

# SUSTAINABILITY-LINKED FINANCING FRAMEWORK

DECEMBER 2022

**AIRFRANCE****KLM**  
GROUP

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# 1 INTRODUCTION

## 1.1 About Air France – KLM<sup>(1)</sup>

A global player with a strong European base, the Air France – KLM Group's main areas of business are passenger transport, cargo transport and aeronautical maintenance.

Air France – KLM is a leading airline Group in terms of international traffic on departure from Europe. It offers its customers access to a worldwide network, covering over 310 destinations thanks to Air France, KLM Royal Dutch Airlines and Transavia, mainly from its hubs at Paris-Charles de Gaulle and Amsterdam-Schiphol.

Its Flying Blue frequent flyer program is one of the leaders in Europe with over 18 million members.

Together with its partners Delta Air Lines and Virgin Atlantic, Air France – KLM operates the largest transatlantic joint-venture, with more than 340 daily flights in 2019.

Air France – KLM is also a member of the SkyTeam, the alliance dedicated to providing passengers with a more seamless travel

experience at every step of their journey 18 member airlines working together across an extensive global network.

Recognized for 18 years as an industry leader in sustainable development, the Air France – KLM Group is determined to accelerate the transition to more sustainable aviation. Since 2003, the Air France – KLM Group has been a member of the United Nations Global Compact. The aim is to make a significant contribution to the UN Sustainable Development Goals in connection with the Group's activities.

The Group is committed to accelerate its environmental transition to be a leader in a more sustainable aviation industry. The Air France – KLM Group is one of the first European airline groups to have its **decarbonization trajectory approved by SBTi**<sup>(2)</sup> since November 2022. This major new step in the Group's decarbonization strategy will support its goal of net zero CO<sub>2</sub> emissions in 2050.

## 1.2 Main sustainability issues for the aviation sector

Aviation plays a unique role in the global transportation system, facilitating the high-speed transport of people and goods over long distances. The air transport industry has come to play an increasingly important role in social and economic development and global mobility.

However, since many years the environmental awareness have put the sector under huge pressure. From the Flygskam or "flight-shaming" movement in the social media to calls for a tax on kerosene in several countries and court cases on corporate legal responsibility for climate change, air transportation is having to contend with ever-increasing pressure at both local and global level, condemning the industry's impacts on the environment.

According to ATAG, in 2019 air transport produced 914 million tons of CO<sub>2</sub>. The sector's emissions thus represent around 3% of total global emissions, and 10% of the transport sector's emissions. Approximately 80% of emissions come from flights traveling more than 1,500 km (medium and long-haul)<sup>(3)</sup>. The sector's emissions increased by 40% between 2005 and 2019, due to strong traffic growth, despite continuous improvements in the energy efficiency of aircraft, engines, and their operation. It is therefore urgent that air transport emissions start to decrease significantly. According to the EIA, the aviation sector

is among the most challenging sectors of the global economy to decarbonize<sup>(4)</sup>. The aviation sector's pathway to net zero will require significant investments in efficiency and disruptive technologies to switch fuel sources, in addition to an optimized airspace management and modal shift. IATA (International Air Transportation Association) recently set a course towards net zero emissions by 2050<sup>(5)</sup>. The Air France – KLM Group, whose emissions intensity already fell by 30% between 2005 and 2019, is committed to playing a leading role in the sector's transition.

While CO<sub>2</sub> remains the most commonly cited and best-understood pollutant from aviation, its contribution to global effective radiative forcing (ERF) i.e., warming, is estimated to be approximately a third of the industry's total impact. Two thirds of aviation's climate impact is caused by other pollutants from jet engines can cause further warming beyond the impact of carbon alone. For example, particulate matter has been linked to the formation of condensation trails (the cloud-like stripes that form behind an aircraft) which are potent but short-lived and may last from a few minutes to a day. NO<sub>x</sub> emissions from aircraft engines at altitude contribute to the formation of ozone and the destruction of methane (both greenhouse gases) such that the overall effect is estimated to be warming although this is dependent on background surface air pollution levels.

(1) For reasons linked to the Covid-19 pandemic, the 2019 figures are given since they are more representative.

(2) Link to the Press Release: Air France – KLM CO<sub>2</sub> emissions reduction targets for 2030 approved by the Science Based Targets initiative (SBTi).

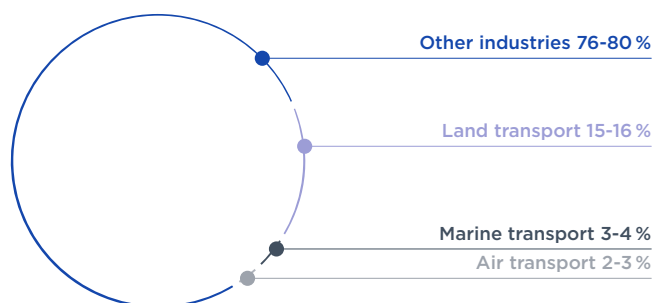
(3) Air Transport Action Group – Facts & Figures: Worldwide, flights produced 915 million tons of CO<sub>2</sub> in 2019. Globally, humans produced over 43 billion tons of CO<sub>2</sub>.

(4) IEA (2021), Aviation, IEA, Paris.

(5) IATA – Net-Zero Carbon Emissions by 2050, October 2021.

Overall, there is consensus on the existence of these non-CO<sub>2</sub> effects although uncertainties remain large. Therefore, one must be careful with actions that can be taken to limit non-CO<sub>2</sub> effects as they may result in increased CO<sub>2</sub> emissions. Nonetheless, the Group is actively working with research facilities and solution providers to further knowledge on non-CO<sub>2</sub> effects and identify the most effective measures for mitigation.

**Figure 1 – Share of transport in global man-made CO<sub>2</sub> emissions**



Source: Air France – KLM.

Furthermore, the world has been traversing a major public health crisis. This unprecedented crisis has further questioned our societies' focus on economic growth and globalization at the cost of environmental impacts – with aviation very much remaining in the spotlight on these issues. As a result, the sector now finds itself confronted with a renewed and urgent societal acceptability challenge. This requires aviation to fully embrace sustainability as part of the necessary evolution of its business and economic model in the post-Covid-19 era.

The airline industry must pursue its efforts to reduce its impacts and intensify disclosure on its commitments. Airlines are accommodating their customers' growing need for mobility, while improving their energy efficiency and focusing on containing noise hindrance at an acceptable level for those living near airports. Public pressure never ceases to grow, at both local and global level, with regard to the environmental impacts linked to the air transport industry.

Civil aviation is a social and economic pillar of the world economy, affecting activities in every aspect of daily life. It represents an important source of employment: either the industry supports around 50 million<sup>(1)</sup> jobs around the world, directly within the industry or supported through the industry's supply chain, employees' spending and in the aviation-enabled tourism sector. The Covid 19 crisis has affected severely on airlines and airline labour around the world. The crisis has resulted in job reduction programs and alterations to work. Aside from job losses, employees have been affected by reduced working time.

When it comes to social topics more broadly, aviation and aerospace lag behind other parts of the economy and more specifically on the advancement of women. In 2019, IATA launched the "25by2025" initiative<sup>(2)</sup>, where 100 signatories have committed to reaching 25% of women in leadership position or deliver a 25% improvement by 2025.

