporting package | 0% Audit of specific items |

**Total assets**

| | |
|---|---|
| 77% Audit of the complete reporting package | 19% Audit of specific items |

## Audit scope in relation to fraud

In accordance with the Dutch standards on auditing we are responsible for obtaining a high (but not absolute) level of assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit. We have exercised professional judgement and have maintained professional scepticism throughout our audit in identifying and assessing the risks of material misstatement of the financial statements due to fraud.

We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit. This also included communication from the group to component auditors of relevant fraud risks identified at group level.

In accordance with the auditing standard we evaluated the fraud risks that are relevant to our audit:

» fraud risk in relation to the revenue recognition specifically focused on issued but unused passenger tickets as explained in the related key audit matter; and
» fraud risk in relation to management override of controls.

We performed the relevant procedures as required by the Dutch auditing standards and our audit procedures included:

» inquiries of management, those charged with governance and others within the Company notably legal counsel, internal audit and other senior officers regarding their process for identifying and responding to the risk of fraud, the internal communication regarding their views on business practices and ethical behaviour and whether they have knowledge of any actual, suspected or alleged fraud affecting the Company;
» obtaining an understanding based on inquiries and inspection of minutes of relevant meetings, for example of the Fraud Management Table, and reports of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Company and the internal control that management has established to mitigate these risks;
» evaluating whether unusual or unexpected relationships have been identified in performing analytical procedures, including those related to revenue accounts, that may indicate risks of material misstatement due to fraud;
» an evaluation of the design, implementation as well as the operating effectiveness of certain internal controls relevant to mitigate these risks;
» inspected the incident register, which includes whistle blowing reports, and follow up by management;
» tested the appropriateness of high risk journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and
» evaluated whether the judgments and decisions made by management in making certain accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Reference is also made to the key audit matter regarding revenue recognition.

In determining the audit procedures we made use of the Company's evaluation in relation to fraud risk management (prevention, detections and response), including the set-up of ethical standards.

We communicated our risk assessment and audit response to management and the Audit Committee of the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

### Audit scope in relation to non-compliance with laws and regulations

We have evaluated facts and circumstances in order to assess laws and regulation relevant to the Company. We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements based on our general understanding and sector experience, through discussion with relevant management and those charged with governance (as required by auditing standards) and evaluated the policies and procedures regarding compliance with laws and regulations.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the auditing standards. Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non compliance.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component auditors of relevant laws and regulations identified at group level. The potential effect of these laws and regulations on the financial statements varies considerably:

- » the Company is subject to laws and regulations that directly affect the financial statements including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- » the Company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation.

We identified the following areas as those most likely to have such an indirect effect: Trade sanctions and export controls sanctions regulation, Anti-bribery and corruption regulation, Anti-competition regulation and Data Privacy regulation.

Auditing standards limit the required audit procedures to identify non-compliance with laws and regulations that have an indirect effect to inquiry of relevant management and inspection of regulatory and legal correspondence, if any. Through these procedures, we did not identify any additional actual or suspected non-compliance other than those previously identified by the Company in each of the above areas. We considered the effect of actual or suspected non-compliance as part of our procedures on the related financial statement items.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations. Management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations. The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

### *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 Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In comparison to prior year implementation of IFRS 16 is no longer considered a key audit matter anymore due to completion of the implementation in 2018.

We refer to the paragraph with regard to the material uncertainty related to going concern as that matter, by its nature, is also considered a key audit matter.

### *Revenue recognition for issued but unused passenger tickets*

#### Description

Revenue from the passenger transport amounts to EUR 7,952 million. The revenue related to passenger transport is recognised when the transportation service is provided in accordance with IFRS 15.

On issuance, passenger tickets are recorded as "Advance ticket sales". However, a portion of these sales relate to tickets that have been issued and paid but which will never be used and, consequently, should be recognised as revenue. The revenue recognition is based on a statistical rate which is regularly updated. The rate is determined by the Company based on historical data taken from the information systems and adjusted for non-recurring and specific events of the periods considered, if any.

We considered revenue recognition for issued but unused passenger tickets to be a key audit matter due to the importance of management judgment in determining the recognition assumptions. There is a risk that revenue may be overstated due to fraud through manipulation of the estimated percentage of tickets which will never be used.

#### Our response

Our procedures primarily consisted of:

» evaluation of the design and implementation of key controls implemented by the Company that we considered the most relevant in determining the statistical rates for "Advance ticket sales";
» assessing the appropriateness and consistency of the methodology adopted by the Company;
» agreeing the statistical rate calculations, for the estimated percentage of tickets which will never be used, with the underlying data from the information systems;
» comparing actual revenue from unused passenger tickets with prior year-end estimates;
» analysing the age of deferred revenue on ticket sales presented on the consolidated balance sheet to assess the appropriateness of the revenue recognized in the period.

In determining the statistical rate used for revenue recognition management relies on the Company's IT systems. As a response we have included IT specialists in our audit team to evaluate the relevant IT controls.

#### Our observation

Based on our procedures performed for revenue recognition for issued but unused passenger tickets we consider that management judgment is reasonable and revenue recognition accounting and disclosure (note 24) is in accordance with EU-IFRS.

### *Provision for litigation and contingent liabilities*

#### Description

The Company is involved in several governmental, judicial or arbitration procedures and litigations, particularly concerning anti-trust laws. The outcome of these procedures and litigations depends on future events. The Company's positions taken are inherently based on the use of assumptions and judgments.
We considered the measurement of the litigation provisions and the related disclosure to be a key audit matter due to the uncertainty surrounding the outcome of current procedures, potentially material nature of the impact of provision amounts on consolidated net income and equity and the degree of estimates and judgment required should these estimates change.

#### Our response

Our audit procedures included, amongst others, assessment of management's use of external counsel, the assessment of management's process for the identification, evaluation and disclosure of claims, proceedings and investigations and the recording and continuous re-assessment of the related (contingent) liabilities and provisions and disclosures, in accordance with EU-IFRS.
We also inquired with both legal and financial staff in respect of claims, proceedings and investigations, inspected relevant documentation such as the minutes of the Audit Committee, the Supervisory Board and the Executive Committee and obtained legal confirmation letters from a selection of external legal counsel.

Furthermore, we challenged the estimates and assumptions applied by the Company in determining the need to recognise a provision and, where applicable, its amount.

Based on these items, we assessed the estimates and positions adopted by the Company. We also assessed the appropriateness of the disclosures in note 23 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 23) 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.

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 substantially 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 Royal Dutch Airlines 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 Royal Dutch Airlines on April 25, 2019 for the audit of the year 2019, and have operated as statutory auditors ever since financial year 2005/2006.

## Description of responsibilities regarding the financial statements

### *Responsibilities of Board of Managing Directors and the Supervisory Board for the financial statements*

The Board of Managing Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Managing Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Managing Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Managing Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Managing Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Managing Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

### *Our responsibilities for the audit of the financial statements*

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.
A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditors' report. This description forms part of our auditors' report.

Amstelveen/Amsterdam, April 8, 2020

KPMG Accountants N.V.
B.S. Geerling RA

Deloitte Accountants B.V.
M.J. van der Vegte RA

Appendix: Description of our responsibilities for the audit of the financial statements

## Appendix

### Description of our responsibilities for the audit of the financial statements

We have exercised professional 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 the Company's internal control;
- » evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managing Directors;
- » concluding on the appropriateness of the Board of Managing Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our 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.

## 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;

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

It is proposed that the net profit for 2019 amounting to EUR 448,452,000 be appropriated as follows:

| | |
|---|---|
| **Transfer to reserves** | |
| Retained earnings | EUR 429,025,181 |
| | |
| **Dividend distributions** | |
| Priority shareholders 2019 | 794 |
| Ordinary shareholders 2019 | 19,426,025 |
| Total dividend distributions | EUR 19,426,819 |
| | |
| Total transfer to reserves/dividends | EUR 448,452,000 |
| | |
| **Interest expenses** | |
| A cumulative preference shareholder 2019 (6%) | 1,057,500 |
| C cumulative preference shareholder 2019 (0.82%) | 115,465 |
| | |
| Total interest expenses | EUR 1,172,965 |

# Miscellaneous

## Five-year review

| (in millions of EUR, unless stated otherwise) | 2019 | 2018 Restated* | 2017 Restated** | 2016 | 2015 |
|---|---|---|---|---|---|
| **Consolidated statement of profit or loss** | | | | | |
| Passenger | 7,952 | 7,766 | 7,496 | 7,114 | 7,143 |
| Cargo | 1,171 | 1,284 | 1,211 | 1,123 | 1,376 |
| Other revenues | 1,952 | 1,839 | 1,723 | 1,563 | 1,386 |
| | | | | | |
| Revenues | 11,075 | 10,889 | 10,430 | 9,800 | 9,905 |
| Expenses | (9,132) | (8,769) | (8,366) | (8,197) | (8,640) |
| Aircraft operating lease costs | | | | (414) | (354) |
| | | | | | |
| EBITDA | 1,943 | 2,120 | 2,064 | 1,189 | 911 |
| Amortisation, depreciation and movement in provisions | (1,090) | (1,029) | (985) | (508) | (527) |
| | | | | | |
| Income from current operations | 853 | 1,091 | 1,079 | 681 | 384 |
| Financial income and expenses | (275) | (315) | 91 | (99) | (322) |
| Other non-current income and expenses | 22 | (13) | (1,849) | 3 | 71 |
| Income before tax | 600 | 763 | (679) | 585 | 133 |
| Income tax expenses | (162) | (201) | 171 | (69) | (42) |
| | | | | | |
| Net result after taxation of consolidated companies | 438 | 562 | (508) | 516 | 91 |
| Share of results of equity shareholdings | 11 | 4 | 11 | 3 | (37) |
| Profit/(loss) for the year | 449 | 566 | (497) | 519 | 54 |
| | | | | | |
| **Consolidated balance sheet** | | | | | |
| Current assets | 2,576 | 2,599 | 2,861 | 2,617 | 2,321 |
| Non-current assets | 9,195 | 8,737 | 8,304 | 6,411 | 6,404 |
| Total assets | 11,771 | 11,336 | 11,165 | 9,028 | 8,725 |
| | | | | | |
| Current liabilities | 4,701 | 4,636 | 4,350 | 3,737 | 4,001 |
| Non-current liabilities | 5,510 | 5,739 | 5,994 | 4,303 | 4,328 |
| Group equity | 1,560 | 961 | 821 | 988 | 396 |
| Total liabilities | 11,771 | 11,336 | 11,165 | 9,028 | 8,725 |