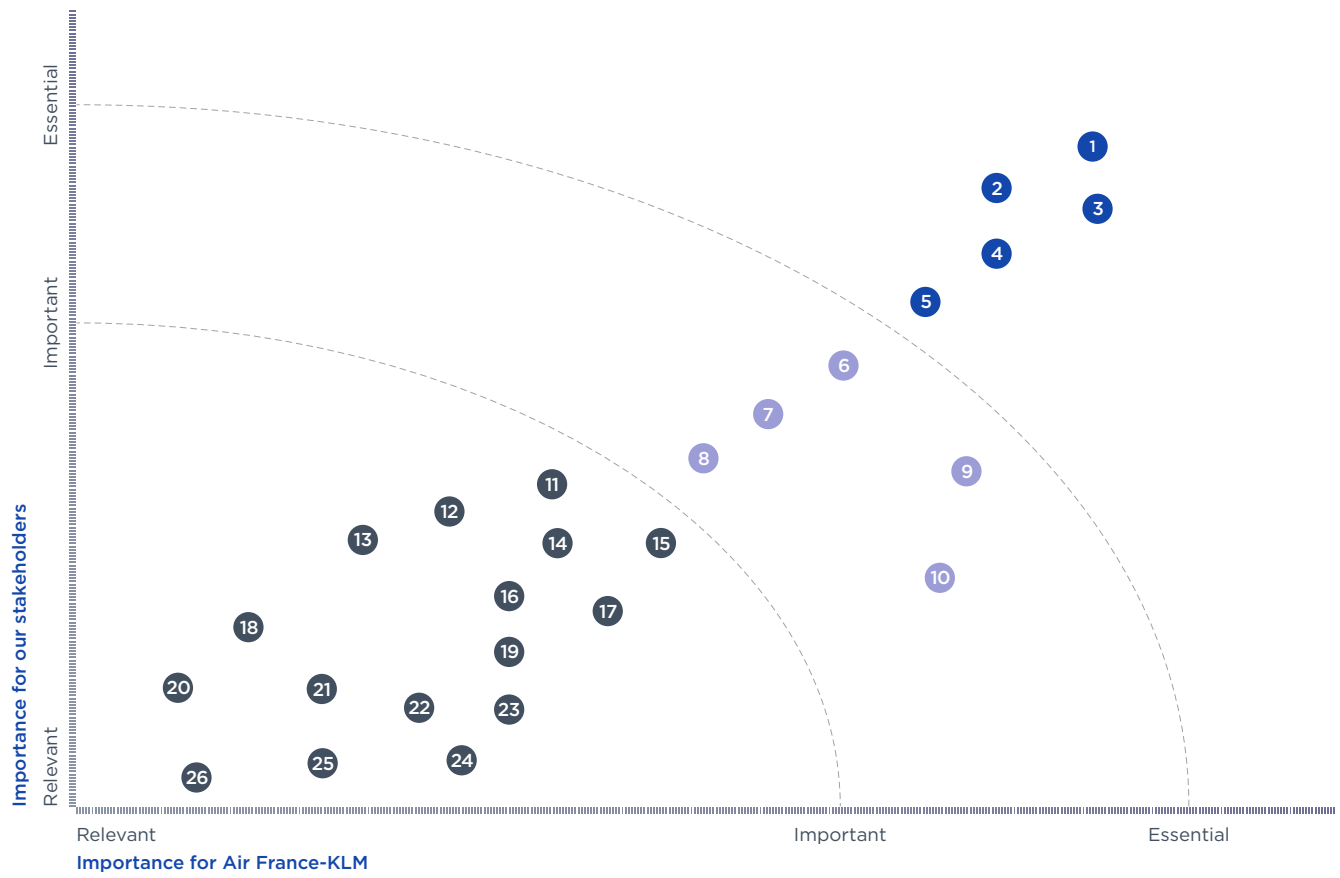
Every two years, the Group carries out materiality analyses, enabling the priorities key to the Group's activity to be re-evaluated and the results to be integrated in the strategy, involving all the Group stakeholders (corporate and individual customers, employees, shareholders, investors, suppliers, NGOs, governmental organizations, local representatives from the Paris and Schiphol regions, sustainability managers from leading companies and representatives of the airline sector and the Group's peers).

The materiality analysis carried out in 2021 reaffirmed the most important priorities for the Group. Customer Satisfaction, Fleet development, Reducing CO<sub>2</sub> Emissions, Financial Performance and Safety (flight, health safety and security) remain the top materiality issues. The 2021 materiality analysis also shows the growing concern surrounding Sustainable Aviation Fuel, sustainable supply chain management and climate change in the impact of the Group's activity.

(1) Source: IATA, October 2020.

(2) [Link to IATA website here.](#)

**Figure 3 - Materiality matrix**



- |   |   |
|---|---|
| <b>1</b> Safety & Security                                | <b>14</b> Responsible supply chain management |
| <b>2</b> Fleet development                                | <b>15</b> Labour relations & social dialogue  |
| <b>3</b> CO <sub>2</sub> emissions                        | <b>16</b> Waste management                    |
| <b>4</b> Customer satisfaction                            | <b>17</b> Diversity & equality                |
| <b>5</b> Sustainable aviation fuel, Financial performance | <b>18</b> Compensation program                |
| <b>6</b> Innovation                                       | <b>19</b> Transparent communication           |
| <b>7</b> Operational performance                          | <b>20</b> Water management                    |
| <b>8</b> Market competitiveness                           | <b>21</b> Air quality management              |
| <b>9</b> Financial performance                            | <b>22</b> Sustainable employability           |
| <b>10</b> Noise management                                | <b>23</b> Stakeholder dialogue                |
| <b>11</b> Employee health & safety                        | <b>24</b> Responsible catering                |
| <b>12</b> Climate change                                  | <b>25</b> Societal value                      |
| <b>13</b> Human rights                                    | <b>26</b> Biodiversity                        |

Source: Air France - KLM Group.

Within the framework of this analysis, stakeholders also ranked a list of strategic priorities potentially impacting the sector's long-term growth, namely: the acceptability of the environmental impacts of aviation, the use of sustainable alternative fuels, changing customer behavior, control over the carbon reduction

trajectory and fair competition between airlines all headed the list. These extra-financial risks are monitored on a permanent basis and are an integral part of the Group's operational risk sheets, and are the subject of measures, monitoring procedures and action plans.

### 1.3 The Air France – KLM Group global corporate sustainability strategy

Within this context, the fundamentals of our strategy, in particular our commitment to sustainability, remain and are being accelerated. The overarching ambition of the Air France – KLM Group is to become an aviation champion in Europe, while assuming its role as a pioneer in sustainable aviation. As such, flight and health security are both an absolute imperative that the Group owes to its customers and staff, and a daily commitment.

Figure 4 – The Air France – KLM Group's strategy



Source: Air France – KLM Group.

## Our purpose:

### At the forefront of a more responsible European aviation, we unite people for the world of tomorrow

Today, the pioneering spirit is more than ever at the core of the Air France-KLM Group's DNA. Since Air France and KLM launched the first commercial aviation routes, our continued commitment to progress and making new discoveries has enabled us to build the leading European airline group.

The bridges we create between Europe and the rest of the world are strengthen economies and allow us to share our lifestyle and our history. We unite people and cultures, we nurture a greater openness to the world, and we promote exchanges and tolerance.

In an ever-changing world, we are fully committed to a more sustainable, responsible and inclusive aviation that respects people and the planet. With our pioneering spirit, we are willing to play our part in the transformation of our industry and show that a new way forward is possible for aviation.

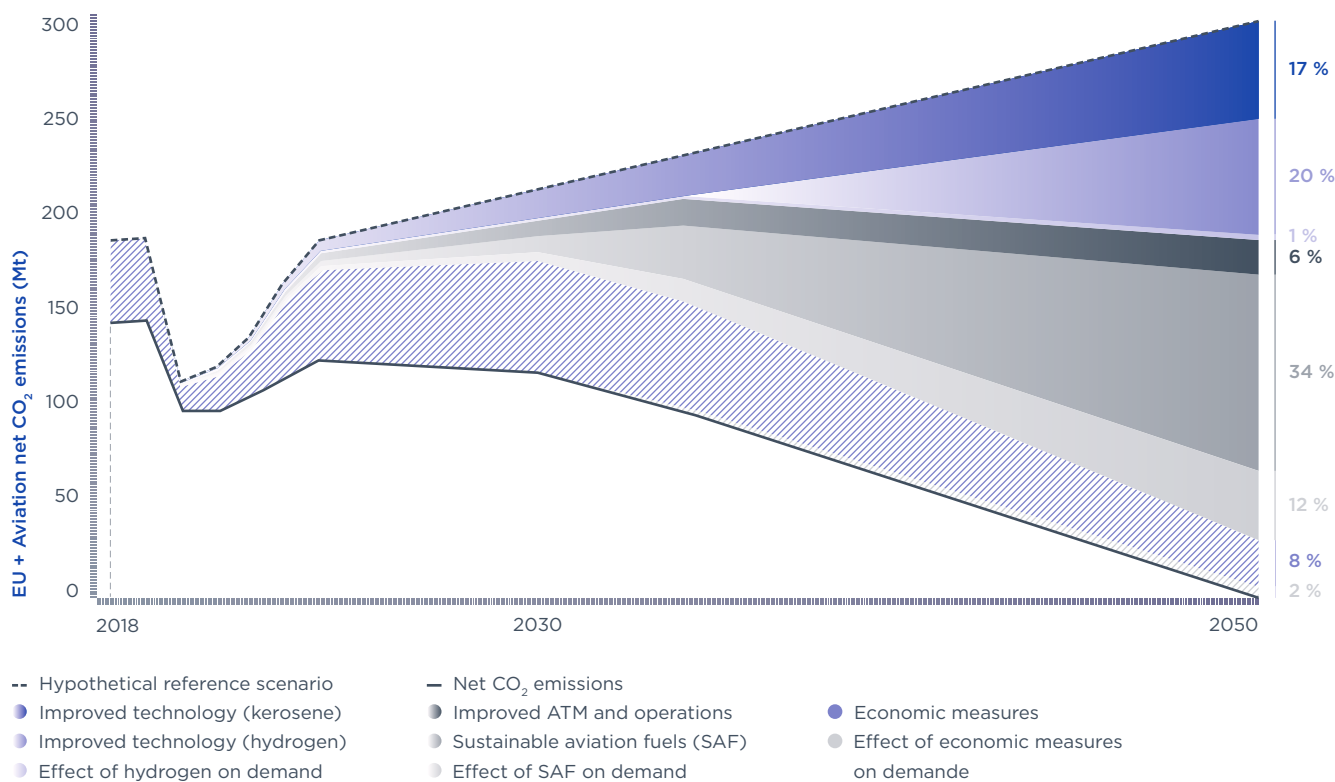
## 1.3.1 Climate and environmental roadmap

Since 2019, the Group has accelerated its environmental transition and has adopted a proactive approach aiming to have the Group's and its companies' CO<sub>2</sub> emission reduction targets assessed based on a scientific approach and criteria. In November 2022, SBTi has validated that the targets set are compatible with the Paris Agreement, which aim to limit global warming to well below 2°C. The Air France-KLM Group is one of the first airline groups worldwide to have its targets independently validated by the SBTi.

While we are still facing some major challenges in business recovery, we consider our decarbonization to be a necessary course of action in order to meet the environmental and societal challenges we are collectively facing. Both France and the Netherlands have implemented policies to ensure the transition to a Net Zero Carbon society by 2050, and we are already following their trajectories, including in our financing strategy<sup>(1)</sup>.

The Group's decarbonization strategy relies on three levers:

1. Reducing our direct CO<sub>2</sub> emissions (by the renewal of our fleet, the use of sustainable aviation fuel and operational measures such as eco-piloting);
2. Reducing our indirect CO<sub>2</sub> emissions (by mobilizing all our value chain);
3. Absorbing CO<sub>2</sub> in the atmosphere.



(1) In 2020, the French State has conditioned granting of loans to Air France to commitment to its climate objectives, as done by the Dutch State with KLM in 2021.

Every lever used by the European aviation sector will contribute to achieving the 2050 goal as follows:

- > 20-35% reduction in CO<sub>2</sub> emissions by fleet renewal and technological improvement;
- > 50-70% reduction in CO<sub>2</sub> emissions by the increased use of sustainable aviation fuels;
- > 5-10% reduction in CO<sub>2</sub> emissions by the operational measures deployed;
- > 5-20% absorption of CO<sub>2</sub> in the atmosphere equivalent to the remaining emissions as of that date.

### 1.3.2 Fleet renewal and technological improvement

The renewal of our fleet with cleaner and more fuel-efficient aircraft is the first lever in the Group's decarbonization trajectory. The Group is continuously investing in its fleet renewal with

#### A major plan to renew our fleet

	2021	2022	2025	2028
% Next generation Aircraft <sup>(1)</sup>	10%	17%	41%	64%

In 2021, the Group also took delivery of 6 Airbus A220s (which uses 20% less fuel than previous generation aircraft) of a total order for 60 aircraft, 13 Airbus A350s (which uses 25% less fuel than previous generation aircraft) of an order for 38 and 7 Embraer 195-E2s (which uses 9% less fuel than previous generation aircraft) of an order for 25, amongst the most efficient aircraft in their respective categories.

During the first semester 2022, the Group has continued its policy of fleet renewal and modernisation by taking delivery of 4 Airbus A220s, 5 Airbus A350s and 5 Embraer 195-E2s.

By 2025, 41% of the Air France – KLM Group's fleet will be made of next-generation aircraft compared to 10% in 2021.

The Group is mobilizing the industry and is committed to research and development into innovative solutions, design, aeronautical and engine maintenance. In 2019, TU Delft and KLM announced the start of the design of the Flying-V aircraft. The Flying-V is a design for a very-energy-efficient long-haul aircraft. The improved aerodynamic shape and reduced weight of the aircraft will reduce fuel consumption by 20% compared to today's most advanced aircraft. After extensive wind tunnel and ground tests, the first successful test flight with a scale model of the Flying-V took place in 2020. Further flight simulator tests were successfully completed in 2021, making further climate assessments and studying the potential for noise reduction and improvements in flight characteristics and structures.

### 1.3.3 Sustainable Aviation Fuel

The use of Sustainable Aviation Fuels (SAF) in which Air France and KLM have been pioneers, will play a key role in the decarbonization of air transport, as they reduce GHG emissions

latest-technology aircraft, while progressively accelerating phase-out of the most-polluting ones.