* 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 of EUR, unless stated otherwise) | | 2019 | 2018 Restated* | 2017 Restated** | 2016 | 2015 |
|---|---|---|---|---|---|---|
| **Key financial figures (KLM Group)** | | | | | | |
| Result for the year as percentage of revenues | | 4.1 | 5.2 | (4.8) | 5.3 | 0.5 |
| Earnings per ordinary share (EUR) | | 9.57 | 12.07 | (10.64) | 11.03 | 1.14 |
| Result for the year plus depreciation | | | | | 1,034 | 565 |
| Capital expenditures (net) | | (1,323) | (1,320) | (1,012) | (755) | (340) |
| Adjusted net debt/EBITDAR ratio | | | | | 2.9 | 3.6 |
| Net debt/EBITDA ratio | | 1.3 | 1.3 | 1.6 | | |
| Dividend per ordinary share (EUR) | | 0.415 | 0.395 | - | 0.36 | - |
| | | | | | | |
| **Average number of staff (KLM Group)** | | | | | | |
| (in FTE) | | | | | | |
| The Netherlands | | 27,293 | 26,601 | 26,179 | 26,073 | 26,460 |
| Outside The Netherlands | | 3,279 | 3,219 | 3,219 | 3,929 | 3,955 |
| **Employed by KLM** | | **30,572** | **29,820** | **29,398** | **30,002** | **30,415** |
| Total agency staff | | 2,454 | 2,592 | 2,274 | 1,874 | 1,928 |
| Total KLM Group | | 33,026 | 32,412 | 31,672 | 31,876 | 32,343 |
| | | | | | | |
| **Traffic (KLM Company)** | | | | | | |
| Passenger kilometers | *** | 109,476 | 107,676 | 103,487 | 97,737 | 93,228 |
| Revenue ton freight kilometers | *** | 3,583 | 3,696 | 3,727 | 3,722 | 3,730 |
| Passenger load factor (%) | | 89.4 | 89.1 | 88.4 | 87.2 | 86.4 |
| Cargo load factor (%) | | 61.9 | 64.4 | 63.3 | 64.5 | 65.1 |
| Number of passengers (x 1,000) | | 35,092 | 34,170 | 32,689 | 30,399 | 28,562 |
| Weight of cargo carried (kilograms) | *** | 453 | 466 | 471 | 479 | 483 |
| Average distance flown per passenger (in kilometers) | | 3,120 | 3,151 | 3,166 | 3,215 | 3,264 |
| | | | | | | |
| **Capacity (KLM Company)** | | | | | | |
| Available seat kilometers | *** | 122,452 | 120,815 | 117,066 | 112,065 | 107,851 |
| Available ton freight kilometers | *** | 5,811 | 5,758 | 5,883 | 5,772 | 5,734 |
| Kilometers flown | *** | 471 | 462 | 451 | 433 | 422 |
| Blockhours (x 1,000) | | 706 | 689 | 674 | 644 | 630 |
| | | | | | | |
| **Yield (KLM Company)** | | | | | | |
| Yield (in cents): | | | | | | |
| Passenger (per RPK) | | 7.1 | 7.0 | 7.0 | 7.0 | 7.4 |
| Cargo (per RTK) | | 21.0 | 22.5 | 21.7 | 21.6 | 23.9 |
| | | | | | | |
| **Average number of staff (KLM Company)** | | | | | | |
| (in FTE) | | | | | | |
| The Netherlands | | 21,146 | 20,670 | 20,409 | 20,476 | 20,898 |
| Outside The Netherlands | | 2,421 | 2,431 | 2,397 | 2,444 | 2,619 |
| Employed by KLM | | 23,567 | 23,101 | 22,806 | 22,920 | 23,517 |

* 2018 restated following implementation of Customer compensation and Component approach for Life Limited Parts in 2019
** 2017 restated following implementation of IFRS 9, 15 and 16 in 2018
*** in millions

# Glossary of terms and definitions

### Adjusted free cash flow
Free cash flow minus redemption payments on lease debt.

### 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 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;
- 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.

KLM Royal Dutch Airlines