The Group spent around €1,000 million of investment in the fleet in 2021 and has already firm orders commitments to the purchase of aircraft equipment for more than 5,000 million by 2026.

In 2021, despite the difficult economic context due to the public health crisis, the Air France – KLM Board of Directors decided to approve some major strategic investments reflecting our ambition to improve our economic and environmental performance. A firm order was thus placed for 100 latest-generation aircraft (Airbus A320neo), accompanied by purchase rights for a further 60 aircraft, to renew the KLM and Transavia fleets. Compared with previous-generation aircraft, these new aircraft will enable a significant reduction in fuel consumption and CO<sub>2</sub> emissions, of the order of 15%.

up to 80% over the entire life cycle. The Group is committed to include a, **10% SAF component by 2030 and intend to incorporate more than 60% in 2050.**

The Group launched in 2021 the Cargo & Corporate Sustainable Aviation Fuel Program<sup>(2)</sup>, enabling customers to invest in the development and use of SAF, in addition to the introduction, since January 2022, of a SAF contribution on ticket prices.

In 2021, KLM operated the world's first commercial passenger flight with a blend of 500 liters of sustainably produced synthetic kerosene. Shell produced this synthetic kerosene at its research center in Amsterdam based on CO<sub>2</sub>, water and renewable energy from solar and wind sources in the Dutch territory.

On May 18, 2021, Air France operated the first long-haul flight from Paris to Montreal powered by sustainable aviation fuel manufactured in France. This was the first time that fuel with this level of sustainability has been used on this type of flight, since it enabled a 91% reduction in CO<sub>2</sub> across the whole of its life cycle.

In parallel, Air France – KLM joined forces with the global airline leaders and Boston Consulting Group to form the Aviation Climate Taskforce (ACT), a new non-profit organization founded to accelerate breakthroughs in emerging technologies to decarbonize aviation. ACT will stimulate innovation in the next generation of technologies, principally focused on critical medium-term solutions, such as synthetic fuel and direct air capture. Over time, the portfolio will expand to include more near-term solutions, such as emerging bio-based Sustainable Aviation Fuel pathways, and long-term solutions, such as hydrogen technologies. ACT's mission will be supported by two pillars: an Innovation network and a Collaboration Forum to help accelerate innovation and expedite adoption.

(1) Aircraft considered as Next generation aircraft: A220, A320 NEO, A350, B787, Embraer 195-E2.

(2) Air France-KLM launches its "Sustainable Aviation" Fuel program dedicated to corporate customers on 26 January 2021 Roissy, Amstelveen, 26 January 2021.



On October 25, 2022, the Group pushed its sustainability targets forward with major multi-year Sustainable Aviation Fuel (SAF) purchase agreements<sup>(1)</sup>. It signed two binding contracts with Neste and DG fuels for a total volume of 1.6 million tons of sustainable aviation fuel between 2023 and 2036, which will avoid 4.7 million tons emissions of CO<sub>2</sub> on full lifecycle basis compared to fossil fuels. These contracts represent a first step by the Group towards achieving its 10% SAF incorporation targets by 2030 and will cover approximately 3 of those 10%.

Air France-KLM has established a strict sourcing policy under which it commits itself only to purchase SAF, that requires a minimum of 75% reduction of GHG emissions over the entire life cycle, that does not compete with human food or animal feed supply, that are RSB or ISCC+ certified for their sustainability, and that are not derived from palm oil.

On December 05, 2022 Air France-KLM and TotalEnergies announced the signature of a Memorandum<sup>(2)</sup> of Understanding (MoU) that will see TotalEnergies deliver more than one million cubic metres or 800,000 tons of Sustainable Aviation Fuel (SAF) to Air France-KLM Group airlines over a 10-year period, starting in 2023.

This SAF will be produced by TotalEnergies at its biorefineries and will be made available to the Air France-KLM Group's airlines, mainly for flights departing from France (in accordance with French legislation) and the Netherlands.

### 1.3.4 Operational measures

Operational measures are the third lever in reducing the Air France-KLM Group's CO<sub>2</sub> emissions. The Group has implemented a Fuel Plan aiming at reducing fuel consumption thanks to a detailed analysis of flight performance and the deployment of several projects focused on fuel policies and standards, precision flight planning, route optimization and reducing the weight on board. All the divisions in every Group company contribute, at their individual levels, to the Fuel Plan so as to reduce their fuel consumption and improve the Air France-KLM Group's energy efficiency.

Since 2012, a total of 270,000 tons of CO<sub>2</sub> has thus been avoided thanks to the operational measures deployed by the Group's airlines.

### 1.3.5 Absorb and store carbon from the atmosphere

Our priority is to reduce greenhouse gas emissions as quickly as possible, primarily those generated directly by our operations, but also upstream and downstream of our activities. In addition, we support projects that absorb and store carbon from the atmosphere in natural carbon sinks (forests, mangroves).

Air France supports several reforestation and tree planting projects in collaboration with its partner EcoAct, such as:

- > the International Small Group and Tree Planting program, in India, Kenya, Tanzania and Uganda, helping small groups of farmers to organise themselves to plant trees on their farms;

- > a Gold Standard-certified reforestation program in the Vichada region of Colombia, certified by the Gold Standard, aimed at planting 76,000 hectares of hardwood while protecting local biodiversity.

Since 2017 KLM has supported a reforestation project in Panama. In 2022, KLM added 2 projects in Uganda and Colombia to its portfolio. Selected projects are all:

- > Gold Standard certified;
- > FSC certified;
- > supporting job creation for the local population, community development; etc.
- > contributing to the Sustainable Development Goals van de United Nations

### 1.3.6 Combining different modes of transport

For short distance journeys, low carbon transport alternatives exist. Favouring these low-carbon alternatives on shorter journeys, and more energy-efficient flights (new generation aircraft, sustainable aviation fuels) on longer journeys, enable to minimise the overall carbon footprint of one's journey. Therefore, the Air France-KLM Group believes that combining train and air travel is an obvious choice.

Wherever possible, Group companies offer its customers the possibility of combining different modes of transport. We call this intermodality. Air France and KLM are offering its customers a service that allows them to combine train and air travel in the same reservation, with guaranteed connections. This offer, called "Train + Air" and "Air/Rail" respectively in partnership with the SNCF and Thalys.

The "Train + Air" product is used every year by more than 160,000 customers travelling to and from Paris-Charles de Gaulle and Paris-Orly airports.

### 1.3.7 Other environmental objectives

Beyond our climate roadmap, we are also committed to positively contribute to other environmental objectives:

#### – Reducing our noise footprint:

It is our responsibility to minimize the noise pollution caused by our operations, which particularly affects the communities living near airports. Between 2000 and 2019, the Group reduced its noise footprint per flight by 39% on average, thanks to the modernisation of its aircraft and the optimisation of take-off and landing procedures. We will continue to reduce the noise footprint of our operations, particularly with the gradual deployment of the Airbus 350 and 220, which are respectively 40% and 34% quieter than the aircraft they replace.

(1) [Link to the Press Release, 25/10/2022.](#)

(2) [Link to the Press Release, 05/10/2022.](#)

#### – Air quality:

We monitor our atmospheric emissions (i.e. CO<sub>2</sub>, SO<sub>2</sub> and NO<sub>x</sub> emissions) for both flight and ground operations, including low altitude emissions which impact the quality of the air around airports. In order to reduce emissions in the immediate environment of aircraft handling areas, rather than using kerosene-powered Auxiliary Power Units (APUs), we use the following less-polluting Ground Support Equipment (GSE): Fixed Electrical Power Units (FPU) where possible, to power aircraft; Pre-Conditioned Air (PCA) units that maintain an acceptable temperature onboard the aircraft; Ground Power Units (GPU), as well as an increasing number of aircraft towing trucks, equipped with automatic power-shutdown systems.

#### – Protecting biodiversity:

By joining Act4nature international in 2021, Air France and the Group are strengthening its commitment to the fight against the erosion of biodiversity. The Company supports various reforestation, anti-deforestation and ecosystem restoration projects in collaboration with its partners EcoAct and A Tree For You. We also have an important responsibility in the fight against the trafficking of protected species, which has disastrous consequences for endangered species. We are taking action by providing staff training and by raising awareness among our customers. Air France and KLM are signatories of the Buckingham Palace Declaration which formalizes their resolute commitment to combatting illegal trading in protected species.

#### – Waste:

Air France-KLM is taking action to limit waste production and increase the proportion of waste recovered and recycled. To achieve our target to reduce by 50% our residual waste (non-recycled waste from the cabin and ground activities) by 2030 compared to 2011, Air France-KLM Group applies the principles of circular economy to the different waste sources (rethink, reduce, reuse and recycle). About 70% of waste results from onboard catering and the cleaning of the cabin. The remainder results from our production at our, for example, Cargo and Engineering activities, and only a small percentage comes from the offices. We actively engage with authorities and our supply chain to seek solutions and remove any barriers to handle catering waste as well as the aeronautical waste, which are both subject to strict international regulation.

### 1.3.8 Social and business ethics commitments

The Air France-KLM Group is committed to create a work environment where everybody can flourish and is able to contribute the best way possible to our Group performance. We are an airline Group with three powerful and authentic brands, Air France, KLM, Transavia, and other subsidiaries. Each company with its own identity and a rich history we are proud of, which serves as the fundament for our future. All its employees are our most important asset.

The Group continuously invests in human capital development and training, to develop the skills of employees and empower them, and to enable them to exceed customer expectations. The relationship that links the Air France-KLM Group to its employees is based on four values: trust, respect, transparency and confidentiality.

#### – Being the best place to work for our employees:

Despite the public health crisis, the Air France-KLM Group aims to provide one of the best places to work, by creating a safe and motivating environment for employees, and by measuring and monitoring engagement through the Employee Promoter Score (EPS), an in-house equivalent of the Net Promoter Score which measures the level of customer satisfaction. The Employee Experience is a key element of our people strategy and a pillar of our Sustainable Development strategy. The roadmap is defined in action plans at the level of every division of the airlines and the Group including, notably, an ongoing commitment to staff development, support for initiative, the promotion of team spirit and reinforcing levels of motivation which is key to surmounting the Covid-19 crisis and supporting the Group's levels of performance.

Health, safety and quality of life in the workplace are as well a major priority on which there may be no compromise. Everyone working for or with the Air France-KLM Group has the right to a healthy and safe working environment that takes into account their physical and mental well-being. A dedicated comprehensive management system is in place ensuring continuous monitoring and policy adjustment.

#### – Development of human capital and talent management

In 2021, Air France and KLM continued the policy launched in 2019 to transition from exclusive (aimed at a targeted group of employees) to inclusive talent management (every employee is a talented individual who must be given the opportunity to develop his or her skills) by using a talent development approach created jointly by the two companies and by implementing joint development strategies and actions. Despite a challenging context, the Group pursued its policy of prioritizing training with a number of training hours per employee stood at 31.3 hours in 2021.

Air France-KLM is committed to promote skills-based mobility within the context of restructuring and voluntary departures.

In the shift from performance management to performance development, the Air France-KLM Group's approach to performance appraisals is now oriented towards a forward-looking and appreciative process based on encouraging feedback to help identify employees' talents and individual growth potential.

#### – Fostering diversity, equity and inclusion

As a signatory of the United Nations Global Compact, the Air France-KLM Group is committed to respecting the universal principles relating to the respect of Human Rights. The Air France-KLM Group strongly believes that a diverse and inclusive workforce has a positive impact on the performance of the organization and thus continues to support all forms of action to encourage equal opportunity, equity between men

and women, LGBTIQ+ networks, the vocational integration of young people, the transmission of knowledge and skills, and the maintained employment and recruitment of persons with disabilities.

- > in September 2021, the Group launched an internal assessment to understand its Diversity & Inclusion (D&I) departure point and its transversal mindset going forward to emerge stronger from the Covid 19 crisis. The goals will be to further improve and encourage an inclusive culture and leadership, improve our approach to combating all forms of discrimination and inequality, make our progress more measurable based on relevant data, insights and good practices, and prioritize decentralized activation based on specific needs, with clear objectives and initiatives;
- > in November 2021, a D&I survey was sent to all employees within the Group and the strong response testified to their keen interest in the topic of D&I.

The Group has long been committed to gender diversity and equality between women and men at each level within the Company, from crew staff to executive members. The Board of Directors has validated a set of gender diversity commitments:

- > long-term objective of reaching parity between men and women within the Group Executive and the top 10% of the positions with the highest level of responsibility;
- > medium-term targets of a minimum of 33% women within the Group Executive Committee (GEC) by 2030 and 40%

## 1.4 Sustainability governance

Sustainable Development governance is ensured by the management bodies at the highest level of the Group. The Board of Directors and Executive Committees ensure that sustainability topics are given high priority and the sustainability teams report frequently to the most senior levels of management. They make sure that sustainability decisions are taken at the right level within all the relevant entities:

- > the **Board of Directors** approves the strategic orientations and monitors their implementation;
- > within the Board of Directors, the **Sustainable Development and Compliance Committee**, established in 2018, assists in reviewing the risks and policies, by issuing recommendations and ensuring that issues linked to sustainable development are taken into account when defining the Group's strategy. In particular, twice a year, the Sustainable Development and Compliance Committee reviews the risks linked to climate change and the remedial measures in place. Having taken into account the recommendations of the Sustainable Development and Compliance Committee, the **Audit Committee** approves the review of the main extra-financial risks on an annual basis;
- > the **Group Executive Committee** determines the sustainable development policy and ensures that it is an integral part

of the top 10% management level positions to be held by women by 2030.

In 2021, 25% of the members of the GEC were women and the proportion of women in managerial positions continued to increase for all categories of staff: ground staff (34,6% of the 10% highest levels of management were women compared to 34% in 2020), pilots (5.8% of Flight Captains were women compared to 5.7% in 2020), cabin crew (65.8% of Purseres were women compared to 65.7% in 2020).

### 1.3.9 Market recognition

The Group benefits from several positive ESG ratings<sup>(1)</sup>. In particular, the Air France – KLM Group is the only European airline being part of the DJSI World and Europe Indexes.

Furthermore, in 2021, to objectify its ESG performance and improve its strategy and practices, the Air France – KLM Group proactively requested an independent ESG rating from Standard & Poor's (S&P) Global Ratings, becoming the first airline group to be evaluated through a solicited ESG rating. S&P Global Ratings thus assigned to the Air France – KLM Group an ESG score of 64/100. With this rating, the Group is well positioned among the players in the airline industry with regard to the management of its significant exposure to environmental challenges. S&P underlined that the Air France – KLM Group was well prepared to manage the ESG risks faced by airlines in the short and medium term.

of the Group's strategic planning. It reviews the sustainable development strategy and performance on an annual basis. The **Group's EVP Corporate Secretary** is responsible for the Sustainability and the Compliance departments;

- > the Group and airline **Sustainability Departments** are tasked with proposing and implementing the sustainable development strategy. The teams align their actions and policies in a weekly meeting known as the **"Sustainability Circle"**. **Department Sustainability Leaders** act as multipliers in their respective business units. These sustainability champions function as a network in close cooperation with their Sustainability Departments as well as their own Executive Vice-Presidents/Senior Vice-Presidents, to initiate, embed and accelerate sustainability topics within their functions.
- > in addition, during 2021, a **Decarbonization Committee** was established as a cross-functional internal management body for the review and strategic advancement of the Air France – KLM Decarbonization Road Map and its execution.

The compensation of Benjamin Smith, Chief Executive Officer of the Air France – KLM Group, includes criteria related to non-financial issues and sustainability in both the KPIs for the annual variable compensation and the KPIs for the long-term variable remuneration.

(1) <https://sustainabilityreport2020.airfranceklm.com/en/english-non-financial-assessment/>.

## 2 AIR FRANCE - KLM SUSTAINABILITY-LINKED FINANCING FRAMEWORK

In line with its Sustainable Development roadmap, Air France-KLM is committed to integrating sustainability in its everyday operations, as well as in its investment and financing strategy. The Group intends to strengthen its commitment to become an active player of sustainable finance by creating establishing a dedicated framework, which encompasses Air France-KLM's overall strategy, including the holistic and forward looking dimension of sustainability.

Air France KLM's Sustainability-Linked Financing Framework (the "**Framework**") has been established in accordance with the recommendations of the Sustainability Linked Bond Principles ("**SLBP**") as administered and published by the International Capital Markets Association ("**ICMA**") in June 2020 <sup>(1)</sup> and Sustainability-Linked Loan Principles ("**SLLP**") as administered and published by the Loan Market Association (LMA) in 2022 <sup>(2)</sup>.

The following five components form the basis of the Framework:

1. Selection of Key Performance Indicator ("**KPI**");
2. Calibration of Sustainability Performance Targets ("**SPTs**");
3. Characteristics of Sustainability-Linked Financing Instruments;
4. Reporting; and
5. Verification.

This Framework will be used for any potential debt financing instruments ("**Sustainability-Linked Financing Instruments**"), including, but not limited to, Sustainability-Linked Bonds as defined in the SLBP and Sustainability-Linked Loans (term loans or revolving credit facilities) as defined SLLP. The Framework will apply to any such Sustainability-Linked Financing Instrument(s) issued by Air France-KLM and will continue to do so as long as any such instrument(s) remain outstanding.

### 2.1 Selection of Key Performance Indicator

Air France-KLM has selected one Key Performance Indicator (KPI) that are relevant, core and material to its overall business and of high strategic significance to the Group's current and/or future operations. The KPI is aligned with the Sustainable

Development roadmap and the United Nations 2030 Sustainable Development Goals as part of their 2030 agenda ("**2030 Agenda**").

Definition	<b>GHG emissions intensity</b>
Unit	Metric tons of CO <sub>2</sub> equivalent per Revenue Ton-kilometer (gCO <sub>2</sub> e/RTK)
Rationale for selection	As detailed in the first section, fight against climate change is the most material environmental issue for the aviation sector, with civil aviation emitting around 2.4% of global emissions. The sector's GHG emissions increased by 40% between 2005 and 2019, due to strong traffic growth, despite continuous improvements in the energy efficiency of aircraft, engines, and their operation. It is therefore key that air transport emissions start to decrease significantly, to mitigate its impact on climate change globally.

(1) SLBP 2020: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>.  
 (2) <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/#>.

Perimeter and Scope	<p>This KPI covers the absolute value of the scope 1 (emissions from direct activities for Air France Group and KLM Group) and scope 3 (Upstream emissions from fuel production) CO<sub>2</sub> emissions of the Group operations, divided by the sum of RTK (Revenue Ton-kilometer) and RPK (Revenue passenger-kilometer), representing all industry segments in which the Air France–KLM Group operates.</p> <ul style="list-style-type: none"> <li>&gt; RTK is the most commonly used unit of measure of freight transport which represent the transport of one ton of goods by air over a distance of one kilometer.</li> <li>&gt; RPK is the most commonly used unit of measure representing the transport of one paid passenger by air over one kilometer.</li> </ul> <p>The scope of activities taken into account for its assessment is the same as the one used for the URD:</p> <p>For the flight operations, the scope covers:</p> <ul style="list-style-type: none"> <li>&gt; Air France Group scope: all flights under AF code operated by Air France and HOP, all flights under TO code operated by Transavia France.</li> <li>&gt; KLM Group scope: all flights operated by KLM, KLM Cityhopper, Martinair and Transavia Netherland.</li> </ul> <p>For the ground operations, the scope covers:</p> <ul style="list-style-type: none"> <li>&gt; Air France consolidated subsidiaries: HOP!, CRMA, Sodexi, BlueLink and Transavia France.</li> <li>&gt; KLM consolidated subsidiaries: KLC (KLM Cityhopper), KES (KLM Equipment Services), KCS (KLM Catering Services), KHS (KLM Health Services), Transavia Netherlands, Martinair and EPCOR (for a portion of the indicators).</li> </ul> <p>The scope covers nearly 100% of the sites in France and the Netherlands (some very small subsidiaries being excluded). The international stations are not taken into account (partially for the French Overseas Departments and Territories),</p> <p>Most of the GHG emissions are generated by the Air France–KLM Group's direct activities (scope 1 representing around 74% of the Group's footprint in 2019 with mainly flight operations which represent 99.7% of the scope 1), and its indirect emissions linked to fuel production (scope 3 representing 19% of the Group's footprint in 2019). The KPI does therefore not include scope 2 (emissions from electricity) which represent less than 0.1% of the Group's footprint in 2019, neither the rest of scope 3 emissions, which represent 7 to 8% of the Group's footprint.</p> <p>Carbon offset and avoided emissions are not included in the KPI calculation to comply with SBTi methodology and framework</p>
Methodology for calculation	<p>Absolute emissions are calculated based exclusively on an operational control basis. Emissions are reported in totality for the site if the Group has full operational control, whether it owns the site or not and whether it owns a majority share (50%) of the Company or more.</p> <p>GHG emissions are calculated by the Group based on the GHG Protocol Standard and other key external inputs (e.g. emission factors) and reduction targets are accounted following the SBTi methodology.</p> <p>Calculations and scope for this KPI are established by the Air France–KLM Group in accordance with SBTi guidelines.</p>
Verification	<p>This KPI historical data, baseline and future performance are/will be independently verified by the Statutory Auditors before publication on an annual basis. The Statutory Auditors will issue a limited assurance report available in the Air France–KLM's Universal Registration Document (“URD”).</p>
Baseline	<p>“GHG emissions intensity” in 2019 (baseline): 948 gCO<sub>2</sub>e/RTK.</p>

This KPI is aligned with the EU Climate change mitigation objective<sup>(1)</sup> and with the UN Sustainable Development Goal (SDG) 7 “Affordable and clean energy”, 9 “Industry, Innovation and Infrastructure” and 13 “Climate action” and the following SDG sub-targets:

- > 7.2 “by 2030, increase substantially the share of renewable energy in the global energy mix” and target 7.3 “by 2030, double the global rate of improvement in energy efficiency”;
- > 9.4 “by 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use

(1) [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en).



efficiency and greater adoption of clean and environmentally sound technologies and industrial processes”;

- > 13.2 “Integrate climate change measures into [national] policies, strategies and planning” and 13.3 “Improve

education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning”.

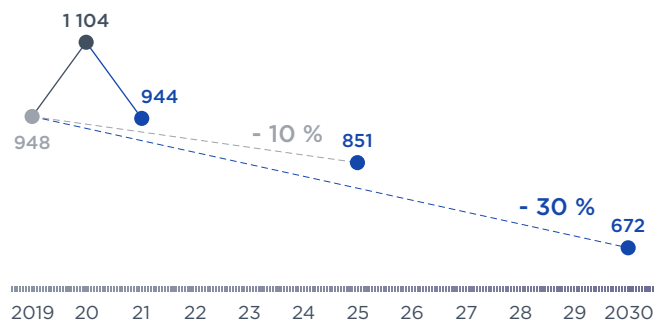
## 2.2 Calibration of the Sustainability Performance Targets (SPTs)

Air France–KLM has set ambitious Sustainability Performance Targets (“SPTs”) to highlight its sustainability commitment outlined at the beginning of the Framework, with both short- and long-term trajectories. The number of SPTs will vary depending on the maturity of the contemplated Sustainability-Linked Financing Instrument issuance. For each Sustainability-Linked Financing Instrument issued under this Framework, the applicable SPT(s) and the observation date(s) at which compliance with the SPT will be assessed (the “**Target Observation Date(s)**”) will be detailed in the relevant instrument specific documentation. The SPT(s) observation period will be aligned with the fiscal annual reporting period (i.e. from 1<sup>st</sup> of January to 31<sup>st</sup> of December).

### Greenhouse gas emissions intensity

- > **SPT 1.1:** GHG emissions intensity reduction by 10% by 2025 from a 2019 baseline;
- > **SPT 1.2:** GHG emissions intensity reduction by 30% by 2030 from a 2019 baseline.

Figure 6 – Sustainable Performance Targets



Source: Air France–KLM Group.

### Targets and KPI historical data

KPI (gCO <sub>2</sub> e/RTK)	2019	2020	2021	2025	2030
CO <sub>2</sub> emissions intensity	948	1104	944	851	672
SPT – % reduction		+16%	-0.4%	-10%	-30%

### Action plan and strategies to achieve the SPTs by 2030

The Air France–KLM Group’s decarbonization trajectory is detailed in the first section of this Framework and is mainly based on:

- > an ambitious plan to renew the fleet of the Group’s airlines with new generation aircraft emitting 20% to 25% less CO<sub>2</sub>,

### Overall trajectory and ambition

These SPTs set by the Group are very ambitious when looking at our actual performance with 30% of reduction achieved in 2019 compared to 2005 baseline and 0,4% reduction achieved in 2021 compared to 2019.

The Air France–KLM Group and its airlines are continuing their efforts to reduce their environmental footprint as part of a transparent and responsible approach to the challenges of global warming.

The Group has adopted a proactive approach aiming to have the Group’s and its companies’ CO<sub>2</sub> emission reduction targets assessed based on a scientific approach and criteria. In November 2022, SBTi has validated that the targets set are compatible with the Paris Agreement, which aim to limit global warming to well below 2°C.

The Air France–KLM Group is one of the first airline groups worldwide to have its targets independently validated by the SBTi.

In addition, the Air France–KLM Group regularly benchmarks its ambition with its peers in order to maintain leadership among its sector. According to Transition Pathway Initiative (TPI), Air France–KLM Group is assessed as achieving the highest “strategic assessment” level (Level 4) and is among the best performers in terms of carbon intensity in 2020<sup>(1)</sup>.

In the long-term, and beyond the scope of this Framework, the Air France–KLM Group commits to a net zero carbon emissions strategy by 2050, implementing a reduction strategy and offsetting plan for the remaining part.

through an investment of €2.5 billion in fleet renewal between 2019 and 2021 to be continued in the coming years;

- > the use of Sustainable Aviation Fuels (SAF) in which Air France and KLM have been pioneers, will play a key role in the decarbonization of air transport, as they reduce

(1) <https://www.transitionpathwayinitiative.org/sectors/airlines>.

greenhouse gas emissions by an average of 80% over the entire life cycle. Today, the Group is working to make these fuels more accessible in terms of quantity and price by creating an actual sustainable aviation fuel industry in Europe;

- > the search for greater operational efficiency, by favoring more direct trajectories and applying procedures that limit fuel consumption (lighter aircraft, single-engine taxi, continuous descent). Air France and KLM have set themselves the target of carbon neutrality for their ground operations by 2030.

#### **Key risks that may impact the ability to meet the targets**

- > the Group is working to make SAF more accessible in terms of quantity and price by creating an actual SAF industry in Europe. However, it is critical that all stakeholders involved set realistic SAF deployment goals that match the amount of fuel that could be made from available feedstock. Meeting the global growing demand for sustainable fuel might be a

challenge, resulting into a risk for the Air France – KLM Group reaching its decarbonization targets;

- > the geopolitical and macro-economic contexts might impact the Group's activities and thus its decarbonization trajectory. A new pandemic could drastically impact the passenger traffic leading to significantly reduce the Group's capacity and curtail its flight activity. The occurrence of geopolitical instability, terrorist attacks or threats of attacks, closure of an airspace or military action could have a negative effect on both the Group's passenger traffic, and thus its revenues and load factor, impacting the Group's environmental performance;
- > local, regional and international economic conditions can have a significant impact on the Group's activities and, hence, on its financial results and environmental performance. Periods of crisis or post-crisis with an unstable economic environment are liable to affect demand for transportation, both for tourism and business travel, and thus, impacting the Group's environmental performance.

## **2.3 Characteristics of the Sustainability-Linked Financing Instruments**

For the avoidance of doubt, unless otherwise stated, the proceeds of any Sustainability-Linked Financing Instrument issuances will be used for general corporate purposes or such other purpose specified in the specific instrument issue documentation which might include the refinancing of existing debts Air France – KLM will assign structural and/or financial implications to the achievement or non-achievement of the pre-defined SPT(s) at the relevant Target Observation Date(s) specified in the financing documentation of the relevant Sustainability-Linked Financing Instrument. These structural and/or financial implications may include, but are not limited to, a coupon step-up, the payment of a premium at maturity of the instrument or a margin adjustment depending on the nature of the instrument. In any case these implications would be meaningful and commensurate as aligned with market practices.

If the Air France – KLM Group fails to comply with some reporting or verifications, as specified in the relevant Sustainability-Linked Financing Instrument documentation, or if the Group is no able to calculate or observe the KPI selected and applied with respect to a particular Sustainability-Linked Financing Instrument in a satisfactory manner, the defined structural and/or financial implications will be triggered and applied as if the relevant SPT was not met on the relevant Target Observation Date.

#### **Recalculation policy**

Air France – KLM will recalculate, adjust or, as the case may be, amend its KPI baseline, performance and/or SPT(s) in case of any change or other potential events that significantly affects positively or negatively the value of the KPI to reflect any material or structural changes to the Group and/or any external parameters (such as company structure, methodology update for calculating the KPI, officially published updates to standard and/or industry guidelines, methodology update for calculating the target, drastic changes in the regulatory environment, the access or use of Sustainable Aviation Fuels (SAF) becomes significantly restricted or prohibited or is not practically possible, any discovery of significant errors). The financing documentation of the Sustainability-Linked Financing Instrument may include provisions relating to the applicable recalculation policy, in which case those provisions will supersede the Framework.

The KPI baseline, performance and/or SPT(s) should be recalculated, adjusted or, as the case may be, amended in good faith by Air France – KLM to reflect such change or other potential events. When relevant, an external verifier will independently confirm that the revision is consistent with the Issuer's strategy and is in line with or more ambitious than the initial level of ambition of the SPT(s).

The calculation methodology of any change to the KPI baseline(s), performance and/or SPT(s) will be communicated within the immediately following annual URD of the Air France – KLM Group or on its website as a separate report or document.

## 2.4 Reporting

On an annual basis, Air France–KLM will publish on its website the performance of the KPI to any Sustainability-Linked Financing Instrument(s) outstanding until the achievement of the relevant selected SPT(s). This reporting will be made publicly available within each relevant URD of the Air France–KLM Group and could include:

- > information on the performance and monitoring of the KPI;
- > verification assurance report relative to the SPT outlining the performance against the SPT and the related impact, and timing of such impact, on an instrument's financial performance; and

- > any relevant information enabling investors to monitor the progress of the SPT.

Air France–KLM will report on the performance of the KPI against the predefined SPT(s) within its annual URD.

When relevant, information may also include any re-assessments of KPI and/or restatement of the SPT and/or pro-forma adjustments of baseline or KPI scope.

## 2.5 Verification

### Pre-Issuance Verification

Air France–KLM Sustainability-Linked Financing Framework has been reviewed by Moody's Investor Services which provided a second party opinion (“**SPO**”), confirming (i) the alignment of the Framework with the Sustainability-Linked Bond Principles (SLBP) 2020 as administered and published by ICMA, and with the Sustainability-Linked Loan Principles (SLLP) 2022 as administered and published by the LMA, and (ii) the significant contribution to sustainability.

The SPO will be made available to the public on the Air France–KLM Group's website.

### Post-Issuance Verification

The Air France–KLM Group's annual performance on the KPI at the relevant Target Observation Date will be verified by an external auditor to a limited level of assurance, the result of which will be included in the annual URD of the Air France–KLM Group. Any appointment or replacement of a the external auditor will be communicated in the annual URD of the Air France–KLM Group.

## 2.6 Update and amendment of the Framework

The Air France–KLM Group may review this Framework from time to time to ensure continued alignment with the relevant voluntary market principles, emerging standards and classification systems. Any updated version of this Framework will either maintain or improve the current levels of transparency and reporting disclosures. The Air France–KLM Group may also review this Framework in case of material changes in the perimeter methodology and in particular, the definitions of the KPI and/or the calibration of the SPT(s).

Such review may result in this Framework being updated and amended. The updates and amendments, if not minor in nature,

will be subject to the prior approval of a qualified provider of Second Party Opinion (SPO).

The updated Framework, if any, will be published on the Air France–KLM Group's website and will replace this Framework.



### 3 APPENDIX: CLIMATE TRANSITION FINANCE HANDBOOK INTEGRATION

In keeping with Air France–KLM’s overall commitment to transparency and decarbonization, this Financing Framework is also designed to adopt all four elements of the Climate Transition

Finance Handbook published by the ICMA. The table below provides a reference guide to where each of the recommended disclosure can be found.

Disclosure Elements	Relevant Finance Framework Sections	Additional Resources
<p><b>Issuer’s climate transition strategy and governance, including:</b></p> <ul style="list-style-type: none"> <li>&gt; a long-term target to align with the goals of the Paris Agreement (e.g., the objective of limiting global warming ideally to 1.5°C and, at the very least, to well below 2°C);</li> <li>&gt; relevant interim targets on the trajectory towards the long-term goal;</li> <li>&gt; disclosure on the issuer’s levers towards decarbonization, and strategic planning towards a</li> <li>&gt; long-term target to align with the goals of the Paris Agreement;</li> <li>&gt; clear oversight and governance of transition strategy; and,</li> <li>&gt; evidence of a broader sustainability strategy to mitigate relevant environmental and social externalities and contribute to the UN Sustainable Development Goals.</li> </ul>	<p>Sections: 1.3.1; 1.3.2; 1.3.3; 1.3.4; 1.3.5; 1.3.6; 1.3.7; 1.4</p>	<p>2021 Universal Registration Document S&amp;P ESG Evaluation: Air France–KLM SBTi website 2021 CDP Report 2020 TCFD Report</p>
<p><b>Business model environmental materiality of the disclosures referenced for Element One above.</b></p>	<p>As above</p>	<p>2021 Universal Registration Document</p>
<p><b>Climate transition strategy to be ‘science-based’ including targets and pathways.</b> The planned transition trajectory should:</p> <ul style="list-style-type: none"> <li>&gt; be quantitatively measurable (based on a measurement methodology which is consistent over time);</li> <li>&gt; be aligned with, benchmarked or otherwise referenced to recognized, science-based trajectories where such trajectories exist;</li> <li>&gt; be publicly disclosed (ideally in mainstream financing filings), include interim milestones, and;</li> <li>&gt; be supported by independent assurance or verification.</li> </ul>	<p>Section: 1.3.1; 1.3.2; 1.3.3; 1.3.4; 1.3.5</p>	<p>2021 Universal Registration Document Sustainability Website SBTi website</p>
<p><b>Implementation transparency:</b></p> <ul style="list-style-type: none"> <li>&gt; disclosure of capital expenditure (capex) and operational;</li> <li>&gt; expenditure (opex) plans and other relevant financial;</li> <li>&gt; metrics to the extent they relate to a transition strategy.</li> </ul>	<p>Section: 1.3.2</p>	<p>2021 Universal Registration Document</p>

## 3.1 Disclaimer

Certain statements, estimates and opinions made in this Sustainability-Linked Financing Framework (the “**Framework**”) contain forward-looking statements. These statements include projections and estimates and their underlying assumptions, statements regarding plans, objectives, intentions and expectations with respect to future financial results, events, operations, services, development and potential, and statements regarding future performance. These statements are generally identified by the words “believe”, “expect”, “project”, “anticipate”, “seek”, “estimate”, “aim”, “target”, “intends”, “plans” or similar expressions. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. These risks and uncertainties include, without limitation, those identified and made public by Air France-KLM with the AMF, including those listed under the “Risk Factors” section of Air France-KLM’s URD, or amendment thereto. Air France-KLM does not undertake nor commit to update or revise any such forward-looking information or statements, except as otherwise required by applicable laws and regulations.

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